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MARKET MOVERS

October 4, 2024

Rubicons

“Language is the Rubicon that divides man from beast.” - Max Muller

“Sometimes you don’t know if you’re Caesar about to cross the Rubicon or Captain Queen cutting your own tow line.” - Anthony Kennedy

Summary

Risk On but I was off for the last two weeks on holiday. While vacations are seen as the opposite of work, there is something about the energy required to relax and spend after the last month of volatility. Today isn’t going to be easy, given the labor of the employment report returns markets to recalibration of 25 or 50bps from the Fed in November. The US election is a month away and the escalation of Israel and Iran casts a long shadow over the weekend after the key economic data from the US today. The overnight headlines were net positive - starting with the deal to end the 3-day dockworkers strike in the US extending a contract to January 15. Risk mood seems tender and patient with most waiting for the jobs report before doubling down on 3Q earnings and chasing new highs in shares. There is also the USD problem where buying is sticky and the easy money from Fed easing now rests on the rest of the world joining in at the same pace or faster or not at all as in the case of Japan.

What’s different today:

- **JPY has dropped 3% this week** - linked to new PM Ishiba saying its too soon to hike rates further - the odds for BOJ October hike declined and JPY weakness followed.

- **UN FAO September food index rose 3% to 124.4** - largest jump in prices since March 2022 - led by sugar, Brazil drought and India export restrictions.

What are we watching:

- **US September non-farm payrolls** expected at 140,000 after 142,000 with unemployment steady at 4.2% and average hourly wages up 0.3% m/m, 3.8% y/y. Focus will be on the hours worked, disruptions from weather, sector job growth.
- **NY Fed Williams Speech** - will be watched for reaction to jobs data
- **Mexico August unemployment** expected unchanged at 2.9% - one factor for Banxico rate cuts ahead.

Headlines

- Australian Aug home loans slow to +0.7% m/m but construction loans recover – ASX off 0.67%, AUD flat .6845
- Singapore Aug retail sales slow to 0.7% m/m, 0.6% y/y - with slowing electronics – SGD flat at 1.2975
- India Sep Services PMI slows 3.2 to 57.7 - least since Jan 2023 – Sensex off 0.98%, INR off 0.1% to 83.97
- French Aug industrial production up 1.4% m/m - best since May 2023 - led by manufacturing – CAC40 up 0.5%, OATS up 3bps to 2.97
- Spanish Aug industrial production -0.1% m/m - second month of contraction led by capital goods – IBEX 35 up 0.2%, SPGB up 2.5bps to 2.95%
- Eurozone Sep construction PMI up 0.7 to 42.1 - lowest jobs since May – EuroStoxx 50 up 0.3%, EUR flat at 1.1035
- UK Sep construction PMI jumps 3.8 to 57.2 - best since April 2022 – FTSE off 0.4%, GBP up 0.4% to 1.3170

The Takeaways:

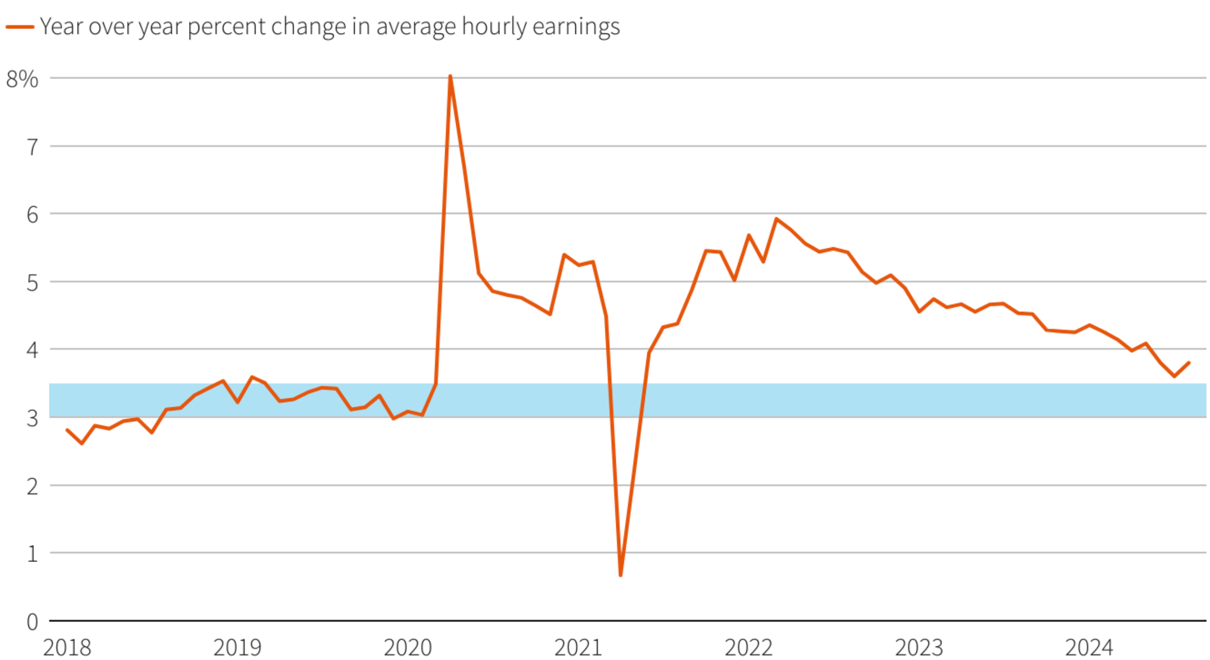
Work, Jobs, Employment, Labor - just words smashed together for today's challenge - a return of investors worry about the state of the US economy and what that means for markets. The Rubicon of the data is in the unemployment rate not crossing 4.4%

or the non-farm payrolls not dropping below 100,000. The skew of fear is still to the downside of US growth. The implication being that we are all still set up for risks of further melt-ups in equities, higher bond yields and a stronger USD. The correlation break downs of the last 2 weeks stand out and make clear that risk parity programs work in a world filled with uncertainty but one where investors have toe-holds to climb the wall of worry and put money to work. The Rubicon was crossed by Julius Caesar in 49 BC leading to the end of Gaul and the massive expansion of the Roman Empire. Perhaps today is another big historic event for markets but I doubt it. The trajectory of the US slowdown is going to be measured by more than this report. The next week and the start of earnings for 3Q, the events ahead for the US election and the Japanese one, the ongoing geopolitical fears – all that wrap around the current worries. The back of the envelope model for jobs today isn't so scary at 160,000 NFP, 4.25% unemployment and flat wages 3.8% y/y- but the noise of weather, the two reports of payrolls vs. the household survey and the role of seasonality adjustments all matter in the volatility ahead.

Exhibit #1: Do wages matter to FOMC?

Average hourly earnings growth

U.S. Federal Reserve officials watch wage growth for signs the labor market and inflation may be cooling. Annual pay gains are nearly back to the rate officials see as consistent with 2% inflation.



Note: Blue band is the 3.0%-to-3.5% annual wage growth range Fed officials see as consistent with achieving the 2% inflation target.
Source: Bureau of Labor Statistics
Source: Reuters, BNY

Details of Economic Releases:

1. **Australian August home loans rose 0.7% m/m after 2.5% m/m - better than the -0.5% m/m expected** - There was a sharp slowdown in the purchase of existing dwellings (0.5% vs 3.3% in July). In addition, the purchase of newly erected dwellings declined (-4.1% vs 5.5%). On the other hand, construction of dwellings partly recovered (1.6% vs -3.3%). Geographical-wise, new home loans increased in Queensland (2.6%), South Australia (2.1%), West Australia (0.5%), Tasmania (1.9%), Northern Territory (7.8%) and the Australian Capital Territory (1.3%) but declined in New South Wales (-1.4%) and Victoria (-1.8%).

2. **India September HSBC Services PMI slows to 57.7 from 60.9 - less than the 58.9 expected**. This was the 38th consecutive month of growth in services activity, but at its slowest pace since January 2023, as total new business, international sales, and output all rose at the slowest rates since late 2023. Meanwhile, employment continued to rise, with recruitment of both full- and part-time workers. On the price front, input cost inflation accelerated due to higher electricity bills, food prices, and the cost of other materials, though inflation remained below its long-run average. Meanwhile, output cost inflation eased to its lowest level in over two-and-a-half years, amid strong competition. Finally, sentiment improved, supported by optimism around pending project approvals and anticipated efficiency gains.

3. **Singapore August retail sales rose 0.7% m/m, 0.6% y/y after 3.1% m/m, 1% y/y - better than -0.5% m/m expected** - slowing from 5-month highs. Sales continued to decline for department stores (-6.2% vs -11.2% in July), mini-marts & convenience stores (-0.7% vs -1.9%), wearing apparel & footwear (-6.7% vs -10.3%), and recreational goods (-2.5% vs -4.4%). Trade also decreased for computer & telecommunication equipment (-3.6% vs -1.5%), and optical goods & books (-3.7% vs -8.7%). Additionally, sales growth for motor vehicles slowed to 17% from 27.2% in July. Conversely, trade rose at a faster pace for supermarkets & hypermarkets (2.2% vs 1.7%), food & alcohol (8.1% vs 4.7%), and watches & jewelry (1.8% vs 0.7%).

4. **French August industrial production up 1.4% m/m, +0.5% y/y after 0.2% mm, -0.4% y/y - better than 0.2% m/m expected** - the strongest growth in industrial activity since May 2023, driven by a robust rebound in manufacturing output (1.6% vs. 0.2% in July), particularly in transport equipment (3.3% vs. -4.7%) and other manufacturing industries (2.8% vs. 0.1%). Construction activity also recovered, rising 0.6% after a 2.3% decline in the previous period. Meanwhile, output grew at a

slower pace for mining & quarrying, energy, water supply, and waste management (0.4% vs. 2%).

4. Spanish August industrial production slows to -0.1% m/m, -0.1% y/y after — 0.4% m/m, -0.4% y/y - weaker than 0.1% y/y expected. This marked the second consecutive month of downturn in Spanish industrial activity, reflecting declines in capital goods (-2.8%), energy (-1.2%) and consumer goods (-0.1%), of which non-durable consumer goods (-0.3%). On the other hand, output increased for durable consumer goods (+4.7%) and intermediate goods (+1.8%).

6. Eurozone September HCOB construction PMI improves marginally to 42.1 from 41.4 - better than 41.7 expected - still indicates a significant slump in total construction activity across the euro area, as new orders continued to decline sharply, resulting in the most substantial reduction in construction jobs since May's four-year high. Purchases and subcontractor usage also dropped considerably. Output fell across all monitored sectors, with housing experiencing the sharpest decline. Commercial and civil engineering also saw decreases, with the latter facing the steepest contraction as infrastructure activity weakened in all monitored countries. On a positive note, supply chain performance improved for the sixth month, helping to contain inflationary pressures. Input price inflation slowed from August and remained modest overall. Despite this, the outlook for the year ahead remained negative, with pessimism increasing from August.

7. UK September construction PMI jumps to 57.2 from 53.6 - better then 53.1 expected - the seventh consecutive expansion in the sector, at the fastest pace since April of 2022. The result suggested that construction demand in the UK undergone a fresh rebound this year, despite the prolonged period of restrictive interest rates by the BoE. New orders expanded at the fastest pace in two-and-a-half years, lifting overall activity to its highest in nearly three years. Output was carried by civil engineering, which rose at the sharpest race in over three years, while commercial building and residential building construction also rose at a considerable pace.

Exhibit #2: UK Construction Booming?

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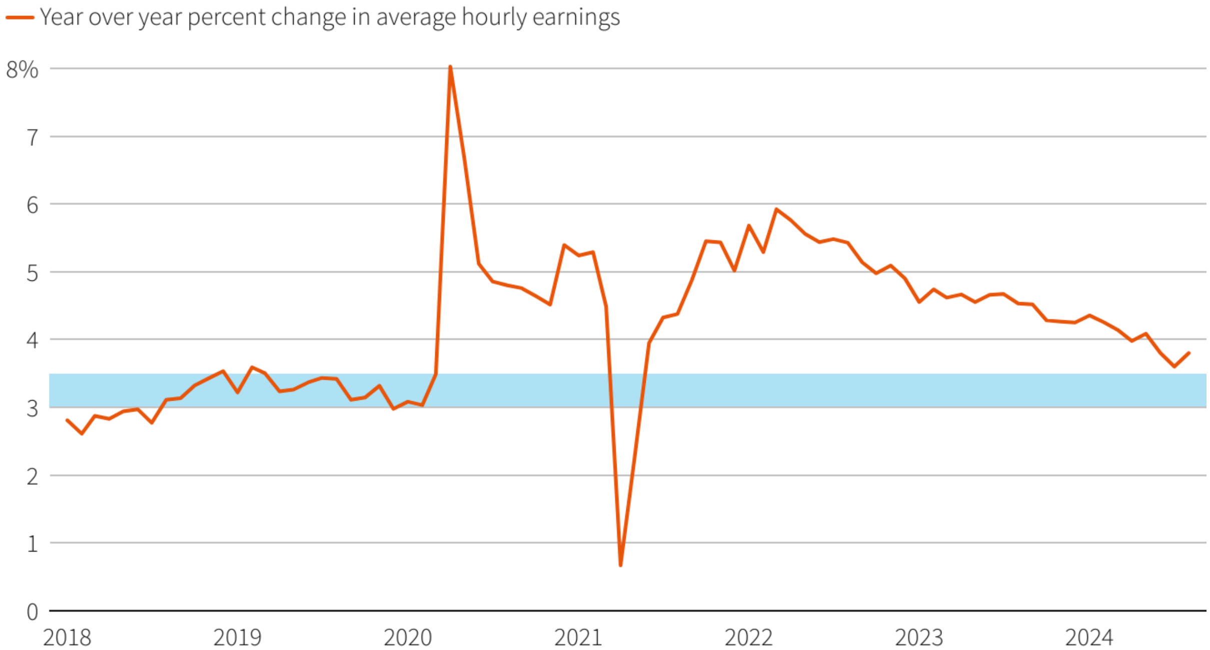

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Source: Bureau of Labor Statistics

Source: S&P PMI, BNY

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Please direct questions or comments to: iFlow@BNY.com

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HEAD OF MARKETS STRATEGY AND INSIGHTS

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