iFlow
MARKET MOVERS

October 7, 2024

Waiting

"Time and tide wait for no man." - Geoffrey Chaucer
"Time is too slow for those who wait, too swift for those who fear, too long for those who grieve, too short for those who rejoice, but for those who love time is eternity." - Henry Van Dyke

Summary

Risk off as markets absorb less FOMC easing hopes post the Friday jobs report against weaker global growth - with German factory orders missing, with Japan LEI weaker, with ongoing fears from higher energy prices linked to geopolitical worries as October 7 anniversary marks escalation in Hezbollah conflict. The rally in Asia didn't sustain in EMEA and leaves the US open soggy and waiting for CPI later this week. The big rally in Hong Kong extends while Japan also catches up ahead of Oct 27 election. The risk and reward of today rests on rates and how markets recalibrate the FOMC easing path. The lack of bigger news today allows for some room to wait and worry.

What's different today:

- **Oil extends gains to 6-week highs at $76 bbl WTI** - with hurricane disruptions and ongoing geopolitical fears driving -
- **Hong Kong Hang Seng rises 1.6% to early 2022 highs** with gains across all sectors - China is set to hold a media briefing tomorrow on economic stimulus.

- **iFlow** – Mood +0.283 in 96.6% percentile – significantly positive showing our clients like stocks and ditching cash-like bills. The biggest buying in FX was in PEN, CLP, ZAR, MXN while in G10 CHF, SEK up while USD and NOK and JPY down. Fixed income quieter with India inflows and Malaysia outflow. The Equity story mixed with Thai and New Zealand outflows.

What are we watching:

- **Fed Speakers Bowman, Bostic, Kashkari and Musalem** all given addresses today - key for post jobs report thinking
- **US August consumer credit** expected to moderate to $12bn after the blowout $25.45bn gain in July - key for consumer leverage and growth risks

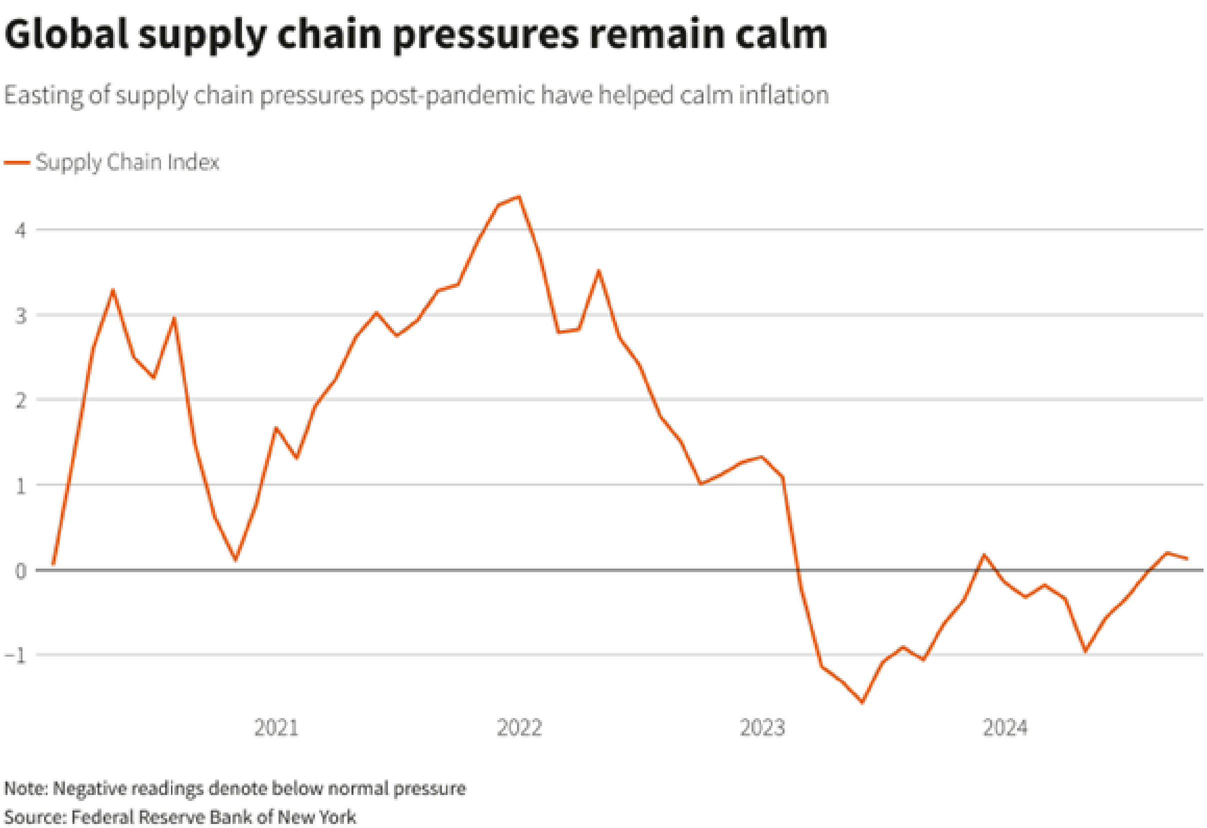
Headlines

- US Florida faces another Category 2 Hurricane Milton with 145mph winds – S&P500 futures off 0.5%, US10Y yields up 3.5bps to 4.0%
- Hezbollah strikes Israel on anniversary of Oct 7 Gaza war start - adding to further escalation fears – Brent up 2.4% to $79.90
- China Sep FX reserves rise $28bn to $3.316trn - 3rd monthly gain - but gold reserves flat, China hacks US telecoms, targeting wiretap systems - while China school teachers are asked to hand in passports – China Markets still closed for Holiday
- Australian Sep MI inflation gauge up 0.1% m/m- ASX up 0.68%, AUD off 0.1% to .6790
- Japan Aug flash LEI drops 2.6 to 106.7- lowest since Oct 2020 - while coincident index fell 3.7 to 113.5 - lowest since Feb - Japan FM Kato warns on sudden JPY moves – Nikkei up 1.8%, JPY up 0.2% to 148.40
- German Aug factor orders drop 5.8%- biggest drop since Jan – DAX off 0.25%, Bund 10Y up 4bps to 2.25%
- Eurozone Aug retail sales up 0.2% m/m, 0.8% y/.y - ECB Cipollone speaks on digital payments while Lane talks monetary policy – EuroStoxx flat, EUR flat at 1.0975
- UK Sep Halifax house prices up 4.7% y/y - most since Nov 2022 – FTSE up 0.4%, GBP off 0.4% to 1.3075

The Takeaways:

The risk of markets is in inflation upside risks. The consensus is that this is old news and that easing and growth matter more than anything else. The geopolitical risks add to the worry of upside energy prices but with oil at $76 there is less economic impact given that gasoline prices are below $3 gallon in most states. There is a base effect from 2023 and energy prices but this hasn't yet mattered to headlines. Further, food prices have been disrupted by the storms in Florida and the short-lived shipping strike. Risks for September data are in upside demand and prices – all of which leave the Fed likely to do just 25bps easing but risking some credibility should the data add to growth and inflation upsides. There is another underlying risk to markets that isn't acknowledged but will be key from tomorrow – China as it returns to markets after the Golden week holiday. Markets are happy about China recovery and hope for global knock-on growth but with that comes inflation and some supply noise. How this plays out this week will likely be key to mood swings in bonds and stocks leaving the USD a good barometer of safe-havens and carry trades.

Exhibit #1: Global Supply Chains matter to inflation



Source: Reuters, BNY

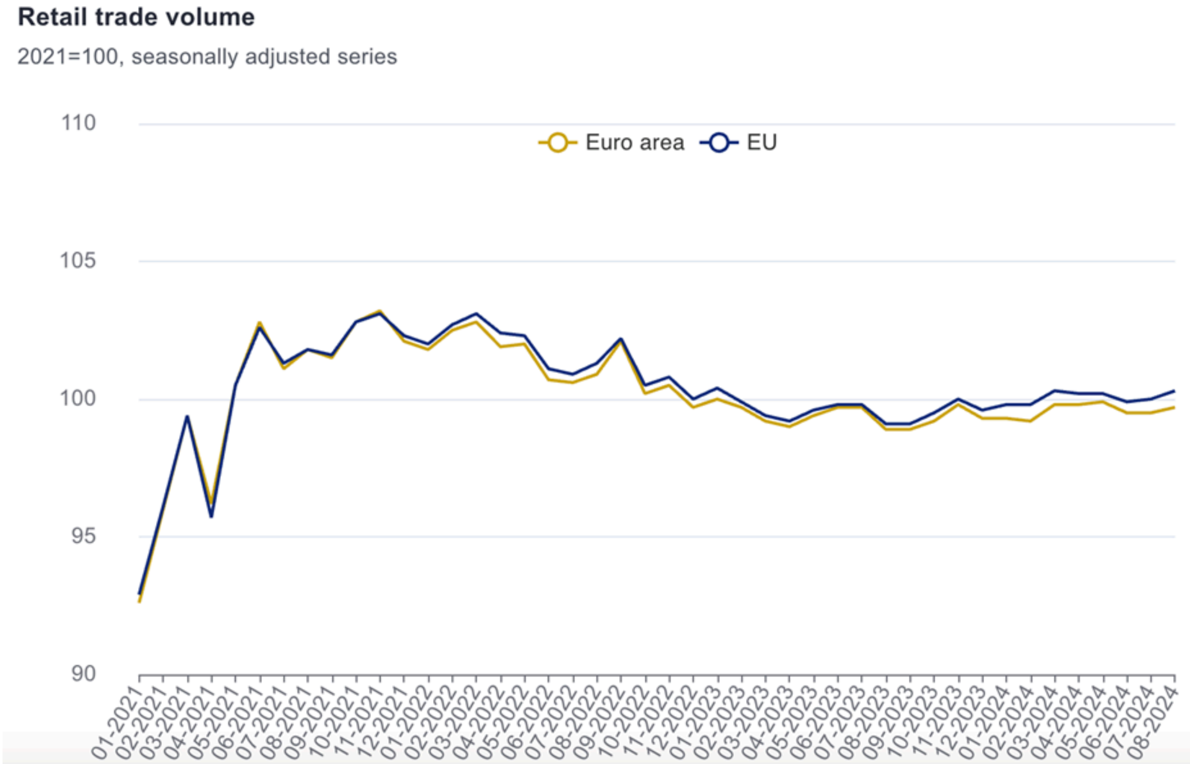
Details of Economic Releases:

1. **Japan August preliminary leading economic index slows to 106.7 from 109.3 - weaker than 107.4 expected** - the lowest reading since October 2020, amid continued contraction in factory activity, while services sector growth remained steady due to sustained price pressures and exchange rate weakness. Meanwhile, consumer confidence improved to its strongest level in four months. The unemployment rate declined to 2.5% from July's 11-month high of 2.7%. The coincident index also fell to 113.5 from 117.2 - lowest since February.

2. **German August factory orders drop 5.8% m/m after +3.9% m/m - weaker than -2% decline expected** - the steepest decline since January, following large-scale orders for aircraft, ships, and trains made in July. New orders for capital goods fell the most (-8.6%), followed by intermediate goods (-2.2%) and consumer goods (-0.9%). Notably, foreign orders slipped by 2.2%, dragged down by a 10.5% slump in orders from the Eurozone, while demand from outside the Eurozone increased by 3.4%. Meanwhile, domestic orders tumbled by 10.9%. Excluding large orders, incoming orders dipped 3.4% from July. In a three-month comparison, new orders were 0.7% higher in the period from June to August than in the prior three months.

3. **Eurozone August retail sales rise 0.2% m/m, 0.8% y/y after 0% m/m -0.1% y/y - less than the 1% y/y expected.** Sales rebounded for automotive fuel in specialized stores (1.1% vs -0.6% in July) and on-food products (0.3% vs -0.1%). Also, retail volumes were higher for food, drink, and tobacco products (0.2% vs 0.1%).

Exhibit #2: EU retail sales highlight room for ECB to ease more



Source: EuroStat, BNY

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

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