BNY

iFlow MARKET MOVERS

July 1, 2024

Rush

"History is a relentless master. It has no present, only the past rushing into the future. To try to hold fast is to be swept aside." – John F. Kennedy

"Rushing into action, you fail. Trying to grasp things, you lose them. Forcing a project to completion, you ruin what was almost ripe." – Lao Tzu

Summary

Risk on as investors look hurried to put money to work as the French election worst case fails and as many see the start of 2H24 like 1H where trends for equities find support in dovish policy turns and as data suggests soft landings. French 10Y bonds move from 85bps to 72bps to German Bund yields. The rush to make things right is going to be the focus for the week with central bankers front and center in Sintra at the ECB forum. The FX markets sold off the USD, but we remain more in range than breaking out. JPY is the exception even with stronger Tankan. Bonds in US continue bear steepening with big data on jobs Friday key. For today, its about ISM and politics with Supreme Court rulings important and any surprises from central bankers or politicians.

What's different today:

- **India Sensex ends up 0.6% to 79,476.2 – new record highs** – led by IT and banking shares. Rate cuts in US are part of the global equity rally. So is the India PMI manufacturing up 58.3 – with strong job creation.
- **WSJ Timiraos: Notes even slowly cooling job markets usually end in a recession –** warning for risk markets.
- **iFlow** – JPY is oversold and underheld while CHF is underheld and seeing covering pressure along with SEK and NZD – the Carry trade continues to be

negative while trend positive. TRY, PLN and CAD are most overheld while JPY, PEN and INR most shorted.

What are we watching:

- **US Supreme Court rulings –** focus is on Trump immunity bid
- **US June final manufacturing PMI** expected 51.7 from 51.3.
- **US June manufacturing ISM** expected up 49.1 from 48.7 with focus on employment, orders and prices.
- **US May construction spending** expected up 0.2% m/m after -0.1% m/m – with residential vs. data warehouses important.

Headlines

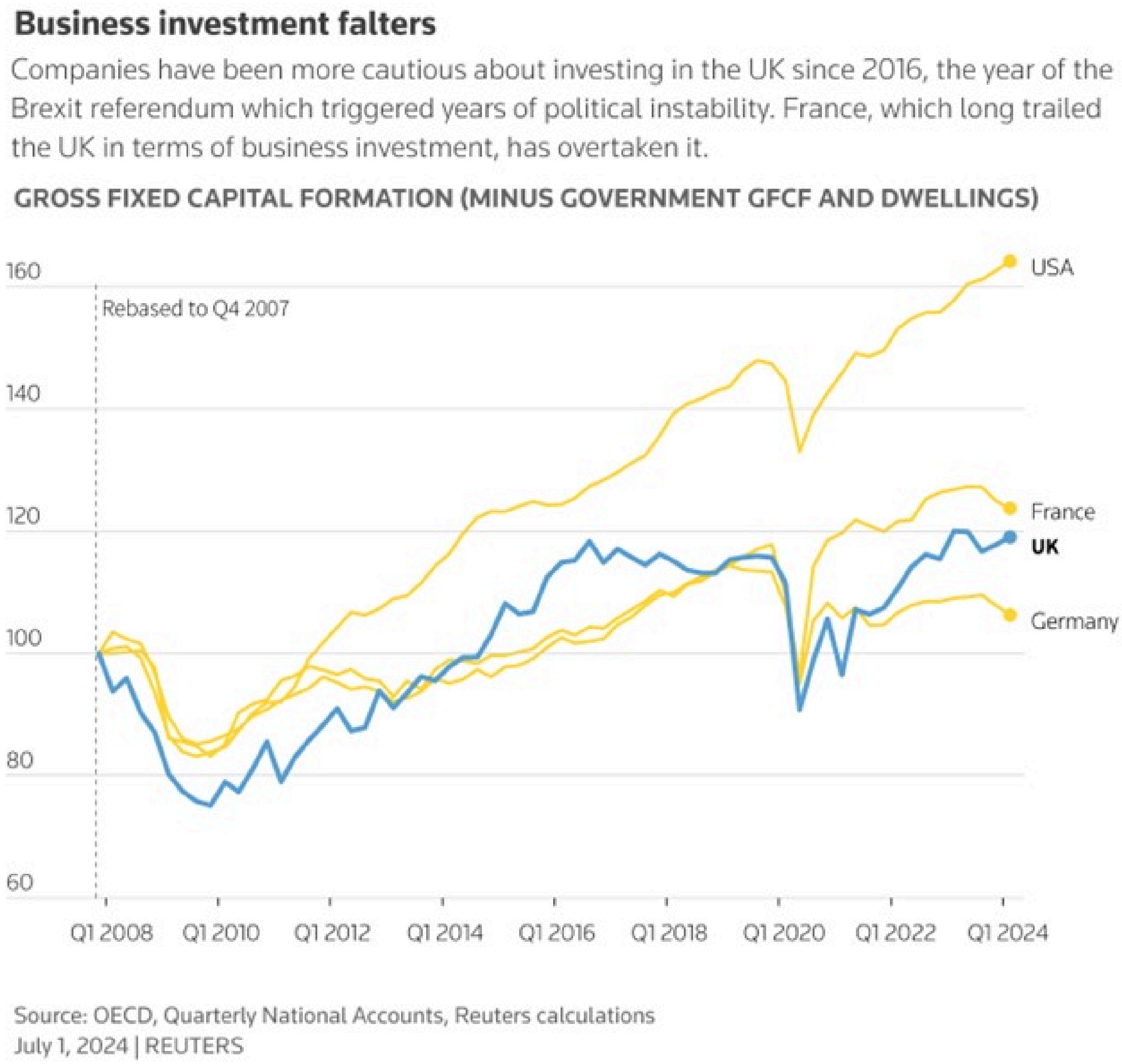
- French first round election has RN 33.2%, Left Alliance 28%, Macron Alliance 22.4% - relief rally as Le Pen path to control weaker – CAC 40 up 1.45%, OAT 10Y up 1.3bps to 3.307%
- Japan 2Q Tankan large manufacturing rose 2 to 13 – best in 2-years, Capex jumps to 11.1% - while June final manufacturing PMI off 0.4 to 50, but output rises first in 12-months – Nikkei up 0.12%, JPY off 0.15% to 161.05
- Korea June trade surplus rises $3bn to $8bn – most since Sep 2020 – with exports up 5.1% y/y smallest in 3M while imports fell 7.5% y/y; Manufacturing PMI rises 0.4 to 52 – best since Feb 2022 – Kospi up 0.23%, KRW off 0.4% to 1328.20
- China June Caixin manufacturing PMI rises 0.1 to 51.8 – best since Sep 2021 - CSI 300 up 0.48%, CNH flat at 7.2975
- Australia June final manufacturing PMI off 0.5 to 47.2 – worst since May 2020 – ASX off 0.22%, AUD up 0.1% to .6675
- Indonesia June CPI drops -0.08% m/m, 2.51% y/y – lowest since Sep 2023 – while manufacturing PMI slips 1.4 to 50.7 – weakest since May 2023 – IDR up 0.3% to 16,320
- German June flash State CPI points to 0.1% m/m, 2.2% y/y – less than 2.3% y/y expected – while German June final manufacturing PMI slips 1.9 to 43.5 – DAX up 0.3%, Bund 10Y up 7.5bps to 2.57%
- Eurozone June final manufacturing slips 1.5 to 45.8 – worst output in 6M with steeper drop in new orders even as prices rise – EuroStoxx 50 up 0.9%, EUR up 0.3% to 1.0750

- UK June final manufacturing PMI slips 0.5 to 50.9 – weaker than flash, highest input costs in 17-months – Consumer credit rises to £1.51bn, bouncing from 18-month lows - FTSE up 0.3%, GBP up 0.25% to 1.2675

The Takeaways:

The weekend delivered nothing unexpected – the French election is close to the polls with some relief that the RN didn't do better driving EUR up and volatility down. The Biden team remains pushing back on calls for his replacement in the race against Trump for the November Presidential election. The China markets got weaker NBS and better Caixin manufacturing but the worries about property, growth and rebalancing the economy continue. Europe got weaker data and loves it as ECB forums are expected to push for more easing despite doubts. Data dependency continues in the US with ISM main focus on the day. However, the bigger question is about growth as recession or bumpy landings return to 2H2024 risks. The least discussed data overnight came from Japan with Tankan important to BOJ thinking about the thinking for rate hikes. The capex surge in Japan means something about growth ahead. Similarly, the trends in Capex in the US stands out against the UK and EU and means something to FX markets as they struggle to put the USD exceptionalism into something beyond just rate spreads.

Exhibit #1: Capex matters



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Japan 2Q Tankan large manufacturing 13 from 11 – better than 12 expected – best in 2-years linked to rising outlook at 14 from 10. The largest gains were seen among manufacturers of textiles (22 in Q2 vs 11 in Q1), chemicals (10 vs 2), pulp & paper (11 vs 4) and petroleum & coal products (17 vs 9). Meanwhile, sentiment weakened among manufacturers of iron & steel (0 in Q2 vs 16 in Q1), food & beverage (21 vs 24) and production machinery (11 vs 17). The large service index slips to 33 from 34 – as expected with outlook flat at 27. The small manufacturing index was flat at -1. The all-industry capex rose to 11.1% from 4%.

2. Japan June final Jibun Bank manufacturing PMI slips to 50 from 50.4 – weaker than 50.1 flash -but output rises for first time in a year and jobs expand with confidence at 6-month highs. Factory output grew for the 1st time in over a year, boosted by rises in demand for key products, while new orders fell due to a further drop in foreign sales. Employment climbed for the 4th straight month, though at a moderate pace. Purchasing activity shrank for the 23rd straight month, while delivery times shortened amid higher stock levels at vendors and subdued input demand. On prices, input price inflation accelerated to a 14-month high due to higher copper, crude oil, electronic components, labor, transportation, and utility costs. As a result, the selling price rose to the greatest extent in over a year. Finally, sentiment improved to its best in 2024 so far.

3. Korea June trade surplus rises to $8bn from $4.86bn – more than $5.25 expected – and up from $1.26bn in June 2023 - the 13th month of surplus and the largest trade gain since September 2020, as exports rose 5.1% y/y, the ninth consecutive month of expansion but the smallest increase in three months, as the fewer days for shipment compared to the same month last year. Meanwhile, imports shrank 7.5% y/y, compared to forecasts of a 2.2% fall, after a 2.0% drop in May. In the first half of 2014, the country posted a surplus of $23.1 billion, marking the highest amount since $ 31.1 billion recorded during the same period in 2018, with exports rising 9.1% while imports shrank 6.5%.

4. Korea June manufacturing PMI rose to 52 from 51.6 – better than 51.2 expected - improving for the second straight month, while hitting the highest level since April 2022. Solid expansions were seen in both new orders and output, with factory sales rising at the fastest rate since February 2022. Export demand also strengthened, while employment levels rose as companies sought to boost production capacity. That said, there was a further marked softening of business confidence, which dipped to its lowest level in the year-to-date. Cost pressures also intensified as exchange rate weakness and rising raw material prices pushed up operating expenses. Meanwhile, Joe Hayes, Principal Economist at S&P Global Market Intelligence, said that the latest figure “provides further evidence that global industrial activity and trade are picking up.

5. China June Caixin manufacturing PMI rises to 51.8 from 51.7 – better than 51.2 expected - highest figure since May 2021. It was the eighth straight month of increase in factory activity, as output growth hit a 2-year peak while new orders rose for the 11th month. Further, buying levels gained the most in over 3 years, leading to a further accumulation of stocks of purchases. Also, foreign sales continued to expand but its pace of growth was the lowest in 6 months. A fall in employment eased, with firm expanding their workforce roughly equal to those reducing it, and backlogs of work rose for the fourth month. Delivery times lengthened for the first time since February, due to material shortages and some constraints. On inflation, input prices rose the most in two years while selling prices increased for the first time in six months. Finally, sentiment fell to over 4-1/2 year-low, on rising competition and uncertain market conditions.

6. **Australian June final Judo Bank manufacturing PMI slips to 47.2 from 47.5 – weaker than 47.5 flash** - the fifth consecutive monthly deterioration in manufacturing sector conditions and at the fastest pace since May 2020, final data showed. Manufacturing production contracted in June amid fewer new orders placed with Australian goods producers, leading to production falling at the fastest pace in three months. Australian manufacturers therefore lowered their employment levels and cut back on their purchasing activity. Inventory levels also declined. While lead times continued to lengthen, the rates of input cost and output price inflation eased in June. Lastly, sentiment in the Australian manufacturing sector remained positive in June, as signaled by an above 50.0 print of the Future Output Index. However, the level of confidence eased to a seven-month low as concerns gathered over rising costs and competition dampening sales.

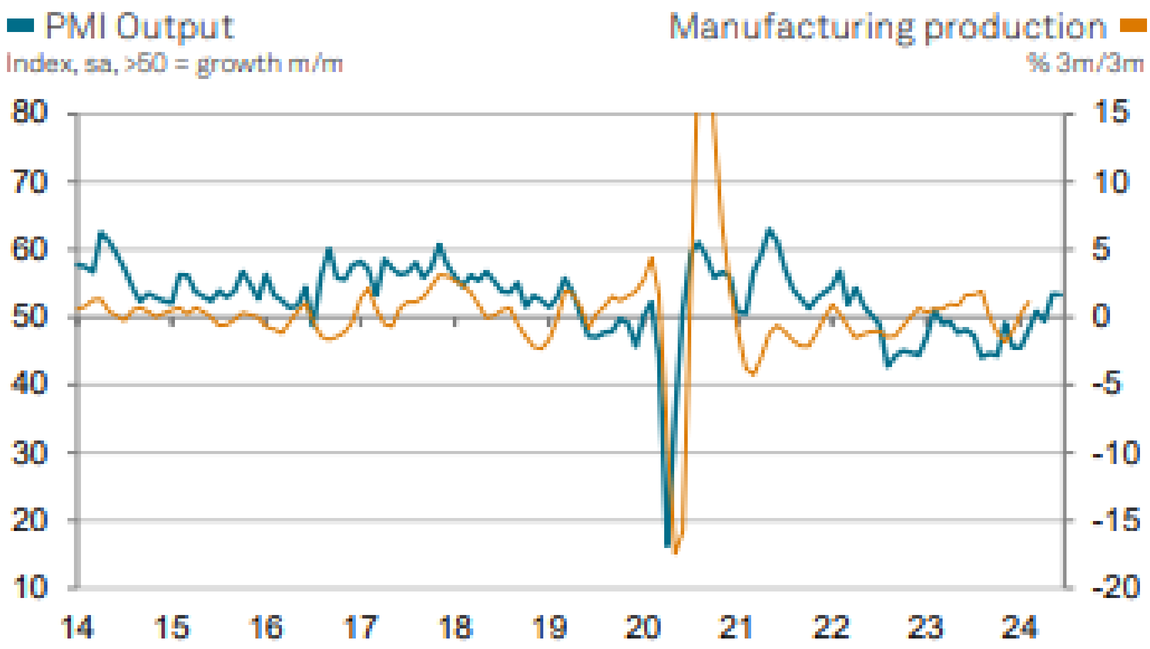
7. **Indonesia June CPI -0.08% m/m, 2.51% y/y after -0.03% m/m, 2.84% y/y – less than the +0.1% m/m, 2.7% y/y expected** – lowest since September 2023, as food prices rose the least in nine months (4.95% vs 6.18% in May). Also, inflation eased for housing (0.47% vs 0.54%), health (1.89% vs 2.06%), accommodation/restaurants (2.31% vs 2.51%), clothing (1.09% vs 1.10%), recreation & culture (1.50% vs 1.60%), and education (1.69% vs 1.71%). Simultaneously, prices continued to fall for communication & financials (-0.18% vs -0.16%). On the other hand, prices accelerated for transport (1.61% vs 1.34%) and furnishings (0.95% vs 0.85%). Meanwhile, the core inflation eased slightly to 1.90% from May's eight-month high of 1.93%, below forecasts of 1.94%.

8. **German State flash CPI points to 0.1% m/m, 2.2% y/y –with 2.3% y/y expected nationally**. BW 0.1% m/m, 1.9% y/y from 2.1% y/y; Bavaria 0.2% m/m, 2.7% y/y flat; Brandenburg 0.1% m/m, 2.6% y/y from 2.9% y/y; Hesse 0.1% m/m 1.8% y/y from 1.9% y/y; NRW 0.8% m/m, 2.2% y/y from 2.5% y/y; Saxony 0.1% m/m 2.8% y/y from 3.1% y/y

9. **Eurozone June final HCOB manufacturing PMI slips to 45.8 from 47.3 – better than 45.6 flash** – still, well below the survey average of 51.6, with output contracting at the fastest rate so far this year. New orders, purchasing activity, and employment all declined more rapidly. On the price front, input costs rose for the first time since February 2023, leading factories to reduce discounts. Output charges saw a slight decrease, the slowest rate in over a year. Finally, the outlook for output over the next 12 months is positive.

10. **UK June final manufacturing PMI slips to 50.9 from 51.2 – weaker than 51.4 flash** – with input costs at 17th month highs, still points to an upturn in the manufacturing sector as output and new orders both expand for the second successive month, with rates of expansion remaining close to the highs reached in

May. Also, suppliers' delivery times lengthened. In contrast, stocks of purchases and employment both decreased and there was a modest upswing in cost inflationary pressures, with input prices rising at the quickest pace since January 2023. Meanwhile, manufacturers maintained a positive outlook in June, reflecting expectations for a market recovery, planned growth strategies, new product launches and promotional activities.



Source: S&P Global PMI. ©2024 S&P Global.

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

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

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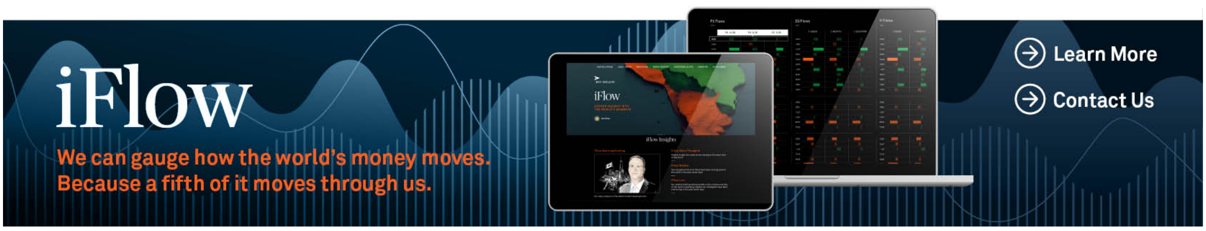

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