

July 2, 2024

Balancing

“Balance is not something you find, it’s something you create.” – Jana Kingsford

“Throughout the infinite, the forces are in a perfect balance, and hence the energy of a single thought may determine the motion of a universe.” – Nikola Tesla

Summary

Risk off with focus on rates mattering again. RBA minutes show worry about upside inflation and high for longer consensus, JPY slips to fresh 38-year lows as US rates rise, Oil climbs to 2-month highs, German 10-year Bunds rise to 2.6% - 3-week highs, while flash core CPI in Europe is flat. The French election jockeying for pole positions and the UK vote hang over markets just as the US election titles to the what if Republicans sweep. The rate moves up in bonds globally force a balancing act for portfolios as they look for some sure returns. On the day FOMC Powell and US JOLTS are the drivers for changing thinking around US growth/inflation and policy risk but most doubt this will shift much as the bigger wait is for Friday’s jobs report.

What’s different today:

- **US markets focus on “Trump Trade”** with US bond curve steepening expected from (tariffs and tax cuts) along with some higher equities (less regulation, less taxation).
- **Last 20 minutes focus on concentration risk.** The late-day dash to trade in US and EU markets is raising concerns about liquidity and risk.

- **iFlow – notable shift in Mood to significantly positive** and to trend as well while carry and value are both negative. The equity markets are seeing APAC developed market inflows dominate while sectors mostly negative except Communications. The FX markets in G10 saw AUD selling, JPY selling while COP, MXN, TRY, CNY and TWD saw inflows. Bonds were sold in G10 but bought in EM particularly Indonesia with Poland and Peru also notable.

What are we watching:

- **US May job openings JOLTS report** expected down to 7.95mn from 8.059mn – with some focus also on quits
- **FOMC Chair Powell speech** at ECB Sintra Forum along with ECB speakers Lagarde, de Guindos and Schnabel.

Headlines

- China 3rd Plenum expected to focus on tech and more stimulus - talk of RRR easing increasing – CSI 300 off 0.42%, CNH off 0.1% to 7.3090
- RBA minutes from June: Show consensus for holding not hiking ahead – ASX off 0.42%, aud OFF 0.2% TO .6645
- NZ 2Q NZIER business confidence drops -19 to -44 - led by construction – NZD off 0.35% to .6050
- Korea June CPI -0.3pp to 2.4% y/y - lowest since July 2023 – Kospi off 0.84%, KRW 0.4% to 1388.90
- Japan MOF Suzuki vigilant on sharp FX moves, but no intervention warning – Nikkei up 1.12%, JPY off 0.15% to 161.65
- Spanish June unemployment fell -46,780 - best since 2008 – IBEX off 1.75%, SPGB 10Y up 0.5bps to 3.475%
- French RN leaders Le Pen will seek allies to form coalition government – CAC 40 off 0.9%, OAT 10Y up 1bps to 3.355%
- Eurozone June flash CPI off 0.1pp to 2.5% y/y but core flat at 2.9% y/y while May unemployment holds 6.4% record lows – EuroStoxx 50 off 1.05%, EUR off 0.15% to 1.0715

The Takeaways:

The US Jolts risk today is for further labor market demand slowing with focus on the Beveridge Curve continuing to move to pre-pandemic normalcy. The FOMC Powell speech in Portugal will be watched against this as the Chair seemed more resigned in his last press conference to just one cut unless the data forced the timing. How much US economic slowing is needed for a September cut remains the question, one which few expect he answers today. That leaves politics as the dominate theme and the UK election is the least of the worries which perhaps makes it the most dangerous for surprises. The UK GBP is cheap on a value metric but the ability for the nation to fund itself should the US and EU need more capital is going to be one factor to watch. Gilts don't want another Liz Truss moment. Nor do markets want to see the GBP trade below 1.20 and open up talk of a crisis in value. How these parts mix with other markets and the world is worth some thought given the vote July 4th is

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AROUND THE WORLD

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Special Edition: UK General Election Outlook

Tuesday, July 2nd
at 10:15am EST/ 3:15pm BST

Please join us for a 20-minute UK General Election Outlook Webinar where we will provide a political and economic overview of possible election outcomes and implications on UK Assets.

We will be hosting the following speakers:

- **Geoffrey Yu**, *Senior EMEA Macro Strategist*
- **Stephen Bellamy**, *FX Spot Trader*
- **Matthew Carvell**, *FX Spot Trader*
- **Francis Wood**, *Head of UK Government Relations*

Moderator: **Geoffrey Yu**, *Senior EMEA Macro Strategist*

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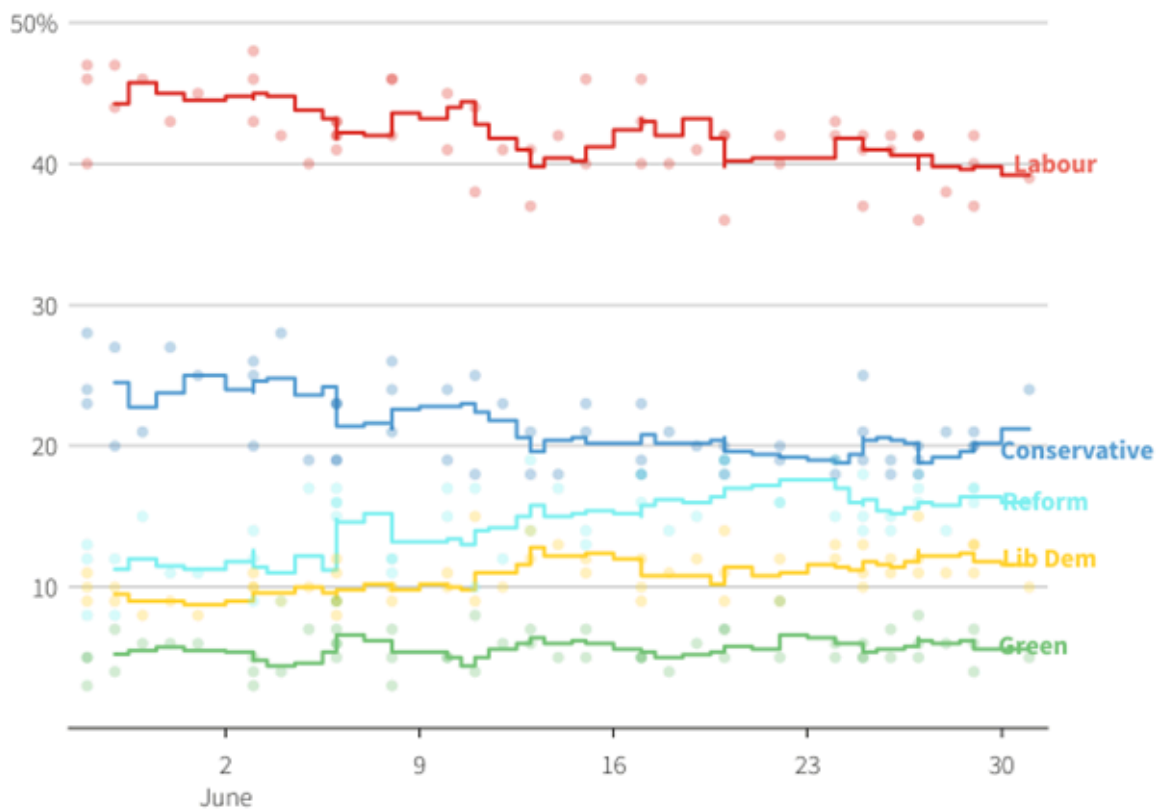
Join by phone: 1-650-479-3208 (US Toll Free)

Access: 2426 602 4939

Exhibit #1: UK Polls are clear

UK election opinion polls

Opinion polls of voting intention ahead of Britain's July 4 general election



Source: Data compiled from polls by BMG, Deltapoll, Ipsos, JL Partners, Opinium, Redfield and Wilton, Savanta, Survation and YouGov

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. New Zealand 2Q NZIER business confidence -44 after -25 - worse than -10 expected. Net 35% sees general decline in economic outlook while 28% see drop in their own activity. Overall, these results suggest the potential for a continued slowing in the New Zealand economy over the coming year on the back of higher interest rates and heightened uncertainty.

2. Korea June CPI slows to -0.2% m/m, +2.4% y/y after 0.1% m/m, 2.7% y/y - lower than 2.7% y/y expected - with monthly rate lowest since November and annual lowest reading since July after prices went up at a softer pace for housing, electricity, gas and water (1.2% vs 1.5% in May); food and non-alcoholic beverages (3.8% vs 5.1%), transport (3.8% vs 3.9%), health (1.8% vs 2.5%), recreation and culture (1.5% vs 1.7%). On the other hand, cost increased at a faster pace for restaurants and hotels (3% vs 2.9%), clothing and footwear (2.6% vs 2.5%) and education (3% vs 2.9%).

3. Spanish June unemployment drops -46,780 after -58,700 - less than the -50,900 expected - but still, bringing the total to 2.56 million, the lowest figure for

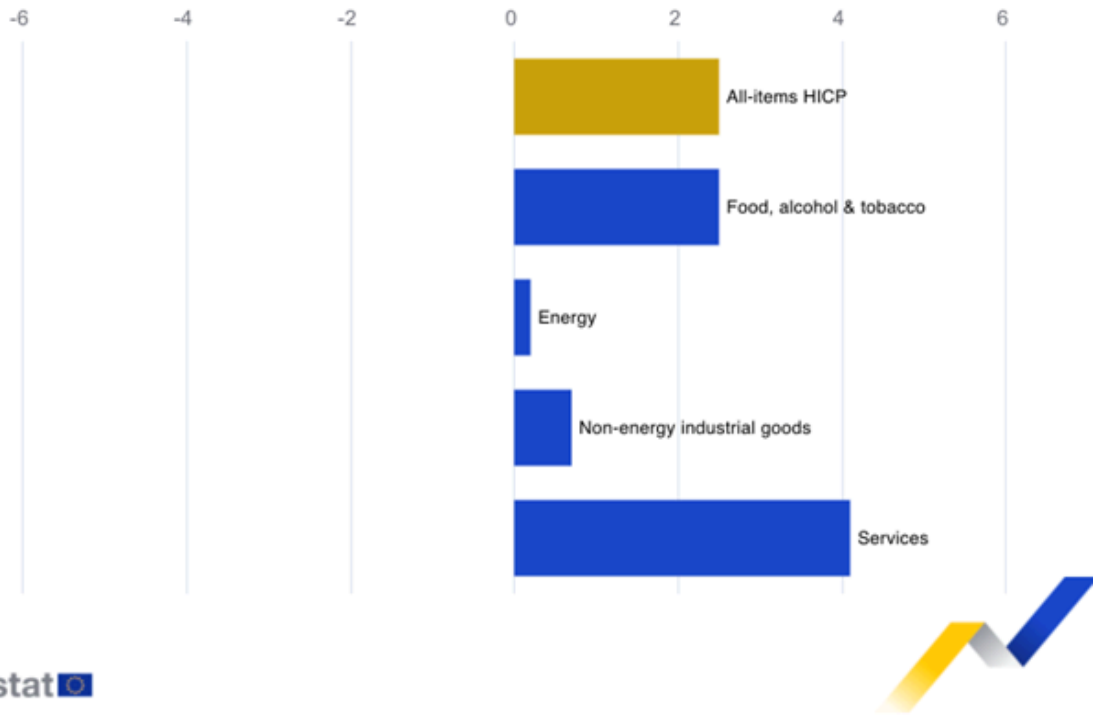
that month since 2008 and the lowest for any month since August 2008. Unemployment fell across all surveyed sectors, led by services (-37,025 people), followed by industry (-4,388), construction (-2,954), and agriculture (-267). Among the group of those without previous employment, it has decreased by 2,149 people. Unemployment among young people under 25 years of age fell by 3,939 people, or 2.2%, in June compared to the previous month. Across different regions, Andalusia (-8,746 people), Catalonia (-5,816) and the Valencian Community (-4,929) saw the most significant decreases. Meanwhile, a separate report from the Social Security Ministry showed that Spain added 71,095 net formal jobs in June to 21.4 million jobs.

4. Eurozone May unemployment holds 6.4%- all-time lows and unchanged since April - as expected. Still, the number of unemployed individuals rose by 38k from the prior month to 11.078 million. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, was 14.2% in May, the same as the revised figure in April. Across the major Euro Area economies, Spain continues to grapple with the highest unemployment rate, standing at 11.7%, followed by France at 7.4% and Italy at 6.8%. In contrast, Germany recorded the lowest rate at 3.3%. A year earlier, the jobless rate was slightly higher at 6.5%.

5. Eurozone June flash CPI slows to 0.2% m/m, 2.5% y/y after 0.2% m/m, 2.6% y/y - as expected. Prices rose at a slower pace for food, alcohol and tobacco (2.5% vs 2.6%) and energy (0.2% vs 0.3%) while inflation was steady for non-energy industrial goods (at 0.7%) and services (at 4.1%). Meanwhile, annual core inflation which excludes energy, food, alcohol & tobacco, unexpectedly remained unchanged at 2.9%, compared to forecasts of 2.8%. Among the largest economies, inflation eased in Germany (2.5% vs 2.8%), France (2.5% vs 2.6%), Spain (3.5% vs 3.8%) and Ireland (1.5% vs 2%), but rose in Italy (0.9% vs 0.8%) and the Netherlands (3.4% vs 2.7%).

Exhibit #1: ECB looking for fat tails in CPI?

Euro area annual inflation - June 2024, %



eurostat 

Source: Reuters, BNY Mellon

Disclaimer & Disclosures

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



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