BNY

iFlow MARKET MOVERS

July 8, 2024

Reversals

“A reversal is just anything that’s a surprise. It’s a way of keeping the audience interested.” – Tony Gilroy

“I am kind of paranoid in reverse. I suspect people of plotting to make me happy.” – J.D. Salinger

Summary

Risk mixed as APAC lower with French election surprise and higher wages in Japan signaling BOJ hike more likely, while China growth doubts continue and with focus on tech. Europe reverses notably even with hung French parliament, French stocks went from down to up nearly 1%, but weaker EU investor sentiment, ECB Know approving market expectations for 2 more cuts and ongoing doubts about growth clearly limit upside to EUR. UK hears from new Chancellor Reeves on spending review and BOE Haskell sounding hawkish. US markets have a light day ahead with inflation expectations and consumer credit on the agenda and the usual 3M and 6M bill sales. The hurricane Beryl hit to Texas refineries also a focus with WTI off 1%, Nat Gas up 1% in Europe. The overall mood is soggy with humidity in weather reflected in sticky positioning.

What’s different today:

- **Steel futures trade at 7-year lows** with China rebar futures CNY 3,275 per tonne – with less hope for China stimulus to bolster metal demand. China CSI 300 now down for year again.
- **New Zealand 10-year bond yields drop 5bps** to 4.635% - ahead of RBNZ seen on hold this week but perhaps tilting toward easing bias.

- **iFlow** – Mood indicator significantly positive for 6th day in 95.9% percentile while Trend is back in neutral but still positive at 81.9% percentile while Carry is neutral but negative at 18.6% percentile. FX showed G10 selling USD and buying EUR, CHF, SEK while in EM MXN and TRY buying over ZAR selling. Stocks saw 4 sectors getting inflows, and 4 regions up while bonds were sold except in New Zealand for G10 while LatAm saw buyers as did South Africa and India.

What are we watching:

- **US June NY Fed 1-year consumer inflation expectations** last 3.17% - matters to anchoring of outlook for FOMC decision.
- **US May consumer credit** expected $9bn after $6.403bn – leverage of consumer key for spending views.

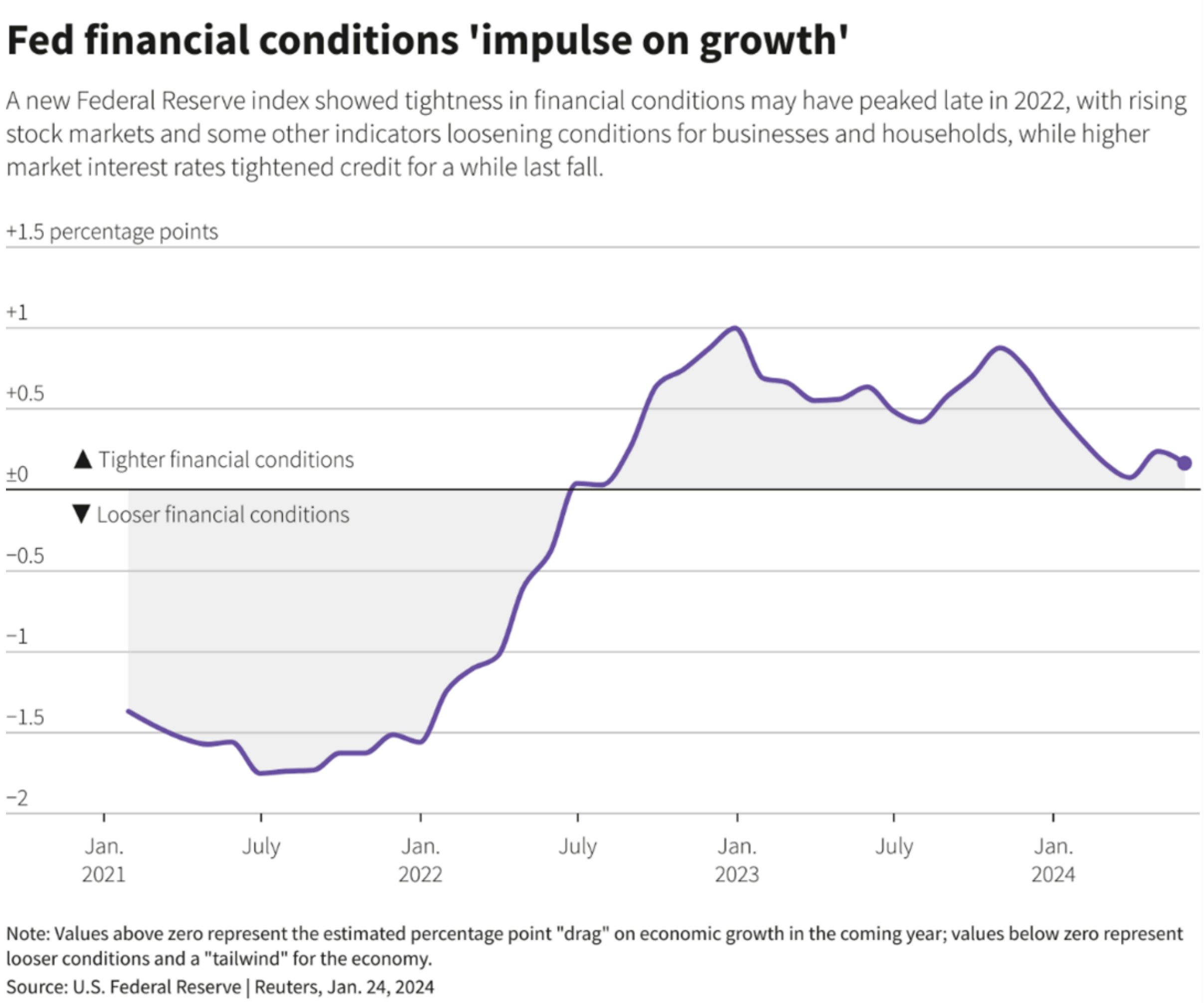
Headlines

- French Parliamentary elections surprise with left alliance winning 182 seats, Le Pen's RN 143, Macron centrists 168 – delivering hung parliament with Macron asking Attai to stay PM for now– CAC 40 up 0.4%, OAT 10Y off 1bps to 3.22%
- Japan May average cash earnings up 0.3pp to 1.9% y/y - highest since Jan – while overtime pay rose to 2.3% y/y; June EcoWatchers rises 1.6 to 47.9 – first rise in 4-months – Nikkei off 0.32%, JPY off 0.15% to 161
- China President Xi after meeting with Hungarian PM Orban calls for world help to push direct dialogue for Russia/Ukraine; China outspends US in nuclear fusion research – CSI 300 off 0.85%, CNH flat at 7.2875
- Australian May home lending drops 2% m/m – ASX off 0.76%, AUD off 0.15% to .6740
- German May trade surplus up E2.7bn to E24.9bn – largest since Jan even as exports -3.6% m/m, imports off 6.6% m/m to 5-month lows – DAX up 0.5%, Bund 10Y yields up 2.5bps to 2.575%
- Swedish May industrial production -2.9% y/y led by manufacturing – OMX up 0.25%, SEK off 0.1% to 10.495
- Eurozone July Sentix investor morale drops -7.6 to -7.3 – seen as "bitter setback" – EuroStoxx 50 up 0.5%, EUR off 0.1% to 1.0825
- UK Chancellor Reeves: orders assessment of state spending, pushes social housing, BOE Haskel rather stay on hold until more certainty – FTSE up 0.3%, GBP flat at 1.2820
- AI Chip antitrust scrutiny hitting tech shares – Nasdaq futures off 0.1%, 10Y US yields up 2bps to 4.30%, US dollar index flat.

The Takeaways:

Relief dominates the EU session while doubts rule APAC, leaving the tie-break to the US where markets look confused. In US politics, unlike the certainty of a hung parliament in France, confusion as on President Joe Biden to step aside in the White House still circulates within the Democratic party, most Democrats still back him and opinion polls show he's still competitive in key swing states. The key for the week outside of US politics revolves around the US CPI release and the FOMC Chair Powell testimony to Congress. Powell sounded less hawkish in Sintra, and many will focus on the odds for a September cut from the Fed post a lousy set of US data that paints a clearly slowing economy with unemployment over 4.1% bringing back the Sahm rule on recession risks. Just how tight US financial conditions are maybe the key debate with US equities at record highs into the 2Q earnings that start Friday with big banks. The risk reward of the day ahead maybe in staying near the air conditioning rather than venturing out to new positioning. Mood remains bid for stocks, mixed for bonds and confused about the USD. What can make it reverse today will rest on surprises outside of the news agenda.

Exhibit #1: Does the new Fed Financial Conditions matter?



Details of Economic Releases:

1. Japan May average cash earnings rose 1.9% y/y after 1.6% y/y – less than the 2.1% y/y expected – still highest since January 2024, while overtime pay rose to 2.3% y/y bouncing back from -1.2% in April. The country's nominal wage growth also lagged behind the 2.5% core consumer inflation rate in May, marking the 26th straight month of negative inflation-adjusted real wages which fell 1.4%. The following industries contributed the most to the wage rise: construction (7.2%), transport & postal activities (5.7%) and information & communication (4.8%). Meanwhile, wages declined in compound services (-6.3%), mining & quarrying of stone & gravel (-3.7%) and finance & insurance (-0.9%).

2. Japan June EcoWatchers survey rises to 47.9 from 46.3 – more than 45.5 expected. The current conditions rose to 47 from 45.7 – bouncing off 18-month lows – and the first gain in 4-months with the measure for household budget trends advancing due to rises in retail-related and other related indicators. Also, the measure for employment was higher. Meanwhile, the gauge for corporate trends fell due to a decline in the non-manufacturing industry.

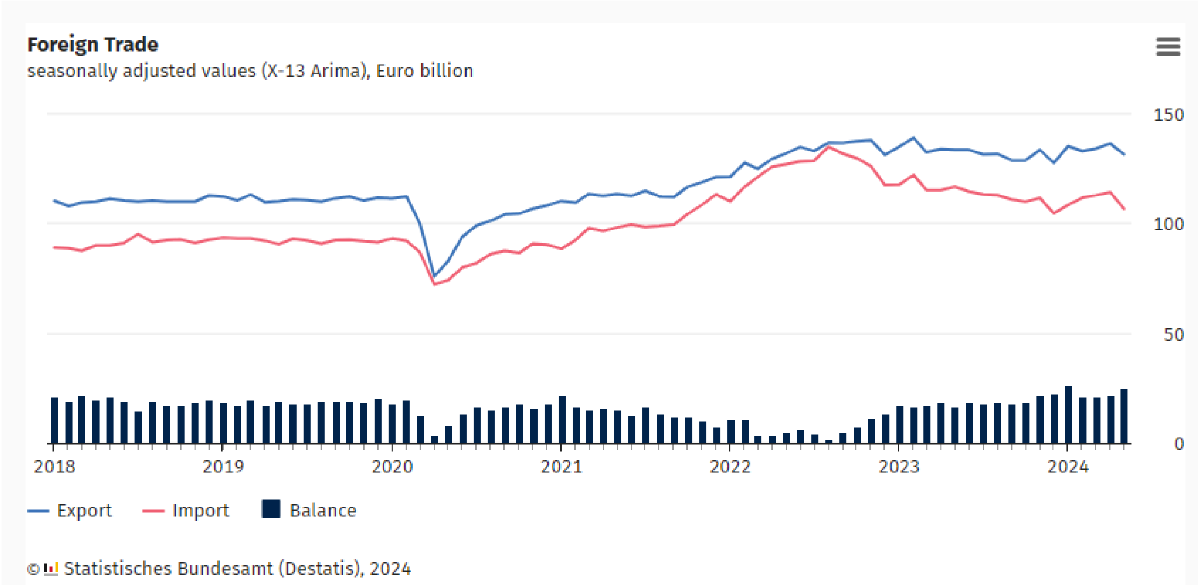
3. Australian May home loans drop -2% m/m, +12.2% y/y after +4.5% m/m – weaker than +2% m/m expected. Construction of dwellings fell (-0.7% vs 6.0% in April), as did the purchase of existing dwellings (-2.2% vs 3.7%). At the same time, a decline in the purchase of newly erected was much softer (-5.6% vs -11.6%). The investment lending for homes slows to -1.3% m/m after +5.3%. Geographical-wise, new home loans contracted in New South Wales (-7.9%), Victoria (-2.4%), South Australia (-1.7%), Northern Territory (-6.3%), and the Australian Capital Territory (-1.4%). Conversely, they grew in Queensland (0.8%), West Australia (2.6%), and Tasmania (9.2%).

4. Sweden May industrial production rose 1.1% m/m, -2.9% y/y after -2.6% m/m, -4.4% y/y – weaker than +1.9% m/m expected. Output increased for mining & quarrying (11.8% vs 8.3% in April), and production declined less for manufacturing (-3.6% vs -4.9%).

5. German May trade surplus rises to E24.9bn after E22.2bn – more than E21.1bn expected - largest trade surplus since January, as exports fell less than imports. Exports shrank 3.6% m/m to a five-month low of E131.6 billion, reversing from an upwardly revised 1.7% gain in April. Shipments to the EU shrank by 2.5%, while those to third countries dropped by 4.9%, with exports to the US falling 2.9%, while those to China, the UK, and Russia plunged by 10.2%,11.7%, and 19.3%

each. Meanwhile, imports declined 6.6% to a five-month low of E106.7 billion, the 1st decline in five months, after a downwardly revised 1.2% rise in April. Imports from the EU fell by 8.9%, while purchases from non-EU shrank by 4.0%, particularly from the UK (-9.3%) and Russia (-8.0%). By contrast, imports grew from China (1.7%) and the US (4.6%). For the first five months of 2024, the country posted a surplus of E116.4 billion.

Exhibit #2: German Trade worrying?



Source: DeStatsis, BNY Mellon

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

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