BNY

iFlow

WEEK AHEAD

September 1, 2024

Almost

"Time plays a role in almost every decision. And some decisions define your attitude about time." – John Cale
"He who has a 'why' to live can bear almost any 'how.'" – Friedrich Nietzsche

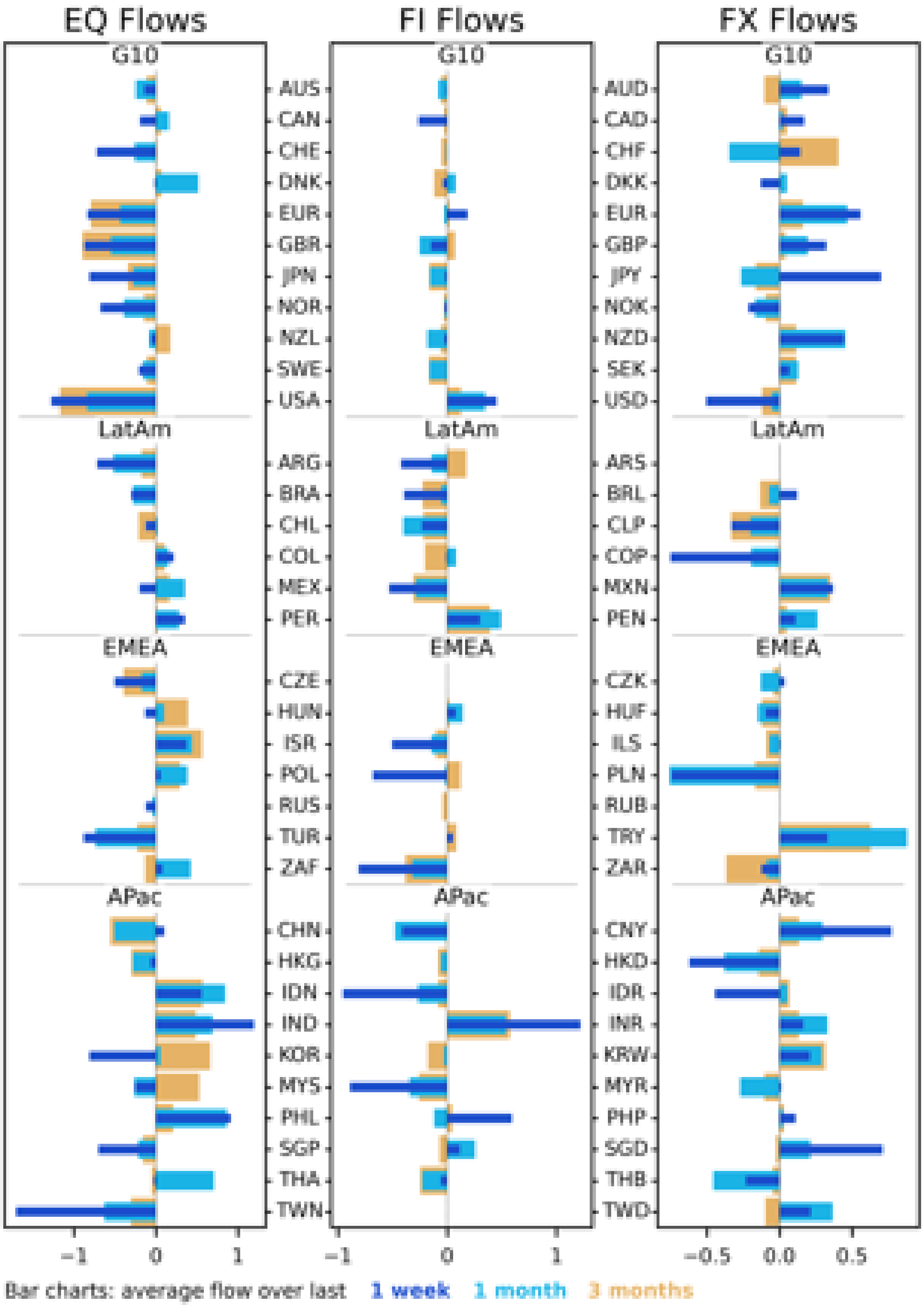
Summary:

Good news matters and set the course for August beating back a bad start to deliver the expected seasonal rally in the end. Markets saw less inflation, better growth and a Fed ready to cut rates at its Jackson Hole Symposium. Consumer confidence rose for the first time in 5-months, but employments expectations wobbled. The week ahead will set the course for whether the hopes of August were a reality in the jobs market with many worried that further labor market weakness means a recession in 2025 and requires more aggressive FOMC cuts to get to any softish landing for the economy. September seasonality has a checkered record with risk off not uncommon and in election years more dramatic. Good enough likely won't be sufficient as we learned from the AI boom stock Nvidia on its earnings last week. Almost doesn't count in the game for risk into the next week as growth clearly beats inflation now globally. The weekend delivered ugly political news for Germany and weaker growth for China despite further policy tweaks. There is a sense that the US jobs report ahead will determine the course for the rest of the years. Good economic news is now good news for markets anywhere as fear is less priced and keeping the current equity trajectory intact requires growth and easy policy.

Themes:

- **German far-right and the Scholz Alliance – is the political risk in EUR underpriced?** The weekend delivered an AfD regional victory – first since WWII, only the CDU didn't lose ground in the voting. AfD in Thuringia won 30.5% of vote. CDU 24.5%, SPD 7.0%, Green 4.0%, FDP 1.3% and BSW 16%. The CDU in Saxony won the election according to exit polls with the SPD at 8.5%, Greens at 5.5% while BSW far left had 12%. Bottom line the weekend news and results return the markets to political risks in Germany into 2025 when an election has to be held.
- **China recovery doubts and policy responses – is the kitchen sink next?** Over the weekend, the August NBS PMI for manufacturing fell 0.3 to 49.1v – weaker than 49.5 expected. The services PMI rose to 0.1 to 50.3 – better than 50.1 expected. Both the services and manufacturing PMI reported lower prices – suggesting more deflation risks ahead. Adding to pressures, the new home sales fell 26.8% y/y in August from 19.7% y/y in July, according to China Real Estate Information Corp.
- **Diversification and US un-exceptionalism**. The notable August flows were in EM and EU markets. Some of this reflects the concern about US economic data and jobs in particular. The rest was about Fed expected to catch up to the ECB and the rest of the world in general. The growth exceptionalism of the US is seen waning while the rest of the world is seen as having bigger "value" and in some areas "growth." The risk of the markets pricing in too many easing from the Fed vs. too few from the rest of the world maybe the key for FX and USD exceptionalism in the weeks ahead.

Exhibit #1: iFlow shows clear doubts about equities ahead



Source: iFlow, BNY

What are we watching:

- **Economic Releases: Monday** – US holiday, Global Manufacturing PMI; **Tuesday** – US ISM; **Wednesday** – Services PMI, US Trade, JOLTS, Factory

Orders; **Thursday** – EU retail sales, UK construction PMI, US ADP, jobless claims, Services ISM; **Friday** – German industrial production, Eurozone GDP, US NFP and unemployment.

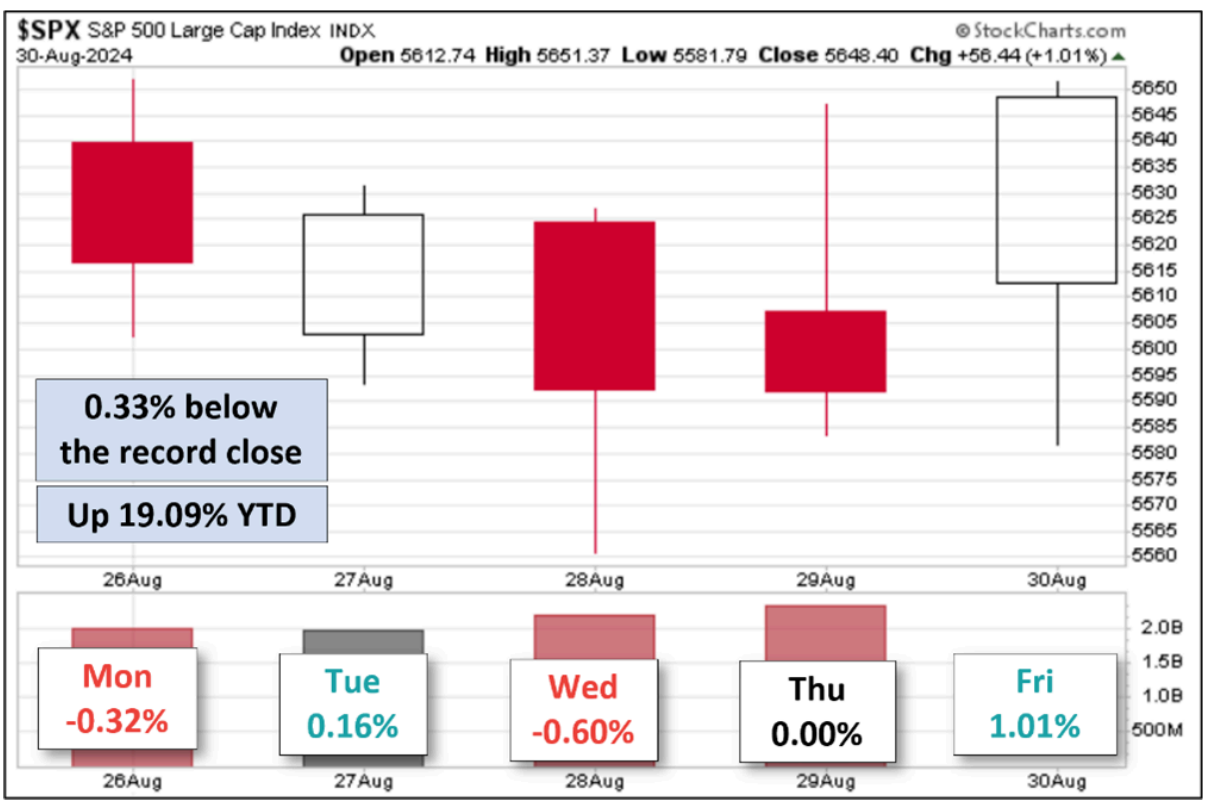
- **Central Banks**: **Monday –** UK MPC gets Professor Taylor; **Tuesday –** ECB Nagel, BOE Breeden, Riksbank Thedeen, Chile rate decision; **Wednesday –** Poland NBP rate decision, Fed Beige Book, Bank of Canada rate decision, ECB Villeroy, Riksbank Breman; **Thursday –** Malaysia BN rate decision, ECB Holzmann, RBA Bullock, BOJ Takata; **Friday –** Fed Williams/Waller, ECB Elderson
- **Issuance**: **Eurozone supply expected E22.4bn** from Austria, Germany, Spain, France and Belgium with E9.4bn of positive cash flow with Italian coupons and redemptions.**UK issues GBP4bn** but also GBP7bn syndication possible with negative cash flow of GBP4bn. **US has no coupons but over $400bn in bills,** with negative cash flow of $40.5bn. **Tuesday** – UK GBP7bn 15Y syndicated Gilt, Austria E1.45bn of 9Y and 62Y RAGB; German E4.5bn of 2Y Schatz, US sell $76bn of 6M, $70bn in 3M bills, $46bn in 1Y bills and $65bn in 42-day bills; **Wednesday** – E1bn of 17Y Bund and E0.5bn of 14Y Bund, US sells 17-week bills; **Thursday** – UK GBP4bn of 5Y Gilts, Spain E6bn of 3-5 and 10Y SPGB along with E1bn of 6Y SPGBei; France E12bn of 10-12-16 and 31Y OATs, US sells 1M and 2M bills; **Friday** – E0.5bn of ORI

What changed this week:

The tame core PCE inflation and the better US 2Q GDP mixed and overlayed with the stable US jobless claims helped support the expectations for at 25bps rate cut in September. However, the September 6th jobs report trumps all of that and more as the difference between 25bps and 50bps rests on the data. The Nvidia earnings beat expectations at $30bn but revenue outlook and the views on growth ahead didn’t help shares. Rotation and rebalancing dominated this week in stocks and bonds. Emerging Markets focused again on Asia and the PBOC bond buying and floating of mortgage refinancing plans helped the CNY gain back below 7.10 to the USD. The flash Eurozone CPI leaves room for ECB easing ahead while the Tokyo August CPI leaves room for the BOJ to hike again. Equities ended the month higher with only China down, even as Hong Kong Hang Seng rose 6.1% and as Japan led the month with a 7.6% Nikkei rally after significant volatility August 5. Europe saw a more rally with German Dax up 2.69% on the month – setting new record highs.

- **The US equity markets closed the week mixed** with S&P500 up 0.24% near record highs while the DJIA set new highs up 0.94% while the NASDAQ closed down 0.92%. The S&P500 is currently 0.33% off its record close from July 16th, 2024, and is now up 19.09% year-to-date. The best performer was Hong Kong Hang Seng up 2.14% and Italy's MIB up 2.15% while the worst were the Nasdaq and the Mexico Bolsa off 2.81%. The MSCI rebalancing was notable discussion with India seeing increases and China decreases in weighting. The iFlow weekly flows had India and Indonesia the biggest winners. The iFlow correlation of sectors to the overall index is nearly 0 (0.073) but that is up from -0.4% in March – the stock market isn't being led by just AI boom anymore. We see that clearly in our flows – which not surprisingly saw outflows this last week given the strong performance for the month – worst outflows were in IT, biggest changes on the week were in Consumer Discretionary down and Energy. The broad iFlow Mood Indicator is neutral for 16th day but -0.024 at 41% percentile – well off the highs of July and momentum is negative for week, month and quarter now – suggesting risk off trouble ahead as our clients are net selling equities and buying front end bills.

Exhibit #2: US mixed in last week but near record



Source: Advisor Perspectives, Bloomberg, BNY

- **The US bond market saw rates higher on better economic data** but the front-end remained anchored by expectations for Fed rate cuts. The curve bear steepened with 2/10Y -1bps while 2/30Y closed +28bps. At odds with the market, Iflow showed US bonds saw positive inflows for week, month – led by duration but international appetite for US bonds fell. US corporate bonds have been sold on the week and month as well. We saw MBS selling, Muni selling, and a reversal on from early in the month of on cash – selling out after rising much of the month. The bond selling in Italy, Sweden and Australia was also notable with 10Y yields up 11bps while the best performer was Japan with 10Y JGBs up just 1bps at 0.88%. Iflow saw bond inflows lead by India and Philippines.

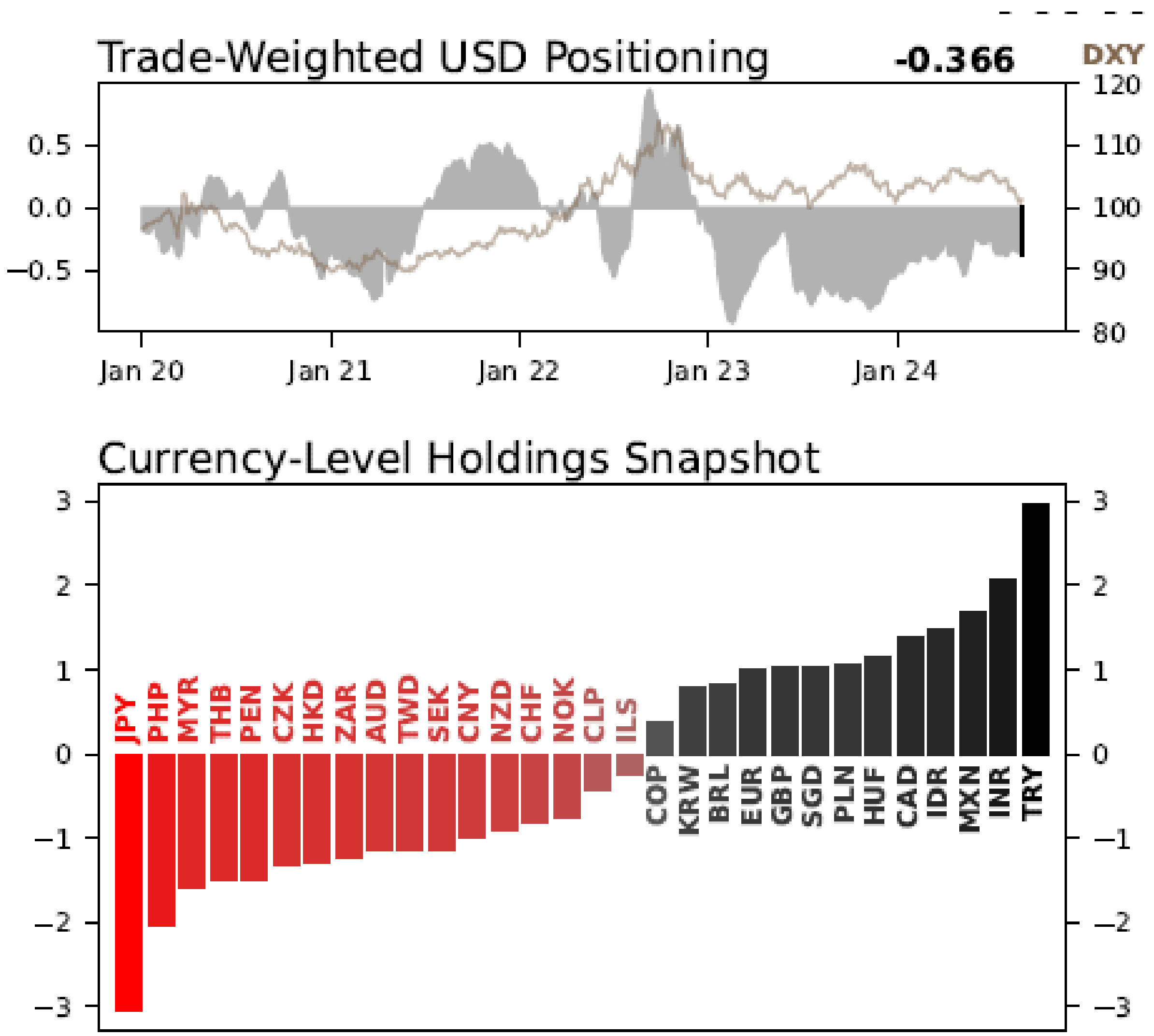
Exhibit #3: US bond performance - steepening?

US Bond	High	Low	Current	% from Low	1W Change
30Y	5.35	0.99	4.2	3.21	0.11
20Y	5.44	0.87	4.28	3.41	0.10
10Y	5.26	0.52	3.9	3.38	0.10
5Y	5.18	0.19	3.7	3.51	0.05
2Y	5.22	0.09	3.92	3.83	0.00
3M	5.63	0	4.97	4.97	-0.15
FFR	5.43	0.04	5.32	5.28	-0.06
The Yields and Fed Funds Rate data from January 2007					

Source: Bloomberg, BNY

- **The FX markets saw the USD recover up 1% on the week** but still down 2.2% on the month. The USD index rose back to 101.73 with the Friday flows reversing most of the Wednesday pain. The biggest movers on the week were ILS up 1.3% as peace talks continue, MYR up 1.25% into the MBN decision and as the currency surprises this month with notable exporter flows. While CNY below 7.10 after 2 days of month-end selling and talk of new plans from the PBOC on bonds. The worth performers were COP off 3.5%, then MXN off 3.1% and BRL off 2.2% - all suffered on politics and fiscal doubts. The EUR fell 1.3% while GBP was calmer off just 0.7% while JPY fell 1.2%. The FX Carry trade that dominated this month has our index at neutral after being significantly positive for 9 days – the current index is 0.182 which is 78% percentile – still high and holding remain high as well suggesting we have room for a larger correction – notable is that the momentum is now negative on the week. The correlation of our index to risk parity remains high and significant. – The iFlow data show inflows were led by CNY, SGD, JPY NZD – telling us something about APAC demand overall while USD positioning still has room to adjust stronger.

Exhibit #4: FX Holdings, still room for USD selling?



Source: iFlow, BNY

News Agenda and Weekly Themes – US jobs, JOLTS, Fed Beige Book, ISM, Global PMI, Bank of Canada rate decision and China/Africa conference

The week ahead will be back loaded for the US given the Monday holiday Labor Day with the actual labor report on Friday being seen as a key report for FOMC rate cut sizes ahead. The rest of the world will have less relief given the global PMI manufacturing reports and the focus on China growth lagging. South Korea exports for August also missed and leave clear global demand is a concern. Japan wages, German industrial production are also key, The Fed Beige Book and further Fed comments on Friday with NY Fed Williams being the last speaker ahead of the "Black Out" period matter significantly. GDP reports from a number of countries including Turkey, Brazil and South Korea and CPI from Switzerland to Turkey also matter. The Bank of Canada rate decision along with that of Poland, Malaysia, Chile all matter to FX markets. For EM and Frontier markets, the China Africa conference may lead to further focus on belt road and new ideas for finance.

1. USD weakness and the economic data ahead. Focus in the week ahead is squarely on the US Friday release of unemployment data. The Fed Chair Powell clarity on "the time is now" to start easing was not specific about 25 or 50bps and many expect the jobs report to be the key driver. The barometer of choice for Fed easing isn't just about September but the larger risk for a recession ahead. The USD has been the preferred measure to reflect such fears as the rest of the world is seen doing relatively better in 2025. The US ISM on manufacturing and services will also be closely watched in the week ahead along with JOLTS.

Exhibit #5: USD at a bottom?

US dollar slumps to 13-month low as Fed signals rate cut

The dollar index, which measures the U.S. dollar's value against a basket of major currencies, has fallen to its lowest level since July 2023.

Note: The index assigns varying weights to the euro, Japanese yen, UK sterling, Canadian dollar, Swedish krona and Swiss franc. Latest data as of Aug. 26.

Source: LSEG | Reuters, Aug. 27, 2024

Source: Reuters, BNY

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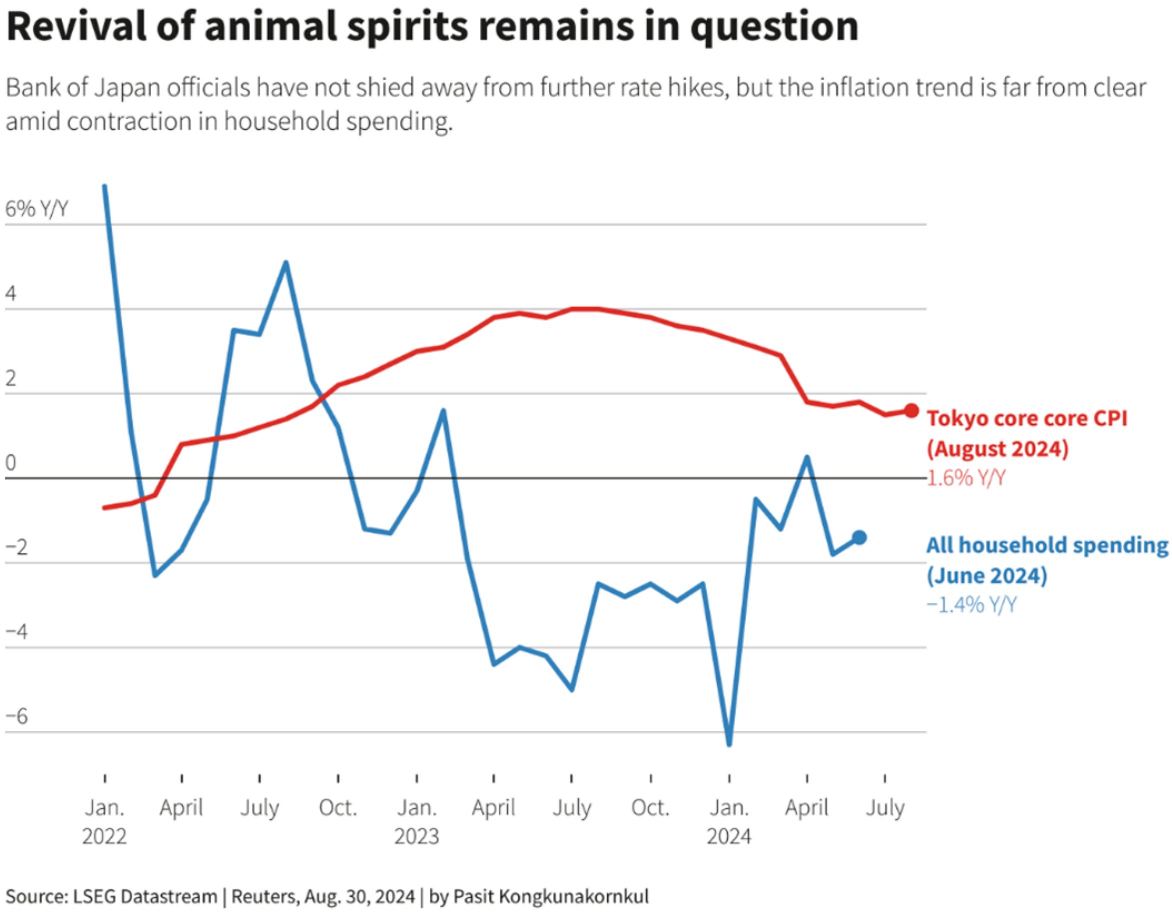
2. Japan and divergent policy. Bank of Japan officials have not shied away from further rate hikes despite the August market volatility. Last week, Deputy Governor Ryozo Himino echoed Governor Ueda by saying monetary tightening would continue if inflation evolves as the BOJ expects and markets need to be monitored closely. Tokyo CPI, accelerated to 2.4% in August, above the BoJ's 2% target and more than the market expected. Retail sales figures published at the end of August fell short of estimates, while household spending has declined every month since February last year. An update of that series is due on Sept. 6.

Exhibit #6: JPY and retail sales key



Source: Reuters, BNY

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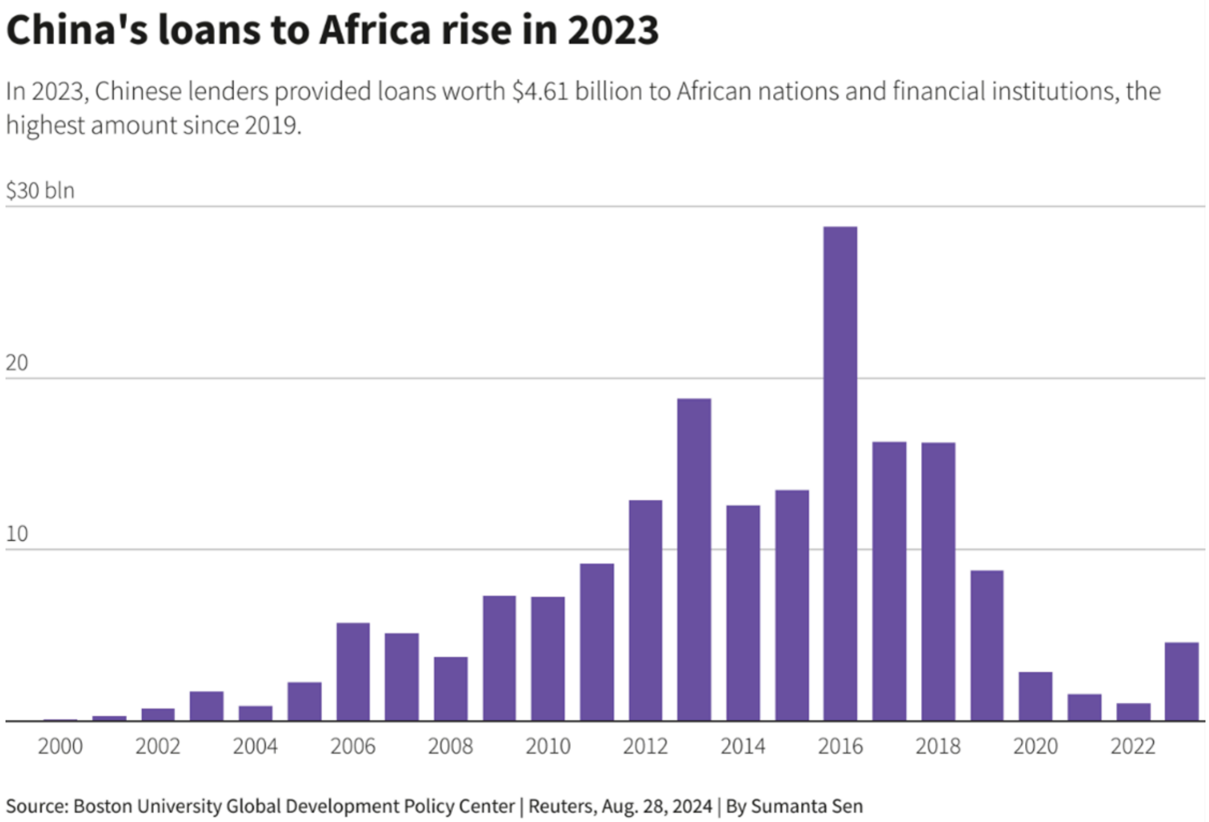
3. **China and Africa and the 9th FCAC** - African government officials, including presidents and prime ministers from countries including Kenya, Senegal and South Africa head to Beijing for the ninth edition of the Forum on China-Africa Cooperation. The once-every-three-years meeting - the main summit of engagement between both sides - follows data that showed annual Chinese lending to the continent rose to $4.6 billion last year - the first increase since 2016. However, the figure is far from the peak 2012-2018 levels of more than $10 billion at the height of the Belt and Road Initiative. The decline has been caused by China's own domestic pressures and debt problems among African economies, such as Ethiopia, Kenya and Zambia. African officials will be keen to seek commitments from Beijing on boosting financing and investments, while Ethiopia, for instance, will focus on debt restructuring talks.

Exhibit #7: China and EM finance hopes



Source: Reuters, BNY

4. Bank of Canada and the soft-landing. The consensus for Canada and rate policy is for five 25bps cuts in the next five meetings. This is driving up expectations for a soft landing for Canada. The question for markets in the week ahead is whether rates at 4.25% matter to the CAD which matters to exporters and to import inflation and consumers. The gains of CAD in the last month stand out despite the 1% rate differential. There is also the 2Q GDP which was up 2.1% y/y better than the 1.8% expected and over the 1.5% expected by the BOC. The result led to higher 10-year Canada yields back to 3.33% and kept the CAD below 1.35

Exhibit #8: BOC and growth focus

Source: Reuters, BNY

Calendar September 2-6:

Central Bank Meetings:

- **Chile BCC (Tuesday, September 3) –** Latin American central banks may feel that there is greater policy space for accommodation now that the Federal Reserve is clearly pushing for rate cuts. However, there are many reasons to remain cautious. Firstly, just because the Fed is easing does not mean higher yielding currencies can benefit. We believe the carry trade is now already very well-owned and the cyclical environment is also problematic. Secondly, Chile will continue to struggle on the terms of trade front due to weak global industrial demand. Although a cut is the central scenario, real rates will fall below 1% soon while sequential inflation was strong in July at 0.7%.
- **Poland NBP (Wednesday, September 4) –** No change is expected in the base rate and the NBP's overall message has remained extremely cautious on rate cuts in the near future, even though some degree of policy space is also available now that the market is looking for more easing by the ECB, as much as Governing Council members continue to push back. Inflation prints have softened but the annualised rate remains too high for comfort at 4.3%, while the NBP would prefer to have a wider real rate gap amid ongoing risks of fiscal impulse. The PLN also remains materially overheld and liquidation risk would also represent an inflation challenge.

- **Canada BoC (Wednesday, September 4) –** The Bank of Canada will cut rates for a third straight time, bringing the target rate to 4.25%. Declining inflation and a cooling job market will keep the Bank on a dovish setting for the rest of the year, and we see cuts at the October and December meetings as well. The initiation of Fed easing this month will also help the BoC continue along its current policy path.
- **Malaysia BNM (Thursday, September 5) –** We expect BNM to keep rates on hold in the near term, regardless of the potential Fed move. Dissipating currency depreciation pressure is welcome but not a sufficient reason to induce policy change. BNM is expected to continue to carefully observe the evolution of inflation and potential impact from subsidies rationalization or the return of Consumption Tax. Nonetheless, since the July meeting BNM is in a much more comfortable position. The warning "BNM will continue to manage risks arising from heightened financial market volatility" on the central bank's readiness to intervene in May and July press releases is no longer needed.

Key data/releases

Date	Time	EDT	Country	Event	Period	Cons.	Prior
08/31/24	02:30	*21:30	CH	Manufacturing PMI	Aug	49.5	49.4
09/02/24	01:30	*20:30	JN	Jibun Bank Japan PMI Mfg	Aug F	--	49.5
09/02/24	02:30	*21:30	AU	Building Approvals MoM	Jul	2.50%	-6.50%
09/02/24	02:45	*21:45	CH	Caixin China PMI Mfg	Aug	50	49.8
09/02/24	07:30	02:30	SW	Swedbank/Silf PMI Manufacturing	Aug	--	49.2
09/02/24	08:00	03:00	TU	S&P Global/ICI Turkey Manufacturing PMI	Aug	--	47.2
09/02/24	08:00	03:00	PD	S&P Global Poland Manufacturing PMI	Aug	47.7	47.3
09/02/24	08:30	03:30	CZ	S&P Global Czech Republic Mfg PMI	Aug	44	43.8
09/02/24	08:55	03:55	GE	HCOB Germany Manufacturing PMI	Aug F	42.1	42.1
09/02/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Aug F	45.6	45.6
09/02/24	09:00	04:00	NO	DNB/NIMA PMI Manufacturing	Aug	--	56.9
09/02/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Aug F	--	52.5
09/02/24	14:00	09:00	BZ	S&P Global Brazil Manufacturing PMI	Aug	--	54
09/03/24	07:30	02:30	SZ	CPI YoY	Aug	1.30%	1.30%
09/03/24	07:30	02:30	SZ	CPI MoM	Aug	0.10%	-0.20%
09/03/24	08:00	03:00	TU	CPI YoY	Aug	51.83%	61.78%
09/03/24	13:00	08:00	BZ	GDP YoY	2Q	2.70%	2.50%
09/03/24	14:30	09:30	CA	S&P Global Canada Manufacturing PMI	Aug	--	47.8
09/03/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Aug F	48.1	48
09/03/24	15:00	10:00	US	ISM Manufacturing	Aug	47.5	46.8
09/03/24	***23:00***	***18:00***	***CL***	***Overnight Rate Target***	***Sep-03***	***5.50%***	***5.75%***
09/04/24	02:30	*21:30	AU	GDP SA QoQ	2Q	0.30%	0.10%
09/04/24	02:30	*21:30	AU	GDP YoY	2Q	0.90%	1.10%
09/04/24	12:00	07:00	US	MBA Mortgage Applications	Aug-30	--	0.50%
09/04/24	13:00	08:00	BZ	Industrial Production YoY	Jul	--	3.20%
09/04/24			***PD***	***Poland Base Rate Announcement***	***Sep-04***	***5.75%***	***5.75%***
09/04/24	***14:45***	***09:45***	***CA***	***Bank of Canada Rate Decision***	***Sep-04***	***4.25%***	***4.50%***
09/04/24	15:00	10:00	US	Durable Goods Orders	Jul F	--	9.90%
09/05/24	02:00	*21:00	PH	CPI YoY 2018=100	Aug	3.60%	4.40%
09/05/24	***08:00***	***03:00***	***MA***	***BNM Overnight Policy Rate***	***Sep-05***	***3.00%***	***3.00%***
09/05/24	13:15	08:15	US	ADP Employment Change	Aug	145k	122k
09/05/24	13:30	08:30	US	Initial Jobless Claims	Aug-31	--	231k
09/06/24	07:00	02:00	GE	Industrial Production SA MoM	Jul	-0.20%	1.40%
09/06/24	08:00	03:00	SZ	Foreign Currency Reserves	Aug	--	703.5b
09/06/24	10:00	05:00	EC	GDP SA QoQ	2Q F	0.30%	0.30%
09/06/24	10:00	05:00	EC	GDP SA YoY	2Q F	0.60%	0.60%
09/06/24	13:30	08:30	US	Change in Nonfarm Payrolls	Aug	163k	114k
09/06/24	13:30	08:30	CA	Unemployment Rate	Aug	6.50%	6.40%
09/06/24	13:30	08:30	US	Unemployment Rate	Aug	4.20%	4.30%

Key speeches/events

Date	BST	EDT	Country	Event
09/03/24	09:00	04:00	SW	Riksbank Governor Erik Thedeen speech
09/03/24	13:45	08:45	UK	BOE's Breeden speaks
09/03/24	17:45	12:45	EC	ECB's Nagel Speaks
09/04/24	07:15	02:15	SW	Riksbank Deputy Governor Jansson speech
09/04/24	08:30	03:30	SW	Riksbank First Deputy Governor Breman speech on climate
09/04/24	12:00	07:00	EC	ECB's Villeroy Speaks
09/04/24	***15:30***	***10:30***	***CA***	***BoC Governor Macklem Holds News Conference***
09/04/24	19:00	14:00	US	Federal Reserve Releases Beige Book
09/05/24	02:30	*21:30	JN	BOJ Board Takata Speech in Ishikawa
09/05/24	03:00	*22:00	AU	RBA's Bullock -- Speech to Anika Foundation
09/05/24	14:00	09:00	PD	Polish Central Bank Governor Glapinski Holds News Conference
09/05/24	15:00	10:00	EC	ECB's Holzmann speaks in Vienna
09/06/24	13:45	08:45	US	Fed's Williams Gives Keynote Remarks
09/06/24	16:00	11:00	US	Fed's Waller Gives Speech on Economic Outlook

Conclusions: Almost too easy?

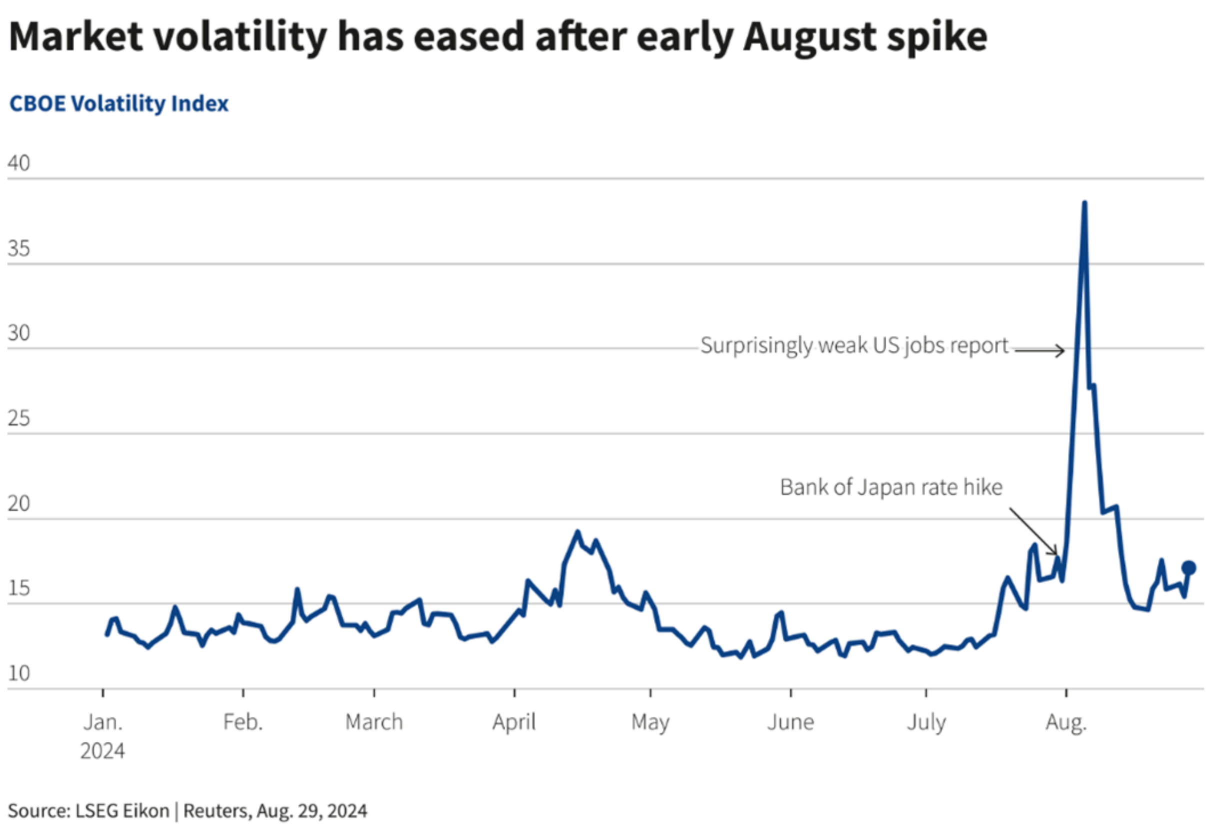
At some point, the financial conditions index for the US and for the world matters again to central bankers as they set policy. The flip-flop in moods and prices in

August highlight how quickly moods can shift for markets. The rise and fall of Japan and the US markets matter to how policy progresses for the rest of the year. The markets underprice the BOJ rate hiking risks and JPY volatility accordingly. The same is true for the US as the 100bps of easing in 2024 seems at odds with the way the S&P500 prices in the economy ahead. The level of shares and the ability of asset inflation to matter to the consumer and to corporations is part of the policy puzzle. Going from fear to irrational exuberance in less than a month could be followed by the mirror image of swings in the month ahead.

The risk for September trading rests in the current split between bonds, stocks and foreign exchange markets. The August reversals in the S&P500 VIX index have been taken by some investors as an all-clear signal to double-down on risk. To others, stock market seasonality puts a damper on such given the historical bias for sharp moves in September and October. The base line of the VIX looks too cheap to many. The swings of the JPY lead caution in the FX markets but skews in the option markets are for the USD lower not higher now. The Fed cuts are just a question of how many. For bonds, the expectations are more complicated as the Fed cut profile and US politics are expected to collide in the months ahead. Whether supply and fiscal policy matter to investors will be a key test for US fixed income. For now, the lack of foreign buying doesn't matter, but into the next few months it may just lead to a new risk premium and higher volatility.

Bottom Line: The next week is the start of the end of the year. It has the makings for trouble given the economic data from the US and rest of the world now matters to how rate curves are played out and FX markets valued. The risk of a USD bounce extending from the Friday moves is one possibility while the other could be the way that China policy matters again and how their plans to fix the economy may lead to further APAC flows and diversifications away from the USD. We are at a crossroads and the Friday unemployment data maybe the gateway to the path of all markets into the year-end.

Exhibit #8: Is the VIX a reverse risk indicator now?



Source: Reuters, BNY

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

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