BNY

iFlow
WEEK AHEAD

August 11, 2024

Theme Parks

“Don’t worry; don’t be afraid, ever, because this is just a ride.” – Bill Hicks
“Life is what happens when you have other plans.” – John Lennon

Summary:

The last week felt like a roller coaster to many investors and reminiscent of the theme parks of youth with too much movement and sugar mixing to make stomach aches over fun. For some this is just a review of what they missed from the beach or mountainside to others it’s a moment of fear not yet forgotten. All of which leaves the key question for the price action and volatility – is this a healthy correction or something worse? The price action down started with the US unemployment report and the BOJ rate hike mixing to make JPY unwinds the focus of FX markets and the excuse to deleverage other risks across asset classes. The fear of a US recession risk abated on a US weekly jobless claims and on back of BOJ Uchida, the deputy governor, clearly pushing back on further hikes given financial instability. The bounces were insufficient to cover the losses and so the next week begins with many wondering if value or some steadier US data can suffice to get us all back to flat before September comes. The themes for the week ahead revolve around Fed rate cuts and the split between their sanguine push of 25bps and the market pricing of more than 3 cuts ahead to year end. Then there is the long arm of geopolitical fears as the Ukraine battle inside Russia and the ongoing expectations for Iranian action against Israel leaves all trade and commodities on edge. Finally, there is the US 2Q earnings wrap and the contrast of prices to profits. Beyond the US CPI and PPI likely the key for Fed expectation shifts ahead. The central bank meetings from

the RBNZ, Norges Bank and BSP along with the China and UK economic releases will dominate the price action across markets as global recession fears rise and fall like a worn amusement park ride with worn bolts holding the fragile seats together.

Themes for the week ahead:

- **Fed Cuts and the risk of the economic data**. The next week will pivot on the US CPI and PPI reports either confirming or denying hopes for FOMC rate cuts. The pricing of more than 100 bps of easing for the 3 meetings left for the Fed make for trouble similar to the January to March risk reversals. The Fed September meeting prices in 55% chance for 50bps easing. We maybe restarting good news is bad set of prints as the market will likely have to wait for the Jackson Hole Powell speech (August 22-24) for clarity on Fed policy and the hope for a significant easing path ahead.
- **The risk of a tight Presidential election** – Markets unwound much of the "Trump Trade" from early July and have yet to define a "Harris Trade." The risk of a too close to call election has many points – with no chance of a clean sweep for Congress being one of them. The risk of fiscal problems will be the first risk as debt ceiling limits return and as the US corporate tax cuts expire. The less discussed and more painful tail risk is of a contested election with courts and Congress involved in determining the next President. The September 10th debate between Harris and Trump has become an event risk for markets similar to the June 27 experience.
- **The US recession fears against the 2Q earnings and stock rotations**. Overall, the S&P500 companies beat expectations by 4.1% - near the long-term average. Next week, earnings from Walmart and Home Depot will be watched to confirm US consumer slowdowns or calm. At the end of the month, we finally get Nvidia earnings – with those shares still dominating many portfolios, holding up 110% despite the recent sell-off. The risk of another stock market push lower or of a bigger rotation trade remain in play but throw in the sector focus on growth and how to play for the September rate cut. Stock market risks bleed into rates and FX now in a way that seems more correlated than before July.

United States sectoral alphas after initial rate cuts

Average performance relative to broad market, Fed's first rate cuts: from '87, 1m = 21 trading days

	+1m	+2m	+3m	+6m	+9m	+12m
Consumer Non-Cyclicals	1.2	2.6	3.5	1.4	3.8	7.7
Consumer Cyclicals	-0.8	0.8	1.9	3.3	1.6	7.0
Technology	0.2	-0.8	-3.1	-3.4	-1.6	5.2
Healthcare	-0.2	0.7	1.6	2.7	2.8	4.5
Business Services	-1.2	-0.2	-1.5	-2.0	-3.0	-1.5
Industrials	-0.5	0.2	-0.4	-0.7	-1.7	-1.7
Telecommunications	0.2	-0.5	2.0	0.5	2.8	-1.9
Non-Energy Materials	-0.7	0.3	-2.1	-2.9	0.4	-3.2
Consumer Services	0.3	1.1	0.5	4.3	-2.5	-3.6
Energy	-0.5	-0.7	-1.6	-0.4	0.8	-6.2
Utilities	0.3	1.4	4.1	-0.4	-0.6	-7.6
Finance	-0.7	-0.5	0.2	-1.6	-4.7	-8.2

Source: Factset

MACROBOND

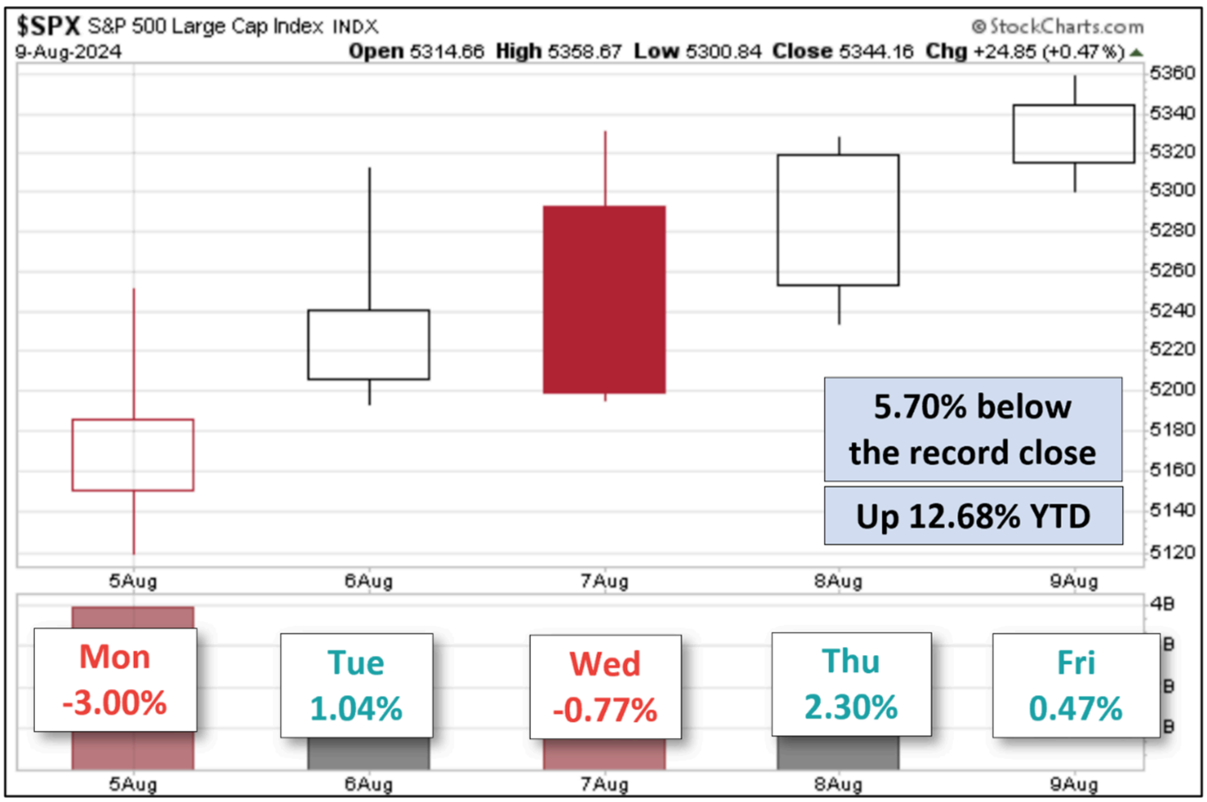
What are we watching:

- **Economic Releases**: **Monday** – Japan holiday, India CPI, US Fed Budget; **Tuesday** – UK earnings, jobs, German ZEW, US PPI; **Wednesday** – UK CPI, Eurzone GDP and Industrial Production; US CPI; **Thursday** – Japan GDP, EU Assumption holidays, UK GDP and Industrial Production, trade deficit, US retail sales, industrial production, Philly Fed manufacturing; **Friday** – UK retail sales, US housing starts, Univ. of Michigan consumer sentiment.
- **Central Banks**: **Monday** – RBA Hauser; Tuesday – Fed Bostic; **Wednesday** – RBNZ decision; **Thursday** – Norges Bank decision, Fed Musalem, Harker; **Friday** – Fed Goolsbee, RBNZ Orr
- **Issuance**: **Eurozone sells E18bn** in debt from Germany and France with cash flow positive by E24.5bn with German and Italian coupons and redemptions. **Tuesday** – German E5bn 2Y Schatz; **Wednesday** – French E9bn of 3Y, 5Y and 7Y OAT along with E2bn in 30Y OATei; Germany sells E2bn of 25Y and 30Y Bunds**. UK sells G3bn** in debt with **Tuesday** 13Y Gilt sale; US sell zero in coupons but usual bill schedule **– Monday** - 3M $76bn, 6M $70bn; **Tuesday** - 42 day $75bn; **Wednesday** – 4M Bills; **Thursday** 1M and 2M Bills; Japan sells Y2trn in coupons – Tuesday – 5Y Y1.75trn JGB and Thursday – 10Y Y250bn inflation linked along with 3M bills

What changed this week:

In Equities, the US S&P500 fell 0.04% on the week – the fourth consecutive weekly decline - while the DJIA fell 0.6% and the NASDAQ fell 0.18%, however, the focus wasn't on the S&P500 but the Nikkei as it fell the most on record for 3-days to Monday and then had its best recovery in over a decade. Markets mostly recovered in Europe – the EuroStoxx 50 rose 0.79% with DAX up 0.35% while Japan Nikkei fell red 2.46% while the Australia ASX fell 2.08%. For iFlow there was divergence from the tape, the Japan equities saw significant inflow as did Thailand and Denmark while the US saw selling along with China.

S&P500 off for 4th week

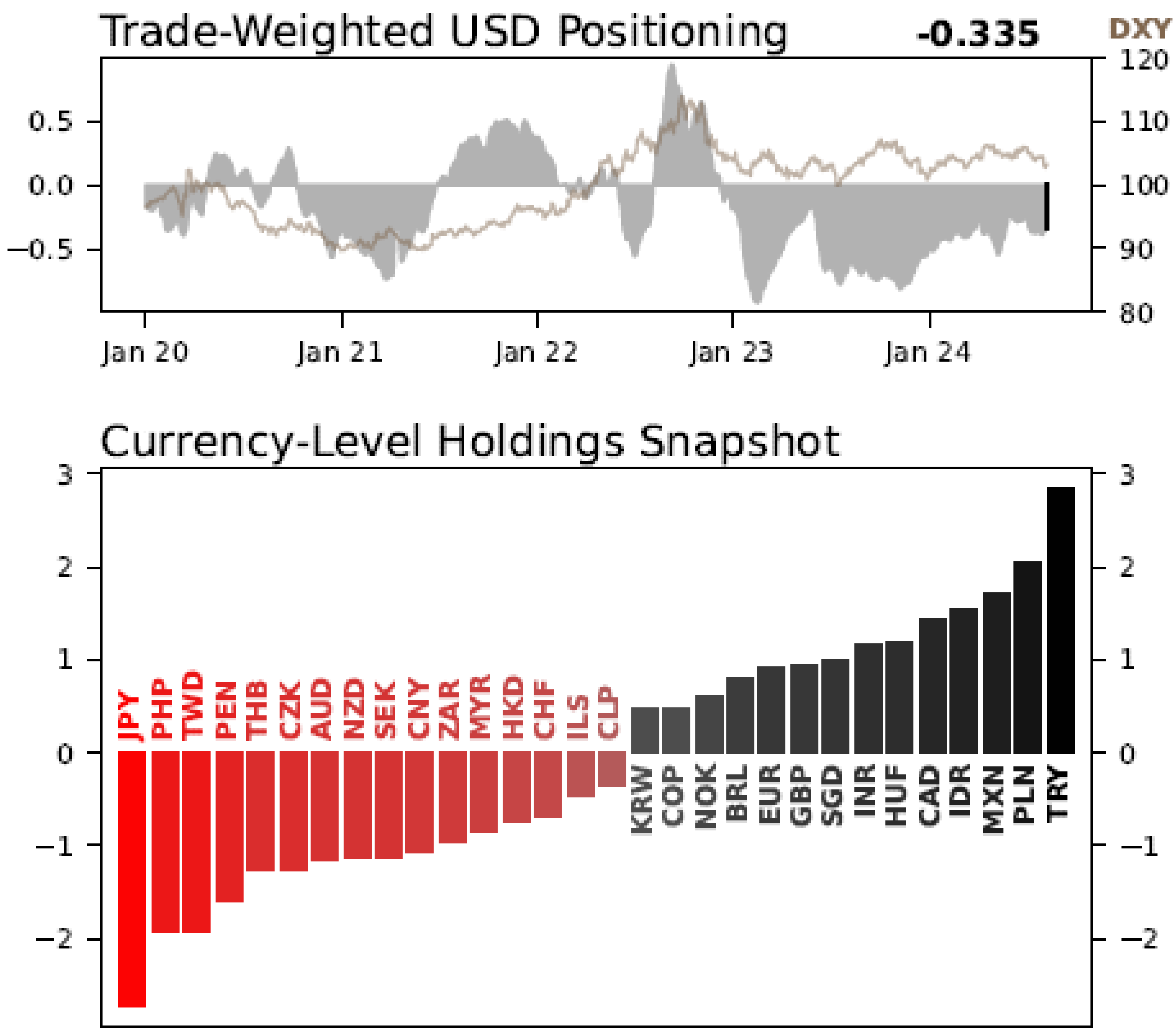


Source: Bloomberg, BNY

- **In Fixed Income, the US 10Y saw significant volatility closing up 3bps to 3.94% on the week.** The 2Y rose 6.5bps to 4.055%, 5Y rose 4.5bps to 3.795% and 30Y rose 2bps to 4.22%. Curves were a big focus on Monday with the 2/10Y bull steepening, but we close -11bps Friday. In other markets Canada, New Zealand and Sweden saw larger selling of 8-10bps in 10Y bonds while the Italian BTPs, French OATs both rallied off 2-4bps on the week. The iFlow biggest winners were India, Peru, New Zealand while Turkey, China and Chile saw the biggest outflows.

- **In FX, The USD was slightly lower for the week off 0.06% to 103.15 on the index** with the biggest gains in BRL up 4%, then ILS up 2% and CLP up 2% with MXN up 1.85% and IDR up 1.75% - the return of high yielders over safe-havens restarted the carry trade – as CHF fell 0.7%, KRW off 0.3% and JPY was flat (after a wild 142-148 trading week). The biggest flows in iFlow were selling of TWD, JPY and CHF against buying of IDR, TRY and INR. Again the price action in markets didn't mix with the client flows we saw.

Exhibit #2: FX USD holdings, JPY and MXN still focus



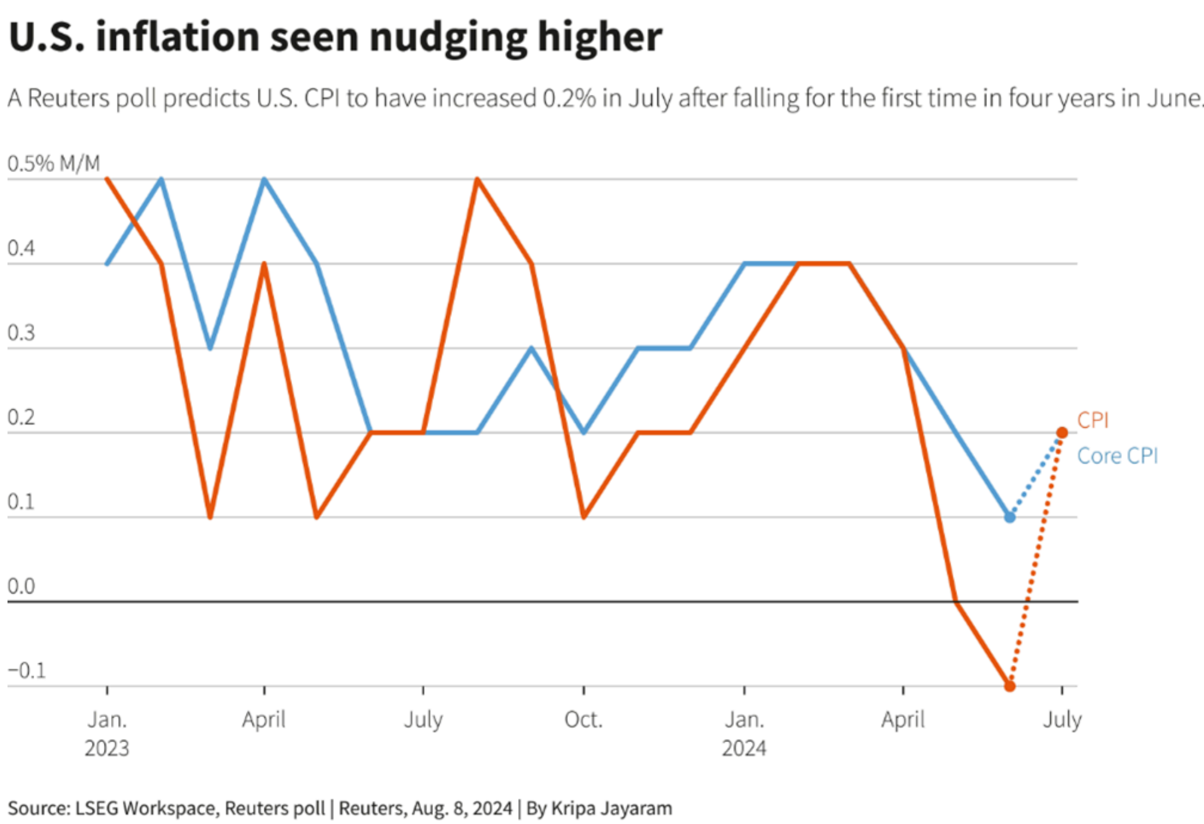
Source: iFlow, BNY

News Agenda and Weekly Themes – US CPI, China new CNY loans, retail sales, UK jobs, trade, industrial production, RBNZ, Norges Bank and 2Q earnings

The focus in the United States will be on the CPI and PPI reports, and speeches by Federal Reserve officials. Additionally, key data releases will include retail sales, Michigan consumer confidence, export and import prices, housing starts, building permits, and industrial production. In the United Kingdom, it will be a busy week with the release of data on unemployment, inflation, GDP growth rates, industrial production, and retail sales. China will report on new yuan loans, the house price index, retail sales, and the unemployment rate. Meanwhile, Q2 GDP growth rates will be announced for Japan, the Netherlands, Poland, and Thailand. Interest rate decisions are expected from **New Zealand, the Philippines, and Norway**, while India will release its inflation rate and industrial production data. In Australia, the NAB Business Confidence and Westpac Consumer Confidence will be released, and Germany will update its ZEW Economic Sentiment Index.

1. US CPI and the FOMC expectation risks. The question to ask is if lower CPI will be seen as a signal of weaker US growth and higher recession risks. Wednesday's US consumer price data for a read on how inflation is faring in the world’s largest economy amid recent signs that growth is wobbling. Market hopes of an economic soft landing have been shaken by recent weak data, including news of a rapid down-shift in the jobs market. The slowdown fears have coalesced with the unwinding of a global carry trade to deliver markets a wallop. Some analysts believe recession worries are premature. Economists polled by Reuters expect both headline and core consumer prices rose 0.2% in July from a month earlier. The problem may be if the CPI is higher than 0.3% m/m making many wonder if the US faces slowing growth with sticky inflation into 4Q.

Exhibit #3: Will US CPI hurt markets?



Source: Reuters, BNY

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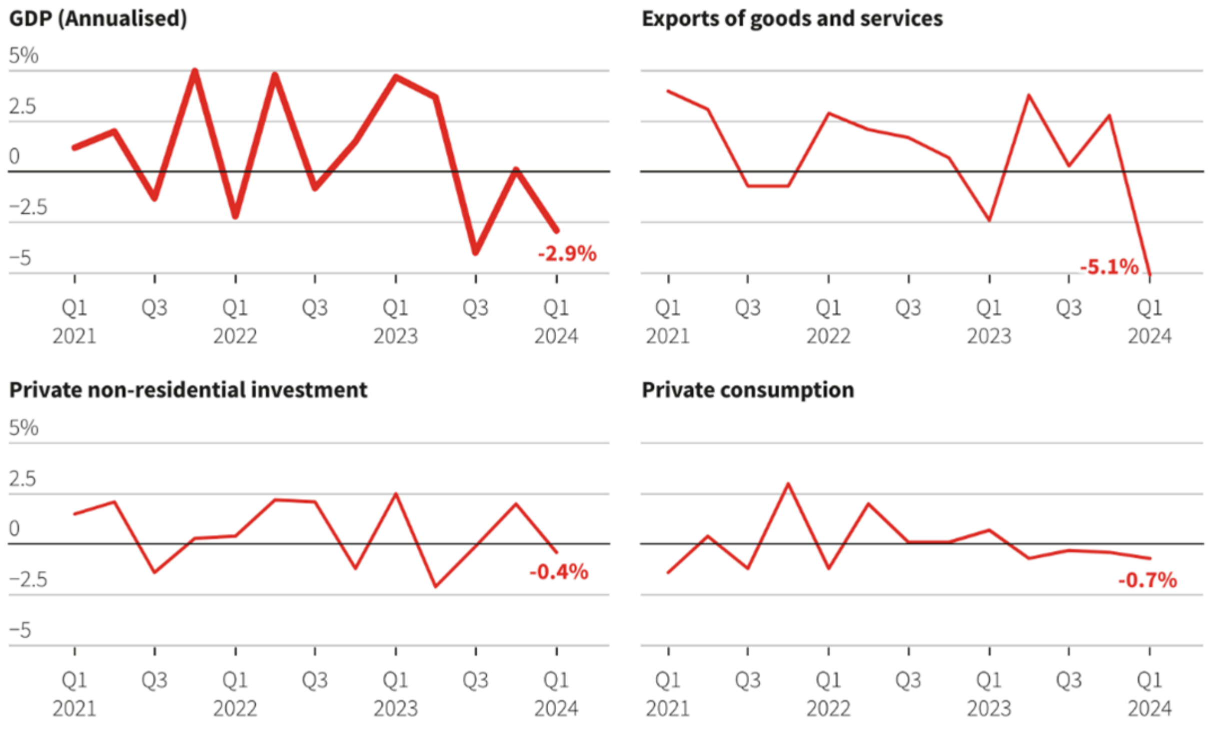
2. Japan GDP and BOJ regret function - Japan reports preliminary second-quarter growth figures on Thursday, at a time where some analysts have critiqued the Bank of Japan's (BOJ) recent rate hike as a policy misstep that triggered the brutal selloff in stocks. To be sure, the connection isn't quite so straightforward. The BOJ's hike sparked a resurgence in the yen and extended an unwinding of the popular yen carry trade, which in turn sent investors de-leveraging and shedding their stock holdings to cut losses. So should Thursday's data point to a brighter outlook, Japanese policymakers can argue the 15bps was justified. A downside miss in the GDP may find require the BOJ to provide more reasons to justify July's hike. Adding to the JPY focus is the APAC rate decisions from RBNZ and BSP along with the PBOC MLF and the China data releases on retail sales and industrial production. The role of JPY on the performance of the entire region has become part of the focus.

Exhibit #4: Japan GDP matters again

After rate hike, GDP is coming

Japan will report its preliminary second-quarter growth figures on Aug. 15. The revised Q1 data showed that Japan's economy shrank 2.9% annualised from the prior quarter.



Source: LSEG Datastream; Japan's Cabinet Office | Reuters, Aug. 8, 2024 | By Pasit Kongkunakornkul

Source: Reuters, BNY

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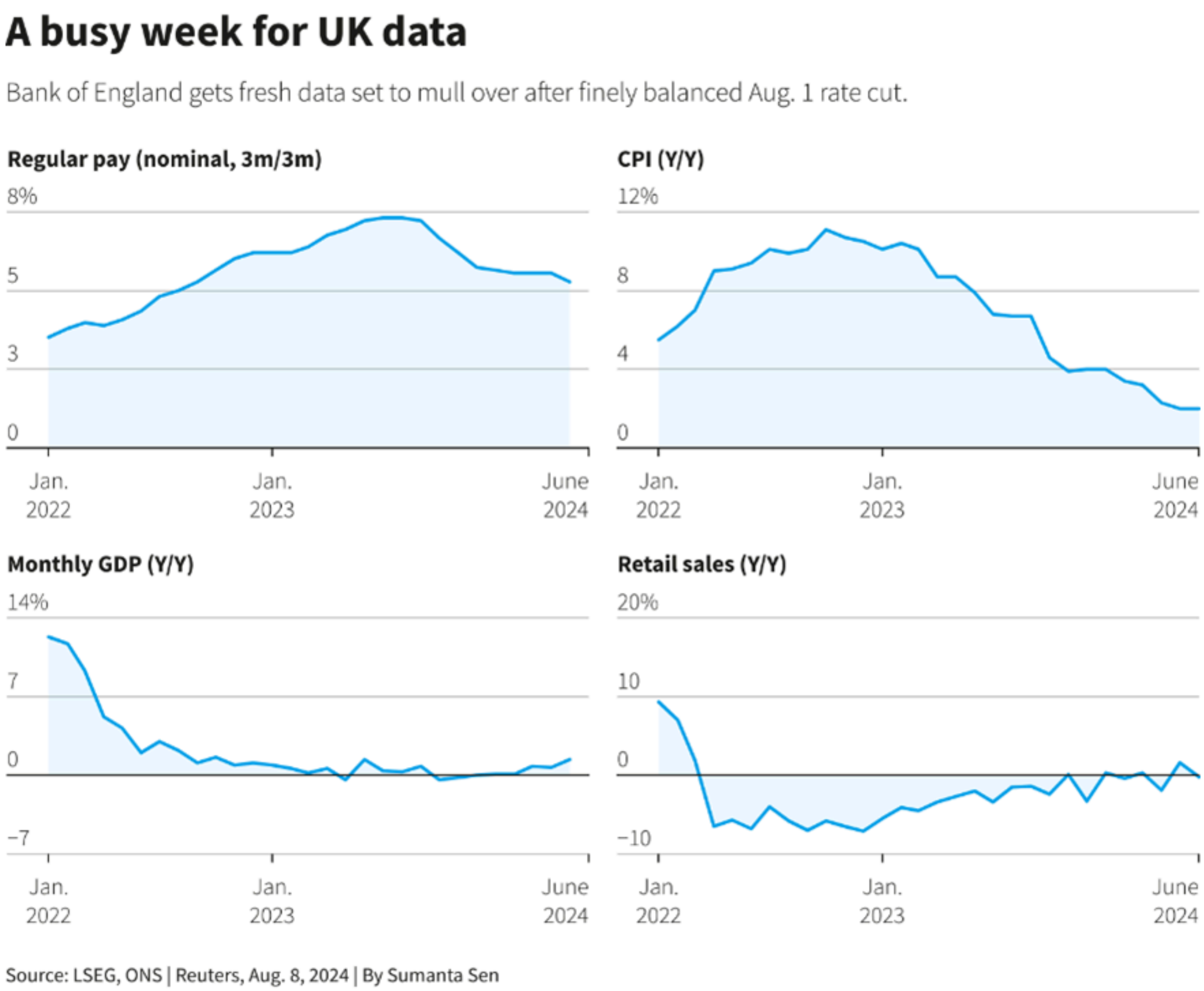
3. UK BOE vs the economic data - After July's finely balanced decision to cut UK rates to 5.0%, the Bank of England will have a new set of data points to go through that might help determine what the coming few months look like for monetary policy- and just how balance future easing decisions prove to be. Consumer inflation, including for the still-hot services sector, as well as second-quarter GDP and retail sales, are all in the mix. Right now, markets expect rates to fall by a percentage point over the coming nine months – that could change on the data this week. But given how close July's decision was, UK assets are likely to be extra sensitive to anything that might suggest the BoE has to deviate from that expected path – adding to volatility. The UK GBP is looking fragile holding below 1.30 and UK equities have seen nothing but weekly outflows for four straight months.

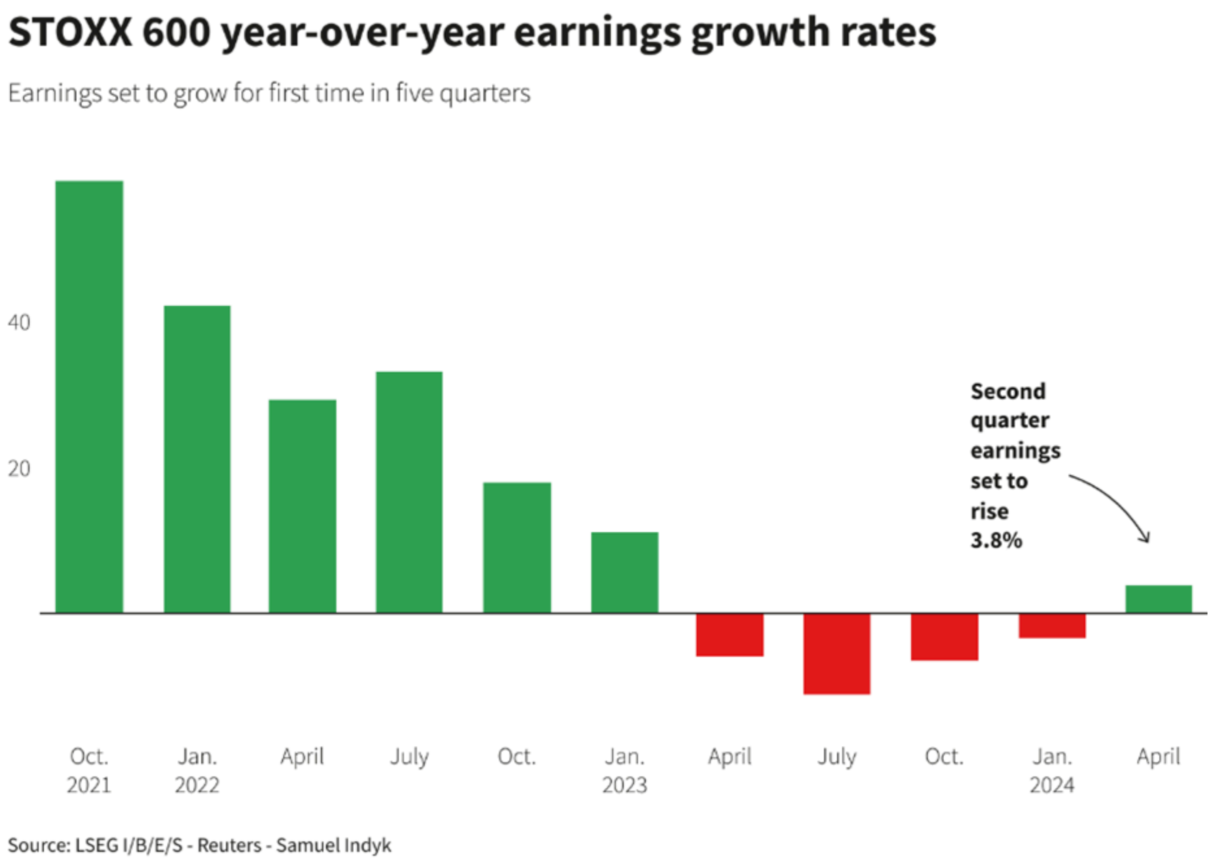
Exhibit #5: UK data will help BOE not the GBP?



Source: Reuters, BNY

4. 2Q Earnings and the equity markets- There's a silver lining for European shares, down roughly 5% so far this month, and that's corporate profits, with earnings set to grow for the first time in five quarters. Q2 earnings are expected to have increased 3.8% from the same period last year, the first quarterly rise since the first quarter of 2021. Almost 56% of companies have reported results that beat analyst estimates. For sure, there are more tests ahead. Switzerland's largest bank UBS reports earnings on Wednesday, while it's a big week for the insurance sector, with Hannover Re, Aviva, NN Group and Admiral set to report. Overall, the Q2 earnings season suggests signs of a consumer slowdown, but strong growth in financials, energy and utilities sectors have helped offset weakness elsewhere.

Exhibit #6: 2Q earnings matter to EUR?



Weekly Calendar – August 12-Aug 17

Central Bank Decisions

- **New Zealand RBNZ (Wednesday, August 14**) We expect no change despite market volatility and the CPI. There is a minority of analysts expecting a 25bps cut to 5.25%, while the market prices in 68% chance for an easing at this meeting and 90bps total through the final meeting of 2024 in November. At its previous July meeting, the RBNZ "agreed that monetary policy will need to remain restrictive" and noted that "some domestically generated price pressures remain strong." Much of the easing expectations come from the 3Q inflation expectations survey dropping to 2.03% in 2Y. However, Non-tradeable inflation has only eased to 5.4% y/y – far from the 1-3% target for CPI. There are also signs that New Zealand's economy is regaining traction. New Zealand Q2 employment grew a stronger-than-expected 0.4% q/q, lifting from last quarter's -0.3% decline. The RBNZ will be concerned about very strong levels of wage growth, that lifted to 5.2% y/y, with public sector wage growth rising to a record high 7.9% y/y.

- **Philippines BSP (Thursday, August 15)** We see the central bank easing 25bps to 6.25%. There is an even split in the analyst community for an easing. In July CPI unexpectedly rose 4.40% y/y but the core measure slowed further to its two-year low of 2.9% y/y, below the midpoint of the BSP CPI target for the first time since May 2022. Meanwhile, Q2 GDP slowed to 0.5% q/q from 1.1% prior, showing a loss of momentum linked to elevated borrowing costs. The risk for an easing revolves around current market volatility with stock market weakness vs. JPY gains bleeding into the entire region. As the central bank said at the July meeting that "*uncertainty in the external environment calls for some caution against potential spillovers, including those in the financial markets*".
- **Norway Norges Bank (Thursday, August 15)** We see the Norge Bank on hold as to all analysts with the rat holding 4.5%. The CPI report Friday was in line, even as the core CPI fell to 3.3% y/y. The NOK selling will be a key factor in holding rates steady as is the market volatility. Expectations for a later in the year easing by the central bank rest on how NOK and stocks perform. Further easing from ECB and Riksbank maybe a pre-requisite.

08/15/24	***08:00***	***03:00***	***PH***	***BSP Overnight Borrowing Rate***	***Aug-15***	***6.25%***	***6.50%***
08/15/24	***09:00***	***04:00***	***NO***	***Deposit Rates***	***Aug-15***	***4.50%***	***4.50%***
08/15/24	13:30	08:30	US	Retail Sales Advance MoM	Jul	0.40%	0.00%
08/15/24	13:30	08:30	US	Initial Jobless Claims	Aug-10	236k	233k
08/15/24	14:15	09:15	US	Industrial Production MoM	Jul	-0.30%	0.60%
08/15/24	23:30	18:30	NZ	BusinessNZ Manufacturing PMI	Jul	--	41.1
08/16/24	05:30	00:30	JN	Tertiary Industry Index MoM	Jun	0.30%	-0.40%
08/16/24	13:30	08:30	US	Housing Starts	Jul	1335k	1353k
08/16/24	15:00	10:00	US	U. of Mich. Sentiment	Aug P	66.9	66.4

Key speeches/events

Date	BST	EDT	Country	Event
08/12/24	03:00	*22:00	AU	Speech by Andrew Hauser, Deputy Governor
08/13/24	18:15	13:15	US	Fed's Bostic Speaks on Economy in Moderated Conversation
08/14/24	03:00	*22:00	NZ	RBNZ Monetary Policy Statement
08/14/24	04:00	*23:00	NZ	RBNZ Governor News Conference
08/14/24	22:10	17:10	NZ	RBNZ Governor at Parliament Select Committee on MPS
08/15/24	14:10	09:10	US	Fed's Musalem Speaks on Economy, Policy
08/15/24	17:00	12:00	SA	South African Central Bank Governor Kganyago Gives Lecture
08/15/24	18:10	13:10	US	Fed's Harker Gives Speech on Center at Philadelphia Fed
08/16/24	01:30	*20:30	NZ	RBNZ Governor speaks
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Conclusions: Was that the healthy correction or is there more to come?

Watching price action in summer has been called a fool's errand, as the liquidity usually does not justify the emotions that any roller coaster movement up or down begets. The last week was significant and does chance the balance of doubts about buying in the summer and only selling later August. The drivers for the selling in July were mixed and blamed on valuations in tech, slowing US data and a reluctant FOMC, mixed with doubts about other central banks doing enough. Global growth fears remain wrapped around the data from China and Germany – making the week ahead that much more important for fixing the summer blues. The surprise of the US unemployment report coupled with the BOJ hike left many running for cover and the beach in the last week. Just how many investors remain watching and waiting for September and clarity on Fed cuts and more global growth data will be the key test for whether we all remain stuck to the price action and the current volatility. Then there is the focus is on just how much more of an unwinding of so-called yen carry trades, seen as one reason behind the rout, is left and whether the pricing-in of aggressive US rate cuts are justified by upcoming data. From the iFlow perspective, the carry trade is alive and well and JPY shorts remain too large to ignore and so dangerous to all asset classes. Throw in the concerns about a broader Middle East conflict and a U.S. election looming, volatility is unlikely to disappear soon. We are on a course for another week where the price action is the narrative rather than other factors.

Bottom Line: The best case for the week ahead is in quiet consolidation with stocks moving less erratically and trending slowly up, while in bonds, US 10Y staying below

4% looks important as does the USD/JPY staying above 145. Many fear further trouble with US 2Y below 3.75% an example, similarly US shares returning to 10% or more corrections and USD/JPY below 142 - all that would be seen as problematic.

Exhibit #7: How much more selling can happen?

Source Reuters, BNY

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

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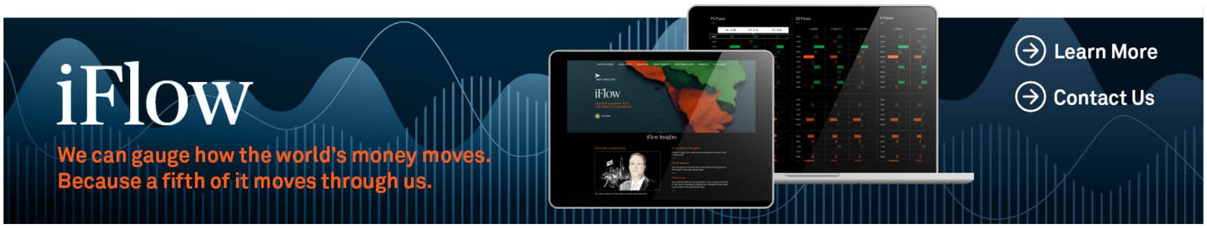

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