

# iFlow

## WEEK AHEAD

August 18, 2024

## Easy

*"All things are difficult before they are easy." - Thomas Fuller*

*"Do the difficult things while they are easy and do the great things while they are small. A journey of a thousand miles must begin with a single step." - Lao Tzu*

### Summary:

The contrast of the last two weeks makes this August notable for the price action volatility across asset classes. The effect of such still lingers with doubts that buying the dip in any prices is so easy. While the news agenda is light next week – the central bank meetings and the Jackson Hole conference will matter as will the ongoing price action. From the China LPR rate decision to the political surprise in Thailand and the BOT meeting there, to the Swedish Riksbank easing expected to the stalwart Turkish TCMB expected to hold steady at 50% - all these decisions will matter to money flows in the week and months ahead. Throw in the FOMC, Banxico and RBA minutes as well to add to levels of debate about easy policy ahead. This last week was the best for stocks all year and it links back to a resurgence in US “Goldilocks” thinking where the FOMC will ease because it can, not because it has to, landing in a place where US dollar exceptionalism thrives. The mood bounce back seems excessive to the fundamentals and at odds with the fear that started the month on back of US recession risks. The weekly jobless claims and any new growth data look critical to keeping trading risk easy. FX volatility like the VIX calmed down, but not completely and the focus on US politics will make MXN and CNY a key part of any option risk metric through November. US election risk premiums are not fully understood or matching the odds for difficult outcomes

leaving politics trumping economics. FX and Rates are likely to need more compression of ranges and some further guidance on easing policy ahead to catch up to stocks, but its August and the summer vacationing holds more power over positioning than any other logic.

**Themes:**

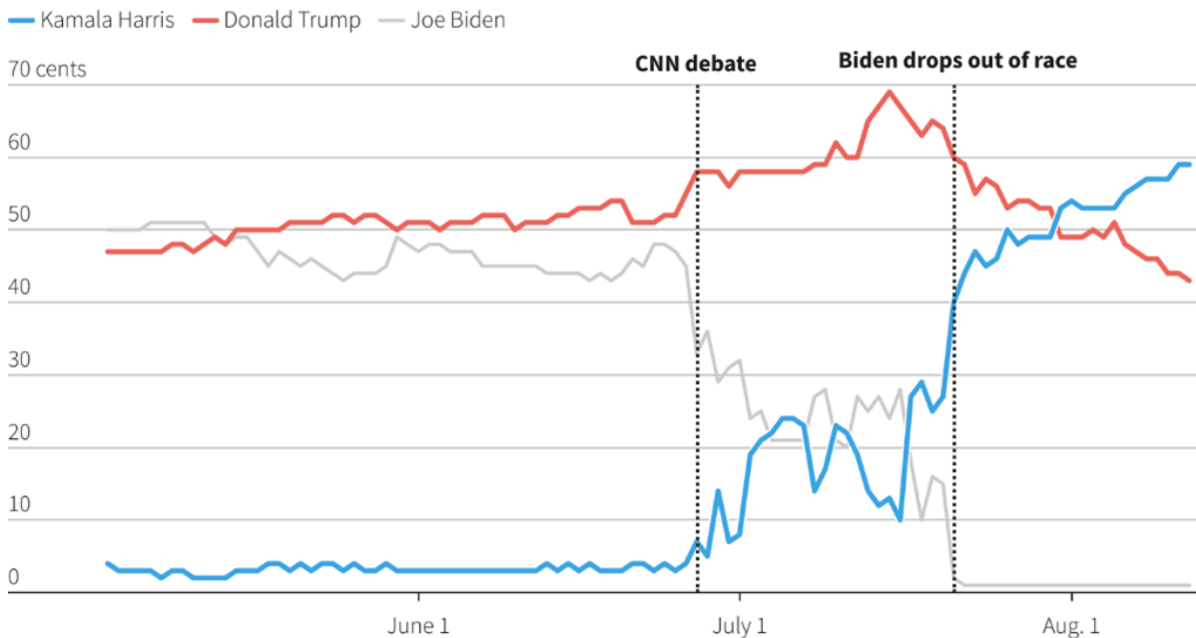
- **Breaking USD risk correlation** – The negative correlation of the USD to global and US equities broke down in the last week – our FX flows shifted from -0.7 correlation to +0.15 – a big move and breaking the dollar down, risk up story that has dominated much of the year. There is no longer a need for the Goldilocks story of “too hot” or “too cold” for the US economy, unless we get a shock unemployment report in September. The “just right” dataset will hold for the US given the lack of big data. The magnitude of US shares higher, contrasts a bit with the weekly DXY drop of 0.5% for the week and the big rally up in global shares – particularly Japan. The rally LatAm FX stability and stocks looks important as well but will need further proof given fiscal and political concerns in Brazil and Mexico.
- **Carry resurgence** – The iFlow index rose back to significantly positive at 0.246 or 86.8% percentile – the bounce in index from June significantly negative to now is fastest recovery since 2Q 2023 but unlike then holding of carry positions are still near historic highs. On the week iflow shows JPY selling leads funding leg while TRY, MXN lead in high yield. The correlation of the carry index to programs in risk parity used by programmatic trading funds is high and as the stock market performance in the last shows, a risk going ahead given that our index peaks on average in 2 weeks. The ability for last week’s equity performance and lower volatility to hold into September will be a question.
- **US politics and defining the “Harris Trade”** – Markets unwound most of the “Trump Trade” in July after the democrats rallied behind Vice President Harris and polls turned from the odds of a Republican Sweep to a gridlocked Congress. The markets will be watching the 4-days of the Democratic Convention in the week ahead for further definition of the Harris economic plan and how it will differ from Biden. The four-day convention kicks off on Monday with a series of high-profile Democrats expected to give speeches geared toward rallying support for Harris. The race is tight, and investors are hoping to learn more about her policy positions. Harris has been at pains to emphasize she would never interfere in Fed independence - a view that contrasts

sharply with that of the Republican nominee and former president, who said presidents should have a say on Fed decisions. The role of housing and rent inflation is also a big part of the election debate ahead. Harris put forward plans for tax breaks in a bid to ease the cost-of-living crisis in the US.

### Exhibit #1: US Polls are driving economic moods

## Bets for a Harris win surge past those for Trump

On politics betting website PredictIt, contracts for a win by Kamala Harris in the U.S. presidential election in November have surged, widening the gap over contracts betting for a Donald Trump victory.



Note: Latest data as of Aug. 12. Bets are based on who is likely to win the majority of electors in the Electoral College.

Source: PredictIt | Reuters, Aug. 13, 2024

Source: Reuters, BNY

### What are we watching:

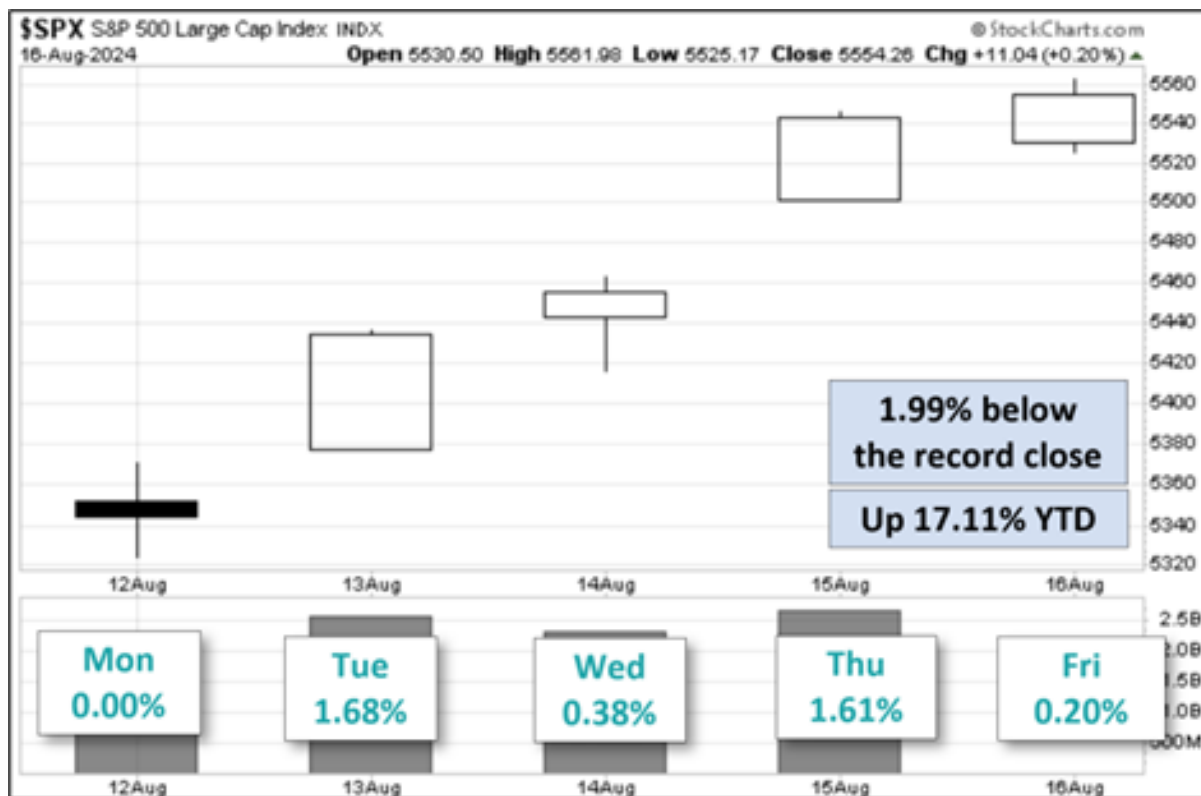
- **Economic Releases: Monday** – US LEI, DNC starts; **Tuesday** – German PPI, final EU CPI, Canada CPI; **Wednesday** – Japan trade, UK PSNB, Canada IP; **Thursday** – global PMI flash composites, Norway GDP, ECB wage index, US claims, existing home sales; **Friday** – Japan CPI, French business confidence, EU CPI expectations; Canada retail sales, US new home sales
- **Central Banks: Monday** – Fed Waller, ECB Rehn; **Tuesday** – China PBOC 1/5Y LPR, RBA Minutes, Sweden Riksbank rate decision, TCMB rate decision, Fed Bostic and Barr; **Wednesday** – BI decision, BOT decision, ECB Panetta, FOMC Minutes; **Thursday** – BOK decision, Banxico Minutes; **Friday** – FOMC Powell, BOE Bailey

- **Issuance – EU issuances expected at just E6bn** with E6bn negative cash flow; **US issuance \$16bn in 20Y** and \$8bn in TIPS with cash flow zero.  
 Tuesday – Japan 20Y 1trn, German Bund 9Y and 26Y Green E1.5bn;  
 Wednesday – German Bund 10Y E5bn sale, UK 3Y Gilt GBP3.75bn sale, US 20Y \$16bn sale; Thursday – US 30Y \$8bn TIPS.

**What changed this week:**

- **Equities: The S&P500 rose 3.93%, the DJIA rose 2.94% and the NASDAQ rose 5.29% for the best weekly gains of 2024.** Global shares had similar results as fears of a US recession eased after modest CPI, higher retail sales and lower jobless claims. Japan Nikkei led up 9.28% while China CSI 300 lagged up just 0.42%. The MSCI world rose 3.75% with Eurostoxx 50 up 3.53% led by Italy’s MIB up 3.96%. iFlow shows 8 of 11 US sectors saw inflows led by consumer discretionary and Utilities. The G10 flows in equities ex US were more mixed while EM was bought in APAC and LatAm except for China and Brazil.

**Exhibit #2: US Shares see best week of year**



- **Fixed Income:** The US rally in fixed income continued with more bull flattening. The CPI and cut back in GDP now from 2.9% last week to 1.99% this week kept intact rate cut views but the need for 50bps in September reversed from 100% to less than 25% pricing. Globally bonds were mixed with Australia and New Zealand the biggest winners post the RBNZ surprise 25bps easing – 10Y ACGB rates fell 12bps to 3.925%. The German Bund 10Y yields rose 2.5bps to 2.245% on the week despite weaker ZEW.

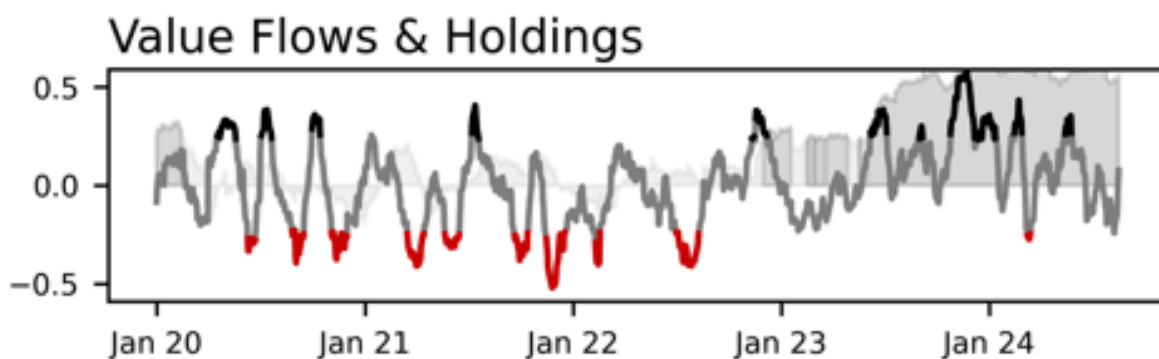
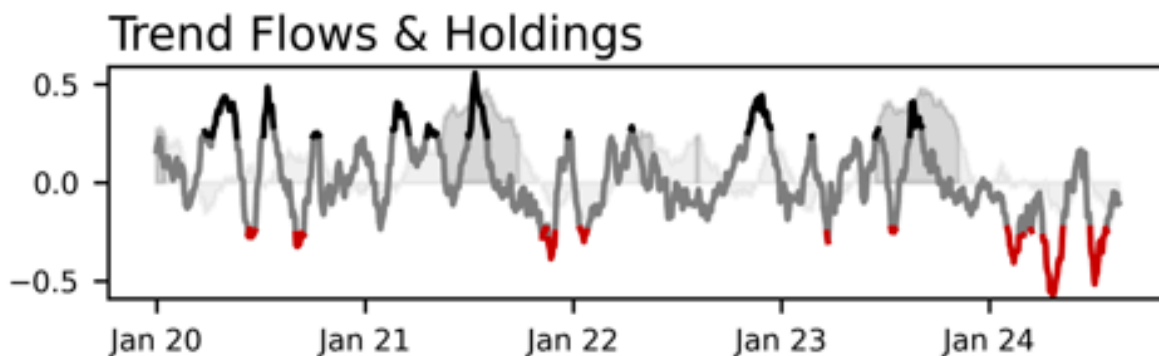
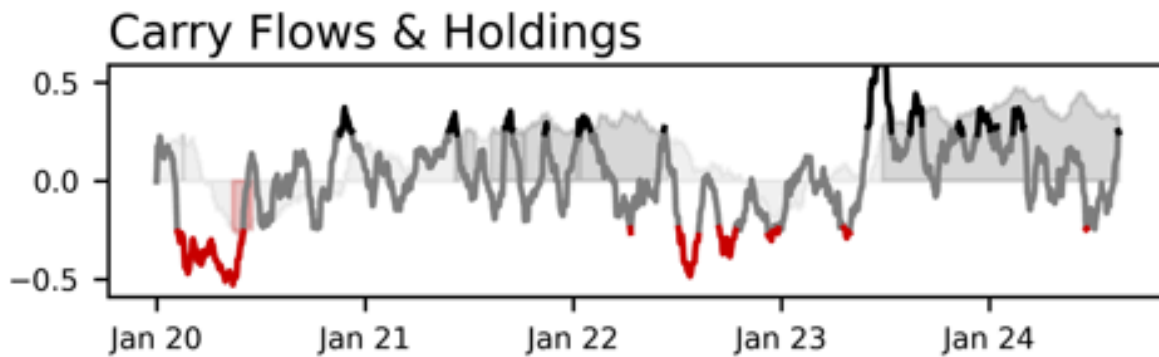
**Exhibit #3: US bond performance - bull flattening of curve**

US Bond	High	Low	Current	% from Low	1W Change
30Y	5.35	0.99	4.14	3.15	-0.08
20Y	5.44	0.87	4.25	3.38	-0.06
10Y	5.26	0.52	3.88	3.36	-0.06
5Y	5.18	0.19	3.76	3.57	-0.04
2Y	5.22	0.09	4.05	3.96	0.00
3M	5.63	0	5.2	5.2	0.00
FFR	5.41	0.04	5.32	5.28	0.00
The Yields and Fed Funds Rate data from January 2007					

Source: Bloomberg, BNY

- **FX:** The USD fell 0.5% vs. the index last week. Biggest winner was ZAR up 2.6%, followed by PLN up 2.3%, Israel up 1.7%, GBP up 1.4% and AUD up 1.4%, while MXN rose 1%, EUR 1% and KRW also rose 1%. The notable losers were JPY off 0.7%, CLP off 0.6%, TRY off 0.6%. For iFlow PLN outflow was most notable vs. price action. The JPY selling matched the flows we saw, as did CLP. TRY saw inflows at odds with the price action. As noted in themes – carry flipping from negative to positive was the stand out story in the week.

**Exhibit #4: FX Carry surges**



Carry, Trend and Value signals are Spearman rank correlations between 20d flow or holdings & 5y yields, 50d / 200d momentum, & 1m / 3y average BIS Broad REER, respectively



Source: iFlow, BNY

## News Agenda and Weekly Themes – FOMC Powell, Japan CPI, Global PMI, Geopolitics

In the upcoming week, the focus in the US will be on the Jackson Hole conference and FOMC Chair Powell. The FOMC Minutes will also matter for markets but less so than the speech. The US data will be light with focus on housing, and the headlines on politics will focus on the Democratic National Convention start Monday. The Canada data this week looks important from CPI to retail sales setting up for further BOC easing in September. The Japan

CPI Friday and the BOJ testimony to parliament Friday will be important to JPY and rates globally. So too will the global PMI flash reports from Australia, Japan, UK, EU and the US. Rate decisions from the Swedish Riksbank, the Bank of Indonesia, the Bank of Thailand, the Turkish TCMB and the Bank of Korea all will highlight to push for easy policy. On going focus on geopolitics from hopes for Gaza peace talks to the escalation in Ukraine/Russia war set the backdrop for commodities and safe-haven demand.

**1. The Jackson Hole Powell Speech – clarification of easing.** US FOMC Chair Jerome Powell gets a chance to fine-tune his message before September's monetary policy meeting. Most market analysts believe the Fed will begin cutting rates next month, after months of keeping them elevated to tamp down inflation. In focus this year are labor markets rather than last year's inflation worries. Central bankers from around the world will be gathering at the Jackson Hole Kansas City Fed symposium to chart the next phase of monetary policy. The Powell speech is expected to clarify if the market is wrong in pricing in a more aggressive easing policy ahead. The recent weaker than expected US unemployment drove talk of emergency easing and 50bps for September remains possible but not a certainty. The Friday speech is seen as critical to how markets close out August and set up for September. For many central bankers, the wage inflation has been a surprise and a problem for faster easing. The role of immigration and job demand is also important and part of the political debate in G10 nations.

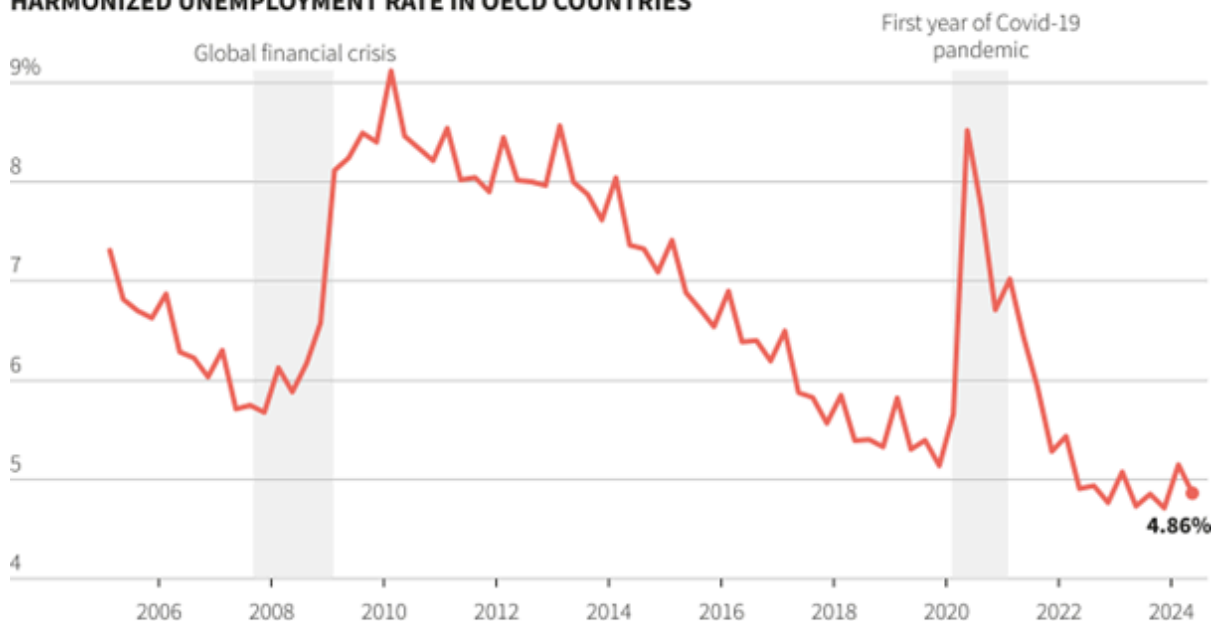
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**Exhibit #5: Post Covid labor markets are different**

## Tight labor markets take center stage at Jackson Hole

Central bankers meeting in Jackson Hole, Wyoming, are faced with an extremely tight labour market as they debate the future timing of rate cuts. The average unemployment rate across 39 OECD countries is near its record low.

### HARMONIZED UNEMPLOYMENT RATE IN OECD COUNTRIES



Note: Data is quarterly and covers all ages.

Source: LSEG Datastream | Aug. 13, 2024

Source: Reuters, BNY

**2. The global flash PMI reports and EU weakness.** The Thursday release of flash composite PMI reports will be watched closely for signs that July weakness and higher inflation aren't trending. Lat month input prices were at 18-month highs and both the US and German manufacturing fell. The key focus remains on Germany and its lack of recovery. The risks for Japan and Australia remain significant as well with rate policy dependent on the data.

### Exhibit #6: Global flash PMI set up focus for further policy shifts



## German business activity lagged its peers in July

Composite Flash Purchasing Managers' Index (PMI) across major economies. **Expansion** > 50 > **Contraction**

Last 12 months	Aug. 2023	Sep.	Oct.	Nov.	Dec.	Jan. 2024	Feb.	Mar.	Apr.	May	June	July
Australia	47	50	47	46	47	48	52	52	54	53	51	50
Euro zone	47	47	47	47	47	48	49	50	51	52	51	50
France	47	44	45	45	44	44	48	48	50	49	48	50
Germany	45	46	46	47	47	47	46	47	51	52	51	49
UK	48	47	49	50	52	53	53	53	54	53	52	53
U.S.	50	50	51	51	51	52	51	52	51	54	55	55
Japan	53	52	50	50	50	51	50	52	53	52	50	53

Source: LSEG Datastream | Reuters, Aug. 14, 2024 | By Sumanta Sen

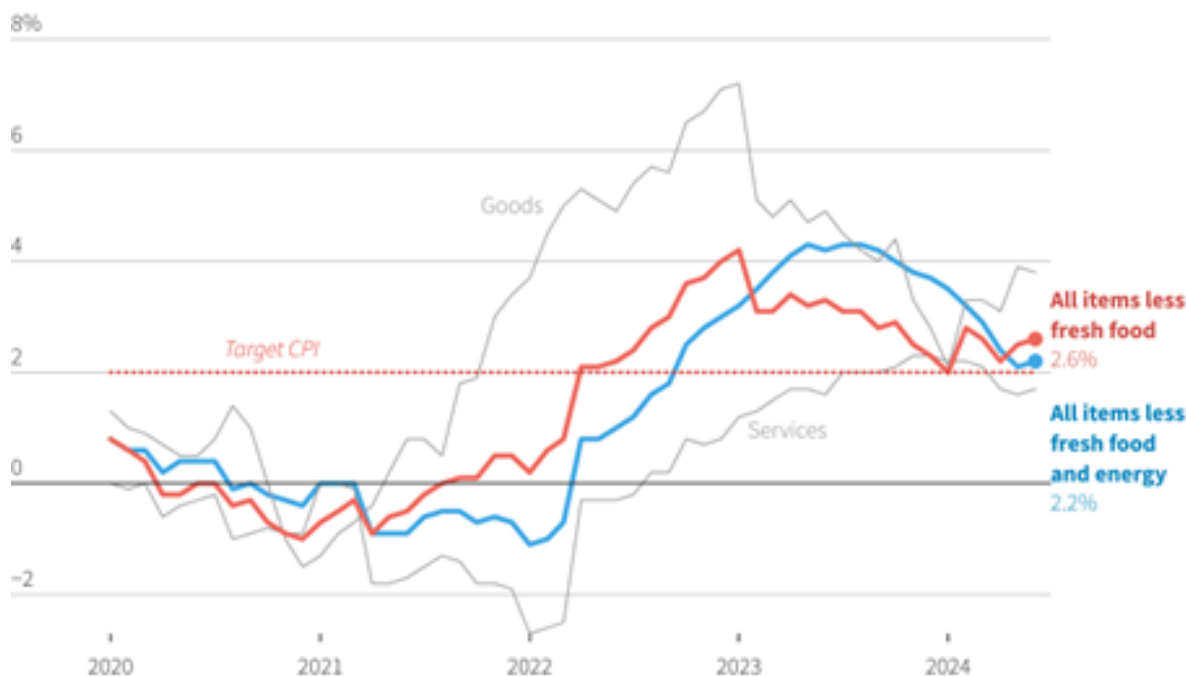
Source: Reuters, BNY

**3. Japan BOJ and politics.** The BOJ will be center stage on Friday as the surprise hike last month and the more surprise rout of the Japanese stock market has led Parliament back to a special session to grill the Governor. Problematic for the LDP is that many of the government were openly pushing for the BOJ to hike more to strengthen the JPY. Amidst the noise over stock market volatility, the decision by PM Kishida not to seek re-election next month as LDP leader makes for a power vacuum and risk into September. The recent 2Q GDP and other data has been stronger than expected and leave clear that the BOJ has room to hike further if politics allow. The CPI also on Friday may force the other side as inflation remains far over target and not responding to the modest rate normalization as much as a weaker JPY does on import pricing.

### Exhibit #7: Japan CPI matters

## Japan's sticky inflation

The Bank of Japan lifted its policy rate to 0.25% on July 31 after June data showed core inflation at 2.6%.



Source: LSEG Datastream | Reuters, August 14, 2024 | By Pasit Kongkunakornkul

Source: Reuters, BNY

**4. Energy markets and geopolitics.** The volatility seen in crude oil markets isn't likely to abate. The IEA reduced global demand outlooks due to China recovery doubts, the fear of escalation in the Middle East rose and fell last week with peace talks over Gaza seen as critical in the week ahead. The escalation in the Russia/Ukraine war surprised many last week and led to higher natural gas and oil prices. Markets are concerned that heavy fighting near the Russian town of Sudzha, where Russian gas flows into Ukraine, could result in a sudden stop to transit flows via the war-torn nation before a five-year deal with Russia's Gazprom expires. On the week iFlow shows PLN selling and thanks to lower China credit demand, weaker industrial production, further selling of commodity linked FX.

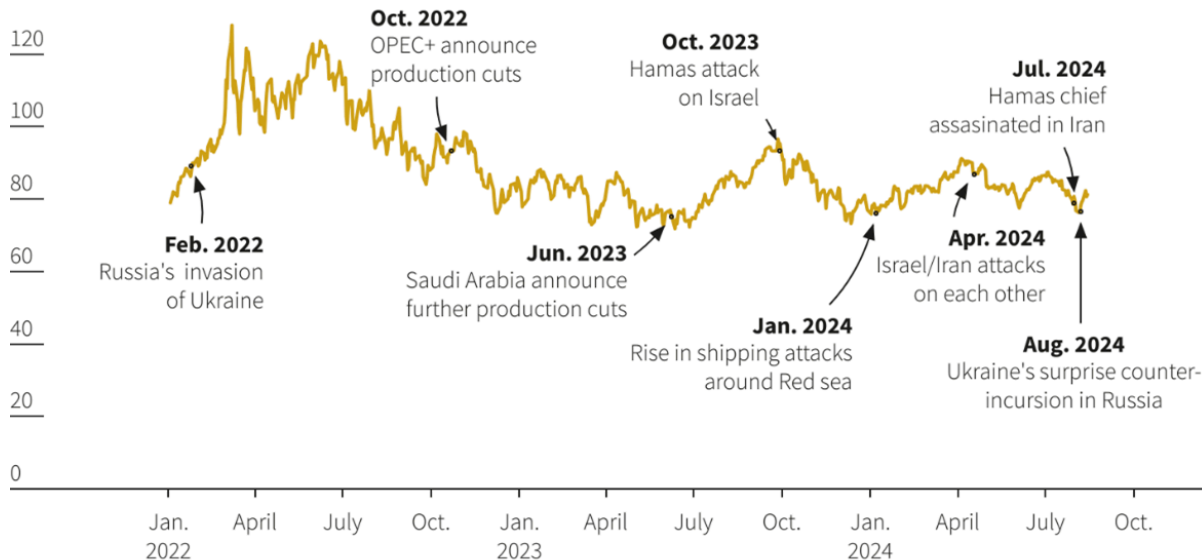
### Exhibit #8: Brent at \$80bbl matters?

## Oil's ups and down since 2022

Brent crude futures have risen by over five percent since Ukraine's surprise incursion into Russian region in early August.

### Brent crude futures price

\$140 per barrel



Note: Brent crude futures price till 0830 GMT on 14th Aug., 2024

Source: LSEG Datastream | Reuters, Aug. 14, 2024 | By Vineet Sachdev

Source: Reuters, BNY

### Calendar August 19-23:

### Central Bank Meetings:

- **Sweden Riksbank (Tuesday, August 20)** – The Riksbank is expected to cut by another 25bp, bringing the repo rate down to 3.50% and stick to its guidance of multiple cuts by the end of the year. The recent volatility in markets has probably strengthened their case to act and compared to the ECB, the central bank appears to be far more proactive with regard to domestic financial conditions and the prospect of a broader slowdown affecting inflation expectations. Crucially, as opposed to Norges Bank's decision this month, there is some room for disinflation through the currency which shouldn't be affected by cuts. Funding currencies have limited downside from current levels, barring a much deeper global slowdown than currently envisaged.
- **Turkey TCMB (Tuesday, August 20)** – The one-week repo rate is expected to remain at 50% but discussions over the prospect of rate cuts towards the end of the year will start to build, especially as inflation's headline numbers and inflation expectations begin to ease, which will open up a significant real rate

buffer. Expected inflation over the next 12 months is already expected to fall below 30% and sequential numbers are also proving more agreeable, though there is quite some distance before broader normalisation is feasible. Activity figures, however, are softening and the recent uptick in unemployment to back above 9.0% would not have gone unnoticed.

- **Thailand BoT (Wednesday, August 21)** – We expect BoT to keep rate unchanged and to maintain a non-dovish stance. There is no urgency nor reason for the BoT to act to be dovish. We also see BoT to continue focus on overall financial stability as a factor into policy decision. Since the previous meeting, Thailand has moved further from deflation with headline and core CPI shifting further into positive territory at 0.83% y/y and 0.52% y/y respectively. Business sentiment indices diverged, with PMI manufacturing rose to 52.8 in July in contrast to further deterioration of Thailand Business Sentiment Index to 46.9, the lowest since Sep2021. Overall, the inflation profile had further vindicated BoT's current view.
- **Indonesia BI (Wednesday, August 21)** – Bank Indonesia had been forced to raise rates twice in the last 12 months to maintain FX stability. With the dissipating currency depreciation pressure, it is only natural for rate cut expectation to be brought back to the table. Indeed, Bank Indonesia would have cut at the end for 2023 had it not been the sharp IDR depreciation pressure. Real interest rates in Indonesia are at historical high (6.25% base rate vs 2.13% inflation) and there is strong argument for cut. We see small probability for BI to cut rates (to follow RBNZ and BSP) but expect BI to maintain rates unchanged in August. We expect BI to stay dovish to prepare market for a rate cut as early as September (18Sep) policy meeting, one day before FOMC (19Sep HK), if not in October.
- **Korea BoK (Thursday, August 22)** – There might be a case for rate cut, but there is no urgency to do. Korea growth momentum is strong, and inflation battle is not won yet. July CPI rose more than expected to 2.6% from 2.4% and but the jump was swiftly dismissed by BoK, saying that slowing trend of inflation will resume in August and the uptick in July was a one-off. Bank of Korea turned dovish at the July meeting where “the board will examine the timing of a rate cut” in its forward-looking statement. While the decision was unanimous, the dovish voice is rising with two members open to rate cuts within the next 3 months compared with one at the May meeting. Markets have fully priced in interest rates reduction in the coming 9-12 months with KRW

9x12 FRA at 2.87% BUT not in the near not in the immediate Aug or Oct meeting.

**Key data/releases**

Date	Time	EDT	Country	Event	Period	Cons.	Prior
08/19/24	00:50	*19:50	JN	Core Machine Orders MoM	Jun	0.90%	-3.20%
08/19/24	23:45	18:45	NZ	Trade Balance NZD	Jul	--	699m
<b>08/20/24</b>	<b>08:30</b>	03:30	<b>SW</b>	<b>Riksbank Policy Rate</b>	<b>Aug-20</b>	<b>3.50%</b>	<b>3.75%</b>
08/20/24	10:00	05:00	EC	CPI MoM	Jul F	0.00%	0.00%
08/20/24	10:00	05:00	EC	CPI YoY	Jul F	2.60%	2.60%
<b>08/20/24</b>	<b>12:00</b>	07:00	<b>TU</b>	<b>One-Week Repo Rate</b>	<b>Aug-20</b>	<b>50.00%</b>	<b>50.00%</b>
08/20/24	13:30	08:30	CA	CPI NSA MoM	Jul	0.30%	-0.10%
08/20/24	13:30	08:30	CA	CPI YoY	Jul	2.40%	2.70%
<b>08/21/24</b>	<b>08:00</b>	03:00	<b>TH</b>	<b>BoT Benchmark Interest Rate</b>	<b>Aug-21</b>	<b>2.50%</b>	<b>2.50%</b>
<b>08/21/24</b>	<b>08:20</b>	<b>03:20</b>	<b>ID</b>	<b>BI-Rate</b>	<b>Aug-21</b>	<b>6.25%</b>	<b>6.25%</b>
08/21/24	09:00	04:00	SA	CPI YoY	Jul	4.80%	5.10%
08/21/24	09:00	04:00	PD	Sold Industrial Output YoY	Jul	8.10%	0.30%
08/21/24	09:00	04:00	PD	PPI YoY	Jul	-5.00%	-6.10%
08/21/24	12:00	07:00	US	MBA Mortgage Applications	Aug-16	--	16.80%
<b>08/22/24</b>			<b>SK</b>	<b>BOK Base Rate</b>	<b>Aug-22</b>	<b>3.50%</b>	<b>3.50%</b>
08/22/24	01:30	20:30	JN	Jibun Bank Japan PMI Mfg	Aug P	--	49.1
08/22/24	08:30	03:30	GE	HCOB Germany Manufacturing PMI	Aug P	43.3	43.2
08/22/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Aug P	45.6	45.8
08/22/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Aug P	52.2	52.1
08/22/24	13:30	08:30	US	Initial Jobless Claims	Aug-17	--	227k
08/22/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Aug P	--	49.6
08/22/24	15:00	10:00	US	Existing Home Sales	Jul	3.90m	3.89m
08/23/24	00:30	*19:30	JN	Natl CPI YoY	Jul	2.70%	2.80%
08/23/24	15:00	10:00	US	New Home Sales	Jul	631k	617k

**Key speeches/events**

Date	BST	EDT	Country	Event
08/19/24	14:15	09:15	US	Fed's Waller Gives Welcoming Remarks
08/19/24	22:30	17:30	EC	ECB's Rehn Speaks
08/20/24	00:00	19:00	NZ	RBNZ Deputy Hawkesby Speaks
08/20/24	02:30	*21:30	AU	RBA Minutes of Aug. Policy Meeting
08/20/24	10:30	05:30	SZ	SNB President Thomas Jordan Speaks in Schwyz
08/20/24	18:35	13:35	US	Fed's Bostic on Innovating for Inclusion
08/20/24	19:45	14:45	US	Fed's Barr Speaks on Cybersecurity
08/21/24	12:00	07:00	EC	ECB's Panetta Speaks in Rimini
08/21/24	19:00	14:00	US	FOMC Meeting Minutes
08/22/24	09:00	04:00	NO	Norges Bank 3Q Expectations Survey
08/22/24	10:00	05:00	EC	ECB Publishes Euro Area Negotiated Wages Indicator for Q2 2024
08/22/24	12:30	07:30	EC	ECB Publishes Account of July Rate Decision
08/22/24	13:00	08:00	PD	National Bank of Poland Publishes Minutes of Rate Meeting
08/22/24	16:00	11:00	MX	Central Bank Monetary Policy Minutes
<b>08/23/24</b>	<b>15:00</b>	<b>10:00</b>	<b>US</b>	<b>Fed's Powell Speaks on Economic Outlook in Jackson Hole</b>
08/23/24	20:00	15:00	UK	BOE Governor Andrew Bailey speaks in Jackson Hole

**Conclusions: What matters more AI or an economic slowdown?**

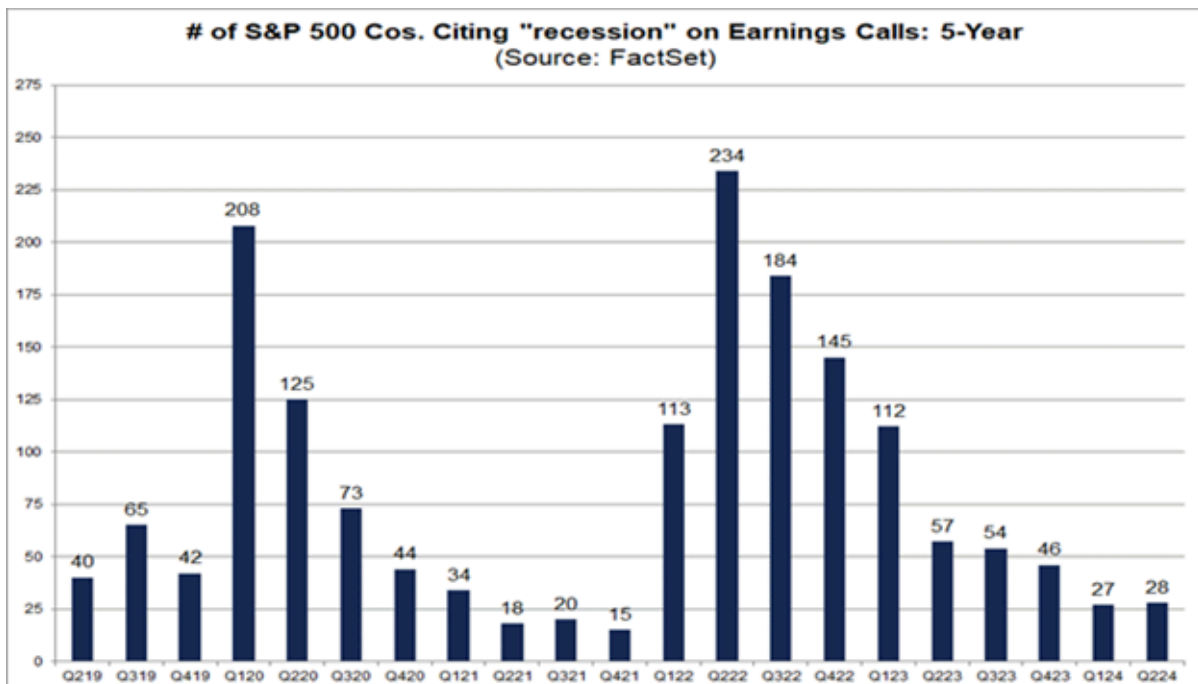
The flip-flop of focus in markets in the last week may best be linked to lack of attention over any logic. The move down saw bigger volumes than the moves up. The best way to view the fundamentals through the lenses of price requires volume first, then bottom's up analysis second. The 2Q earnings and 3Q outlooks delivered by the earnings reports of the S&P500 are all but finished and in that is a narrative worth considering –

**First**, the number of mentions of “recession” has dropped. Until the August 2<sup>nd</sup> unemployment report, just 17 companies cited recession as a worry, but after that 11 noted it as a concern. The total of 28 is well below both the 5Y average of 83 and the 10Y average of 60.

**Second**, the number of mentions about AI being a concern rose. According to Arize AI and FT reporting 56% of Fortune 500 companies cited AI as a “risk factor,” in their annual reports. The more concerning point is that just 33 of 108 discussing AI saw it as an opportunity.

**Bottom Line:** The tie-in for the risk of markets in the week ahead is whether the FOMC Powell speech speaks to the recession risks or to the productivity gains of AI. The labor market worries that dominate the developed world aren’t going away and the role of technology in filling in gaps seems obvious. How markets trade the stock markets around another “quiet” week for data, filled with more central bank decisions and guidance will be important in setting up the tone for a more hectic month end and end of summer rethink for portfolios as stocks beat bonds and the USD wobbles. Further, expect the week ahead to be dominated by the unknowns of politics and geopolitics adding to the doubts that low volatility strategies are going to work even in lower volume weeks.

**Exhibit #8: Recession risks and earnings don't mix**



Source: FactSet, BNY

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Please direct questions or comments to: [iFlow@BNY.com](mailto:iFlow@BNY.com)



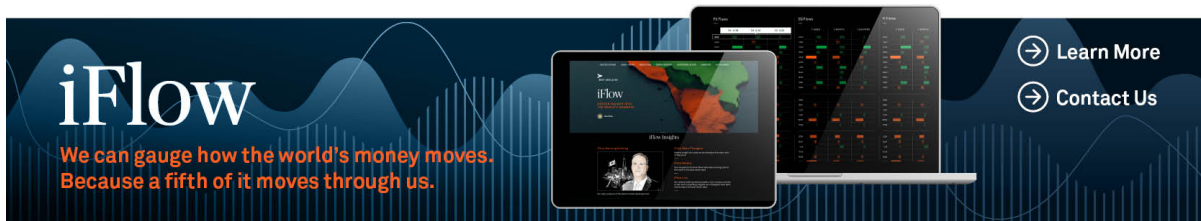
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