BNY

iFlow
WEEK AHEAD

August 25, 2024

Testy

"If you are irritated by every rub, how will your mirror be polished?" – Rumi

"Yes, you can – if you do everything as if it were the last thing you were doing in your life, and stop being aimless, stop letting your emotions override what your mind tells you, stop being hypocritical, self-centered, irritable." – Marcus Aurelius

Summary:

If the last week delivered everything anyone wanted from the summer, the next one will be a test and likely leaves investors irritable over any deviations from the beach. The last week of summer beckons and brings a UK Bank Holiday on one end and US Labor Day on the other. Liquidity and its correlation to volatility will remain a key factor into a busy month-end filled with key economic data from Eurozone flash CPI to US core PCE. Post the Jackson Hole focus on the Fed cutting in September and debating the new paradigm of labor economics post Covid, the week ahead will test whether inflation matters as much as growth to central bankers now. The markets will also test whether momentum factors matter more than value into month end. Investors will be watching to see if the AI boom has grown old allowing room for the business cycle and small caps to rally. Central to watching central banks will be the PBOC and the MLF rollover expected to hold at 2.30% despite the need for more clear plans to boost the economy to get to 5% year-end growth targets.

Themes:

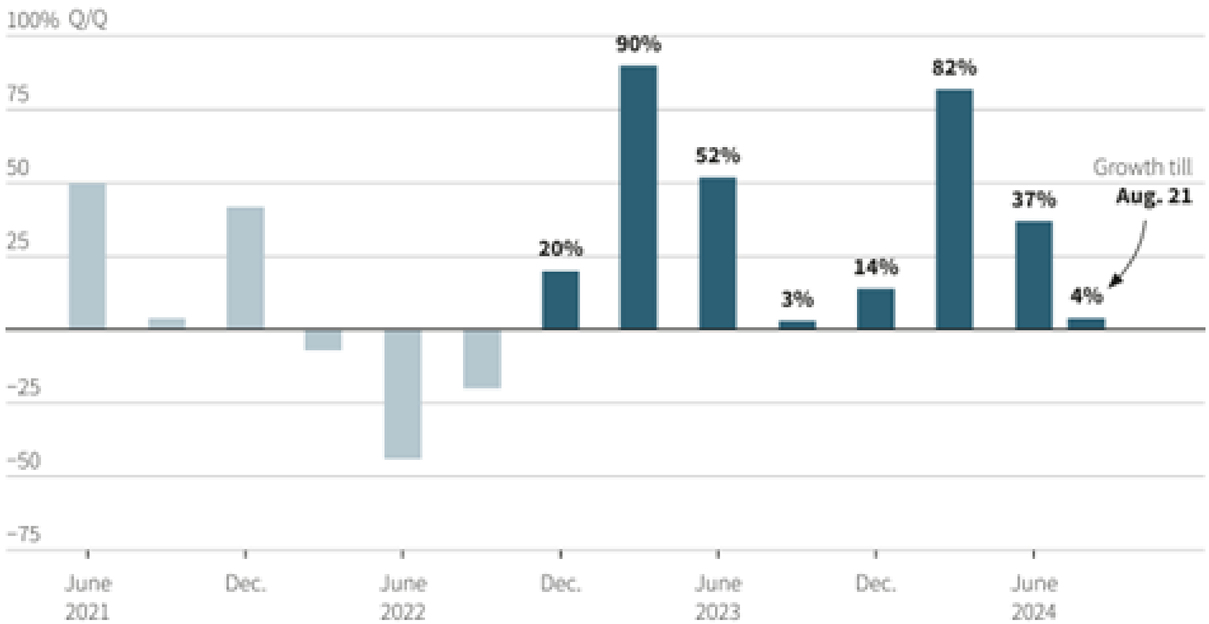
- **Does the difference between 25bps or 50bps from the Fed in September matter?** Post the Fed Chair Powell speech – “the time has come to ease policy” - the central question for investors is by how much and whether the FOMC has managed a soft-landing or is crashing into a recession. Growth data in the week-ahead will matter significantly as markets are likely to trade on good news being bad – given that 100bps of easing is priced to year-end and Fed commentary suggests half that at best.
- **US election and the Harris Trade**. Markets are trying to price out the contrast of Trump vs. Harris and what it means to the USD, US bonds and stocks. The view of a Harris trade took shape last week with the talk of housing support, more middle-class subsidies and higher corporate tax rates from 21% to 28%. The mood of markets rests not just on the Presidential battle but the coat tails of that vote and what it means for Congress with the spread between Republicans and Democrats narrowing significantly in the House and Senate.
- **Stock Market rotations** – the small cap vs. high tech vs. the benchmark shifts of August. The most important stock for markets reports next week – Nvidia with its shares up 150% on the year. The warning is in the reaction of markets to the results from Alphabet and Telsa that spurred a larger washout last month. Valuations are back as a key concern, but so too is the cyclical force for buying shares when the FOMC starts cutting.

Exhibit #1: Nvidia sets the pace for September risk?

Nvidia earnings awaited

The chipmaker's share price has shown positive quarterly growth since December 2022 amid the artificial intelligence boom.

Quarterly growth in share price(%)



Note: Latest share price as on Aug. 21, 2024
Source: LSEG Data | Reuters, Aug 23, 2024 | By Vineet Sachdev
Source: Retuers, BNY

What are we watching:

- **Economic Calendar: Monday** – UK Holiday, German Ifo, US durable goods; **Tuesday** – China industrial profits, German 2Q GDP, Mexico Trade, US home prices**; Wednesday** – Australia CPI, Eurozone M3, German GfK; **Thursday** – German flash CPI, EU economic confidence, US 2Q GDP, trade deficit and pending home sales; **Friday** – Japan jobs and industrial production, German retail sales and unemployment, Eurozone flash CPI, US personal spending, income and core PCE, University of Michigan consumer sentiment
- **Central Banks: Monday** – China 1Y MLF, Riksbank minutes, Fed Daly; **Tuesday** – Hungary NBH rate decision, ECB Knot/Nagel; **Wednesday** – Bank of Israel rate decision, Fed Waller/Bostic, BOE Mann; **Thursday** – Fed Bostic, ECB Lane; Friday – ECB Schnabel/Rehn and others.
- **Issuance**: US sells $183bn in notes and $28bn in FRN with zero cash flow, but 4-week ahead negative $107bn. Europe sells E19.25bn with negative cashflow estimate at E11.5bn. **Monday** – EU sells E2.5bn of 4Y and E2.5bn of 10Y; **Tuesday** – Italy sells E2.5bn of 2Y, Germany sells E4bn of 5Y Bobl, US sell

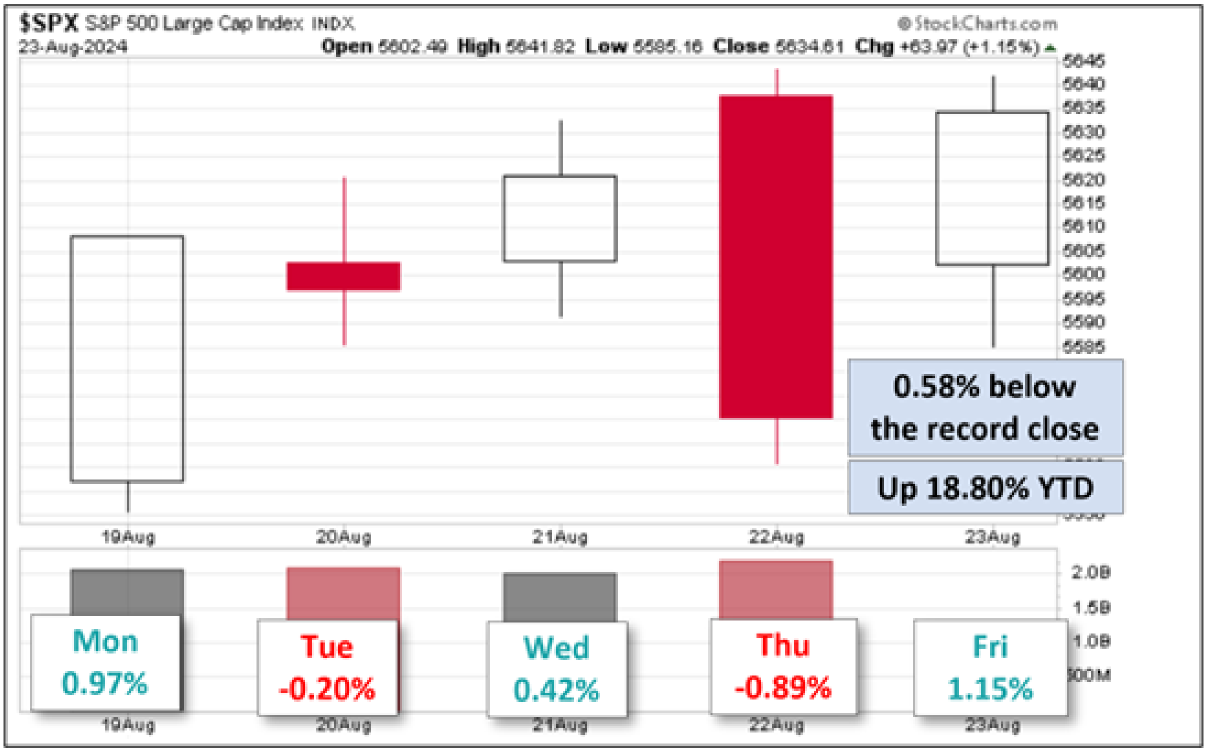
$69bn in 2Y; **Wednesday** – UK 9Y GBP1.5bn Gilt Linker, US sell $70bn in 5Y and $28bn in 2Y FRN; **Thursday** – Italy sells E7bn of 5-15Y BTPs; Finland sells E0.5bn of ORI, US sells $44bn in 7Y.

What changed this week:

The wait for FOMC Chair Powell and Jackson Hole dominated much of the week and the reaction was notable as the USD continued to drop, bonds rally and stocks rally as Powell said the “time has come to adjust rates.” What didn’t happen seems just as notable as what did in this week – as USD fell for the 4th week, as US rate markets price in 100bps of Fed easing for 2024 with revisions to payrolls of -818,000 to March 2024 key, as US stocks gained again after August 5 lows and as the rest of the world bounces back as well. The BOJ Ueda hawkish defense for his July 31 hike and the Nikkei still being up 0.79% while JPY is up 1% stands out as well.

- **US equities gain after uneven week** – S&P500 rose 1.45%, DJIA rose 1.27%, and NASDAQ rose 1.40%. The Chinese CSI 300 fell 0.55% on the week while Spain’s IBEX rose 3%. The German DAX rose 1.7% while UK FTSE just 0.2%. Globally the MSCI AWCI rose 1.68%. The iFlow equity buying was most notable in India, Philippines and Indonesia while US and UK selling stood out and was at odds with the tape. On the month, China and US and UK all saw outflows putting the FX month end hedging needs into focus.

Exhibit #2: US Shares gain for 4th week



Source: Advisor Perspectives, Bloomberg, BNY

- **US bonds rallied with the curve bull flattening on the week** – 2-10Y now -11.5bps while 2/30 is +17.5bps. The focus was on US Fed Chair Powell with the US data mixed. Globally, US bonds led the rally while Japan, New Zealand lagged as did Switzerland with their 10Y yields rising 1.5-2bps. The German 10Y Bund yield fell 2bps to 2.22% on the week while UK Gilts fell 1bps to 3.91%. The US inflows in iflow matched the price, while the biggest movers in iFlow were UK Gilts and New Zealand in G10 selling while EM saw Mexico and China bond outflows but Peru, India and Philippine inflows.

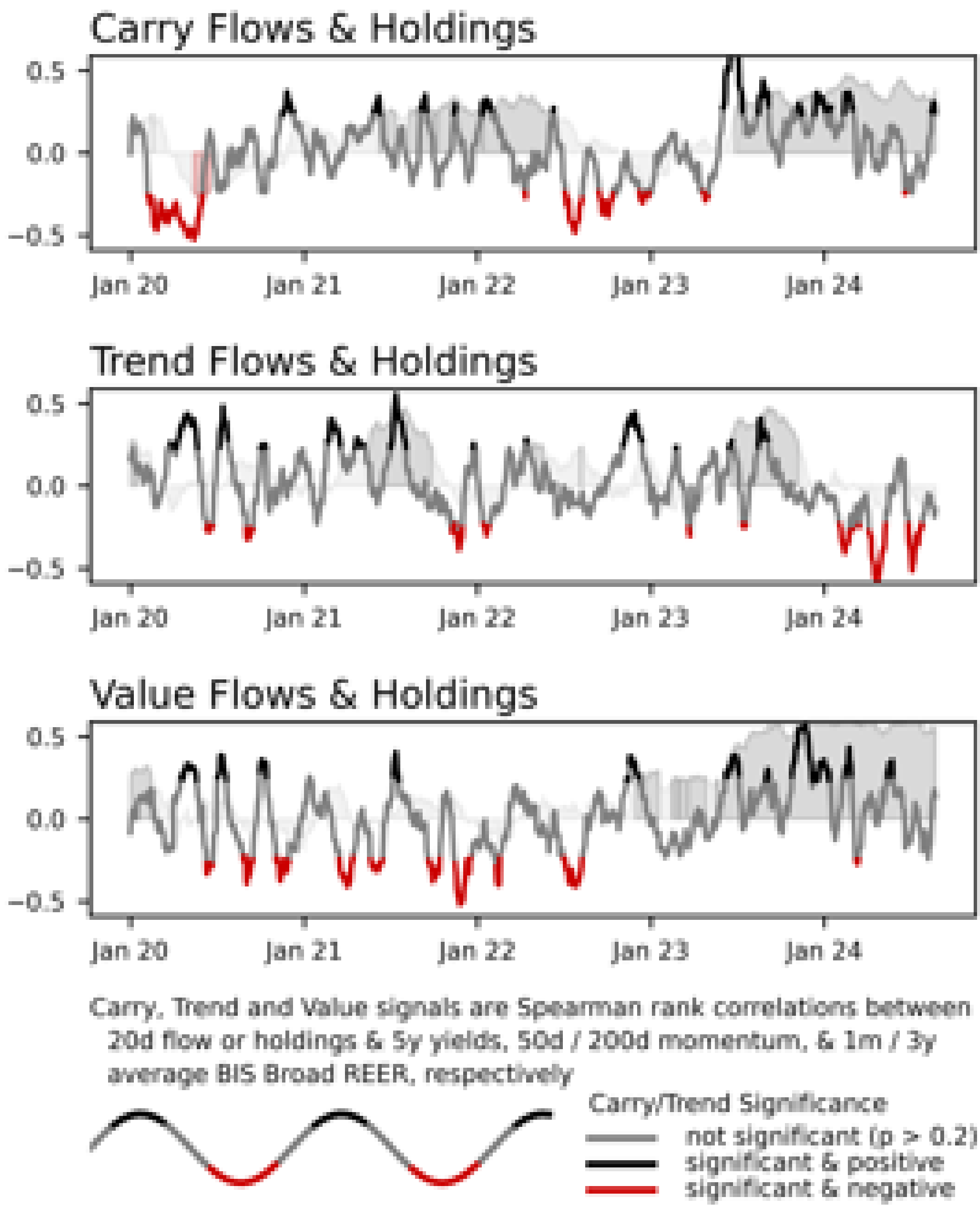
Exhibit #3: US bond performance - further bull flattening of curve

US Bond	High	Low	Current	% from Low	1W Change
30Y	5.35	0.99	4.09	3.1	-0.13
20Y	5.44	0.87	4.18	3.31	-0.13
10Y	5.26	0.52	3.8	3.28	-0.14
5Y	5.18	0.19	3.65	3.46	-0.15
2Y	5.22	0.09	3.92	3.83	-0.13
3M	5.63	0	5.12	5.12	-0.08
FFR	5.43	0.04	5.38	5.34	0.06
The Yields and Fed Funds Rate data from January 2007					

Source: Bloomberg, BNY

- **FX: the USD fell to 7-month lows** to 100.72 on index, extending its weakness for the 4th week, for the worst run since April 2023. The move Friday was notable and stand out with the JPY a notable mover up 2.25% on the week, SEK rose move up 2.55% while NZD rose the most in the G10 up 3%. The EUR rose 1.5% while GBP rose 2.1%. The laggards in G20 were MXN off 2.5%, TRY off 0.85%, and BRL off 0.3%. The iFlow to Thursday showed CHF, JPY and NOK selling with only modest US selling while in EM TRY, TWD and CNY saw buying. The carry trade fell back from significantly overdone but holdings and correlation remain high. The value factor is rising while trend remains on down leg.

Exhibit #4: FX Carry stalling?



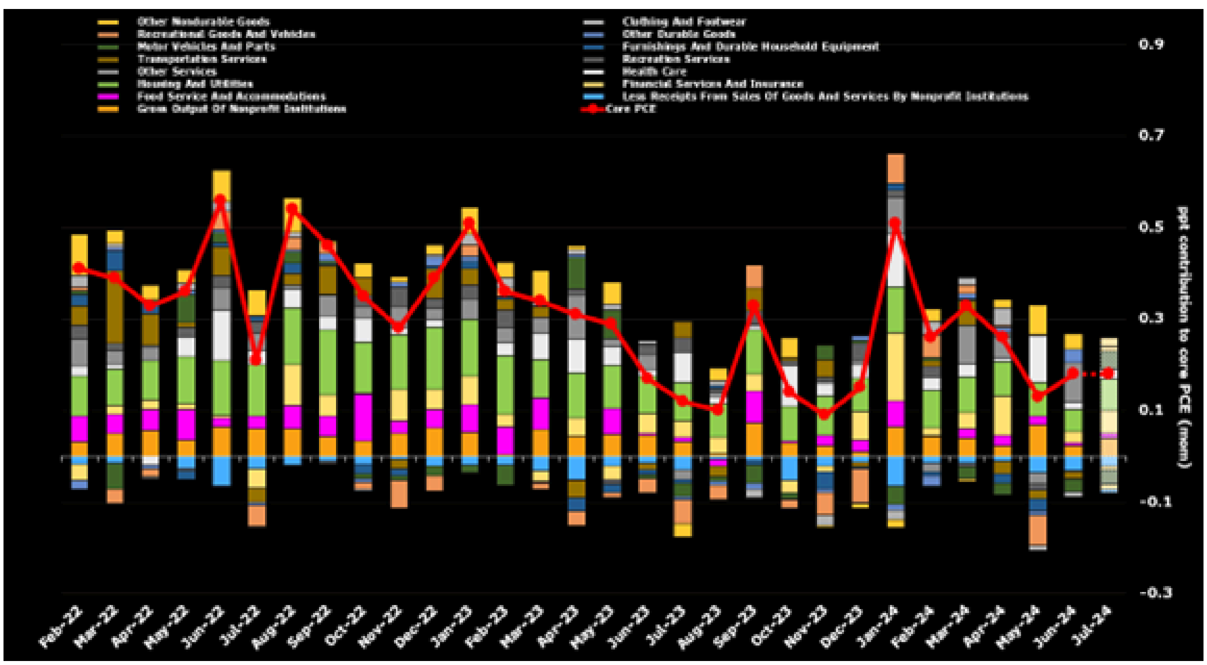
Source: iFlow, BNY

News Agenda and Weekly Themes – US 2Q GDP and PCE, Eurozone flash CPI, Australia CPI, Japan jobs and industrial production, China MLF

In the week ahead focus will be on flash Eurozone CPI, German Ifo, more ECB speakers, while in the US consumer confidence, durable goods, house prices, 2Q GDP revisions, and core PCE will be key rose 25 or 50bps Fed easing debate. For Asia, China industrial profits and its 1Y MLF rollover, Australian retail sales, Japan unemployment, retail sales and industrial production set the tone. Politics will be important for Europe as Macron picks a new Premier, as geopolitics continue to matter with fears of Lebanon/Israel escalation ongoing and as US election focus heats up into Labor Day holiday.

1. **US core PCE and the certainty of Fed easing.** The Friday release of US July core PCE is expected to rise to 2.7% y/y from 2.6% y/y. However, given the clarity of the Fed Chair speech on a September easing, the role of the data is seen as only in cutting the odds of 50bps. The competition for economic data mattering shifts from inflation to labor markets (US economic growth) with September 6 jobs report seen as more important. However, the role of jobless claims Thursday and consumer confidence from CB and the final Michigan Survey are also likely to matter in the week ahead as investors rethink the USD selling, bond buying and stock market rally into month-end.

Exhibit #5: US Core PCE will it matter?



Source: Bloomberg, BNY

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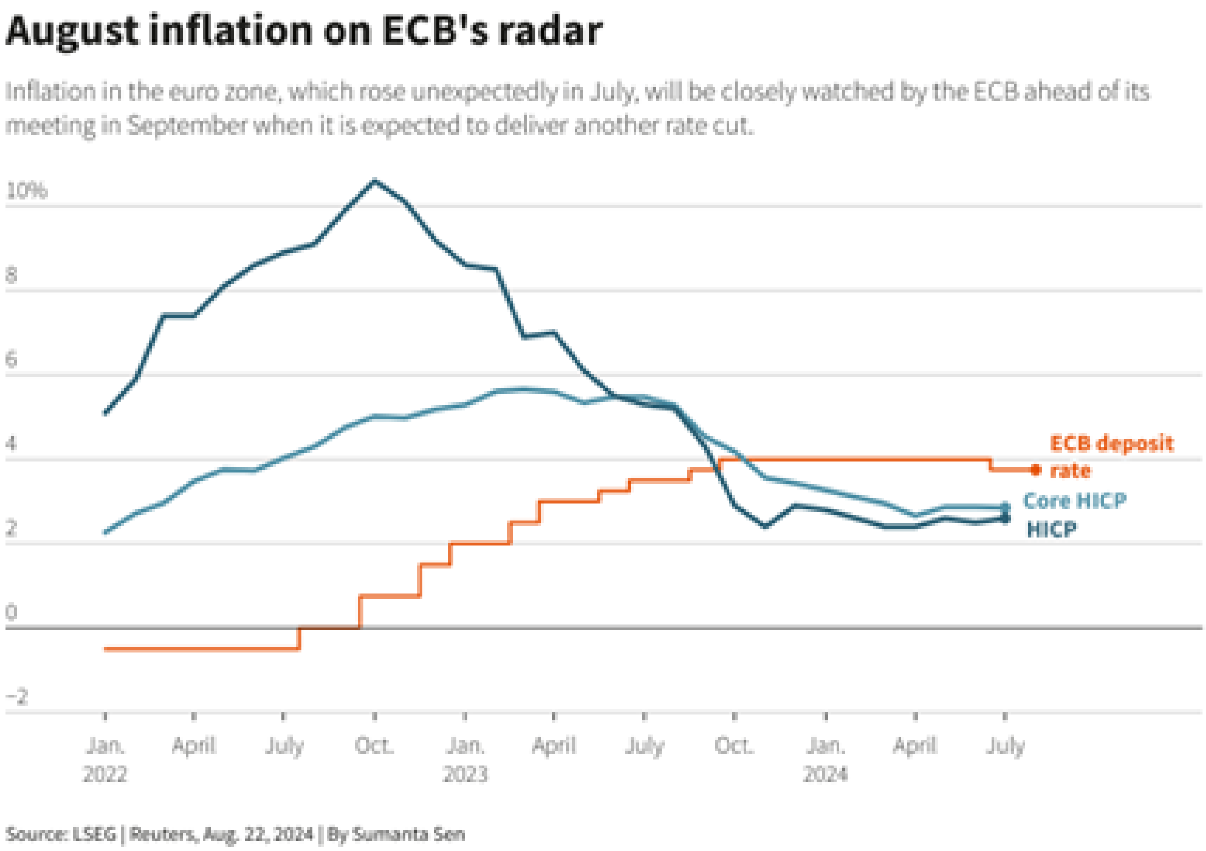
2. **ECB and Eurozone flash CPI.** The ECB is fully priced for a 25bps easing September 12. But the odds of 2 more hikes after that matter and will pivot on the September 1 flash CPI report. The data, preceded by national releases starting on Thursday, follows a small but unexpected rise in July, highlighting a bumpy last mile in curbing inflation. Headline inflation may ease as oil prices have fallen, but focus will remain on the core figure and the dominant services sector, where price growth remains stickier. A key consideration for the ECB is also likely in the EUR as it rallies toward 1.12 and the speed of change will be deflationary on import prices and add to

exporter woes. The drop in German growth and the drop in EU wage pressures have left many ECB moderates to push for more easing – leaving the next week as central for trading bonds, FX and stocks in the region.

Exhibit #6: ECB easing linked to flash CPI?



Source: Reuters, BNY

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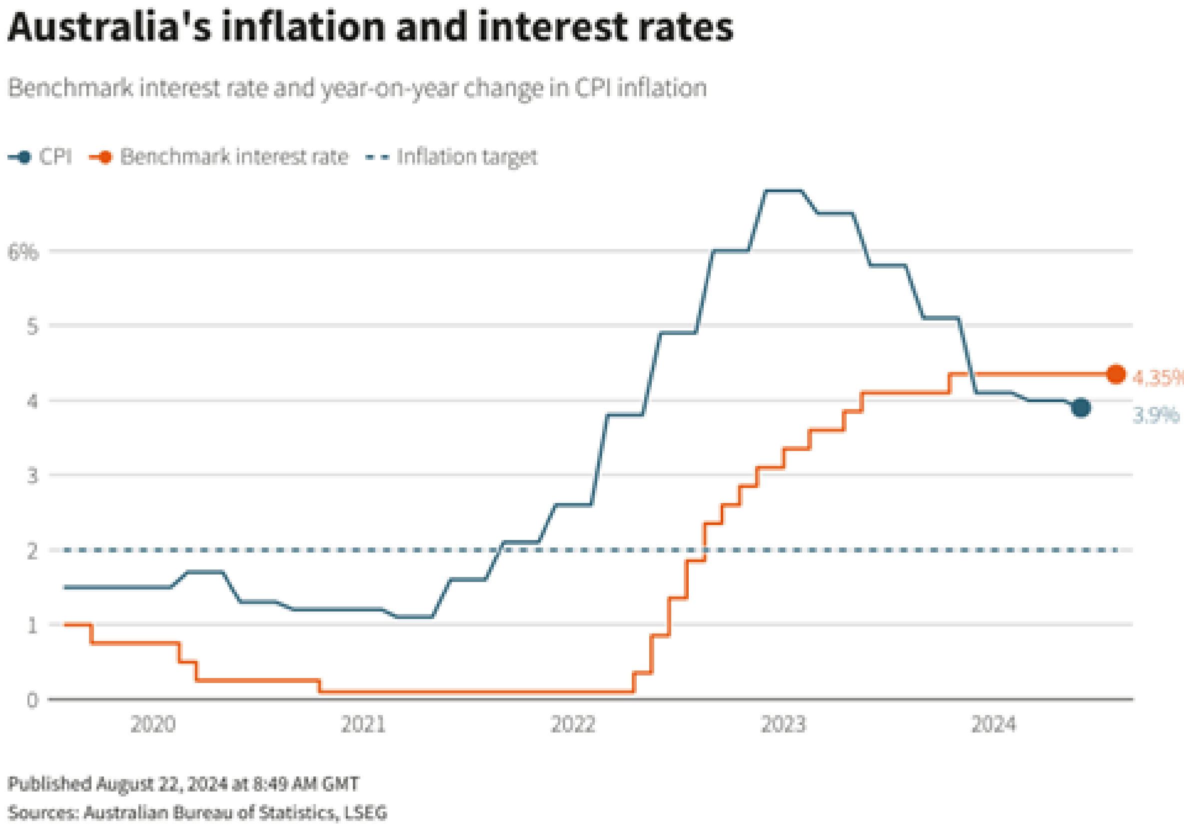
3. **Australian CPI and the RBA policy** – The Wednesday, August 28 inflation report could drive markets back to pricing in faster RBA easing. And any signs that inflation pressures are abating could pile pressure on the central bank. It has become an outlier globally with a reluctance to lower rates while many peers look to kick off, or have already begun, easing cycles. Investors are also hoping that Wednesday's data could provide some relief to consumer sentiment, which has taken a hit from the weight of steep borrowing costs. The AUD rally from the lows and the breakout from .6705 last week to new yearly highs makes clear that the AUD as a carry trade has momentum. The vulnerability for AUD continues to be wrapped around its China trade relationship and the cost of industrial metals, coal and other commodities.

Exhibit #7: AUD and CPI linked?



Source: Reuters, BNY

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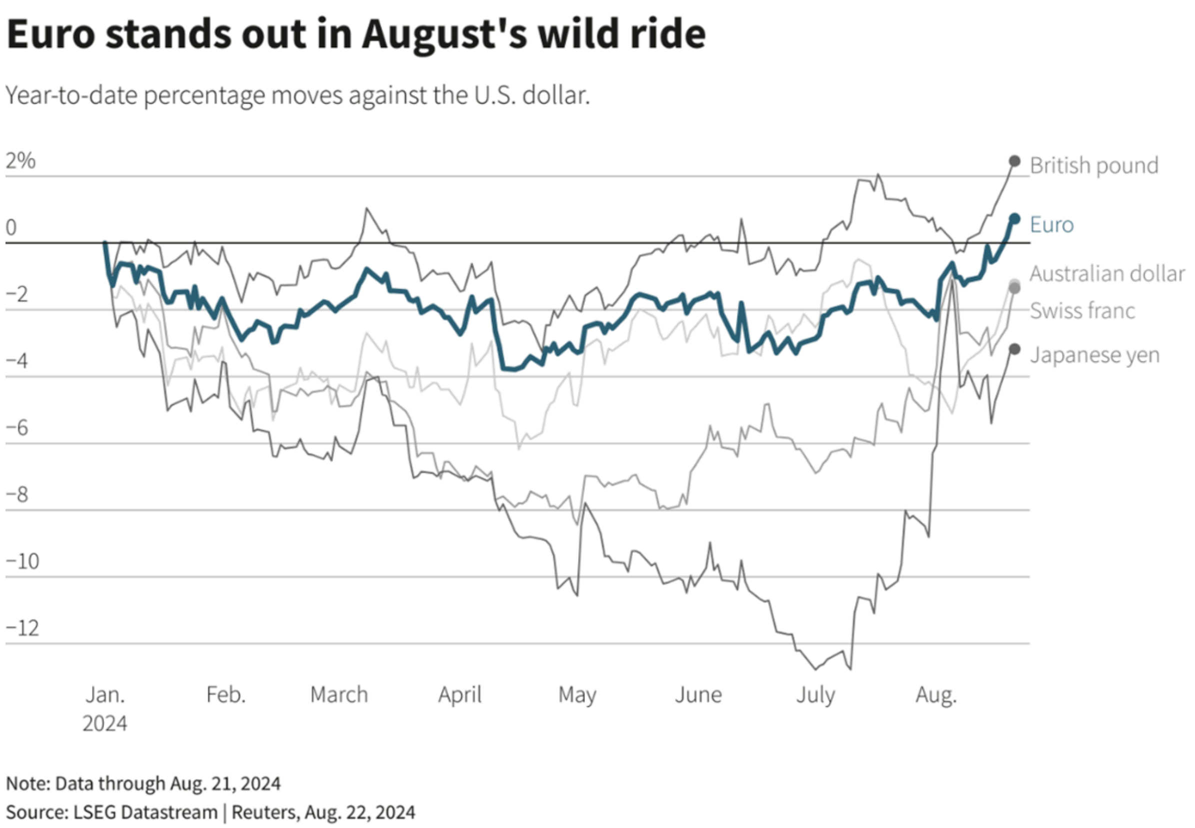
4. Gold and the 2024 safe-haven search and month-end. Gold has hit consecutive records since 2022, and has surged over 20% so far this year. Now $3,000 an ounce beckons. The drivers for gold start with the geopolitical pressures from Russia and Gaza and extend to the economic shift from high for longer to easing policy across the G10. The risk for markets maybe in the “buy-the-rumor-sell-the-fact” thinking as prices have soared in gold without much retracement. The USD down trade and the role of Gold is one thing, the value of financial assets another – with gold vulnerable to growth and recovery in other G10 currencies as it competes with them for safe-haven reserves at many central banks. The cost of holding gold will be a focus against the value of holding the EUR and GBP. The best performers of August will be watched closely along with gold for month-end rebalancing pressures.

Exhibit #8: Gold in EUR or GBP terms matters?



Source: Reuters, BNY

Calendar August 26-30:

Central Bank Meetings:

- **Hungary NBH (Tuesday, August 27) –** As the pressure from external financial conditions eases, there is scope for the MNB to cut further despite firm inflation impulse in Hungary. However, markets are looking for a hold for now as the EUR's strength remains an upside risk and it will still take time for fiscal expansion's residual pressures to wear off. Wage growth is still running in the low teens on an annualised basis and the labour market has struggled to loosen as unemployment remains just above 4%. Maintaining an adequate real rate buffer heading into ECB and Fed easing is essential for regional central banks.
- **Israel BoI (Wednesday, August 28) –** No change is expected in the base rate for August as sequential inflation ticked higher in July and the supply issues challenge the economy. Guidance has already been noticeably clear from Governor Yaron as staff projections see only a first cut by the end of H1 next year. Fed easing could provide some relief especially if rate differentials start to support ILS and limit pass-through, but structural factors domestically and the

associated risk premium as highlighted by the BoI will continue to constrain policy space over the medium term.

Key data/releases

Date	Time	EDT	Country	Event	Period	Cons.	Prior
08/26/24	09:00	04:00	GE	IFO Business Climate	Aug	86	87
08/26/24	13:30	08:30	US	Durable Goods Orders	Jul P	3.90%	-6.70%
08/27/24	***13:00***	***08:00***	***HU***	***Central Bank Rate Decision***	***Aug-27***	***6.75%***	***6.75%***
08/27/24	13:00	08:00	BZ	IBGE Inflation IPCA-15 MoM	Aug	0.20%	0.30%
08/27/24	15:00	10:00	US	Conf. Board Consumer Confidence	Aug	100	100.3
08/28/24	08:00	03:00	TU	Trade Balance	Jul	-7.15b	-5.87b
08/28/24	12:00	07:00	US	MBA Mortgage Applications	Aug-23	--	-10.10%
08/28/24	***14:00***	***09:00***	***IS***	***Base Rate***	***Aug-28***	***4.50%***	***4.50%***
08/29/24	07:00	02:00	SW	GDP QoQ	2Q	-0.70%	0.70%
08/29/24	13:00	08:00	GE	CPI YoY	Aug P	2.10%	2.30%
08/29/24	13:00	08:00	GE	CPI MoM	Aug P	0.00%	0.30%
08/29/24	13:30	08:30	US	GDP Annualized QoQ	2Q S	2.80%	2.80%
08/29/24	13:30	08:30	US	Initial Jobless Claims	Aug-24	--	232k
08/30/24	00:30	*19:30	JN	Jobless Rate	Jul	2.50%	2.50%
08/30/24	00:30	*19:30	JN	Job-To-Applicant Ratio	Jul	1.23	1.23
08/30/24	00:30	*19:30	JN	Tokyo CPI Ex-Fresh Food YoY	Aug	2.20%	2.20%
08/30/24	00:50	*19:50	JN	Industrial Production MoM	Jul P	3.60%	-4.20%
08/30/24	02:30	*21:30	AU	Retail Sales MoM	Jul	0.30%	0.50%
08/30/24	07:00	02:00	UK	Nationwide House PX MoM	Aug	--	0.30%
08/30/24	08:00	03:00	CZ	GDP YoY	2Q P	0.40%	0.40%
08/30/24	09:00	04:00	PD	CPI YoY	Aug P	4.30%	4.20%
08/30/24	10:00	05:00	EC	CPI MoM	Aug P	0.20%	0.00%
08/30/24	13:00	08:00	SA	Trade Balance Rand	Jul	17.6b	24.2b
08/30/24	13:30	08:30	CA	Quarterly GDP Annualized	2Q	1.80%	1.70%
08/30/24	13:30	08:30	US	Personal Income	Jul	0.20%	0.20%
08/30/24	13:30	08:30	US	Personal Spending	Jul	0.50%	0.30%
08/30/24	15:00	10:00	US	U. of Mich. Sentiment	Aug F	67.8	67.8

Key speeches/events

Date	BST	EDT	Country	Event
08/24/24	15:25	10:25	EC	ECB's Lane Speaks in Jackson Hole
08/26/24	08:30	03:30	SW	Riksbank minutes from August meeting published
08/27/24	11:45	06:45	EC	ECB's Knot Speaks
08/27/24	15:00	10:00	EC	ECB's Nagel Speaks
08/28/24	13:15	08:15	UK	BOE's Mann Speaks in Frankfurt
08/28/24	23:00	18:00	US	Fed's Bostic Speaks on Economic Outlook
08/29/24	10:15	05:15	EC	ECB's Lane Speaks on Panel in Frankfurt
08/29/24	17:00	12:00	SZ	SNB President Jordan Speaks in Basel
08/29/24	18:00	13:00	EC	ECB's Nagel Speaks in Frankfurt
08/29/24	20:30	15:30	US	Fed's Bostic Gives Intro to Fed, Economic Outlook
08/30/24	08:05	03:05	EC	ECB's Schnabel Speaks in Tallinn
08/30/24	08:35	03:35	EC	ECB's Schnabel, Rehn, Kazaks, Simkus, Muller on Panel

Conclusions: Does Jackson Hole really matter to markets?

The surprise of the last week was in a market already priced for easing adding more as the Fed Chair Powell delivered what was expected – a clear signal for a September easing. The reason for the reaction may reside in the Fed Chair left open the possibility of 50bps easing in the next meeting. “The time has come for policy to adjust,” Powell said Friday. “The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook and the balance of risks." The ongoing dependence of the Fed and the market to economic data means more volatility ahead with the US September 6th labor report key. There are other factors to consider from the Kansas City Fed Symposium.

1**) Forward guidance is alive and well** with the role of central bankers in managing expectations in markets for easing paths clear beyond just the Fed. ECB Lane noted they are making "good progress" but "the return to target is not yet secure," said the ECB head economist Lane. "The monetary stance will have to remain in restrictive territory for as long as needed to shepherd the disinflation process toward a timely return to the target." BOE Bailey said it was "too early to declare victory" but that persistence price pressures appear to be receding.

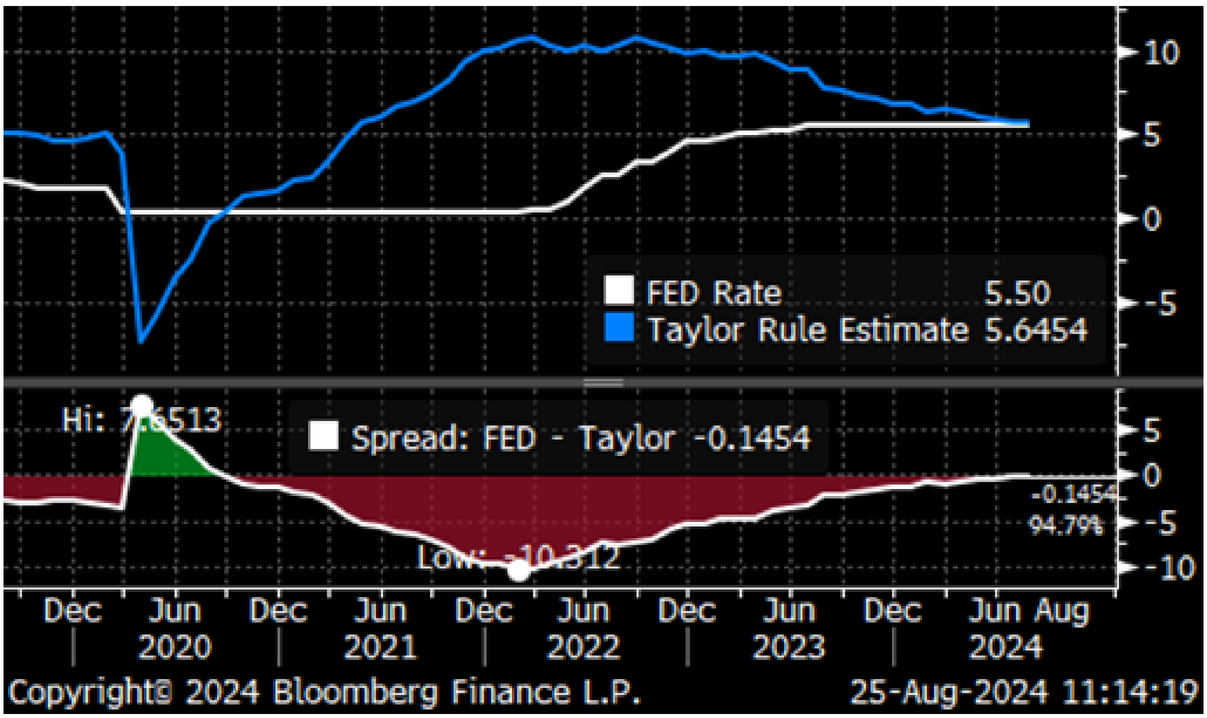
2) Fiscal Dominance worries. The BCB Campos Neto made clear that monetary policy is difficult without fiscal discipline. He noted the income transfer programs implemented during the pandemic are now larger and have become permanent. The US risks for fiscal spending dominating all policy is rising post the election.

3) **QE worked with MBS**. A paper at Jackson hold argues that mortgages were key for balance sheet at the Fed. "We find that banks and the Fed were each responsible for about a 40-bps reduction in the mortgage spread during 2020/21," the paper's authors wrote. "This led to a cumulative increase in mortgage originations of about $3 trillion, and net [mortgage bond] issuance of about $1 trillion, with banks responsible for about half of this increase."

4) **US policy next debate over method and pace vs. the data** – Philadelphia Fed Harker argued that rate cuts should be "methodical." Boston Fed Collins also pushed for "a gradual, methodical pace," for rate cuts. The key papers of the event pushed the view that the labor market was approaching an inflection point where further US economic slowdowns lead to larger and faster rises in the unemployment rate. Panel discussions were also focused on the tight labor markets post Covid and how that makes taming inflation more difficult.

Bottom Line: Markets are looking vulnerable to liquidity and volatility noise in the week ahead as the Fed policy pivot is fully priced and the risk of the data ahead seems undervalued. The Nvidia earnings and the risk of some slowing in the AI boom hopes could clash with further US economic data showing weakness. On the other hand, we could be in a place where good news is bad where any US economic strength forces an unwind to the FOMC easing path ahead. The battle for a soft-landing is playing out in the balancing act of US bonds to US shares. The USD weakness looks overdone in comparison where other central banks may be in a place where further cuts needed more than the US. The role of politics and geopolitics continues to hang over risks and leaves Gold as a key barometer over energy as to whether anything matters. How we close out August sets up for the bigger risks for September and 3Q end. The Taylor Rule for the FOMC has lost its luster and yet models and how monetary policy needs to balance growth, fiscal and other concerns still seem relevant to measuring decisions ahead.

Exhibit #8: Taylor Rule suggests Fed cuts are a close call



Source: Bloomberg, BNY

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

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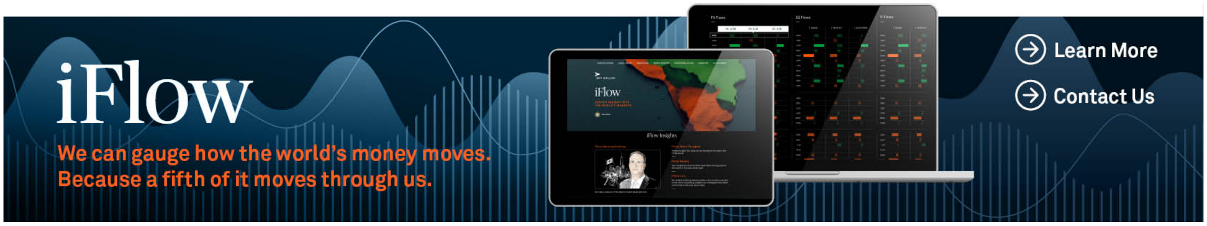

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