

iFlow

WEEK AHEAD

October 7, 2024

Wonderment

“Wisdom begins with wonder.” – Socrates

“I would maintain that thanks are the highest form of thought, and that gratitude is happiness doubled by wonder.” - Plato

Summary:

The volatility of rates dominated the last week with the outsized unemployment report in the US moving markets 50bps to shift the debate for November from 25-50bps easing to 0-25bps easing for the FOMC. The other notable story was the rise in China even as that market was closed for Golden Week with Hong Kong driving shares higher and hopes for even more stimulus a key focus for the week ahead. The one-year anniversary of the Gaza war – Israel/Hamas isn't yet to a peace deal and the escalation into Lebanon and Hezbollah has added to energy price worries with oil at 6-week highs. The developed markets are under the power of a new paradigm where growth beats inflation worries globally except perhaps in the US. The USD exceptionalism looks tired and yet the fading of the dollar appears wrong led by APAC and the JPY where the new PM Ishiba has driven USD/JPY back over 148 and where the BOJ risk is in the October 27 election there. There is a shock and awe event for markets everywhere as performance in risk assets continues to perform and beat all expectations. The wonderment of the current moment of global shares will test the link to bonds and the financial conditions components of central bank decision making in the weeks ahead.

Themes:

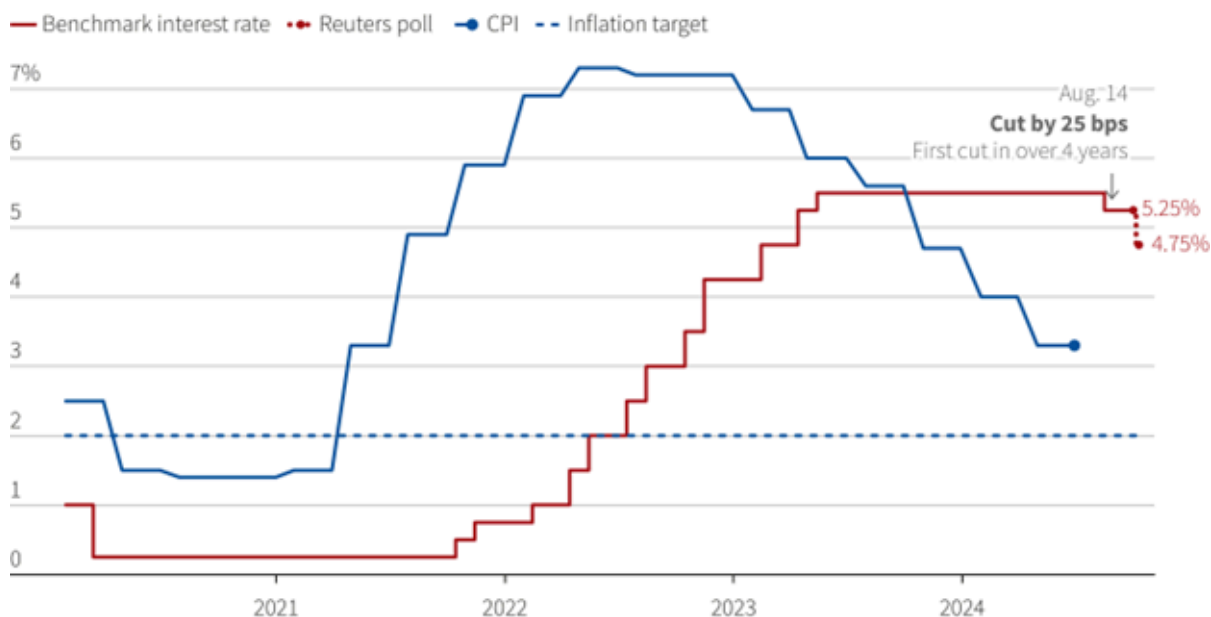
- **US FOMC easing.** The 25-50bps easing risk into each meeting continues to dominate markets and the data dependency of the FOMC drives volatility. The US CPI this week along with the FOMC minutes will be a key driver for risk mood flip-flops.
- **3Q Earnings.** The upcoming earnings season are notable in that there are lower expectations even as growth for 3Q appears to be higher than most expected. There is a risk that the October election seasonality is overpriced and that the earnings reports surprise to the upside.
- **China and the US election.** The stimulus of the Chinese economy will dominate the risk mood in APAC and globally. Many companies have already seen spikes in buying linked to hopes for a broader China recovery. The unknown risk is about the effects on trade and inflation will matter and be exacerbated by the role of the US election as both democrats and republicans point to trade and defense in their promises to voters into November 5.

What are we watching:

- **Economic Releases: Tuesday:** Japan Wages; Australian business confidence, China stimulus plan; German IP, Canada trade, US trade; **Wednesday:** Australian consumer confidence, German trade, Brazil CPI, Mexico CPI; FOMC minutes: **Thursday:** Japan EcoWatchers, German retail sales, IMF outlook, ECB minutes, US CPI; **Friday:** German retail sales, UK GDP, trade, IP, Mexico IP, Canada jobs, US PPI
- **Central Banks:** The **RBNZ maybe the most interesting risk** for the week in terms of 25 or 50bps. The dovish language of the central bank surprised many in the last month and the expectations are broadly for 50bps on October 9. The RBI is also expected to be dovish though not yet ready to cut. The October 10 Bank of Korea decision may be set up for an easing but this will be in balance to the rest of the region with the how the FX markets treat KRW. The BOI and the war continue to keep policy difficult. The FOMC Minutes Wednesday are likely to dominate the markets in terms of the 25-50bps debate and the US election risks.

New Zealand's inflation and interest rate

Traders reckon the Reserve Bank of New Zealand could cut its key rate by 50 bps on Oct. 9.



Sources: LSEG Workspace, Reuters Poll | Oct. 3, 2024 | By Kripa Jayaram

Source: Reuters, BNY

News Agenda and Weekly Themes – US CPI, PPI, 3Q earnings, China stimulus, FOMC minutes, Oil and geopolitics

It will be a key week in the United States with the release of September's CPI report, the FOMC Meeting Minutes and the start of earnings season at the forefront.

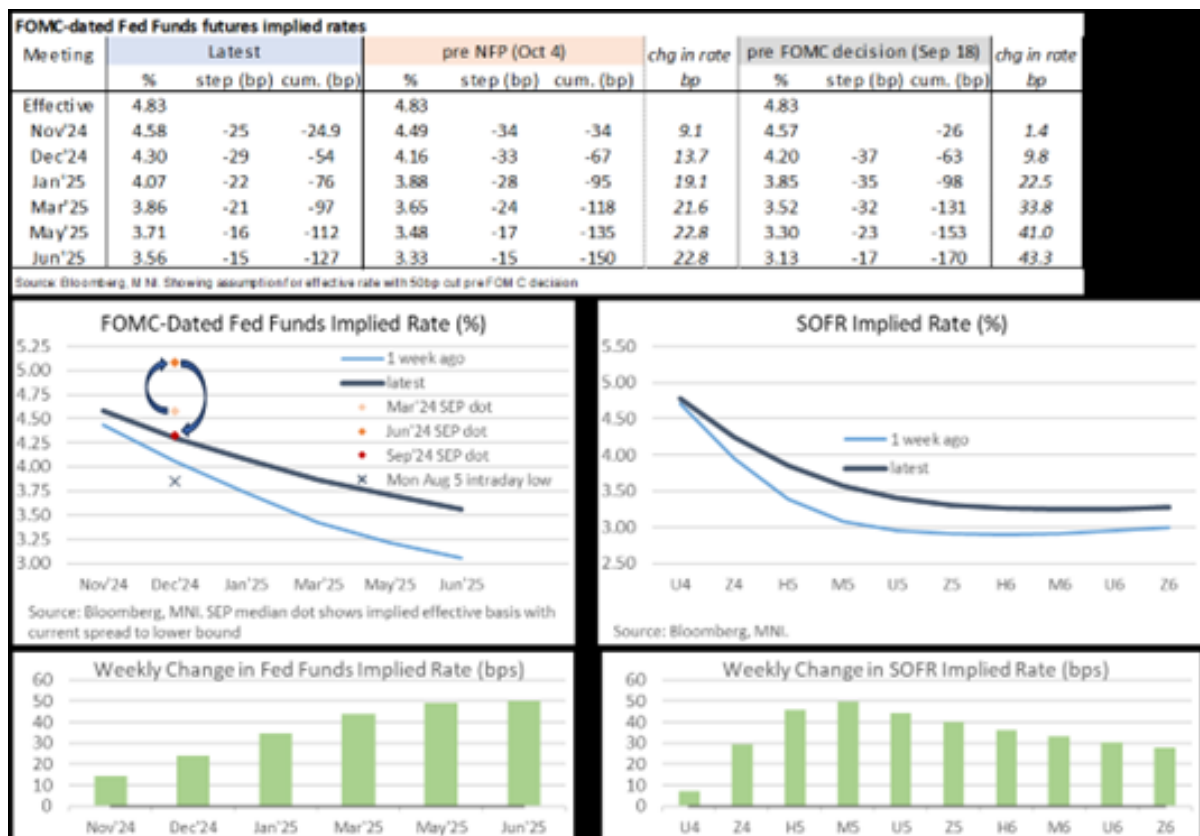
Investors will also pay close attention to speeches by several Federal Reserve officials, along with data on producer prices, Michigan consumer sentiment, and foreign trade. Globally, inflation rates will be released for Brazil, Mexico, and Russia. In Europe, Germany will report on factory orders, industrial production, foreign trade, and delayed retail sales, while the Euro Area will provide retail sales data. The UK will reveal its GDP growth and factory activity for August. Canada's unemployment rate and foreign trade data are also in focus. Meanwhile, Australia will release NAB business confidence and Westpac Consumer Confidence reports, and Japan will update the Reuters Tankan Index. Key interest rate decisions are expected from South Korea, India, and New Zealand.

1. The FOMC minutes and the US CPI – will this rewind rate cut expectations?

The last week shifted views on the US rate path after the non-farm payrolls. The week ahead has the potential to rewind rate expectations with the Thursday, October

10 release of US September CPI – expected to be up 0.1% m/m, 2.3% y/y with core up 3.2% y/y. The FOMC minutes on Wednesday could be more important with the debate about the speed of rate cuts and the terminus both important to how markets will see any new US data. The overall volatility of front-end rates has been a concern for other markets, notably the USD with focus on JPY and EM FX particularly. The USD rally from Friday could have legs into next week and unwind some of the hopes for better 4Q performance.

Exhibit #2: US rate volatility important to risk



Source: MNI, BNY

2. Does Oil accurately measure geopolitical risks and does it matter? The circular reasoning goes that higher oil prices mean higher inflation risks globally, taxing consumers and testing central bankers as they hope to shift to further easing. The rise of oil last week was linked to the escalation in the Israel/Iran conflict. The WTI rose 10.7% on the week and at \$75.46 is back towards the August levels. Markets are keenly focused on the risk of a larger war in Lebanon. The ongoing Gaza conflict is now a year old and has led to significant loss of life and destruction. Oil markets have shifted and the role of OPEC in controlling the global price has been confused by the Ukraine/Russia conflict along with the increase of US oil

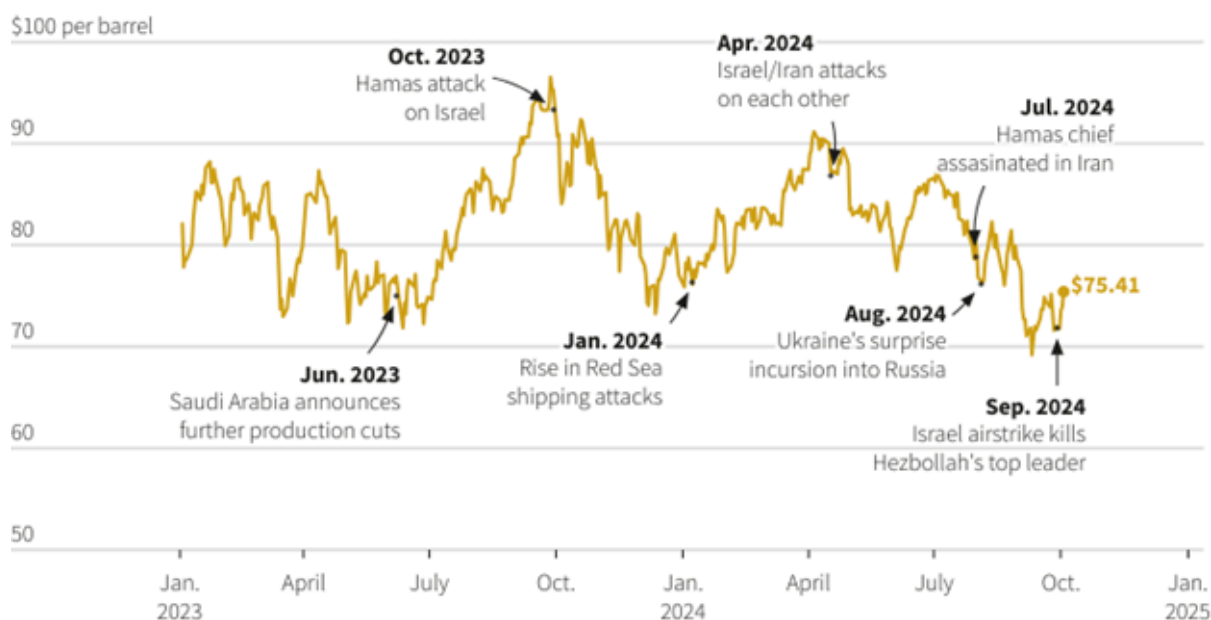
production, overlaid by the shift of much of the developed world to alternatives like wind, solar and nuclear. The test for next week will be in if there is no further escalation in the Middle East and if the US growth outlook shift that started this week continues into next with stronger jobs and better Service ISM driving up 4Q growth outlooks.

Exhibit #3: Is oil the right barometer?

Oil markets are wary of a Middle East escalation

Brent crude futures have risen by around 5% since Israel's airstrike killed Hezbollah's top leader Sayyed Hassan Nasrallah.

Brent crude futures price since 2023



Note: Brent crude futures price till 1130 GMT on Oct. 3, 2024

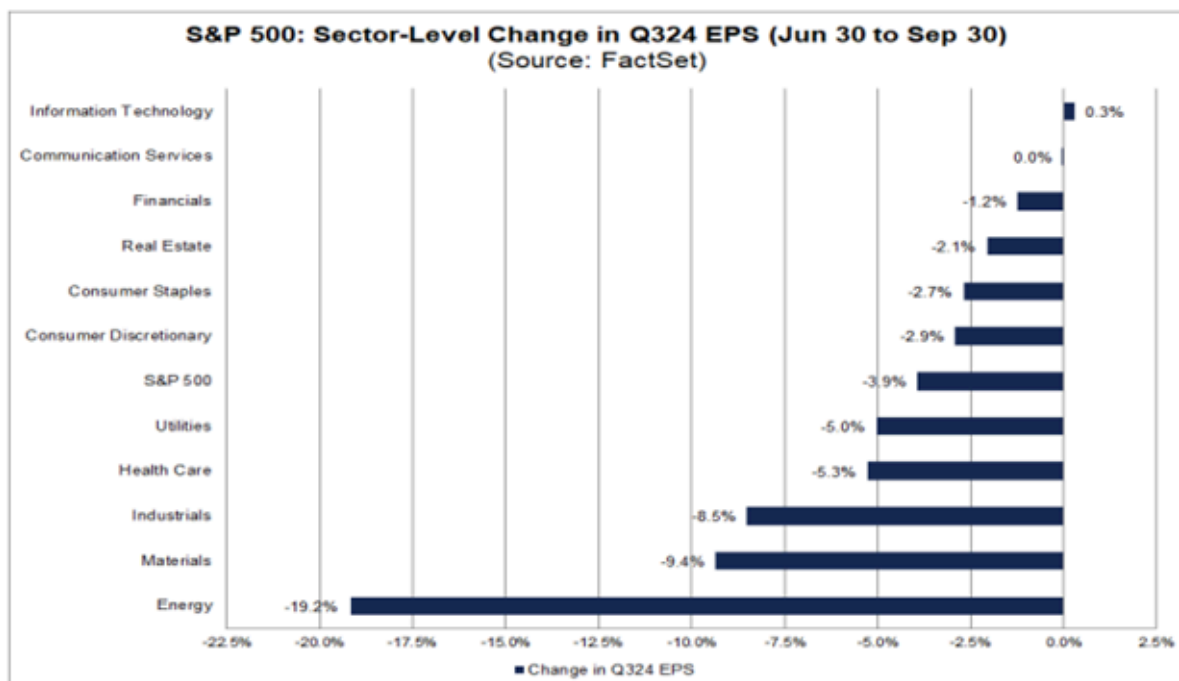
Source: LSEG Datastream | Reuters, Oct. 3, 2024 | By Vineet Sachdev

Source: Reuters, BNY

3. Are markets too bearish on equity earnings ahead? The usual playbook for October has a seasonal mood shift linked to earnings. While this didn't work for September which surprised to the upside in equities, many worry about October this year with the election and geopolitical fears dominating. At the end of June, 3Q earnings were expected to be 7.8%, but into the start of earnings reports next week we have dropped back to 4.2% with nine of the eleven sectors expected lower according to FactSet. The negative earnings guidance in 3Q has come from 60 of the S&P500 while better guidance came from 50 companies. The important point about 3Q 2024 earnings season is that bottom's up analysis from the Street is more cautious than average – down 3.9% vs. the 10Y average of down -3.3%. What

stands out is that 2025 outlooks have not changed, and this reflects the feedback loop of a US slowdown leading to faster US rate cuts from the Fed. Some if this logic will be changing in the weeks ahead as the markets absorb actual earnings and revenues against further US economic data and more Fed speakers and the FOMC minutes. The financial sector starts the 3Q earnings season next week with the focus on net interest income outlooks with Fed rate cuts. The banks are expected to have a tough quarter with -12% earnings drop while the overall financial sector is expected to drop just -0.4%.

Exhibit #4: 3Q earnings set up for upside surprises?



Source: FactSet, BNY

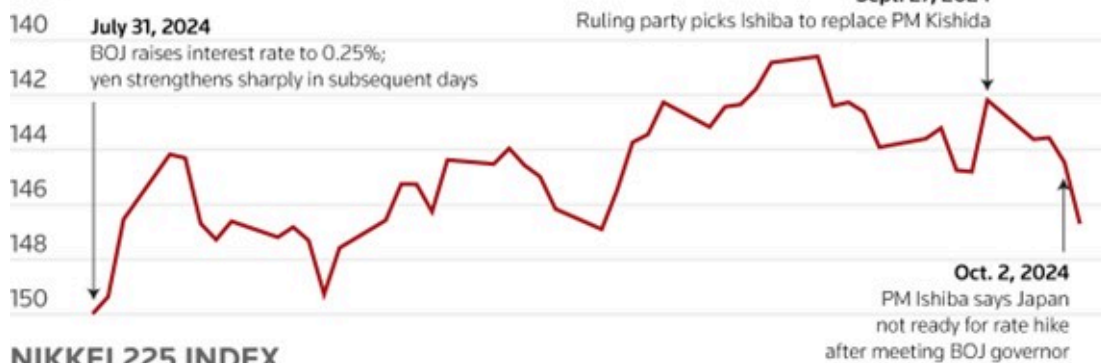
4. JPY and new PM Ishiba. The risk of the week maybe in Japan not US stocks or bonds. The shift in Japan outlooks with the new government hasn't fully been felt in markets. The economic data that could change markets starts with the Monday wages for August expected down at 3% y/y from 3.6% - all of which matters to the BOJ October hiking risks and to the new Prime Minister. Higher wages and better corporate shareholders returns are key planks in the government as it faces another election at the end of the month. The link of a weak JPY to a strong Nikkei helped last week but this won't last. The role of JPY and trade will also be in play with the Monday trade balance for August due Monday expected to show a widening deficit of Y550bn. How fast Japan grows led by renewed consumer demand is critical to how JPY risks play out against the BOJ need to normalize policy. All these make the risk of 150 breaking a critical one for the week ahead.

Exhibit #5: JPY and politics

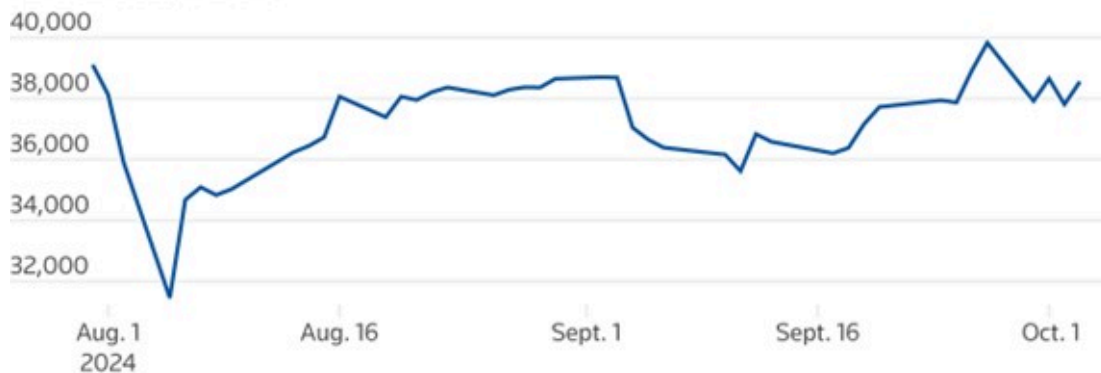
Markets focus turns to Japan's new prime minister

Market views of Shigeru Ishiba as a policy hawk have been flipped on their head by repeated dovish remarks this week.

YEN



NIKKEI 225 INDEX



Source: LSEG Workspace

Pasit Kongkunakornkul • Oct. 3, 2024 | REUTERS

Source: Reuters, BNY

Calendar for October 7-11

Central Bank Decisions

- **Singapore MAS (October 7th – 14th)** – We expect MAS to ease by flattening the SGD NEER slope while maintain SGD NEER policy center and width at October meeting. Since the previous quarterly meeting in July, Singapore growth momentum had been solid, driven by the strong services sectors which grew at 8.5% y/y in Q2 and fast-paced recovery of electronics products exports at 35.1% y/y as of August. The pace inflation declines had also been faster than expected. Singapore August headline inflation came at 2.2% - the lowest since April 2021 - and core inflation at 2.7% from recent highs of 3.6% in February 2024. The easing of inflationary pressure warrant MAS to unwind

some of the aggressive tightening policy tightening move between October 2021 and October 2022.

- **New Zealand RBNZ (Wednesday, October 9)** – The RBNZ is expected to move more aggressively with policy easing and a 50bp cut is expected as data continues to weaken. The next round of CPI figures will not be due until after the decision but there is now sufficient downward momentum in tradeable inflation to offset non-tradable strength, which in itself could also face increased pressures up ahead. The RBNZ has highlighted that fiscal restraint in the country – a rarity in G10 – is having a material dampening effect on demand and this will continue to support the case for offsetting monetary policy,
- **India RBI (Wednesday, October 9)** – While there might be argument to ease on the back of lower inflation trajectory, we don't think it is sufficient for RBI's Das to move just yet on the back of uncertainties of inflation trajectory ahead. Recent downward inflation pressure had been mainly due to a drag by the fuel component (-5.3% y/y). Indeed, with two dovish members having left the decision-making board, the balance of policy bias might be shifted towards neutral levels. Oct RBI meeting will be joined by 3 new MPC and their voting patterns will be closely assessed.
- **Israel Bol (Wednesday, October 9)** – No change is expected in base rates for the foreseeable future and the Bol will likely hope for some additional disinflationary tailwinds as rate convergence between the Bol and Fed begin to remove headwinds for the currency. Domestically, the labour market continues to face constraints as the unemployment has fallen to 2.5%, and sequential inflation momentum remains quite robust. We continue to see upside risk to the Bol's CPI forecast of 3%, which is already close to recent cycle highs.
- **Korea BoK (Friday, October 11)** – While rising house prices and household debt remain a key concern for the BoK, the fast deterioration of inflation in our view might have tilted BoK to cut at the upcoming policy meeting and deal with the housing issue via macro prudential measures. Markets has fully priced in an interest rate reduction with 3x6 FRA at 3.22% and 9x12 FRA at 2.67% (or another 3 more cuts to follow). Our view is for BoK to deliver a 25bp rate cut from 3.5% to 3.25% and to maintain a dovish stance for a possible back-to-back cut at the end of November. We will also be looking for hints of a potential 50bp rate cut among BoK policy members.

Key data/releases

Date	Time	EDT	Country	Event	Period	Cons.	Prior
10/7 - 10/14			SI	MAS Oct. 2024 Monetary Policy Statement			
10/07/24	08:00	*03:00	SZ	Foreign Currency Reserves	Sep	--	693.8b
10/08/24	00:50	19:50	JN	BoP Current Account Balance	Aug	¥2983.2b	¥3193.0b
10/08/24	07:00	*02:00	GE	Industrial Production SA MoM	Aug	--	-2.40%
10/08/24	07:00	*02:00	SW	CPI MoM	Sep P	--	-0.60%
10/08/24	07:00	*02:00	SW	CPI YoY	Sep P	--	1.90%
10/09/24	02:00	21:00	NZ	RBNZ Official Cash Rate	Oct-09	4.75%	5.25%
10/09/24	05:30	00:30	IN	RBI Repurchase Rate	Oct-09	6.50%	6.50%
10/09/24	12:00	07:00	US	MBA Mortgage Applications	Oct-04	--	-1.30%
10/09/24	13:00	08:00	BZ	IBGE Inflation IPCA YoY	Sep	4.45%	4.24%
10/09/24	13:00	08:00	BZ	IBGE Inflation IPCA MoM	Sep	0.46%	-0.02%
10/09/24	14:00	09:00	IS	Base Rate	Oct-09	4.50%	4.50%
10/09/24	00:00	19:00	CH	Money Supply M2 YoY	Sep	6.40%	6.30%
10/10/24	00:50	19:50	JN	PPI YoY	Sep	2.30%	2.50%
10/10/24	07:00	*02:00	NO	CPI MoM	Sep	--	-0.90%
10/10/24	07:00	*02:00	NO	CPI YoY	Sep	--	2.60%
10/10/24	07:30	*02:30	HU	CPI YoY	Sep	3.00%	3.40%
10/10/24	08:00	*03:00	CZ	CPI MoM	Sep	-0.50%	0.30%
10/10/24	08:00	*03:00	CZ	CPI YoY	Sep	2.40%	2.20%
10/10/24	12:00	07:00	SA	Manufacturing Prod NSA YoY	Aug	--	1.70%
10/10/24	13:00	08:00	BZ	Retail Sales YoY	Aug	--	4.40%
10/10/24	13:30	08:30	US	CPI MoM	Sep	0.10%	0.20%
10/10/24	13:30	08:30	US	CPI YoY	Sep	2.30%	2.50%
10/10/24	13:30	08:30	US	Initial Jobless Claims	Oct-05	--	225k
10/10/24	22:30	17:30	NZ	BusinessNZ Manufacturing PMI	Sep	--	45.8
10/10/24	22:45	17:45	NZ	Food Prices MoM	Sep	--	0.20%
10/11/24			SK	BOK Base Rate	Oct-11	3.25%	3.50%
10/11/24	07:00	*02:00	GE	CPI YoY	Sep F	--	1.60%
10/11/24	07:00	*02:00	GE	CPI MoM	Sep F	--	0.00%
10/11/24	07:00	*02:00	UK	Industrial Production MoM	Aug	--	-0.80%
10/11/24	07:00	*02:00	UK	Manufacturing Production MoM	Aug	--	-1.00%
10/11/24	08:00	*03:00	TU	Current Account Balance	Aug	4.20b	0.57b
10/11/24	13:30	08:30	US	PPI Final Demand MoM	Sep	0.10%	0.20%
10/11/24	13:30	08:30	CA	Unemployment Rate	Sep	6.60%	6.60%
10/11/24	15:00	10:00	US	U. of Mich. Sentiment	Oct P	70	70.1

Key speeches/events

Date	Time	EDT	Country	Event
10/07/24	08:05	03:05	EC	ECB's Cipollone Speaks
10/07/24	08:45	03:45	EC	ECB's Lane Speaks in Frankfurt
10/07/24	18:50	13:50	US	Fed's Kashkari Participates in Q&A
10/07/24	23:00	18:00	US	Fed's Bostic Moderates Conversation with Steve Koonin
10/07/24	23:30	18:30	US	Fed's Musalem Speaks on Economy, Policy
10/08/24	01:30	*20:30	AU	RBA Minutes of Sept. Policy Meeting
10/08/24	02:00	*21:00	AU	RBA's Hauser-Remarks
10/08/24	08:00	03:00	US	Fed's Kugler Speaks at ECB Event (Schnabel Chairs Session)
10/08/24	08:30	03:30	SW	Riksbank Deputy Governor Bunge speaks on monetary policy
10/08/24	17:45	12:45	US	Fed's Bostic Speaks on the Economic Outlook
10/08/24	21:00	16:00	US	Fed's Collins Speaks at Community Banking Conference
10/09/24	01:00	*20:00	AU	RBA's Kent-Speech
10/09/24	02:00	*21:00	NZ	RBNZ Monetary Policy Review
10/09/24	13:00	08:00	US	Fed's Bostic Gives Welcome Remarks
10/09/24	14:15	09:15	US	Fed's Logan Speaks at Houston Energy Conference
10/09/24	15:30	10:30	US	Fed's Goolsbee Gives Opening Remarks at Payments Conference
10/09/24	17:00	12:00	EC	ECB's Villeroy speaks in Paris
10/09/24	19:00	14:00	US	FOMC Meeting Minutes
10/09/24	22:00	17:00	US	Fed's Collins Speaks at Worcester Event
10/09/24	23:00	18:00	US	Fed's Daly Speaks in Moderated Conversation
10/10/24	07:30	02:30	SW	Riksbank Governor speaks on economic policy frameworks
10/10/24	07:30	02:30	SW	Riksbank Governor Thedeen speaks on economic policy frameworks
10/10/24	08:45	03:45	AU	RBA's Hunter-Panel
10/10/24	15:30	10:30	US	Fed's Barkin Speaks in Fireside Chat
10/10/24	16:00	11:00	MX	Central Bank Monetary Policy Minutes
10/10/24	16:00	11:00	US	Fed's Williams Gives Keynote Remarks
10/10/24	16:30	11:30	SZ	SNB's Martin Speaks in Zurich
10/11/24	14:45	09:45	US	Fed's Goolsbee Gives Opening Remarks
10/11/24	15:45	10:45	US	Fed's Logan Participates in Panel Discussion

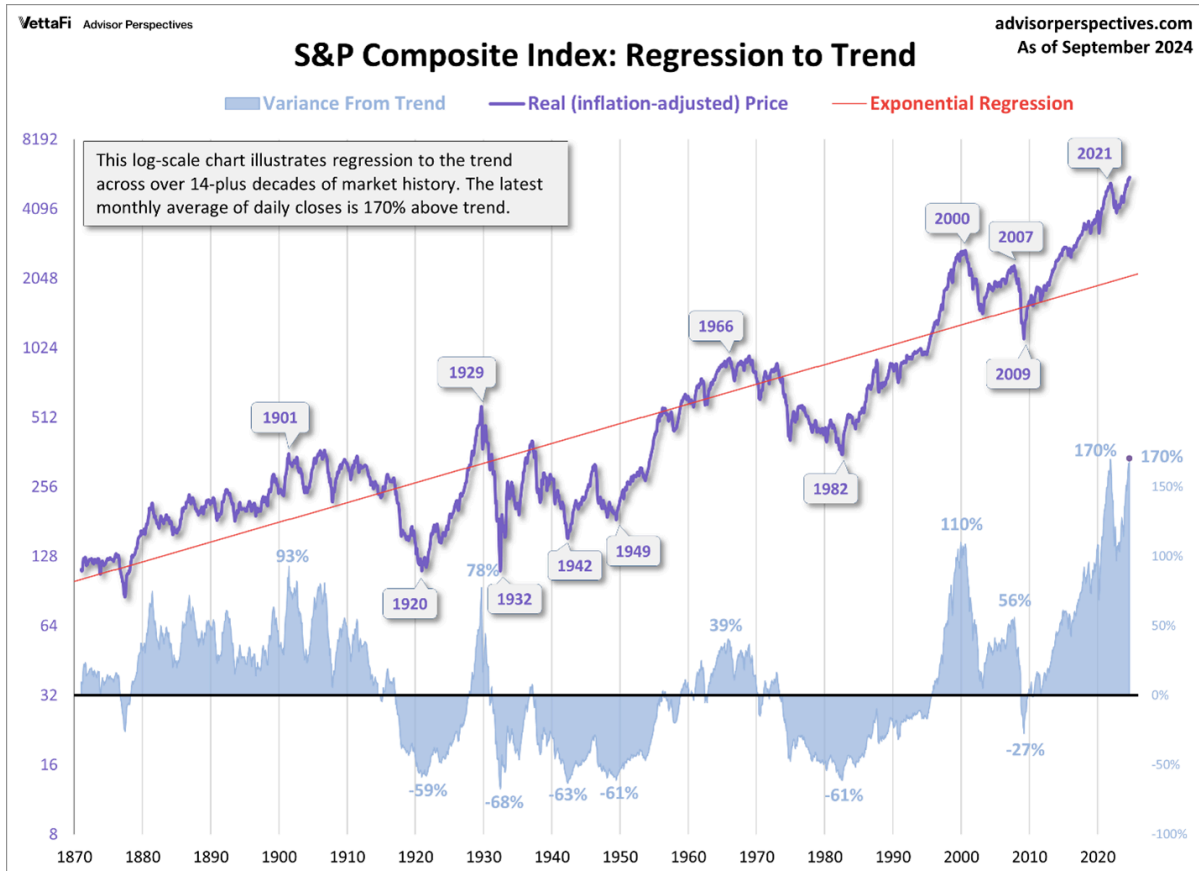
Source: Bloomberg, BNY

Conclusions: Labor or Capital?

The US election has less than 30 days left to its outcome, most states have started early voting. The vote will matter to the outcome of regulation, taxes, and foreign trade. Globally, markets are focused on how US exceptionalism has sustained since the pandemic. There is a dynamic tension between how wealth and income battle for importance in the US and world. During good times this should narrow and in bad times it drags into politics. The feedback loop of jobs to voters to inflation is going to be in play on Friday with the snapshot of US consumer sentiment from the University of Michigan. The relationship of voters to politics is partisan but that has a limit. In 1994, the Bush-Clinton election pivoted on the economy, and many see the same in play for 2024. The role of productivity and growth against inflation and wages is part of the week ahead as well. In a recent piece from CNBC on this point. Between 1979 and 2024, productivity in the U.S. soared by 80.9%, while hourly pay grew by just 29.4%, according to research by the Economic Policy Institute. Obviously, the productivity of the US workforce matters not only to wages but also to corporate profits. The intersection of risk in markets in October in a Presidential

election year is to bring the balancing of such to the voting box where the election sets up taxes and spending across states and the nation and determines from which comes the money. Corporate tax rates in the US vs. US income taxes will be a balancing part of the debate with the risk that both will need to rise to cover the pandemic deficits of the present.

Exhibit #6: S&P value stretch



Source: Advisor Perspectives, BNY

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

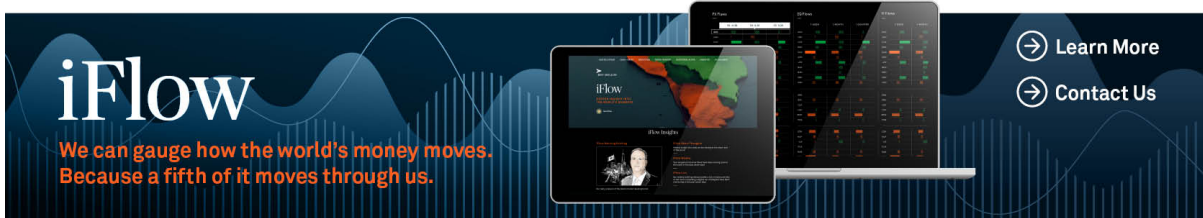


Bob Savage
 HEAD OF MARKETS STRATEGY
 AND INSIGHTS

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