

iFlow

MARKET MOVERS

May 31, 2024

Finales

“It always seems impossible until it is done” – Nelson Mandela

“The final test of a gentleman is his respect for those who can be of no possible service to him.” – William Lyon Phelps

Summary

Risk mixed as higher Eurozone CPI casts doubt on ECB cuts beyond June while, China PMI misses and Japan Tokyo CPI higher. The Japan intervention confirmed in April/May at \$62bn even as the currency is nearly back to where this started - all of which puts today's US core PCE as important despite some relief in the US economic growth stories this week. Finales are sometimes celebrated as they end difficult to watch entertainment – and that is how many see the US trading week. The FOMC has no urgency to ease but continue to support the hope – even with weaker home sales, weaker 1Q growth and higher jobless claims. Higher rates are a problem globally and doubts about growth follow with sticky inflation outcomes feared. The other big stories are about geopolitics and politics as the US will be watching what happens post the Trump guilty verdict to polls and protests. USD holding but rule of law concerns into the election are rising along with doubts about fiscal sustainability. The flat commodity markets in oil and gold are surprising given US pushing to slow AI chip exports to the Middle East, as the US allows Ukraine to continue to use weapons to strike Russia and

Macro readies his training forces – these stories all make for a less calm weekend watch for news.

What's different today:

- **German 10Y Bund yields rise to 2.69%** after Eurozone CPI – highest since November – reflecting doubts about ECB easing path.
- **UK consumer credit slows to 2-year lows** but mortgage borrowing is the most since 2022 – while the Nationwide House Price index rises 1.3% y/y – up for 4th consecutive month.
- **iFlow showing interesting G10 flow reversals** – CAD selling, JPY buying, EUR buying along with USD. The bond markets saw Argentina buying, Brazil selling while APAC continues to see outflows in China and Hong Kong. Equities were bought in UK, Colombia, Israel, Philippines.

What are we watching:

- **US April core PCE price deflator** expected up 0.2% m/m, 2.8% y/y after 2.8% y/y with headline up 0.3% m/m, 2.7% y/y
- **US April personal income** expected up 0.3% m/m after 0.5% m/m, with personal spending expected up 0.3% m/m after 0.8% m/m.

Headlines

- [Korea April industrial production recovers to +2.2% m/m, 6.1% y/y](#) – best gain since January – Kospi up 0.041%, KRW off 0.4% to 1384.70
- [Japan April unemployment flat at 2.6%](#) - worst since Sep 2023 – while [Tokyo May CPI rises 0.4pp to 2.2% y/y](#), [industrial production fell 0.1% m/m, -1% y/y](#) – 6th annual decline led by transport, with auto sales lower, but [retail sales up 2.4% y/y](#) - Nikkei up 1.14%, 10Y JGB up 0.5bps to 1.06%, JPY off 0.3% to 157.30

- [China May NBS manufacturing PMI -0.9 to 49.5](#) – first contraction since Feb – while service PMI -0.1 to 51.1 weakest since Jan – CSI 300 off 0.4%, CNH off 0.1% to 7.2610
- [Australia April private sector credit rose 0.5% m/m, 5.2% y/y, RBA Hunter agree with government on inflation outlook](#), cautious despite wage trends – ASX up 0.96%, AUD up 0.4% to .6655
- [Turkey 1Q GDP up 2.4% q/q, 5.7% y/y](#) – led by industrial sector – TRY flat at 32.21
- [German April retail sales drop -1.2% m/m, -0.6% y/y](#) – linked to food – DAX off 0.15%, Bund 10Y yields up 4.7bps to 2.697%
- [French 1Q final GDP unrevised up 1.1% y/y](#) – best in 3 quarters led by government spending – CAC40 flat, OAT 10Y up 4.7bps to 3.175%
- [Eurozone May flash CPI rises 0.2pp to 2.6% y/y](#) – EuroStoxx 50 flat, EUR up 0.15% to 1.0850
- [UK April mortgage approvals drop 11k to 61,140](#), consumer credit drops in half to GBP0.73bn – FTSE up 0.35%, GBP off 0.1% to 1.2720
- [Trump supporters call for riots and retribution](#) post his guilty verdict on 34 felony charges – US S&P500 futures off 0.1%, US 10Y yields up 0.6bps to 4.55%, US dollar index off 0.1% to 104.61

The Takeaways:

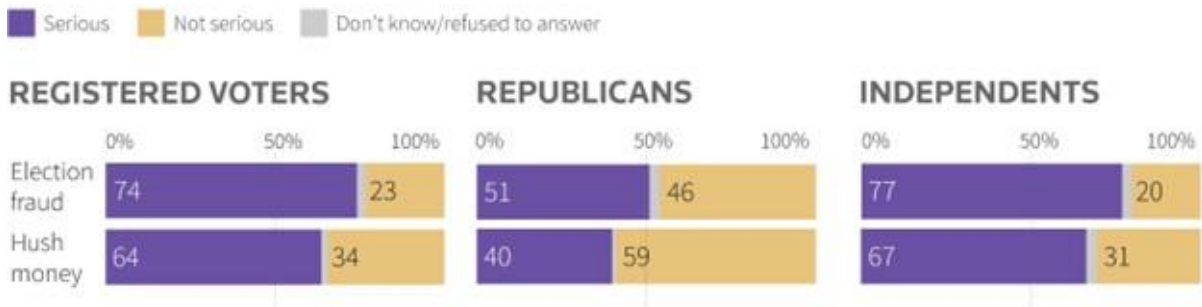
The May month end beckons but the core PCE prices could continue to add to fears into June. Also, today we get sovereign rating reviews for Europe – Italy, France, Greece and Ireland – that matters in the context of sticky inflation and nascent recovery with too much debt. The South Africa election count continues – but ZAR is at 5-week lows and seems unlikely to find relief, similarly MXN is waiting for the Sunday vote and mourns yet another murder of a mayoral candidate into the event. Violence into the election mars that democracy and adds to focus on role of cartels in the country let alone the US. Oil markets hold with the Sunday OPEC+ meeting with some talk of another production deal to cut back output into 2025. The biggest event ahead maybe wrapped into how investor's view politics with the polling on Trump now more important post his trial. The risk to markets will track any shift and how money is being raised and

spent by Biden and Trump teams as they push for November 5 victories. The entrenchment of voters into summer makes many worry that the finale for the election maybe known well before then.

Polling matters?

Most voters think the charges against Trump are serious

A firm majority of registered voters think the criminal charges against Donald Trump – both that he solicited election fraud and that he falsified business records to cover up hush money payments – are serious, a Reuters/Ipsos poll found.



Note: The nationwide poll, conducted April 4-8, collected responses online from 1,021 U.S. adults, including 833 registered voters. It had margins of error of 3.6 percentage points for registered voters, 5.6 points for independents and 5.9 points for Republicans.

Source: Reuters/Ipsos poll

Moira Warburton • Apr 11, 2024 | REUTERS

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Korea April industrial production recovers to +2.2% m/m, +6.1% y/y after -3% m/m, +1% y/y – better than 1.8% m/m expected – best annual gain since January. while retail sales slip -1.2% m/m after +1.1% m/m – weaker than the 0.5% m/m expected. The all-industry production rose 1.1% m/m, 3.1% y/y with manufacturing up 2.8% m/m, 6.5% y/y and services up 0.3% m/m, 2.0% y/y.

2. Japan April unemployment flat at 2.6% - as expected – holding at the highest jobless rate since last September. The number of unemployed was almost stable at

1.83 million while employment fell 90,000 to 67.51 million. The labor force dropped by 70,000 to 69.34 million, and those detached from the labor force were unchanged at 40.59 million. The non-seasonally adjusted labor force participation rate increased to a five-month top of 63.1% in April from 62.9% in the same month a year earlier. Meanwhile, the jobs-to-applications unexpectedly fell to 1.26 in April from the prior 1.28.

3. Japan May Tokyo core CPI rises to 1.9% y/y from 1.6% y/y – as expected. The ex-all food/energy rose to 2.2% y/y from 1.8% y/y – more than the 1.6% y/y expected - while the headline CPI rose to 2.2% y/y from 1.8% y/y – also more than the 2% y/y expected. Key private sector service inflation fell to 1.4% y/y from 1.6% y/y.

4. Japan April industrial production fell back -0.1% m/m, -1% y/y after +4.4% m/m, -6.2% y/y – weaker than the +0.9% m/m expected – sixth month of annual contraction and the third decrease so far this year, largely weighed by lower output from transport equipment (-1.1% vs 12.6% in March), general-purpose and business-oriented machinery (-3.2% vs 2.6%), and electrical machinery and information and communication electronics equipment (-2.4% vs 1.8%).

5. Japan April retail sales rose 1.2% m/m, +2.4% y/y after -1.2% m/m, +1.1% y/y – better than the 1.9% y/y expected. The 26th annual expansion and recovering from 2-year lows. Sales increased the most for machinery & equipment (9.2%), followed by non-store retail trade (6.3%), pharmaceuticals & cosmetics (6.0%), fuel (4.8%), other retail products (4.5%), department stores (2.1%), and food & beverage (1.7%). On the other hand, sales of automobiles fell (-7.9%), as did textile, clothing & personal goods (-1.0%).

6. China May NBS manufacturing PMI slips to 49.5 from 50.4 – weaker than 50.5 expected - the first contraction in factory activity since February, as both new orders (49.6 vs 51.1 in April) and foreign sales (48.3 vs 50.6) fell after growing in the prior two months. Also, employment stayed weak (48.1 vs 48.0) amid the first drop in three months for buying levels (49.3 vs 50.5). At the same time, output rose for the third successive month but its growth rate was the weakest in the sequence (50.8 vs 52.9). Meantime, delivery time shortened slightly (50.1 vs 50.4). On prices, input cost inflation accelerated to an eight-month high (56.9 vs 54.0) while output prices rose after falling in

the prior seven months (50.4 vs 49.1). Finally, sentiment remained upbeat despite softening to a three-month low (54.3 vs 55.2). The [service PMI slows to 51.1 from 51.2 - also lower than 51.5 expected](#) – still the 17th consecutive month of expansion in services activity but the softest pace since January, as new orders remained weak (46.9 vs 46.3 in April). At the same time, declines quickened for both foreign sales (47.6 vs 48.4) and employment (45.2 vs 47.2). Simultaneously, delivery time was unchanged (at 51.0). On prices, input cost fell after rising in April (49.7 vs 51.1). In the meantime, selling prices decreased for the eighth consecutive month, with the rate of drop the steepest in the sequence (47.8 vs 49.4). Lastly, sentiment remained upbeat but softened slightly (56.9 vs 57.2).

7. Turkey 1Q GDP rises 2.4% q/q, 5.7% y/y after 1% q/q, 4% y/y – as expected. The industrial sector saw notable growth, surging by 4.9%, compared to 1.9% in Q4, driven by strong performance in construction (11.1% vs 10.8%) and manufacturing (4.7% vs 1.8%). The services sector grew by 4.3%, up from 3% in Q4, with significant contributions from information & communication (5.5% vs -3%); professional, administrative & support services (5% vs -1.5%), public administration (3.3% vs 1.9%) and real estate (2.5% vs 2.8%). Also, agricultural activity gained momentum, increasing by 4.6% after a modest 0.5% growth in Q4. On the expenditure side, household consumption rose by 7.3%, government spending increased by 3.9% and gross fixed capital formation surged by 10.3%. Meanwhile, exports increased by 4% while imports declined by 3.1%

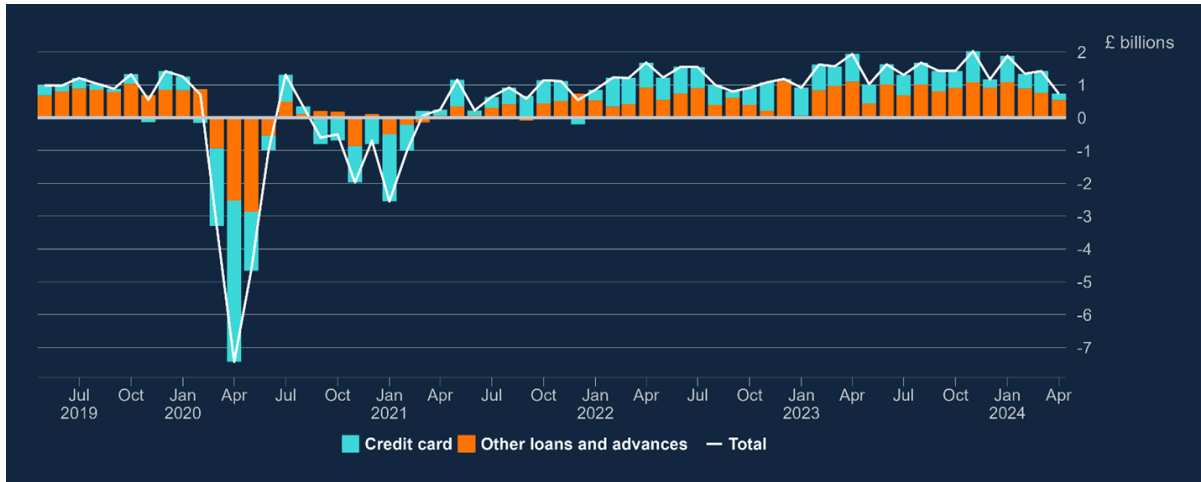
8. French 1Q final GDP unrevised up 0.2% q/q, 1.1% y/y after 0.1% q/q, 0.8% y/y – as expected – best in 3 quarters. The upturn was supported by the further increase in government spending (0.6% vs 0.4% in Q4), and the positive contribution from net trade, as exports rose 1.2% (vs 1%) and imports grew at a slower 0.4% (vs -1.7%). Meanwhile, growth moderated for household consumption (0.1% vs 0.2%), weighed by a fall in spending on transport equipment (-3.4%), while fixed investments continued to decline (-0.4% vs -1.0%), driven by declines in construction (-1.3%) and capital goods (-1.7%). Also, the contribution of inventory changes to the GDP growth was again negative during the quarter (-0.2 points vs -0.7 points).

9. German April retail sales drop -1.2% m/m, -0.6% y/y after +2.6% m/m, -1.9% y/y – weaker than -0.1% m/m expected. The food retail sector saw a significant decrease of 3.7% in sales, while non-food sales saw a slight uptick of 0.2%. **Import prices -1.7% y/y** after -3.6% y/y while export prices were -0.2% y/y after -1% y/y.

10. Eurozone May flash CPI rises 0.2% m/m, 2.6% y/y after 2.4% y/y – more than 2.5% y/y expected. The core CPI rose 2.9% y/y from 2.7% y/y – also worse than 2.8% y/y expected. Prices rebounded for energy (0.3% vs -0.6%) and rose faster for services (4.1% vs 3.7%) but slowed for food, alcohol and tobacco (2.6% vs 2.8%) and non-energy industrial goods (0.8% vs 0.9%). The core rate which excludes prices for energy, food, alcohol and tobacco also increased to 2.9% from 2.7%, higher than expectations of 2.8%. Among the major economies, inflation accelerated more than anticipated in Germany (2.8%), France (2.7%), Spain (3.8%) and Italy (0.8%).

11. UK April mortgage approvals slow to 61,114 after 61,260 – weaker than 61,500 expected. March revised down but still was best since Sep 2022. Approvals for remortgaging decreased to 29.9 thousand from 33.5 thousand. The ‘effective’ interest rate, which is the actual interest paid, on newly drawn mortgages increased slightly by 1 basis point, to 4.74%. The rate on the outstanding stock of mortgages increased by 7 basis points, to 3.57%. Consumer credit slows to GBP 0.73bn after 1.422bn – less than the 1.5bn expected - driven by lower net borrowing through credit cards, which fell from £0.7 billion to £0.2 billion in April, and lower net borrowing through other forms of consumer credit (such as car dealership finance and personal loans), which fell from £0.8 billion to £0.5 billion over the same period.

Credit and Consumer in UK mean BOE easing in summer?



Source: UK ONS, BNY Mellon

Disclaimer & Disclosures

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



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