



iFlow

MARKET MOVERS

May 30, 2024

Fresh Squeezed

“When you squeeze an orange, orange juice comes out - because that’s what’s inside. When you are squeezed, what comes out is what is inside.” - Wayne W. Dyer
“If you try to squeeze joy out of people, only pain will come.” – Sadhguru

Summary

Risk mixed as Eurozone equities recover bid after APAC suffers on US rate worries. The ECB is expected to ease in June and more to the end of the year, just less than hoped in January. The Spanish CPI was higher but not out of line, like Germany. The South African election early results point to a coalition government - which one matters - so risk there is off. Capex spending in Australia better, while Japan searches for ways to bring money home, and China Xi goes hunting for peace in Gaza. The focus of the week has been on rates and the US supply wasn’t easy to absorb - leaving today’s economic data more important with jobless claims, GDP revisions and pending home sales all important. More Fed speakers also matter. What started out as an easy week has been complicated by the squeeze of rates dripping on value.

What's different today:

- **Japan 30Y JGB yields spread to 30Y swaps widens to 42bps** - most since Nov 2012. The trend wider [suggests speculation in BOJ ending QE](#) in June which has totaled Y6trn a month (\$38bn).
- **China CNY fell to 6-month lows** as PBOC cuts daily fix rate - [weakness blamed on US rate spread and capital outflows](#).
- **iFlow showing ongoing neutral bias for risk**, high value and rising carry factors, with USD buying in G10 ongoing but CHF, GBP and NOK vs. NZD, CAD selling notable. The EM flows continue to sell MXN and CNY vs. ongoing PLN and ZAR. Equity selling in US notable along with China.

What are we watching:

- **US second estimate of Q1 GDP** expected up 1.3% q/q with preliminary Q1 corporate profits and core PCE index expected 3.7% y/y
- **US weekly jobless claims** expected up 2k to 217k with continuing claims expected 1.796mn.
- **US April international trade balance** expected \$92.3bn
- **US April pending home sales** expected 1% m/m after +3.4% m/m
- **Central Bank Speakers:** Dallas Federal Reserve President Lorie Logan and New York Fed chief John Williams speak; Bank of England Governor Andrew Bailey speaks; European Central Bank policymaker and Irish Central Bank chief Gabriel Makhlouf speaks; Reserve Bank of New Zealand governor Adrian Orr speaks

Headlines

- [South African election early results suggest ANC will lose majority](#) with 43%, DA with 26%, EFF at 9% and MK at 8% - coalition government expected - JTOTI off 2%, ZAR off 1% at 18.62
- [China Xi pushes peace conference for hot spot issues](#) in Arab states – CSI 300 off 0.53%, CNH up 0.3% to 7.2530

- [Australian 1Q Capex up 1% q/q](#)- best since 2Q 2023 - led by equipment, slowed by construction - while [building permits drop 0.3% m/m in April](#) - 3rd decline of year – ASX off 0.49%, AUD up 0.2% to .6620
- [Japan government pushing more structural reforms](#) to balance C/A, bring capital home – Nikkei off 1.3%, JGB 10Y off 2bps to 1.055%, JPY up 0.4% to 156.80
- [Turkey April trade deficit up \\$2.4bn to -\\$9.9bn](#) - most since July 2023 – TRY off 0.25% to 32.27
- [Spain May flash CPI up 0.3pp to 3.6% y/y, HICP up 0.4pp to 3.8%](#) - linked to electricity – IBEX up 1.2%, SPGB 10Y off 2.5bps to 3.075%
- [Eurozone May economic sentiment rises 0.4 to 96](#) – EuroStoxx 50 flat, EUR up 0.15% to 1.0820
- [US weekly API crude oil inventories report -6.49mb draw](#) when -2mb expected - while gasoline inventories fell -0.452mb leaving them 2% below 5Y average while distillate inventories rose 2.045mb still 7% below average. [Saudi Armco considers \\$10bn secondary share offering](#) – Oil up 0.15% to \$79.35

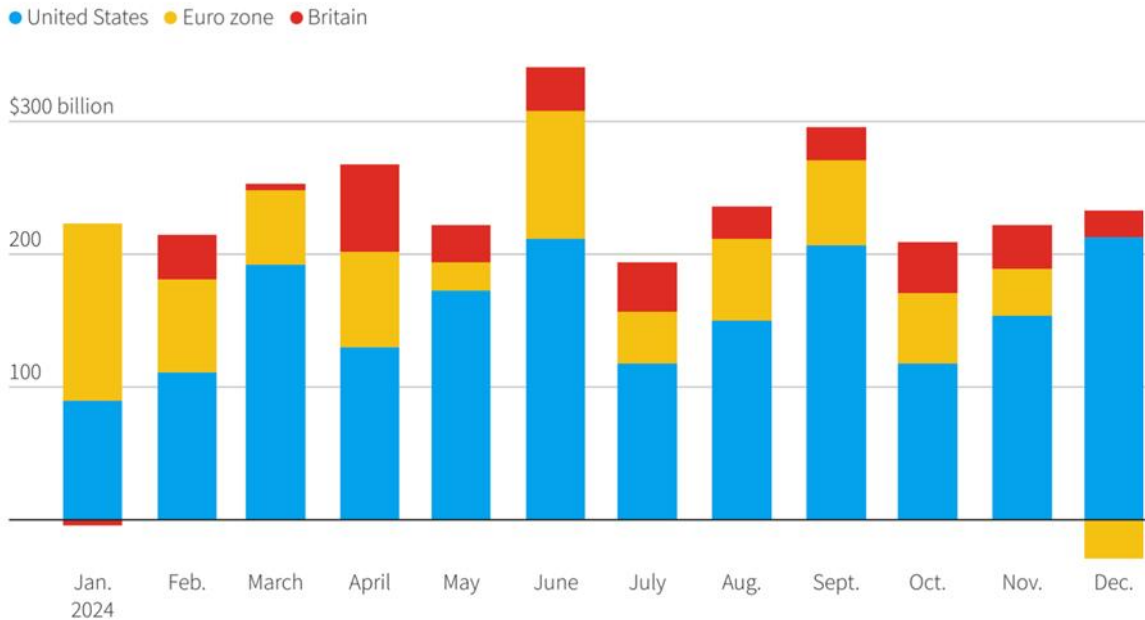
The Takeaways:

The day ahead is about squeezes. Positions into month end and the fear of missing out with Orange Juice printing new highs as the example. The complications of weather and the globalization of food leaves rain in Brazil critical to breakfast in London. There are other examples of how supply chains matter and those are about money and printing of it. New government bond supply net of redemptions and central bank purchases is due to rise to \$340 billion in June for the United States, Eurozone and the UK. The European debt world is also keeping tabs on credit rating updates for Italy, France, Greece and Ireland due tomorrow. There is no easy way of avoiding how interconnected markets remain with fear balancing against carry and value and hoping for some stability post today's onslaught of US data with GDP, jobless claims, trade and home sales.

Bond supply isn't going away in June

Net government bond issuance is set to peak in June

Government bond supply from key issuers, net of redemptions and central bank purchases



Notes: Euro zone and British issuance adjusted from euros and sterling into dollars

Source: BNP Paribas | Reuters, May 29, 2024 | By Harry Robertson

Reuters Graphics

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Australian 1Q private capital expenditures rise 1% q/q, +5.5% y/y after 0.9% q/q, 8.1% y/y - better than 0.5% q/q expected - the strongest growth in new capital expenditure since the second quarter of 2023 due to a faster rise in spending on equipment, plant & machinery (3.3% vs 0.4% in Q4). Meanwhile, expenditure on buildings and structures investment fell (-0.9% vs 1.3%). Business investment grew in the non-mining industries, rising 3.3%, partly offset by a 4.7% fall in mining capex.

2. Australia April private house approvals drop -1.6% m/m after +4% m/m - weaker than -1% m/m expected. Total building permits fell -0.3% m/m after +2.7% m/m - weaker than +1.5% m/m expected - the third decline so far this year, with permits falling for both

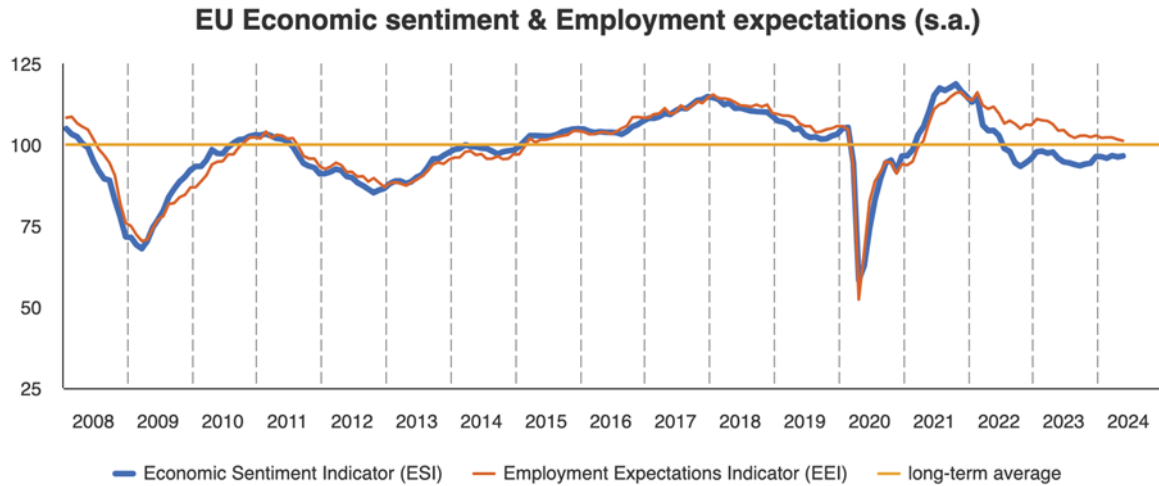
private sector houses (-1.6% vs 4.0% in March) and private sector dwellings excluding houses (-1.1% vs 5.7%). Among states and territories, dwellings approved shrank in Tasmania (-16.1%), New South Wales (-4.5%) and Western Australia (-0.9%) but rose in South Australia (13.9%) and Queensland (5.0%). Meanwhile, building permits in Victoria were flat.

3. Spanish May flash CPI rises 0.3% m/m, 3.6% y/y after 0.7% m/m, 3.3% y/y - as expected - linked to electricity. Spain's government reinstated the VAT on electricity to 21% this year. Additionally, fuel prices have decreased less than they did during the same period last year. The core rate, excluding volatile items like food and energy, rose to 3% from the previous month's 2.9%, which was the lowest since January 2022. Spain's European Union-harmonised 12-month inflation was 3.8% in May, the highest since April 2023, compared with market estimates of 3.7%.

4. Turkey April trade deficit rises to \$9.9bn after \$7.5bn - as expected - largest since July 2023. Year-on-year, imports grew 4% to USD 29.1 billion, primarily attributed to higher purchases of capital goods (3.2%) and consumption goods (34%). However, purchases declined for intermediate goods (-1.1%). Primary import partners were China (12.9%), followed by Russia (11.4%) and Germany (7.7%). Meanwhile, exports increased at a softer 0.1% to USD 19.3 billion, boosted by higher sales of agriculture, forestry & fishing (4.9%), and mining & quarrying (11.1%). However, sales decreased for manufacturing (-0.2%). Among main destinations, Germany was the largest export market (7.7%), followed by the USA (6.2%) and the UK (6.1%).

5. Eurozone May economic sentiment rises to 96 from 95.6 - less than 96.2 expected. The sentiment improved among service providers (6.5 vs 6.1) as their assessments of past and expected demand improved, while their assessment of the past business situation was unchanged. Morale also improved a bit for industrials (-9.9 vs -10.4), due to better assessments of the current level of overall order books while production expectations deteriorated significantly. Meanwhile, consumers were less pessimistic (-14.3 vs -14.7) while confidence among retailers was stable (-6.8) and worsened a bit for constructors (-6 vs -5.6). On the price front, selling price expectations increased in industry and construction and among consumer, while they declined in services and remained broadly stable in retail trade.

EU Confidence rising but not blooming



source: European Commission services

Source: EuroStat, BNY Mellon

Disclaimer & Disclosures

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



Bob Savage

HEAD OF MARKETS STRATEGY
AND INSIGHTS

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