

June 24, 2024

Deterioration

“If a man could be crossed with the cat, it would improve the man, but deteriorate the cat.” – Mark Twain

“He who rejects change is the architect of decay. The only human institution which rejects progress is the cemetery.” – Harold Wilson

Summary

Risk on as investors rethink the risks of the French election, with weaker German Ifo helping the rate side and tariff talks with China sparking auto shares to rally. The ongoing doubts about China recovery and the stronger USD in APAC led by JPY flirting with 160 again also notable with the usual intervention warnings following. The US dollar exceptionalism pauses and that helps risk overall with focus on US politics, the core PCE and Fed speakers. However, in EM stocks are lower and the EGP and ZAR both weaker. The lack of bigger news leaves markets slowly deteriorating from soft-landing to a bumpier ride for global growth with copper down, gold and oil up, the momentum trading from last week with positions unwinding and rotation trades for month end in play.

What's different today:

- **CNH rose to 7.2946** – most since November 14 – PBOC fixed CNY at 7.1201 up just 5pips from Friday, but also the weakest since November. CNY is off 2% on the year. China 10Y bonds fell 1bps to 2.24% while the Shanghai Composite stock index fell 1.17% to 4-month lows.

- **Swiss 10-year bond yields drop to 0.55%** - lowest since August 2022 – tracking the SNB rate cut and the weaker data in Europe overall. For the month, yields in 10-year are off 28bps.
- **iFlow showing carry factor again negative, trend rising further** – making EM a focus. Mood remains neutral and our equity flows were mostly negative in G10 and only positive in Poland, Israel, Korea and Mexico. FX was notable in the lack of big flows except CHF buying and IDR selling Friday. While in bonds the buying of Canada, EU and UK stood out while only Mexico and Indonesia in EM were significantly positive.

What are we watching:

- **Fed Speakers:** Fed Governor Waller give opening remarks, Chicago Fed Goolsbee on CNBC, San Francisco Fed Daly speaks on economic policy.
- **US Treasury** sells \$70bn in 3M and \$70bn in 6M bills

Headlines

- **BOJ June summary of opinions:** Open discussion of another rate hike, decides to cut JGB buying – Nikkei up 0.54%, JPY off 0.5% to 159.20
- **Singapore May CPI** up 0.4pp to 3.1% - highest since Dec 2023 – SGD up 0.15% to 1.3530
- **Taiwan May industrial production** jump 6.17% m/m, 16.06% y/y – most since July 2021 – Taiex off 1.9%, TWD flat at 32.401
- **German June Ifo** slips 0.7 to 89.3 – led by weaker expectations, while current conditions flat – DAX up 0.6%, Bund 10Y up 1.5bps to 2.418%
- **ECB Schnabel** – potential shocks mean central bank can't pre-commit to rate cuts – EuroStoxx 50 up 0.7%, EUR up 0.2% to 1.0720
- **UK June CBI industrial trends orders** up 15 to -18 – best in 3-months and outlook best since Oct 2023 – FTSE up 0.4%, GBP up 0.2% to 1.2670

The Takeaways:

The fear of month-end beckons as the 10% pullback of Nvidia last week spurs rotation and profit-taking pressures in equities, as the French election surprise turns to value-hunting and as activity slows from last week's flash PMI reports to today's German Ifo – all suggest the easing path for monetary policy is assured. The

problem remains the FOMC and in Asia, the USD gains stand out with CNY and JPY suffering. Intervention talk dominates and the long wait for the July 31 BOJ decision makes it hard to believe in an easy fix as today's June summary of opinions highlights. The wait is on for more data and that won't be on the docket for the US today, as the key reports come Thursday and Friday, making today one for a steady deterioration in mood as the bounces back up in Europe on ECB cutting hopes aren't matched in the US. The risk/reward of trading in the last week of any month is hard, and its harder still because of the political noise whether you consider the Iranian election, the US Presidential Debate or the French vote June 30th. The economic surprise index globally is now at new lows for the year and has fully unwound the 1Q hope for a better 2024 in terms of growth. This puts the burden of proof on corporate profits and consumer spending to lead – something that comes after the July 4th holidays.

Does the US react to global economic surprises turning negative?



Details of Economic Releases:

1. Singapore May CPI rises 0.7% m/m, 3.1% y/y after 0.1% m/m, 2.7% y/y – more than the 3.0% y/y expected. The core was steady at 3.1% y/y. Main upward pressure came from food (2.8% vs 2.8% in April); housing & utilities (3.8% vs 4.0%), largely linked to accommodation; transport (2.9% vs 0.9%), mainly due to private transport; recreation & culture (5.0% vs 4.5%), driven by holiday expenses and recreational & cultural services; education (3.3% vs 3.3%), largely on tuition & other

fees; healthcare (4.8% vs 4.8%), led by outpatient services; communication (0.4% vs 0.9%); and miscellaneous goods & services (1.6% vs 2.0%), supported by personal care. Simultaneously, clothing prices continued to fall (-0.6% vs -0.7%).

2. Taiwan industrial production rose 6.17% m/m, 16.06% y/y after 14.48% y/y – more than the 15.8% y/y expected - the sharpest growth in industrial activity since July 2021, as output rose further for manufacturing (16.70% vs 14.79% in April), and production rebounded for water supply (1.43% vs -3.11%). At the same time, activity fell at a softer pace for mining & quarrying (-1.52% vs -7.35%), while output growth eased for electricity & gas supply (3.95% vs 10.50%). The unemployment rate was steady at 3.35% down from 3.39% - better than 3.4% expected – as unemployed fell 4,000 to 402,000, while employed rose 11,000 to 11.597mn. Labor force participation rose to 59.27% from 59.25%. Retail sales rose 3.5% m/m, 2.4% y/y after 1.6% y/y – better than -1% y/y expected – best growth since February, as sales increased faster for motor vehicles, motorcycles & related parts & accessories (7% vs 2% in April) and household appliances & goods in specialized stores (1.6% vs 1.58%). Moreover, sales rebounded for textiles & clothing in specialized stores (4.7% vs -2.6%) and other retail in specialized stores (6.8% vs -0.6%). Meanwhile, sales tumbled for information & communications equipment & electrical household appliances (-1.6% vs 6.1%).

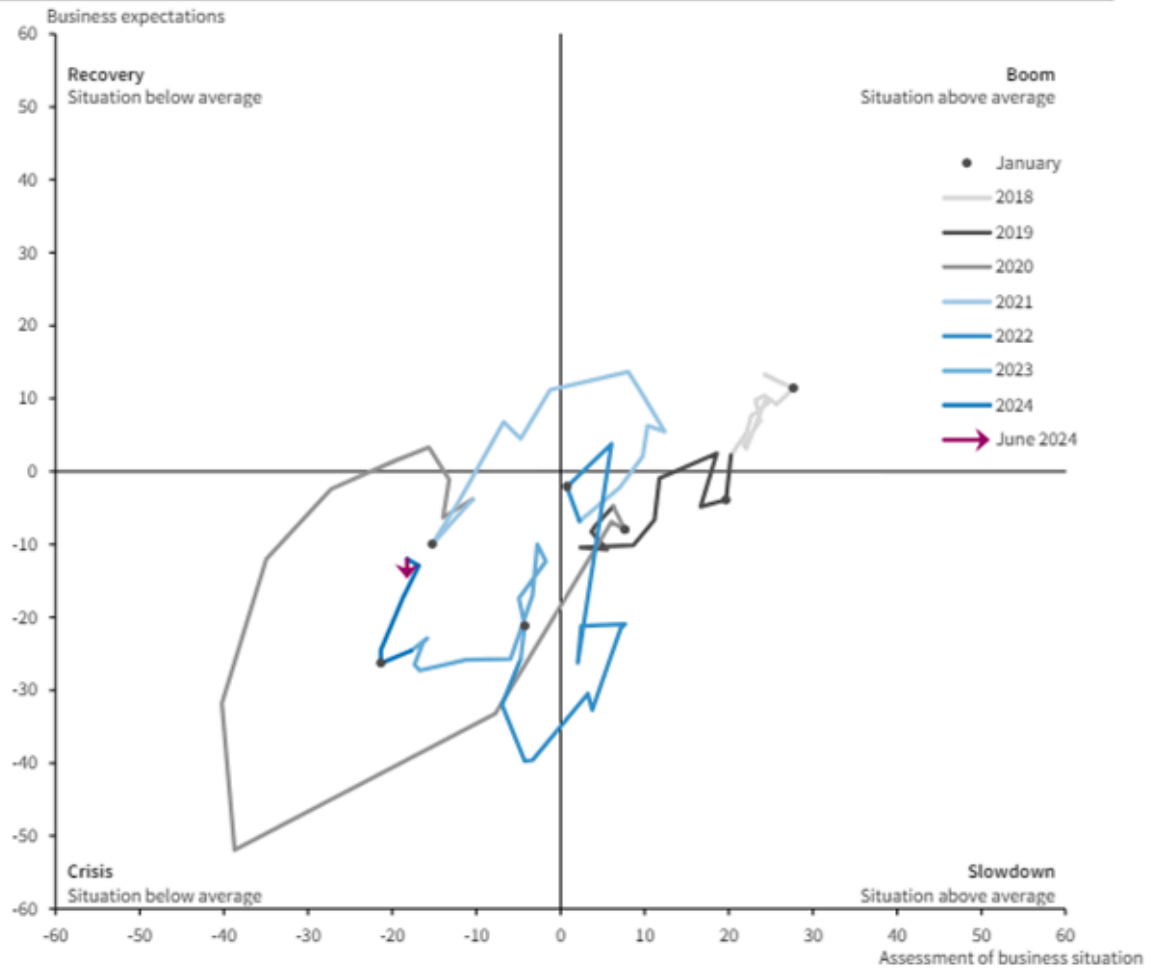
3. UK June CBI industrial trends orders drop -18 after -33 – better than -25 expected and best in 3-months. Also, expectations for output rose to their highest level since October. On the other hand, export orders fell to their lowest since February 2021. "It's encouraging to see that manufacturers remain confident the economy is heading in the right direction and our June survey suggests that the recovery should broaden out over the summer," said Ben Jones, CBI lead economist. "One note of caution is that order books remain soft. The sharp deterioration in export order books is particularly striking and is something to keep an eye on in the coming months."

4. German June Ifo business climate slips to 88.6 from 89.3 – weaker than 89.7 expected. The current conditions flat at 88.3 – weaker than 88.5 expected – while the outlook fell to 89 from 90.4 – weaker than 91 expected. The readings showed sentiment has deteriorated at companies and the German economy is having difficulty overcoming stagnation. In manufacturing, the business climate declined after three rises in a row- Business sentiment also deteriorated in trade while service providers assessed their situation more positively and constructors showed less pessimistic expectations.

Is Germany in a crisis?

ifo Business Cycle Clock Germany*

Balances adjusted for mean value, seasonally adjusted



* Manufacturing, service sector, trade, and construction.

Source: ifo Business Survey, June 2024.

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Source: Ifo Institute, BNY Mellon

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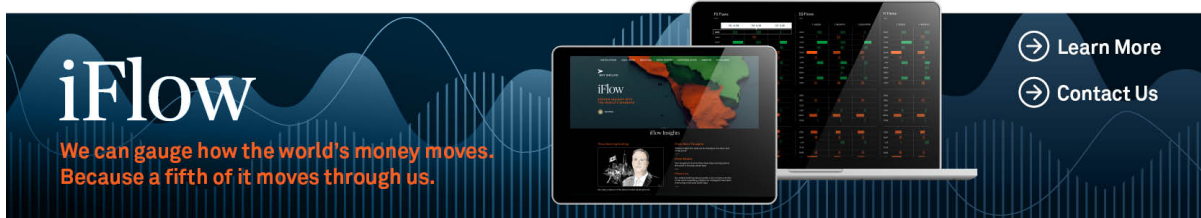


Bob Savage
HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB



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