

June 25, 2024

Dependency

“True happiness is to enjoy the present, without anxious dependence upon the future.” – Seneca

“The ship of heaven guides itself and will not accept a wooden rudder.” – Ralph Waldo Emerson

Summary

Risk mixed with China warnings on decoupling from West, with health care and industrials lagging in Europe and with the US focus still on Nvidia off nearly 20% since last week but still up 140% on the year. Lighter overnight data with consumer confidence leading in Korea and Australia while in Japan saw lower PPI services but more BOJ hiking fears thanks to JPY. In Europe, only a revised Spanish GDP reported while the US braces for a data dump on house prices, regional Fed surveys, more Fed speakers, more note and bill supply and Canada CPI which will set up for the divergence or dependency trade of CAD. While many see the week back loaded for Friday, today may set the tone for grinding rate focus and how the USD handles risk shifts as correlations fray.

What's different today:

- **Japan sold Y755.7bn of 20Y bonds at 1.849% with 3.27 cover** down from 3.65 but with tail 0.07bps down from 0.11 suggesting steady demand, 10Y bonds fell 0.7bps to 0.984% with BOJ rate hike risk linked to weak JPY concerns.

- **US stock to stock correlation trades near 20-year lows.** The near 20% drop in Nvidia has only had minor effect on the S&P500 index. It's been 380 days since the S&P500 had a 2% one-day decline.
- **iFlow** – Carry still negative, Trend still positive, Mood and Value neutral – with equity regional flows up in EM and down in DM – while FX G10 sees ongoing CHF buying but little selling, while in EM – INR and PEN selling notable. The fixed income flows were mixed with Japan selling, EU and UK buying while in EM South Africa and Korea outflows against China, India, Mexico inflows.

What are we watching:

- **Canada May CPI** expected up 0.3% m/m, 2.6% y/y after 2.7% y/y with core 0.2% m/m, 1.6% y/y – key for BOC policy easing path.
- **US May Chicago Fed National Activity Index** expected -0.25 after -0.23 – important as a growth guide to slowdown
- **US April FHFA home price index** expected up 0.3% m/m after 0.1% m/m, while 20-City Case-Shiller expected up 0.3% m/m after 0.33% m/m – with the y/y up 7.0% y/y.
- **US June conference board consumer confidence** expected 100 from 102 – key focus on jobs, inflation outlooks.
- **US June Richmond Fed manufacturing index** expected -3 from 0 – with focus on jobs, prices.
- **US Treasury** sells \$60bn in 42-day bills, \$69bn in 2Y notes – focus will be on demand
- **Fed Speakers:** Governors Bowman speech in London on monetary policy and Cook at NY economic club

Headlines

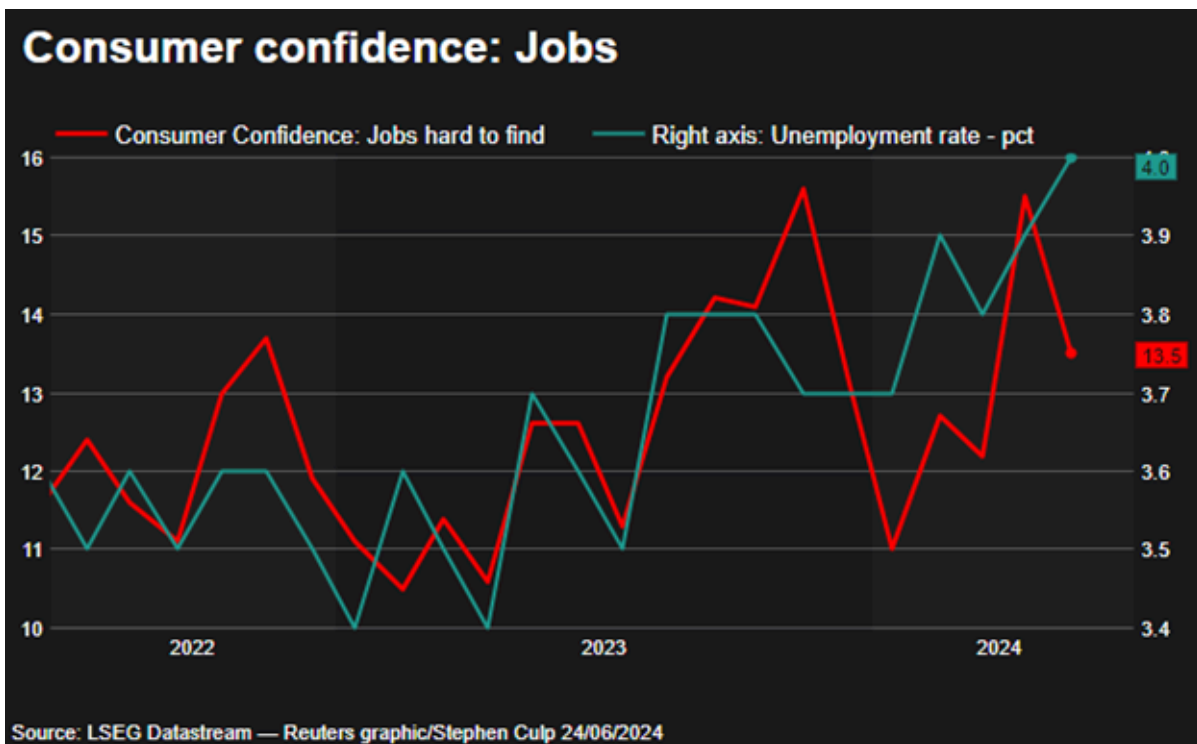
- China Premier Li warns decoupling will lead to “destructive spiral”; Chang’e-6 returns with Moon rock samples; PBOC injects net CNY214bn, the 5th day of liquidity add – CSI 300 off 0.54%, CNH flat at 7.2860
- Japan April LEI drops 0.8 to 110.9 – worst since January – while Services PPI fell 0.1% m/m, +2.4% y/y rebased to 2020 with hotel prices lower; Government plans new household electricity supplement Y1400/mth – Nikkei up 0.95%, JPY off 0.15% to 159.40

- Korea June consumer confidence up 2.5 to 100.9 – best since March – KOSPI up 0.35%, KRW up 0.15% to 1387.30
- Australian June Westpac-MI consumer confidence up 1.7% to 83.6 – best in 4-months but still far below long-term average- ASX up 1.36%, AUD flat at .6655
- Spain 1Q final GDP revised to 0.8% q/q, 2.5% y/y – best since 2Q 2022 – IBEX off 0.6%, SPGB off 2.7bps to 3.245%, EUR off 0.1% to 1.0720

The Takeaways:

The data dependency of central bankers brings volatility and today will be a test of this causality. There is plenty of worry about politics and the fiscal policy risks ahead for all markets. There is also the ongoing schism of two wars and the fractured global order hitting goods and services bringing cold-war fears and higher inflation worries. However, today maybe more about how the data either confirms or refutes the economic surprise trends that we have seen in the US in June from mostly May data. First, we get regional June Fed surveys which help set the tone for ISM and broad GDP input. Second, we get the home price indices which highlight the role of rates on that market. Third, we get the consumer confidence report from the conference board. Inside that report you have the labor market mood and that is the data that may surprise and matter today as jobs hard to get will change how consumers act and may be key to the slowdown story continuing regardless of available credit or corporate earnings. Markets have a funny way of breaking dependency from one narrative to another – with Fed rate cuts being the dominant one for most of the last year. How these shift and what it means for the USD, stocks and bonds is the focus of the day as the concentration risk of one tech/AI company becomes less important, so too will other factors.

Does the job market drive consumer moods?



Details of Economic Releases:

1. Korea June consumer confidence rises to 100.9 from 98.4 – better than 99 expected – best since March. Sentiment regarding current living standards increased by two points to 90, while future outlook improved by the same margin to 94. Expectations for future household income also rose by two points to 99, while sentiment regarding future household spending remained unchanged at 109. Consumer sentiment towards current domestic economic conditions increased by four points to 71, and optimism about future domestic economic conditions rose by one point to 80. The expected inflation rate for the upcoming year ticked lower 3.0% from 3.2% in the preceding month.

2. Australian June Westpac-MI consumer confidence rises 1.7% to 83.6 from -0.3% or 82.2 – better than the 82 expected - the first rise in four months and the highest print since February, the latest result remained far from the neutral level of 100 as fiscal support measures were insufficient to ease concerns about high inflation and elevated interest rates. The ‘family finances vs a year ago’ sub-index jumped 9.7% but was very weak at 69.3, and family finances for the next 12 months rose 0.4% to 96.5. Also, consumers' views on economic conditions for next 5 years added 2.1% to 94.1 but their assessment for next 12 months fell 5.7% to 78.5. The ‘time to buy a major item’ climbed 4.2% but stayed low at 79.7. Meanwhile, unemployment expectations rose 2.5% to their highest since September 2020 of

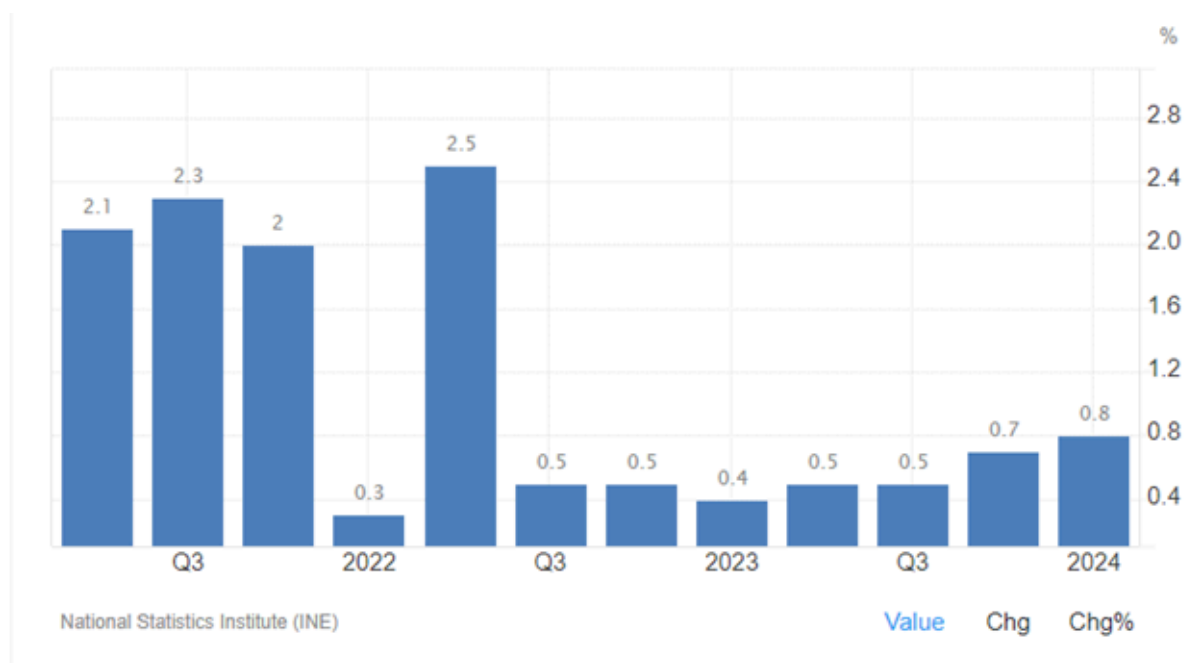
133.1. "We expect Q2 inflation to confirm that weak demand is still exerting disinflation pressure," said senior economist Matthew Hassan.

3. Japan April final LEI drops to 110.9 from 111.7 – weaker than 111.6 flash - the lowest reading since January, as consumer sentiment in April weakened to a three-month low while the unemployment rate stood at 2.6%, keeping the highest jobless rate since last September. On the other hand, the service sector growth eased slightly while factory activity increased to the first expansion since May 2023.

4. Spain 1Q final GDP revised higher to 0.8% q/q, 2.5% y/y after 2.1% y/y – more than 2.4% y/y preliminary - the strongest growth rate since Q2 2022.

Household final consumption rose by 0.4%, while public administration spending decreased by 0.6%. Gross fixed capital formation increased by 2.6%, as investment in machinery and equipment and in real estate rebounded despite the headwinds from higher interest rates. Meanwhile, exports of goods and services grew by 3.3%, and imports by 2.2%. On the supply side, all major sectors showed positive growth. Industrial branches grew by 1.5%, with the manufacturing industry increasing by 2.2% and construction rising by 1.8%. Services saw a slight increase to 0.3%. Primary activities rose by 3.1%, down from 5.3% in the prior quarter.

Is Spain at peak growth?



Source: Spain INE, BNY Mellon

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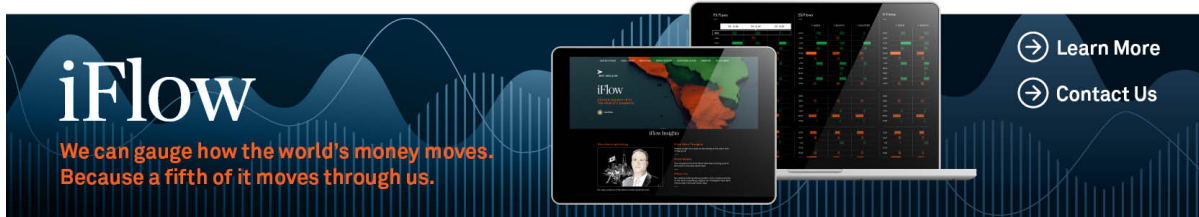


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