BNY

iFlow
MARKET MOVERS

June 26, 2024

Tacking

"I can't change the direction of the wind, but I can adjust my sails to always reach my destination." – Jimmy Dean
"There is nothing more enticing, disenchanting, and enslaving than the life at sea." – Joseph Conrad

Summary

Risk on as markets expect more from China on stimulus particularly Tech post Xi speech, more from ECB after weaker sentiment, more from governments as they search for stability between growth and inflation. The oddity of this equity uptick today is that rate hikes are back in the discussion. The USD bid and stocks up stands out today with JPY being the main focus as FX intervention risks are insufficient to make up for rate differentials. Rates are back in charge of all markets. Fed Bowman talked about rate hikes and started the story, CAD gained yesterday on higher than hoped CPI pushing back BOC easing plans, then the AUD gains on back of the CPI report suggesting the RBA is stuck higher for longer, if not back on a hiking tack. Policy, politics and rates are the drivers on the day and with the US session focus on new home sales, the Fed bank stress tests and the 5-year note sale it seems unlikely to change. Any worries about the world are put on hold as most are willing to wait it out until Friday and the post US Presidential debate, post core PCE report.

What's different today:

- **US dollar rises to 2-month highs** up 1.3% in June alone, last year up 3.4% - gaining on JPY trading at 1986 lows and EUR weakness returning. Also, notable CNH weakened to a fresh seven-month low and has now lost almost 3% since the start of the year.
- **Australian 10-year bonds rise 15bps** to after sharply higher May CPI report – closes up 11bps to 4.307%.
- **iFlow continues to show mood neutral, carry negative, trend positive** – with G10 FX showing CHF buying, INR, PEN and MYR selling in EM. The equity market showing Japan share buying, along with Poland, India, Korea. Fixed Income showing JGB selling, Korea bond selling, India bond buying

What are we watching:

- **US May new home sales** expected down -0.2% to 633,000 after 634,000 – matters on rates and growth.
- **Federal Reserve releases latest US bank stress tests –** focus will be on scenarios and implications for mid-tier banks.
- **US Treasury sells $70 billion of 5-year notes**, 2-year FRN.

Headlines

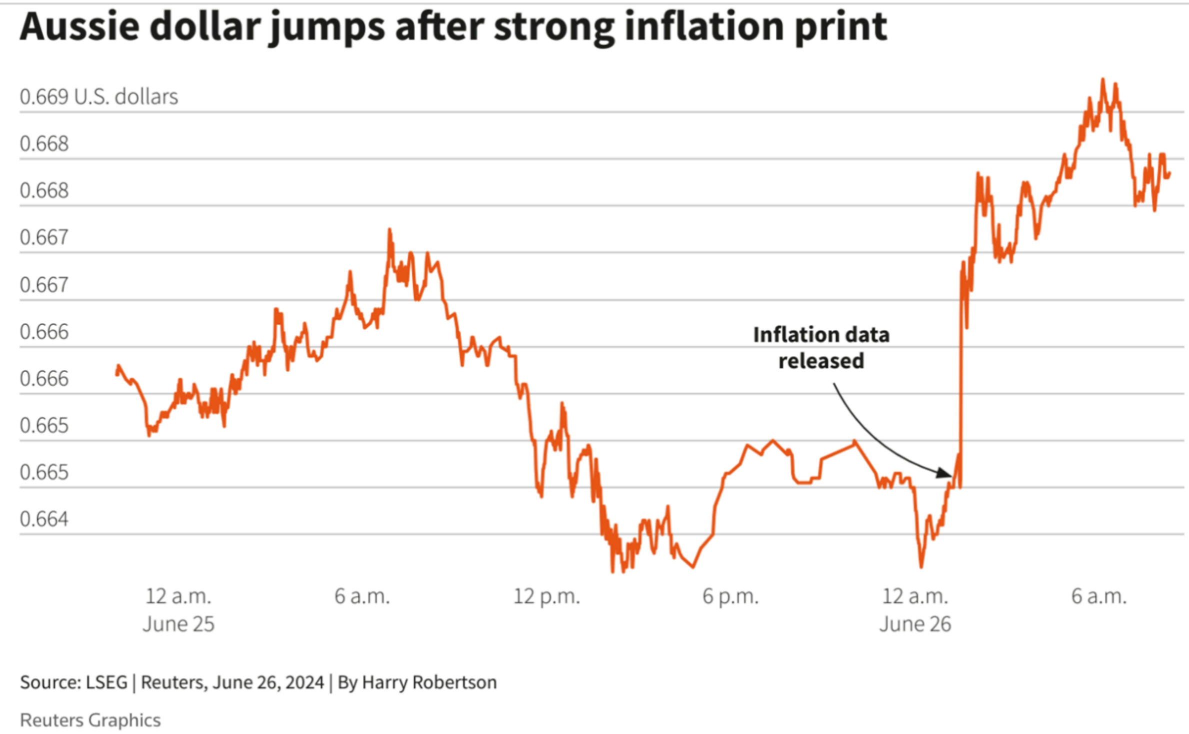
- Bloomberg: JPY intervention unlikely until core PCE report - Nikkei up 1.33%, JPY off 0.35% to 160.30
- Australia May CPI up 0.4pp to 4% y/y - most in 6 months, while Westpac MI LEI 6M annualized drops -0.24% suggesting weaker growth - ASX off 0.71%, AUD up 0.1% to .6655
- Singapore May industrial production rose 1.1% m/m, 2.9% y/y - led by electronics – SGD off 0.3% to 1.3580
- Sweden May PPI rises to 2.6% y/y - most since Mar 2023 - led by capital goods – OMX up 0.5%, SEK off 0.5% to 10.565
- French May unemployment claims jump 40,900 - most in 3 years - while consumer confidence for June off 1 to 89 – CAC 40 off 0.6%, OAT 10Y yields up 3bps to 3.19%
- German July GfK consumer confidence off 0.8 to -21.8 - first drop in 5-months with wages and growth worries – DAX up 0.1%, Bund 10Y up 3bps to 2.435%, EUR off 0.3% to 1.0680

- UK June CBI retail sales orders plunges -32 to -24% - FTSE flat, GBP off 0.35% to 1.2645
- US weekly API oil inventories report crude 0.914mb build when -3mb draw expected - while gasoline build 3.843mb, still 1% below average. SPR builds 1.3mb to 372.2mb - most since Dec 2022 – WTI up 0.7%

The Takeaways:

The other side of higher rate worries is growth and the effect of high for longer policy. The good news is good driver for equities won't work if yields are restrictive – making the present range in bonds important and so the schism of market correlations begins afresh. The historic narrative for investors has been to buy equities when the FOMC cuts rates and to buy bonds as well. The power of risk parity programs rests on the world's central banks fighting volatility and allowing their policy to become an implicit free insurance for risky assets. All that is at risk if central banks lose credibility and become pawns of politicians. The cost of such shows up most clearly in Emerging Markets – with Brazil the last example. The problem for US markets rests on how month end reweighting and rotation plays against the rate arguments made overnight. Running for safety rather than return has been something that doesn't sustain in 2024 as the lack of risk washouts in equities and the ongoing bond neutrality make clear that doing nothing is a dangerous decision. For the USD, the intervention risk from China and Japan are rising but so too are the pushback on the dollar being safe. The Australian CPI and rally overnight was a moment where other central banks other than the FOMC mattered. Tomorrow brings this to a head with Riksbank, Banxico, TCMB and others.

Does the AUD move suggest other central banks matter?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Australia May monthly CPI rose 4% y/y after 3.6% y/y - more than the 3.8% y/y expected - most since November 2023. with prices accelerating for both housing, notably electricity (6.5% vs 4.2% in April; and transport (4.9% vs 4.2%), namely automotive fuel (9.3% vs 7.4%). Additional upward pressure also came from food and alcoholic beverages (3.3% vs 3.8%), alcohol & tobacco (6.7% vs 6.5%), clothing & footwear (2.8% vs 2.4%), health (6.1% vs 6.1%), communications (0.7% vs 2.0%), and education (5.2% vs 5.2%), and recreation & culture (2.0% vs -1.3%). Core CPI moderated to 4.0% from 4.1% y/y.

2. Australia May Westpac-MI leading economic index 0% - unchanged from April - as expected - but the 6M annualized -0.24% from -0.05% y/y. The lapse back into negative came amid higher interest rates, lower commodity prices, and housing weakness. "Overall, the index points to growth tracking slightly below-trend over H2 of 2024 and into early 2025," said senior economist Matthew Hassan. He added that Westpac saw GDP growth lift from a very weak 0.8% annual pace over H1 this year to a firmer 2.2% pace over the next three quarters with fiscal measures providing much of the lift. On the monetary front, Westpac expects the Reserve Bank to again leave the official cash rate unchanged in its August meeting as the pace of disinflation is unclear.

3. **Singapore May industrial production rises 1.1% m/m, 2.9% y/y after 7.5% m/m, -1.2% y/y - better than the 2% y/y expected.** Output rebounded sharply for electronics (20.1% vs -1.1% in April), led by semiconductors (20.6% vs -2.6%). At the same time, production growth accelerated for chemicals (7.9% vs 3%), while slowed for transport engineering (7.8% vs 11.4%). On the other hand, declines were seen in the output for biomedical manufacturing (-42.6% vs -27.7%), precision engineering (-8.3% vs 3.8%), and general manufacturing industries (-4.4% vs 7.6%)

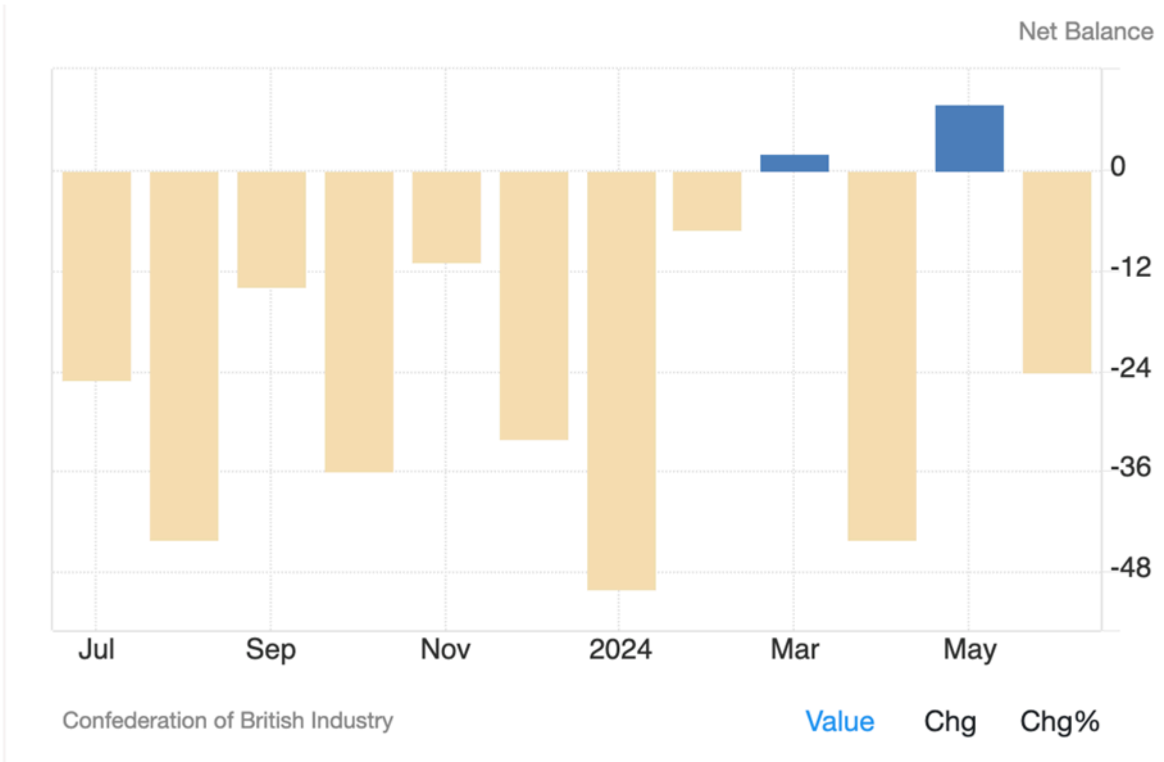
4. **French May unemployment claims rise 40,900 after -36,800 - worse than the -17,000 expected** - the sharpest monthly increase in unemployment in over three years, erasing the drop from the prior month that took joblessness to its lowest since September 2011, thus challenging the recent strength in the French job market. Among different age groups, unemployment rose by 23.5k to 1.646 million for core-aged individuals and 9.5k to 390.3k for those aged less than 25 years. In the meantime, unemployment for those aged over 50 rose by 7.9 thousand to 780.1 thousand. With the surge, unemployment in mainland France rose by 15.3k from the corresponding period of the previous year.

5. **French June consumer confidence drops to 89 from 90 - weaker than 90 expected.** The indicator remained below the long term-average of 100, as consumers were more pessimistic about the outlook on the standard of living (-50 vs -46 in May), and the share of households believing it is a favorable time to make major purchases declined(-33 vs -32). At the same time, inflation was seen higher (-47 vs -53), and views for future savings capacity decreased (7 vs 11). On the other hand, unemployment concerns were lessened (25 vs 27), and assessments for future financial situations were less negative (-13 vs -14).

6. **German GfK July consumer confidence drops -21.8 from -21.0 - weaker than -18.9 expected** - first decline in five months. Both income expectations (8.2 vs 12.5 in June) and economic prospects (2.5 vs 9.8) were notably lower after rising in the prior four months. In the meantime, the tendency to save surged (8.2 vs 5.0) while the propensity to buy remained at a low level (-13.0 vs -12.3). "The interruption of the recent upward trend in consumer sentiment shows that the path out of the consumer slump will be difficult and that setbacks can occur again," said Rolf Bürkl, consumer expert at NIM. He added that a slightly higher inflation rate in May caused more uncertainty among consumers. For a recovery in sentiment to happen, Bürkl mentioned that consumers need a continued slowdown in inflation, clear prospects from the upcoming government budget, and a sustained increase in real income.

7. UK June CBI retail sales balance drops to -24 from +8 - weaker than +1 expected. Retailers expect sales to fall at a slower rate next month (-9%). “Last month’s nascent recovery in sales proved to be short-lived, with retailers reporting a faster-than-anticipated decline this month. Unseasonably cold weather in June may have played a role, but it’s notable that internet retail sales fell sharply in our survey, too", said Alpesh Paleja, interim deputy chief economist at the CBI.

Is the UK growth in trouble?



Source: UK CBI, BNY Mellon

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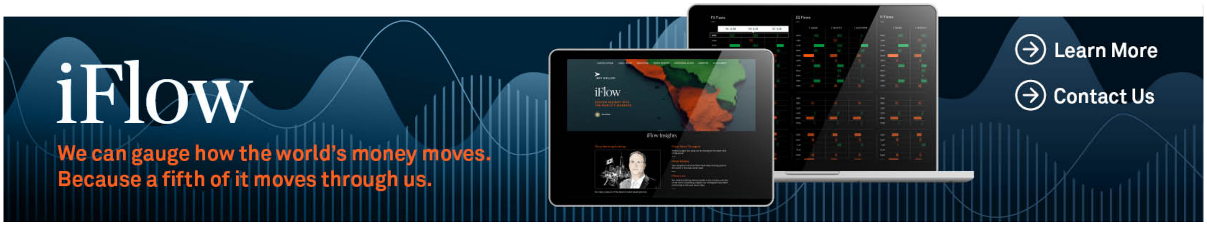

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