BNY

iFlow
MARKET MOVERS

June 27, 2024

Debates

"Freedom is hammered out on the anvil of discussion dissent, and debate." – Hubert H. Humphrey
"A man lives by believing something; not by debating and arguing about many things." – Thomas Carlyle

Summary

Risk off with China tech lower, industrial profits lower, with election worries in UK and France, with Sweden Riksbank talking about 2-3 more rate cuts but not acting, with Philippines thinking about easing, and with Turkey on hold at 50%. This sets up the debate tonight between US President Biden and Trump and leaves the last debate from Sunak and Starmer one for the history books. The US markets have their eyes on tech with rotation risks mixed with a full economic calendar from durable goods and final GDP to weekly jobless claims and pending home sales. The Fed bank stress test late yesterday helps with many watching for more buybacks and dividends to follow. The US also gets the IMF IV consultation on the economy which will anchor the worries about deficits and likely the USD exceptionalism.

What's different today:

- **Bolivia coup attempt fails** – President Arce protected by police – US watching events closely.
- **US Federal Reserve sees large banks pass stress test again** – Tier 1 capital ratio at 14.3% well over 6% required.

- **iFlow trend factors rising** again nearing significance while carry and vale still negative. Mood neutral even as equities see 4 sectors rising led by utilities and real estate. FX in G10 seing CHF and NZD buying against JPY and AUD selling, while EM saw CNY, IDR, COP and MXN inflows vs. INR, MYR, PEN and ILS selling. Bonds mixed with Japan, Sweden and Canada selling vs. India, China buying.

What are we watching:

- **US May durable goods orders** expected -0.1% m/m after +0.7% m/m - noisy report watched for Capex growth - with non-defense orders ex air key
- **US 1Q GDP final revision** expected 1.4% q/q after 3.4% q/q - no surprises expected here
- **US weekly jobless claims** expected steady at 236k after 238k with eye on conintuing claims expected 1.82mn off 8k
- **US May pending homes sales** expected up 2.5% m/m, 2.5% y/y after -7.7% m/m, -7.4% y/y - will need to tally with the weaker data on new homes and existing already out.
- **US Treasury sells $44bn in 7-year notes** – along with more bills – focus is on the demand still particularly after IMF releases IV report on US.
- **Mexico central bank rate decision** expected on hold at 11% - with focus on forecasts for CPI and growth.

Headlines

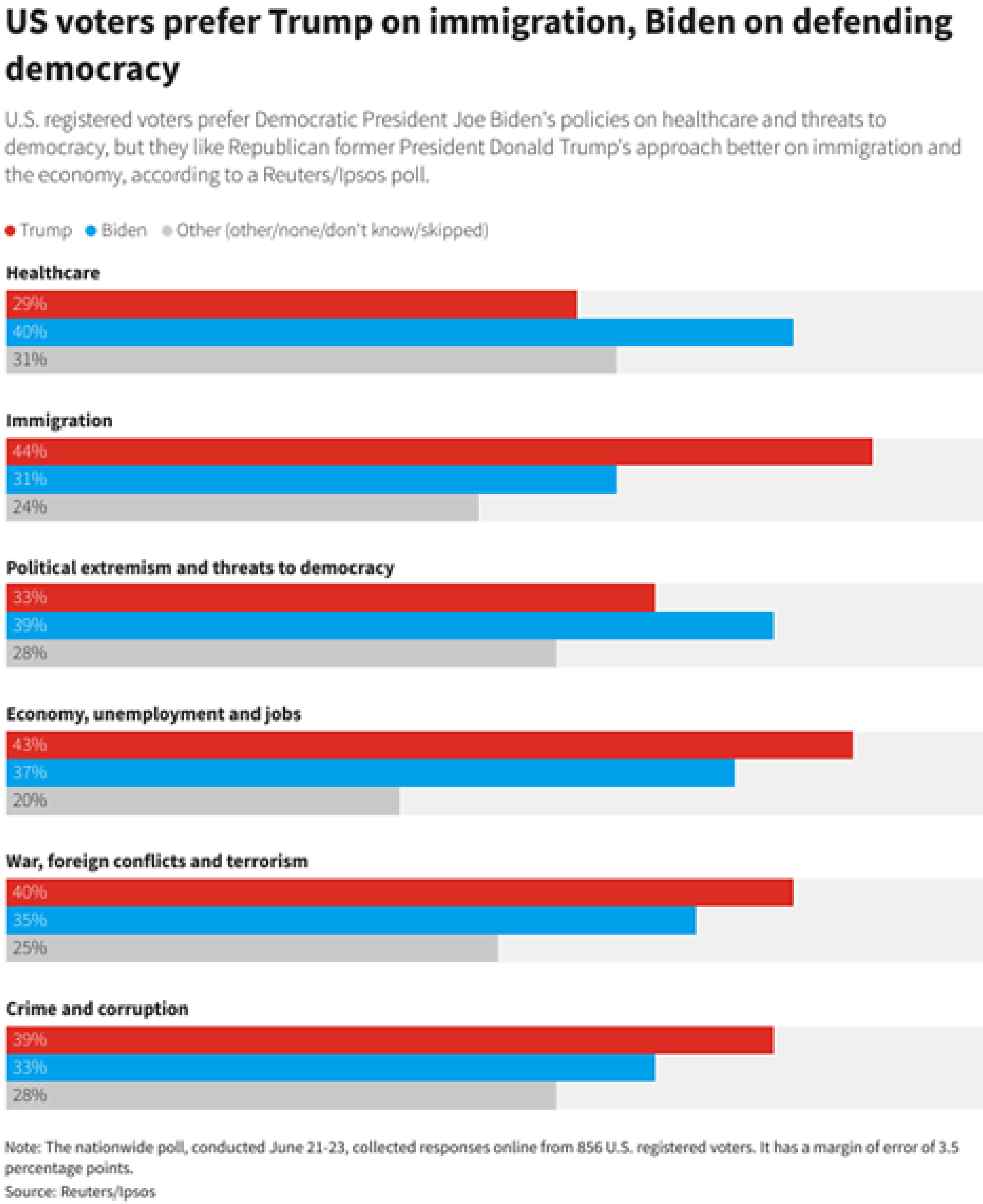
- Turkey TCMB holds rates at 50% - as expected – 3rd consecutive hold, focused on inflation – TRY off 0.1% to 32.86
- Philippines BSP keeps rates at 17-year high of 6.5% but hints at rate cuts while PHP near record lows – PHP up 0.2% to 58.75
- Sweden Riksbank keeps rates steady at 3.75%- as expected - sees 2-3 cuts for rest of year – OMX off 0.3%, SEK off 0.2% to 10.597
- Japan May retail sales rose 1.7% m/m, 3% y/y- 26th month of gains, linked to wages - while MOF Suzuki promises “appropriate action” on weaker JPY – Nikkei off 0.82%, JPY up 0.15% to 160.55
- China May industrial profits slow 0.9 pp to 3.4% y/y - with SOE -2.8% y/y – CSI 300 off 0.75%, CNH flat at 7.2990

- New Zealand June consumer confidence drops 1.9 to 83 - while business confidence drop 5.1 to 6.1 - lowest since Sep 2023 – NZD up 0.2% to .6095
- Australian June MI consumer inflation expectations jump 0.3pp to 4.4% - still lower than 5.2% in June 2023 – ASX off 0.3%, AUD up 0.1% to .6655
- Spanish May retail sales -0.6% m/m, +0.2% y/y – IBEX off 0.3%, SPGB 10Y yields up 2.5bps to 3.355%
- Italian June consumer confidence rises 1.9 to 98.3 - best since Feb 2022 - but manufacturing confidence off 1.4 to 86.8 - 24 months below average – MIB off 0.7%, BTP 10Y up 3.5bps to 4.025%
- Eurozone June economic sentiment drops 0.2 to 95.9- stable but weakening jobs outlook – EuroStoxx 50 off 0.15%, EUR up 0.15% to 1.07
- UK PM Sunak and Labor Starmer clash in final debate – FTSE off 0.3%, GBP up 0.2% to 1.2645
- South African 2Q consumer confidence improves 3 to -12- best since 4Q 2022 – ZAR off 1% to 18.38

The Takeaways:

This week was back loaded and today starts the risk tests of data and events with the central bank decisions almost done but for Czech, Colombia and Mexico – with cuts expected there but for Mexico – while the overnight holding from Riksbank doesn't mean they didn't act – as the guidance for rates lower matters particularly to FX – notice SEK. The economic data overnight was mostly about confidence, and it lags in many places worrying the global growth narrative. Consumers drive spending and earnings, which are the next hurdle for investors as they race to the 2H2024 looking for returns. The debates about politics messing up markets is worth noting today along with the heavy list of economic data with jobless claims and durable goods the focus. There is no doubt that the debate after the market closes is going to matter but just how is more confusing. Investors will be watching the health of the two leaders, whether there is an obvious gaffe and what policy pronouncements are different. The hot button topics for investors may not actually match those of voters and this might be the biggest debate on the day ahead.

Do markets care like voters about these issues?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Japan May retail sales rose 1.7% m/m, 3% y/y after 1.2% m/m, 2.0% y/y - better than 2% y/y expected -the 26th consecutive month of expansion in retail turnover as rising wages continued to boost consumption. Sales increased the most for other retail products (7.1%), department stores (5.4%), machinery & equipment (5.3%), non-store retail trade (5.3%) and pharmaceuticals & cosmetics (5.1%). On the other hand, sales declined for automobiles (-3.3%) and textile, clothing & personal goods (-0.3%).

2. China May industrial profits slow to 3.4% y/y ytd after 4.3% y/y ytd - worse than the 4.1% y/y expected. Profits in state-owned firms fell further (-2.4% vs -2.8% in Jan-April) despite rising profits in the private sector (7.6% vs 6.4%). Profits grew for non-ferrous metal smelting (80.6%), computer, communications (56.8%), heat production (35.0%), textile (23.2%), cars (17.9%), agricultural, food processing (17.1%), oil and natural gas (5.3%), general equipment (1.8%), and chemicals (2.7%). By contrast, profits fell for non-metallic minerals (-52.9%), coal mining (-31.8%), special equipment manufacturing (-8.8%), and machinery & equipment (-6.0%). Meantime, petroleum and other fuel turned from profits to losses. Industrial profits grew 0.7% in May, much slower than a 4.0% rise in April.

3. New Zealand June ANZ Roy Morgan consumer confidence drops to 83 from 84.9 - weaker than 84 expected - and significantly below the 20-year average of 114, reflecting widespread consumer pessimism. This sentiment aligns with broader economic data indicating that households are cutting back on spending due to restrictive monetary conditions, a stagnant housing market, and a weakening labor market. While slowing CPI inflation and expectations of declining fixed mortgage rates offer some relief, these factors only partially offset the numerous economic challenges currently faced. The ANZ business confidence also fell to 6.1 from 11.2 - weaker than the 10.2 expected.

4. Australia June consumer inflation expectations jump to 4.4% y/y from 4.1% y/y - more than the 4.2% y/y expected. Despite higher trimmed mean inflation expectations in June, inflation remains well below its level observed at this time last year (4.4 per cent, compared to 5.2 per cent in June 2023). Wage expectations, which rose marginally in June, are also below their level observed at this last year (1.3 per cent, compared to 1.6 per cent in June 2023). The results therefore remain consistent with a broader pattern of moderating inflation and wage expectations.

5. Spanish May retail sales drop -0.6% m/m, +0.2% y/y after +0.8% m/m, +0.3% y/y — weaker than the +1% y/y expected. Spending on non-food products rose by 2%, up from 1.1% in the previous month, while spending on food decreased by 0.6%, following a 0.1% increase in April. For the first five months of 2024, retail sales increased by 0.7% compared to the same period last year.

6. **Italian June business confidence drops to 86.8 from 88.2 while consumer confidence rises to 98.3 from 96.4 -** the strongest reading since February 2022, driven by improvements across all components. The economic climate saw a notable increase from 101.9 to 105.3, and the future climate rose from 95.7 to 98.7. Additionally, the personal climate increased from 94.4 to 95.8, while the current climate went up from 97.0 to 98.1

7. **Sweden June business confidence jumps to 97.3 from 94.5 while consumer confidence rises to 93.3 from 91.3 -** highest reading since February 2022, as consumers remained optimistic on the 12-month outlook for the general economic situation (at 17) and financial situation (19 vs 17). At the same time, concerns about future unemployment decreased (42 vs 47), and consumers were less pessimistic about making large purchases in the next 12 months (-18 vs -19). Meanwhile, assessments for saving propensity weakened (46 vs 47).

8. **South Africa 2Q consumer confidence improves to -12 from -15 - better than -18 expected** - the best reading since Q4 2022, largely driven by reduced power outages and declining fuel and food prices. Nevertheless, concerns about upcoming elections and ongoing high interest rates seemed to keep some consumers cautious. "Positive developments such as the cessation of load-shedding during the second quarter, substantial cuts in fuel prices in June and a significant deceleration in food inflation likely buoyed confidence levels, particularly among low- and middle-income consumers," FNB Chief Economist Mamello Matikinca-Ngwenya said. However, "high interest rates and uncertainty over which parties would form part of South Africa's government of national unity (GNU) probably kept the lid on high-income confidence," Ngwenya noted

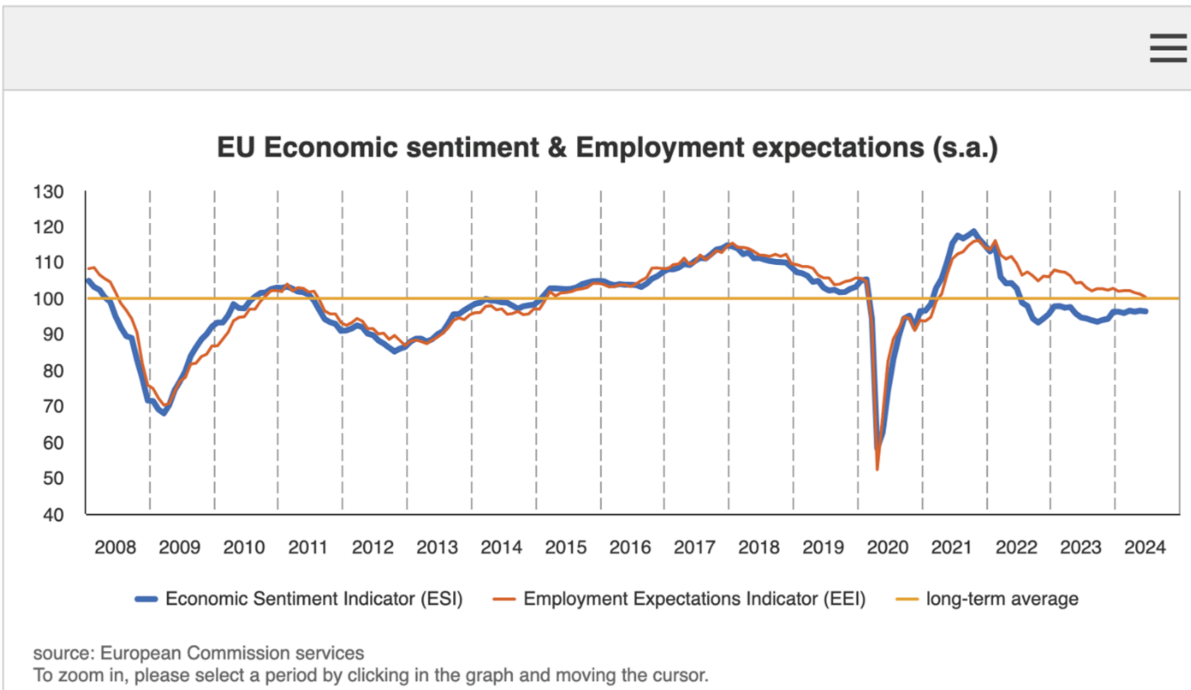
9. **Eurozone May M3 rises to 1.6% y/y from 1.4% y/y - more than 1.5% y/y expected**. Loans to households rose 0.3% y/y from 0.2% y/y - as expected. The slight pickup in growth marked a departure from the softest rate of household credit expansion in the currency bloc since 2015, in line with the historical tightening campaign implemented by the European Central Bank to tackle inflation in the currency bloc. Overall credit growth to the private sector, which includes both households and non-financial corporations, slowed to 0.8% from 0.9% in the earlier period

10. **Eurozone June economic sentiment drops to 95.9 from 96.1 - weaker than 96.2 expect**ed. There was a broad based sentiment worsening among companies, namely service providers (6.5 vs 6.8) mainly due to assessment of past demand,

only partly offset by a slight improvement in their assessment of the past business situation. Morale also weakened a bit for industrials (-10.1 vs -9.9), as slightly more managers assessed the stocks of finished products as too large/above normal, indicating weaker demand. Confidence also decreased among retailers (-7.8 vs -6.8) and constructors (-7 vs -6.2). In contrast, consumers were slightly less pessimistic (-14 vs -14.3). Meanwhile, selling price expectations picked up in construction, services, retail trade and for consumers but remained broadly stable in industry.

Is the EU sentiment mean lower growth ahead?

June 2024 : Economic Sentiment remains broadly stable in the EU and the euro area; Employment Expectations decline further



Source: EU Commission, BNY Mellon

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

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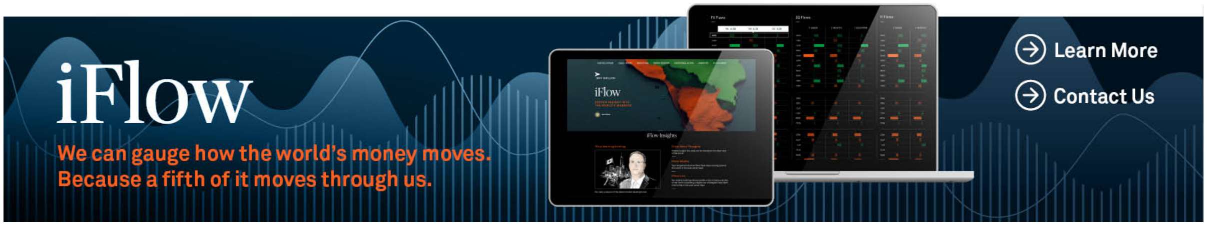

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