

May 29, 2024

## Trouble

***“I prefer peace. But if trouble must come, let it come in my time, so that my children can live in peace.” – Thomas Paine***

***“Real friendship is shown in times of trouble; prosperity is full of friends.” - Euripides***

## Summary

Risk off as rates beat AI hopes, with markets focused on policy and high for longer with fears of another rate hike. The higher Australia CPI, hawkish BOJ talk, better IMF spin on China, mixed German State CPI and the mixed results for confidence in EU from better German, flat French and better Italian but weaker Spanish retail sales make clear that any action other than easing will confuse business and consumers and take out some of the asset inflation and easy financial condition impulses for better times ahead. The world mostly is stuck watching rates with the near \$300bn in US supply this week the event into month end, T+1 and the usual rebalancing pressures overlaid by the South Africa election with early exit polling noise. Mix in Fed speakers and the Beige Book and you have the set up for more trouble.

### What's different today:

- **German 10-year Bund yields rise over 2.64%** - most in 6-months - while **Japan 10-year JGB yields jump 5.5bp to 1.075%** - most in 12 years
- **Silver rises to \$32 oz - 11-year highs** - extending its outperformance from gold - linked to industrial demand.
- **iFlow Mood neutral but in positive zone** – while value, trend recede a smidge and carry rises – with equities bought mostly in real estate and utilities sectors globally. The FX markets G10 notable buying in CHF, selling in MXN and CNY. In bonds mixed with US buying, Colombia buying, Philippines buying all notable. Turkey stands out in reversal from quarter with bond buying.

### What are we watching:

- **US May Richmond Fed manufacturing index** expected -6 – another regional point to compare against the flash PMI
- **Fed Beige Book** with expectations for more moderate growth to match flash GDP with eye on price pressures – along with **Fed Speakers**: New York Fed President John Williams and Atlanta Fed chief Raphael Bostic speak.
- **US Treasury** sells \$44bn in 7-year notes and \$28bn in 2Y FRN along with \$60bn in 4M bills – focus is on tails given yesterday's 5Y.
- **German May flash CPI** expected up 0.2% m/m, 2.4% y/y after 2.2% y/y – sets tone for post June ECB easing path

### Headlines:

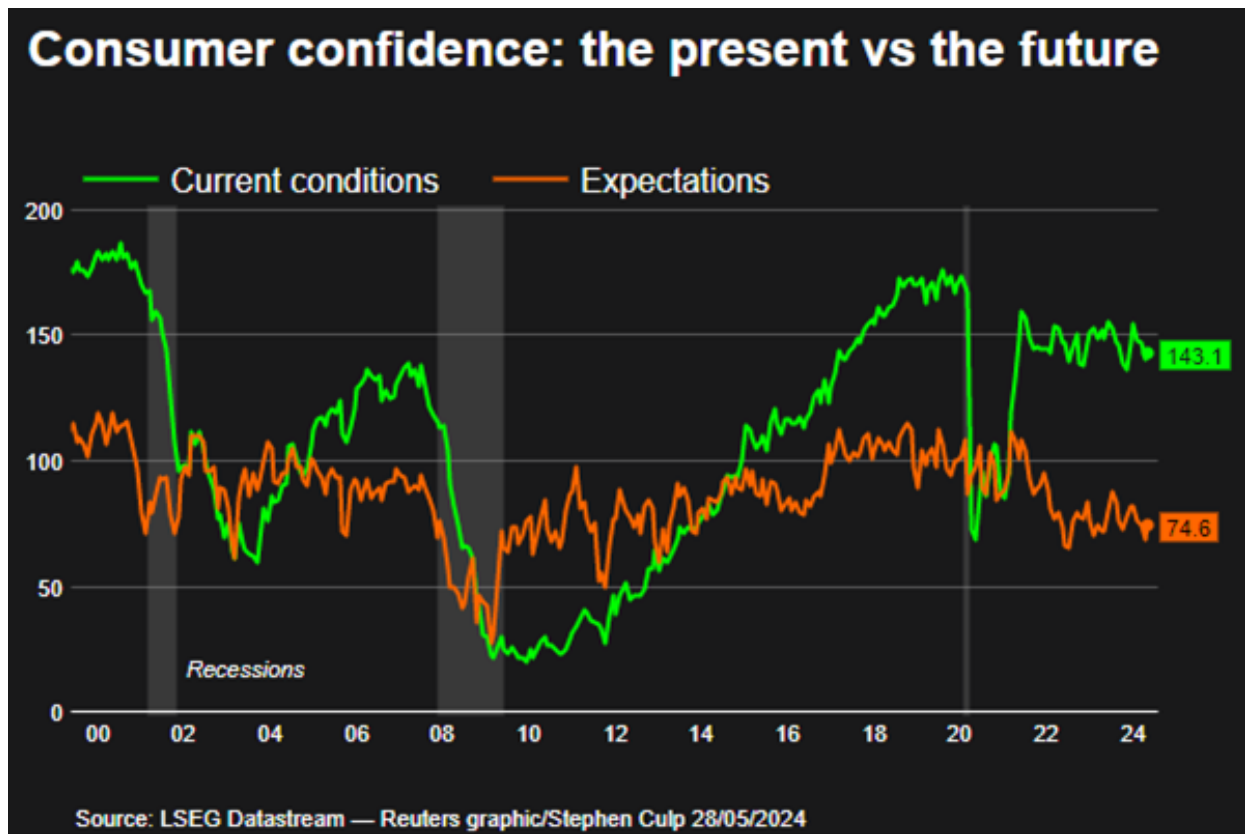
- [BOJ Adachi hints at rate hike if weak JPY drives inflation](#) - while [May consumer confidence off 1.9 to 36.2](#) - weakest since November 2023 - Nikkei off 0.89%, JPY off 0.1% to 157.30
- [IMF upgrades China GDP forecast to 5% for 2024](#)- cites 1Q, still urges more for sparking consumer demand – CSI 300 up 0.12%, CNH off 0.15% to 7.2735
- [S&P revises India credit outlook to positive from stable](#) - linked to robust growth - Sensex off 0.91%, INR off 0.1% to 83.338

- [Australia April Westpac MI leading index stable -0.1% m/m](#)-growth drag dissipating - while [April monthly CPI up 0.2pp to 3.6%](#) most since Nov 2023 – ASX off 1.3%, AUD off 0.3% to .6630
- [New Zealand May ANZ business mood -3.7 to 11.2](#)- 8-month lows – NZD off 0.25% to .6125
- [German June GfK consumer confidence up 3.1 to -20.9](#)- best since Apr 2022 - while May state CPI point to 2.7% y/y gain – DAX off 0.7%, Bund 10Y up 4.5bps to 2.64%
- [French May consumer confidence flat at 90](#) - well below 100 long-term average – CAC 40 off 1.1%, OAT 10Y up 4bps to 3.105%
- [Spanish April retail sales rose 0.8% m/m, 0.3% y/y](#) - weakest annual rate since Nov 2022 – IBEX off 0.7%, SPGB 10Y up 3.5bps to 3.38%
- [Italian May consumer confidence rises 1.2 to 96.4](#) - led by outlook - while business confidence drops 0.7 to 95.1 – MIB off 1.1%, BTP 10Y up 4.5bps to 3.94%
- [Eurozone April M3 rises 0.5pp to 1.3%](#) y/y but loans to households up 0.2% - weakest since 1Q 2015 – EuroStoxx 50 off 0.9%, EUR off 0.1% to 1.0845

### **The Takeaways:**

Good news is bad and creates fears of future troubles. The AI hype of chip stocks beating phone makers is not sufficient. The takeaway from yesterday was wrapped in the better-than-expected jobs, lower inflation and ongoing worries about future costs shown in the 5-point bounce in US conference board consumer confidence. What stands out is the spread of current conditions against future expectations. The same story in the US is repeated in Europe but they have an ECB all but promising a rate cut with the German CPI today important to watch for even more summer easing. The US markets are stuck with fiscal costs showing up rates with bond vigilantes back in vogue as a term. On the day, more supply, the Fed Beige Book and more Fed Speakers will matter but so also will the focus on US politics. By the end of the week, we will see if former US President Trump is convicted of felony charges in the hush money case. The event is underpriced by markets as its unknowable. 12 anger jurors can do anything. Trouble will follow.

## US consumers like the future?



Source: Reuters / BNY Mellon

### Details of Economic Releases:

1. [Australian April Westpac leading index flat 0.0% m/m](#) after -0.1% m/m - better than -0.2% m/m expected. The 6-month average growth -0.01% after -0.08% - consistent with the notion that the main negatives over the last two years, including higher living costs, interest rate rises, and a surging tax, were starting to dissipate. "The last six months have already seen a material moderation in inflation and the end to the RBA's rate rise," said economist Matthew Hassan. Despite these shifts, he added, Westpac expects an improvement in growth to be fairly muted, with GDP forecast to rise at 1.9% annually over H2 of 2024, up on the 1.3% pace over H1. "This is still below trend for Australia which, with some moderation in population growth, is likely to be around 2.5%."

**2. [Australian April monthly CPI rises to 3.6% y/y](#) from 3.5% y/y - worse than 3.4% y/y expected** - the highest since last November, due mainly to a faster rise in food and non-alcoholic beverage prices (3.8% vs 3.5% in March), with fruit and vegetable prices advancing the most since April 2023. Also, prices climbed more for health (6.1% vs 4.1%), alcohol and tobacco (6.5% vs 6.1%), communications (2.0% vs 1.6%), and clothing & footwear (2.4% vs 0.3%). Prices continued to rise for housing (4.9% vs 5.2%), transport (4.2% vs 4.5%), and education (5.2% vs 5.2%). Conversely, prices fell for recreation (-1.3% vs -0.6%) and furnishings (-0.8% vs 0.1%). The monthly CPI indicator excluding volatile items and travel advanced by 4.1% in April, the same pace as in March.

**3. [Japan May consumer confidence slips to 36.2](#) from 38.3 - weaker than 38.9 expected** - the lowest figures since last November, as households' sentiments deteriorated towards all components, namely income growth (39.9 vs 41.1 in April), employment (42.0 vs 44.2), willingness to buy durable goods (29.0 vs 31.8), and overall livelihood (33.9 vs 36.1).

**4. [German June GfK consumer confidence improves to -20.9](#) from -24 - better than -22.5 expected** - the highest reading since April 2022, improving for the fourth straight month, with income expectations notching their peak in 2-1/2 years (12.5 vs 10.7 in May). Also, economic prospects picked up strongly, increasing for the fourth time in a row (9.8 vs 0.7). At the same time, the tendency to save fell sharply (5 vs 14.9). Meanwhile, the propensity to buy was little changed (-12.3 vs -12.6). "Falling inflation rates combined with significant wage and salary increases are strengthening consumer purchasing power," said Rolf Bürkl, consumer expert at NIM. He added, however, German consumers were still very uncertain regarding the country's economic prospects. "Only when people regain this security, they will be willing to invest their increasing buying power in larger purchases again."

**5. [French May consumer confidence steady at 90](#) - weaker than 91 expected** - still below long-term average at 100. Consumers' sentiments were slightly less pessimistic about the outlook on the standard of living (-46 vs -48 in April) and the share of households believing it is a favorable time to make major purchases (-32 vs -33). Also, households' opinions increased for finding the current time appropriate to save (39 vs 35) and for the

future saving capacity (12 vs 11). Meanwhile, assessments were more negative about the prospects for personal situation (-14 vs -12), unemployment (27 vs 22), and future inflation is seen higher (-50 vs -51).

**6. [Italian May consumer confidence rises to 96.4](#) from 95.1 - better than 96 expected**

- Regarding the aggregate confidence gauges, pessimism eased in the personal climate (94.4 vs 93.7), future climate (95.7 vs 93.9), and current conditions climate (97 vs 96.2). Moreover, there was an improvement in the overall economic outlook (101.9 vs 99.4). In contrast business confidence fell to 95.1 from 95.8 with manufacturing 88.4 from 87.7, construction 101.6 from 103.3.

**7. [Spanish April retail sales rose 0.8% m/m, +0.3% y/y](#) after -0.4% m/m, +0.9% y/y -**

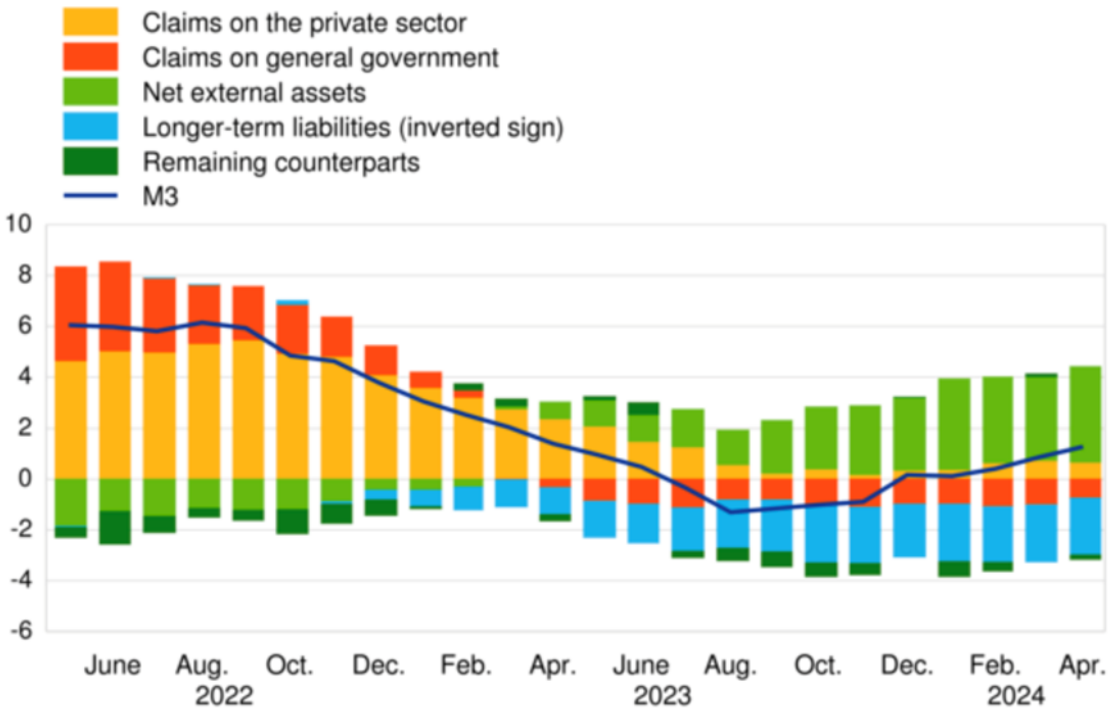
**weaker than 1% m/m expected** - the weakest annual growth in retail activity since November 2022, as spending on both food (0.1% vs 1.1% in March) and non-food products (1.1% vs 2.7%) increased at a much slower pace. Considering the first four months of 2024, retail sales rose by 0.9% compared to the same period a year ago.

**8. [Eurozone April M3 rises to 1.3% y/y](#) from 0.9% y/y - as expected** - still loans to households rose just 0.2% y/y, same as March, the slowest pace of credit growth since early 2015, as the European Central Bank's tightening measures implemented over the past months continued to weigh on consumer demand. Additionally, lending to companies rose by 0.3%, below 0.4% in March. Overall private sector credit growth, encompassing both households and non-financial corporations, picked up to 0.9% from 0.8%.

## ECB M3 still flashing deflation?

### Contribution of the M3 counterparts to the annual growth rate of M3

(percentage points)



Source: ECB /BNY Mellon

[Disclaimer and Disclosures](#)

Please direct questions or comments to: [iFlow@BNYMellon.com](mailto:iFlow@BNYMellon.com)



**Bob Savage**

HEAD OF MARKETS STRATEGY  
AND INSIGHTS

CONTACT BOB



Can't see the email? [View online](#)



**iFlow**  
We can gauge how the world's money moves.  
Because a fifth of it moves through us.

→ Learn More  
→ Contact Us

The banner features a dark blue background with a white and orange iFlow logo on the left. Below the logo is a tagline in orange and white. In the center, there are two overlapping device screens: a tablet on the left showing a world map with a red region highlighted, and a laptop on the right displaying a complex data dashboard with various charts and tables. On the right side of the banner, there are two white navigation buttons with right-pointing arrows, labeled 'Learn More' and 'Contact Us'.