

iFlow

MARKET MOVERS

June 10, 2024

Slow Uncertainty

“The only thing that makes life possible is permanent, intolerable uncertainty; not knowing what comes next.” – Ursula K. Le Guin

“Truth is confirmed by inspection and delay; falsehood by haste and uncertainty.” - Tacitus

Summary

Risk off in a quiet summer start to an important week where FOMC and BOJ decisions along with CPI reports dominate. The EU elections set off a negative tone to Europe with snap election in France the surprise. The USD is bid, stocks lower and bonds even lower. Commodities are also higher. The view of what matters today vs. this week is important as there is plenty of US bonds supply ahead and that puts rates as the key mover for other markets ahead post the confusing US jobs report and reaction. The role of politics everywhere is showing up in slow uncertainty and that generates more fear and loathing than hope and confidence. Volatility follows.

What's different today:

- **Monday holidays in Asia** – Kings Birthday in Australia while China Dragon Boat races, including Hong Kong,
- **IMF working paper questions success of Japan QQE** – shows fiscal multipliers weakened at odds with BOJ view, suggests limits to debt to GDP.
- **IMF warns US on fiscal burden** – Gopinath urges US and other economies to reduce their debt. The April fiscal monitor sees US fiscal deficit at 7.1% next year, more than 3x the average of other advanced economies.

What are we watching:

- **New York Fed May consumer inflation expectations** – expected 3% from 3.26% - how this moves matters.
- **US Treasury sells \$70bn 3M and \$70bn in 6M bills along with \$58bn in 3Y notes** - given the 15bps move up in rates Friday many don't see this sale as a big risk.

Headlines

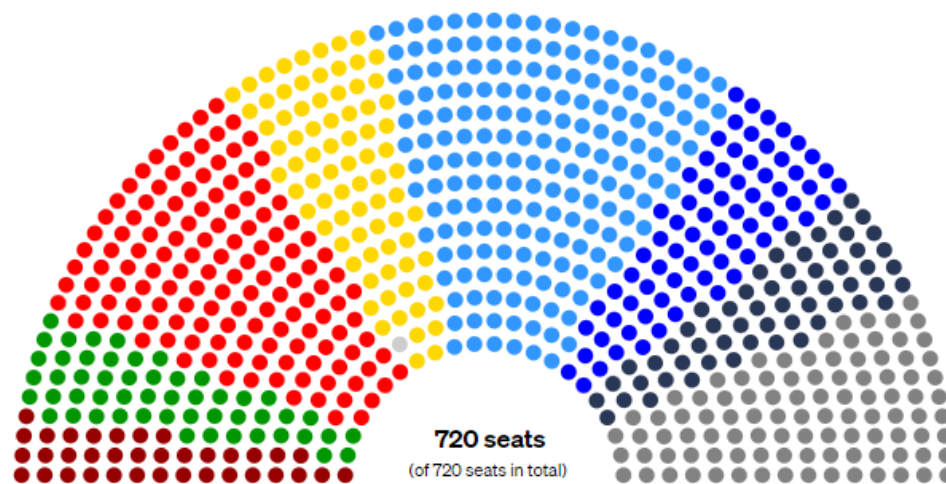
- EU elections surprise with far-right advancing, France calling snap national vote – German coalition also in doubt – EuroStoxx 50 off 1.1%, OAT 10Y up 10bps to 3.195%, EUR off 0.5% to 1.0745
- Japan 1Q GDP revised higher by 0.1pp to -1.8% y/y, April C/A better at Y2trn, but May EcoWatchers current survey off -1.7 to 45.7 while outlook fell 2.2 to 46.3– lowest since Nov 2022 – Nikkei up 0.92%, JGB 10Y yields up 7bps to 1.03%, JPY off 0.5% to 156.80
- Norway May CPI -0.1% m/m, 3.0% y/y – first monthly drop in 9 months, CPI-ATE at 4.1% y/y lowest since June 2022 – NOK off 0.15% to 10.73
- Sweden April industrial production drops -2.4% m/m, -4.4% y/y – worst since July 2023 – while household consumption -0.7% y/y puts April GDP -0.7% m/m – OMX -1.05%, SEK off 0.1% to 10.555
- Turkey April industrial production drops -4.9% m/m, -0.7% y/y – first drop since April 2023 – while unemployment improves -0.1pp to 8.5% - TRY off 0.3% to 32.462
- Italian April industrial production -1% m/m, -2.9% y/y –15th consecutive yearly drop – MIB off 0.8%, BTP 10Y up 10bps to 4.05%

The Takeaways:

The EU election has proved to matter to markets and surprise with the shift to the far-right. The fear of policy changing and risk to markets is clearly part of the shift down in equities and bonds. The correlation of those two matters to all nations. The role of volatility rising in all markets is important. The notable topics of voter concern were in the economy, immigration, and the war. The risk to the EUR notable as doubt rise about the shift in Austria, Germany, the Netherlands and France. The role of the ECB in reducing inflation and spurring growth is one factor, but government policy is another. The war and immigration are clearly adding to those concerns and intermixed. In France, Italy and Poland, voters said economic concerns were the main thing influencing their vote, with immigration in second place in France, and

war the number two concern in Italy and Spain. German respondents ranked immigration and asylum seekers as their top concern, followed by wars and then economic concerns. Worth considering how the ECB survey of monetary analysts differ from voters and compares to how they see risks. Unemployment is stuck at 6.5% average, while GDP is seen up 0.3% q/q on average, and HICP long run is seen at 2%. The way the seats in Europe are divided makes clear that the center holds but barely.

Does this shift really matter to markets?



Click on a party to form a majority

| Group | Seats | Change | Seats % |
|--|-------|--------|---------|
| ● European People's Party | 185 | +9 ▲ | 25.7 % |
| ● Socialists and Democrats | 137 | -2 ▼ | 19.0 % |
| ● Renew | 80 | -22 ▼ | 11.1 % |
| ● Conservatives and Reformists | 73 | +4 ▲ | 10.1 % |
| ● Identity and Democracy | 58 | +9 ▲ | 8.1 % |
| ● Greens | 52 | -19 ▼ | 7.2 % |
| ● Left | 36 | -1 ▼ | 5.0 % |
| ● Nonaligned | 99 | +37 ▲ | 13.8 % |

Source: Politico, BNY Mellon

Details of Economic Releases:

1. Japan April current account surplus narrows to Y2.051trn from Y3.398trn – more than the Y18trn expected - the 15th consecutive month of surplus in the current account. The goods account posted a deficit of JPY 661.5 billion in April, as imports (JPY 9,089.7 billion) topped exports (JPY 8,428.2 billion). The services account also posted a deficit of JPY 721.5 billion, coming in worse than a deficit of JPY 557.8 billion a year ago. Meanwhile, the primary income surplus increased

annually by 26.7% to JPY 3,832.8 billion, while the secondary income posted a deficit of JPY 399.3 billion.

2. Japan 1Q final GDP revised to -0.5% q/q, -1.8% y/y after +0.1% q/q, +0.4% y/y – better than -1.9% y/y flash – as the fall in business spending was not as severe as initially anticipated. At the same time, private consumption remained weak, declining for the fourth consecutive quarter and pointing to the steepest decline in three quarters, due to elevated price pressure, tepid wage growth, and the impact of an earthquake on the first day of the year. Further, external demand deteriorated, with exports falling faster than imports. That's compared with a positive contribution from net trade in the previous period. Simultaneously, government spending was muted.

3. Japan May EcoWatchers outlook drops to 46.3 from 48.5 – weaker than 48 expected -weakest since Nov 2022. The current conditions fell to 45.7 from 47.4 – also weaker than 48.9 expected - the third straight month of retreat, with the measure for household budget trends declining further due to a fall in food and beverage-related items. Also, the gauge for corporate trends moved lower due to a decline in the non-manufacturing industry. Moreover, the measure for employment continued to dip.

4. Norway May inflation drops -0.1% m/m, 3% y/y after +0.8% m/m, 3.6% y/y – less than the 0.1% m/m, 3.4% y/y expected. The core CPI (CPI-ATE) slows to 0.5% m/m, 4.1% y/y after 4.4% y/y – lowest since June 2022. There was a broad slowdown in the prices of food & non-alcoholic beverages (5.4% vs 6.8% in April), housing & utilities (0.1% vs 2.0%), and clothing & footwear (2.7% vs 4.0%). On the other hand, prices mainly accelerated for transport (2.1% vs 1.8%), and furnishings, household equipment & routine maintenance (2.7% vs 1.5%)

5. Sweden April GDP -0.7% m/m after -0.4% m/m – weaker than 0.2% m/m expected -mostly due to somewhat lower household consumption and production in the business sector. Compared to the same month last year, the GDP was largely unchanged.

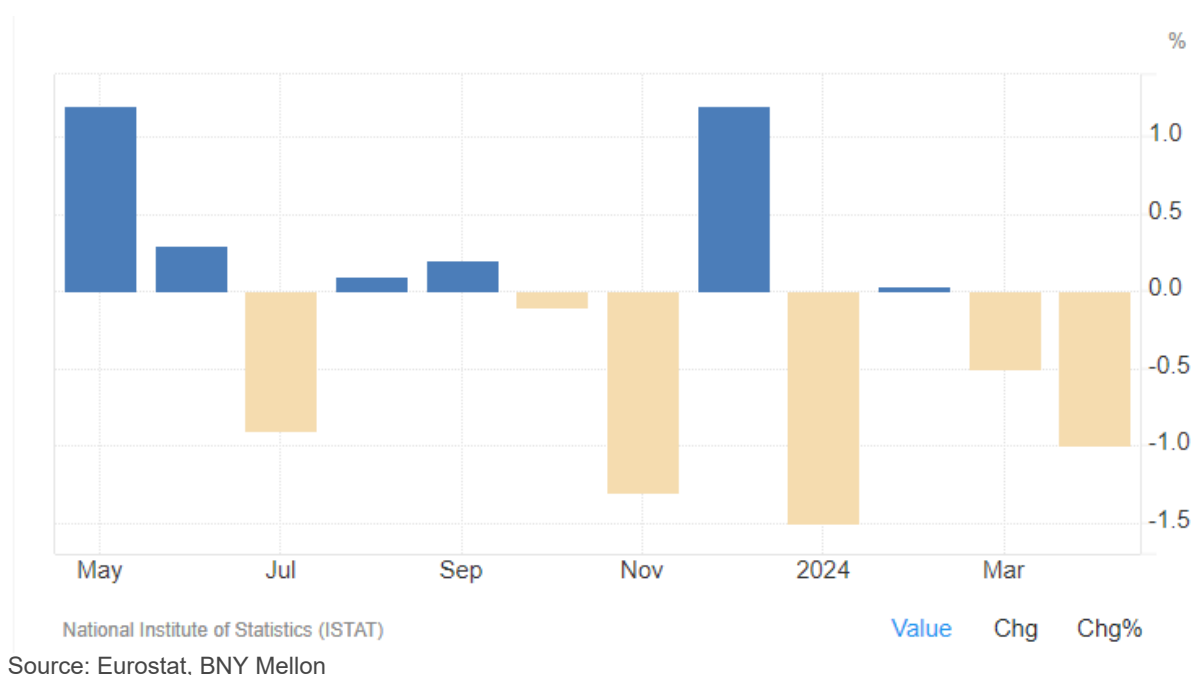
6. Sweden April household consumption -0.4% m/m, -0.7% y/y after -0.4% m/m, +0.4% y/y – weaker than 0% m/m, -0.5% y/y expected. Spending declined for transport and retail sales and service of motor vehicles (-4.2% vs 1.2% in March), restaurants, cafes, hotels and other accommodation services (-2% vs 0.3%), furniture, furnishings, household equipment and consumables (-0.6% vs 0.8%), and clothing & footwear (-0.4% vs 0.9%).

7. **Sweden April industrial production drops -2.4% m/m, -4.4% y/y after +0.9% m/m, +2% y/y- weaker than the -0.6% m/m, -2.3% y/y expected** – worst drop since July 2023, as output tumbled for manufacturing (-5.3% vs 1.5% in March), while production increased for mining & quarrying (13.8% vs 11.2%).

8. **Turkey April industrial production drops -4.9% m/m, -0.7% y/y after +4.6% y/y – weaker than +3.5% y/y expected** - the first fall in industrial activity since April 2023, as output fell for manufacturing (-1.5% vs 4.1% in March). Additionally, output slowed for both mining & quarrying (12.2% vs 12.6%) and electricity, gas, steam & air-conditioning supply (1.6% vs 5.1%).

9. **Italian April industrial production fell -1% m/m, -2.9% y/y after -0.5% m/m, -3.2% y/y – weaker than +0.3% m/m expected** - the fourth consecutive month of no growth, signaling significant challenges for the industrial sector stemming from the higher borrowing costs imposed by the ECB. Output declined for energy (-2.1% vs 1.5% in April), intermediate goods (-1.2% vs -0.2%) and capital goods (-0.1% vs -3.5%). Also, production of consumer goods showed no growth, after a 0.3% decrease.

Is Italy industrial production suffering as much as Germany?



Disclaimer & Disclosures

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