BNY MELLON

iFlow

MARKET MOVERS

June 11, 2024

Listless

"One listless day followed another, with nothing to distinguish one from the next. You could have changed the order and no one would have noticed." - Haruki Murakami

"The problem with lethargy is that doing nothing validates the fear that nothing can be done." - Bill Crawford

Summary

Risk off as markets wait for US CPI and the FOMC decisions with keen focus on the path plan for rates. China reopened with a weaker fixing for CNY, more doubts about EU and US trade and concerns about property markets. The focus on AI in Asia continues with Apple Open AI plans not enough to counter doubts about iPhone sales. The worries about the French election remain in play with French bonds and French banks hit by uncertainty over future policy as RN leads but without an obvious majority. The UK higher unemployment but sticky wages still added to BOE rate cut bets with November easing fully priced and 40% chance for August. The focus on the US session is on rates with no other economic data and the FOMC meeting starting. The commodity world is interesting with gold lower and oil higher post the OPEC monthly report and ongoing hopes for growth. With equities at record highs and bonds stuck in ranges, USD bid tone could be vulnerable in listless trading as most traders and investors are set up for the wait until tomorrow's Fed decision and CPI report.

What's different today:

- **US May NFIB business optimism rises 0.8 to 90.5 - better than 89.8 expected** - and 5-month highs - with inflation still main concern, job hiring plains rise 3% to 15% - best in a year. Notable also that financing issues rose to 6%, highest since June 2010.
- **Indian Rupee fell beyond 83.55 to the dollar** - nearing the June 4 record highs again - with limited RBI intervention. The Modi re-election to PM but with a coalition government worries investors particularly around fiscal plans.
- **iFlow stuck in neutral for mood, carry, value, trend** – with G10 FX showing USD outflows along with AUD and GBP against CHF, SEK and JPY buying. Equities mixed with Korea and Taiwan notable. Bonds still showing South Africa and Brazil selling with Korea notable as well.

What are we watching:

- **US 1Y bill and 10-year note sale** along with 42-day CMB auction - markets will focus on demand and dealer take-down.

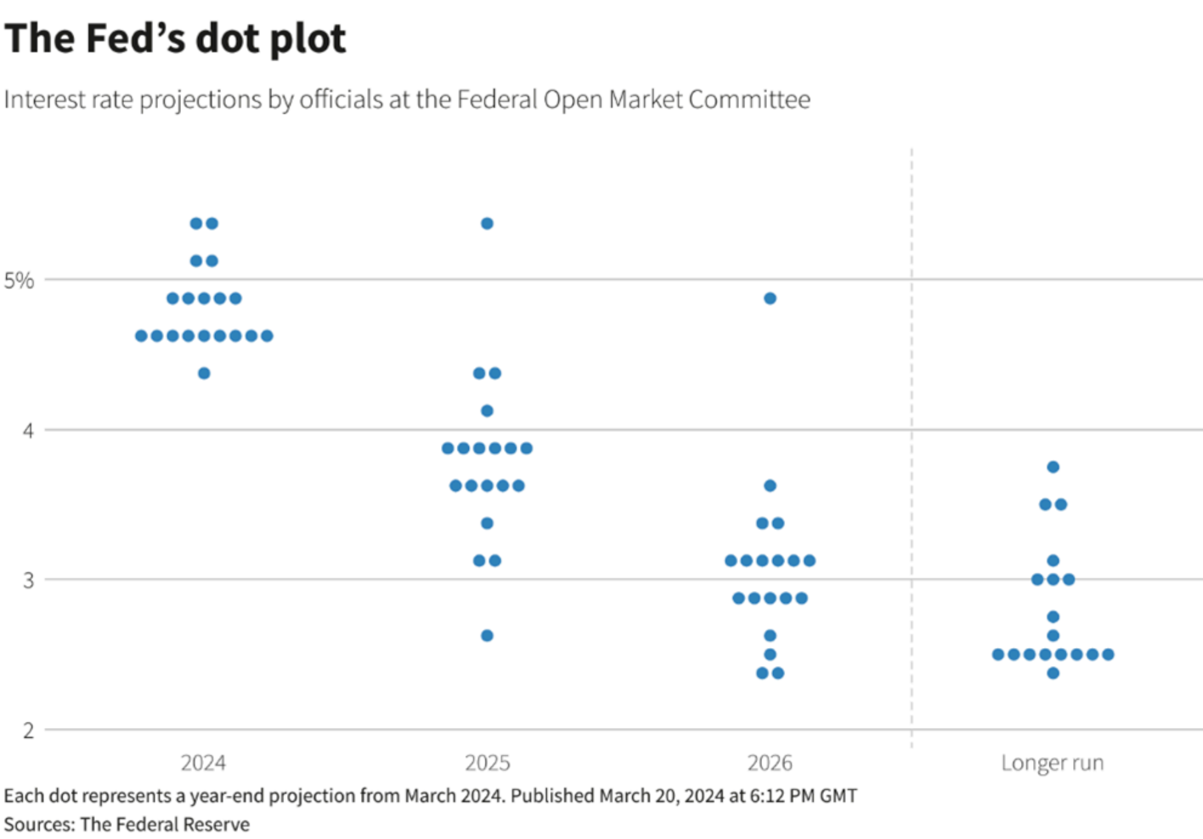
Headlines

- Japan May machine tool orders rise 3% m/m, 4.2% y/y - first rise in 16-months – Nikkei up 0.25%, JPY off 0.1% to 157.10
- Korea April C/A swings $7.2bn to deficit of -$0.39bn - ending 11-months of surplus -Kospi up 0.2%, KRW off 0.2% to 1378.1
- Australia May business confidence drops 5 to -3- worst in 6-months – ASX off 1.33%, AUD off 0.3% to .6595
- Indonesia April retail sales +0.4% m/m, -2.7% y/y - weakest since January – IDR off 0.6% to 16,285
- Turkey April retail sales -1.8% m/m, +10.2% y/y- weakness led by vehicle sales – TRY off 0.1% to 32.375
- Polls in France show Le Pen RN party leading in June 30/July 7 vote but unlikely to win majority – CAC 40 off 1.1%, OATs 10Y up 8.5bps to 3.31%, EUR off 0.3% to 1.0730
- UK May unemployment up to 4.4% - worst since Sep 2021 - while wages flat, mortgages in arrears rise to 2016 highs – FTSE off 0.9%, GBP up 0.1% to 1.2740
- Hamas accepts UN backed ceasefire with Israel - US hopeful for deal – WTI Oil off 0.15% to $77.60

The Takeaways:

The big picture for risk in 2024 revolves around monetary policy shifts and the divergence of such in developed markets. The FOMC is expected to keep rates on hold - higher for longer - with consensus that rates are restrictive but perhaps not sufficient to drive down inflation to 2% any faster. The focus on unemployment rising but jobs increasing makes the Fed “dot plot” - its summary of economic projections - that much more important to trading as 4.2-4.4% unemployment should be enough to merit some reduction in rates. The market expects little from the Fed this week but hopes for a dovish tilt again from the Chair with more bravado on a soft-landing. Growth has been uneven and the data ahead maybe more important to the Fed than to the market. In contrast the Bank of Japan on Friday will be debating whether to hike rates further and end its bond buying. Both are likely but the timing is less obvious with July more likely for the rate move. The divergence trade for the BOC, ECB, SNB, Riksbank and BOE rests on how the BOJ and FOMC play out their thinking on the path for rates ahead. The FX world is watching with the USD bid directly linked to such. Most see the plot from March changing from 2+ to 1+ earrings.

Will dot plots move markets?



Source: Politico, BNY Mellon

Details of Economic Releases:

1. **Korea April current account swings to deficit of $0.29bn after +$6.93bn - less than the $7bn expected -** the end of an 11-month streak of surpluses, driven by companies' dividend payouts to foreigners. the services account recorded a deficit of

$1.66 billion, largely due to deficits in manufacturing services and travel. The primary income account showed a $3.37 billion deficit, primarily due to decreased income on equity. Lastly, the secondary income account posted a deficit of $0.36 billion. In contrast, The goods account remained in surplus at $5.11 billion, supported by an 18.0% year-on-year increase in exports to $58.17 billion and a 9.0% rise in imports to $53.06 billion.

2. Japan May machine tool orders rise +3% m/m, 4.2% y/y after-12.6% m/m, -11.6% y/y - better than the -6% y/y expected - the first growth in tool orders following declines in the prior 16 months, mainly boosted by a jump in foreign orders of 9.8% to 89,716 million. By contrast, domestic demand remained weak, down by 7.9% to 34,838 million.

3. Australian May NAB business confidence drops to -3 after +2 - worse than 0 expected - the lowest level in six months and turning negative for the first time since last November. The latest result suggested that subdued economic activity in Q1 had continued into Q2, as sentiment worsened in manufacturing, transports, and construction. Business conditions were below average (6 vs 7 in April), weighed by drops in sales (10 vs 13) and profitability (3 vs 6). Forward orders stayed negative (-6 vs -7), rattled by retail, wholesale, and construction. Capacity utilization was almost unchanged (83.3% vs 83.2%), while capex sank (4 vs 8). Labor cost growth rose to 2.3% in quarterly equivalent terms from the prior 1.5%, and purchase cost growth increased to 1.9% from 1.3%. Retail price growth went up to 1.6% from 1.0%. "The message here is a mixed one for the RBA," said NAB chief economist Alan Oster said. "We expect the RBA to keep rates on hold for some time yet."

4. Indonesia April retail sales fell 2.7% y/y after 9.3% y/y - worse than the 2% y/y expected - reversing ahead of the Eid-al Fitr celebration. The latest figure marked the first decline in retail turnover since May 2023, dragged by lower sales of clothing (-15.7% vs 20.6% in March), cultural & recreational goods (-9.9% vs -5.4%). information & communication (-6.0% vs -5.9%), home appliances (-6.0% vs 2.9%), and food (-2.4% vs 10.4%). Simultaneously, sales eased sharply for automotive parts & accessories (6.5% vs 17.3%) and fuels (3.3% vs 7.1%).

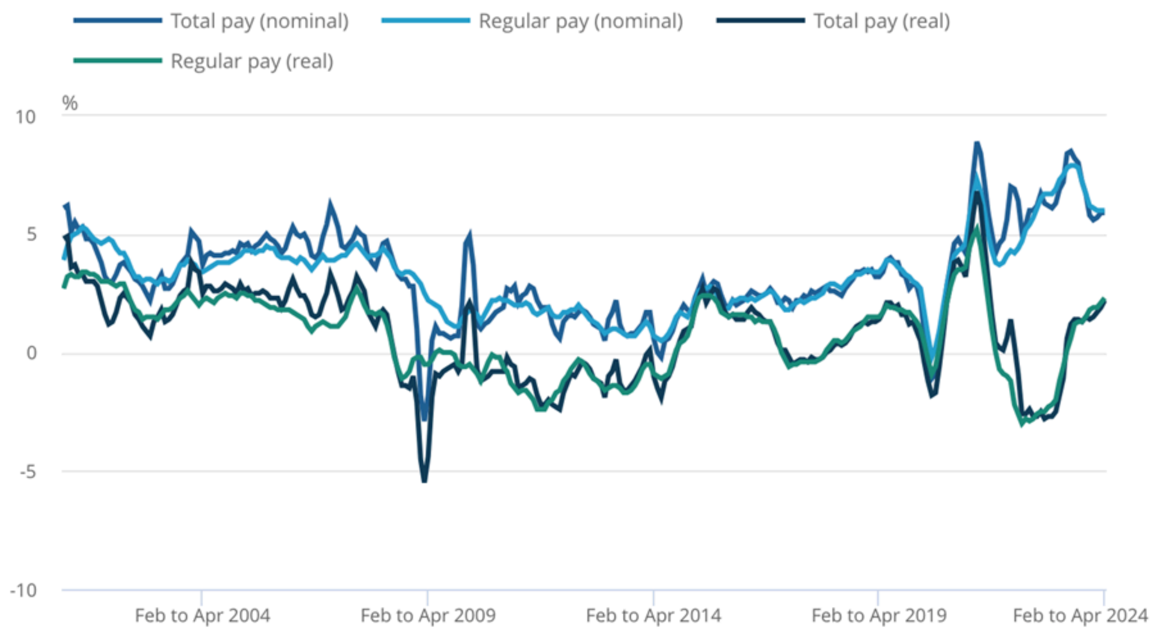
5. Turkey April retails sales slow to -1.8% m/m, +10.2% y/y after -0.2% m/m, +19.8% y/y - weaker than +22% y/y expected. Sales growth slowed for food, drinks & tobacco (10.1% vs 12.9% in March) and non-food products (13.3% vs 28%). Among non-food items, smaller gains were noted in sales for computers, peripheral units & software, books, telecommunications equipment, etc. (22.3% vs 44.1%), audio & video equipment, hardware, paints & glass (3.8% vs 15.3), textiles, clothing & footwear (1.5% vs 11.1%), pharmaceutical goods, medical & orthopedic goods, cosmetic & toilet articles (16.9% vs 19%), and via mail orders & internet (21.2% vs 41.5%). Also, sales dropped further for automotive fuel (-3.7% vs -1.9%).

6. UK April jobs drop -139,000 after -178,000 - worse than the -100,00 expected - putting unemployment higher to 4.4% from 4.3%, while wages flat at 5.9% and without bonus 6% y/y. Unemployment was the highest reading since the three months to September 2021, as the number of unemployed individuals grew by 24 thousand to a total of 1.51 million, driven by those unemployed for up to 6 months, which remained above levels from a year ago. Also, those unemployed for over 6 and up to 12 months and those over 12 months had increased in the latest period. Meanwhile, the number of employed individuals increased by 29.7 thousand to 33.0 million, mainly due to a rise in part-time employees and full-time self-employed workers. On the other hand, the number of full-time employees decreased during the quarter. Finally, the economic inactivity rate rose by 0.2 percentage points to 22.3%.

Do wages matter more than jobs?

Figure 2: Annual growth in both total pay and regular pay (excluding bonuses) remains relatively strong

Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to February to April 2024



Source: Monthly Wages and Salaries Survey from the Office for National Statistics

Source: ONS, BNY Mellon

Disclaimer & Disclosures

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

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