

June 12, 2024

## Punches

*“In the battle of existence, talent is the punch; tact is the clever footwork.” - Wilson Milner*

*“Everyone has a plan ‘til they get punched in the mouth” – Mike Tyson*

### Summary

Risk on as the market has a plan for the one-two punch fest of CPI and the Fed with view that easing remains most likely path. China CPI missed expectations but was steady, Japan PPI rose again to 9-month highs, while EU slaps on China EV tariffs, German CPI confirmed higher and UK GDP stalls in April - all that leaves markets ready to believe central bankers with the FOMC Chair Powell unlikely to change his high for longer plan. APAC shares were mixed with China dragging while EU ones bounce back - less fear over French elections one factor to watch, ECB speakers the other as the shuffling of feet waits for more data and more decision making.

### What's different today:

- **Oil rallies on demand optimism** - up 5 of the last 6 trading days - 2024 demand seen higher by analysts
- **US MBA mortgage applications rose 15.6% last week** – bouncing back from -5.2% - first gain since May 17 with purchases up 8.6% and refis up 28.4%
- **iFlow – Mood, Carry, Trend and Value all neutral** – but in FX G10 seeing CHF, JPY and SEK buying vs. in EM CLP, MXN, ZAR selling. The equity flows mixed with US selling vs. Swiss buying, Mexico buying, Korea and Taiwan buying. The bond flows are notable in selling in Korea, Brazil and Canada.

### What are we watching:

- **US May CPI** expected up 0.3% m/m, 3.4% y/y after 0.1% m/m, 3.4% y/y with core CPI expected up 0.3% m/m, 3.6% y/y after 3.5% y/y - with focus on housing and services.
- **FOMC rate decision** with no change expected and summary of economic projections showing 1-2 cuts for 2024 still.

## Headlines

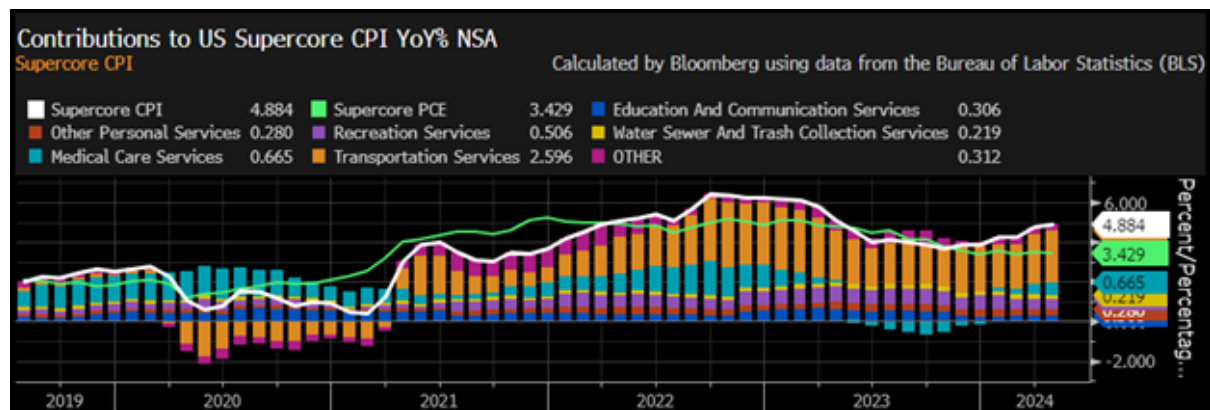
- China May CPI -0.1% m/m, +0.3% y/y while PPI moderates +1.1pp to -1.4% y/y - first monthly rise in 8 months – CSI 300 up 0.04%, CNH up 0.1% to 7.2685
- Japan May PPI up 0.7% m/m, 2.4% y/y- biggest monthly rise since Dec 2022, highest yearly since Aug 2023 - BOJ keeps bond buying unchanged – Nikkei off 0.66%, JPY off 0.15% to 157.35
- Korea May unemployment steady at 2.8% - Kospi up 0.84%, KRW up 0.15% to 1375.90
- German May CPI final confirmed up 0.1% m/m, 2.4% y/y - first increase in 5-months – DAX up 0.55%, Bund 10Y yields off 2bps to 2.60%
- EU to impose up to 38% tariffs on Chinese electric cars despite German opposition – EuroStoxx 50 up 0.55%, EUR up 0.15% to 1.0760
- UK April GDP 0% m/m, 0.6% y/y- weakest in 4-months - with industrial production -0.9% m/m and goods deficit nearing £20bn - 2Y highs – FTSE up 0.55%, GBP up 0.15% to 1.2760
- IEA warns of “staggering” oil glut by end of 2030 - over 8md excess but OPEC and IEA see 2024 demand rise; US weekly API crude oil inventories report -2.428mb draw, gasoline stocks also fell 2.549mb 1% below average while distillates rose 972k still down 7% from average – WTI up 1.25% to \$78.90

## The Takeaways:

Markets are in the ring for a rally which means the worst-case scenario is higher CPI and a more hawkish FOMC statement, Powell press conference and dot-plot. The focus of markets outside of the US data and decision is on politics in France where the right coalition debates matter, but so too is the ECB speakers as they shuffle their feet around the deficit issues across Europe and their plan for cutting rates again. The market expects central bankers to be fair referees and cut when needed if not when wanted. For the day, markets will watch September cutting odds – now at 50% - as the barometer to drive USD and Stocks. AI hopes remain the bedrock of

US shares and further easing hopes will only help the capital flows. The devil of data will be in the details with the “super core” CPI essential to keeping the plan for the day intact. The April 2024 report was 4.884% from 4.774% - with no official consensus on the May but most assume its near 4.90% with largest inflation last month in transport costs, then medical services.

### Does CPI even matter?



### Details of Economic Releases:

**1. Korea May unemployment steady at 2.8% - as expected.** The number of unemployed individuals totaled 884,000, marking an increase of 97,000 or 12.3% from the previous year. Meanwhile, the number of employed individuals totaled 28.915 million, up by 80,000 or 0.3% from a year earlier. The labor force participation rate stood at 65.4% in May, up 0.1% y/y.

**2. Japan May PPI rises 0.7% m/m, 2.4% y/y after 0.5% m/m, 1.1% y/y - more than the 0.4% m/m, 2.0% y/y expected** - the 40th straight month of growth in producer prices, with cost rising the most for the following components: nonferrous metals (20.7%), scrap & waste (9.7%), petroleum & coal products (6.8%), ceramic, stone & clay products (5.5%) and other manufacturing industry products (4.7%). Meanwhile, prices fell for electric power, gas & water (-7.4%), lumber & wood products (-2.4%), minerals (-1.4%) and iron & steel (-0.1%).

**3. China May CPI -0.1% m/m, +0.3% y/y after +0.1% m/m, 0.3% y/y - less than the 0% m/m, 0.4% y/y expected.** Still, the fourth straight month of consumer inflation, signaling an ongoing recovery in domestic demand. Non-food prices continued to grow (0.8% vs 0.9% in April), amid stable inflation for clothing (at 1.6%), housing (at 0.2%), and health (at 1.5%); as well as a slight move in education cost (1.7% vs 1.8%). At the same time, transport prices fell 0.2%, after gaining 0.1% in April when several local governments raised some utility prices and train tickets. On the food side, prices slipped for the 11th month but their pace of fall was the softest

since February (-2.0% vs -2.7%). The core consumer prices, deducting food and energy costs, increased 0.6% yoy, compared with a 0.7% rise in April.

**4. China May PPI moderates to +0.2% m/m, -1.4% y/y after -2.5% y/y - more than the -1.5% y/y expected** - still, the 20th straight month of contraction in factory-gate prices, but the softest decline since February 2023, amid multiple support measures from the government. Costs of means of production fell much softer (-1.6% vs -3.1% in April), dragged further by mining (-1.2% vs -4.8%) and processing (-2.6% vs -3.6%). Meanwhile, raw materials prices rebounded (0.5% vs -1.9%). Simultaneously, prices of consumer goods remained weak (-0.8% vs -0.9%), with costs shrinking less for food (-0.7% vs -0.8%) and durable goods (-1.8% vs -1.9%) while prices of daily use goods were flat (vs 0.1%) and inflation almost was stable for clothing (0.4% vs 0.3%).

**5. German May final CPI confirmed up 0.1% m/m, 2.4% y/y after 0.5% m/m, 2.2% y/y - as expected.** Inflation increased for the first time in five months, driven by higher costs for services (3.9% vs 3.4% in April) and food (0.6% vs 0.5%). Meanwhile, goods prices rose at a slower pace (1% vs 1.2%), whereas energy prices continued to drop (-1.1% vs -1.2%), despite the discontinuation of the brake on energy prices and the simultaneous introduction of a higher carbon price at the beginning of 2024, as well as the end of the temporary VAT reduction for gas and district heating in April 2024. Core inflation, excluding volatile items like food and energy, stood at 3% in May.

**6. UK April goods trade deficit widens to £19.61bn after £13.97bn - worse than the £14.2bn expected.** Imports jumped by 11% to a near one-year high of £49.53 billion while exports fell by 2.4% to an over two-year low of £29.92 billion. Imports from the EU rose by 8.1%, primarily aircraft from France, mechanical machinery from Germany, cars from Spain, and vegetables and fruit from the Netherlands. Services imports went up by 0.9%. Goods exports declined by 2.7%, with sales to the EU falling by 0.9%, mainly due to a decrease in crude oil exports to Germany. Shipments to non-EU countries slumped by 3.7%, with a drop in organic chemical exports to the US partly offset by a rise in aircraft exports to Qatar and crude oil exports to China. Services exports increased by 0.6%.

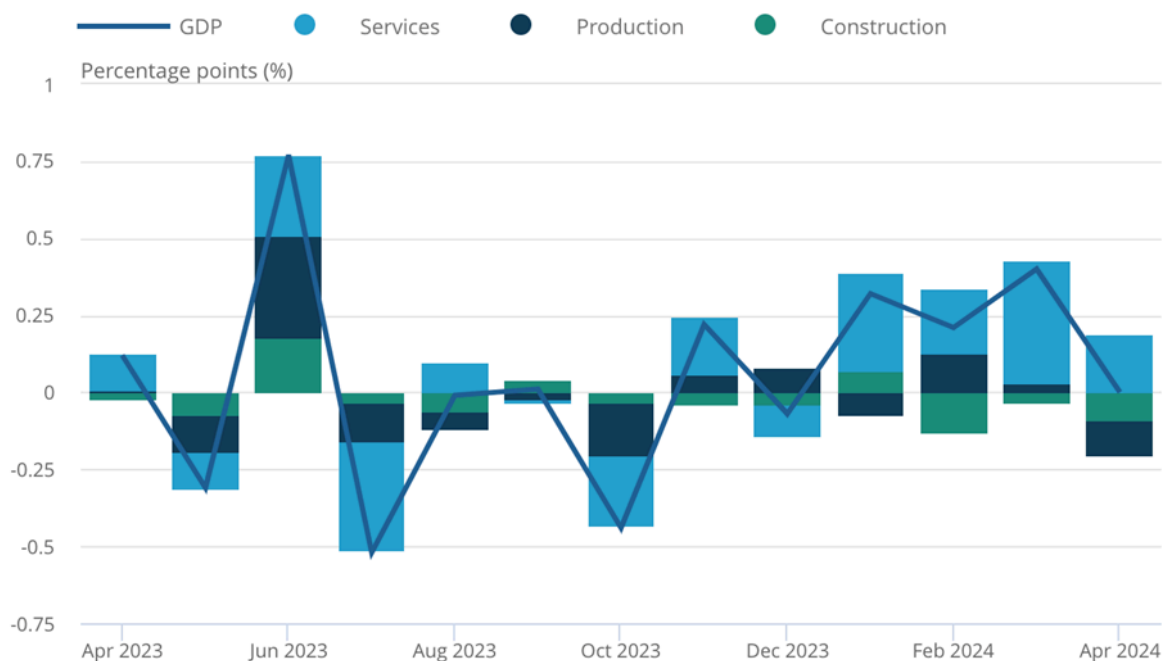
**7. UK April industrial production drops -0.9% mm, -0.4% y/y after +0.2% m/m, +0.5% y/y - weaker than the -0.1% m/m, +0.3% y/y expected.** Output fell for manufacturing (-1.4% vs 0.3% in March), while eased for mining & quarrying (0.8% vs 1%). On the other hand, output rebounded for electricity, gas, steam & air-conditioning supply (0.5% vs -0.9%) and water supply, sewerage & waste management (1.3% vs -0.1%).

**8. UK April monthly GDP 0% m/m, 0.6% y/y after 0.4% m/m, 0.7% y/y - as expected** -the weakest performance in four months, as a fall in industrial output and construction offset a rise in services. Production output fell by 0.9%, following growth of 0.2%, led by a 1.4% decline in manufacturing, mostly basic pharmaceutical products and pharmaceutical preparations (-6.1%) and food products, beverages and tobacco (-2.3%). On the other hand, the output rose for water supply; sewerage, waste management (1.3%), mining and quarrying (0.8%), and electricity, gas, steam and air conditioning supply (0.5%). Meanwhile, construction output shrank 1.4%, its third consecutive monthly fall. Services output on the other hand, grew 0.2%, its fourth consecutive monthly growth, led mostly by computer programming, consultancy and related activities (3.2%), telecommunications (1.7%), publishing (4.9%) and professional, scientific and technical activities activities (1.2%).

### Does flat GDP mean BOE August cut?

**Figure 2: The 0.2% growth in the services sector was offset by falls in both the production and construction sectors in April 2024**

**Contributions to monthly GDP growth, April 2023 to April 2024, UK**



**Source: GDP monthly estimate from Office for National Statistics**

Source: ONS, BNY Mellon

### Disclaimer & Disclosures

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