

June 13, 2024

Hangovers

“Write when drunk. Edit when sober. Marketing is the hangover.” – Ashwin Sanghi

“Credit buying is much like being drunk. The buzz happens immediately and gives you a lift...the hangover comes the day after.” – Joyce Brothers

Summary

Risk of as rest of world sees FOMC rate cut hopes lowered post Powell press conference and the dot plot. This is the regret stage of reactions, and it could take more than two aspirin to fix. Markets also are watching EU/China trade war risks, Ukraine and G7 loans, and failed Israel/Hamas peace deals. The BOJ meeting Friday and taper talk hurts shares there while the USD regains some traction. On the day, the new theme is about how far other central bankers can diverge from the Fed. The BOC comments yesterday, the ECB today – the limit leads to some uncertainty and risk aversion along with the usual plethora of political doubts. For the US session, the jobless claims and PPI will be contrasted to Fed SEP as the new lords of markets are economic statisticians. Perhaps markets will get another swig at hope from Fed Williams later today, but I would stick to water.

What's different today:

- **EU natural gas futures up 5% - near 6-month highs** - Repairs at Australia's Wheatstone gas facility have halted production, affecting global LNG supply as Europe competes with Asia, where demand is high due to a heatwave. EU gas storage injections have slowed, and while storage levels are currently strong at 72.33%, there are concerns about future supplies, especially with potential losses of Russian gas.

- **iFlow – notable decline in carry factor** but still neutral – while mood is neutral as well despite US rallies yesterday. The flows in equities were negative in US, Turkey and Poland notable, while buying was in Mexico, Korea and Malaysia. The fixed income world was about Korea bond selling, Canada selling and both Chile and Argentina buying. FX is stuck with cross currents – USD selling along with NOK and AUD against CHF, JPY and SEK buying.

What are we watching:

- **US May PPI** expected up 0.1% m/m, 2.5% y/y after 0.5% m/m, 2.2% y/y - with core PPI expected flat at 2.4% y/y - matters to how come PCE is forecast and adds to CPI.
- **US weekly jobless claims** expected -4k to 225k with continuing claims expected up 8k to 1.8mn - will be key for unemployment forecasts
- **US 30Y bond auction \$22bn** along with \$70bn in 1M and \$70bn in 2M bills – focus will be on US yield curve post FOMC.
- **Fed Williams speech** – post Powell – will there be any difference?

Headlines

- China urges EU to reverse tariffs decision - vows to take all “necessary measures” to safeguard interests – CSI 300 off 0.51%, CNH off 0.1% to 7.2680
- Taiwan CBC keeps rates unchanged at 2%- as expected - sees slowing CPI and GDP – TWD up 0.2% to 32.33
- Japan 2Q BSI improves 5.7pp to -1% q/q- manufacturing sees recovery – Nikkei off 0.4%, JPY off 0.3% to 157.25
- South Korea extends short selling ban thru 1Q 2025 – Kospi up 0.98%, KRW up 0.15% to 1373.80
- Australian May jobs up 37,000 while unemployment -0.1pp to 4% - ASX up 0.44%, AUD off 0.3% to .6645
- German May WPI up 0.1% m/m, -0.7% y/y - highest in 13 months – DAX off 0.1%, Bund 10Y up 1.5bps to 2.54%
- Spain May final CPI confirmed up 3.6% y/y - highest in over a year – IBEX off 0.7%, SPGB 10Y up 3.5bps to 3.345%
- Eurozone April industrial production fell -0.1% m/m, -3% y/y – EuroStoxx 50 off 0.9%, EUR off 0.15% to 1.0785
- G7 has “provisional” deal for \$50bn Ukraine loan collateralized by seized Russian assets – Oil off 0.7%, Wheat up 0.85%

Details of Economic Releases:

1. Japan 2Q BSI Large Manufacturing off -1% q/q after -6.7% q/q - better than -5% q/q expected. While marking the second straight quarter of a negative reading, the latest result came after Japanese companies posted solid earnings during the first three months of the year and ramped up spending. At the same time, bets grew that the Bank of Japan would stay accommodative even as it moved in March by ending a negative interest rate for the first time in 17 years after achieving stable inflation. Manufacturers anticipated conditions to recover in the upcoming quarters, bouncing back by 9.2% in Q3 and 10.7% in Q4.

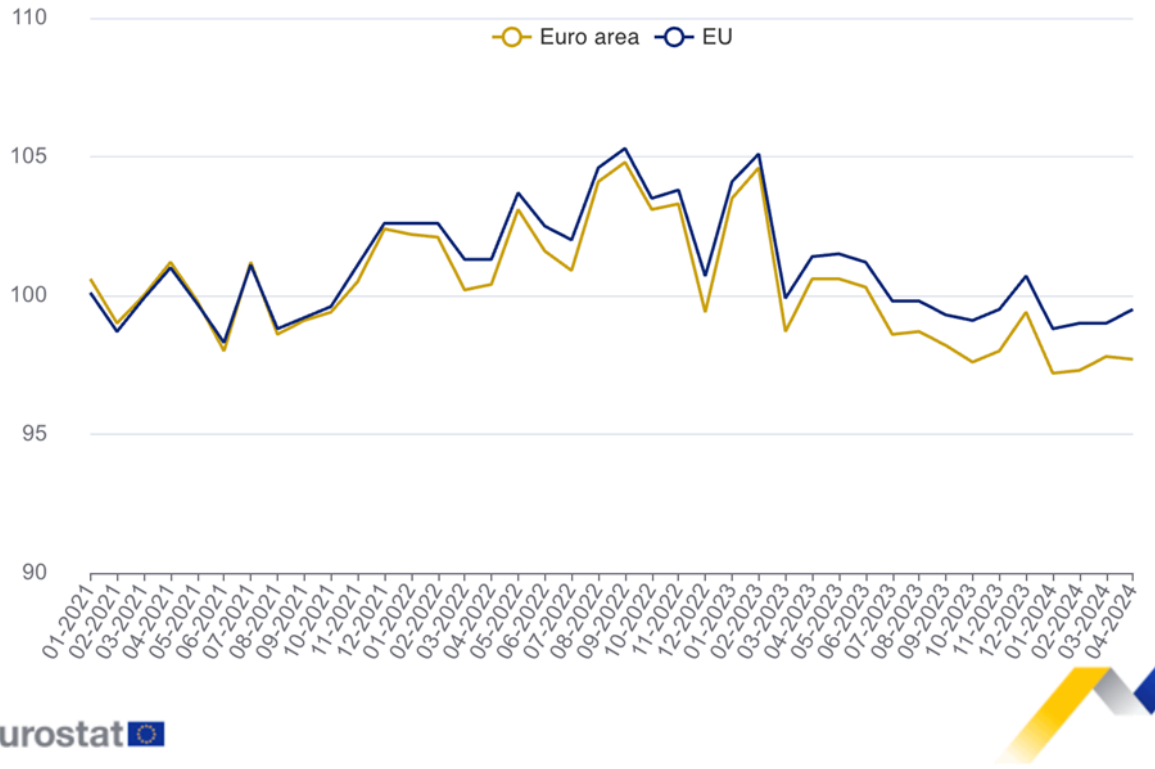
2. Australian May jobs rise 39,700 after 37,400 - slightly better than 30,000 expected - as unemployment dips to 4% from 4.1% - The acceleration was mainly supported by a jump of 41,700 to 9,899,900 in full-time employment. Meanwhile, part-time employment fell 2,100. Over the year to May, employment added 354,900 or 2.5 percent. The participation rate stood at a six-month high of 66.8%, compared with estimates of 66.7%. The underemployment rate stayed at 6.7%, remaining 2.0 points lower than in March 2020. Additionally, monthly hours in all jobs decreased by 9 million or 0.5% to 1,951 million.

3. German May WPI rose 0.1% m/m, -0.7% y/y after +0.4% m/m -1.8% y/y - less than the 0.3% m/m expected - the 13th consecutive month of drop in producer prices but the softest pace in the sequence, amid lower cost of chemical products (-13.9%), iron, steel and ferrous semi-finished metal products (-12.1%), grain, unmanufactured tobacco, seeds and animal feeds (-5.1%), and milk, milk products, eggs, edible fats and oils (-5.1%). On the other hand, prices increased for non-ferrous ores, non-ferrous metals and non-ferrous semi-finished metal products (9.7%), coffee, tea, cocoa and spices (8.2%), sugar, confectionery and bakery products (7.2%), fruit, vegetables and potatoes (6.4%), and tobacco products (5.4%)

4. Eurozone April industrial production drops -0.1% m/m, -3% y/y after +0.5% m/m, -1.2% y/y - weaker than 0.2% m/m -1.9% y/y expected. Intermediate goods output declined further (-0.4% vs -0.2% in March), while the production of capital goods advanced at a slower pace (0.7% vs 0.9%). In contrast, production rebounded for energy (0.4% vs -0.1%), durable (0.3% vs -0.6%), and non-durable consumer goods (3.4% vs -2.7%).

Industrial production

2021=100, seasonally adjusted series



eurostat

Source: Eurostat, BNY Mellon

Disclaimer & Disclosures

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