BNY

iFlow
MARKET MOVERS

June 14, 2024

Flag Day

"There is hopeful symbolism in the fact that flags do not wave in a vacuum." – Arthur C. Clarke

"Our flag is not just one of many political points of view. Rather, the flag is a symbol of our national unity." – Adrian Cronauer

Summary

Risk off as markets fear politics over economics or any relief from central bankers. The BOJ didn't act – which was expected – but promised to start cutting back its $5trn balance sheet of JGBs in July and consider hikes as well – JPY is stable – while EUR is lower as French politics flag trouble for the entire EU. Financial crisis fears rising with German coalition fighting over its budget as well. The data overnight was mixed for fighting inflation with Sweden and India higher but China M2 and loans lower as well as vehicle sales – markets are waiting for the US data on consumer sentiment but the US exceptionalism trade holds even with moderating growth from jobless claims to lower CPI/PPI. The AI push and the ongoing lack of dollar alternatives stands out.

What's different today:

- **FT poll suggest Macron party could be wiped out after left-wing parties form alliance.** An Elabe poll for BFM and La Tribune Dimanche put the RN on 31 per cent (with 4 for the rival far-right party Reconquête), the leftwing alliance on 28 per cent, Macron's centrist alliance on 18 per cent and the centre-right Les Républicains on 6.5 per cent. Elabe projects the RN winning between 220 and 270 seats, the left 150-190 and Macron's alliance 90-130. The centre right would take 30-40.

- **FT/YouGov Poll has Reform overtaking Conservative Party** - Labour 37%, Reform 19%, Conservatives 18%: but FT's Tracker poll have Tories with an average 8-point lead over Reform
- **iFlow continues with all indicators carry, trend, value and mood neutral** – but in equities more outflows with only real estate sector up and LatAm seeing inflows led by Mexico while US and EU saw consistent outflows except Switzerland. FX seeing CAD, CHF, JPY and SEK buying and EM ZAR, CNY, all LatAm ex PEN selling. Bonds still US inflows, while in EM Argentina buying vs. Indonesia selling along with Brazil.

What are we watching:

- **US June preliminary University of Michigan consumer sentiment survey** expected up to 72 from 69.1 with current conditions 72.2 from 69.6 and outlook 72 from 68.8, while 1Y inflation expectations slows to 3.2% from 3.3% and 5-10Y holds at 3.0%.
- **Fed Speakers**: Cleveland Fed Mester on CNBC, Chicago Fed Goolsbee Fireside chat, Fed Cook at AEA.

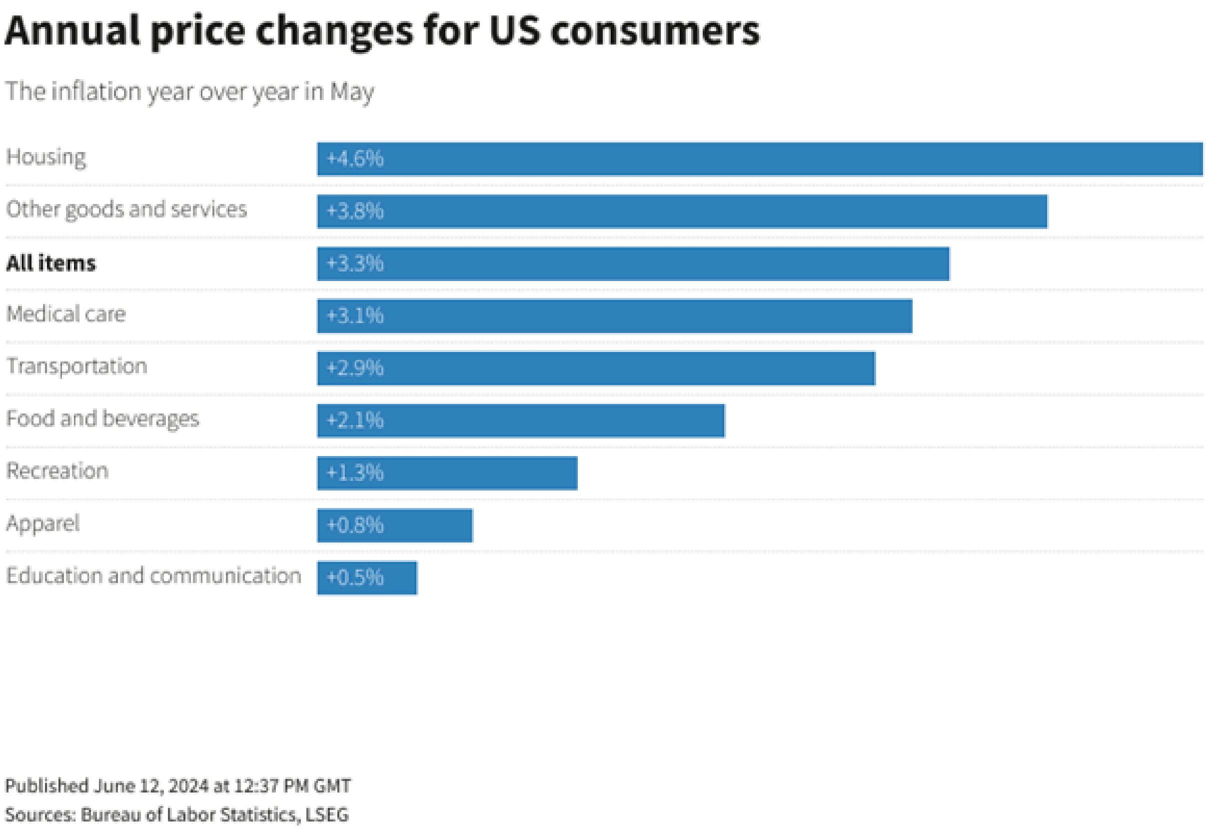
Headlines

- Peru BCRP keeps rates unchanged at 5.75% - surprising market given CPI fell to 2% - sees core inflation risks.
- Argentina May CPI slows to 4.2% m/m, 276.4% y/y – better than 4.9% m/m, 280% y/y expected
- BOJ leaves rates unchanged, will present QT in July along potential rate hike warns on JPY pass-through on prices, industrial production for April worse at -0.9% m/m, -1.8% y/y - Nikkei up 0.24%, JPY up 0.25% to 156.95
- China M2 slows to 7% y/y, new CNY loans 950bn with loan growth 9.3% new lows but Total Social Finance rebounds up CNY2.07trn, new vehicle sales slow to 1.5% y/y – CSI 300 up 0.44%, CNH flat at 7.2720
- India May WPI rises to 0.2% m/m, 2.61% y/y – highest sine Feb 2023 – led by food; Sensex up 0.24%, INR off 0.1% to 83.555
- Sweden May CPI rises 0.2% m/m, 3.7% y/y – more than expected – still lowest since Jan 2022 – OMX off 1.1%, SEK off 0.4% to 10.525
- Eurozone April trade surplus drops -E8.7bn to +E15bn – even with exports up 14% y/y – EuroStoxx 50 off 1.9%, EUR off 0.35% to 1.07

The Takeaways:

Friday moods are tough to game as the week has delivered significant moves in US bonds, EU shares and some EM FX. The USD is net stronger in G10 led by the EUR weakness. The FOMC holding rates, the BOJ holding rates both were expected and their guidance was as expected. The shift of BOJ from QE to QT in July will be interesting to watch as will the JPY. The biggest story of the week is in France post the EU parliamentary vote and the Macron snap election call. French stocks are down 4.5% for the week, at the time of writing, on track for their biggest weekly drop since September 2022 – led by banks. Spread between German and French bonds up 27bps on week back to 2017 highs – trading 95bps today. The FinMin LeMaire warns of a financial crisis. While in the US the political risks are less important given the rising view that consumers and companies are slowing their spending and so inflation will moderate and the FOMC can ease. The soft-landing view of the US is key to shoving the correlation of bonds to stocks more towards neutral than negative. On the day, University of Michigan flash survey on US consumer will dominate but its important to see that the housing remains the biggest concern on prices with home affordability near historic lows despite higher wages.

Inflation matters to voters



Source: BLS, Reuters, BNY Mellon

Details of Economic Releases:

1. **Japan April final industrial production fell -0.9% m/m, -1.8% y/y after +4.4% m/m, -6.2% y/y – worse than the -0.1% m/m expected** – correcting after the steepest rise since June 2022, but still the 6th straight annual drop. The latest result marked the third monthly drop so far this year, mostly pressured by lower output among transport equipment (-1.7% vs 12.6% in March), general-purpose and business-oriented machinery (-3.0% vs 2.6%), and electrical machinery and information and communication electronics equipment (-2.4% vs 1.8%).

2. **China May M2 slips to 7% y/y after 7.2% - weaker than 7.5% y/y expected**. The new CNY loans rose to 950bn after 730bn – still less than the 1.3trn expected. The outstanding loan growth slows to 9.3% y/y after 9.6% y/y – new record lows - while the total social financing rebounds to CNY 2.07trn after dropping -CNY 72bn.

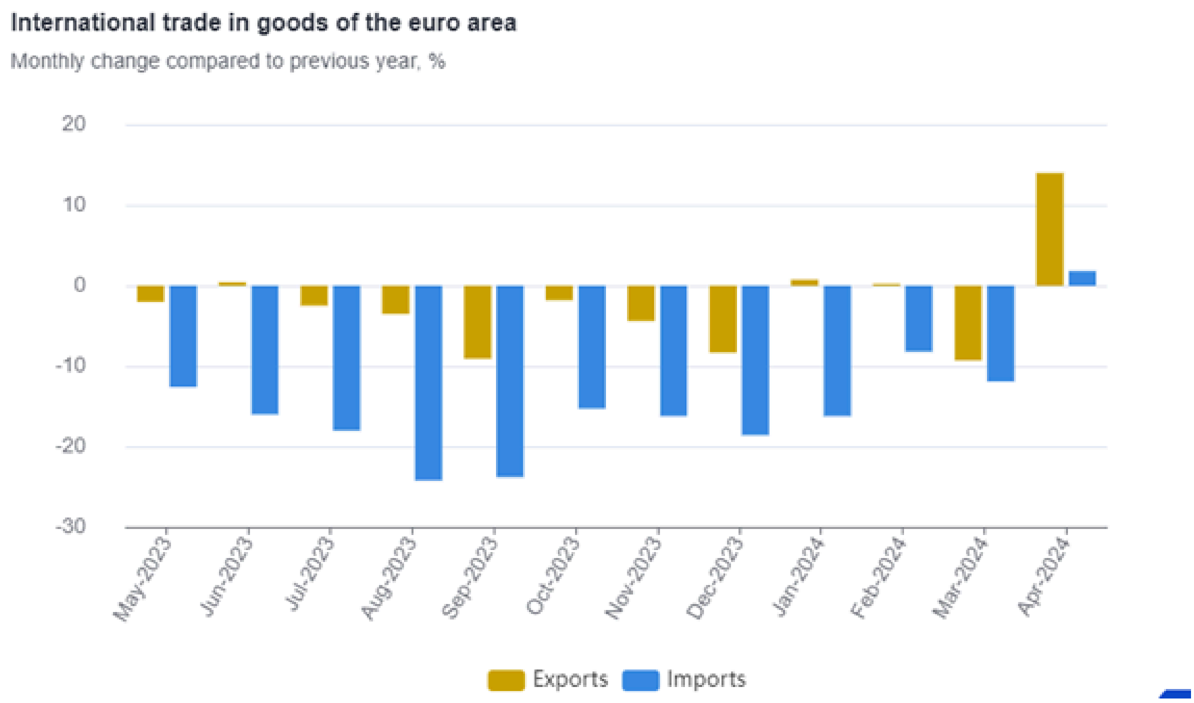
3. **India May WPI rises 0.2% m/m, 2.61% y/y after +1.06% m/m, 1.26% y/y – more than the 2.5% y/y expected** - the seventh consecutive period of wholesale inflation and the fastest pace since last February 2023 amid a rebound in manufacturing and faster rises in food prices and primary articles. Primary articles (7.20% vs 5.01% in April) and food index (7.40% vs 5.52%) advanced faster, due mainly to higher onion (58.05%), potato (64.05%), and vegetables (32.42%). At the same time, manufacturing prices recovered (0.78% vs -0.42%), the first increase in 15 months, mainly boosted by rebounds in basic metals (0.35% vs -3.65%) and leather and related products (0.32% vs -0.32%). Meanwhile, fuel and power prices slowed slightly (1.35% vs 1.38%), as rises in both LPG (2.48%) and petrol prices (0.51%) were offset by falls in HSD (-1.06%).

4. **Sweden May CPI rises 0.2% m/m, 3.7% y/y after 0.3% m/m, 3.9% y/y – more than the -0.1% m/m, 3.5% y/y expected.** The CPIF rose 0.2% m/m, 2.3% y/y after 0.3% m/m, 2.3% y/y – also more than the -0.1% m/m, 2.1% y/y expected. Still, it was the lowest reading since January 2022, primarily driven by easing prices of housing & utilities (7.5% vs 8.6% in April), recreation & culture (1.8% vs 2.4%), and restaurants & hotels (4.9% vs 5.6%). In contrast, costs accelerated for food & non-alcoholic beverages (1.5% vs 0.7%), and transport (2.4% vs 0.2%

5. **Eurozone April trade surplus narrows to E15bn after E23.7bn – less than the E20bn expected** – but over the E11.1bn deficit of April 2023. Imports increased by 1.8% to EUR 232.5 billion, while exports surged by 14% to EUR 247.6 billion. In January to April, the surplus was EUR 72.8 billion, compared with a EUR 20.5 billion deficit last year. Also, the EU posted a trade surplus of EUR 66.2 billion in the first four months of the year, after a EUR 33.3 billion deficit in 2023. Imports declined by 10.4% to EUR 785.4 billion, mainly due to a fall in energy products (-9.7%), raw materials (-22.9%) and machinery & vehicles (-2.4%). Exports went up 0.9% to EUR

851.6 billion, with increases in machinery & vehicles (+11.7%), chemicals (+25.1%) and food & drink (+9.2%).

Does the EU trade recovery matter?



Source: Eurostat, BNY Mellon

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

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