BNY
iFlow
MARKET MOVERS

June 18, 2024

No Forecast

““The only function of economic forecasting is to make astrology look respectable.” – John Kenneth Galbraith
“It is not for us to forecast the future, but to shape it.” – Antoine de Saint-Exupery

Summary

Risk on as the tech rally that drove S&P500 to 30th new record of 2024 continues abroad. The NASDAQ is almost up 20% ytd – while the Nikkei is up just 15% and EuroStoxx50 is up almost 9% - those comparisons matter and help the diversification, value trade arguments abroad. The problems start with growth and end with policy as the RBA was on hold again today and AUD remains stuck at the lower end of its ranges. This continues with BOJ Ueda who hints at a July hike and sees JPY off 0.2%, while markets in Europe are bid but more on back of bad news confirming the ECB will have to ease further and faster. Divergence of this sort isn’t the diversity of investor dreams. For the day ahead in the US, its about the data and the mistrust of the tape to the reality as retail sales are expected up even as consumer moods sour or industrial production is seen up even as ISM stutters. There is also the supply which hit from the corporate side yesterday and continues with the US 20Y sale today. Many see it just as another pre-summer hot day waiting for more – and that might be delivered by Fed speakers more than economic data.

What’s different today:

- **China 10-year bond futures set record close** – up 0.1% to 104.87 – best since 2015 when they started – and the lowest yields in 20-years.
- **India Sensex rallies 0.4% to end at 77,301.1 – new record highs** – extending 4-days of gains. Domestic investors bought $2.1bn in shares so far in June.
- **iFlow continues to show carry lower** but neutral, trend higher and value flat while mood inches lower – the focus was on bond noise yesterday with LatAm outflow notable ex Argentina while in APAC it was Thailand and in G10 its Denmark. The FX world is mixed with USD sold but the bigger story is about AUD selling, CAD buying CHF and SEK buying against NOK and DKK selling.

What are we watching:

- **US May retail sales** expect up 0.3% m/m after 0% with ex auto and gas seen up 0.4% m/m after -0.1% m/m – key to matching moods to actions.
- **US May industrial production** expected up 0.3% m/m after 0% m/m – with capacity utilization 78.6% after 78.4% - suggesting output gap narrowing if not gone.
- **Fed Speakers**: Federal Reserve Board Governor Adriana Kugler, Fed Governor Lisa Cook, Boston Fed President Susan Collins, Dallas Fed chief Lorie Logan, St. Louis Fed boss Alberto Musalem, Richmond Fed President Thomas Barkin and Chicago Fed chief Austan Goolsbee all speak.
- **US Treasury sells $13bn in 20Y bonds** – expected to be important given the demand for 30Y last week.

Headlines

- Russia's Putin vows to build more trade and security systems with North Korea- Kopsi up 0.9%, KRW off 0.3% to 1381
- BOJ April service price index rises 2.8% y/y to 106.5 highest on record - BOJ Ueda hints at July hike – Nikkei up 1%, JPY off 0.25% to 158.15
- RBA leaves rates unchanged at 4.35% - as expected - 5th consecutive hold – ASX up 1.01%, AUD flat at .6615
- Singapore May NODX exports -0.1% m/m, -0.1% y/y- 4th consecutive decline – SGD off 0.15% to 1.3545
- German June ZEW rises 0.4 to 47.5 but current conditions fell 0.5 to -73.8 - suggesting stagnation – DAX up 0.25%, Bund 10Y yields up 1bps to 2.42%
- Eurozone June ZEW rises 4.3 to 51.3 - best since July 2021 - while May CPI confirmed up 2.6% y/y, core up 2.9% y/y – EuroStoxx 50 up 0.5%, EUR off

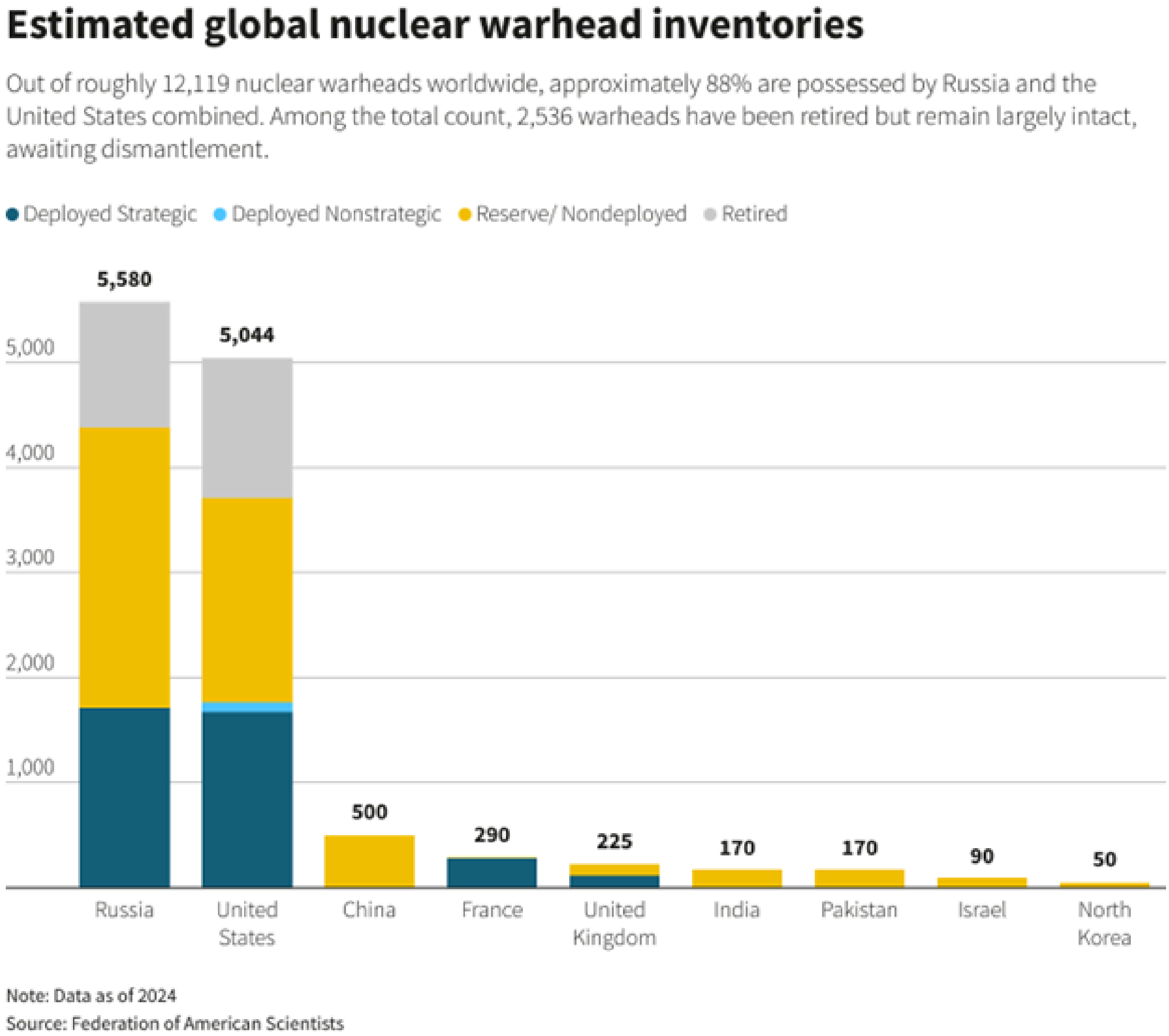
0.15% to 1.0715

- UK June Kantar Grocery inflation slows -0.3pp to 2.1% y/y - lowest since 2021 and 16th consecutive drop – FTSE up 0.3%, GBP off 0.15% to 1.2685
- US Philadelphia Fed Harker expects one rate cut this year - echoes Powell message – S&P500 futures flat, US 10Y yields up 1bps to 4.29%, US dollar index up 0.2%,

The Takeaways:

If you want to understand risk, follow the money. The markets have been focused on diversification as a panacea for mitigating concentration risks. The narrative that drove the US rally in 2023 was hope that the FOMC was nearing the end of rate hikes and a soft-landing would follow. The story matters for money flows as this all shifted in 2024 as the 6 rate cuts expected in January have become 1 in June. The idea of a soft-landing holds but with some warning that not cutting in 2024 means a recession in 2025. Others see the biggest losers to US growth beating expectations and a sticky inflation as key risks for the rest of the world - particularly emerging markets. The US according to the IMF and some Bloomberg work, took in one-third of the world’s capital since the pandemic. Some of this reflects the yield with Fed policy and the carry trade, but no all as there are two other key drivers for US exceptionalism beyond the interest rate - first is the growth from AI investments and better productivity. The US cutting of jobs during the pandemic and rehiring has been a broad social experiment that has led to more government spending and more corporate profits - both of which drive up US growth. The actual potential growth in the US maybe a debate whether it’s 1.5% or 2.0% but that stands out against Japan or EU or many emerging markets. The role of deficit spending and USD strength rhymes with the experience of the 1980s when the US last fought a Cold War with the Soviet Union and outspent its enemies. The last and perhaps most important part of USD strength is about this type of global insecurity and where investors see their money safest in the context of rule of law and returns. The ongoing wars in Israel and Ukraine are not part of the usual daily dialogue about market risk, in part because its hard to quantify their short term impacts, but the longer term stories that drive investments are more holistic and require such analysis. Today maybe described by many as key for marking the mood and actions of US consumers through the US retail sales number, or the US industrial production for the recovery there from a winter slowdown. However, the larger picture may continue to be about things that don’t have forecasts.

Does the Russia and North Korea meeting matter to markets?



Source: Reuters, BNY Mellon

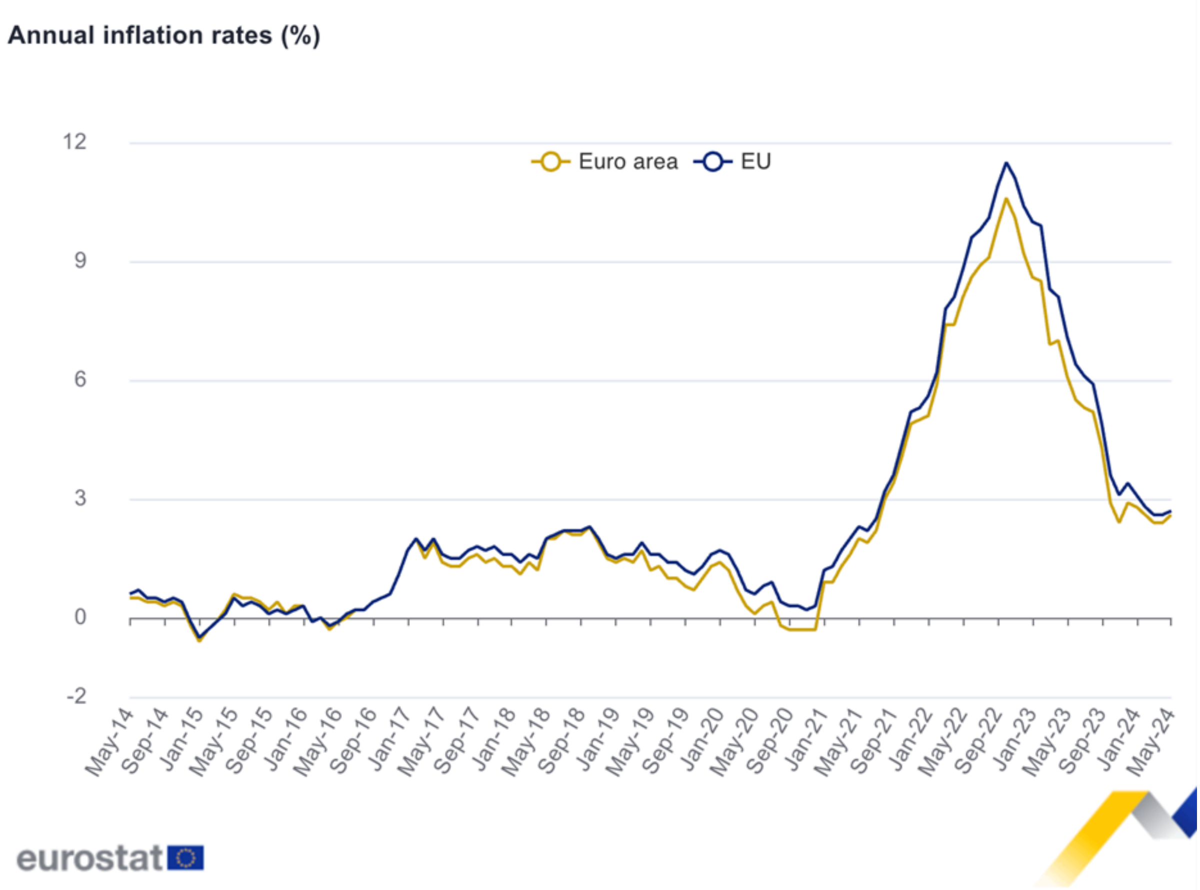
Details of Economic Releases:

1. German June ZEW economic sentiment index rises to 47.5 from 47.1 - weaker than 50 expected - while the current conditions subindex deteriorated to -73.8 from -72.3, missing expectations of -65. This suggests a stagnation in both economic expectations and the situation assessment in Germany. Additionally, respondents' inflation expectations have slightly increased, likely influenced by higher than anticipated inflation rates in May.

2. Eurozone June ZEW economic sentiment rises to 51.3 from 47 - better than 47.8 expected -best since July 2021 and the ninth consecutive improvement in the morale gauge, lifted by hopes that rate cuts by the ECB and lower inflation will offer an improved backdrop for the European economy to gain traction following its slowdown in 2022 and 2023. Still, the gauge measuring sentiment around current conditions was unchanged from the prior month at 38.6.

3. Eurozone May final inflation confirm up 0.2% m/m, 2.6% y/y after 0.6% m/m, 2.4% y/y - as expected. Prices rebounded for energy (0.3% vs -0.6%) and rose faster for services (4.1% vs 3.7%) but slowed for food, alcohol and tobacco (2.6% vs 2.8%) and non-energy industrial goods (0.7% vs 0.9%). The largest upward contribution came from the services sector. Among the major economies, inflation accelerated in Germany (2.8%), France (2.6%) and Spain (3.8%) but eased slightly in Italy (0.8%). Meanwhile, the core rate which excludes prices for energy, food, alcohol and tobacco also increased to 2.9% from 2.7%. The ECB recently revised its inflation forecasts higher and no see headline inflation averaging 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026.

Is Eurozone CPI sticky like the US?



Source: Eurostat, BNY Mellon

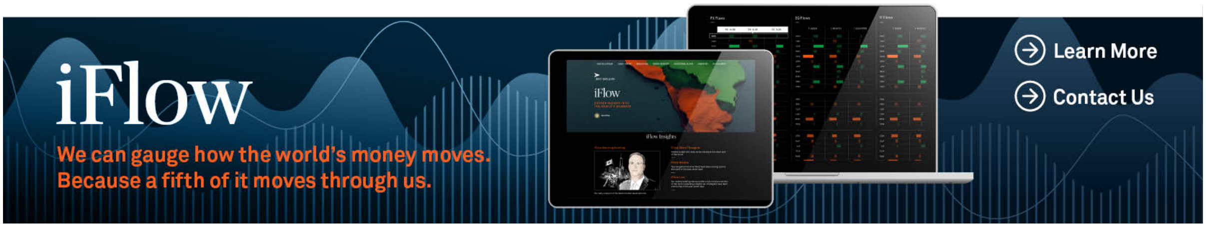
Disclaimer & Disclosures

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

Can’t see the email? View online



This message was sent from an unmonitored email box. Please do not reply to this message.

.