BNY

iFlow
MARKET MOVERS

June 20, 2024

Solstice

"Even the longest day has its end." - Proverb
"This is the solstice, the still point of the sun, is cusp and midnight, the year's threshold and unlocking, where the past lets go of and becomes the future; the place of caught breath, the door of a vanished house left ajar." - Margaret Atwood

Summary

Risk on as the SNB rate cut adds to hopes that the market gets 2 from the FOMC in the US and eventually easing from BOE and Norges bank - even as they wait today, they talk about easing in future. The return of US markets has Nvidia as the largest company in the world by market cap - claiming more importance by size than the GDP of all but 7 nations in the world. The value vs. growth vs. inflation mix makes today and the rest of June likely volatile despite the mood for easy money. The BOE waits for politics, and they clearly matter as polls suggest even the PM Sunk will lose his seat on July 4th. While in EU, Italian PM Meloni sees the far-right controlling the top spot of Europe after the French elections. Overnight, the reluctance of China PBOC to ease drove down property shares and the weakness of the CNY stands out. Over the Juneteenth holiday, US markets missed a larger Japan trade surplus and a lower UK CPI but the focus for today is on US growth vs. AI hype vs. jobs with markets getting $140bn in new 1M and 2M bills and $21bn in 5Y Tips and $60bn in 4M bills – supply will matter against stocks and the dollar exceptionalism.

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:

- **France sold 5Y OAT bonds at 3.03% - highest since October 2023** - but the E10.5bn 3-5-6 and 8 year bond sales today had sold bid/cover suggesting good demand. The Bund.OAT 10Y spread narrowed to 0.74% down from 1% last week - still at 7-year highs.
- **CNY fixed at weakest level since November** - CNH trades at 7-month lows as property developers and small caps lead losses in China shares with Hang Seng property index off 2% and CSI 2000 off 1.5%.
- **Climate change threats** hang over Haj pilgrimage with nearly 2 million Muslims visiting in the last week with hundreds dead from heat, while the heatwave in India has been linked to dozens of death in New Delhi; and the tropical storm Alberto in Mexico Gulf Coast strengthening in early hurricane season with 3 dead so far.
- **iFlow continues to show carry unwinding**, trend rising and value dropping as FX factors while in G10 the CHF buying and SEK continue but AUD and NZD suffer. EM is about ZAR selling and ongoing BRL, CLP outflows. The equity sectors all negative except real estate while emerging markets see inflows and developed outflows ongoing. Fixed Income is mixed with Canada bond buying against LatAm outflows and APAC selling except Indonesia.

Headlines

- UK BOE leaves rates unchanged at 5.25% - as expected – notes decision finely balanced in 7-2 vote – raises GDP outlook for 2Q up 0.3pp to 0.5% - FTSE up 0.4%, GBP off 0.25% to 1.2690
- Swiss SNB cuts rates 25bps to 1.25% - surprising some - warns it will intervene in FX as needed; Swiss Mkt up 0.2%, CHF off 0.65% to .8905

- Norway Norges Bank leaves rates unchanged at 4.5% - as expected - will wait to 2025r for easing; NOK up 0.3% to 10.53
- China PBOC leaves LPR 1Y and 5Y rates unchanged at 3.45% and 3.95% - as expected – CSI 300 off 0.72%, CNH off 0.1% to 7.2855
- Indonesia BI keeps rates unchanged at 6.25% - as expected – IDR off 0.4% to 16.425
- Brazil COPOM keeps rates on hold at 10.5% - with unanimous decision - as most expected – BRL flat at 5.4340
- Japan and South Korea warn on Russia-North Korea military pact – Nikkei up 0.16%, JPY off 0.2% to 158.40
- Taiwan May exports rose 7% y/y - with continued tech surge - Central bank warns on systemic risks of ETFs - Taiex up 0.85%, TWD up 0.1% to 32.32
- Singapore 1Q unemployment confirmed up 0.1pp to 2.1% - highest since 3Q 2022 – SGD off 0.15% to 1.3525
- Turkey June consumer confidence drops 2.2 to 78.3 - lowest since Dec 2023 – TRY off 0.7% to 32.783
- German May PPI moderates up 1.1pp to -2.2% y/y – 11-month highs – DAX up 0.5%, Bund 10Y yields up 1.5bps to 2.42%, EUR off 0.1% to 1.0730
- Hezbollah warns Israel of war "without limits" and also threatens Cyprus – WTI up 0.15% to $81.70

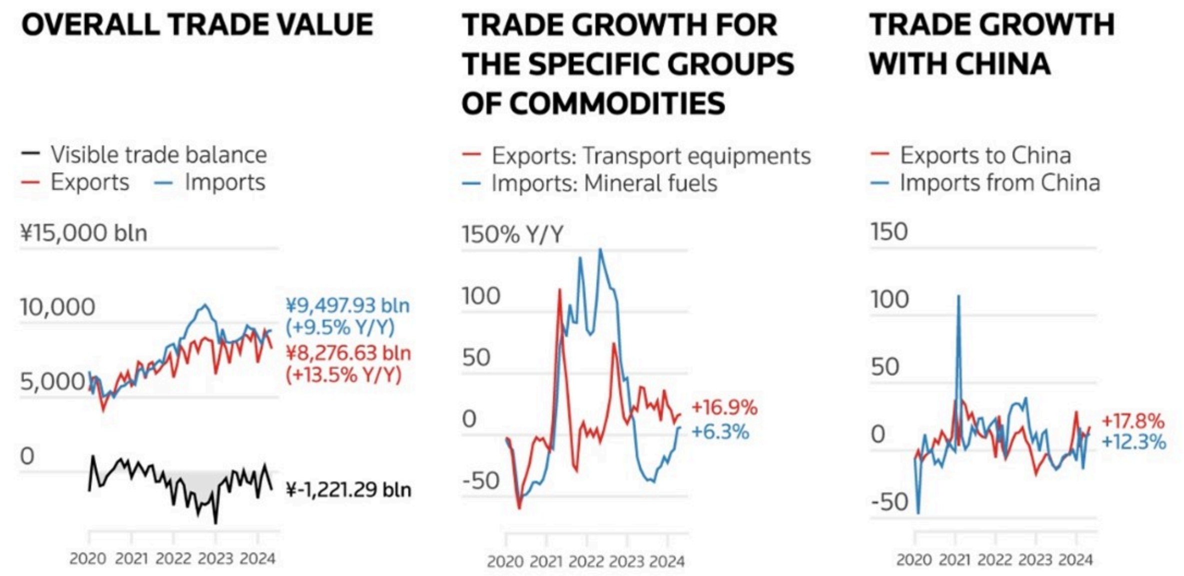
The Takeaways:

Elasticity of markets to price drive like the summer solstice, time matters to the sustainability of stretched valuations and flows. There is a keen focus on US AI and the flow of money into Nvidia up $2.3trn in market cap since October 2023. There is also a key focus on the USD as the valuations of the dollar stretch against Emerging Market FX and some in G10 like the JPY. Like a stretched rubber band, there is a snap or pullback moment which keeps investors on edge. However, as we have seen in our iFlow data – chasing trends and ditching carry – suggest some defensive view on FX. The buying of CHF and SEK stand out even as the SNB cut rates again today and threatens FX intervention to weak CHF. The JPY is the anomaly in the story with the power of price in weaker JPY finally showing up in the data yesterday via trade. The BOJ has also noted the inflationary power of weaker FX on its imports and so rate hike risks rise in July. There is no easy way to correct stretched holdings and ongoing flows other than time. The hope is that flows of money will find the returns expected and that growth follows with the expanding pie of the world catching up to the outsized moves. Whether this proves true or not matters but its months not days or hours away. The day ahead for US markets is more likely to chase the trend and wait for more data as Fed speakers or bill supply are unlikely to matter as much as growth outlooks globally.

Does the JPY correct over time or does growth catch up with more inflation?

Japan May exports rise on boost from weak yen

Japan's exports rose 13.5% year-on-year in May, driven by U.S.-bound shipments of cars and China-bound chip-making machinery as the weak yen helps make its goods more competitive. The trade balance came to a deficit of 1,221.29 billion yen.



Sources: LSEG Datastream

Pasit Kongkunakornkul • June 19, 2024 | REUTERS

Source: Reuters, BNY Mellon

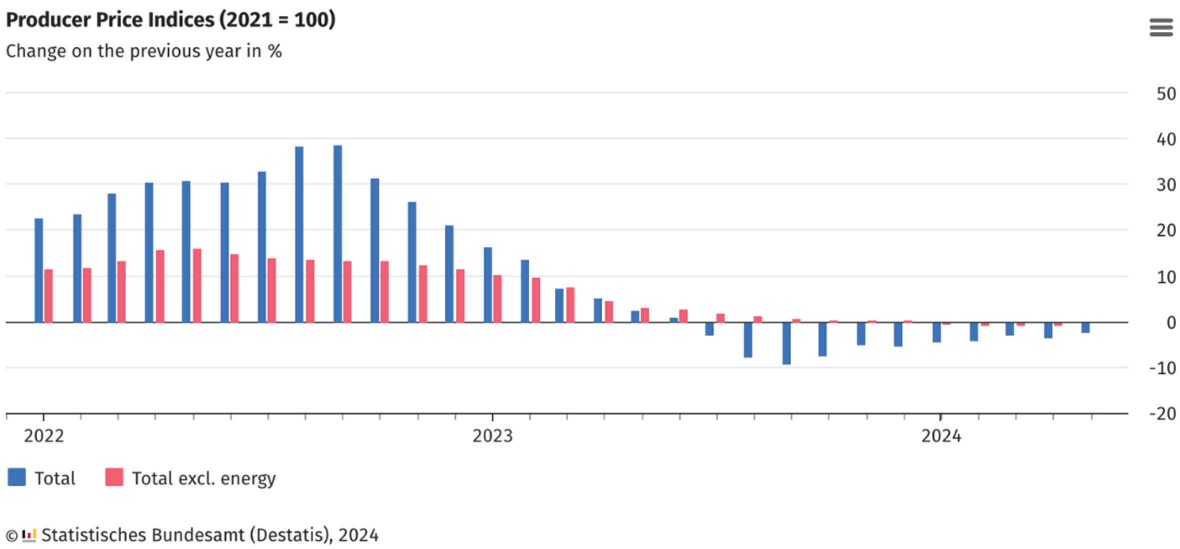
Details of Economic Releases:

1. Singapore 1Q final unemployment confirmed up to 2.1% from 2.0% - as expected. the highest level since Q3 of 2022, but remained within the range observed during non-recessionary periods. Retrenchment continued to decrease, falling from 3,460 in Q4 to 3,030 during the quarter, due to declines in the number of retrenchments from outward-oriented sectors such as wholesale trade and electronics manufacturing. Across the economy, more firms cited business reorganization or restructuring as the reason for retrenchment. Meanwhile, employment expanded for the tenth consecutive period, rising by 4,700, driven entirely by resident employment growth, while non-residents experienced negative employment change for the first quarter since Q3 of 2021.

2. Turkey June consumer confidence drops to 78.3 from 80.5 - weaker than 85 expected - lowest since December 2023, as sentiments weakened regarding the 12-month outlook on the general economic situation (76.1 vs 78.3 in May), financial situation of households (79.2 vs 82.8), and the consideration to spend on durable goods (94 vs 95.6). Meanwhile, concerns eased for unemployment over the next 12 months (73.7 vs 75.6) while the views on future inflation continued to rise (62 vs 60.7).

3. German May PPI rose 0.0% m/m, -2.2% y/y after +0.2% m/m, -3.3% y/y - less than the +0.3% m/m, -2% y/y expected -the 11th straight month of producer deflation but the lowest figure in the sequence, amid falling energy prices (-6.4%), notably natural gas (-16.3%) and electricity (-11.3%). At the same time, cost of intermediate goods shrank 1.8%, namely paper, paperboard, and paper products (-6.1%), basic chemicals (-4.9%), wood products (-4.5%), and metals (-4.1%). On the other hand, capital goods prices rose 2.4%, mainly due to machinery (2.6%) and motor vehicles, trailers and semi-trailers (1.6%). Also, cost of non-durable consumer goods increased 0.4%, mostly confectionery (21.7%) and butter (21.4%); while that of durable consumer goods added 0.7%. Excluding energy, producer prices remained unchanged from May 2023.

Is German PPI turning?



Source: Destatis, BNY Mellon

Disclaimer & Disclosures

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

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