BNY

iFlow

MARKET MOVERS

June 21, 2024

Fullness

“Fullness of knowledge always means some understanding of the depths of our ignorance: and that is always conducive to humility and reverence.” – Robert Andrews Millikan

“The fullness or emptiness of life will be measured by the extent to which a man feels that he has an impact on the lives of others.” – Kingman Brewster, Jr.

Summary

Risk off as the global PMI flash reports and as the Nvidia 3.5% yesterday lifted Apple back briefly to the largest company by market cap globally. The correlation of stocks down to USD up holds for now. The JPY weakness today was aggravated by core core CPI dropping to 2.1% y/y and talk of regional banks seeing deposit flights - putting some doubts on BOJ July hikes - while weaker European flash PMI hurt the EUR. The UK rebound in retail sales wasn’t enough to save the GBP as politics trump economics. All this leave the US market to mop up the fulness of the noisy week with hopes that US growth can hold, FOMC rate cuts will happen and that the full moon won’t lead to risk off howls but a cooler weekend.

What’s different today:

- **China shares seeing outflow** - CNY 33bn or $4.54 billion left the mainland this month via the Northbound leg of the Stock Connect Scheme - following four months of net inflows. Also, notable that 10Y China government bond yields broke 2.50%.
- **Industrial metal prices drop** with copper of 1% and Steel rebar off 0.95% - also notable EU natural gas off 1.1% while US slips 2.3%

- **iFlow now shows FX carry factor as significantly negative** – first time in a year – while trend up and value down and mood stuck in neutral. FX shows CHF buying, ZAR selling along with THB. In bonds it's about ongoing selling in LatAm and APAC except Indonesia. Equities showed outsized US selling along with UK and EU while Korea, Poland and Israel saw inflows.

What are we watching:

- **US June flash S&P Global manufacturing PMI** expected 51 from 51.3 and services 54 from 54.8 – important to confirm slowing economy globally
- **US May LEI** expected -0.3% m/m after -0.6% m/m – important to confirm slowing economy
- **US May existing home sales** expected -1% m/m to 4.10mn rate after 4.14mn – the drop in starts mattered yesterday as does this today given rate sensitivity

Headlines

- Japan May CPI rises 0.3pp to 2.8% y/y – most since Feb 2024 led by electricity – but core up 0.3pp to 2.5% y/y; June flash composite PMI fell 2.6 to 50.0 led by services contracting, worst since Aug 2022, FT: 62 regional banks at risk of deposit flight – Nikkei off 0.09%, JPY flat at 158.95
- US and China hold first informal nuclear talks in 5-years with focus on Taiwan – CSI 300 off 0.22%, CNH flat at 7.2895
- Australian June flash composite PMI slips 1.5 to 50.6 – worst in 5-months led by manufacturing weakness – ASX up 0.34%, AUD off 0.1% to .6650
- MSCI decides to leave Korea in emerging markets through Mar 2025 amid its short covering ban; May PPI up 0.4pp to 2.3% y/y and highest since Mar 2023– Kospi off 0.83%, KRW off 0.25% to 1388.10
- India June flash composite PMI rose 0.4 to 60.9 – near record rise in employment – Sensex off 0.35%, INR up 0.15% to 83.535
- French June business confidence holds at 99 – 4-months lows – while flash composite PMI drops 0.7 to 48.2 at 4-month lows – CAC 40 off 0.7%, OATs 10Y off 4bps to 3.158%
- German June flash composite PMI off 1.8 to 50.6 – 2-month lows with manufacturing output off 4 to 44.9 - DAX off 0.6%, Bund 10Y yields off 7bps to 2.365%
- Eurozone June flash composite PMI off 1.4 to 50.8 – 4th month of expansion, manufacturing at 6-month lows – EuroStoxx 50 off 0.8%, EUR off 0.15% to

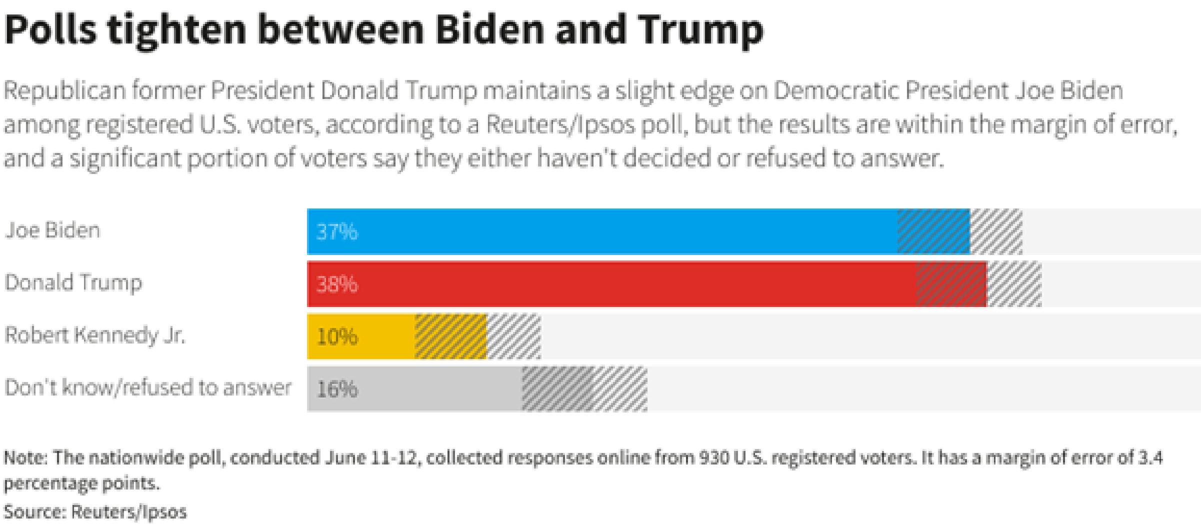
1.0680

- Israeli Military Leader: Hamas can't be destroyed, adds to Israeli politic divide with Netanyahu – ILS off 0.35% to 3.7480
- UK May retail sales up 2.9% m/m, 1.3% y/y – best in 4 months, up 1% q/q, while flash composite PMI drops 1.3 to 51.7 weakest in 7 months – FTSE off 0.9%, GBP off 0.2% to 1.2630
- US Treasury FX monitoring list: China, Japan, Malaysia, Singapore, Taiwan, Vietnam and Germany – but none met all criteria for enhanced analysis

The Takeaways:

In the fullness of time all things are made whole. This might be the lesson for markets today as the vertigo of Nvidia hurts shares everywhere. The USD correlation is negative but for how long will be the question – as US flows drive the USD. The other big focus today is on home sales and the flash PMI report – neither seem likely to shift a divided Fed on September cutting hopes. There is that other story for markets that looms into the month – politics. Today the polls show that Macron in France is up 4% to 22% but the Le Pen RN remains the leaders at 34%. The other polls for the US will be crucial after the first Biden/Trump debate on June 27. Markets have been able to ignore the US political risks and focus instead on Fed policy until now. The risk of markets may be turning accordingly. The contrasts in policy prescriptions and what it means for inflation and growth are likely to be the key for understanding how the summer unfolds.

Do Polls matter to the USD over the summer?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Japan May core inflation rises to 0.5% m/m, 2.5% y/yv after 0.2% m/m, 2.2% y/y – less than the 2.6% y/y expected –** still picking up from April's 3-month low and marking the first rise since February amid a sharp jump in energy prices, notably electricity as the government fully removed subsidies. However. the “core core” CPI (ex-food and energy) fell to 2.1% y/y from 2.4% y/y – lowest since Sep 2022. The headline CPI rose 0.5% m/m, 2.8% y/y after 2.5% y/y – highest since February. There was a steep upswing in electricity prices as energy subsidies fully ended (14.7% vs -1.1% in April), reversing declines in the prior 15 months. At the same time, prices rose further for food (4.1% vs 4.3%), housing (0.6% vs 0.6%), transport (2.3% vs 2.7%), furniture & household utensils (2.9% vs 2.5%), clothes (2.2% vs 2.2%), healthcare (1.1% vs 1.2%), culture (5.2% vs 6.2%), miscellaneous (1.2% vs 1.1%), and communication (0.4% vs 1.0%). By contrast, education prices fell for the second straight month (-1.0% vs -0.9%).

2. **Japan June flash Jibun Bank composite PMI fell to 50.0v from 52.6 – weaker than 53.7 expected**. The flash manufacturing PMI fell to 50.1 from 50.4 while the services PMI fell to 49.8 from 53.8 – the first contraction since August 2022. Both new orders and overseas sales declined after increasing in May. At the same time, employment growth slowed while backlogs of work fell less than that in May. On the cost front, input prices rose the most in over a year due to a weak yen and rising labor costs. Meanwhile, output cost inflation moderated. Finally, confidence stayed upbeat but the degree of optimism eased.

3. **Korea May PPI rose 0.1% m/m, 2.3% y/y after 0.3% m/m, 1.9% y/y – more than the 2.1% y/y expected** - the highest figure since March 2023 led by a jump in prices of manufacturing products (1.9 percent vs 1 percent in April) and services (2.4 percent vs 1.9 percent). Meanwhile, costs rose at the same pace for electric power, water, and gas (3.9 percent), but went up softer for agricultural, forestry, and marine products (2.3 percent vs 1.9 percent).

4. **Australian June flash Judo Bank composite PMI drops to 50.6 from 52.1 – weaker than 53.4** expected. The flash manufacturing PMI fell further to 47.5 from 49.7 while the services fell to 50.6 from 52.5. Still, the fifth straight month of expansion in Australia's private sector, albeit the lowest one. New orders declined across both sectors, attributed to high interest rates and weak economic conditions. Firms cleared backlogs with increased staffing levels, although job creation was the slowest in seven months and limited to the service sector. Input costs rose at the slowest pace in over three years, leading to softer selling price increases. Business confidence dropped to a seven-month low due to concerns about further economic deterioration.

5. **India June flash HSBC composite PMI rises to 60.9 from 60.5 – better than 60.7 expected.** The manufacturing flash PMI rose to 58.5 from 57.5 while services rose to 60.4 from 60.2 – both sectors regained momentum after easing in May. Total new orders surged, exceeding May's growth, while new export orders increased for the twenty-second straight month, the second-fastest pace since September 2014. Consequently, there was a substantial upturn in aggregate employment and purchasing activity. On prices, input cost inflation softened and was below its long-run average, while output charge inflation also moderated from the prior month. Finally, business confidence dropped to a three-month low but remained optimistic and above the series average.

6. **French June business confidence flat at 99 along with business climate – weaker than 100 expected** - holding below its long-term average and at a four-month low, as manufacturers' evaluations turned more pessimistic for past production (-6 vs -2 in May), overall order books (-18 vs -17), and the general production outlook (-11 vs -9). At the same time, assessments were less positive for stocks of finished products (9 vs 10), while the gauge for perceiving economic uncertainty increased (30 vs 27). On the other hand, views improved for expected change in workforce (4 vs 3), personal production (4 vs 2), while it was unchanged for foreign order books (-9).

7. **Eurozone June flash HCOB composite PMI 50.8 from 52.2 – weaker than 52.5 expected – 4th monthly expansion**. The expansion was solely carried by the services sector (52.6 vs 53.2 in May). Despite its slowdown, growth in services was enough to offset the deeper contraction for manufacturing (45.6 vs 47.3), a six-month low. New orders at the aggregate level contracted for the first time in four months, pressured considerably by low export demand, and driving firms to rely on depleting backlogs to secure the slight growth in output. In the meantime, headcounts rose at the softest pace since March. On the price front, input cost inflation was at the lowest this year, allowing firms to increase output charges the least in eight months. Still, it marked the first time in 16 months that both services and factories saw input inflation

8. **UK June flash composite PMI slows to 51.7 from 53.0 – weaker than 53.1 expected**. The manufacturing flash PMI rose to 51.4 from 51.2 while the services fell to 51.2 from 52.9. Overall, the weakest growth since November 2023. The slowdown was primarily driven by a deceleration in the service sector, despite a stronger performance in manufacturing. Though new business increased marginally, it remained flat compared to the previous month, marking the lowest level in seven months. Declining foreign demand for manufactured goods led to a decrease in new export orders, ending a two-month period of slight gains. Private sector employment

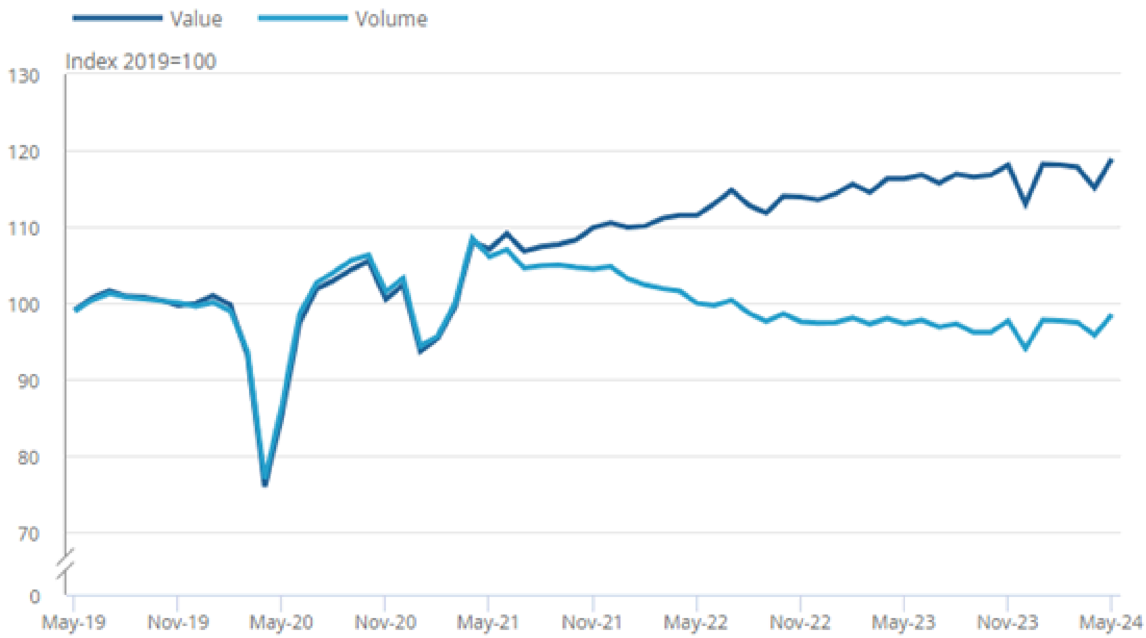
continued to rise, albeit at a slower pace due to hiring challenges and cost-cutting measures. Input prices rose from a 40-month low, resulting in higher prices across the private sector hitting a four-month high. Fianlly, business confidence in future output weakened, influenced by political uncertainty ahead of the general election.

9. UK May retail sales jump 2.9% m/m, 1.3% y/y after -1.8% m/m, -2.3% y/y – better than the 1.3% m/m -0.9% y/y expected - the biggest increase in four months, with sales at non-food stores rising 3.5%, the most since April 2021, following a 3% slump in April. Gains were led by clothing and footwear retailers, furniture stores, and sports equipment, games and toys stores, amid improved footfall, better weather, and the impact of promotions. Also, sales at non-store retailers, which are predominantly online retailers, rose by 5.9%, the largest monthly increase and index level since April 2022.

Do retail sales slow the BOE cutting plans?

Sales volumes and values rebounded in May

Volume and value sales, seasonally adjusted, Great Britain, May 2019 to May 2024



Source: Monthly Business Survey, Retail Sales Inquiry from the Office for National Statistics

Source: UK ONS, BNY Mellon

Disclaimer & Disclosures

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

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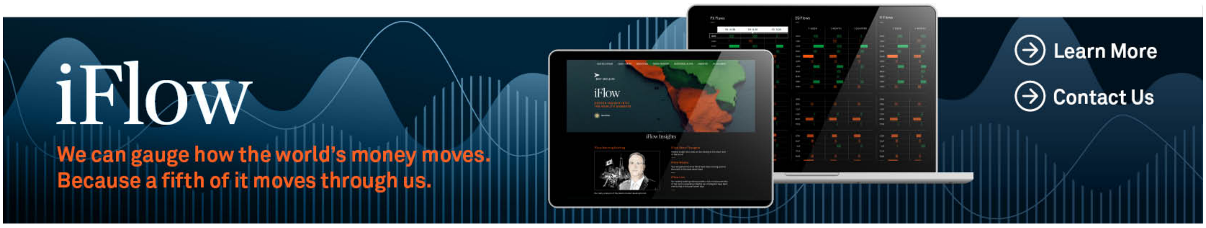

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