

# iFlow

## MARKET MOVERS

June 3,, 2024

## Certainty

*“The power of the lawyers is in the uncertainty of the law.” – Jeremy Bentham*

*“Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected.” – George Soros*

### Summary

Risk on as global manufacturing PMI point to 2-year high growth in China, UK and India sees new record high for Sensex on election exit polls showing another Modi win with large majority. Mexico is another story with Morena ruling party at 57.9% of vote putting Sheinbaum as first woman President and fears of 2/3 control leading to constitutional reforms driving down MXN. The overall mood for risk is positive given the certainty of elections finished and the ongoing push for growth mixed with inflation and hopes for rate cuts from ECB and BOC this week. On the day US focus will be on ISM and signs of growth after last week took 1% from 2Q GDP outlook leaving Atlanta Fed GDPnow up just 2.7%.

### What's different today:

- **India 10-year bonds rally - yields below 7% to 1-year lows** - as exit polls suggest 2/3 majority for NDA and BJP coalition. As RBI pays dividend to government and with high cash balances at government.
- **South Africa equities up 1%** - first gain in 4-days. ANC in South Africa gets 40.2% of vote - securing 159 seats far short of majority in 400 seat National Assembly - Allies urge PM Ramaphosa to join with business friendly DA
- **iFlow showing ongoing neutral mood** for risk – higher carry and trend but they are neutral zone still – while Friday flows confirm USD buying CAD selling in G10 with EM seeing CNY and MXN outflows against ZAR and PLN buying,

Equities in US sold notably, while bonds sold in Sweden, Brazil and South Africa.

### What are we watching:

- **US May ISM manufacturing** expected 49.6 from 49.2 – tracking other bounces globally
- **US May final manufacturing PMI** expected up 50.9 with focus on prices/jobs
- **US April construction spending** expected up 0.2% m/m after -0.2% m/m – warehouses/data centers key.

### Headlines

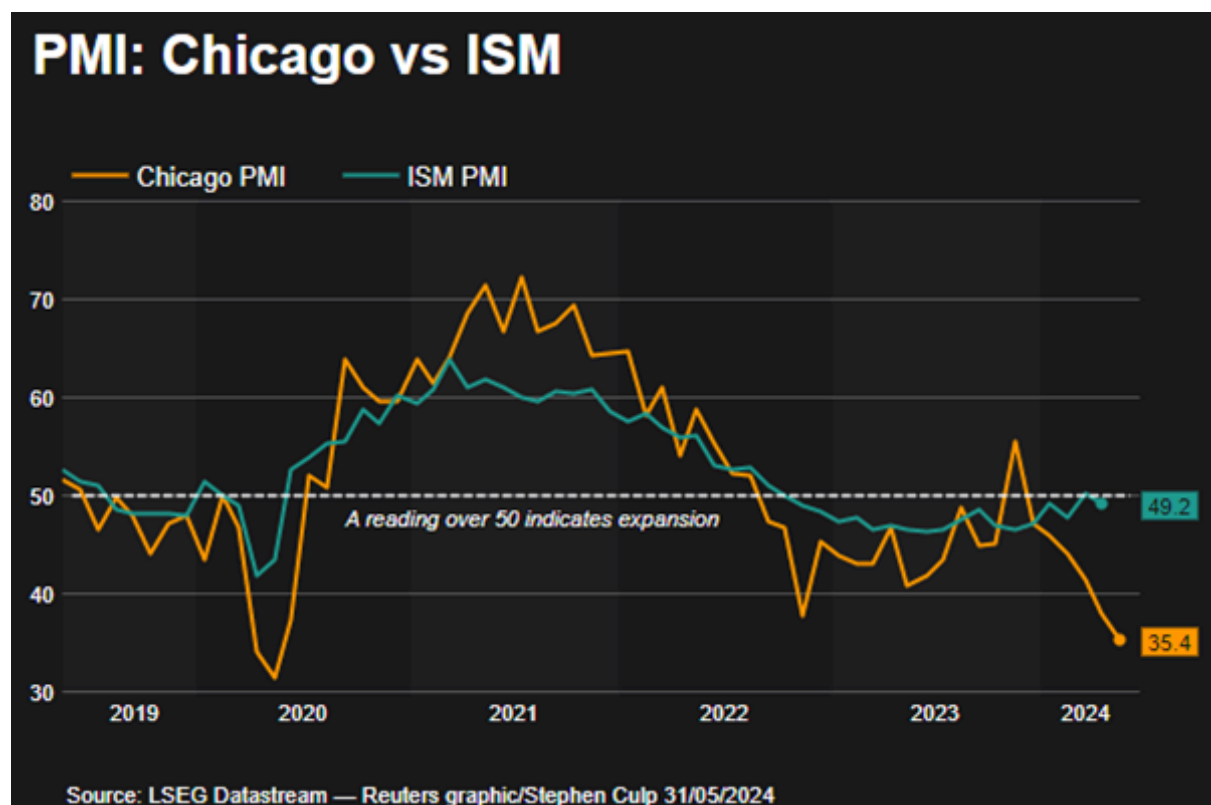
- Mexico elects first woman President - Claude Sheinbaum- with coalition on track for 2/3 majority in both houses setting up constitutional reforms - MXN off 3% to 17.55
- Australia May final manufacturing PMI up 0.1 to 49.7- 4th month of contraction with better jobs, higher prices – ASX up 0.77%, AUD flat at .6655
- Japan May final manufacturing PMI up 0.8 to 50.4 - best in 12 months, jobs improve – Nikkei up 1.13%, 10Y JGB off 0.6bps to 1.052%, JPY up 0.35% to 156.65
- Korea May manufacturing PMI up 2.2 to 51.6 - first expansions in 3 months, best since May 2022 - led by orders, Kospi up 1.7%, KRW up 0.65% to 1376
- China May Caixin manufacturing PMI up 0.3 to 51.7- best since June 2022 – CSI 300 up 0.25%, CNH flat at 7.26
- Indonesia May CPI off 0.16pp to 2.84% y/y - lowest since Feb - but core up 0.11pp to 1.93% - 8-month highs – IDR up 0.15% to 16,225
- India May final manufacturing PMI off 1.3 to 57.5 - with sales and output higher, prices at 21-month highs - Sensex up 3.39%, INR up 0.4% to 83.14
- Turkey May CPI up 5.65pp to 75.45% y/y - highest since Nov 2022 - but core off 0.82pp to 74.98% y/y – TRY up 0.15% to 32.20
- Eurozone May final manufacturing PMI up 1.4 to 47.3 - 14-month highs – EuroStoxx 50 up 0.7%, EUR off 0.1% to 1.0840
- UK May final manufacturing PMI up 2.1 to 51.2 - best in 2-years, optimism at 27-month highs – FTSE up 0.2%, GBP off 0.1% 1.2735
- OPEC+ extends oil production cuts to end of 2025- Russia-China gas pipeline deal stall over price – WTI Oil up 0.15%, EU NatGas up 9.5%

## The Takeaways:

The May month end beckons but the core PCE prices could continue to add to fears into June. Also, today we get sovereign rating reviews for Europe – Italy, France, Greece and Ireland – that matters in the context of sticky inflation and nascent recovery with too much debt. The South Africa election count continues – but ZAR is at 5-week lows and seems unlikely to find relief, similarly MXN is waiting for the Sunday vote and mourns yet another murder of a mayoral candidate into the event. Violence into the election mars that democracy and adds to focus on role of cartels in the country let alone the US. Oil markets hold with the Sunday OPEC+ meeting with some talk of another production deal to cut back output into 2025. The biggest event ahead maybe wrapped into how investor's view politics with the polling on Trump now more important post his trial. The risk to markets will track any shift and how money is being raised and spent by Biden and Trump teams as they push for November 5 victories. The entrenchment of voters into summer makes many worry that the finale for the election maybe known well before then.

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## Will ISM improve?



Source: Reuters, BNY Mellon

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## Details of Economic Releases:

**1. Australia May final Judo Bank manufacturing PMI improves to 49.7 from 49.6 - better than 49.6 flash** - fourth month of contraction. Manufacturing production fell at a marginal pace as new orders declined to a softer degree. New export orders

notably rose for the first time since late 2022. This supported a renewed rise in employment, while firms also accumulated more finished goods. Pre-production stock holdings continued to fall, however, as optimism among manufacturers softened. Overall sentiment in the Australian manufacturing sector remained positive in May, with firms expecting better market conditions, new product launches and marketing efforts to drive sales in the year ahead. Meanwhile, price pressures intensified.

**2. Japan May final Jibun Bank manufacturing PMI 50.4 from 49.6 - weaker than 50.5 flash** - still best in 12-months due to a renewed growth in pre-production inventories and broadly stable volumes of new orders and production. Foreign demand fell modestly due to weak demand from China, Europe, North America, and Vietnam. Employment increased for the third straight month alongside a rise in capacity to facilitate the clearing of pending workloads. Purchasing activity declined modestly, while delivery times were broadly stable. On prices, input accelerated to the highest in 13 months amid higher labor, materials, and transportation costs and the weakness in exchange rates. As a result, output price inflation rose to a year high. Finally, business sentiment weakened slightly but remained above the long-run trend.

**3. Korea May manufacturing PMI rises to 51.6 from 49.4 - better than 49.2 expected** - the highest reading since May 2022. The upturn was mainly driven by strong new orders, with total sales rising at the quickest rate since February 2022, amid robust demand from domestic and international markets. Consequently, production expanded at its sharpest pace in almost three years. At the same time, employment returned to growth after a modest decline in April, while manufacturers ramped up their purchasing activity at the steepest rate since April 2022. In terms of prices, input price inflation accelerated to its highest level since October of last year, pushed by higher commodity prices, while output charges grew slightly weaker than previously seen. Looking ahead, the 12-month outlook for production was positive, with firms noting a need to expand their workforces to meet anticipated sales growth.

**4. China May Caixin manufacturing PMI rises to 51.7 from 51.4 - better than 51.5 expected** - best since June 2022, as output grew the most in 23 months amid rising new orders. New export orders, however, expanded at a much softer than April's 41-month high due to a lackluster global economy. Meanwhile, employment declined for the ninth consecutive month, albeit at a softer rate, while backlogs of work rose for the third month in a row and at the fastest pace since September 2021 amid rising new work inflows. Purchasing activity climbed to the quickest in three years. On prices, input cost inflation accelerated to the highest since last October,

boosted by higher metals, plastics, and energy costs. As a result, output costs increased as firms shared their rising cost burdens with clients. Lastly, business sentiment strengthened amid hopes of improving domestic and global demand.

**5. Indonesia May CPI slows to -0.03% m/m,+ 2.84% y/y after +0.25% m/m, 3.0% y/y - more than the 0.1% m/m, 2.95% y/y expected** - lowest reading since February, staying within the central bank's target range of 1.5 to 3.5%, as food prices rose the least since January (6.18% vs 7.04% in April). Also, inflation slowed for health (2.06% vs 2.08%), furnishings (0.85% vs 0.99%), and education (1.71% vs 1.72%). Simultaneously, prices continued to drop for communication & financials (-0.16% vs -0.13%). On the other hand, prices accelerated for housing (0.54% vs 0.50%), transport (1.34% vs 1.33%), accommodation/restaurants (2.51% vs 2.47%), clothing (1.10% vs 0.67%), and recreation & culture (1.60% vs 1.58%). Meanwhile, the core inflation increased to an eight-month peak of 1.93% from 1.82% in April, above forecasts of 1.88%.

**6. India May final HSBC manufacturing PMI 57.5 from 58.8 - weaker than 58.4 flash** - still substantial growth in the country's manufacturing sector, amid a softer rise in new orders and output. Companies indicated that working hours had been reduced due to intensive heatwave during the month, which may have affected production volumes. Meanwhile, new export orders increased to its highest level in over 13 years, with a broad-based demand across geography. Also, employment rose to one of the greatest extents seen since data collection started in March 2005. On the cost side, input prices rose, driven by higher raw material and freight costs. Looking ahead, manufacturers expressed the highest level of positive sentiment towards growth prospects in nearly 9-1/2 years, buoyed by advertising and innovation, alongside expectations that economic and demand conditions will remain favorable.

**7. Turkey May inflation rises 3.37% m/m, 75.45% y/y after 3.18% m/m, 69.8% y/y - more than the 74.8% y/y expected** - highest reading since November 2022, mainly driven by a surge in prices for housing & utilities (93.21% vs 55.55% in April). At the same time, inflation went up for food & non-alcoholic beverages (70.14% vs 69.80%), and furnishings, household equipment, & routine maintenance (69.34% vs 67.88%). On the other hand, prices primarily slowed for hotels, cafes & restaurants (92.94% vs 95.82%), clothing & footwear (50.85% vs 51.20%), and transport (79.10% vs 80.39%). Meanwhile, the core inflation slowed to 74.98% compared to 75.81% in the prior period.

**8. Eurozone May final HCOB manufacturing PMI 47.3 from 45.7 - weaker than 47.4 flash** - still the highest reading since March 2023, indicating the slowest decline in the Eurozone manufacturing sector in over a year. It was the third consecutive

month of slowing output decline, with production nearing stabilization. Contractions in new orders, exports, and purchasing activity also eased. In terms of prices, input costs fell at a marginal rate, and factory gate prices decreased again. Finally, positive sentiment reached its highest level since February 2022, surpassing the series average.

**9. UK May final CIPS manufacturing PMI rises to 51.2 from 49.1 - weaker than 51.3 flash** - still the fastest pace since April 2022, driven by increased new work, stronger market conditions, and efforts to complete existing contracts. New business for UK manufacturers grew for the second time in three months, reaching the highest level since April 2022. However, new export orders fell for the twenty-eighth consecutive month. Looking ahead, the outlook improved as positive sentiment among manufacturers reached its highest level since early 2022, with 63% of companies expecting output to expand over the coming year.

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### Does better manufacturing help Tories or the BOE?

#### UK Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 9-28 May 2024.

Source: S&P Global PMI, BNY Mellon

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#### Disclaimer & Disclosures

Please direct questions or comments to: [iFlow@BNYMellon.com](mailto:iFlow@BNYMellon.com)



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