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iFlow
MARKET MOVERS

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Missing Expectations

“Choose one: chronic disappointment or lowering your expectations to the point where nothing can disappoint you. But consider also that you might miss feeling disappointed.” – Sara Manguso
“I’m no in this world to live up to your expectations and your’re not in this world to live up to mine.” – Bruce Lee

Summary

Risk off as markets rethink the India election, reconsider the US slowdown with GDPnow at 1.8% after weaker ISM and construction spending, and rethink the power of rate cuts to stoke demand in Europe. The pain from elections missing expectations dominates markets today and yesterday with Mexico’s equity market off 6.11% yesterday and the India Sensex nearing that today. The path for US soft-landing has returned to expecting FOMC easing in September with 60% now priced for that event. The USD drops 1% over the last week reflecting the loss of US exceptionalism. Markets are watching oil and gold as signals for deflation more than inflation – putting todays US data back into focus with JOLTS and Factory Orders not expected to help the normalization process from stocks to bonds.

What’s different today:

- **India vote count shows Modi BJP winning but not in landslide** - with party short of 453 majority getting 53% of vote down from 65% in 2019 - calls into question coalition and government infrastructure plans – Sensex drops 5.74%, INR off 0.5% to 83.53

- **Oil drops further - off 1.5%** to $77.15 Brent - led by over supply fears despite OPEC+ with US slowdown worries
- **iFlow shows drop in value factor** out of significance while risk mood overall neutral still. USD flat but G10 continues to sell CAD and NZD against buying GBP. EM selling CNY and BRL vs. PLN and ZAR. Not much in MXN despite the tape. Fixed Income shows South Africa and Brazil bond selling while US buying continues. Equities mixed with Swiss notable in G10.

What are we watching:

- **US April JOLTS job openings** expected down to 8.34mn after 8.488mn
- **US April factory orders** expected up 0.6% m/m after 1.6% m/m with ex-transport up 0.4% m/m after 0.4% m/m

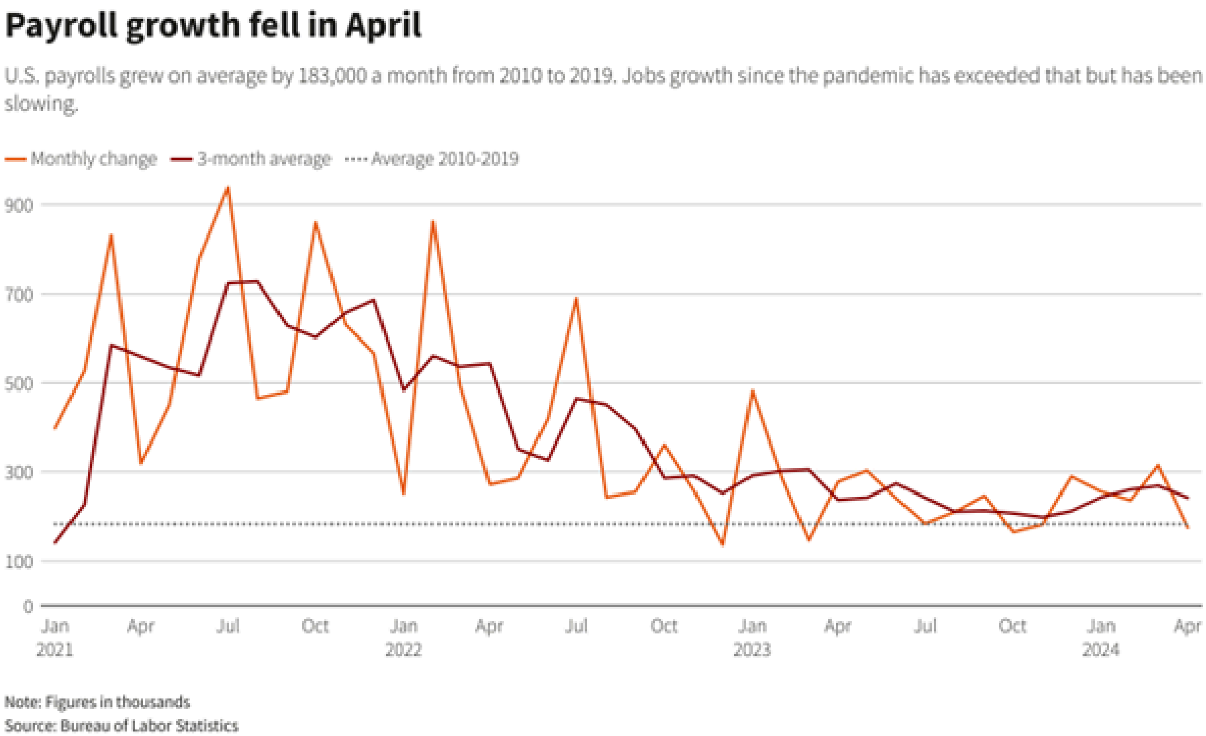
Headlines

- Japan MOF Suzuki confirms FX intervention of $62.7bn - sees it having a "certain effect." - Noto Peninsula hit with another 6.0 earthquake – Nikkei off 0.22%, JPY up 0.6% to 155.20
- China raises flag on far-side of moon, Chang'e 6 craft lifts off with rock samples – CSI 300 up 0.75%, CNH up 0.1% to 7.2455
- Korea May CPI slows to 0.1% m/m, 2.7% y/y - lowest since July 2023- Kospi off 0.76%, KRW flat at 1375.9
- Australian 1Q gross corporate profits drop -2.5% q/q - reversing from 1-year highs - led by mining - while 1Q C/A flips to A$4.9bn deficit - linked to trade and weaker primary surplus - while Apr final retail sales confirmed +0.1% m/m, +1.3% y/y – ASX off 0.31%, AUD off 0.6% to .6645
- South Africa 1Q GDP misses -0.1% q/q, +0.5% y/y - dragged down by construction, mining and manufacturing – ZAR off 0.75% to 18.645
- German May unemployment rises 25k- rate holds 5.9% near 3-year highs – DAX off 1%, Bund 10Y yields off 2bps to 2.56%, EUR off 0.25% to 1.0870
- Spanish May unemployment drops 58,650 - lowest since 2008 – IBEX off 1.15%, SPGB flat at 3.29%

The Takeaways:

Are we being set up for more trouble? Seasonality matters to data and April had big noise from such in it for unemployment – will that bounce back in May? Markets are shifting to a new normalization where US growth slowing isn't enough to change inflation but hurts asset prices. Good news isn't good for markets as it pushes back on US rate cuts, while bad news isn't good either as it has to be bad enough to slow the rate of inflation. The next big focus is Friday unemployment but the JOLTS report today is going to test the waters of this as many see it more detailed in the Beveridge Curve of job openings to job seekers. There is a risk that markets are too pessimistic on US exceptionalism – the USD 1% drop since last week seems out of step to the data that still shows a US economy in 1H 2024 growing 1.5% or more. The slow down should help not hurt price pressures and this gets to the output gap targeting of the Bank of Canada and other central bankers. The US has no output gap but probably doesn't want one either. The risk of how this all-leaves markets today is going to be reflected again in rates with US FOMC policy still central to how the world trades anything.

Will JOLTS matter?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Korea May CPI up 0.1% m/m, 2.7% y/y after 0% m/mm, 2.9% y/y - less than the 0.2% m/m, 2.8% y/y expected**. - the lowest reading since July as cost rose at a softer pace for food and non-alcoholic beverages (5.1% vs 5.9% in April); housing, electricity, gas and water (1.4% vs 1.8%) and restaurant and hotels (2.9% vs 3%). Meantime, prices went up at a faster pace for transport (3.8% vs 2.9%).

2. **Australian 1Q corporate profits drop -2.5% q/q after +7.1% q/q - worse than the -0.9% q/q expected** - reversing from 4 quarter highs. Profits shrank for miners (-6.1% vs 15.7% in Q4), builders (-1.2% vs -1.3%), wholesale traders (-0.6% vs -1.7%), retail traders (-0.9% vs -9.4%), transport and warehousing providers (-0.8% vs 6.1%), financial and insurance (-7.4% vs 37.2%), administrative and support services (-3.9% flat reading), and other services (-6.3% vs -2.7%). By contrast, profits grew for manufacturers (2.1% vs 0.8%), utility providers (1.4% vs 8.4%), accommodation (1.0% vs -2.0%), information (3.7% vs flat reading), arts and recreation (9.2% vs -6.3%), and rental, hiring (3.4% vs 2.0%). Through the year to March, corporate profits sank 8.6%, the fourth quarter of drop, after a 5.4% decline in the prior period.

3. **Australian 1Q current account swung into deficit A$4.9bn after revised A$2.7bn surplus - worse than the A$5.9bn surplus expected -** due to a fall in the trade surplus and a rise in the net primary income deficit. The balance goods and services surplus plunged to AUD 17.7 billion in Q1 from AUD 23.9 billion in Q4, boosted by a rise in import of goods and declining in goods export prices led by metal ore prices. Simultaneously, the net primary account gap widened for the second time since Q2 of 2022 to AUD 22.3 billion in Q1 from AUD 20.8 billion in Q4, amid an increase in primary income debits due to higher profits on foreign direct investment. Meanwhile, the net secondary income deficit narrowed slightly to AUD 0.36 billion from AUD 0.39 billion in Q4.

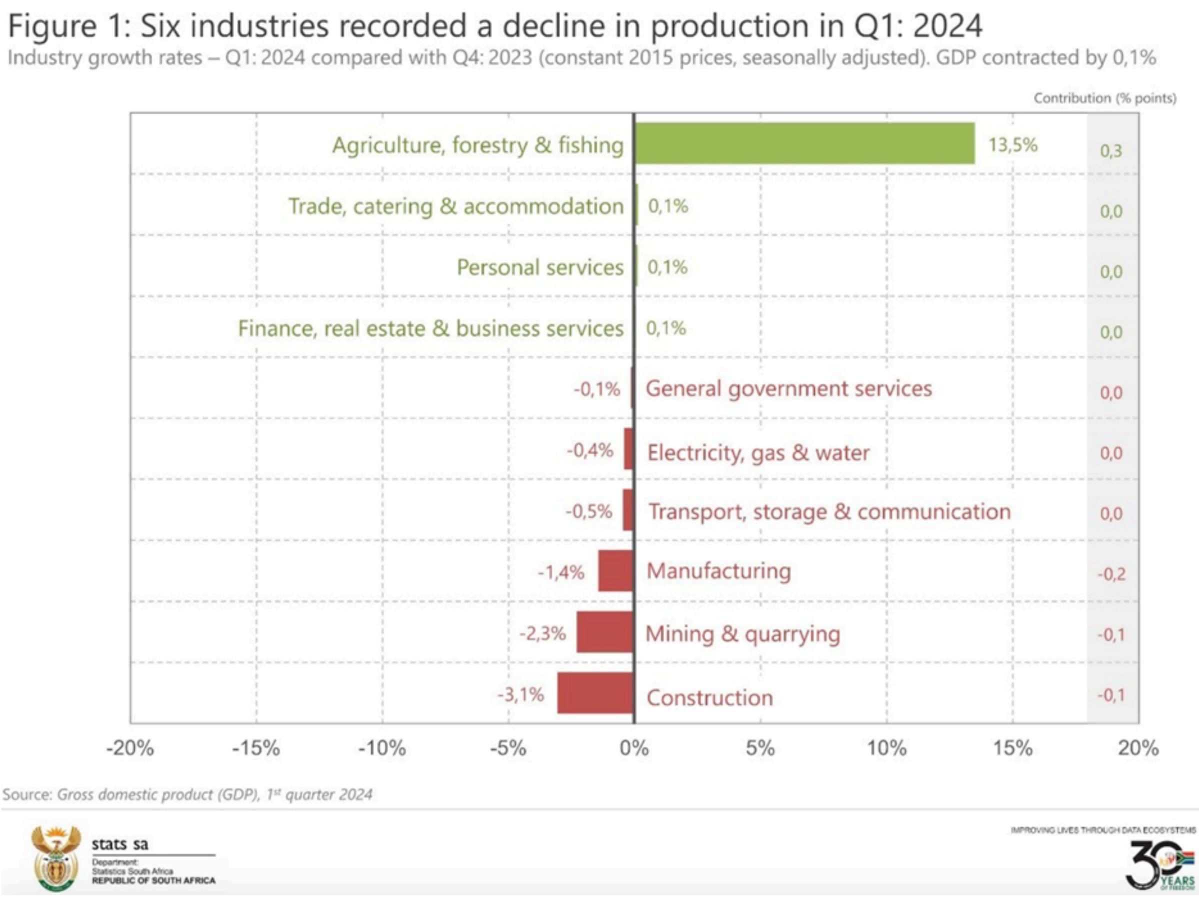
4. **German May unemployment rises 25,000 after 10,000 - worse than the 10,000 expected -** leaves unemployment rate unchanged at 5.9% near 3-year highs. This is the 17th month of unemployment rises with total at 2.762mn from 2.732mn in April.

5. **Spanish May unemployment drops 58,650 off 2.2% to 2.61mn after -60,500 - better than 55,400 expected** - best since 2008. On a monthly comparison, unemployment decreased across various economic sectors: services (-4,467 people) construction (-3,867), industry (-3,715), and agriculture (-2,249). Additionally, unemployment among those with no previous employment fell by 4,352 people. Meanwhile, a separate report from the Social Security Ministry showed that Spain added 62,505 net formal jobs in May, bringing the total to 21.1 million jobs. Also, unemployment of people under 25 yers old fell 4.8% in May from the previous month, by 9,007 people to 179,075 people.

6. **South Africa 1Q GDP fell -0.1% q/q, +0.5% y/y after +0.3% q/q, 1.4% y/y - weaker than the 0.1% q/q, 0.6% y/y expected.** Six of the ten economic activities experienced declines, with manufacturing (-1.4%), mining (-2.3%) and construction (-3.1%) contributing the most to the poor economic performance. Conversely,

agriculture was the main positive contributor, increasing by 13.5%. On the expenditure side, household consumption fell by 0.3%, government spending decreased by 0.3% and fixed investment slipped by 1.8%. Changes in inventories also contributed negatively to the GDP. Meanwhile, exports and imports decreased by 2.3% and 5.1%, respectively.

Can politics help growth in South Africa?



Source: South Africa Stats, BNY Mellon

Disclaimer & Disclosures

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