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iFlow
MARKET MOVERS

June 6, 2024

Memory

"A good life is a collection of happy memories." – Denis Waitley

"Nothing is ever really lost to us as long as we remember it." – L.M. Montgomery

Summary

Risk on as markets expect the ECB to ease and help European stocks to continue to break record highs with keen focus on tech – US big 3 companies now have more market cap than China market in total. The overnight stories were about construction misery and weaker retail sales in EU against, better building in UK throw in the stark comparison of German factory orders against Spanish industrial production, while in Japan the BOJ comments make clear QE likely to end but rate hikes for next week maybe not. Australia trade surplus highlights domestic weakness and China lack of demand. There is the usual noise about geopolitical risks from Russia threatening to send weapons to attack US and allies, all of which makes remembering the 80th anniversary of D-day more interesting for EU and US leaders. The day ahead will deliver more important US data with jobless claims and productivity important for keeping the soft-landing just right growth hopes for FOMC easing. The ECB cut remains more about the future path than the present shift, as if we are still living the memory of times past.

What's different today:

- **Japan sold Y680.5bn of #82 30Y JGB at 2.161%** with 3.59 bid/cover the strong demand tracked US moves this week and 10Y rates in Japan fell 5.5bps to 0.95%

- **Saudi Aramco cuts prices for oil in July to Asia clients by $0.50 bbl** – first cut since February.
- **iFlow Mood, Carry, Trend and Value all neutral** – with flows in G10 FX showing USD selling against CHF, EUR and SEK buying, while in EM KRW, PLN, ZAR and COP buying notable against SGD, THB, CNY and MXN selling. The Equity markets are seeing EM overall positive flows with EMEA the exception with APAC leading, while bonds are mixed with Brazil, South Africa notable selling. US bond buying vs. rest of G10 notable

What are we watching:

- **ECB expected to cut 25bps to 4.25% -** with focus on the Lagarde press conference and future easing path.
- **US weekly jobless claims** expected up 1k to 220k with continuing claims flat at 1.79mn
- **US 1Q revised non-farm productivity** expected up 3.5% after 0.1% with unit labor costs 0% from 4.9% - key will be how lower GDP revisions effect revisions.
- **US Treasury** sells $70bn in 1M and $70bn in 2M bills, announces its supply for next week 3-year, 10-year and 30-year coupon sale and 3M, 6M and 12M bills.

Headlines

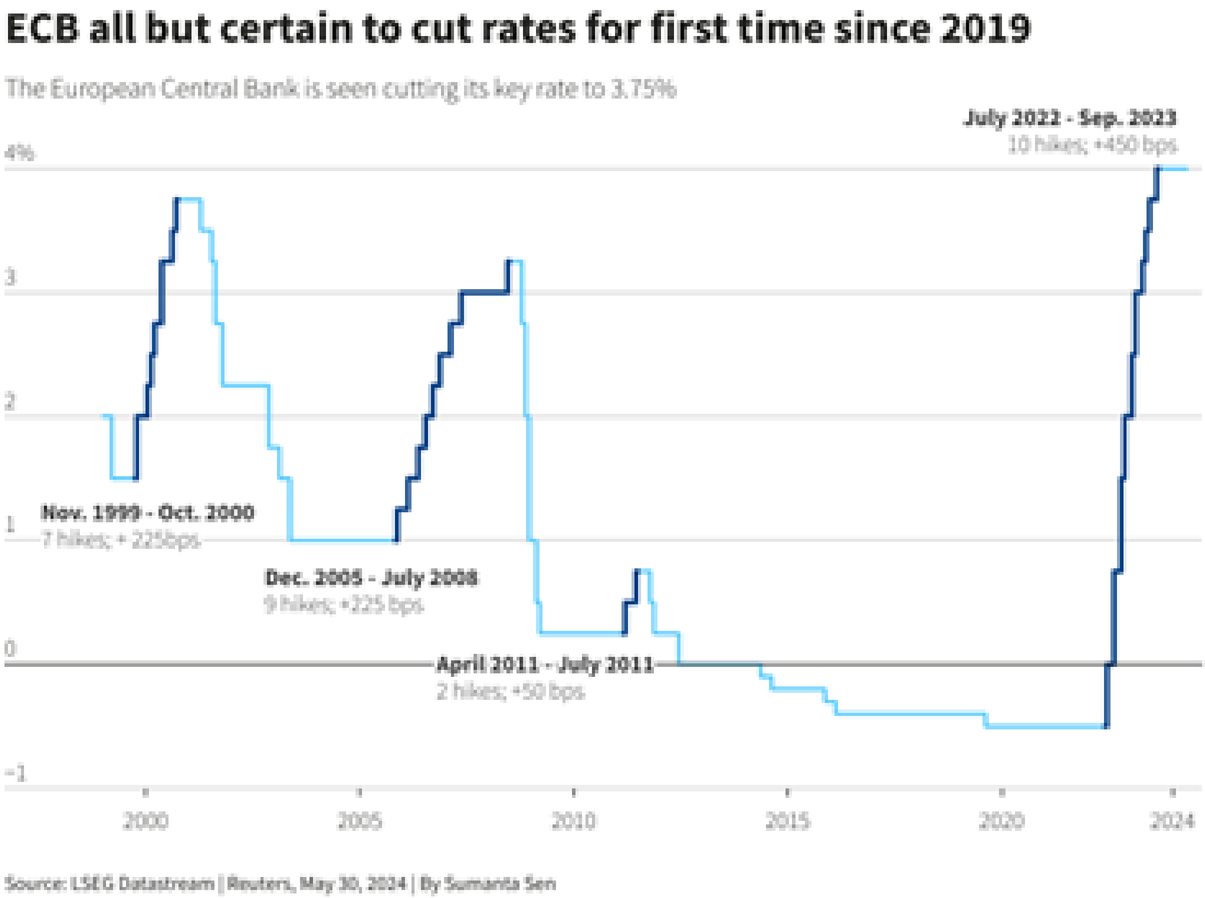
- BOJ Ueda – likely to end QE, need inflation expectations to accelerate to sustain 2%, watching output gap; BOJ Nakamura – doubts 2% CPI after FY2025, worried about consumption, pass-through of wages to inflation weak – Nikkei up 0.55%, JPY up 0.1% to 156.10
- Taiwan May CPI up 0.2% m/m, 2.24% y/y – most since Feb 2023 – TWD up 0.2% to 32.26
- Australia Apr trade surplus up A$1.7bn to A$6.548bn– as exports -2.5% m/m, imports fell -7.2% m/m – while building permits drop 0.3% but home loans rise 4.3% m/m, investor lending up 5.6% m/m – ASX up 0.68%, AUD flat at .6645
- Swiss May unemployment steady at 2.3% - Swiss Mkt up 0.55%, CHF up 0.3% to .8910
- German April Factory Orders drop -0.2% m/m – led by transport – DAX up 0.7%, Bund 10Y yields up 1.7bps to 2.527%.
- Spanish April industrial production up 0.3% m/m, 0.8% y/y – led by consumer goods – IBEX up 0.6%, SPGB 10Y up 1.5bps to 3.825%

- Eurozone Apr retail sales off 0.5% m/m – led by auto fuel – while May construction PMI up 1 to 42.9 still near 11-year lows – EuroStoxx 50 up 0.7%, EUR up 0.1% to 1.0875
- UK May construction PMI jumps 1.7 to 54.7 – best in 2-years with input prices slowing – FTSE up 0.3%, Gilts off 1.6bps to 4.167%, GBP off 0.1% to 1.2780

The Takeaways:

After the Bank of Canada easing yesterday, the European Central Bank is expected to cut 25bps today. The divergence from the FOMC is notable and matters but perhaps less to FX markets and more to bonds. The path of future easing for all 3 matters and there is a fear that inflation will now never get back to below 2% targets unless there is a global pull back or crisis. Obviously the list of known unknowns like climate change, global pandemics (bird flu) or war are all part of the tail risks ahead. What isn't in the price today is the leadership risks for all democratic institutions and that should be a lesson learned from the ongoing volatility of India shares, Mexican FX and the South Africa bond market. The mix of what happens in EU elections today to the weekend and in the US race for the Congress and Presidency matter. On the day, focus will remain on how Lagarde describes the future path of easing policy, and truly diverges from the FOMC high for longer. The data dependency cover may no longer work for either the ECB or the Fed as the US jobless claims and productivity today may highlight in a week where US yields have moved faster than the data. Many see the US labor report Friday as critical to the September easing story and the relative game of divergence merely being a 1 quarter lag. Data dependency requires weakness in growth to mean lower CPI and a real path to getting back to below 2% CPI. There is much to be considered about shifting polices with markets set up for calm rather than a storm, as we all just want to remember the good times rather than the bad that follow rate shifts lower.

Will the ECB sell this cut as 1 and done?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Australian April trade surplus rises to A$6.548bn from A$4.841bn – more than the A$5.40bn expected** - as exports fell less than imports. Exports dropped 2.5% from a month earlier to a 28-month low of A$43.32 billion, mainly dragged by metal ores and minerals. On the original basis, outbound shipments to the country's largest trading partner, China, fell by 4.2%, reversing sharply from a +9.3 jump in March. Meanwhile, imports fell 7.2% to a three-month low of A$36.77 billion, due to declines in purchases of consumption, capital, and intermediate goods, mainly processed industrial supplies.

2. **Australian April building permits drop -0.3% m/m after +1.9% m/m – with home loans up 4.3% m/m after 3.5% m/m – more than the 1.2% m/m expected.** Construction of dwellings accelerated (6.0% vs 4.7% in March) amid a strong reversal in the purchase of newly erected dwellings (10.8% vs -2.0%). Meanwhile, the purchase of existing dwellings slowed (3.4% vs 4.0%). By territory, new home loans increased in most states and territories: New South Wales (9.9%), Victoria (3.8%), Queensland (2.8%), South Australia (3.3%), West Australia (7.0%), Northern Territory (2.7%), and the Australian Capital Territory (8.5%). Conversely, they plunged 16.1% in Tasmania.

3. **Swiss May unemployment holds steady at 2.3% - as expected** -as the number of unemployed persons declined by 1,492 from a month earlier to 105,465. Meanwhile, the youth unemployment rate, measuring job-seekers between 15 to 24 years old, remained unchanged at 2.0%, with the number of young unemployed falling by 162 to 8,924. The number of vacancies reported fell by 1,426 to 40,105 positions during the month. Adjusted for seasonal factors, the jobless rate was at 2.4% in May.

4. **German April factory orders drop -0.2% m/m after -0.8% m/m – worse than the +0.3% m/m expected.** Orders in four sectors within the manufacturing shrank, namely aircraft, ships, trains (-15.4%); data processing equipment, electronic and optical products (-5.1%); electrical equipment (-4.1%); and mechanical engineering (-1.5%). By contrast, orders for automotive industry grew (4.1%). New orders for intermediate goods fell 1.7% but those for capital and intermediate goods increased by 0.5% and 0.7%, each. Foreign orders were 0.1% lower, as demand from the Eurozone slipped 1.4% while that from outside the Eurozone rose by 0.6%. On the other hand, domestic orders were down 0.3%. Excluding large orders, incoming orders in April were 2.9% higher. In a three-month comparison, incoming orders from February 2024 to April 2024 were 5.4% lower than in the previous three months, mainly due to a large order in December 2023.

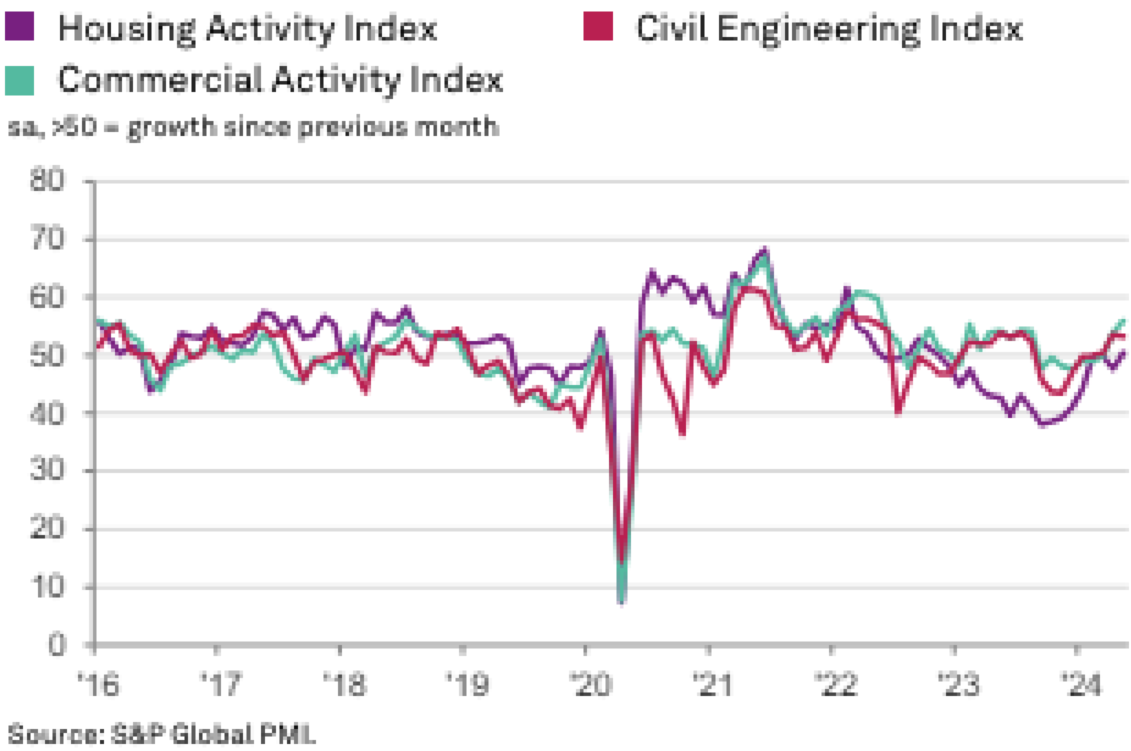
5. **Spanish April industrial production rose 0.3% m/m, 0.8% y/y after -1.3% y/y – as expected**. The increase was driven mainly by consumer goods (+5.3% vs +3.5% in March), especially non-durable goods (+6.3% vs +3.9%), and capital goods (+3.1% vs -1.4%). Additionally, intermediate goods saw a slight rebound (+0.2% vs -0.5%). However, energy production continued to decline (-4.7% vs -4.2%).

6. **Eurozone April retail sales fell 0.5% m/m, 0% y/y after +0.7% m/m, 0.7% y/y – weaker than the -0.3% m/m, +0.1% y/y expected**. Sales of auto fuel sank 2.2%, reversing a 1% gain in March while sales of food, drinks and tobacco were down 0.5%, after a 1% rise. Meanwhile, retail sales of non-food products edged 0.1% lower, the same as in the previous month

7. **Eurozone May HCOB construction PMI improves to 42.9 from 41.9 – weaker than 43 expected** and still one of the lowest in 11 years. This marks over two years of declining construction activity. New orders fell sharply, leading to the fastest drop in construction jobs in four years and a notable decrease in purchases and subcontractor use. However, supply chain performance improved rapidly, and input cost pressures were modest, contributing to more neutral business expectations for the year ahead. The decline in output was seen across the three largest eurozone economies: Italy, Germany, and France, although the contraction rates softened compared to the previous period, with Italy experiencing only a marginal drop.

8. UK May construction PMI rises to 54.7 from 53.0 – better than 52.5 expected - the most in two years, with activity, new business, purchasing activity and employment rising faster. Also, supply-chain conditions continued to improve amid reports of good stock availability at vendors. This contributed to the pace of input cost inflation slowing to a marginal pace. Meanwhile, all three monitored categories saw activity increase for the first time since May 2022, as housing returned to growth. Finally, business confidence also strengthened.

Is the UK slowing enough for BOE easing?



Source: S&P Global, BNY Mellon

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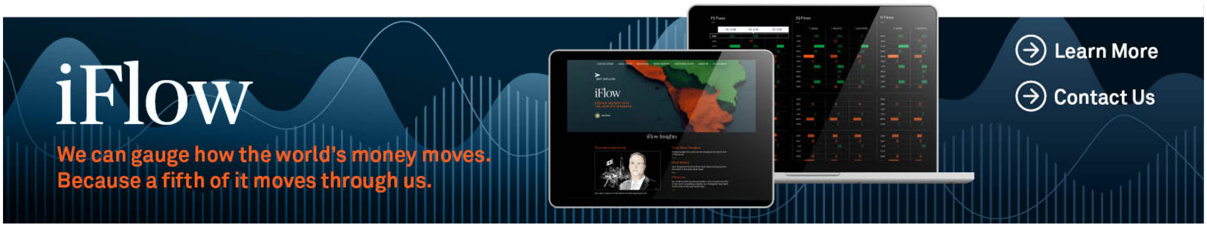
Please direct questions or comments to: iFlow@BNYMellon.com

Bob Savage
HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB



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