BNY MELLON

iFlow

MARKET MOVERS

June 7, 2024

Wait and See

“Life was always a matter of waiting for the right moment to act.” – Paulo Coelho
“If you spend your whole life waiting for the storm, you’ll never enjoy the sunshine.” – Morris West

Summary

Risk mixed ahead of the US jobs report and after the expected ECB easing. The RBI stayed on hold today post the election and despite higher inflation, while the APAC focus was on China trade surplus led by lower imports and surprising higher exports – US push to ban China batteries didn’t help the mood, nor did Japan household spending which adds to BOJ hike odds next week and Korea seeing strike at Samsung after it comes back from holiday, but the focus on tech and the USD losing ground helped overall. The mood in Europe is wait and see with weaker German industrial production offsetting better trade. UK election and Mexican election fall out also driving FX today. The risk for a US jobs surprise matters to the path of rates and stocks ahead with the USD a useful barometer – markets are set up for modesty so anything over 250,000 jobs could lead to a wave of repricing for all.

What’s different today:

- **Russia CBR kept rates steady at 16% for the fourth meeting** but they kept the hawkish bias making a July hike more likely. The role of the ongoing Ukraine war and supply chain disruption matters.
- **UN FAO May food index rose 0.9% m/m** to 120.4 from 119.3 - the most in 6-months with grains leading to four-month highs.

- **iFlow stuck in neutral for factors** while the markets yesterday in FX showed USD selling along with AUD, CAD and JPY against CHF, EUR and SEK buying. The equity mood is flat but the flows are mixed with APAC and LatAM leading. Bonds continue to show US buying but EM remains outflows from Brazil and South Africa most notably.

What are we watching:

- **US May non-farm payrolls** expected up 185,000 after 175,000 with unemployment steady at 3.9%, hourly earning flat at 3.9%.
- **Canada May jobs** expected up 22,500 after 90,400 with unemployment up 6.2% from 6.1% - key for BOC further easing path
- **Mexico May CPI** expected -0.1% m/m, +4.8% y/y after 4.65% y/y with core up 0.1% m/m, 4.3% y/y – key for Banxico easing hopes and MXN

Headlines

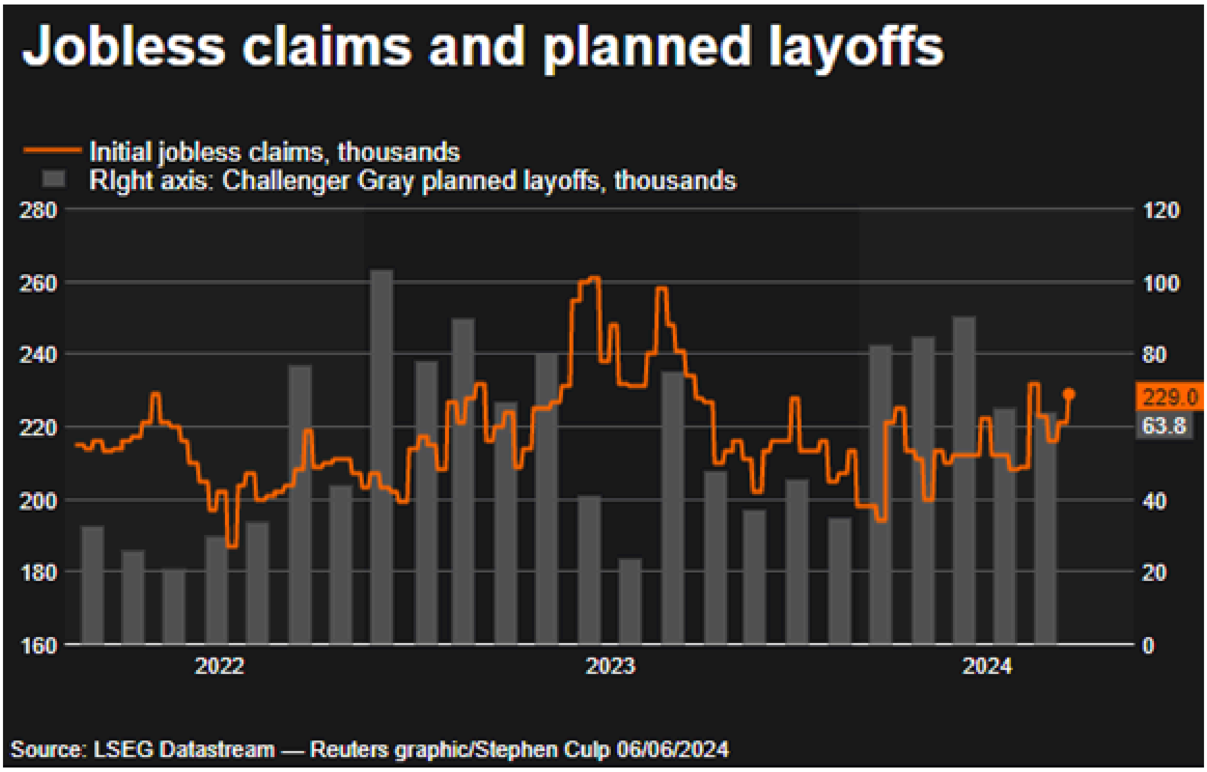
- China May trade surplus jumps $10bn to $82.62bn – biggest since Feb as exports up 7.6% y/y, imports up 1.8% y/y; China FX reserves rise $31bn linked to USD weakness – CSI 300 off 0.5%, CNH up 0.1% to 7.2530
- India RBI leaves policy rate unchanged at 6.5% for 8th consecutive meeting - as expected – sees GDP 7.2% in FY2025 – Sensex up 2.16%, INR up 0.15% to 83.375
- Japan Apr household spending fell -1.2% m/m, +0.5% y/y – first monthly drop since Jan, first annual gain since Feb 2023; April coincident index up 1 to 115.2 – best since Dec 2023 – Nikkei off 0.05%, JGB 10Y up 1.1bps to 0.96%, JPY up 0.1% to 155.50
- Korea Samsung Electronics union stages first strike in history pushing for higher pay – Kospi up 1.23%, KRW up 0.55% to 1365.30
- RBA Hauser: Not ready to follow ECB or BOC into rate cuts – ASX up 0.49%, AUD off 0.1% to .6660
- German Apr trade surplus steady at E22.1bn – but exports up 1.6% m/m to 14-month highs, while imports rise 2% to 10-month high; but industrial production -0.1% m/m, -3.9% y/y – DAX off 0.9%, Bund 10Y yields up 2.7bps to 2.575%
- Norway Apr manufacturing production drops 5.6% m/m, -1.6% y/y – worst drop on record -
- Eurozone 1Q GDP unrevised at 0.3% q/q, 0.4% y/y – as expected and best since 3Q2022 – with employment 0.3% q/q, 1% y/y – EuroStoxx 50 off 0.7%,

EUR flat at 1.0890

The Takeaways:

Will the US jobs report matter? Markets are in a holding pattern into the event, with US bond 10 year yields at 2-month lows and odds of a FOMC September easing put above 60%. The expectations around today's report are for about the same growth in jobs as last month – well under the 230,000 average of the last 3-months but with unemployment stable at 3.9%. The estimates for this report vary from 130,00 to 250,000 jobs with many also noting that the April report last month had some seasonal adjustment risks that could be corrected and revised this month – leaving headlines more confusing to the guts of the report. The bigger and perhaps more important part of the report is in hours worked, the wages paid and the dispersion of job demand – with the slowing growth view nascent – the need for more jobs in industry and tech rather than leisure and healthcare matters. Overall, the CPI next week and the FOMC meeting itself are more likely to stand over the markets after this report should it come within the bounds of 160,000 NFP or 215,000. The back of the envelope guess is 210,000 from the better May conditions but the certainty on that is low. The noise of trading today may disappoint given the markets have already staked their claim to a Fed more likely to ease and lag the ECB than hike and shock the world.

Will the US jobs have a surprise risk for markets?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Japan April household spending fell -1.2% m/m, +0.5% y/y after +1.2% m/m, -1.2% y/y – weaker than the +0.2% m/m, 0.6% y/y expected** – first monthly drop since January, first annual gain since Feb 2023. Overall, expenditure rebounded for housing (3.5% vs -5.8% in March), furniture & household utensils (1.9% vs -0.5%), medical care (1.2% vs -0.7%), and other consumption expenditures (10.0% vs -2.7%). At the same time, spending on education picked up strongly (25.9% vs 11.2%). On the other hand, expenditure was weak for food (-2.7% vs 1.8%), transport & communication (-10.2% vs 3.2%), fuel, light & water charges (-1.9% vs -12.3%), and culture & recreation (-9.2% vs -5.7%).

2. **Japan April preliminary LEI stable at 111.6 from 111.7 – weaker than 111.8 expected**. The coincident index recovers to 115.2 from 114.2 - highest figure since last December, lifted by optimism that the economy will recover further amid an improving labor market, rising corporate profits, and higher consumption. In the meantime, public investment held firms, on the effect of the supplementary budget. Moreover, there were signs of a pick-up in industrial output, as some automotive manufacturers resumed their activities after suspension at some producers earlier in the year.

3. **China May trade surplus rises to $82.62bn after $72.35bn – more than the $73bn expected** - the largest trade surplus since February, as exports grew much more than imports. Exports advanced 7.6% from a year earlier, the fastest pace in four months and beating forecasts of a 6% growth, while imports increased by 1.8%, easing sharply from an 8.4% rise in April, and below market consensus of a 4.2% gain. The trade surplus with the United States climbed to USD 30.81 billion in May from USD 27.2 4billion in the previous month. For the first five months of the year, the country recorded a surplus of USD 337.21 billion, with exports rising 2.7% to USD 1.40 trillion while imports advanced 2.9% to USD 1.06 trillion. The trade surplus with the United States stood at USD 128.2 billion for January-May.

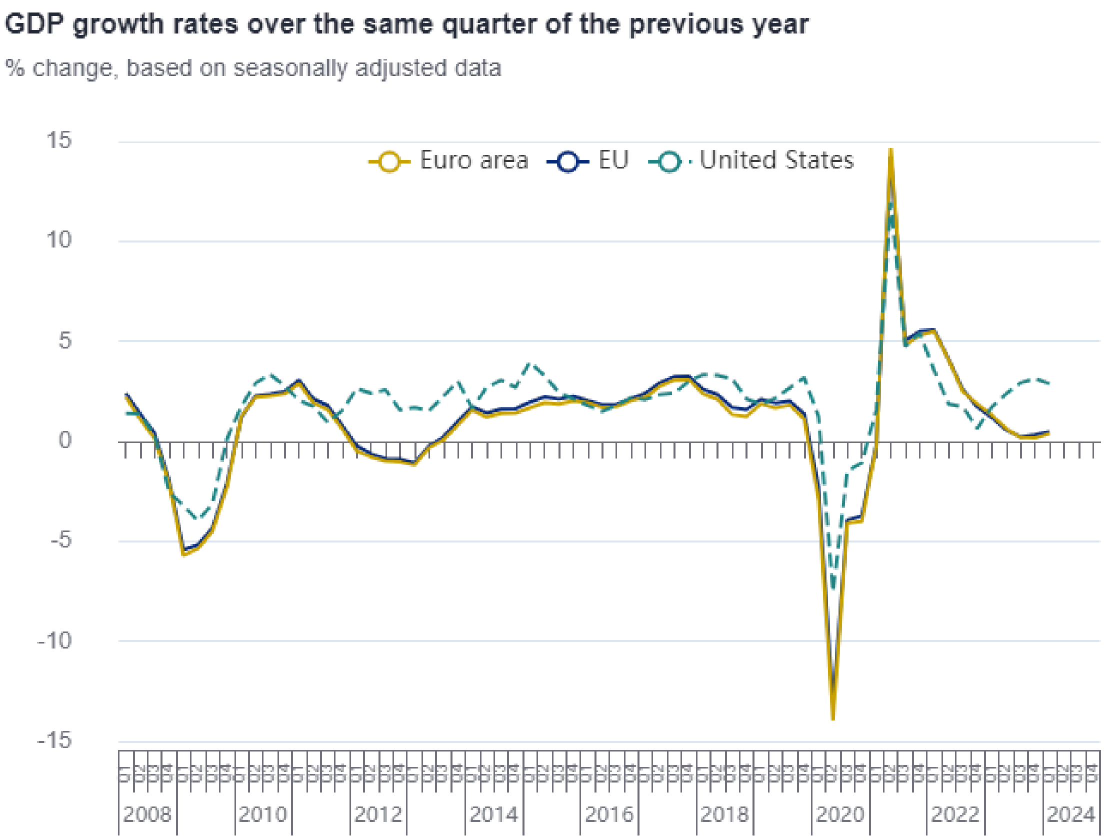
4. **Norway April manufacturing production drops 5.6% m/m, -1.6% y/y after +5.6% m/m, 5.6% y/y – weaker than -4.5% m/m expected** and sharpest fall on record as output dropped for most components, notably in textiles, wearing apparel & leather (-15.5% vs 8.7% in March), rubber, plastic & mineral products (-8.2% vs 7.8%), repair and installation of machinery (-8% vs 4.7%), fabricated metal products (-7.4% vs 4.4%), computer & electrical equipment (-6.9% vs 4.9%), transport equipment (-4.9% vs 2.1%), refined petroleum, chemicals & pharmaceuticals (-4.7% vs 5.5%), and machinery equipment (-4.4% vs 3.8%). Meanwhile, production rebounded for paper and paper products (4.6% vs -1.2%).

5. **German April trade surplus steady at E22.1bn after E22.2bn – less than the E22.6bn expected.** Exports rose 1.6% m/m to a 14-month high of E136.5 billion, faster than an upwardly revised 1.1% rise in March and market expectations of a 1.1% gain. Shipments to the EU climbed by 1.2%, while those to third countries grew by 2.0%, with exports to Russia and the UK surging by 17.3% and 15.4%, respectively, while those to China rose by 0.8%. By contrast, sales to the US fell by 1.2%. Meanwhile, imports advanced 2.0% to a 10-month high of E114.5 billion, the 4th straight month of increase, following an upwardly revised 0.5% growth in March and faster than forecasts of a 0.9% rise. Imports from the EU advanced by 4.3%, while purchases from non-EU shrank by 0.4%, particularly from China (-7.8%), the US (-1.0%), and Russia (-2.9%). Conversely, imports grew from the UK (8.8%).

6. **German April industrial production fell -0.1% m/m, -3.9% y/y after -0.4% m/m, -4.3% y/y – weaker than +0.3% m/m bounce expected.** The sustained contraction in industrial output was driven by decreased production for intermediate goods (-0.9%) and construction activity (-2.1%). Meanwhile, output rose for capital goods and consumer goods by 0.8%, respectively, whereas the automotive industry grew 4.2%. Outside industry, energy production posted an increase of 1.6%. The less volatile three-month on three-month comparison showed that production was 1% higher in February to April than in the previous three periods.

7. **Eurozone 1Q final GDP up 0.3% q/q, 0.4% y/y after -0.1% q/q, +0.2% y/y – as expected** -the strongest GDP growth since the third quarter of 2022, with net trade making the largest upward contribution. Exports rose 1.4%, way better than a 0.2% rise in Q4 and imports edged 0.3%, after a 0.6% rise. Meanwhile, household spending rose 0.2%, the same as in the previous period. On the other hand, gross fixed capital formation sank 1.5%, reversing a 0.8% rise in Q4 and government expenditure stalled, following a 0.6% rise. In its June forecasts, the ECB projects economic growth to pick up to 0.9% in 2024, 1.4% in 2025 and 1.6% in 2026.

Is the growth spread more important that policy?



eurostat

Source: Eurostat, BNY Mellon

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

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