

iFlow

MARKET MOVERS

May 17, 2024

Churn

"The churning of a human mind is unpredictable, as is the anatomy of the human heart." – Rudy Rucker

"Long churning makes bad butter." – Irish Proverb

Summary

Risk mixed with US futures up, China shares up and Europe down. DJIA 40k hats are back on sale. China announced new measures for housing after prices drop there, retail sales miss but industrial production jumps. Property shares rise another 9%. Markets are ready for the weekend with some churning in positions ahead of the next week where UK CPI, EU wages, flash PMI reports, more EM central bank decisions and the last week ahead of the US Memorial Day holiday all set up for frenetic activity. Perhaps the most important being the AI focus as NVDA reports earnings. Until then its Friday and the hope for bread and butter from the activity of trading risk continues with little on the agenda other than Fed speakers. They are clear that high for longer holds sway while the BOJ may hike more, the ECB cut less and the BOE be faster in easing. FX reflects the difference with USD up and markets mostly sour both bonds and stocks.

What's different today:

- **China sold special sovereign bonds with 3.9 cover** - \$5.5bn 30Y sold at 2.57% - better than 2.55% expected – close to average of 4 bid/cover.
- **iFlow shows neutral mood**, neutral trend, carry and value in FX. Worth highlighting USD buying if every so slight with CHF, GBP and SEK also notable inflows vs. JPY selling again. MXN outflow vs. CLP also seen while EMEA EM was bought, and APAC sold except KRW. Bonds were mixed in G10 and only

notably bought in Philippines post BSP, while equities remain on buying spree with G10 mixed, EM bid except some of APAC.

What are we watching:

- **US April LEI** expected -0.3% after -0.3% - indicator of slowing economy 6-9 months ahead –
- **Fed Speakers:** Fed Governor Christopher Waller and San Francisco Fed President Mary Daly speak while over the weekend Fed Kugler and Fed Chair Powell speak.

Headlines:

- Japan BOJ keeps bond buying unchanged, former BOJ economist sees potential 3-more hikes in 2024 – Nikkei off 0.34%, JPY off 0.3% to 155.90
- Korea April unemployment flat at 2.8% - as expected – while N.Korea fires short-range ballistic missiles; Kospi off 1.03%, KRW off 0.75% to 1355
- Singapore NODX up 7.6% m/m – best in 7 months – led by electronics - SGD off 0.1% to 1.3475
- China announces fresh measures for property – as Apr house prices drop -3.1% y/y ,worst since July 2015 and property investment -9.8% y/y, retail sales 0% m/m, 2.3% y/y, but industrial production up 2.2pp to 6.7% y/y and unemployment off 0.2 to 5% – CSI 300 up 1.03%, CNH off 0.15%
- French 1Q unemployment stable at 7.5% - CAC40 off 0.3%, OAT 10Y up 3bps to 2.966%
- Swiss 1Q industrial production drops 3.1% y/y – second quarterly drop – Swiss Mkt up 0.5%, CHF off 0.3% to .9100
- Eurozone final April CPI confirmed up 0.6% m/m, 2.4% y/y – as expected lowest in 3-years – ECB Schnabel sees June cut but not another in July – EuroStoxx 50 off 0.4%, EUR off 0.2% to 1.0840
- UK Chancellor Hunt vows Tories will cut taxes if re-elected – FTSE off 0.4%, 10Y Gilts up 3bps to 4.11%, GBP off 0.15% to 1.2650

The Takeaways:

Making butter is hard work, and the timing is important. The salt is key for longevity and the fat content critical. Why is this like today? Because this week has been a hard one for investors as the churn of market prices conflict with each other from bonds rallying and unwinding a bit – with 2 Fed rate cuts priced firmly as the net

result – but the the curve and the spreads for credit are different and the stock market rally back to new record highs even with weaker US data seems at odds with the tail risks ahead. The US view of the world usually overlooks the rest of the world even as US global companies need growth elsewhere. The geopolitics of the moment from US tariffs to China/Russia alliances against some of the US interests abroad are all part of the need for hard work and timing. The salt for today comes from China itself where the lack of domestic demand begs for more action and that seems to be in the works as the PBOC cuts the minimum downpayment for first-time homebuyers from 20% to 15%, as it cuts the minimum interest rate on mortgages – letting provinces set them. The central bank is also setting up \$41.5bn in relending facility for affordable housing. Whether this fixes the housing market is key – with 4.25bn square feet of new homes for sale in 1Q up 24% y/y, with cost to buy the entire listings nearing \$1trn to make developers whole. What seems clear is that the export machine is working in China with the rise in industrial production led by cars – up 16.3% y/y even as sales at home fell 5.6% y/y – making EV overcapacity fears well placed.

Can China spur domestic demand?

China's factories fire up despite weak domestic demand

China's factory output rose in April, helped by improving external demand while retail sales slowed, piling pressure on Beijing to do more to support growth.

Industrial production



Retail sales



Note: China reports combined January-February data for retail sales and industrial production.

Source: LSEG Datastream | Reuters, May 17, 2024

Source: Reuters / BNY Mellon

Details of Economic Releases:

1. Korea April unemployment flat at 2.8% - as expected. The number of unemployed persons totaled 885,000 people in April, which increased 81,000 persons or 10% y/y. Meanwhile, the number of employed persons totaled 28.693 million persons in April, which went up 261,000 persons or 0.9% from a year earlier. The

labor force participation rate stood at 65.0% in April, up by 0.6% from the same period last year.

2. Singapore April non-oil exports (NODX) recover +7.6% m/m, -9.3% y/y after -8.5% m/m, -20.8% y/y – better than -10% y/y expected – best monthly bounce in 7 months but 3rd monthly annual drop due mainly due to a softer fall in shipments of non-electronic products (-12.3% vs -23.2% in March), namely pharmaceuticals (-73.3%), non-electronic engines & motors (-64.0%), and food preparations (-12.9%). On the other hand, sales of electronic products grew 3.3%, recovering from a 9.5% fall in March amid surges in PCs (73.3%), disk media products (39.6%), and other computer peripherals (782.6%). Sales rose to Malaysia (45.6%), China (34.5%), and Hong Kong (27.2%) while declining to the US (-40.6%), and the EU (-55.1%). On a seasonally adjusted basis, NODX grew 7.6% in April, the most in seven months, rebounding sharply from an upwardly revised 8.5% fall in March while falling short of consensus of a 7.9% gain.

3. China April house price index drops to -3.1% y/y after -2.2% y/y – worse than -3% y/y expected -the 10th straight month of decrease and the fastest pace since July 2015, despite various support measures from Beijing to mitigate the impact of a prolonged property downturn and fragile economic recovery. Prices dropped at stronger rates in Shenzhen (-6.7% vs -5.5% in March) and Guangzhou (-6.9% vs -5.5%). At the same time, cost was flat in Tianjin after rising 0.5% previously while falling in Beijing (-0.5% vs 0.8%) and Chongqing (-1.4% vs 0.5%). On the other hand, prices continued to rise in Shanghai (4.2% vs 4.3%). Monthly, new home prices fell by 0.6% in April, deteriorating from a 0.3% fall in the previous two months.

4. China April industrial production rises 1.0% m/m, 6.7% y/y after 4.5% y/y – better than 5.5% y/y expected. Activities in manufacturing (7.5% vs 5.1% in March), utilities (5.8% vs 4.9%), and mining (2.0% vs 0.2%) all accelerated amid continued support measures from the government. By industries, production accelerated for computer and communications (15.6% vs 10.6% in March), textile (6.6% vs 2.5%), electrical machinery and equipment (5.8% vs 4.8%), chemicals (12.3% vs 9.1%), non-ferrous metals (11.4% vs 11.2%), electricity and heat production and supply industry (5.7% vs 4.9%), and cars (16.3% vs 0.9%), while rebounding for coal, mining, and washing (1.5% vs -1.6%) and general equipment (3.7% after being flat in March). Meanwhile, production of the oil and natural gas mining industry continued to rise (0.7% vs 1.5%).

5. China April retail sales slow to 0% m/m, +2.3% y/y after 0.3% m/m, +3.1% y/y – weaker than 3.8% y/y expected – weakest in 15-months - highlighting challenges the central government faces in reviving weak consumption by delivering various stimulus measures. Sales growth eased for grain and food oil (8.5% vs 11.0% in

March), home appliances (4.5% vs 5.8%), and oil products (1.6% vs 3.5%). In addition, turnover fell for clothing (-2.0% vs 3.8%), gold, silver, and jewelry (-0.1% vs 3.2%), office supplies (-4.4% vs -6.6%), car (-5.6% vs -3.7%), and building materials (-4.5% vs 2.8%). By contrast, sales quickened for personal care (4.4% vs 3.5%), furniture (1.2% vs 0.2%), and communications equipment (13.3% vs 7.2%).

6. China April fixed asset investment (ytd) slows to 4.2% y/y from 4.5% y/y – weaker than 4.6% y/y expected - due to a notable slowdown in investment related to the tertiary sector (0.3% vs 0.8% in January-March). Meanwhile, investment in the secondary sector remained robust (13.0% vs 13.4%), supported by growth in mining (21.3%), manufacturing (9.7%), and electricity, heat, gas and water (26.2%). Simultaneously, investment in the primary sector accelerated (1.9% vs 1.0%). In the meantime, investment in real estate contracted by an annual 9.8% during the first four months of the year after -9.5% in March.

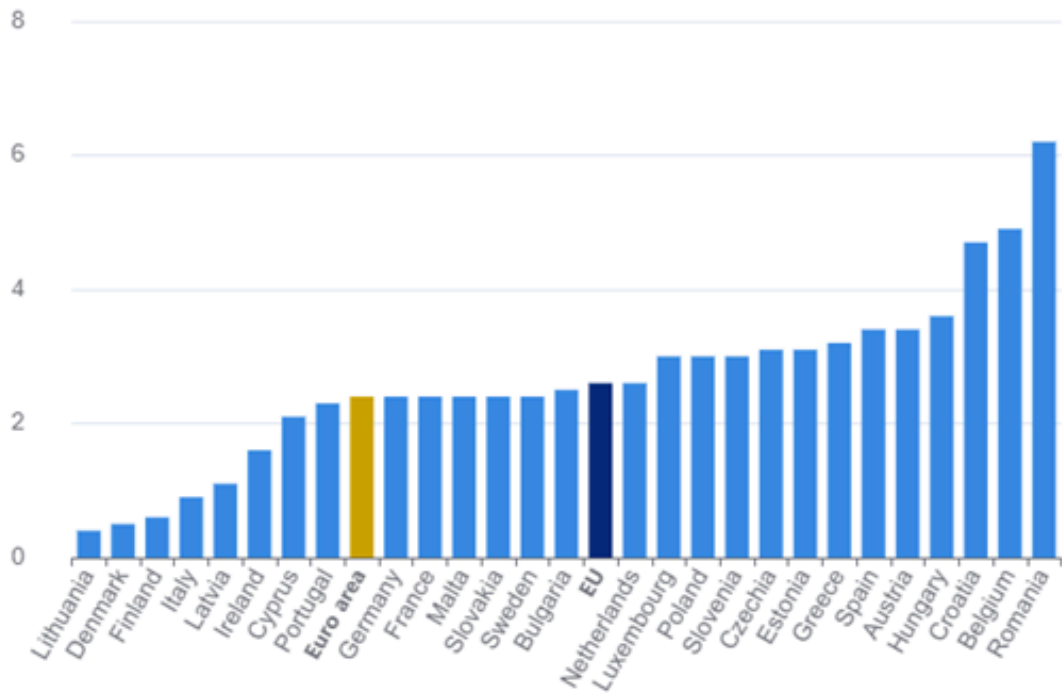
7. China April unemployment improves to 5% from 5.2% - better than 5.2% expected. The jobless rate among residents registered locally was 5.1%, while among those with non-local registration fell to 4.9%, of which the non-local agricultural registrants had a rate of 4.5%. In 31 major cities, the urban unemployment rate was 5.0%. On average, employees in enterprises worked 48.5 hours per week. Considering January to April, the urban surveyed jobless rate averaged 5.2%, down by 0.2 percentage points over the same period last year.

8. French 1Q unemployment flat at 7.5% - worse than 7.4% expected – as the number of unemployed persons rose by 6,000 from the prior quarter to 2.3 million, with the unemployment rate for people aged 25 to 49 falling 0.2 pp to 6.8%. Meanwhile, the unemployment rate for people aged 15 to 24 increased by 0.6 percentage points to 18.1% and rose by 0.1 percentage points to 5.1% for those aged 50 and more. Among genders, the jobless rate for men edged up by 0.1 percentage points to 7.7, while it ticked lower by 0.1 percentage points to 7.3% for women. The activity rate rose to 74.5% during the quarter from 74.1% in the previous three-month period.

9. Eurozone April final CPI confirmed up 0.6% m/m, 2.4% y/y flat – as expected – 3-year lows. A slowdown was recorded in cost of services (3.7% vs 4%) and non-energy industrial goods (0.9% vs 1.1%) while prices for energy continued to decline (-0.6% vs -1.8%). On the other hand, prices of food, alcohol and tobacco rose slightly more (2.8% vs 2.6%). Meanwhile, the core rate which excludes energy, food, alcohol & tobacco, fell for a 9th straight month to 2.7%, the lowest level since February 2022 from 2.9% y/y.

Can ECB policy deliver -- does one size fit all?

Annual inflation rates (%) in April 2024



eurostat 

Source: Eurostat /BNY Mellon

Disclaimer and Disclosures

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



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