BNY MELLON

iFlow

MARKET MOVERS

May 23, 2024

Good Times

"In good times, people want to advertise; in bad times, they have to." – Bruce Barton

"If you've had a good time playing the game, you're a winner even if you lose." – Malcolm Forbes

Summary

Risk on as markets enjoy another NVIDIA earnings beat and that inspires AI hopes for better growth and productivity everywhere. Throw in the better global PMI flash reports and you have good times. There are some cracks and worries – sure the UK July 4th election is a surprise and the ECB report on 1Q wages near record highs. The US market is going to focus on weekly jobless claims, more follow through in tech shares and the flash PMI report. The 10Y TIPS sale might be interesting on the break-even inflation rate and the focus of that from all sides. Other than that, we are closer to the end of the week than the middle and as such risk reduction may be important despite the good times rolling.

What's different today:

- **Copper continues to decline to $4.80** from $5.20 lbs on May 20th – this reflects less China demand than hoped. Inventories at LME show discounts for deliveries.
- **EU carbon prices jump over 4-month highs** at E77 per ton – driven by optimism over growth with manufacturing PMI at 15-month highs.
- **iFlow still neutral in mood**, over done in Value and rising but not extended in trend, carry. The FX data shows modest USD buying with more SEK, CHF and GBP buying despite UK election. Selling seen in JPY and EUR and AUD. In EM LatAm FX selling vs. bond buying there, same in China. Equity bullishness

moderates with selling in G10 and only notable buying in EM Brazil, Turkey and Malaysia

What are we watching:

- **US weekly jobless claims** expected -2k to 220k with continuing claims off 1k to 1.793mn. Labor market is key to any FOMC cuts ahead.
- **US May flash composite PMI** expected off 0.1 to 51.3 with manufacturing in contraction off 0.1 to 49.9 while services also off 0.1 to 51.2.
- **G7 Finance Ministers** and Central Bank Governors meet in Stresa, Italy
- **US corporate earnings**: Intuit, Medtronic, Ross Stores, Deckers Outdoor

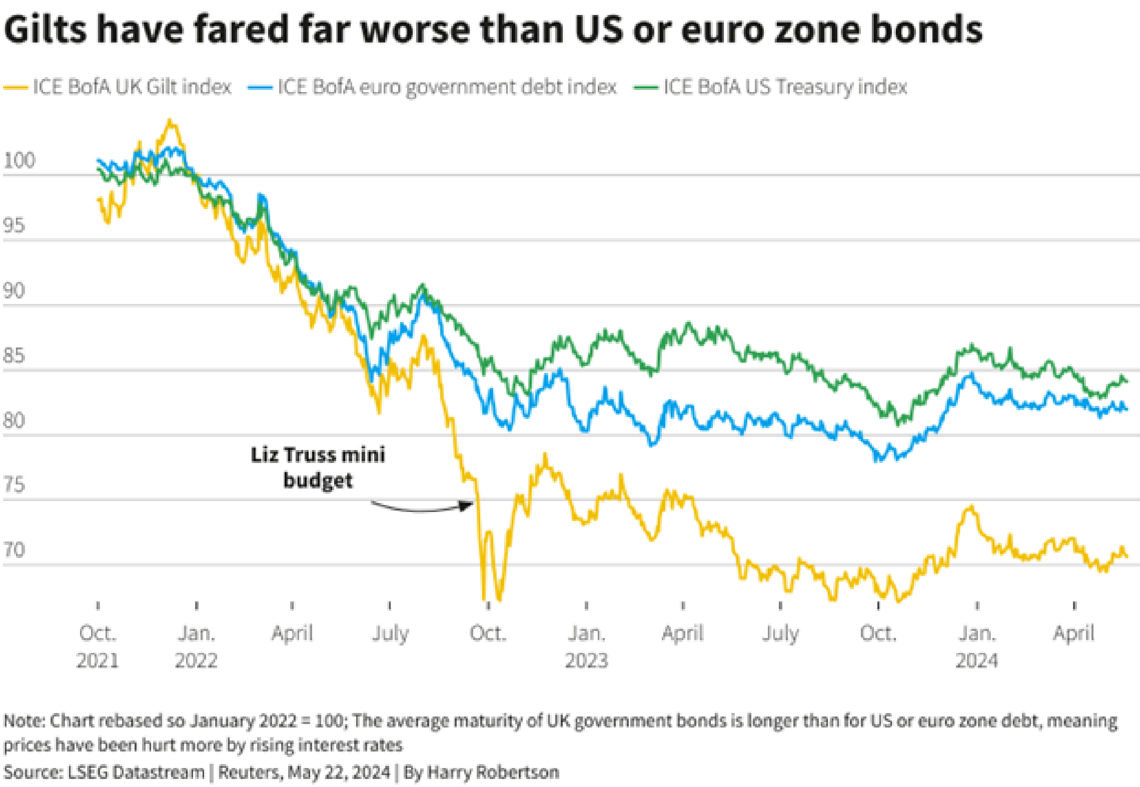
Headlines:

- Bank of Korea leaves rates unchanged at 3.5% - as expected - raises growth forecasts, signals high for longer; Kospi - 0.06%, KRW flat at 1326.20
- Turkey TCMB leaves rates unchanged at 50% - as expected – watching lag effect of hikes – TRY flat at 32.19
- New Zealand 1Q retail sales up 0.5% q/q, -2.4% y/y - first rise in 8 quarters - led by lodging and recreation – NZD up 0.5% to .6125
- Australian May flash composite PMI off 0.4 to 52.6- at 3-month lows - as services slip but manufacturing holds 9-month highs - while May MI consumer inflation expectations fell 0.5pp to 4.1% - lowest since Oct 2021; ASX off 0.46%, AUD up 0.25% to .6635
- Singapore 1Q GDP revised up 0.2pp to 2.7% y/y - best since 3Q 2022 - led by services - while core CPI steady at 3.1% y/y; STI up 0.44%, SGD off 0.1% to 1.3495
- Japan May flash composite PMI up 0.1 to 52.4 - best since Aug 2023 - with manufacturing in expansion for first time in a year while BOJ leaves bond buying unchange– Nikkei up 1.26%, JPY up 0.1% to 156.70
- India May flash composite PMI up 0.2 to 61.7- 3rd best growth on record - with best jobs in 18 years and record exports; Sensex up 1.61%, INR up 0.1% to 83.275
- Eurozone May flash composite PMI up 0.5 to 52.3- as new orders best in a year - while 1Q wage deals rose 0.24pp to 4.69% y/y – EuroStoxx 50 up 0.5%, EUR up 0.15% to 1.0845
- UK May flash composite PMI off 1.3 to 52.8 - as services slow but manufacturing expands to 22-month highs – FTSE flat, GBP up 0.1% to 1.2730

The Takeaways:

The surprise UK July 4th elections are part of the new landscape for risk today and going into the event. The polls are clear that Labour will win so the exercise is about how much and the spectrum is wide from hung parliament to almost elimination for the Tories. Markets also think politics are mostly untradeable, more difficult now given the polling mistrust post Brexit, and less powerful than the Bank of England. Hopes for a June rate cut goes down in part because of the risk of looking less independent to the government. Underneath this election is the painful memory of the short-lived PM Truss plans for the economy and the budget. The biggest risk for the UK in the months ahead is that it like the US needs to borrow money but unlike the US it has less attractiveness to growth and inflation moderation. The need to watch the squeezing out by the US bond market other borrowers seems clear. UK risk premiums into the election are modest but the bigger tails maybe in debt markets. So, it is for today in the US as we focus back on growth and inflation with the flash PMI reports and the weekly jobless claims but may be focused on the 10-year TIPS sale as the unknown risk. The shift of focus from FX to stocks and back to rates puts markets back full circle and wondering about how long this loop stays in "good times."

Will Gilts find relief after the election?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. New Zealand 1Q retail sales rose 0.5% q/q, -2.4% y/y after -1.9% q/q, -4.1% y/y - better than -0.3% q/q expected - the first increase after eight consecutive quarters of declines, with 9 out of 15 retail industries experiencing higher sales volumes compared to the previous quarter. Notable contributors to the rise were food and beverage services (+2.2%), motor vehicle and parts retailing (+1.1%), recreational goods retailing (+4.7%), and accommodation (+4.1%).

2. Singapore April CPI rose 0.1% m/m, 2.7% y/y after -0.1% m/m,+2.7% y/y - higher than 2.6% y/y expected -with prices continuing to rise for food (2.8% vs 3.0% in March); housing & utilities (4.0% vs 3.7%), largely linked to accommodation; transport (0.9% vs 0.9%), mainly due to private transport; recreation & culture (4.5% vs 4.6%), driven by holiday expenses and recreational & cultural services; education (3.3% vs 3.3%), largely on tuition & other fees; healthcare (4.8% vs 5.0%), mostly led by outpatient services; communication (0.9% vs 1.4%); and miscellaneous goods & services (2.0% vs 1.9%), supported by personal care. Simultaneously, clothing prices fell further (-0.7% vs -1.7% vs 0.4%). Meanwhile, the annual core inflation rate stood at 3.1% in April, the same as in March, in line with consensus.

3. Australian May flash Judo Bank composite PMI dips to 52.6 from 53 - weaker than 52.8 expected. The manufacturing flash steady at 49.6 while the services slips to 53.1 from 53.6 -While this marked the fourth consecutive month of growth, the pace moderated slightly. The expansion was primarily driven by growth in the services sector, although the rate of decline in manufacturing output also softened, reaching its slowest pace since September 2023. New business expanded notably, posting the fastest growth in two years, with solid gains in service providers and marginal growth in manufacturing orders, including an increase in foreign orders for the first time in 15 months. Consequently, job creation accelerated, with staffing levels rising at the fastest rate in eight months, enabling businesses to clear backlogged orders.

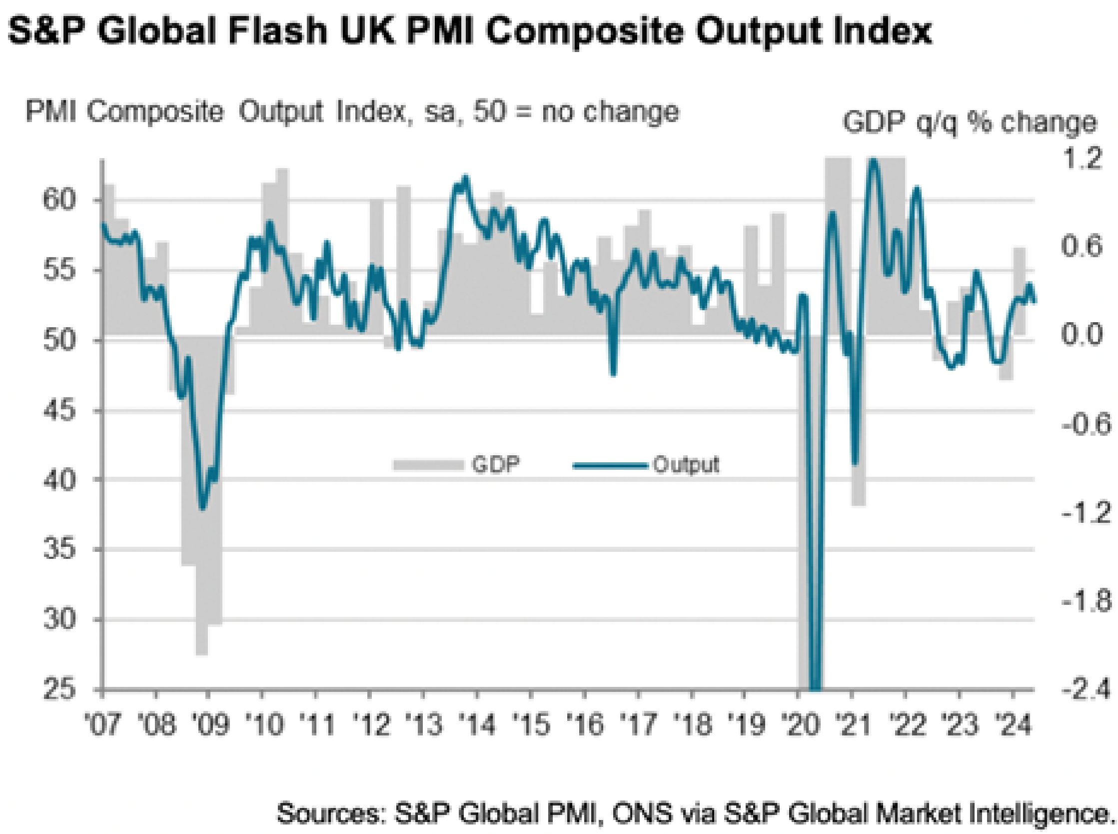
4. Japan May flash Jinbun Bank composite PMI rises to 52.4 from 52.3 - better than 52.2 expected. The manufacturing flash rose to 50.5 from 49.6 while the services slows to 53.6 from 54.3. Overall, the best growth since August 2023, as the private sector expansion continued to accelerate for the third successive month, with strong activity in the service economy prevailing. At the same time, manufacturing output was near stabilization, offering hope of broadening recovery later in the year. Employment quickened amid a slowdown in new orders and a further drop in foreign sales. At the same time, backlogged work pointed to a renewed decline. On the cost side, both input prices and selling charges rose at softer rates, underlining softer inflation pressures.

5. India May flash HSBC composite PMI rises to 61.7 from 61.5 - better than 61.1 expected. Manufacturing flash moderates to 58.4 from 58.8 while services rise to 61.4 from 60.8 Overall, the third-strongest rate of expansion in nearly 14 years, supported by a sharp increase in the services sector. Although the manufacturing sector rose at a softer pace during the month due to a slowdown in new orders and production, it continued to record a stronger rate of output growth than the services sector. New export orders expanded for both sectors, rising at the quickest pace since the series began in September 2014. In response to this, firms increased their staffing levels, with employment growth reaching its highest level since September 2006. On the price front, a faster increase in input costs pushed prices charged for Indian goods and services higher. Finally, optimism about the year ahead increased to its highest in over 11 years.

6. Eurozone May flash HCOB composite PMI rises to 52.3 from 51.7 - better than 52 expected. Manufacturing flash improves to 47.4 from 45.7 while services steady at 53.3 - signals economic recovery in the Eurozone gained momentum, amid faster increases in business activity, new orders and employment while business confidence hit a 27-month high. Meanwhile, rates of inflation of both input costs and output prices softened, but remained above pre-pandemic averages in each case. Growth continued to be centered on the services sector (53.3 vs 53.3), but manufacturing production neared stabilization (47.4 vs 45.7), falling only marginally and to the least extent in the current 14-month period of contraction. Sharper increases in business activity were recorded in Germany but France saw output decrease following a slight rise in the previous month.

7. UK May flash composite PMI slows to 52.8 from 54.1 - weaker than 54 expected. Manufacturing flash jumps to expansion at 51.3 from 49.1 while services dip to 52.9 from 55.0 - New orders and export sales continued to grow, although hiring challenges resulted in only marginal job creation. Additionally, businesses in the UK reported the slowest rise in average selling prices in over three years, attributed in part to a decrease in input cost inflation following April's sharp increase. Respondents noted a reduction in labor cost pressures after the rise in the National Living Wage, particularly in the services sector.

UK manufacturing up, does it matter?



Source: S&P PMI/BNY Mellon

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