BNY MELLON

iFlow MARKET MOVERS

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Timing

"It's always about timing. If it's too soon, no one understands. If it's too late, everyone's forgotten." – Anna Wintour

"People talk about perfect timing, but I think everything is perfect in its moment; you just want to capture that." – Eddie Huang

Summary

Risk mixed as Asia's equities fall and Europe's rallies with the timing of rate cuts key. US futures are up. The India election surprise leads to a 3-day volatility fest with notable recovery today, while Korea gained on hopes of AI chips from Samsung and lower GDP helping BOK easing talk, same with Australia missing on growth helping RBA cut expectations. The Japan wages were up and rates followed putting pressure on shares, and the USD, but that didn't last long and many see the timing of ECB and BOC cuts as key for dollar path ahead. On the day, US markets face service ISM, ADP jobs and the Canada rate decision mixed with some retail companies earnings reports. The timing of chasing markets looks to be important with buying the dip back in vogue.

What's different today:

- **Japan 10Y JGB yields drop below 1% -** 2-week lows tracking US bonds despite wage data in Japan rising. Real wages, however, fell for 25th month -0.7% y/y
- **April industrial prices fell 1% m/m** after -0.5% m/m – linked to energy falling 3.6% y/y – this reversal in oil prices matters to pipeline inflation ahead into summer.
- **iFlow** – stuck in neutral across factors and mood – with USD flat yesterday but selling in CAD notable into BOC. The Equities are sold in US and Norway and bought in Swiss in G10 while in bonds its buying in US against selling in Sweden. EM focus remains on CNY selling COP and PLN buying with NBP today important.

What are we watching:

- **US May ADP private payrolls expected to slow to 175,000** from 192,000.
- **US May ISM services expected to rebound to 50.8** – with focus on jobs and prices.
- **Bank of Canada rate decision with 25bps easing** expected – putting rates to 4.75%, analysts split at 60% chance, market 80% priced for start of cuts – will be first of G7 to cut.

Headlines

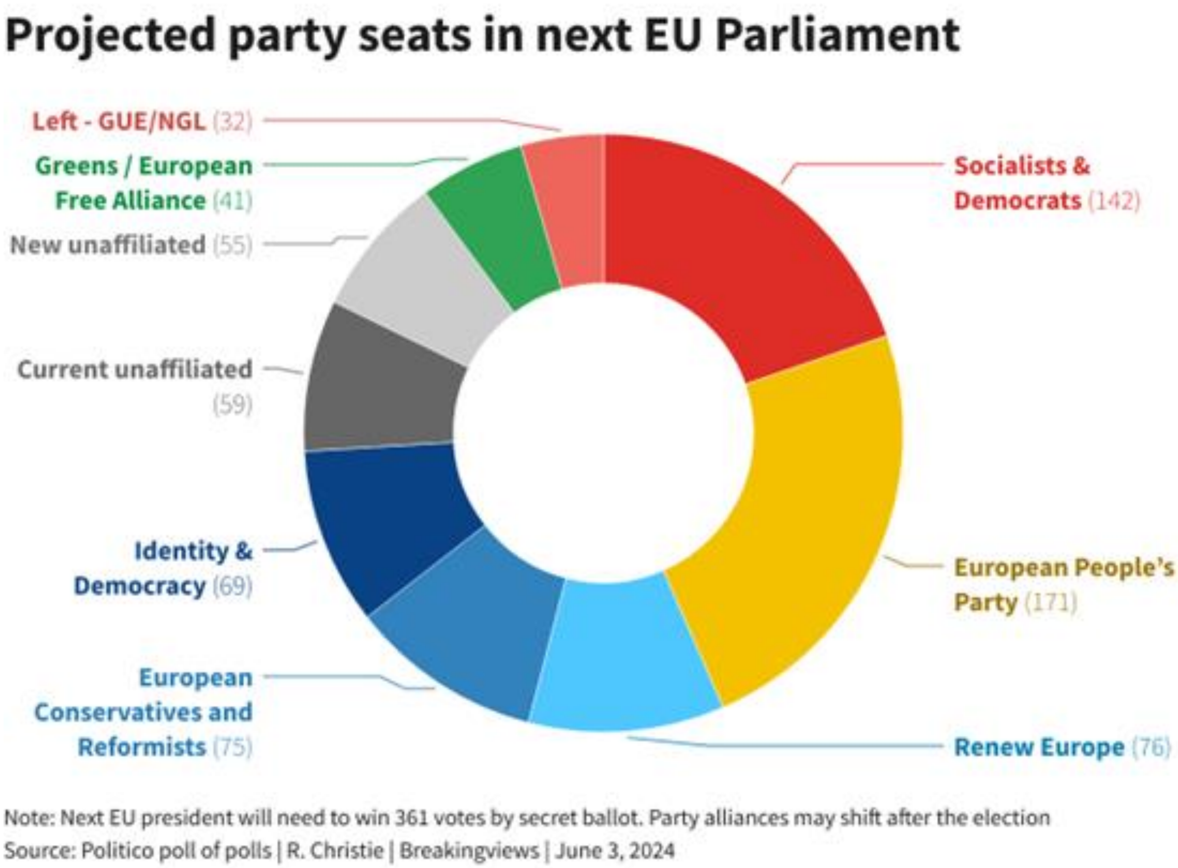
- Australia 1Q GDP misses at +0.1% q/q – worst in 6 quarters - May AI Group industry index drops 31.4 to -40.3 – 25th month of contraction, worst since pandemic – while May services PMI fell 1.1 to 52.5 – ASX up 0.41%, AUD off 0.15% to .6640

- Korea 1Q GDP revised off 0.1pp to 3.3% - still best growth since Dec 2021 – Kospi up 1.1%, KRW up 0.25% to 1372.95
- Japan April average earnings jump 1.1 pp to 2.1% y/y – best since June 2023 – May final service PMI slips 0.5 to 53.8 weakest since Feb; Nikkei off 0.89%, JPY off 0.5% to 156.20
- China May Caixin services PMI up 1.5 to 54 – best since July 2023 – CSI 300 off 0.58%, CNH off 0.1% to 7.2550
- India May final services PMI drops 0.6 to 60.2 – weakest since Dec 2023, down from flash – Sensex up 3.4%, INR up 0.15% to 83.38
- Eurozone May final services PMI off 0.1 to 53.2 – weaker than flash, 2M lows but composite up 0.5 to 52.2 at 12-month highs – Italy slows, Spain at 14-month highs – EuroStoxx 50 up 1.1%, EUR off 0.15% to 1.0860
- UK May final services PMI fell 2.1 to 52.9 – price pressures ease – FTSE up 0.3%, GBP flat at 1.2770
- US weekly API oil inventories report 4.052mb build when -2mb draw expected – gasoline inventories rose 4.026mb leaving them 1% below average, distillates rose 1.975mb still 6% below average – WTI Up 0.35% to $73.50, NatGas in US up 2.3%

The Takeaways:

Timing matters to central bankers and easing today from the Bank of Canada is going to be watched closely. The level of rates matters less than the path forward and so “hawkish easing” talk is part of the policy games ahead. However, words matter less than actions to markets and the credibility of central bankers everywhere is at risk if they try to bluff their optionality. The slowing of GDP in Australia is an example where markets now price RBA easing. The risk of being too hawkish when the data points otherwise is the focus of the US Day ahead as we have seen 2% removed from the GDPnow forecasts in the data so far and todays ADP and ISM services will be watched for more. The slowing of the USD economy is still the balancing act for Fed soft-landing with the markets uncertain about the right timing. The next surprise will be about another set of voters and the EU vs. ECB path will be key.

EU voters and risk for ECB ahead?



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Australian 1Q GDP rises 0.1% q/q, 1.1% y/y after 0.3% q/q, 1.6% y/y – weaker than the 0.2% q/q, 1.2% y/y expected - the 10th period of quarterly growth but the softest pace in 6 quarters, amid subdued domestic demand, a further fall in fixed investment, and a drag from net trade. Household spending grew more (0.4% vs

0.3% in Q4), mainly on essential items like electricity, rent, food, and health. Government expenditure also rose (1.0% vs 0.8%), on extended benefits for households. At the same time, fixed investment shrank further (-0.9% vs -1.5%), with private investment down for the first time in 5 quarters due to drops in non-dwelling investment, ownership transfer costs, and total dwellings. Imports of goods and services rose 5.1% while exports just added 0.7%. The build-up of inventories partly offset the rise in imports. The household savings ratio fell 0.9% after rising in Q4. Yearly, the GDP grew by 1.1%, the least since Q4 of 2020.

2. Australian May AiGroup industry index drops to -40.3 after -8.9 – much worse than -10 expected. The activity/sales indicator also declined, dropping 45.9 points to -57.8, the lowest level since the pandemic lockdowns of mid-2020. On a trend basis, the indicator has remained negative for 24 months. The employment indicator saw a significant decline in May, returning to negative territory at -25.2 after a brief recovery early in the year. These declines are attributed to the lagging effects of new orders, which fell sharply around the holiday period and are now impacting overall activity and employment.

3. Australian May final Judo Bank services PMI drops to 52.5 from 53.6 – weaker than 53.2 flash – also leaves composite 52.1 from 53 – weaker than 52.2 flash - despite the slowdown, this marks the fourth consecutive month of expansion in services activity. The expansion was driven by the fastest rise in new business in two years, supported by accelerated growth in new export business. Sentiment about future activity also improved, leading to service providers raising their staffing levels in May. Turning to prices, average input costs increased in May. Moreover, the rate of inflation was steep, rising to the highest level since February.

4. Japan April average cash earnings rise to 2.1% y/y from 1% y/y – more than the 1.7% y/y expected – the highest since June last year. Still, the country’s nominal wage growth lagged behind the 2.2% core consumer inflation rate in April, marking over two years of negative inflation-adjusted real wages which fell 0.7% last month. Also, overtime pay fell -0.6% y/y after -0.5% y/y.The following industries contributed the most to the wage rise: construction (5.7%), finance & insurance (5.3%) and services, not elsewhere classified (3.6%). Meanwhile, wages declined in mining & quarrying of stone & gravel (-10.5%) and real estate & goods rental & leasing (-2.6%).

5. Japan May final Jibun Bank services PMI slip to 53.8 from 54.3 – better than 53.6 flash - the softest growth in the service sector since February. New orders rose solidly, but its growth rate eased for the first time in seven months. Meanwhile, foreign sales increased the most since the series was added to the survey in September 2014. Employment grew for the eighth month, and the rate of job creation was among the fastest on record. Outstanding work accumulated further, but the rate of rise was the slowest in 2024 so far. On the cost front, input price inflation eased but was still above the long-run average. Meantime, the rate of output charge inflation slowed from April's 10-month top but was still the third highest on record. Lastly, sentiment strengthened and was among the highest to date, helped by higher wages, a global economic recovery, and the weak yen.

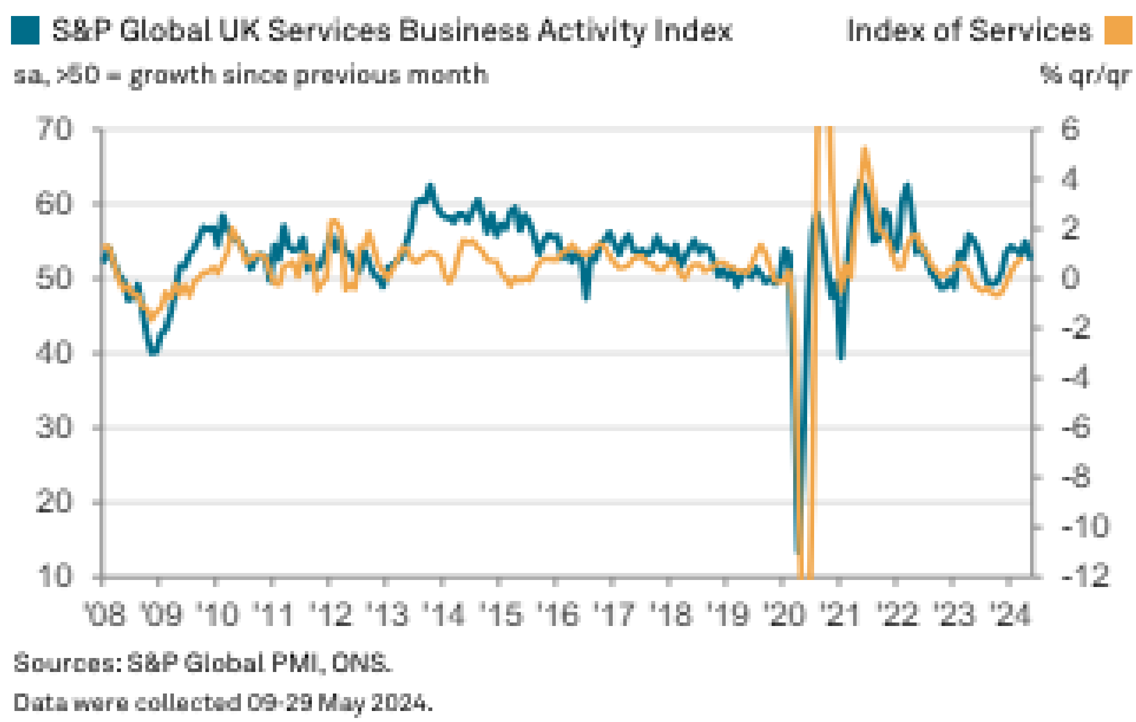
6. China May Caixin services PMI rises to 54 from 52.5 – better than 52.6 expected - the 17th straight month of expansion in services activity, marking the fastest pace since July 2023, as new business and new export orders grew the most in a year due to strengthening domestic and external demand. Employment increased for the first time in four months, with its growth rate the fastest since September 2023 while backlogs of work continued to decline. On prices, input cost inflation accelerated to an 11-month high, driven by higher input material, labor, and transport costs. As a result, output cost inflation rose to the highest since January 2022 as firms shared their increased cost burdens with clients. Finally, business sentiment remained upbeat but its level of optimism weakened to a seven-month low, amid rising concerns over the global economic outlook and inflation.

7. India May HSBC final services PMI slips to 60.2 from 60.8 – weaker than 61.5 flash expected - the slowest pace since December 2023. Despite the deceleration, new orders continued to rise substantially, supported by favorable economic and demand conditions and successful advertising, though growth was tempered by fierce competition and a severe heatwave. New export orders saw significant improvement, with growth reaching its highest level since the series began in September 2014, driven by strong demand from Asia, Africa, Europe, the Middle East, and the US. On the pricing front, cost pressures intensified, with notable increases in the prices of materials and labor. Finally, business sentiment soared to an eight-month high, buoyed by effective marketing strategies, enhanced customer engagement, strong demand, and positive economic conditions.

8. Eurozone May final HCOB services PMI fell to 53.2 from 53.3 – weaker than 53.3 flash. There was a stronger increase in new business inflows, as demand for eurozone services rose at a solid pace that was the fastest in a year. Also, job creation was the fastest since June 2023 and service sector companies were able to manage their workloads efficiently, as indicated by broadly unchanged backlogs of work. Pricing pressures remained elevated, despite cooling. The rates of input cost and output charge inflation eased to their slowest for three years and seven months, respectively. Finally, the level of business optimism was at its highest since February 2022. "Overall, the service sector is likely to ensure that the Eurozone will show positive growth again in the second quarter", Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank said.

9. UK May final services PMI fell to 52.9 from 55.0 – same as flash. Despite the sharp slowdown, the result reflected the seventh consecutive expansion in the British services sector, largely driven by a corresponding sequence in growth of new sales. Firms cited greater client confidence, new marketing campaigns, and new client wins as the base of new order growth, although slower growth in export markets limited the extent of the expansion. Along with the depletion of outstanding orders, UK service providers recorded another month of positive growth. Meanwhile, stronger demand for capacity drove companies to grow employment the fastest since February. On the price front, input inflation eased but remained historically high amid sustained salary pressures and greater supplier charges. In all, firms also increased their confidence in future business.

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

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