

iFlow

WEEK AHEAD

June 9, 2024

Good and Bad

“There are good and bad times, but our mood changes more often than our fortune.” – Thomas Carlyle

“Wisdom is the knowledge of good and evil, not the strength to choose between the two.” – John Cheever

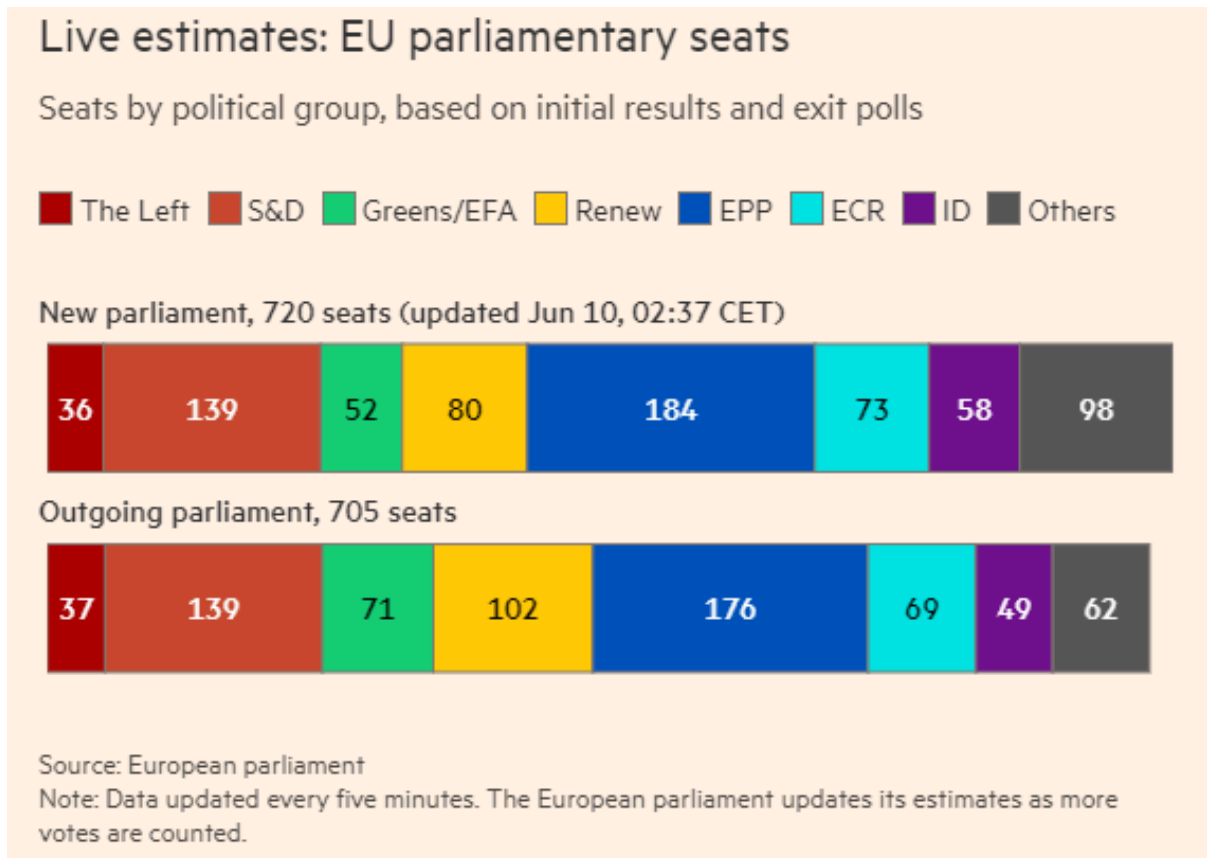
Summary:

Last week was a tale of two cities where it was the best and worst of times - where good news on jobs proved bad for stocks, where inflation weakness was taken as a risk of recession not relief, where central bank rate cuts were delivered not as a shift in policy but as a continuation of watching further data before being decisive in the full path of policy ahead. The risk mix was toxic for Mexico but not India post their election even as one gained a larger majority and the other needs a coalition, while in the US and Europe rallies back in equities were not matched by bonds. The USD regained its exceptionalism on Friday after the US labor report surprised to the upside while the EUR lags post the weekend vote.

The weekend delivered European Parliament elections where French President Macron called a snap legislative ballot after losing to the far-right National Rally, while German Chancellor Scholz's Social Democrats fell to their lowest vote share on record. The rise of the far right maybe at a peak now for Europe, but the fallout of such will make for a long summer. While some of Asia is on holiday today for Dragon Boat Day or Charles III birthday celebrations, the focus on Japan GDP confirming -1.8% y/y contraction makes the BOJ decision Friday more interesting. The week ahead will pivot on the FOMC and BOJ decisions along with US CPI and another set of bond supply and the China recovery from CPI, PPI to retail sales and industrial production leading into the July plenary.

Key Themes:

- **Political Risk and markets.** The weekend snap election call in France puts on the front burner the summer of worry about volatility from political unknowns as the UK and France votes now dominant what many thought would be a less risky quarter. The economic and policy costs of uncertainty were a surprise to India, South Africa and Mexico last week, while the ongoing lack of fear about the US vote in November has surprised others.



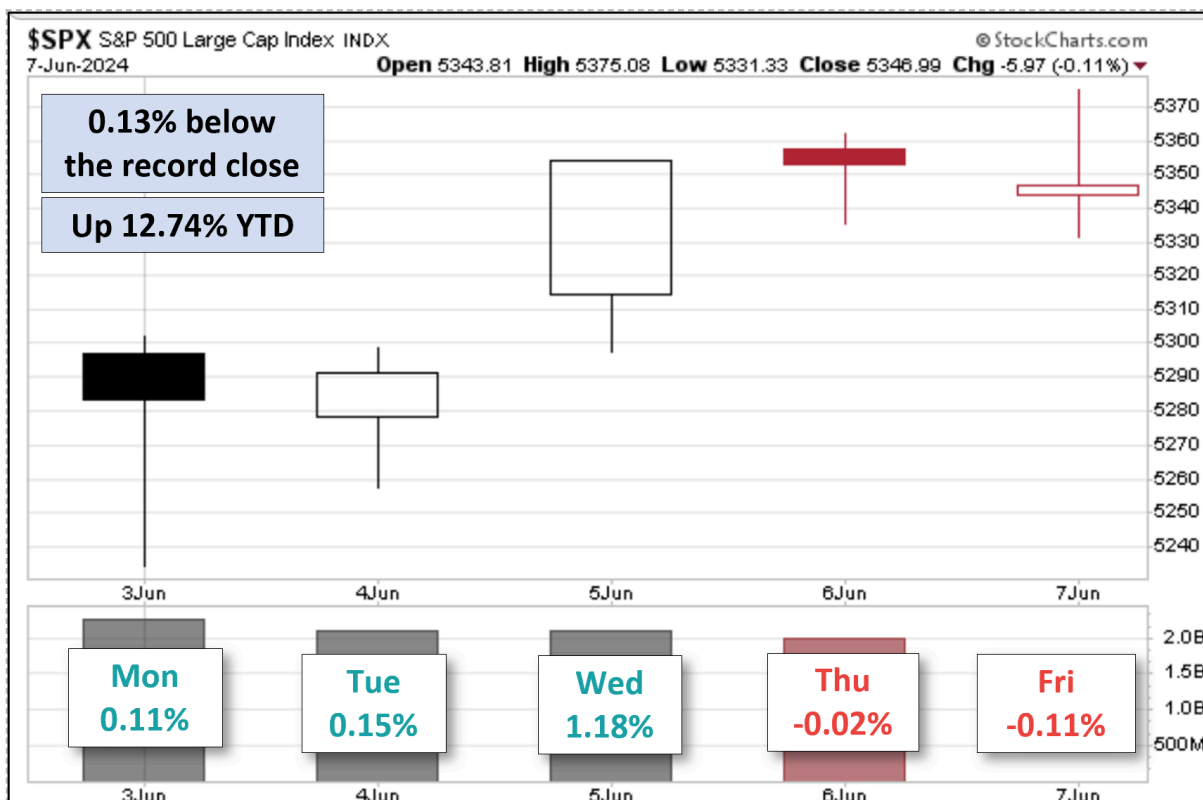
- **FOMC policy decisions and the data dependency.** The ability for the June Summary of Economic Projections to have the same power to move markets as in the past will require some effort from the Fed statement and Chair Powell to speak to what sort of data will matter for a policy shift – is it purely 2.5% or lower core PCE, or a level of unemployment over 4.3% or of economic growth below 1%? Will the Fed have room to ease at all in 2024?
- **Central Bank balance sheets and policy shifts** - BOJ and the shift away from QE before further rate hikes. The ability for the central bank in Japan to allow the bond market to normalize away from its forced yield curve policy control will be an interesting focus for the Friday, June 14 meeting – and one that begs the question about all major central banks with how ongoing Quantitative Tightening plays out against rate cuts. The size of the balance sheet matters in how markets work – particularly the government bond markets as they deal with increasing bond issuance from governments.
- **Divergence of policy and FX.** The ability for the world to handle a USD holding bid with FOMC rate differentials widening means trouble not just for emerging market

economies but also the G10 currency world as weaker FX particularly in small open economies hurts – focus will return to NZD, SEK, even CAD as currency levels are seen at dangerous levels for import inflation effects.

What are we watching:

- **Economic Data: Monday** - Japan C/A and final 1Q GDP, Norway CPI, Sweden industrial production; **Tuesday** – UK jobs, ECB consumer inflation expectations; Brazil CPI; **Wednesday** – China PPI and CPI, UK industrial production, trade and April GDP, US CPI; **Thursday** – Australian jobs, Eurozone industrial production, US PPI, jobless claims; **Friday** – Japan industrial production, China M2 and CNY loans, Sweden CPI, US University of Michigan consumer sentiment.
- **Central Banks: Monday** - ECB Holzmann – **Tuesday** – ECB Villeroy and Rehn; **Wednesday** – Thailand BOT rate decision, US FOMC rate decision and SEP release; **Thursday** – Taiwan rate decision, Fed Williams, Peru rate decision; **Friday** – Japan BOJ rate decision, ECB Lagarde, Fed Goolsbee
- **US Issuance:** Focus will be on 1Y, 3Y, 10Y and 30Y sales and how FOMC decision, CPI matters; **Monday** – \$70bn in 3M and \$70bn in 6M bills, \$58bn in 3Y notes; **Tuesday** – \$46bn in 1Y bills, \$60bn in 42-day CMB, \$39bn in 10Y bonds; **Wednesday** – 4M bills; **Thursday**- \$22bn in 30Y bonds, 1M and 2M bills.

US shares rebounded to new highs last week



News Agenda and Weekly Themes –

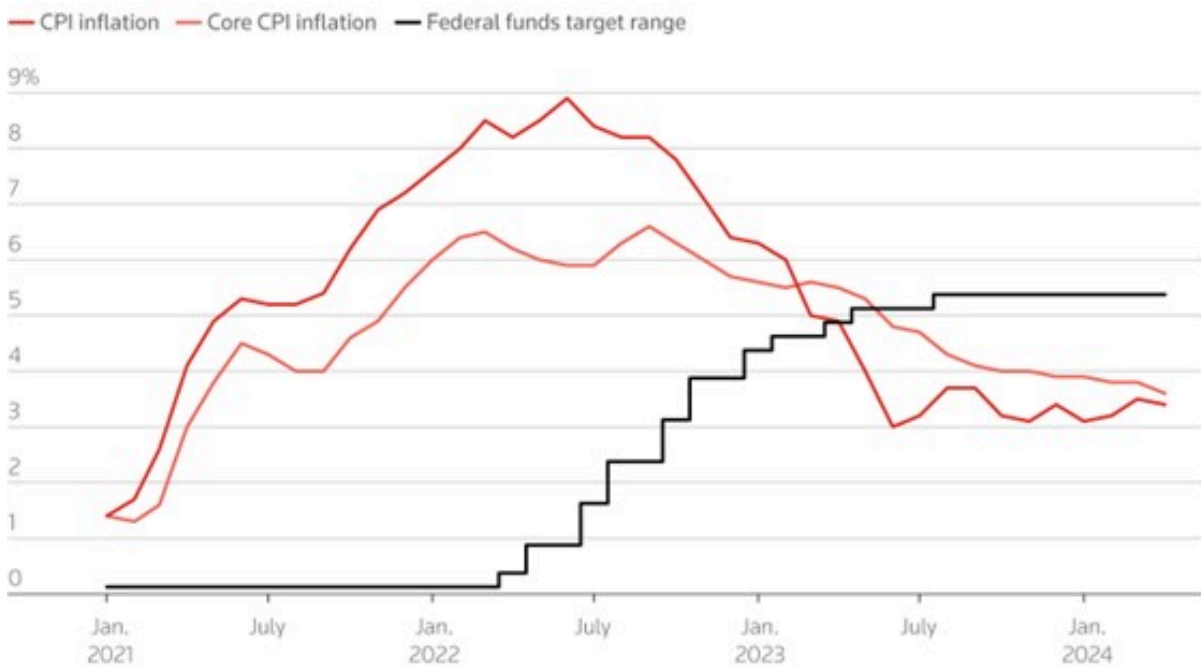
In the United States, the Federal Reserve's interest rate decision and economic projections will take center stage. Investors will also be paying close attention to CPI and PPI inflation data, as well as the Michigan consumer sentiment index. Globally, the May inflation rates for China, India, Brazil, and Russia will be of significant interest. In the UK, key indicators to watch include the April GDP growth rate, unemployment rate, and industrial production figures. Additionally, industrial production data will be released for India, the Euro Area, Turkey, and Italy, alongside trade balance reports for the Euro Area, Italy, Russia, and India. The Bank of Japan's interest rate decision and Australia's NAB business confidence index will also be closely monitored.

1. FOMC happy or otherwise? The lower inflation report, better jobs, higher wages, higher unemployment and weaker GDP – all that data is confusing to markets and requires something clear from the Fed to make pricing of policy shifts more certain. CPI this week and the Fed meeting dominate risk markets. The markets still price in the odds for a December cut, which could shift if Chair Powell changes his approach.

Will the FOMC surprise with their guidance?

Fed rate decision will come hard on heels of latest CPI data

The Federal Reserve is set to meet to decide policy on the same day the U.S. releases CPI inflation data for May. In April, CPI inflation slowed to 3.4% year-on-year from 3.5% the previous month.



Note: The federal funds target rate is the midpoint of the official range. Core CPI inflation excludes food and energy prices.

Source: LSEG Datastream

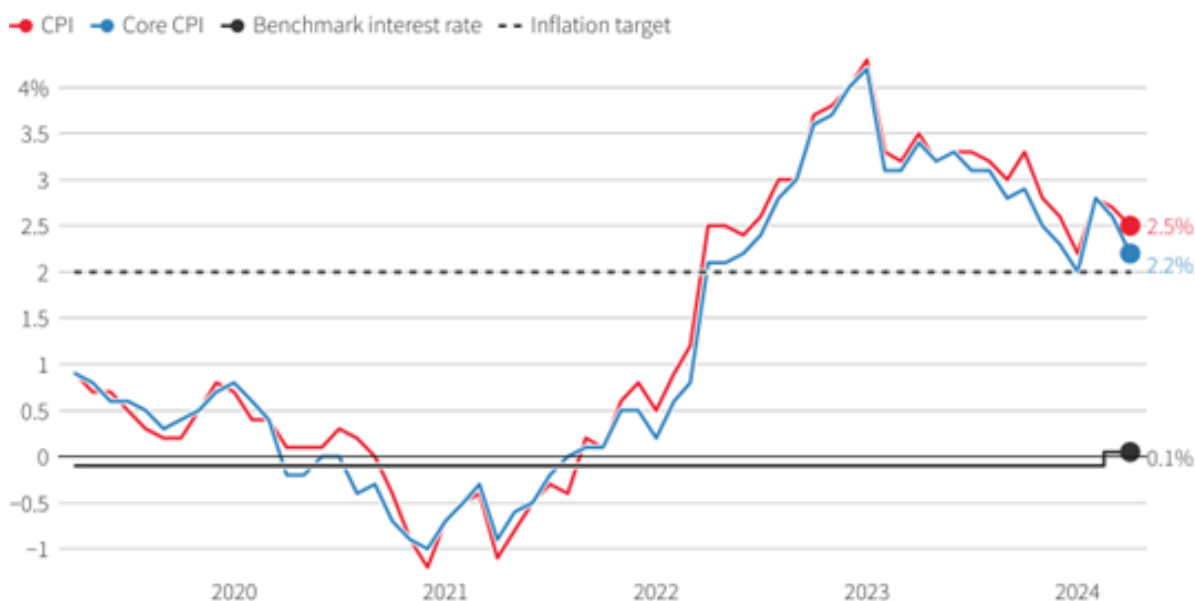
Prinz Magtulis • June 5, 2024 | REUTERS

Source: Reuters, BNY Mellon

2. BOJ Taper or hike or both? BOJ Ueda warned markets last week about this Friday, June 14th meeting. The central bank governor said that it would be appropriate to reduce still-massive bond purchases as the BOJ exits decades of stimulus, stressing policymakers will move "cautiously" on rate hikes after delivering its first rise since 2007 in March. The role of JPY in the decision ahead is clearly important and will be a barometer for investors as they measure the role of BOJ policy on the economy.

Japan's inflation and interest rates

Benchmark interest rate and year-on-year change in CPI inflation



The benchmark rate is policy range of 0.0-0.1%. Published June 6, 2024 at 7:29 AM GMT

Sources: Statistics Bureau of Japan, Bank of Japan, LSEG

Source: Reuters, BNY Mellon

3. UK Jobs and the BOE – Until recently, economists expected a June rate cut but persistent inflation pressures mean markets do not fully price in a move until November. Wednesday's April GDP data is likely to show growth softened after a robust 0.6% expansion in Q1. S&P says PMI data points to 0.3% growth for Q2 overall. And the opposition Labour Party launches its manifesto ahead of the July 4 election. While polls suggest Labour will hammer Prime Minister Rishi Sunak's Conservatives, some business leaders doubt Labour can turn around Britain's recent weak growth performance.

BOE and Jobs not as important as election risk?

UK labour market key to BoE rate-cut prospects

Average weekly earnings rose an annual 6% in the three months to March, and April's 9.8% rise to Britain's minimum wage may push that growth rate higher.



Source: ONS, UK | Reuters, June 6, 2024 | By Sumanta Sen

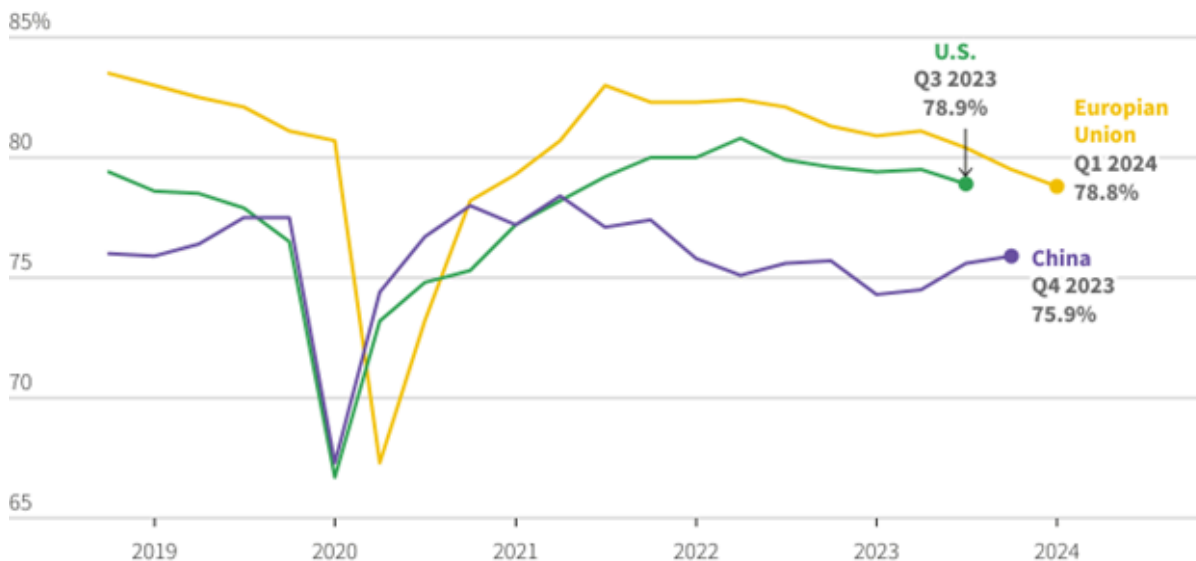
Source: Reuters, BNY Mellon

4. China CPI, M2 and the G7 - Leaders of the Group of Seven are pushing for progress on how to funnel urgently needed funds to Ukraine at a June 13-15 meeting in Bari, Italy, before they head to Switzerland for the peace summit on June 15-16. The push follows a recent EU decision to use the annual flow of windfall profits earned on immobilized Russian assets. A loan backed by the income from frozen assets could provide Kyiv with as much as \$50 billion in near-term funding and has emerged as one top option. Concerns by G7 policymakers over China's growing export strength, dubbed "industrial overcapacity", particularly regarding new energy vehicles, is also in focus. The connection of China to Russia will clearly be in play along with how the CPI and other data from China look for its own domestic demand and recovery.

Will the G7 move markets?

China's capacity utilisation lags U.S. and EU rates, but only slightly

As U.S., EU industries find it harder to compete with their Chinese rivals, Western officials say China's state-led, investment-heavy manufacturing model is unfair.



Source: China's National Bureau of Statistics; Organisation for Economic Co-operation and Development; LSEG Datastream | Reuters, June 6, 2024 | By Pasit Kongkunakornkul

Source: Reuters, BNY Mellon

Economic Data and Events Calendar June 10-14:

Central Bank Decisions

- **Thailand BoT (Wednesday, June 12)** – We see no urgency for BoT to act yet given the uncertainties surround government fiscal program and the anticipated reduction of fuel subsidies. BoT have revised lower their 2024 and 2025 GDP growth forecasts to 2.6% and 3.0% respectively, and both 2024 headline and core inflation at 0.6% y/y. Our view is for BoT to maintain rates unchanged at 2.5% despite recent dovish shift. Thailand's "deflation" pressure has ended with April headline CPI drifted to positive territory at 0.19% y/y in April and rose further to 1.54% in May while core CPI remains depressed at the lows at 0.39% y/y, the lowest levels since Dec 2021 (0.29%). The overall macro-outlook had improved with Q1 GDP growth posted better than expected reading at 1.1% q/q, 1.5% y/y, May PMI manufacturing in the expansion zone (50.3) for the first time since July 2023 and normalisation in tourism industry.
- **US FOMC (Wednesday, June 12)** – After Friday's impressive jobs report, expectations for Fed rate cuts have been dialled back and now only see one-and-a-half cuts by the end of the year. With no rate moved expected at the June meeting, the Summary of Economic Projections (the "dots") should also show that the Committee is paring back its rate cut forecast for the year. This is where focus will be

on Wednesday. We expect the dots to show an end of year median federal funds rate projection closer to 5%, up from 4.6%. How the FOMC characterizes the inflation and growth outlook could also garner attention.

- **Taiwan CBC (Thursday, June 13)** – CBC delivered a surprised 12.5bp rate hike in March 2024 meeting and commented that there is limited upside for rates in future. Since then, Taiwan inflation has been volatile, eased from 3.08% in Feb to 1.94% in April before rebounding above to 2.24% y/y in May. Core inflation dropped from 2.89% Feb highs to 1.81% y/y lows in April and drifted sideways to 1.84% as of May. Exports growth has been strong supported by tech-related boom. PMI Manufacturing back into expansion in April for the first time since May 2022 and gained further momentum in May at 50.9. Q1 GDP came strong at 6.56% y/y. While CBC indicated this week that inflation is becoming less of a concern, we expect CBC to keep rates unchanged at 2% and see little reason for CBC to shift away from hawkish stance yet on the back of hot asset prices.
- **Peru BCRP (Thursday, June 13)** – Barring a major hawkish (or non-dovish) surprise by the FOMC, BCRP is expected to cut rates by another 25bp to 5.5% as CPI is currently softening on a sequential basis. Annualised figures have hit 2.00%, and given the Fed's outlook BCRP may feel comfortable with real rates of 250bp. Recent developments in EM have placed the burden of adjustment more on the political side rather than economic, and we expect developments in Mexico to continue dominating proceedings. The labour market in Peru has also slowed and there should be enough policy space to look at domestic stimulus.
- **Japan BoJ (Friday, June 14)** – No change is expected in the BoJ's array of policy tools but the direction of travel remains towards normalisation so every meeting should be considered 'live', with a possibility of a move on rates and/or asset purchases. Commentary from the BoJ of late points to greater vigilance over exchange rates, but ultimately real wages are the key determinant of policy space and current names are not exactly forcing through any reassessment, as real cash earnings are now contracting on the year despite relatively favourable nominal figures. As such, we believe it is important for the BoJ to look at pass-through elements with respect to inflation and Governor Ueda will likely address the relevant trajectories at the post-decision press conference. There has been a sharp round of JPY selling according to iFlow as carry trade recover on an individual basis, and the FOMC decision this week will also have a bearing on the BoJ result.

Date	BST	EDT	Country	Event	Period	Cons.	Prior
06/10/24	00:50	19:50*	JN	GDP SA QoQ	1Q F	-0.50%	-0.50%
06/10/24	00:50	19:50*	JN	GDP Annualized SA QoQ	1Q F	-2.00%	-2.00%
06/10/24	00:50	19:50*	JN	GDP Deflator YoY	1Q F	3.60%	3.60%
06/10/24	00:50	19:50*	JN	BoP Current Account Balance	Apr	¥1739.9b	¥3398.8b
06/10/24	07:00	02:00	NO	CPI MoM	May	--	0.80%
06/10/24	07:00	02:00	NO	CPI YoY	May	--	3.60%
06/10/24	07:30	02:30	HU	CPI YoY	May	4.20%	3.70%
06/10/24	08:00	03:00	TU	Current Account Balance	Apr	-6.10b	-4.54b
06/11/24	07:00	02:00	UK	ILO Unemployment Rate 3Mths	Apr	4.30%	4.30%
06/11/24	07:00	02:00	UK	Jobless Claims Change	May	--	8.9k
06/11/24	08:00	03:00	CZ	CPI MoM	May	0.10%	0.70%
06/11/24	08:00	03:00	CZ	CPI YoY	May	2.80%	2.90%
06/11/24	12:00	07:00	SA	Manufacturing Prod NSA YoY	Apr	--	-6.40%
06/11/24	13:00	08:00	BZ	IBGE Inflation IPCA YoY	May	3.87%	3.69%
06/11/24	13:00	08:00	BZ	IBGE Inflation IPCA MoM	May	0.42%	0.38%
06/12/24	00:50	19:50*	JN	PPI YoY	May	2.00%	0.90%
06/12/24	02:30	21:30*	CH	PPI YoY	May	-1.50%	-2.50%
06/12/24	02:30	21:30*	CH	CPI YoY	May	0.40%	0.30%
06/12/24	07:00	02:00	GE	CPI YoY	May F	2.40%	2.40%
06/12/24	07:00	02:00	GE	CPI MoM	May F	0.10%	0.10%
06/12/24	07:00	02:00	UK	Industrial Production MoM	Apr	-0.30%	0.20%
06/12/24	07:00	02:00	UK	Manufacturing Production MoM	Apr	-0.30%	0.30%
06/12/24	08:05	03:05	TH	BoT Benchmark Interest Rate	Jun-12	2.50%	2.50%
06/12/24	12:00	07:00	US	MBA Mortgage Applications	Jun-07	--	-5.20%
06/12/24	13:30	08:30	US	CPI MoM	May	0.10%	0.30%
06/12/24	13:30	08:30	US	CPI YoY	May	3.40%	3.40%
06/12/24	19:00	14:00	US	FOMC Rate Decision (Upper Bound)	Jun-12	5.50%	5.50%
06/13/24			TA	CBC Benchmark Interest Rate	Jun-13	--	2.00%
06/13/24	02:30	21:30*	AU	Employment Change	May	30.0k	38.5k
06/13/24	02:30	21:30*	AU	Unemployment Rate	May	4.00%	4.10%
06/13/24	13:00	08:00	BZ	Retail Sales YoY	Apr	--	5.70%
06/13/24	13:30	08:30	US	Initial Jobless Claims	Jun-08	--	229k
06/13/24	13:30	08:30	US	PPI Final Demand MoM	May	0.10%	0.50%
06/13/24	23:30	18:30	NZ	BusinessNZ Manufacturing PMI	May	--	48.9
06/13/24	23:45	18:45	NZ	Food Prices MoM	May	--	0.60%
06/14/24	00:00	19:00*	PE	Reference Rate	Jun-13	5.50%	5.75%
06/14/24			JN	BoJ Target Rate (Upper Bound)	Jun-14	0.10%	0.10%
06/14/24	05:30	00:30	JN	Tertiary Industry Index MoM	Apr	0.40%	-2.40%
06/14/24	05:30	00:30	JN	Industrial Production MoM	Apr F	--	-0.10%
06/14/24	07:00	02:00	SW	CPI MoM	May	--	0.30%
06/14/24	07:00	02:00	SW	CPI YoY	May	3.40%	3.90%
06/14/24	07:00	02:00	SW	CPI Level	May	--	415.5
06/14/24	09:00	04:00	PD	CPI YoY	May F	--	2.50%
06/14/24	15:00	10:00	US	U. of Mich. Sentiment	Jun P	73	69.1

Key speeches/events

Date	BST	EDT	Country	Event
06/09/24	23:00	18:00	HU	Hungarian-Polish joint central bank conference
06/10/24	12:00	07:00	EC	ECB's Holzmann Speaks
06/11/24	08:10	03:10	EC	ECB's Villeroy speaks in Paris
06/11/24	09:00	04:00	FI	ECB's Rehn Speaks
06/11/24	12:00	07:00	EC	ECB's Holzmann, Villeroy speak in Vienna
06/11/24	12:05	07:05	EC	ECB's Lane Speaks
06/12/24	14:00	09:00	EC	ECB's Guindos Speaks
06/12/24	19:30	14:30	US	Fed Chair Powell Holds Post-Meeting Press Conference
06/13/24	17:00	12:00	US	Fed's Williams Interviews Treasury Sec. Yellen
06/14/24	08:35	03:35	EC	ECB's Vasle Speaks
06/14/24	09:30	04:30	UK	BOE inflation attitudes survey
06/14/24	10:00	05:00	EC	ECB's Lane Speaks
06/14/24	18:30	13:30	EC	ECB's Lagarde Speaks
06/14/24	19:00	14:00	US	Fed's Goolsbee Speaks in Fireside Chat

Conclusions: Is this a summer of panic?

The ability for central bankers to keep markets calm and functioning has become another part of their mandates since the 2008 financial crisis and great recession. The BOJ and

FOMC meeting have risk for volatility and so many expect the statements and press conferences around them to do no harm. If the BOJ tapers or ends its QE, expect Governor Ueda to do his best to keep bonds from moving too far or fast. Similarly, if the FOMC statement shifts to a more balanced bias (hiking or easing risks are equal), then expect the Chair Powell press conference to sound dovish regardless. The risks for the markets aren't in the expected but in the unknown and how central bankers could react to something surprising.

There are a number of places this summer that worry –

1) Politics with the UK and France clearly leading the list. The ability for markets to ignore politics will be hard to do, particularly given the ongoing geopolitical and economic problems faced by two wars, increasing nationalism elsewhere and tariffs on the rise.

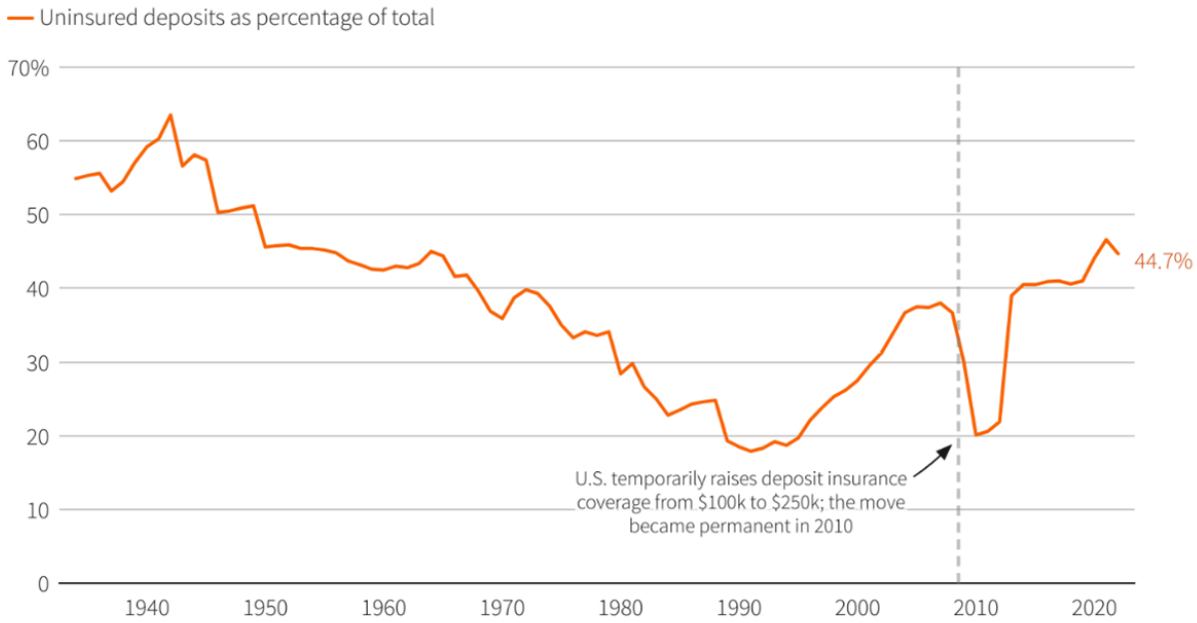
2) Non-bank risks are clearly back in focus with CRE worries not gone and likely to resurface if rate cuts in the US aren't forthcoming. This is also a focus in Europe where non-bank risks are also being discussed. The mirror image of this is that all large global banks are doing the same thing making it almost inevitable that they will all suffer the same problems in a crisis. The lack of credible smaller bank solutions anywhere is more a sign of weakness than strength.

3) Government bailouts. The SVB lessons have not been fully learned or fixed. The ability for markets to expect that any business including banking will have a government backed bailout plan rather than face failure makes the credibility of the bailouts a problem – should debt burdens rise to levels where such actions don't buy time. The ability for the US and others to bailout any industry in the next crisis will rest on the faith in their own government bonds.

Bottom Line: The summer ahead is not going to pivot only on policy and politics but also in the way that markets handle the uncertainty and any surprises. If the last week is an example of how July and August could be then watch out for more volatility and more noise in rates as they become complicated by the role of central bankers trying to calm markets.

Are uninsured deposits a sign of trouble?

The share of uninsured US bank deposits has grown



Source: FDIC | P. Thal Larsen | Breakingviews | June 6, 2024

Source: 538, BNY Mellon

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