

June 23, 2024

Voices

“The only tyrant I accept in this world is the still voice within.” – Mahatma Gandhi

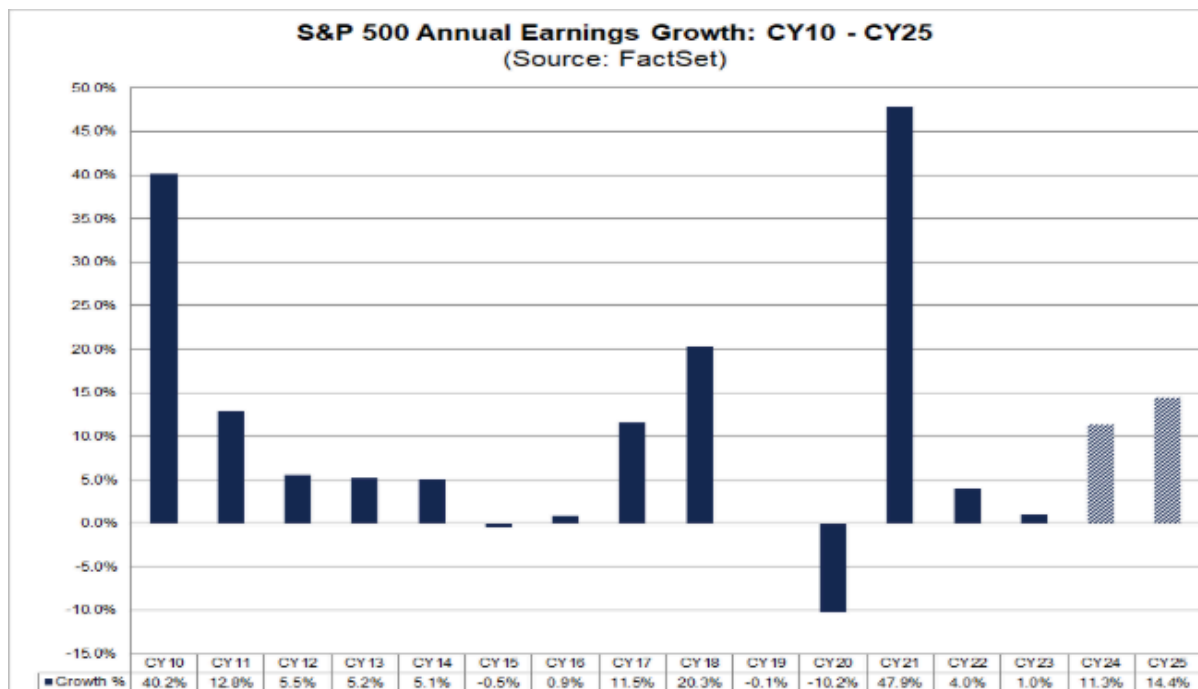
“Words mean more than what is set down on paper. It takes the human voice to infuse them with deeper meaning.” – Maya Angelou

Summary:

There will be a cacophony of voices all wanting to be heard in the week ahead, from central bankers arguing for patience and data dependence, to politicians searching for votes, to investors looking for ongoing safe returns with an eye on diversity. The rate cut from the SNB last week will set up the Czech central bank for an easing next week but perhaps not the Swedish Riksbank, while emerging central banks from Mexico to Turkey are expected on hold as they fight the USD exceptionalism. The week ahead will be backloaded with most of the rate decisions Thursday and the all-important US core PCE index Friday along with Japan Tokyo CPI. How the US dollar trades into month-end will be important to the direction of risk across markets as the shock absorber of FX works across the world with the voices of voters the loudest as polls post the US Presidential Debate and the first French vote along with the Iranian election and the UK polls into the weekend all set the tone for fiscal risks. The risk for the week ahead maybe in finding what voices are loudest to drive money from one place to another. Trends are beating carry and volatility in FX looks interesting compared to other markets.

Key Themes :

- **Concentration and rotation risks.** The 1000% gains in Nvidia from 2022 sending the company to the largest market cap in the world over \$3trn last week worried many investors. Some returned to the concentration risk arguments of the IT sector. Others feared AI hype won't generate the growth or productivity needed to sustain the price. Many see 1H2024 ending as an excuse to rethink risks. But the equal weighted S&P500 and the market cap are closer now than before and the broadening of the US rally stands out.
- **Elections = Bond Risk.** Consensus around the UK, French and US election forms for fiscal largess leading to debt crisis worries globally. In the US, neither Biden nor Trump are seen leading their parties to austerity. However, investor flows from our data suggest duration demand holds and that US bond buying from foreigners has picked up – making yields a key factor for trading risk. This has a limit, however, as was shown in Mexico as markets sold bonds and the currency after the Sheinbaum landslide pushed her near the super-majority allowing unchecked reforms and control. Whether the carry trade works or not in FX matters less than the real yield differentials for fixed income stability. Money goes where its needed but stays where its well-treated.
- **US consumer doubts vs. corporate profits hopes** – The weaker US retail sales, lower preliminary June consumer confidence surveys, higher jobless claims and lower home sales all drove doubts about the US consumer strength. However, the consumer balance sheet with debt vs. disposable income against debt holds at low levels suggesting the consumer could borrow to fill gaps in any wages or further spikes in prices. Further, the 2Q GDP nowcasts are still holding at 3% from the Atlanta Fed. The outlook for 2Q earnings in the S&P500 is 8.8% - highest since 1Q 2022 which was 9.4%. Further, the outlook for the year 2024 is 11.3% rising to 14.4% in 2025, up from 1% in 2023. How companies continue to grow earnings rests on the consumer – making any data on wages, inflation or leverage key for stocks and bonds.



Source: FactSet, BNY Mellon

What are we watching:

- **Polls and Elections: The Iranian election** – this vote matters as to the direction of the nation as the successor to the supreme leader may follow. The path of the Hamas/Israel war will be the immediate focus. The **UK election July 4th** – and the expectations remain that Labour wins with a landslide with 425 seats to 108 for the Conservatives. In **France, the June 30 and July 7 votes** are seen going to Le Pen's RN with 34% of the vote, while the Popular Front would reach 29% and Macron's Together bloc would get 22%.. In the **US, the June 27 Presidential debate will lead to keen focus on the polls** after the event with the race between Trump and Biden seen as too close to call.
- **Economic Data: Monday** – German IFO; **Tuesday** – Canada CPI, US CB consumer confidence; **Wednesday** - Eurozone funding outlook, German GfK, US new home sales; **Thursday** – Euro M3, US 1Q GDP revised, durable goods; **Friday** – Japan jobs, Tokyo CPI, UK GDP, German jobs, Eurozone consumer inflation expectations, US core PCE, final Univ. Michigan consumer sentiment.
- **Central Banks: Monday** – BOJ minutes, Fed Waller and Daly, ECB Nagel, Schnabel and Villeroy, BOC Macklem; **Tuesday** – Fed Bowman and Cook; ECB Stournaras; **Wednesday** – Fed bank stress test; ECB Rehn, Panetta and Lane; RBA Kent; **Thursday** – BSP rate decision, Riksbank rate decision,

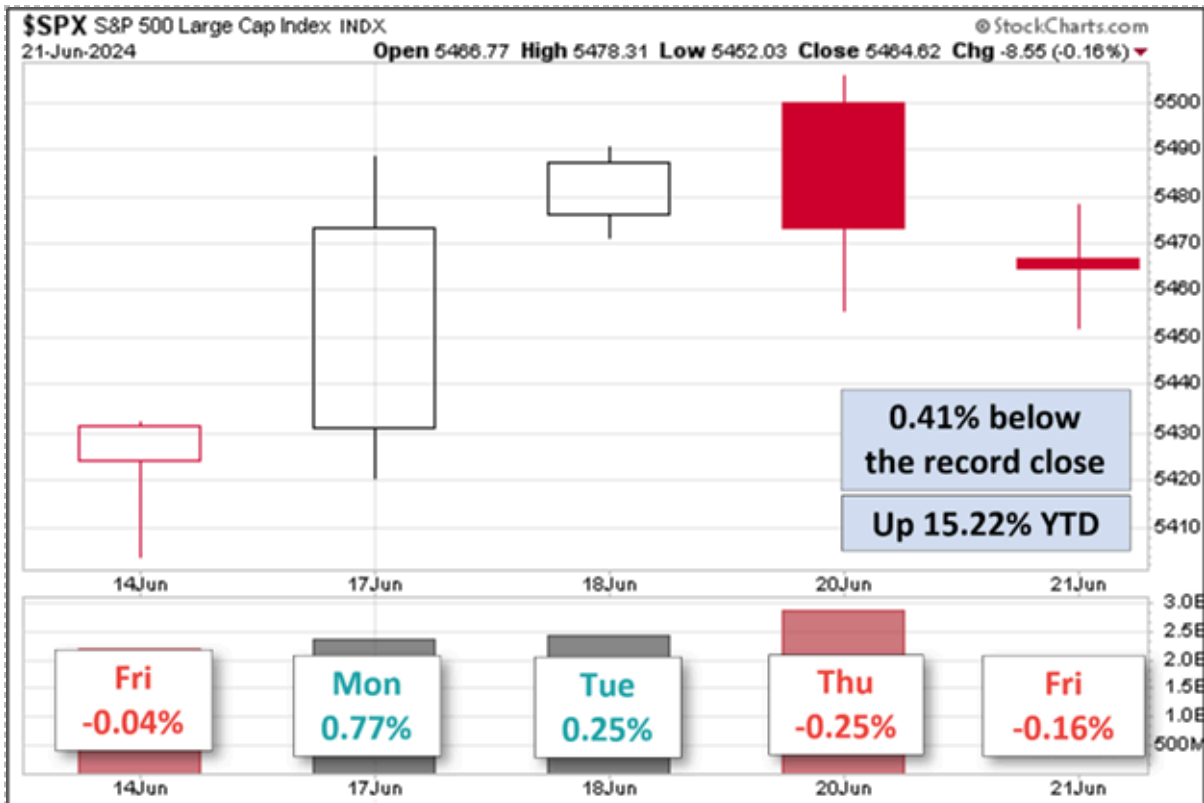
TCMB rate decision, Czech CNB rate decision, Mexico rate decision, ECB Kazimir, RBA Hauser; **Friday** – Colombia rate decision, ECB Villeroy.

- **US Issuance:** US Treasury sells \$18.3bn in notes and \$28bn in FRN with cash flow flat with coupons and redemptions but over next 4-weeks negative at \$104bn in July with \$315bn issues and \$211bn coupons. Tuesday – 2Y note \$69bn; Wednesday - \$28bn in 2Y FRN and \$70bn in 5Y note; Thursday - \$44bn in 7Y note.
- **EU Issuance:** the week ahead has E19.25bn issuance from EU, Germany and Italy with cash flow negative -E7.19bn with E27.5bn issuance offset by E20.31bn of coupons and redemptions. Monday – EU issues E2.5bn of 2Y and E2.5bn of 10Y; Tuesday – Italy sells E2.5bn of 2.5Y BTP, E2.25bn of 6Y and 15Y BTPei, Germany sell E4.5bn of 2Y Schatz; Thursday – Italy sells E7.25bn of BTPs. The UK sells GBP3bn of bonds and E1.5bn of linkers Tuesday and Wednesday.

What changed last week:

- **In Equities, the US S&P500 rose 0.61% in a holiday shortened week.** The index is up 15.22% year-to-date and has made 31 new record highs. The DJIA rose 1.3% and the NASDAQ rose 0.12%. In iFlow, the US saw significant outflows and globally only the real estate sector showed gains. The best performers on the week were the Nikkei up 1.3% and the French CAC40 up 1.67% bouncing back from the snap election fears of the week before.

US markets up for third week led by blue chips not tech

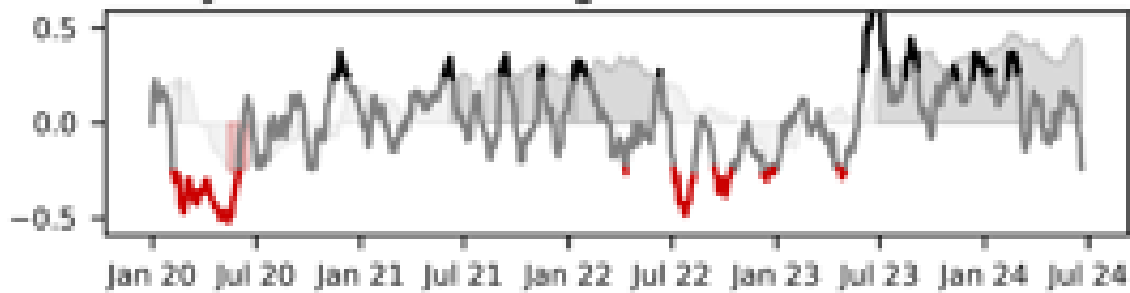


Source: Bloomberg, BNY Mellon

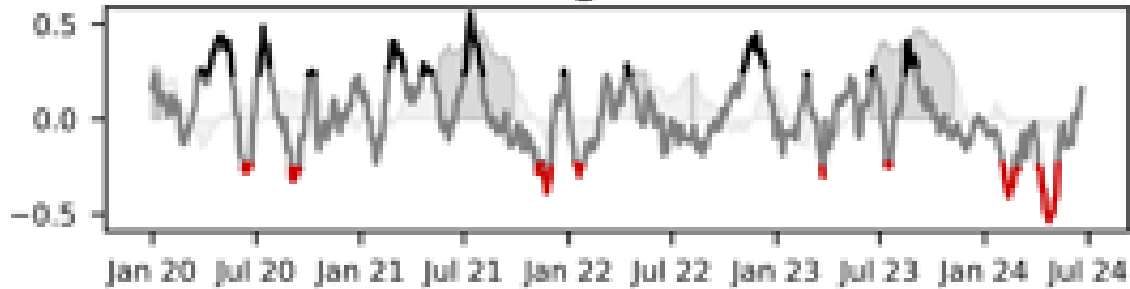
- In Foreign Exchange, the USD gain 0.6%** despite yields falling. The arguments for holding the USD revolved around weakness in China and EU data and election risks in UK, France with fears of a German Autumn election rising. The biggest rally last week was in MXN up 2.2% as the markets found some relief in the Sheinbaum cabinet picks, with ZAR up 1.4% in second place as the new coalition government similarly relieved worst fears for finance. NOK, AUD and CAD all were up while DUR, GBP, CHF fell but the biggest mover was JPY as the lower core-core CPI and mixed data worried some that the BOJ wouldn't act in July. The most notable iFlow story was in the one-day move in carry factors to extreme negative correlation something that usually suggests broader risk off for 2-3 weeks across markets.

FX carry trade drops out

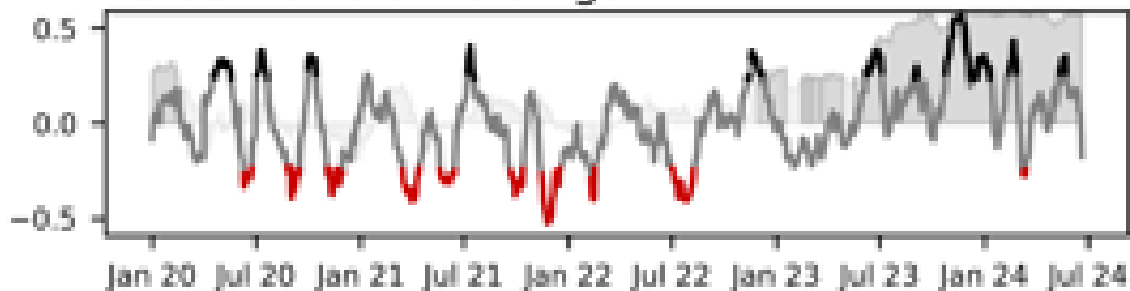
Carry Flows & Holdings



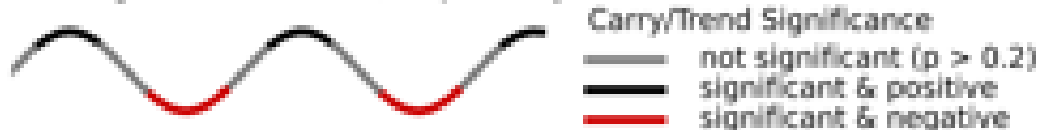
Trend Flows & Holdings



Value Flows & Holdings



Carry, Trend and Value signals are Spearman rank correlations between 20d flow or holdings & 5y yields, 50d / 200d momentum, & 1m / 3y average BIS Broad REER, respectively



Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income, the US bond markets continued to rally in the last week** with 10Y off 3bps to 4.25% but despite further weakness in retail sales, the market was unable to break out of the yearly range. The worst performer was Australia up 10bps to 4.205% as the RBA remained on hold and seemed more hawkish than some expected. The focus in Europe on French bonds was less exciting – as they reversed – up just 0.5bps to 3.205%. The Bunds were off 1bps to 2.405%. Interestingly, our iFlow data saw significant buying back of

French OATs. The biggest rally was in Switzerland as the 25bps easing from the SNB put 10Y yields off 8.5bps to 0.535%.

News Agenda and Weekly Themes – US core PCE, flash CPIs in Europe, Tokyo CPI and Polls

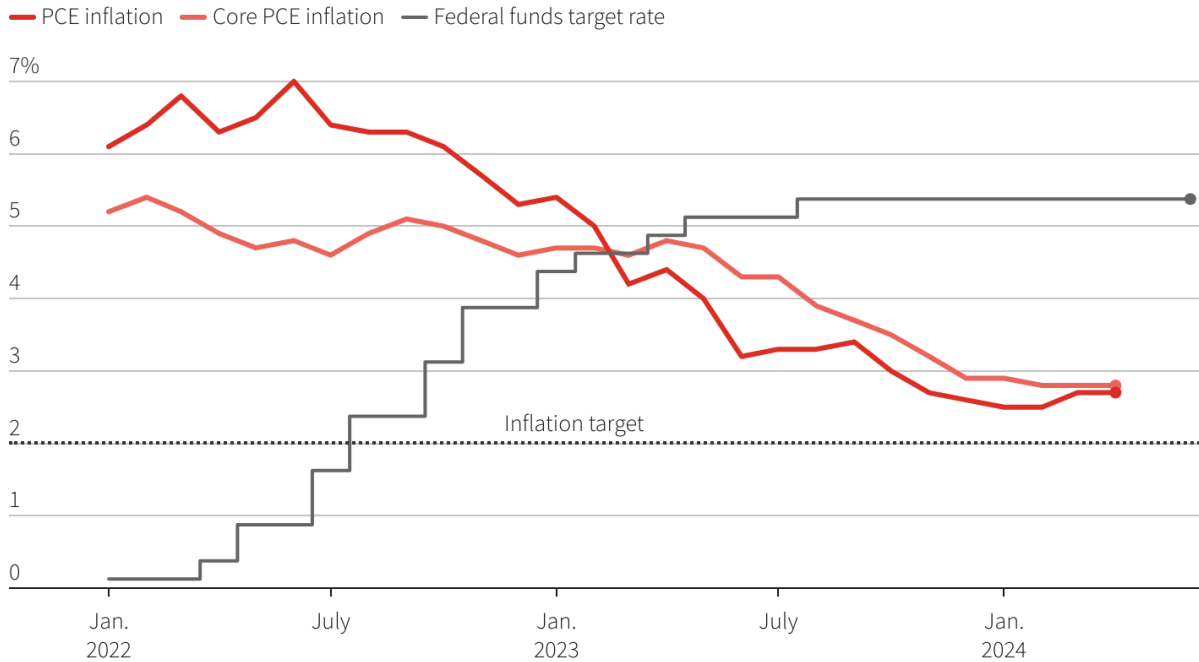
In the United States, politics will come to the front of the line with the US Presidential debate June 27, with EU focus on the first French vote June 30. As for economic, the focal points will be the PCE Prices, reports on personal income and spending, and speeches by several Federal Reserve officials – adding to divergent views over September cut probability. Other key releases include the final reading of Q1 GDP growth, durable goods orders, new and pending home sales, the S&P/Case-Shiller Home Price Index, Conference Board consumer confidence, and the Federal Reserve's annual bank stress test results. Globally, interest rate decisions in Turkey, the Philippines, Sweden, Czech, Colombia and Mexico will attract significant attention. Inflation rates will be released for Canada, Australia, the Eurozone, France, Spain, Italy, and Poland. Germany's unemployment rate, Ifo Business Climate, and GfK Consumer Confidence will also be crucial. In Japan, retail sales, unemployment rate, and industrial production will be closely monitored. Additionally, Australia's Westpac Consumer Confidence data will be of interest.

1. High for longer and core PCE – US core PCE for May will be released on June 28th, Friday – making the key data point for the week at the backend for the week. This lessens the monthly reweighting pressures as investors rebalance from stocks to bonds missing some of the key information behind any Fed decision to cut in September. There is volatility around the release, and it will make Friday more abnormal particularly given the next week brings a US and Canada holiday adding to “long weekend” illiquidity. Further, recent PCE readings have not always conformed to expectations. The most recent, reported on May 31, showed U.S. inflation unexpectedly tracking sideways in April. The push of the US data in the last 2 weeks has left the markets expecting 2 cuts while the Fed sees just 1 – this will be recalculated after the Friday report. High for longer rates – now on the 13th month of such – have some effect on the real economy beyond price pressures for leverage so the other reports on home prices, consumer confidence, bank stress tests and durable goods all will matter in the context of growth rising over inflation concerns into 3Q.

Will core PCE confirm a September cut?

Key US inflation gauge remains above the Fed's 2% target

The personal consumption expenditures (PCE) index is coming down, but slowly



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

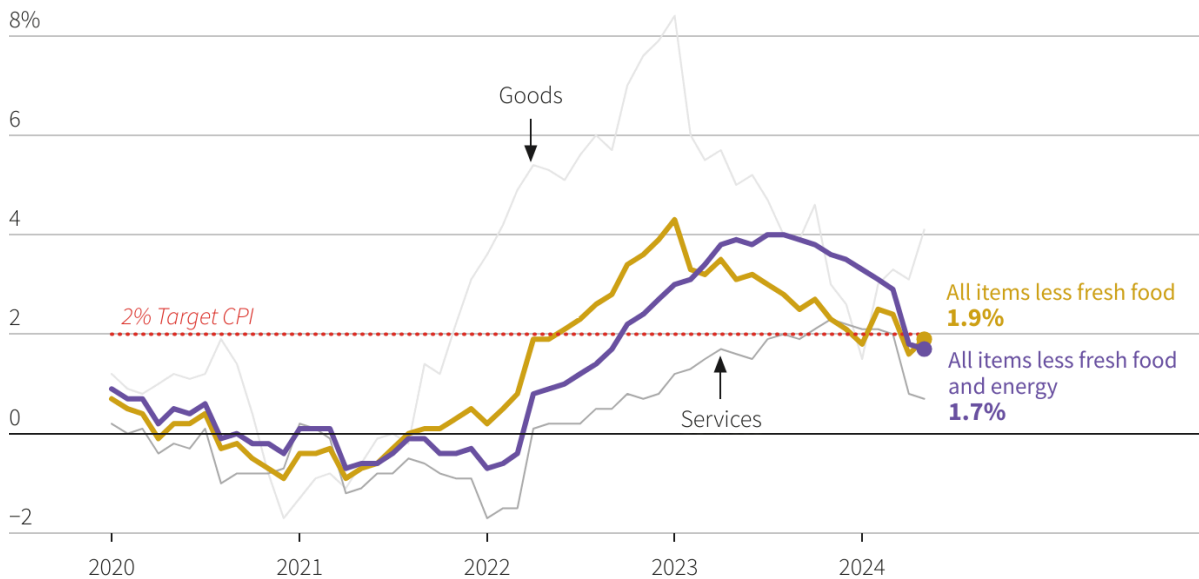
Source: LSEG Datastream | June 19, 2024

Source: Reuters, BNY Mellon

2. Japan BOJ and the Tokyo CPI – There is a long time between now and the July 30-31st Bank of Japan meeting, but the Tokyo CPI report for June. The data dependency of the BOJ stands out and so the week ahead will matter to USD/JPY, FX intervention risks, bonds globally and how politics play out in Japan. Weak consumer spending is a particular worry, and demand-driven inflation has cooled for nine straight months. Some key macro readings in coming days will help shed light on the outlook, with retail sales data due Thursday and Tokyo CPI Friday, June 28th. The BOJ also releases the minutes of its June meeting on Monday, June 23. All will be watched to see if there is a higher risk for July hikes and if there is any further clarity on the size for BOJ tapering into 3Q.

The jury is out for a July Bank of Japan rate hike

The Tokyo CPI on Friday should offer some clues on the rate outlook



Source: LSEG Datastream | Reuters | By Pasit Kongkunakornkul

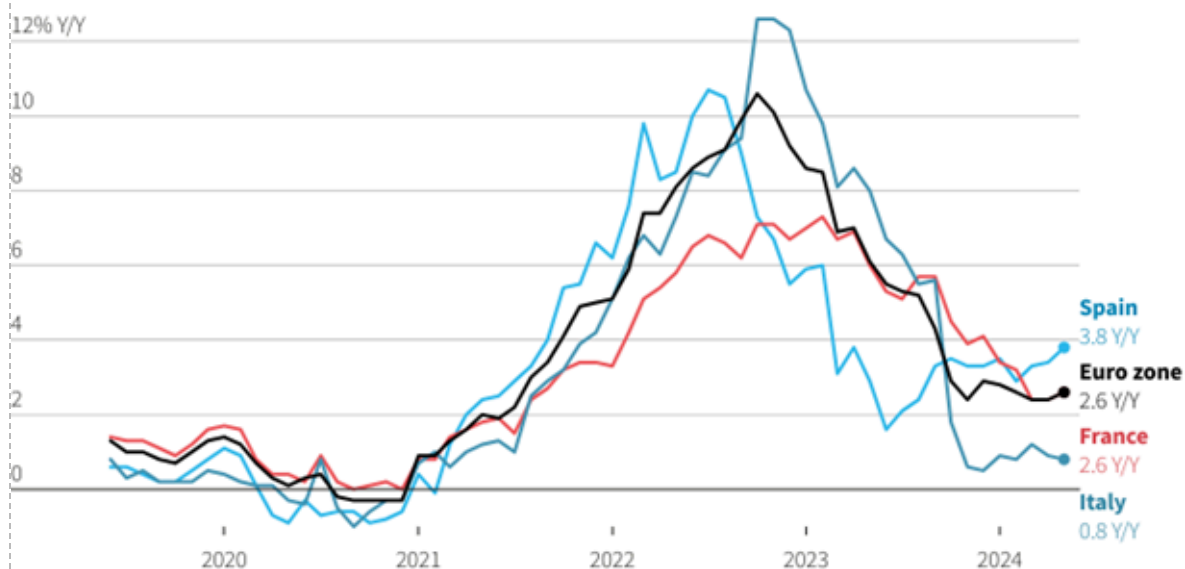
Source: Reuters, BNY Mellon

3. Eurozone June flash inflation and the ECB easing path – This Friday, June 28th brings the flash CPI reports for France, Italy and Spain. The data will set the tone for a euro zone-wide print on July 2, key for traders trying to gauge how many times the European Central Bank will cut rates this year. The ECB cut rates on June 6, but still strong domestic inflation and wages have raised question marks on how many more will follow. Markets price one more cut and a roughly 64% chance of a second by year-end, down from nearly 80% before the June meeting. This data will matter to how the EUR, bonds and stocks trade into 3Q. Any upside surprise would sour the mood for investors grappling with fresh political uncertainty after French President Emmanuel Macron called a first round French election on June 30. Politics have trumped economics but that may turn also on Friday with this data and the first vote over the next weekend.

Will growth matter to ECB or only CPI?

Inflation still sticky in the euro area

The European Central Bank has started to cut interest rates but strong services inflation remains a worry



Note: Data shows HICP inflation through May 2024.

Source: LSEG Workspace | Reuters, June 20, 2024

Source: Reuters, BNY Mellon

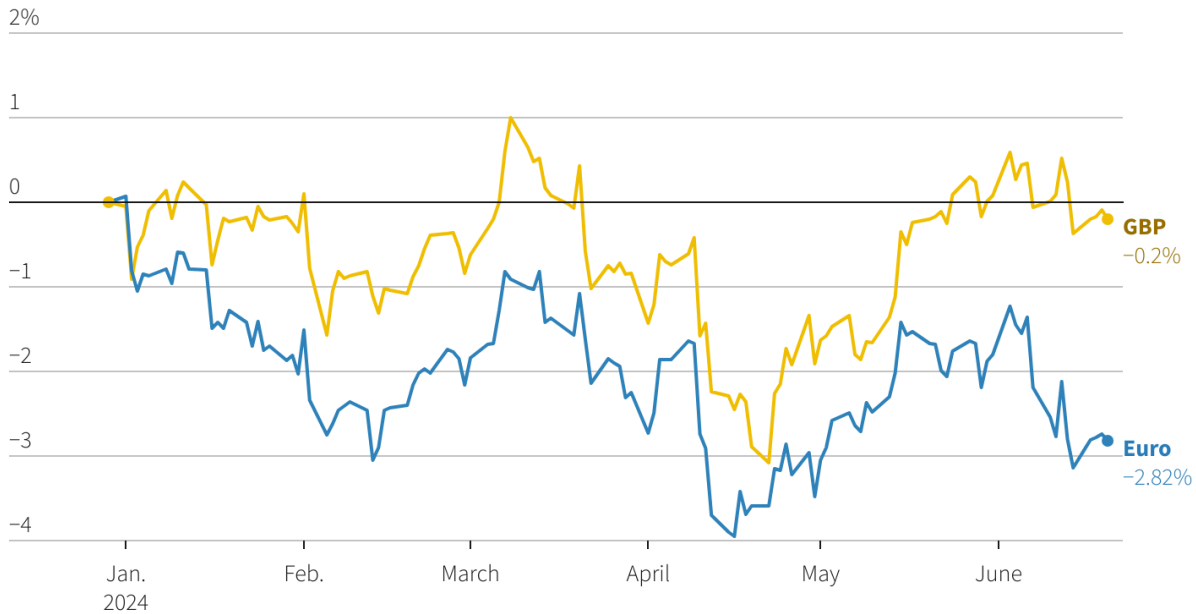
4. The UK vs French election risks – The contrasts of what is expected and what happens in the ballot box rests on polls being wrong. While the aftermath of any surprise maybe more about bonds and the FX markets. The EUR drop on the French snap election call mattered more than the UK similar surprise. The PM Sunak risk for losing seems will priced while the French President Macron has better chances. Both elections have a keen focus for investors particularly on fiscal policy and risks for a bond market reaction. Markets worry that a majority for the French far-right could mean more spending, hurting France's already frail fiscal position. While in the UK, the expectation of a [big win for the opposition Labour majority](#) in Britain's July 4 election will bring stability. The worry about deficits there are modest with the Labour plan seen as GBP8bn more spending. The problem for both countries rests in how they attract the needed capital to fund their deficits and their debts when the US is already draining most of the world's excess capital.

Can the EUR or GBP rally into the elections?

Currency markets on election watch

The euro has been hurt by a snap election in France while sterling has gained ahead of July 4 UK election.

Currency performance against USD since the beginning of year



Source: LSEG Datastream | Reuters, June 20, 2024 | By Vineet Sachdev
Source: Reuters, BNY Mellon

Economic Data and Events Calendar June 24-28:

Central Bank Decisions

- **Philippines BSP (Thursday, June 27)** – BSP is likely to maintain status quo at 6.5%. We will be paying attention to the latest risk-adjusted inflation forecast which came at 3.8% and 3.7% for 2024 and 2025 in May. Recent BSP comments suggests BSP will stick to a dovish stance with view to cut rates this year, despite PHP volatility. BSP see PHP weakness as temporary and as much of Asia is now discovering, the implications of currency weakness for trade is uncertain: Philippine exports rebounded to +26.4% y/y in April but higher imports lead to greater trade deficit at \$4761mln.
- **Sweden Riksbank (Thursday, June 27)** – The strong inflation prints for May have dashed any hopes for consecutive cuts from the Riksbank. This was always going to be a long shot considering the ECB decision itself was not considered dovish and restricted the Riksbank's policy space, but the SNB decision last week as well underscores that divergence is possible. The difference between Sweden and Switzerland, however, is that there is very little

chance forward inflation projections will be revised materially lower and SEK has not enjoyed the appreciation which could import significant disinflation. However, we don't expect the decision to be 'hawkish' either as there are clear signs of contraction in both household and industrial demand.

- **Turkey CBRT (Thursday, June 27)** – Prospects for an early cut by the CBRT remain weak as sequential inflation continues to run at just above 3%_{m/m}, which does not provide much space for the central bank to act in a strong dollar environment. Domestic output figures from the household and industry remain mixed, but structural inflation remains difficult to bring down and the central bank can only continue to apply demand restraint. However, this has been encouraging inflows into the country and we note that amid fiscal-related gyrations in many key emerging markets such as South Africa, Mexico and India, Turkey is the standout performer based on iFlow.
- **Czech CNB (Thursday, June 27)** – The market is split between a 25bp and 50bp cut but there is room for the CNB to act that even at 4.75%, there should be a sufficient real rate buffer above 100bp which will act as domestic demand restraint and limit pass-through risk. The Eurozone's recent sovereign risk-related pressures on assets has helped limit EUR strength, but CEE central banks will be under no illusion that they can perform well while the Eurozone struggles. The latest manufacturing PMI numbers also do not bode well for the regional economy up ahead, and may tip the balance in favour of a larger cut.
- **Mexico Banxico (Thursday, June 27)** – The most recent policy cycle for Banxico has been overshadowed by electoral developments though we doubt this will factor into policy for now. Banxico is expected to maintain rates on hold and keep the country's real rates amongst the highest in emerging markets, but other factors are coming into play, and we are seeing outflow pressures escalate on Mexican bonds. Meanwhile, domestic activity is generally staying robust but without materially lifting inflation for now. Policy credibility is secure, but markets could be nervous whether the next administration could unduly influence the policy path in pursuit of other priorities.
- **Colombia BdIR (Friday, June 28)** – A 50bp cut is expected in Colombia, keeping nominal rates above 11% but real rates will be around 400bp. This should be sufficient to limit outflows and support the COP, though we note that the market is once again placing closer scrutiny on fiscal risks, though mostly in the context of electoral developments. Domestic demand remains relatively robust as April economic activity surprised strongly to the upside at 5.5%.

However, household spending did contract during the same month, suggesting financial conditions continue to offer restraint.

Key data/releases

Date	BST	EDT	Country	Event	Period	Cons.	Prior	
06/23/24	23:45	18:45	NZ	Trade Balance NZD	May	--	--	91m
06/24/24	09:00	04:00	GE	IFO Business Climate	Jun	89.6	--	89.3
06/25/24	13:30	08:30	CA	CPI NSA MoM	May	0.30%	--	0.50%
06/25/24	13:30	08:30	CA	CPI YoY	May	2.60%	--	2.70%
06/25/24	15:00	10:00	US	Conf. Board Consumer Confidence	Jun	100	--	102
06/26/24	12:00	07:00	US	MBA Mortgage Applications	Jun-21	--	--	0.90%
06/26/24	13:00	08:00	BZ	IBGE Inflation IPCA-15 MoM	Jun	--	--	0.44%
06/26/24	15:00	10:00	US	New Home Sales	May	650k	--	634k
06/27/24	08:00	03:00	PH	BSP Overnight Borrowing Rate	Jun-27	6.50%	--	6.50%
06/27/24	08:30	03:30	SW	Riksbank Policy Rate	Jun-27	3.75%	--	3.75%
06/27/24	12:00	07:00	TU	One-Week Repo Rate	Jun-27	50.00%	--	50.00%
06/27/24	13:30	08:30	US	GDP Annualized QoQ	1Q T	1.50%	--	1.30%
06/27/24	13:30	08:30	CZ	Repurchase Rate	Jun-27	5.00%	--	5.25%
06/27/24	13:30	08:30	US	Initial Jobless Claims	Jun-22	--	--	238k
06/27/24	13:30	08:30	US	Durable Goods Orders	May P	0.00%	--	0.60%
06/27/24	20:00	15:00	MX	Overnight Rate	Jun-27	11.00%	--	11.00%
06/28/24	00:30	19:30*	JN	Jobless Rate	May	2.60%	--	2.60%
06/28/24	00:30	19:30*	JN	Job-To-Applicant Ratio	May	1.26	--	1.26
06/28/24	00:30	19:30*	JN	Tokyo CPI Ex-Fresh Food YoY	Jun	2.00%	--	1.90%
06/28/24	00:50	19:50*	JN	Industrial Production MoM	May P	2.00%	--	-0.90%
06/28/24	07:00	02:00	UK	GDP QoQ	1Q F	0.60%	--	0.60%
06/28/24	07:00	02:00	UK	GDP YoY	1Q F	0.20%	--	0.20%
06/28/24	08:00	03:00	CZ	GDP YoY	1Q F	0.20%	--	0.20%
06/28/24	08:00	03:00	TU	Trade Balance	May	-6.50b	--	-9.86b
06/28/24	09:00	04:00	PD	CPI YoY	Jun P	2.70%	--	2.50%
06/28/24	13:00	08:00	SA	Trade Balance Rand	May	15.0b	--	10.5b
06/28/24	13:30	08:30	US	Personal Income	May	0.40%	--	0.30%
06/28/24	13:30	08:30	US	Personal Spending	May	0.30%	--	0.20%
06/28/24	15:00	10:00	US	U. of Mich. Sentiment	Jun F	--	--	65.6
06/28/24	19:00	14:00	CO	Overnight Lending Rate	Jun-28	11.25%	--	11.75%

Key speeches/events

Date	BST	EDT	Country	Event
06/24/24	08:00	03:00	US	Fed's Waller Gives Opening Remarks
06/24/24	11:10	06:10	EC	ECB's Nagel Speaks
06/24/24	13:30	08:30	EC	ECB's Villeroy Speaks
06/24/24	16:30	11:30	EC	ECB's Schnabel Speaks
06/24/24	18:30	13:30	CA	Bank of Canada Governor Tiff Macklem Speaks in Winnipeg
06/24/24	19:00	14:00	US	Fed's Daly Gives Remarks on Economy, Policy
06/24/24	20:00	15:00	CA	Bank of Canada's Macklem -- Press Conference
06/25/24	10:00	05:00	GR	ECB's Stournaras Speaks
06/25/24	12:00	07:00	US	Fed's Bowman Speaks on Monetary Policy, Bank Capital Reform
06/25/24	17:00	12:00	US	Fed's Lisa Cook Speaks on Economic Outlook
06/25/24	19:10	14:10	US	Fed's Bowman Gives Recorded Opening Remarks
06/25/24			EC	ECB's Nagel Speaks
06/26/24	00:35	19:35*	AU	RBA's Kent-Speech
06/26/24	10:30	05:30	EC	ECB's Rehn Speaks
06/26/24	11:00	06:00	EC	ECB's Panetta Speaks
06/26/24	11:40	06:40	EC	ECB's Lane Speaks
06/26/24	12:45	07:45	EC	ECB's Kazaks, Denmark's Krogstrup on Panel in Helsinki
06/27/24	09:00	04:00	SA	SARB Quarterly Bulletin
06/27/24	09:00	04:00	EC	ECB's Kazimir Speaks
06/27/24	10:00	05:00	UK	BOE financial stability report
06/27/24	10:30	05:30	UK	BOE releases financial stability report and FPC summary
06/27/24	11:00	06:00	AU	RBA's Hauser-Speech
06/28/24	11:00	06:00	US	Fed's Barkin Gives Keynote Speech
06/28/24	11:00	06:00	EC	ECB's Villeroy speaks in Paris
06/28/24	17:00	12:00	US	Fed's Bowman Speaks in Moderated Q&A

Conclusions: Can Emerging Markets central banks still diverge from the FOMC?

The week ahead will challenge investors patience on emerging market bonds and stocks. Mexico's central bank is expected to keep rates on hold on Thursday. It's grappling with inflation ticking up and election-induced peso volatility after a surprise strong showing of the ruling party coalition in a June 2 ballot that spooked investors. Policymakers in the Philippines - meeting the same day - are set to leave rates at 17-year highs, having flagged their restrictive policy settings as appropriate. And Turkey - a reluctant late joiner to the hiking cycle - is seen sticking with its benchmark rate at 50%, as policymakers still feel the sting of inflation which stood at an eye watering 75% in May.

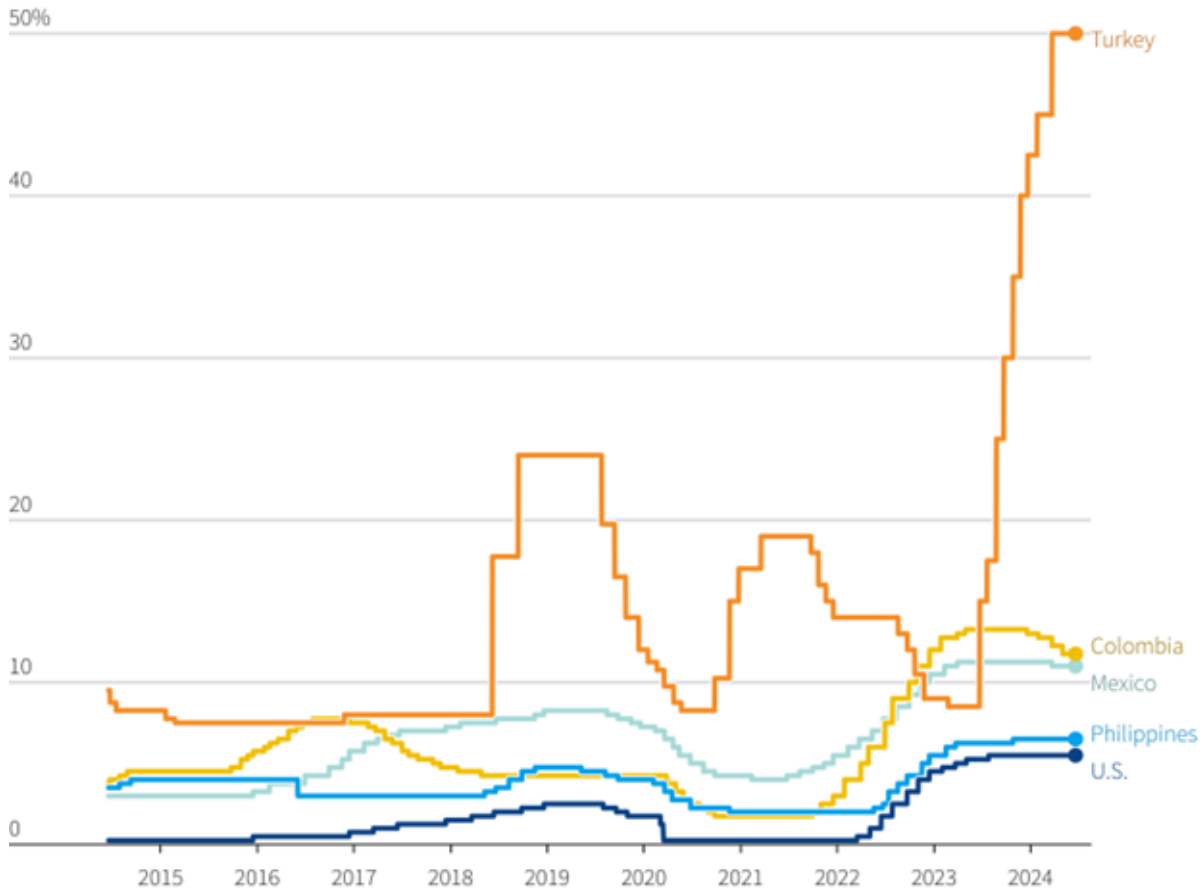
The risk of the next week maybe in rates but not because of central banks but polling as the French, UK and US elections are all seen as risking fiscal policy events. Further, the lack of concern about larger deficits globally leave month-end and quarter-end as larger liquidity events. Throw in that we get important data on Friday and then a holiday week for US and Canada and you have the makings for surprises. The focus of the market in G10 is squarely on the EUR and JPY with both seen as vulnerable to further USD gains despite valuation. Our iFlow data suggest positions in the USD are nearing neutral from short for much of the last year. Further, the carry arguments for trading FX seem to not be working, but trend does seem to be working and that might be the loudest voice for the week ahead as investors chase returns into the summer.

Can the EM central banks diverge from the FOMC?

Waiting for the Fed

Emerging market central banks have been frontrunning major peers in the easing cycle, but the prospect of more distant U.S. rate cuts has seen momentum slow down.

The policy rates of the U.S. and some emerging markets



Source: LSEG Datastream | Reuters, June 20, 2024 | By Pasit Kongkunakornkul

Source: Reuters, BNY Mellon

Disclaimers and Disclosures

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

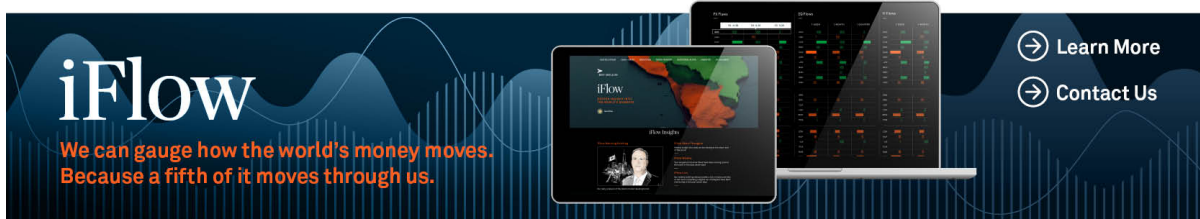


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