BNY MELLON

iFlow
WEEK AHEAD

June 2, 2024

Culminations

"Life is every moment of living. It is not a culmination of the past." – Hugh Leonard
"Success is usually the culmination of controlling failures." – Sylvester Stallone

Summary: The markets face divergence in growth and policy as the new month of June starts with seasonal expectations for good but not great markets, even as most of the world is at record or decade high stock market prices, bonds have been stuck in higher yields, but tighter ranges and FX has also been quiet with USD weakness hopes linked still to FOMC easing probabilities. The iFlow data from our investors reveals neutral moods for risk leaving plenty of room for markets to chase carry and value simultaneously but not universally.

- The weekend brought OPEC+ extending output cuts to 2025, a S&P rating cut on French debt from AA to AA-, a US led peace plan for Hamas/Israel, and Ukraine Zelenskyy blaming China for disrupting Swiss peace talks.
- The week ahead will pivot on politics with election results from Mexico, India and EU along with central bank decisions from BOC, ECB, RBI and others overlayed by the usual heavy economic data releases including the US jobs report, ISM, global PMIs, and China trade.
- The politics around the Sunday Mexico Election results, the India election result Monday with exit polls suggesting over 350 of 543 seats for Modi's party BJP, the EU elections Wednesday through Friday with swing to extremes feared, the ongoing coalition building following South Africa's ANC loss of majority (at 159 of 400 seats), the US political fall out from the Trump felony guilty verdict in his hush money case and the ongoing July 4th UK election campaigning – all that leave markets waiting and

watching for clarity on policy shifts both monetary and fiscal along with the level of confidence it brings to consumers and corporations.

Focus in the week ahead will be on the way economic data drives policy decisions and voters with hopes for soft-landings at home and abroad being the key for living up to the seasonal expectations for an quiet but profitable summer, however hampered by the culmination of fears that uncertainty breeds contempt and risk-off positioning follows.

Key Themes :

- **Divergence of policy vs. targets**. Moving from talking about easing to actual cuts is one thing, getting the data to allow for it without destroying credibility around 2% inflation is another. The ECB and BOC are expected to cut policy this week ahead but the divergence of their shift to actual easing policy is tempered by the data and hemmed in by the FOMC patience and high for longer. The path of future easing remains unclear leaving the forward guidance from all central bankers as critical for real market pricing of policy divergence vs. 2% CPI targets.
- **Politics continue fiscal largess**. The outcome of Mexico, India, EU, UK and US elections are all important in the weeks ahead and many see voters being bought out by politicians in promises for more spending or tax cuts or both. The fiscal deficits anywhere leave open risks for bonds and high for longer policy. Growth hopes are seen at risk with borrowing costs rising.
- **Energy and other commodities vs. stable inflation**. OPEC+ and better data plus ongoing wars and climate change risks are colliding to push up oil demand expectations and oil supply concerns. The second half of 2024 is seen as a bigger risk for inflation from goods, particularly commodities, as the world grows better than fears and as the markets see base effects from lower energy costs hampering the annual comparisons. The role of AI and data centers on energy demand is also rising as a concern.

What are we watching:

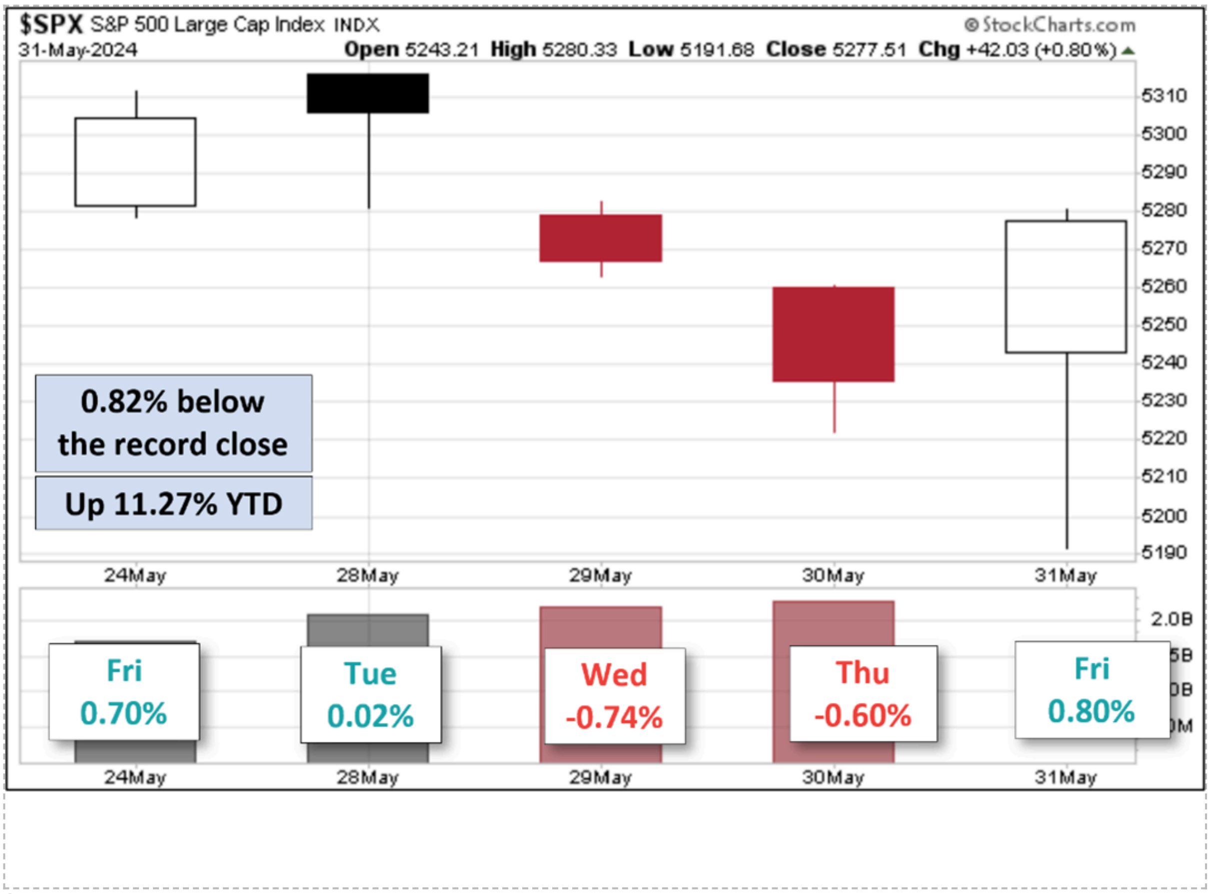
- **Economic Releases: Monday –** Global manufacturing PMIs, US ISM manufacturing; **Tuesday** - Korea CPI, Australia retail sales, India Election result, German jobs; Brazil and South Africa GDP; US JOLTS; **Wednesday** – Global services PMIs, Korea and Australia GDP, US ISM services; **Thursday** – Australia trade, German factory orders, EU construction PMI, Taiwan CPI, Eurozone retail sales, US jobless claims, trade, productivity; **Friday** – Japan household spending, China trade, German trade, EU final GDP, Mexico CPI, Canada and US job reports.

- **Central Banks:** Federal Reserve Black Out period. **Monday –** ECB Simkus; **Tuesday** – Riksbank Breman; **Wednesday** – Poland NBP rate decision, Canada BOC rate decision; Thursday - BOJ Nakamura, ECB rate decision; **Friday** – RB Hauser, ECB Nagel, Holzmann, Schnabel, NPB minutes, Russia CBR.
- **US Issuance:** No coupon auctions should offer some relief to bonds but IG issuance remains in play. 1M Cash flows is expected negative $50bn with $117bn settling against $67bn of redemptions and coupons mid-month. **Monday –** $70bn 3M and $70bn 6M bills; Tuesday - $60bn in 42-day CMB; Wednesday – 4M Bill; Thursday – 1M and 2M bills
- **EU/UK Issuance:** Supply expected to be E27bn with issues from Austria, Germany, Spain and France. Cash flow expected negative -E15bn with Italy coupons offsetting. Also worth noting that UK sells 40Y Gilt and Japan 30Y JGB June 6 – so duration will be a focus. **Tuesday** – Austria sells E2bn of 6Y and 10Y RAGB; German sells E4.5bn of 2Y Schatz; **Wednesday** – German sells E3bn of 7Y Bunds; **Thursday** – Spain sells E5bn of 3Y, 7Y and 30Y while France sells E12bn of 10Y, 14Y and 30Y OATs.

What changed last week:

- **In Equities, the US S&P500 lost 0.51% on a holiday shortened week** to end 5-weeks of gains. The S&P500 rose 4.8% in May erasing the April 4.16% loss and more. The index is 0.82% below its record and up 11.27% year-to-date. The DJIA fell 0.97% and the NASDAQ fell 0.1% on the week. The biggest gainers were Spain's IBEX up 0.68% and the Swiss Mkt up 0.58% while the worst performers were Hong Kong's Hang Seng off 2.84% and Brazil's Bovespa off 2.11%.

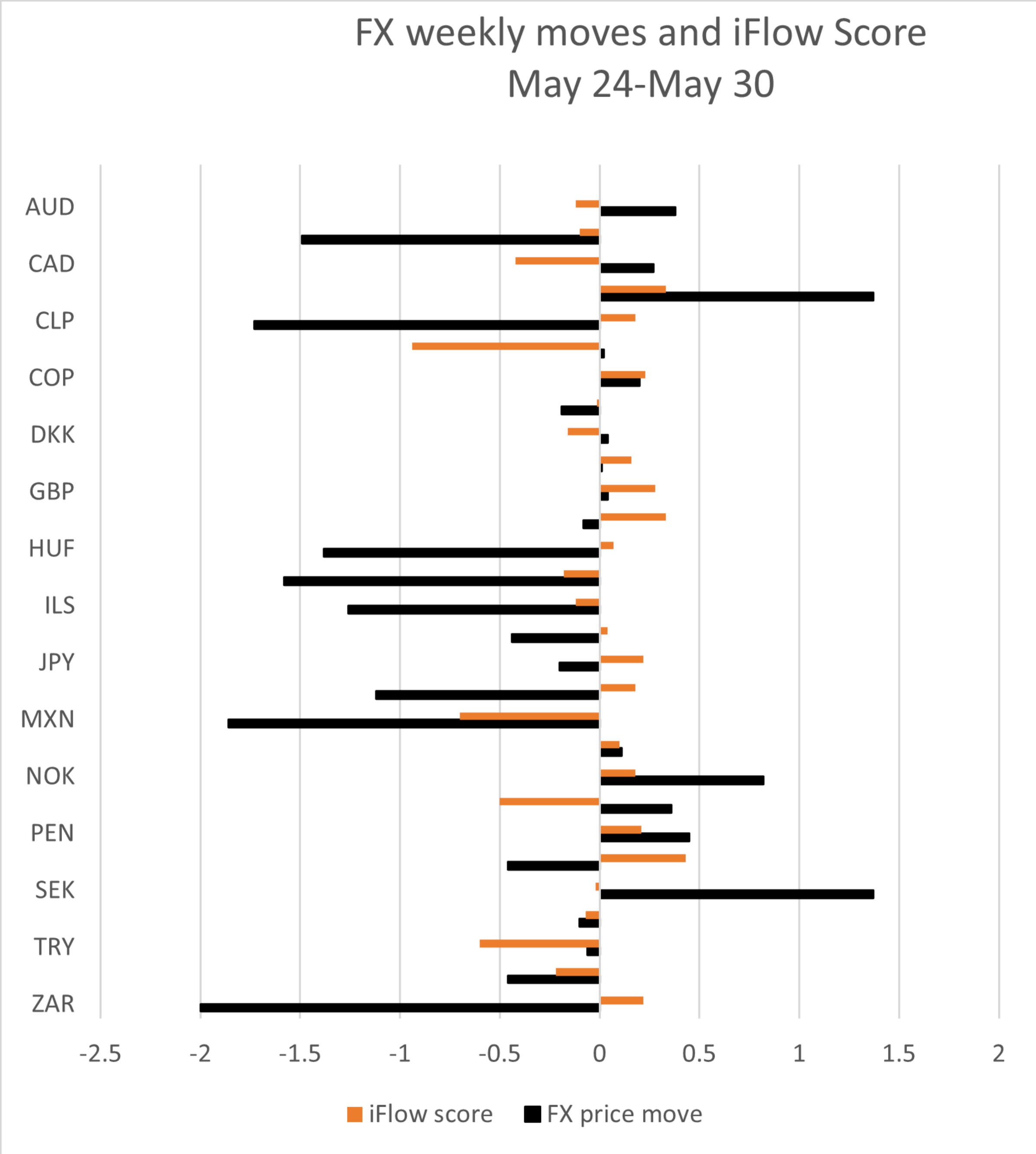
US stall in last week, but strong for May



Source: Bloomberg, BNY Mellon

- **In Foreign Exchange**, t**he US dollar index fell 0.15% on the week** and 1% on the month. The biggest gainers on the week were CHF, SEK, NOK while the worst performers were ZAR, MXN, CLP. The focus on politics and commodities notable in addition to rates. There was lots of divergence between performance and flows in iFlow data with notable divergence in ZAR, CNY, KRW and SEK.

FX focus flows vs. price divergence



Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income**, **the US bond market bear steepened** with expectations for a September ease holding at 46% while to end of year easing total is 36bps after weaker than expected revisions to 1Q GDP, lower core PCE and some misses in housing data. The auctions for 2-5-7Y were absorbed with tails and weaker demand. The rest of the world saw rates higher – particularly in Europe – where higher flash CPI and wages leave Bund 10Y up 12bps to 2.66% while UK Gilts were flat at 4.32% and BTP were up 15bps to 3.975%. In Asia, Japan 10Y rose 4.5bps to 1.06% while Australia rose 13bps to 4.405%.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.65	3.72	0.08
20Y	5.44	0.87	4.72	3.97	0.06
10Y	5.26	0.52	4.5	4.1	0.03
5Y	5.18	0.19	4.51	4.48	-0.02
2Y	5.22	0.09	4.87	4.9	-0.08
3M	5.63	0	5.28	5.37	0.01
FFR	5.41	0.04	5.32	5.28	0.00
The Yields and Fed Funds Rate data from January 2007					

Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – US Jobs, ECB, RBI and India election, BOC

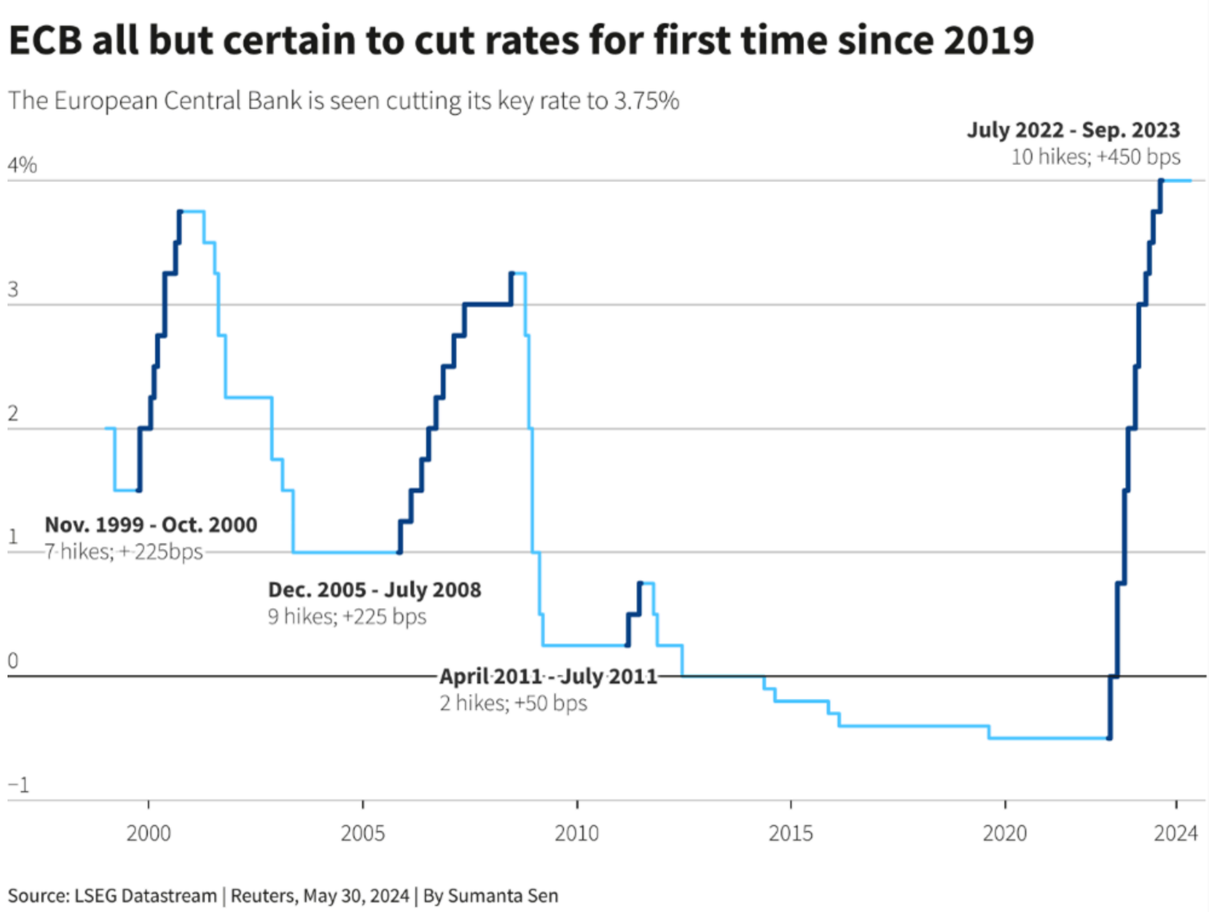
In the United States, the labor market reports will take center stage. Investors will also closely monitor JOLTs Job Openings, ISM Manufacturing and Services PMIs, factory orders, and foreign trade data. Globally, attention will be on the interest rate decisions from the European Central Bank, Bank of Canada, and Reserve Bank of India. Inflation rates will be released for Turkey, Indonesia, South Korea, Switzerland, the Philippines, and Mexico. GDP growth rates will be reported for South Africa, Brazil, and Australia. Also, key indicators to watch include Manufacturing PMIs for China, South Korea, Spain, Switzerland, Italy, and Canada, as well as Services PMIs for China, Italy, Spain, and Brazil. Additionally, foreign trade data will be released for China, Brazil, Australia, Canada, Germany, and France. In Germany, the focus will be on factory orders, industrial production, and the unemployment rate, alongside Euro Area retail sales. The election results from Mexico, India and the EU will be watched for shifts in fiscal policy.

1. US Jobs and the soft-landing – The Friday US Non-Farm Payrolls for May are expected to show 190,000 jobs created up from the surprise 175,000 miss in April. The unemployment rate is expected flat at 3.9% but hourly wages are expected to rise to 0.3% m/m while hours worked hold steady. The US productivity and growth stories are wrapped around the report, and many expect further signs of a soft-landing from it all. There were two speeches from Fed Waller and Williams in the last week on R* that suggest they doubt the post pandemic economy has a natural rate of interest – with only the risk from fiscal spending and too much debt driving bonds. The week ahead will test the faith markets have in soft-landing with ISM, ADP and Jolts along with the Friday unemployment report – all will matter to how the FOMC sees the US economy progressing and it will likely set up their dot-plots to test their view of a soft-landing. Many investors worry that an overly strong US economy might prevent the US Federal Reserve from lowering rates this year at all, or even require a rate rise. The connection between inflation and growth as seen in the recent softer data restarts bumpy landing fears. Some of those concerns were calmed in May, albeit temporarily, by data showing slowing inflation and a cooling labor market. Still, policymakers have urged patience on rate cuts, saying they would like to see several months of data to be sure inflation is heading back to the 2% target. Another report below 200,000 non-farm payrolls maybe sufficient to keep expectations for a rate cut alive through the summer. Markets price 50% chance for a September cut.

Will US jobs surprise to downside again?

Source: Reuters, BNY Mellon

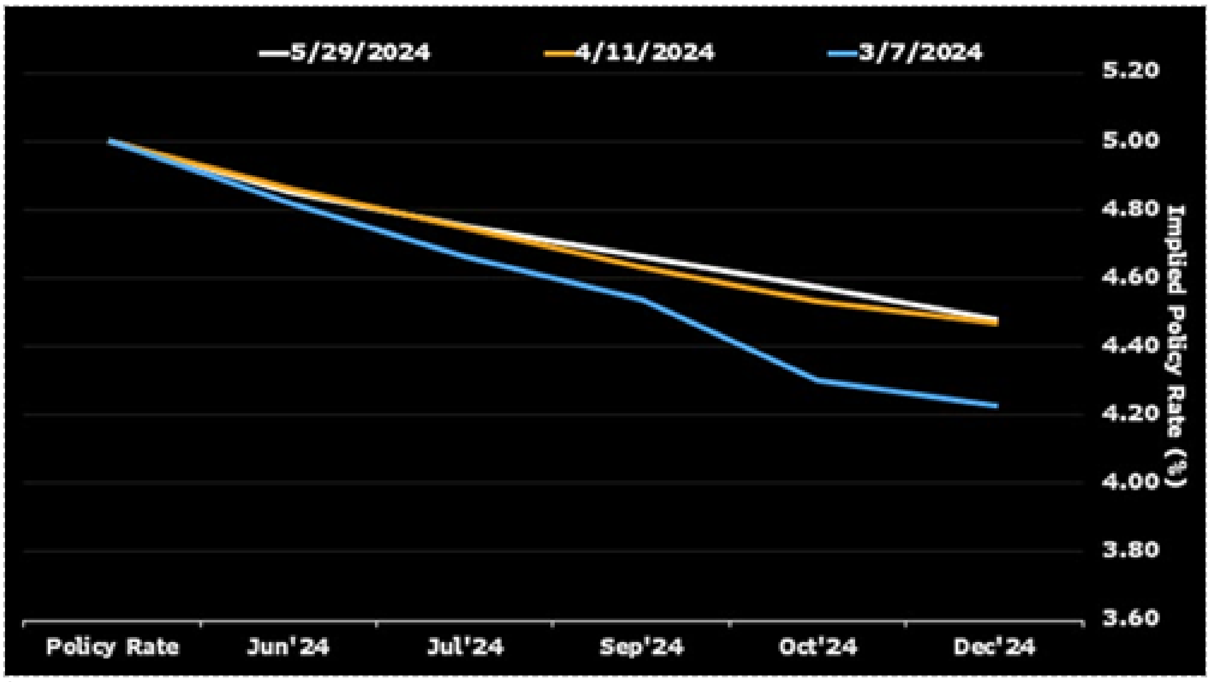
2. The ECB and the first cut. The issue for markets is how many times the ECB eases after June. The market prices 2 ½ cuts this year. The ECB is all but certain to become the first of the big 3 major central bank to cut interest rates this cycle on Thursday, June 6. Policymakers have practically promised a June cut that is expected to lower the bank's key rate by 25 basis points to 3.75%. So all focus will be on what hints ECB boss Christine Lagarde gives on what happens next. Inflation in the services sector remains sticky and its economy is recovering faster than expected, while a closely watched wage growth figure accelerated last quarter, leaving the outlook beyond June less certain. Sticky inflation from the May flash didn’t help either. The EUR reflects the confusion, investors are more confident that the ECB will cut rates multiple times this year compared to the US and UK central banks.



Source: Reuters, BNY Mellon

3. The Bank of Canada and the close call for easing. Markets are pricing in an 80% chance for a Wednesday, June 5 25bps cut while street analysts see it at 60%. The only reason for the BOC not to cut maybe about the divergence from FOMC policy path and FX concern. So any further weaker US data may be sufficient to help the Bank of Canada. The recent spate of weak CPI, slowing wages and stagnant economic activity data from 2H 2023 through Q1 suggest that the Canadian economy's negative output gap is widening and backs a June 5 ease. The BOC targets the output gap in particular and the 1Q GDP at 1.7% was significantly below 2.2% expected and follows the 0.1% revision to 4Q. April monthly GDP bounces are unlikely to get back to 1.5% BOC target for GDP. Throw in a souring political mood, ongoing fears about mortgage resets into 2025 and upsets about immigration. The CAD still seems more likely to trade 1.38 before breaking 1.35.

The BOC ready to cut before the Fed, but not more than them?



Source: Bloomberg, BNY Mellon

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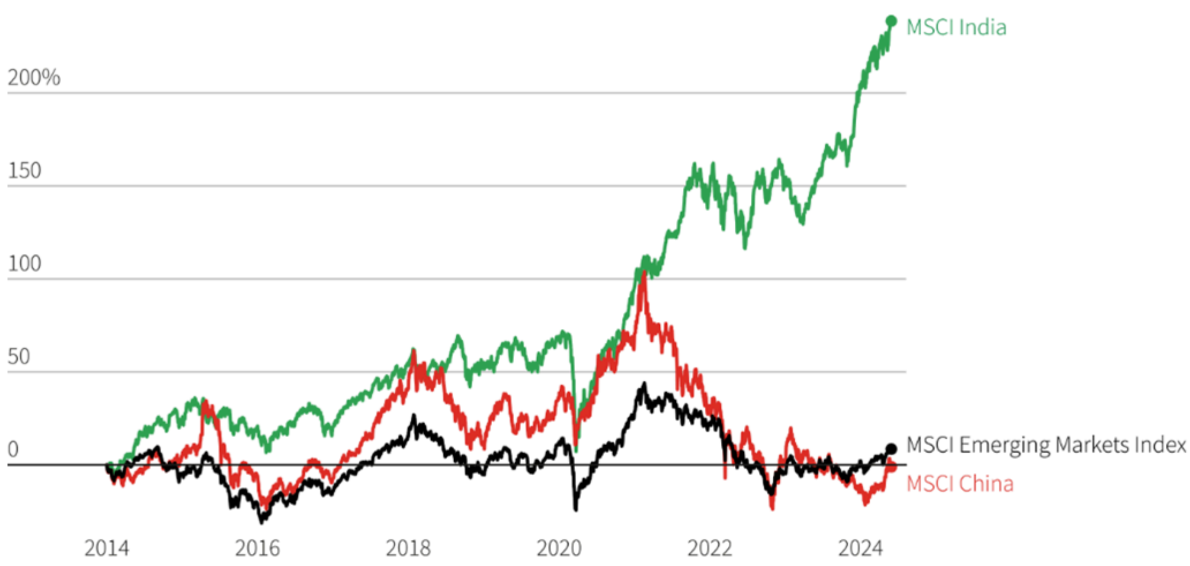
4. The India election, the RBI and asset outperformance. Markets see a Modi win as providing political stability and continuity in India to support sustained economic growth. Indian equities outperformed most major markets in 2023 and are already trading at lofty valuations. They could get another boost if Modi remains in power, even as part of a coalition government. Polls are mixed about how many seats the BJP gets with 2/3 The Friday, RBI meeting is expected to hold repo rates steady again, amid the US Fed's continued 'restrictive' stance. Total CPI has been on an easing trend since the early this year with last two readings printing below 5% mark. Still, official GDP figures do show growth running hot with last 3 quarters annualized growth above 8%, providing good enough reason for the RBI to stay on put.

Will markets sell on the news of Modi win?

India outperforms broader emerging markets

MSCI India has risen 200% since 2014 when Modi came to power.



Source: LSEG Datastream | Reuters, May 30, 2024 | By Riddhima Talwani

Source: Reuters, BNY Mellon

Economic Data and Events Calendar June 3-7:

Central Bank Decisions

- **Poland NBP (Wednesday, June 5) –** No change is expected from the NBP and realistically it will be difficult to envisage rate cuts over the next quarter, especially as the NBP would likely need to assess the communication of the ECB's policy path as it starts easing in June. Inflation has dropped to 2.5%y/y and sequential inflation has also fallen materially to 0.1%m/m – well below expectations – and this could open up the way for the policy council to become more comfortable with the direction of inflation up ahead. Financial conditions are still relatively tight with current levels of real rates close to 400bp, and wage growth remains subdued.
- **Canada BoC (Wednesday, June 5) –** The BoC is expected to cut rates by 25bp but the market is far from unanimous on the matter considering inflation impulse remains relatively strong – the last two months alone have generated 1.1% in sequential inflow while hourly wages are still strong amid a very robust employment report for April. However, household demand remains under scrutiny due to debt financing burdens, and inflation ex-housing has been weakening accordingly. Clear divergence versus the Fed should not come as a surprise and the BoC is not the only G10 central banks to opt for divergence as the Fed holds into Q3 at least.

- **Eurozone ECB (Thursday, June 6) –** The ECB is expected to cut rates by 25bp to 4.25%, commencing its easing cycle. The cut itself has been fully communicated and priced in, but almost all Governing Council members have remained quite non-committal on the path up ahead and the market's preference for July remains for an on-hold decision. Concerns surrounding the Eurozone's long-term trajectory have come into some focus, and heading into the European elections it is understandable that political leaders will also be pushing for more monetary policy support – President Lagarde may need to address such matters during the press conference without committing to the near-term trajectory for policy. Although the bulk of the headline inflation numbers for May have surprised to the upside (2.6%y/y), sequential inflation has softened so the ECB should remain wary of being overly assertive on price risks. We will also watch for details regarding quantitative tightening, as the ECB's peers have started to react to concerns over falling bank reserves.
- **India RBI (Friday, June 7) –** Since the previous RBI meeting in April, macro conditions had been positive with solid business sentiment. PMI May manufacturing and services stood at 58.4 and 61.4 respectively. CPI is off end 2023 highs and made new year-to-date lows at 4.83%y/y as of April. Trade data had been volatile with export growth at +1% y/y in April vs -1%y/y in March and +12% y/y in February. We expect RBI to keep repurchase rate unchanged at 6.5%. Headline CPI is within 4.0-6.0% band, but not sufficient to call for a cut. RBI's voting pattern would be most interesting to see, as there may be additional dissents after the 5-1 vote prior. The near-term focus in India is the full budget announcement post the election result.
- **Russia CBR (Friday, June 7) –** No change is expected by the CBR. What may be a key takeaway from the upcoming meeting is that the CBR could strongly indicate that the next move is likely be a rate hike rather than a cut due to robust economic growth and rising inflationary pressures fueled by solid consumer demand accompanied by fiscal stimulus.

Key data/releases

Date	BST	EDT	Country	Event	Period	Cons.	Prior
06/03/24	00:50	*19:50	JN	Capital Spending YoY	1Q	12.00%	16.40%
06/03/24	01:30	*20:30	JN	Jibun Bank Japan PMI Mfg	May F	--	50.5
06/03/24	02:45	*21:45	CH	Caixin China PMI Mfg	May	51.6	51.4
06/03/24	07:30	02:30	SW	Swedbank/Silf PMI Manufacturing	May	--	51.4
06/03/24	08:00	03:00	TU	S&P Global/ICI Turkey Manufacturing PMI	May	--	49.3
06/03/24	08:00	03:00	PD	S&P Global Poland Manufacturing PMI	May	47.4	45.9
06/03/24	08:00	03:00	TU	CPI YoY	May	74.80%	69.80%
06/03/24	08:30	03:30	CZ	S&P Global Czech Republic Mfg PMI	May	45.8	44.7
06/03/24	08:55	03:55	GE	HCOB Germany Manufacturing PMI	May F	45.5	45.4
06/03/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	May F	47.4	47.4
06/03/24	09:00	04:00	NO	DNB/NIMA PMI Manufacturing	May	--	52.4
06/03/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	May F	51.3	51.3
06/03/24	14:00	09:00	BZ	S&P Global Brazil Manufacturing PMI	May	--	55.9
06/03/24	14:30	09:30	CA	S&P Global Canada Manufacturing PMI	May	--	49.4
06/03/24	14:45	09:45	US	S&P Global US Manufacturing PMI	May F	--	50.9
06/03/24	15:00	10:00	US	ISM Manufacturing	May	49.7	49.2
06/04/24	07:30	02:30	SZ	CPI YoY	May	1.50%	1.40%
06/04/24	07:30	02:30	SZ	CPI MoM	May	0.40%	0.30%
06/04/24	13:00	08:00	BZ	GDP YoY	1Q	2.20%	2.10%
06/04/24	15:00	10:00	US	Durable Goods Orders	Apr F	0.70%	0.70%
06/05/24	02:00	*21:00	PH	CPI YoY 2018=100	May	4.00%	3.80%
06/05/24	02:30	*21:30	AU	GDP SA QoQ	1Q	0.20%	0.20%
06/05/24	02:30	*21:30	AU	GDP YoY	1Q	1.20%	1.50%
06/05/24	12:00	07:00	US	MBA Mortgage Applications	May-31	--	-5.70%
06/05/24			***PD***	***Poland Base Rate Announcement***	***Jun-05***	***5.75%***	***5.75%***
06/05/24	13:00	08:00	BZ	Industrial Production YoY	Apr	--	-2.80%
06/05/24	13:15	08:15	US	ADP Employment Change	May	175k	192k
06/05/24	***14:45***	***09:45***	***CA***	***Bank of Canada Rate Decision***	***Jun-05***	***4.75%***	***5.00%***
06/06/24	***13:15***	***08:15***	***EC***	***ECB Main Refinancing Rate***	***Jun-06***	***4.25%***	***4.50%***
06/06/24	13:15	08:15	EC	ECB Deposit Facility Rate	Jun-06	3.75%	4.00%
06/06/24	13:30	08:30	US	Initial Jobless Claims	Jun-01	--	219k
06/07/24	***05:30***	***00:30***	***IN***	***RBI Repurchase Rate***	***Jun-07***	***6.50%***	***6.50%***
06/07/24	07:00	02:00	GE	Industrial Production SA MoM	Apr	0.10%	-0.40%
06/07/24	08:00	03:00	SZ	Foreign Currency Reserves	May	--	720.4b
06/07/24	10:00	05:00	EC	GDP SA QoQ	1Q F	0.30%	0.30%
06/07/24	10:00	05:00	EC	GDP SA YoY	1Q F	0.40%	0.40%
06/07/24	11:30	06:30	RU	Key Rate	Jun-07	16.00%	16.00%
06/07/24	13:30	08:30	CA	Unemployment Rate	May	--	6.10%
06/07/24	13:30	08:30	US	Change in Nonfarm Payrolls	May	180k	175k
06/07/24	13:30	08:30	US	Unemployment Rate	May	3.90%	3.90%

Key speeches/events

Date	BST	EDT	Country	Event
06/04/24	11:00	06:00	SW	Riksbank First Deputy Governor Breman speech, webcast
06/05/24	08:00	03:00	NO	Norges Bank Financial Infrastructure Report
06/05/24	09:00	04:00	NO	Norges Bank, FSA Payment System Seminar
06/06/24	02:30	*21:30	JN	BOJ Board Nakamura Speech in Sapporo
06/06/24	09:30	04:30	UK	BOE Decision Maker Panel survey
06/06/24	***13:45***	***08:45***	***EC***	***ECB President Christine Lagarde Holds Press Conference***
06/06/24	14:00	09:00	PD	Polish Central Bank Governor Glapinski Holds News Conference
06/07/24	04:00	*23:00	AU	RBA's Hauser-Fireside Chat
06/07/24	08:00	03:00	EC	ECB's Nagel Speaks in Berlin
06/07/24	09:00	04:00	AS	ECB's Holzmann Speaks in Vienna
06/07/24	09:00	04:00	EC	ECB's Schnabel Speaks in Berlin
06/07/24	13:00	08:00	PD	National Bank of Poland Publishes Minutes of Rate Meeting

Conclusions: Is it too soon to worry?

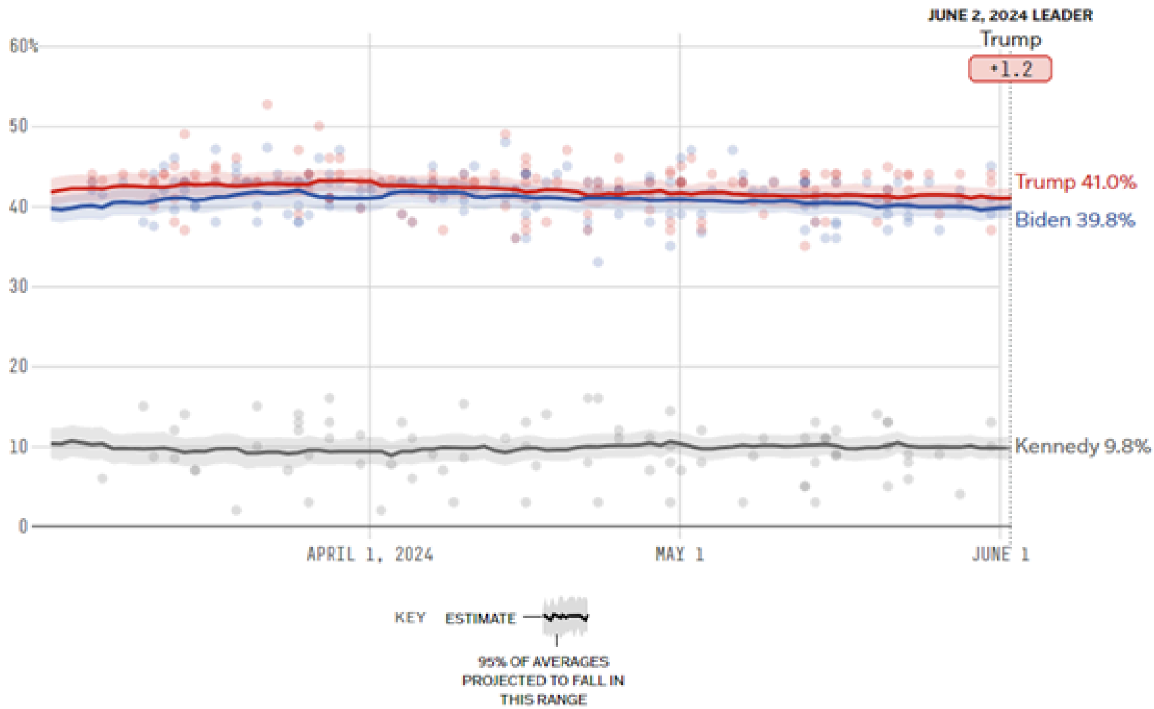
The heavy set of election results this week are likely to matter to markets and move FX INR, MXN and ZAR further along with their respective bond and stock markets. The EU parliamentary elections are a bit more subtle in their effect but splintering of politics worries and coalition building has proven difficult in many EU nations. The ability for the world to ignore the UK and US elections will be another factor to consider in the week ahead as it mixes with all the central bank decisions and the economic data. The last week did bring a historic moment for US history – as former President Trump was convicted in New York on 34 felony counts in a hush-money trial. The effect of this on voters is still to be determined, but much of the weekend was about that speculation and early polling. The 3 polls taken after the event show a very modest tilt for Biden, mostly due to independent voters. The next big event for US politics will be the June 27 debate between the two and how it plays out. Until then markets are likely to try and figure out more about whether this event leads to more policy shifts in the two parties – with the only consensus right now that both parities are fiscally at risk of the deficit growing out of control.

- The **Morning Consult poll held Friday after the Trump hush-money trial verdict** found 54% of registered voters strongly or somewhat approve of a Trump guilty verdict compared to 34% who strongly or somewhat disapprove. 75% of Republicans said the verdict had less confidence in the justice system and 77% of Republicans and 43% of Independents said the conviction was motivated to damage Trump's political career. However, 49% of Independents and 15% of Republicans think Trump should drop out post-the-guilty verdict. Still the poll suggests the race virtually tied with Biden at 45% and Trump at 44%.
- The **Reuters/Ipsos poll on Friday found 56% of Republicans said the verdict had no effect on their vote** and 35% were more likely to support Trump. Independent voters in this polls showed 25% less likely to support him compared to 18% more likely and 56% saying the conviction didn't matter. The tight race remains clear in this poll with 41% supporting Biden and 39% Trump.
- **A post-verdict Echolon Insights poll showed the case mattered** with Biden over Trump by slim 49-47% while before they were tied at 47-47%. Similar to other polls, 56% say the trial was fair, 37% unfair – with 54% saying the jury was right and 38% wrong.

The 538 polling aggregation continues to show Trump leading and that this effect on the overall election is too small to really matter. The takeaways for investors may be simple – its too early to tell anything about the US election let alone distinguish policy differences as they apply to global issues and economies. Growth for now is intact, rates aren't changing fast either in the US, leaving the doubts about the US dollar or US exceptionalism reliant on actions from abroad – namely other central bankers becoming more hawkish or governments becoming more fiscally prudent without creating a recession.

Does the US election matter in the summer trading season?

Updating average for each candidate in 2024 presidential polls, accounting for each poll's recency, sample size, methodology and house effects.



Source: 538, BNY Mellon

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Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

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