BNY

iFlow MARKET MOVERS

September 18, 2024

Calls

"Psychologists call this "decision fatigue"; the more choices we are forced to make, the more the quality of our decisions deteriorate." - Greg McKeown

"The mountains are calling, and I must go." John Muir

Summary

Risk mixed as markets finally reach FOMC decision day with the odds of 50bps cut better than 70% but not 100% and there is the problem as moving back to 25bps will be seen as difficult for bonds and stocks, but the USD is off 0.1% on the day regardless. The celebration of lower CPI and stable growth drives risk as it supports margins and wages globally. The surprise easing from the Indonesia central bank today highlights the role of FX as a brake and driver for import inflation worries outside the US. The good news overnight was that inflation was in line and so too was growth with Japan trade showing better exports despite JPY. The overall story for today is simple wait for 2pm but the larger picture is what happens after that and who benefits savers or borrowers.

What's different today:

- **US weekly MBA mortgage applications jump 14.2%** after 1.4% - fourth weekly gain and best in 18-months with 30Y mortgage rates off 14bps to 6.15%. Refinancing rose 24% while new home purchases went up 5%.
- **Copper trades near 2-months highs above $4.20 lb**. The USD weakness one key factor, while Zambia energy shortages are hurting copper mining

exports another.

What are we watching:

- **US August housing starts** expected up 6.5% m/m after -6.8% to 1.318mn rate with permits expected up 1.41mn after 1.406mn – rates cuts will help housing markets and this data matter accordingly.
- **FOMC rate decision** 25bps expected if not 50bps – with focus on SEP and outlook for future easing along with logic of GDP and unemployment and CPI views.
- **Bank of Canada summary of deliberations** – will be useful to see if there is a jumbo cut discussion

Headlines

- Bank of Indonesia cuts rates 25bps to 6.0% surprising market - cites stable IDR and lower CPI – IDR off 0.1% to 15,335
- Japan August trade deficit marginally wider at Y695.3bn but exports up 5.6% m/m and imports slows to 2.3% - weakest in 5-months - while July machinery orders drop -0.1% m/m – Nikkei up 0.49%, JPY off 0.5% to 147.70
- RBA Jones: puts CBDC work for wholesale over retail, while Aug Westpac LEI drops -0.1% suggesting slower growth – ASX up 0.01%, AUD up 0.7% to .6790
- Sweden Aug unemployment rises 0.1pp to 8.4% - with 8k jobs lost – OMX off 0.5%, SWE up 0.1% to 10.175
- South Africa Aug CPI drops 0.2pp to 4.4% y/y- lowest since April 2021 and below SARB target – ZAR up 0.2% to 17.575
- Eurozone final August CPI confirmed up 0.1% m/m, 2.2% y/y – EuroStoxx off 0.4%, EUR up 0.1%
- UK Aug CPI holding up 0.3% m/m, 2.2% y/y – as expected – FTSE off 0.65%, GBP up 0.5% to 1.3215
- Hezbollah vows retaliation for exploding pagers in Syria and Lebanon, blames Israel – ILS up 0.3% to 3.7725
- US weekly API oil inventories reported up 1.96mbwhen 0.1mb drop expected, gasoline builds up 2.34mb still 1% below average while distillates rose 2.3mb still 8% below 5Y average – WTI off 1.3% to $70.25

The Takeaways:

The Fed Put is going to be transformed into the Powell Call today. Markets have gotten ahead of themselves in the role that the central bank can play in driving down asset prices. The logic of the BNY call for 25bps has three legs - first that the politics of doing 50bps will hurt the independence of the Fed as it will blow into the US election if it sends asset prices higher; second is that the market prices in easy policy already so any recalibration of front-end cuts will likely only lead to rethinking the back-end so economic effects are small, and third that the 50bps would be a signal of panic - something reserved for bigger troubles of recession or disaster. Given that we have just set new record highs in the S&P500, the role of asset prices in driving any outsized action is a consideration. The risk, of course, is that the stock and bond market in the US both reprice Fed easing and sell off from the froth of the last week driven by press articles and respected analyst pushing for more. The benefits of faster easing are mixed in the short term - on one hand you get less interest income hurting savers and the retired living on their cash deposits and feeling safe, on the other you see mortgage costs and credit card bills ease a bit and debtors find some relief. How this plays out today with the risk of a reversal in mood from owning stocks and bonds and selling USD matters to the rest of the year. The contrast to the rest of the world is the largest and probably least discussed effect with Brazil and the rate hike expected there an example while other countries will try to out ease the Fed as shown by the BI overnight.

Exhibit #1: Is the election cut an issue?

Fed interest rate changes in election years

Federal Reserve interest rate changes - up and down - are very common in U.S. presidential election years.

Year	Net fed rate change	Winner	Fed chair
1972	1.50	Richard Nixon (R), incumbent	Arthur Burns
1976	−0.13	Jimmy Carter (D), challenger	Arthur Burns
1980	−2.00	Ronald Reagan (R), challenger	Paul Volcker
1984	2.56	Ronald Reagan (R), incumbent	Paul Volcker
1988	0.94	George H. W. Bush (R), incumbent	Alan Greenspan
1992	−1.00	Bill Clinton (D), challenger	Alan Greenspan
1996	−0.25	Bill Clinton (D), incumbent	Alan Greenspan
2000	1.00	George W. Bush (R), challenger	Alan Greenspan
2004	0.75	George W. Bush (R), incumbent	Alan Greenspan
2008	−2.75	Barack Obama (D), challenger	Ben Bernanke
2012	0.00	Barrack Obama (D), incumbent	Ben Bernanke
2016	0.00	Donald Trump (R), challenger	Janet Yellen
2020	−1.50	Joe Biden (D), challenger	Jerome Powell
2024	?	?	Jerome Powell

Note: Net change is measured in percentage points from January through October. In years with no sitting president seeking re-election, the outgoing president's party is considered the 'incumbent.
Source: Federal Reserve

Source: Reuters, BNY

Details of Economic Releases:

1. **Japan August trade deficit widens to -Y695.3bn after -Y628.7bn - still better than the -Y1.38trn expected a**nd below the Y940.10bn deficit from August 2023. Exports grew by 5.6% to JPY 8,441.88 billion, marking the ninth consecutive month of expansion, although this was below forecasts of 10.0%. Meanwhile, imports rose by a modest 2.3% to JPY 9,137.18 billion, the weakest increase in five months, falling short of the estimated 13.4% surge.

2. **Japan July core machinery orders drop -0.1% m/m after 2.1% gain - worse than +0.5% m/m expected -** the fourth decline so far this year as orders for the manufacturing sector dropped 5.7% to 398.4 billion yen. Industries that saw the biggest declines were chemical & chemical products (-23%), iron & steel (-16.1%) and fabricated metal products (-15.7%). Meanwhile, orders for the non-manufacturing sector increased 7.5% to 484.4 billion yen, driven mainly by gains in mining, quarrying of stone & gravel (35.3%), transportation & postal activities (35%) and real estate (32.6%). On an annual basis, private-sector machinery orders grew by 8.7% in July, shifting from a 1.7% fall in June.

3. **Australian August Westpac leading index drops -0.1% m/m after 0% m/m - worse than 0% expected** - ends 4months of 0% results and leaves the 6M average annualized rate -0.27 from +0.04 - still implies that below-trend growth will continue in the first half of 2025. Additionally, the weakening in commodity prices continued into the first half of September, suggesting this will exert a significant drag on the Leading Index growth pulse in the months ahead. The Reserve Bank is expected to leave the official cash rate unchanged and maintain its ‘vigilant’ stance on inflation during its next meeting in late September.

4. **Sweden August n.s.a. employment rises to 7.9% from 7.7% - as expected** - The number of unemployed people rose by 9k from the prior year to 453k, while the number of employed persons declined by 8k to 5.291 million. The employment rate edged down 0.2 percentage points to 69.6%, while the labor force participation was unchanged at 75.6%. The average number of total hours worked in July amounted to 131.7 million per week. Seasonally adjusted, the unemployment rate inched up to 8.4% from 8.3% in the previous month.

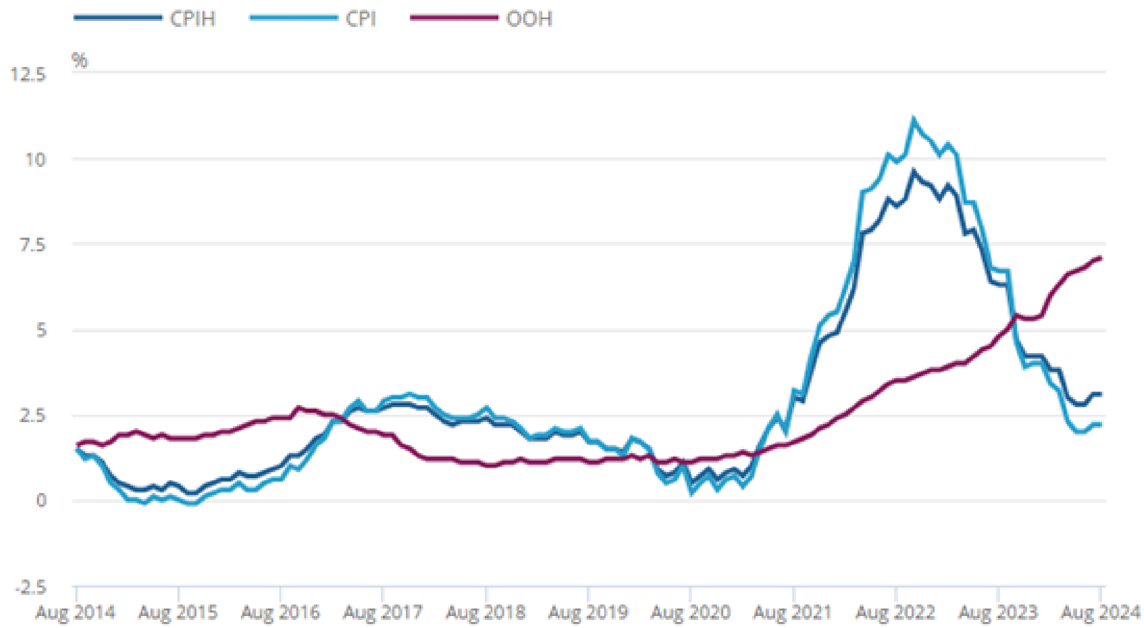
5. **South Africa August CPI rose 0.1% m/m, 4.4% y/y after 0.4% m/m, 4.6% y/y - better than 4.5% y/y expected** - the lowest inflation rate since April 2021, falling just below the South African Reserve Bank's preferred midpoint target of 4.5%. Lower annual inflation rates were observed across several product groups, most notably in transport (2.8% vs 4.2% in July), namely fuels (1.8% vs 4.5%), housing & utilities (4.8% vs 5.3%), and restaurants & hotels (6.6% vs 7.1%). However, prices accelerated mostly for food & non-alcoholic beverages (4.7% vs 4.5%) and alcoholic beverages and tobacco (4.3% vs 3.8%). The annual core inflation rate, which excludes volatile items such as food, non-alcoholic beverages, fuels, and energy, eased further to 4.1% in August 2024, the lowest since May 2022, down from 4.3% in the previous month.

6. **Eurozone final August inflation up 0.1% m/m, up 2.2% y/y after 0% m/m, 2.6% y/y – lower than 0.2% m/m flash.** The biggest upward contribution came from prices of services (4.1% vs 4%) and food, alcohol & tobacco (2.3% vs 2.3%). In addition, inflation slowed for non-energy industrial goods (0.4% vs 0.7%) and prices fell for energy (-3% vs +1.2%). Meanwhile, core inflation rate slowed slightly to 2.8% from 2.9% in July, also matching the initial estimate. Among the largest economies in the Euro Area, inflation eased in Germany (2% vs 2.6%), France (2.2% vs 2.7%), Italy (1.2% vs 1.6%) and Spain (2.4%). Only Latvia (0.9% vs 0.8%), Malta (2.4% vs 2.3%), Slovakia (3.2% vs 3%), and Finland (1.1% vs 0.5%) saw inflation rates increase. The ECB sees inflation averaging 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026. Core inflation rate is seen at 2.9% this year, 2.3% in 2025 and 2.0% in 2026.

UK August CPI rises 0.3% m/m, 2.2% y/y after -0.2% m/m, 2.2% y/y – as expected. The largest upward contributions came from air fares (11.9% vs -10.4%), mainly European routes. Prices also increased at a faster pace for recreation and culture (4% vs 3.7%); and transport (1.3% vs 0.2%), namely second-hand cars (-6.6% vs -8.4%). In contrast, the largest offsetting downward contributions came from motor fuels, with the average price of petrol falling by 2.1 pence per liter between July and August 2024 to stand at 142.3 pence per liter, down from 148.5 pence per liter in August 2023. Other downward pressure came from restaurants and hotels (4.3% vs 4.9%), mostly pub and restaurant prices for various alcohol products. In addition, food prices increased at a slower pace (1.3% vs 1.5%) and housing and utilities declined more (-1.6% vs -1.5%).

Exhibit #2: UK CPI stuck?

CPIH, owner occupiers' housing (OOH) costs component and CPI annual inflation rates, UK, August 2014 to August 2024



Source: Consumer price inflation from the Office for National Statistics

Source: UK ONS, BNY

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

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