

June 17, 2024

Relief?

“Relief feels like happiness if you don’t know the difference.” – T. Kingfisher

“The greatest weapon against stress is our ability to choose one thought over another.” – William James

Summary

Risk mixed with equities in APAC sold and EMEA bought on relief that Le Pen will work with Macron if elected, that ECB Lagarde while independent would act to keep markets orderly – perhaps not buying French OATS but making sure there isn’t a crisis. The guidance from both suffices and offers some relief from the worst fears. China data overnight mixed with retail sales better but industrial production worse and property markets still weak. There is more than enough central bank decisions this week to move all markets, but the PBOC started leaving MLF rate unchanged at 2.5% and drained some liquidity. There is no rush to add to positions today, but USD bid is holding with few alternatives while rates in US are up and that will matter as the week progresses with Fed speakers and focus on retail sales, other consumer data like home sales. There is little to start the week with a jolt other than the memory of the rally up in S&P500 from last week led by tech. Futures are up 0.2% in stocks, USD up 0.05% and 10Y bonds up 2bpbs to 4.24%.

What’s different today:

- **French RN leader Le Pen will work with Macron out if she wins election –** will respect political institutions, ready to cohabitate – seen as an appeal to French moderates into vote.
- **China May real estate investment fell 10.1% y/y.** The floor space of new commercial buildings sold was 366.42 million square meters, down by 20.3%

y/y while the total sales of new commercial buildings were 3,566.5 billion yuan, down by 27.9%.

- **iFlow shows push down in carry, value and mood** but uptick in trend – but all still in neutral zone. The FX markets in G10 saw NOK, DKK, AUD and NZD selling against CAD, CHF, JPY and SEK buying while in EM ZAR, all of LatAm ex PEN, CNY and TWD and IDR selling against modest THB and KRW buying. Equity sectors all negative while bonds only saw modest buying except in Argentina and bigger outflows in Korea.

What are we watching:

- **US June New York Empire Fed manufacturing index** expected -11.3 after -15.6 – first regional survey on sector, important to compare to others.
- **Fed Speakers:** NY Fed Williams at Economic Club of NY, Philadelphia Fed Harker on economic outlook
- **US Treasury** sells \$70bn in 3M and \$70bn in 6M bills

Headlines

- Japan April core machinery sales -2.9% m/m, +0.7% y/y – hit buy manufacturing, helped by services – Nikkei off 1.83% JPY off 0.15% to 157.60
- China PBOC rolls 1Y MLF unchanged at 2.5%, net drains CNY55bn; China May house prices -3.9% y/y – worst since 2015, retail sales up 1.5pp to 3.7% y/y – best since Feb 2024, industrial production off 1.1pp to 5.6% y/y – CSI 300 off 0.15%, CNH flat at 7.27
- Norway May trade surplus up to NOK 58.7bn with exports up 9.9% y/y – NOK off 0.5% to 10.725
- Spanish April trade deficit widens to E4.7bn – with imports up 14.6% y/y – led by capital goods - while exports up 15.8% y/y to 5-month highs – IBEX -0.9%, 10Y SPGB yields up 1bps to 3.30%
- German IG Metall union wants 7% wage hike into bargaining round – DAX flat, Bund 10Y yields up 0.7bps to 2.39%
- ECB Lane: Confident on 2% CPI goal, ECB Lagarde attentive to proper market functioning – 1Q final wage growth up 2.1pp to 5.3% y/y while labor costs up 1.6pp to 5.1% y/y – EuroStoxx 50 up 0.15%, EUR flat at 1.0705

The Takeaways:

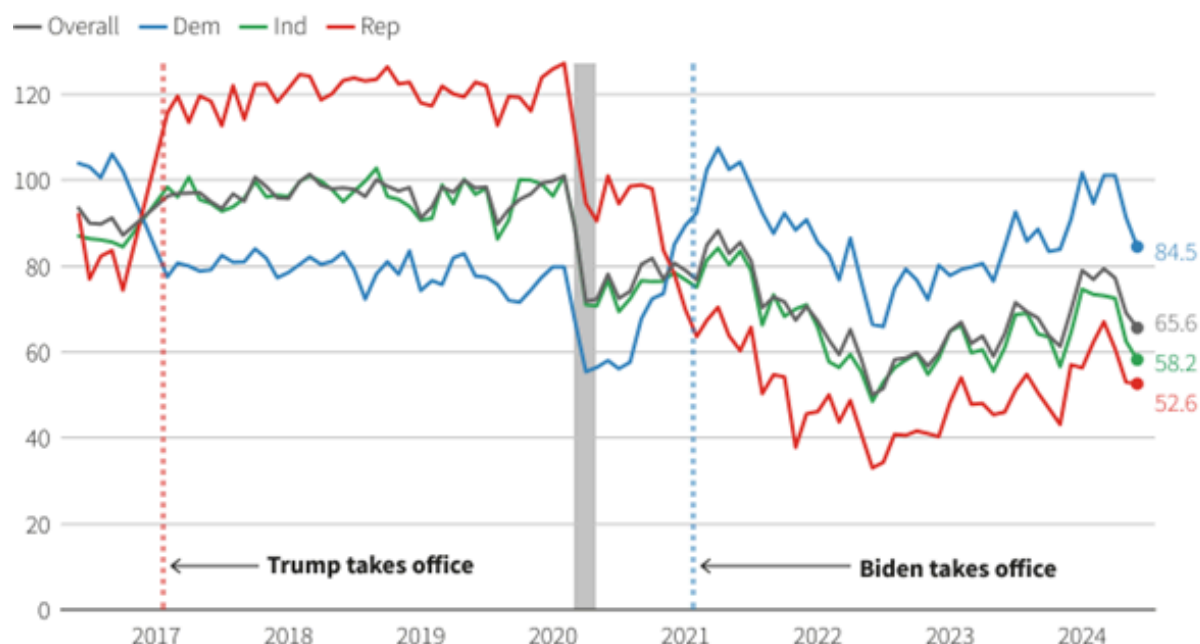
How to find lasting relief? Markets are grinding into the last 2 weeks of June and half-year end with a search for safety rather than return. The carry trade unwind remains a focus, while policy divergence is the order of the week. The ECB and

BOC rate cuts are expected to not be followed by the SNB, BOE or Norges Bank but there could be surprises. Further EM central banks are more likely to hike or hold rather than ease – with Brazil on the front lines as the politics around the budget there leave investors uneasy and the BCB likely to wait given inflation is rising. Brazil President Lula stood by his FinMin Haddad but rejects any spending cuts – leaving the budget promises hard to realize. There is no simple way out for governments and debt as the BOJ and Japan PM Kishida share the view that domestic consumption lacks strength as wages fail to compensate for inflation. Real rates matter both to consumers and investors and they seem to be the mainstay of the week ahead. What isn't in the news but might return is US politics with the June 27 debate the focus for next week but one that highlights the pain of prices and the cost of the pandemic on voters. The Friday University of Michigan poll makes clear that the question all will be asking in November is whether you are better off now than you were four years ago. The answer seems clear now but hope for a better summer and easier Autumn drive, we just have to survive the heat wave in the US ahead.

Does the consumer mood reflect politics or economics?

U.S. consumer sentiment by party affiliation

U.S. consumer sentiment about the economy now largely reflects the partisan divide. Political independents, though, typically measure near the Michigan survey's overall sentiment reading but so far in 2024 have swung notably below it. That downside gap in June's preliminary data was the largest since readings of sentiment by party have been published on a monthly basis.



Note: Gray bar is the recession triggered by the COVID-19 pandemic shutdowns; survey was not conducted from November 2016 through January 2017; June data is preliminary.

Source: University of Michigan Surveys of Consumers

Source: University of Michigan, Reuters, BNY Mellon

Details of Economic Releases:

1. Japan April core machinery orders -2.9% m/m, +0.7% y/y after +2.9% m/m, +2.7% y/y – better than the -3.1% m/m, -0.1% y/y expected. The decrease in capital spending was driven by a sharp decline in the manufacturing sector which dropped 11.3% to 419.4 billion yen in April, while the non-manufacturing sector saw an increase of 5.9% to 475.3 billion yen. The highly volatile data series is considered as a leading indicator of capital spending in the coming six to nine months.

2. China May house price index drops -0.7% m/m, -3.9% y/y after -3.1% y/y – weaker than -3.5% y/y expected and worst since June 2015 - the 11th consecutive month of decline, despite China unveiling a broad real estate rescue package last month. The declines were widespread: prices dropped in 68 out of the 70 cities surveyed by the government, an increase from 64 in April. Prices dropped at stronger rates in Guangzhou (-8.3% vs -6.9% in April), Beijing (-1.8% vs -0.5%), and Shenzhen (-7.4% vs -6.7%). At the same time, costs in Tianjin fell 0.7% after previously stabilizing, while prices in Shanghai continued to rise further (4.5% vs 4.2%).

3. China May industrial production slows to +0.3% m/m, 5.6% y/y after 1% m/m, 6.7% y/y – weaker than 6% y/y expected. Output slowed for manufacturing (6% vs 7.5% in April) and utilities (4.3% vs 5.8%), while activity accelerated for mining (3.6% vs 2%). In terms of industries, 33 out of 41 major sectors posted growth, notably from chemical products (12.7%), other transportation equipment (11.8%), automobile (7.6%), textiles (5.3%), and wine, beverage and refined tea (5.1%).

4. China May retail sales rose 0.5% m/m, 3.7% y/y after 0.1% m/m, 2.3% y/y - better than 3% y/y expected – best monthly gains since Oct 2023, best annual since Feb 2024 and the 16th consecutive month of growth in retail trade, as sales grew for grain, oils & food (9.3% vs 8.5% in April), home appliances (12.9% vs 4.5%), oil products (5.1% vs 1.6%), personal care (7.7% vs 4.4%), furniture (4.8% vs 1.2%) and communications equipment (16.6% vs 13.3%). Additionally, sales rebounded for clothing (4.4% vs -2%) and office supplies (4.3% vs -4.4%), while decreased at a softer pace for car (-4.4% vs -5.6%). In contrast, sales slowed for tobacco & alcohol (7.7% vs 8.4%) and Chinese & Western medicine (4.3% vs 7.8%).

5. China May fixed-asset investment slows -0.4% m/m, +4% y/y ytd from -0.3% m/m, +4.2% - weaker than 4.2% y/y expected. The marginal slowdown was attributed to a slight easing of investments in the secondary sector (12.6% vs 13% in January-April), of which investment rose to mining (17.7%), manufacturing (9.6%), and electricity, heat, gas and water (23.7%). Meanwhile, investments accelerated to the tertiary (5.7% vs 0.3%) and primary (3% vs 1.9%) sector. At the same time, investment in real estate contracted by an annual 10.1% during the first five months of the year, following a decrease of 9.8% in the previous period.

6. China May unemployment steady at 5% - as expected – holding 5-month lows. The jobless rate among residents registered locally was 5.1%, while those with non-local registration dropped to 4.7%, of which the non-local agricultural registrants had a rate of 4.5%. In 31 major cities, the urban unemployment rate was 4.9%. On average, employees in enterprises worked 48.7 hours per week. Considering January to May, the urban surveyed jobless rate averaged 5.1%, a decrease of 0.3 percentage points compared to the corresponding period in the previous year.

7. Norway May trade surplus widens to NOK 58.7bn from NOK 45.3bn – as expected - with Exports advanced 9.9% y/y to NOK 153.2 billion, boosted by higher sales of animal & vegetable oils, fats & waxes (+30.8%), machinery & transport equipment (+17.45), beverages & tobacco (+17%), and crude materials, indelible, except fuels (+17%). Meanwhile, imports rose at a softer 0.5% y/y, driven by increased purchases of animal & vegetable oils, fats & waxes (+127.3%), mineral fuels, lubricants & related materials (+44.5%), and crude materials, indelible except fuels (+14.5%).

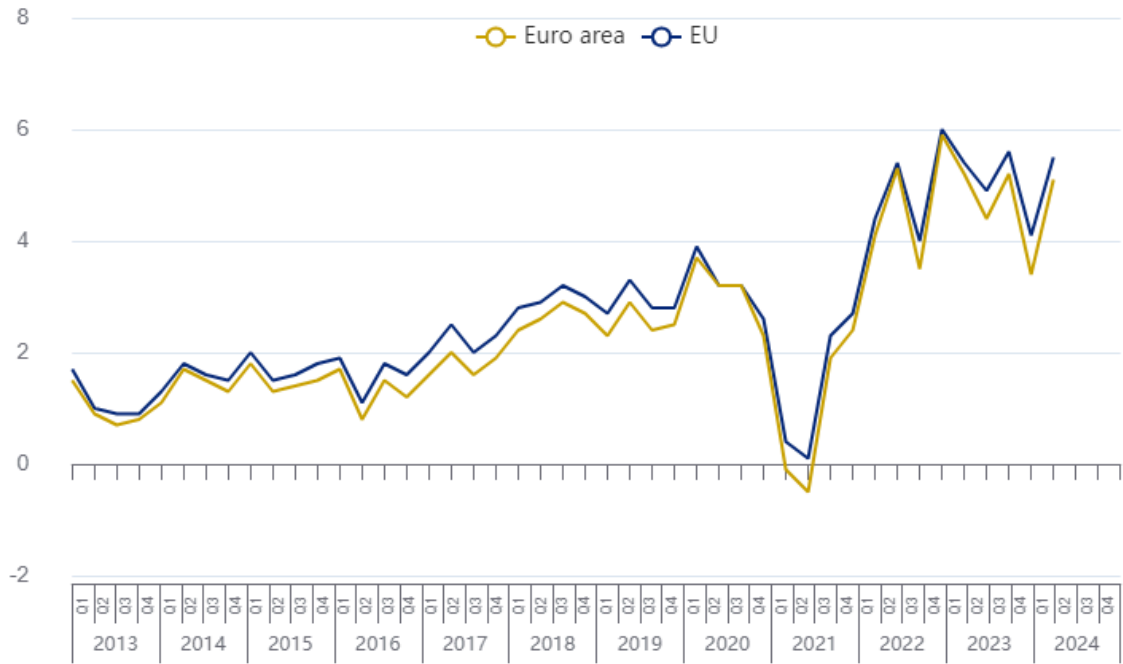
8. Spanish April trade deficit widens to E4.7bn after E2bn – more than E3.5bn expected and up from E4.4bn in April 2023. Imports surged by 14.6% year-on-year to an over one-year high of EUR 38.6 billion, mainly on higher purchases of capital goods (+19%), notably aircraft (+182.7%); chemical products (+24.1%); raw materials (+48%); food, beverages & tobacco (+15.9%) and manufactured consumer goods (+14.4%). Conversely, imports fell for energy products (-1.2%), led by a 78.6% plunge in gas purchases. Meanwhile, exports advanced by 15.8% to a five-month high of EUR 34 billion, primarily due to shipments of food, beverages & tobacco (+20.5%); capital goods (+15.3%), especially aircraft (+273.8%); chemical products (+14.6%); autos (+15.5%) and energy products (+20.3%).

9. Eurozone 1Q labor costs rise 5.1% y/y after 3.4% y/y – revised higher from 4.9% flash. Wages and salaries per hour worked grew by 5.3% annually (vs 3.9% in Q4 2023), while the non-wage component advanced by 4.8%. Within the currency bloc's main industrial activities, labor costs by 5.2% in construction, 5% in services, and 4.8% in industry. Among the largest economies in the monetary union, labor costs grew sharply in Germany (5.9%) but lagged in France (2.7%) and Italy (3.1%). Meanwhile, they soared in Bulgaria (15.8%), Croatia (15.2%), and Romania (16.4%).

Do labor costs block faster ECB easing?

Nominal hourly labour costs, whole economy

% change compared with the same quarter of the previous year, calendar adjusted



eurostat 

Source: Eurostat, BNY Mellon

Disclaimer & Disclosures

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



Bob Savage

HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB



Can't see the email? [View online](#)

iFlow
We can gauge how the world's money moves.
Because a fifth of it moves through us.

[Learn More](#)
[Contact Us](#)

We take our data protection and privacy responsibilities seriously and our privacy notice explains how we collect, use, and share personal information in the course of our business activities. It can be accessed [here](#).

This email was sent to email address, and was sent by The Bank of New York Mellon 240 Greenwich Street, New York NY 10286.

Your privacy is important to us. You can opt out from receiving future Newsletters by [unsubscribing via this link](#) at any time. You can also select the topics that you want to receive by [managing your preferences](#).

This message was sent from an unmonitored email box. Please do not reply to this message.

[Contact Us](#) | iflow@bnymellon.com

© 2024 The Bank of New York Mellon Corporation. All rights reserved.

This message was sent from an unmonitored email box. Please do not reply to this message.