

October 10, 2024

## Double Tens

*“You seek something? You wish to multiply yourself tenfold, a hundred-fold?*

*Seek zero? – Friedrich Nietzsche*

*“Everything has beauty, but not everyone sees it.” - Confucius*

### Summary

Risk mixed as China shares inch higher on hopes for Saturday FinMin press conference, as Hurricane Milton finishes in Florida not directly hitting Tampa as feared, and as the US markets finally get CPI today. The US stock markets rallied to new record highs ahead of the 3Q earnings start Friday. The minutes of the FOMC yesterday made clear the debate over 25 or 50bps rate cut in September was significant and that today's report will matter for the pace of easing ahead. Overnight the data was light but important for central bank watching as PPI rose in Japan, consumer expectation on prices fell in Australia, CPI rose in Norway and GDP rose in Sweden. The shift of thinking about policy from inflation fear to growth focus is in full swing but in Japan with the BOJ facing a test with politics from the October 27 vote a key factor for balancing bond roll offs from their balance sheet, FX and the underlying inflation fears.

### What's different today:

- **Berkshire Hathaway rose 281.8bn JPY in a new bond offer** - laying the ground for the legendary investment company led by Buffet to increase holdings in Japan

- **iFlow** – Notable USD buying yesterday along with the SEK and AUD selling in G10 FX. Bonds were bought again in Brazil, Argentina and India while G10 saw Canada and New Zealand upticks. The Equity markets are less clear – APAC sees India selling Hong Kong buying, Taiwan buying Thailand selling – in G10 US selling Japan selling.

#### What are we watching:

- **US September CPI** expected up 0.1% m/m, 2.3% y/y after 2.5% y/y with core CPI up 0.2% m/m, 3.2% y/y flat - focus will be on services and housing.
- **US weekly jobless claims** expected to rise 5k to 230,000 with focus on weather disruptions
- **Fed Speakers:** Federal Reserve Board Governor Lisa Cook, New York Fed President John Williams and Richmond Fed chief Thomas Barkin all speak
- **US Treasury sells \$22bn in 30Y bonds**
- **Mexico Banxico policy meeting minutes** - key for pace and timing for future easing

#### Headlines

- Japan Sep PPI rises 2.8% y/y - led by transport equipment – Nikkei up 0.26%, JPY up 0.2% to 148.95
- China PBOC opens CNY500bn in swap facility to support stock market – CSI 300 up 1.06%, CNH flat at 7.0915
- Australian Oct MI consumer inflation expectations slow to 4% y/y - lowest since October 2021 – ASX up 0.43%, AUD flat .6715
- German Aug retail sales rose 1.6% m/m, 2.1% y/y - data reporting returns post IT issues – DAX flat, Bund 10Y up 3bps to 2.285%, EUR off 0.1% to 1.0930
- Italian Aug industrial production up 0.1% m/m, -3.2% y/y - 19th y/y decline – MIB up 0.35%, BTP 10Y up 2bps to 3.575%
- Sweden August GDP up 1.1% m/m- best since July 2023 - led by services and consumption – OMX off 0.7%, SEK up 0.1% to 10.396
- Norway Sep CPI rises up 0.4pp to 3% y/y- still better than 3.2%. y/y expected – NOK off 0.1% to 10.786
- Turkey Aug industrial production fell -1.6% m/m, -5.3% y/y — 3rd month of contraction - but unemployment fell 0.3pp to 8.5% - TRY up 0.15% to 34.21

#### The Takeaways:

**Will markets overreact to US CPI today?** This is the central trading question for today but one that begs the fullness of thinking around economic data and the reaction function of investors, not to mention that of the FOMC. The role of any data requires stability and some trust that they accurately reflect the real economy. Making decisions on one data point is likely wrong in the post pandemic world of economic data revisions. Ignoring outliers is similarly wrong as trends matter and reversals of disinflation were key to understanding the FOMC in 2024 1Q. The focus post CPI where goods are likely to be critical to 0.2% or higher m/m rises in the overall report today rests on bills and bond sales – with fixed income still very much the driver of risk in FX and to some degree shares. China set the tone from last week with a bias to own risk and hope. Today will be about expecting hope to rise further perhaps tenfold into earnings and growth in 4Q.

**Exhibit #1: Will housing and good matter?**



Source: Bloomberg, BNY

### Details of Economic Releases:

**1. Japan September PPI rises 0.0% m/m, 2.8% y/y after -0.2% m/m, +2.6% y/y - more than the -0.3%, 2.3% y/y expected** - due to further rises in the cost of transport equipment (1.3% vs 1.3% in August), beverages & foods (2.0% vs 2.2%), chemicals (0.3% vs 1.1%), electrical machinery (2.5% vs 2.4%), production machinery (3.7% vs 3.7%), general-purpose machinery (3.2% vs 3.4%), metal products (2.7% vs 2.9%), other manufacturing (3.6% vs 3.2%), plastic products (2.0% vs 2.0%), non-ferrous metals (9.7% vs 11.4%), information (3.5% vs 3.0%),

and business-oriented machinery (3.2% vs 3.4%). At the same time, prices rebounded for petroleum & coal (1.3% vs -3.8%) and iron & steel (0.2% vs -0.2%)

**2. Australian October MI consumer inflation expectations fell to 4% from 4.4% - lowest since October 2021.** In August, the monthly CPI index rose by 2.7% yoy, the lowest in three years, entering the central bank's target range of 2 to 3% for the first time since August 2021, amid the continued impact of the Energy Bill Relief Fund rebate. Meanwhile, the country's annual inflation stood at 3.8% in Q2 2024, not far from a nine-quarter low of 3.6% in Q1. Last month, the Reserve Bank maintained its cash rate at 4.35%, keeping borrowing costs unchanged for the seventh consecutive meeting. The board acknowledged easing cost pressures but noted that inflation will not return to the intended corridor until 2026.

**3. Australian August final building permits drop -6.1% m/m after +11% m/m - unrevised as expected.** The decline was due to a slump in permits for private sector dwellings excluding houses (-16.5% vs. 33.0% in July) to 4,418 units, as approvals for high-density apartments remained subdued. Simultaneously, approvals for private sector houses grew more slowly (0.5% vs. 0.9%) to 9,338 units, mainly lifted by a 3.9% rise in New South Wales. Geographically, total dwellings approved declined in New South Wales (-11.5%), South Australia (-11.5%), Tasmania (-4.4%), Queensland (-3.9%), Western Australia (-3.3%), and Victoria (-3.0%).

**4. German August retail sales rise 1.6% m/m, 2.1% y/y after +1.5% m/m, -0.8% y/y** - Sales saw a gain in both food (1.9%) and non-food (1.1%) categories and sales in e-commerce and mail order soared 8.9%. The federal statistics office resumed reporting retail sales after suspending it back in June due to IT issues during a conversion process to comply with new EU data requirements. Retail sales had fallen in both June (-1.1%) and May (-1.4%).

**5. Italian August industrial production rises 0.1% m/m, -3.2% y/y after -1% m/m, -3.3% y/y - still weaker than the 0.2% m/m bounce expected** - and the 19th y/y drop. Output rebounded for consumer goods (2.8% vs -2% in July), while increasing at a stronger pace for energy goods (2.3% vs 1.8%). Conversely, production fell further for capital goods (-2.5% vs -1.2%) and intermediate goods (-2.8% vs -0.9%). .

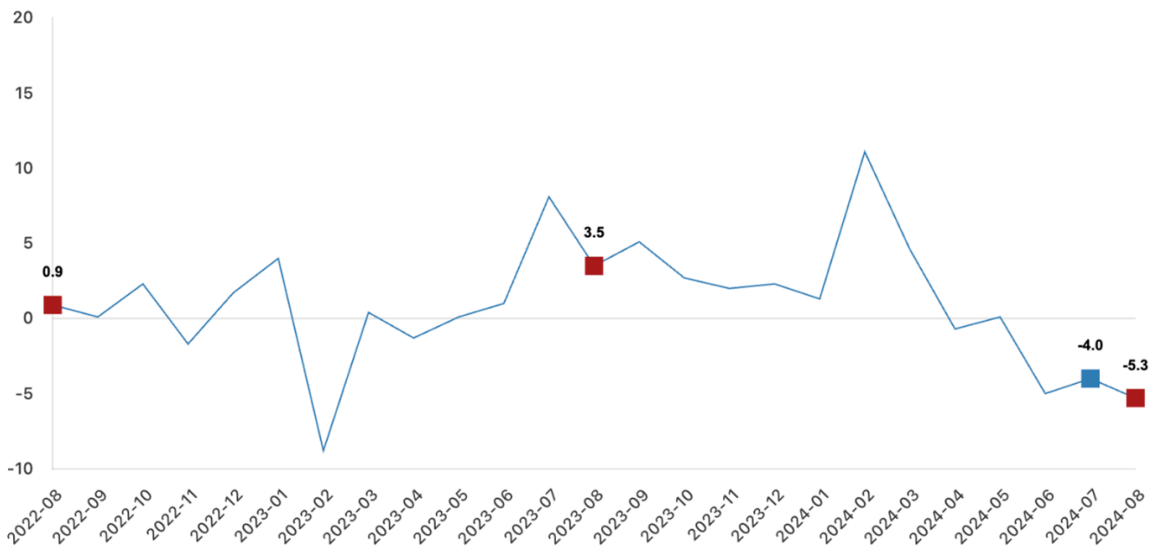
**6. Turkey August unemployment fell to 8.5% from 8.8% - better than the 8.7% expected.** The number of unemployed individuals declined by 89,000 from a month earlier to 3.055 million, while employment rose by 78,000 to 32.776 million.

Meanwhile, the activity rate edged down to 54.3% from 54.4% in the previous period. The youth unemployment rate for those aged 15 to 24 increased by 0.1 percentage point to 16.5%. In the meantime, the average weekly actual working hours for employed individuals rose to 42.7 hours, up by 0.1 hour compared to July.

**7. Turkey August industrial production off 1.6% m/m, -5.3% y/y after +0.3% m/m, -4% y/y - weaker than -3.5% y/y expected** and the third consecutive month of decreases in industrial activity, and at a solid pace. Output contracted significantly for mining & quarrying (-5.4% vs 1.1% in July) and manufacturing (-5.4% vs -5%), while it slowed sharply for electricity, gas, steam and air conditioning supply (1.6% vs 8.2%).

### Exhibit #2: Turkey production slowing helps start easing cycle?

Industrial production index annual change rates (%), August 2024



Source: Turkey Statistics, BNY

### Disclaimer & Disclosures

Please direct questions or comments to: [iFlow@BNY.com](mailto:iFlow@BNY.com)



**Bob Savage**  
 HEAD OF MARKETS STRATEGY  
 AND INSIGHTS

CONTACT BOB



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