BNY

iFlow
MARKET MOVERS

November 25, 2024

Arrows

"An arrow can only be shot by pulling it backward, so when life is dragging you back with difficulties, it means that it's going to launch you into something great." - Paulo Coelho
"One arrow alone can be broken, but many arrows are indestructible." - Genghis Khan

Summary

Risk on as markets see bonds rally, USD dip and equites gain on Trump nomination of hedge fund manager Bessent to role of US Treasury Secretary. Bessent pushes 3 arrows for US economy - 3% budget deficit by 2028, 3% GDP and 3 million more oil production a day. In an interview published on Sunday, Bessent told the Wall Street Journal that both tax and spending cuts were priorities. .His moderation for lower government spending and a strong USD policy was key overnight in Asia, which saw China doubts about easy money falter and as growth hopes in region slowed from New Zealand to Taiwan, with Singapore CPI back to 2021 levels. On the day ahead, US markets have bills and 2Y notes to absorb and some further speakers from ECB, BOE and FOMC. The RBNZ rate cut and the BOI hold from central banks also in focus. The risk of chasing trend seems to be in FX where choppy markets still have USD up bias.

What's different today:

- **iFlow** – USD buying continued with trend extremely negative, caryy negative and Mood extremely negative – all G10 equities saw outflows while just Chile, Israel, Poland, Thailand and Korea saw inflows. The US bonds continued to see inflow while Europe saw significant outflows as did EMEA and all of APAC.

What are we watching:

- **Chicago Fed October national activity index** expected -0.2% after -0.28% - indicative of slowing economy in 2025.
- **Dallas Fed November manufacturing index** expected -2.4 from -3.0 – still weak industrial outlook in 4Q for US
- **US corporate earnings:** Agilent Technologies
- **US Treasury** sells $69 billion of 2-year notes
- **G7 foreign ministers** meet in Fiuggi, Italy – discussing Ukraine

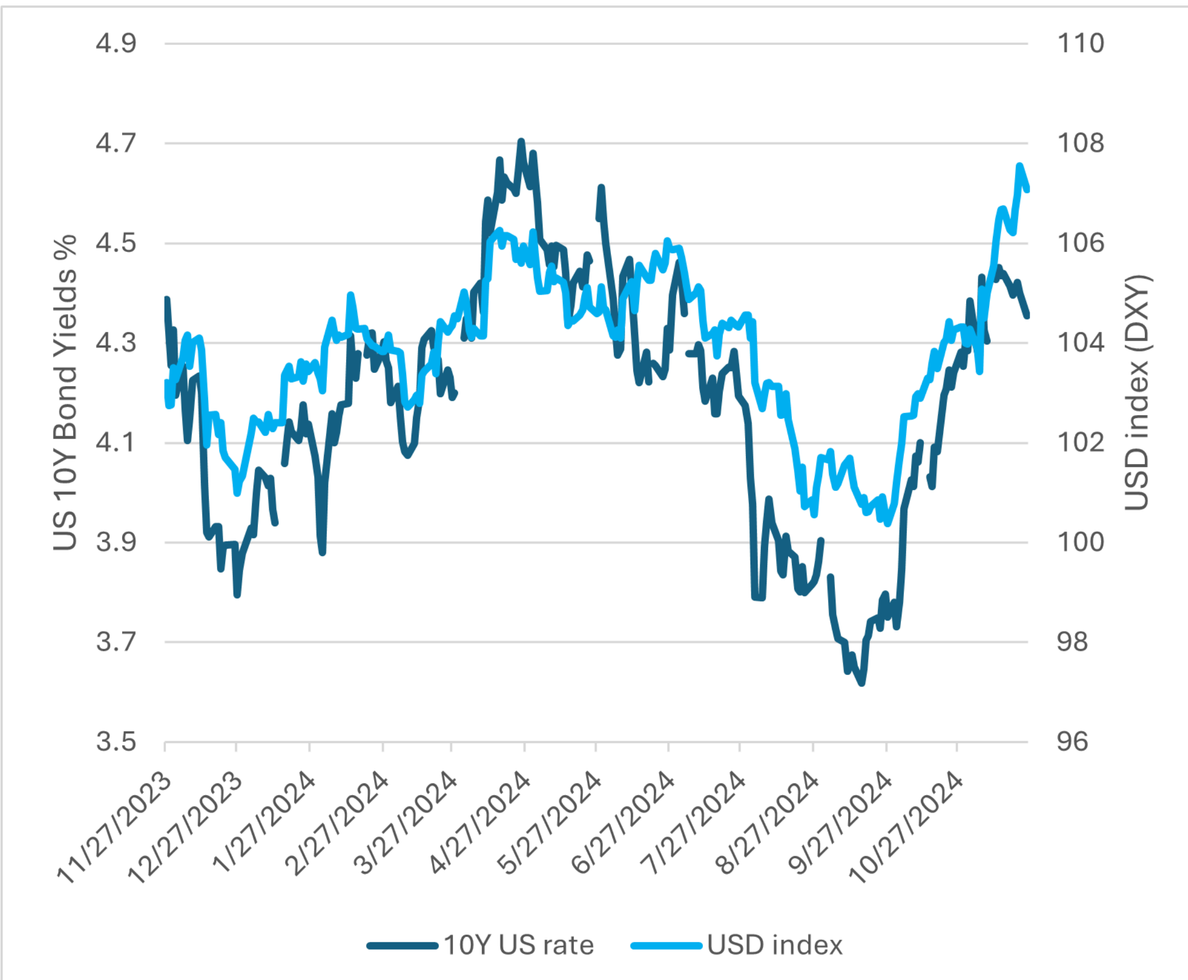
Headlines

- China PBOC injects CNY900bn via 1-year MLF at 2% unchanged - net CNY550bn drain - as 7-day becomes main lever with CNY249.3bn reverse repo added liquidity at 1.5%. – CSI 300 off 0.46%, CNH up 0.2% to 7.2485
- Japan Sep final LEI up 2.2 to 109.1 - reflecting jobs and consumer confidence – Nikkei up 1.3%, JPY up 0.15% to 154.50
- Taiwan Oct industrial production slows 2.3pp to 8.85% y/y while retail sale -0.5% y/y - weakest since August 2021 – TWD up 0.3% to 32.47
- Singapore Oct CPI drops 0.6pp to 1.4% y/y - core off 0.7pp to 2.1% y/y - lowsest since Nov 2021 – SGD off 0.1% to 1.3475
- New Zealand Oct trade deficit narrows to NZ$1.544bn - with exports up 7.5% y/y led by dairy products - while auto imports fell -but 3Q retail sales off 0.1% q/q, -2.5% y/y - as food spending slows and autos rise – NZD up 0.15% to .65
- German Nov Ifo business climate drops 0.8 to 85.7 - with weaker current conditions blamed on coalition government collapse and US election – DAX up 0.1%, Bund 10Y up 1bps to 2.248%, EUR up 0.5% to 1.0475
- BOE Lombardelli - warns tight labor markets hinder inflation fight – FTSE up 0.1%, GBP up 0.2% to 1.2560
- Elections in Uruguay have center left narrowly winning Presidency with Orsi at 49.5% while first round Romanian vote has shock pro-Russia far-right lead for Georgescu with 23% - with Dec 8 final vote.

The Takeaways:

The risk reward today is in US rates and whether the relief rally today from Scott Bessent sustains. The role of rates in equities have become a brake to “Trump Trades” up on tax relief and deregulation. Talk of fiscal restraint has helped flatten the curve and 10-year rates are going to be key as the US absorbs $700bn plus of government bills and notes in 3-days. The FX markets are rightly confused about USD direction for many of the same reasons as equities with value stretch, worries about US risk premiums and need for global growth to help keep US exceptionalism pumping ahead. The relationship between the USD and rates is clearly something to consider in the week ahead and on the day with supply and month-end flows driving volatility risks.

Exhibit #1: Is the USD linked to US 10Y rate?



Source: Bloomberg, BNY

Details of Economic Releases:

1. **New Zealand October trade deficit narrows to NZ$1.544bn after NZ$2.154bn - better than the NZ$2bn expected.** Exports rose 7.5% y/y to NZ$5.8 billion, driven

by higher sales of milk powder, butter, and cheese (+16%), fruit (+314%), precious metals, jewelry, and coins (+77%), and meat and edible offal (+6.1%). Meanwhile, imports grew 3% y/y to NZ$7.3 billion, led by surges in purchases of aircraft and parts (+644%), pharmaceutical products (+26%), railway stock (+862%), and salt, earths, stone, lime, and cement (+265%). New Zealand's top export markets included China, Australia, and the US, while its main import partners were China, the EU, the US, and Australia.

2. New Zealand 3Q retail sales drop -0.1% q/q, -2.5% y/y after -1.2% q/q, -3.6% y/y - weaker than -2% y/y expected. Ten out of fifteen industries recorded lower sales volumes, with the largest declines seen in supermarket and grocery stores (-1.3%), food and beverage services (-2.1%), and department stores (-2.5%). However, the increase in motor vehicle and parts sales (+4.3%) and electrical and electronic goods sales (+4.6%) provided some offset.

3. Japan September final LEI rises to 109.1 from 106.9 - weaker than 109.4 flash. Still bouncing from August lows (worst since October 2020) as consumer confidence improved to its highest level in five months. Meanwhile, the unemployment rate declined to 2.4% in September, marking the lowest since January. In the meantime, the services sector continued to grow in September while the factory activity shrank the least in five months amid easing price pressures. The coincident indicators roses to 115.3 from 114 - August was 6-month lows - also reflecting moderate economic recovery driven by increases in private consumption and business investment. Meanwhile, the slowdown in overseas economies posed a downside risk for domestic activity, impacted by sustained high interest rates in the US and Europe, and ongoing stagnation in China's real estate market.

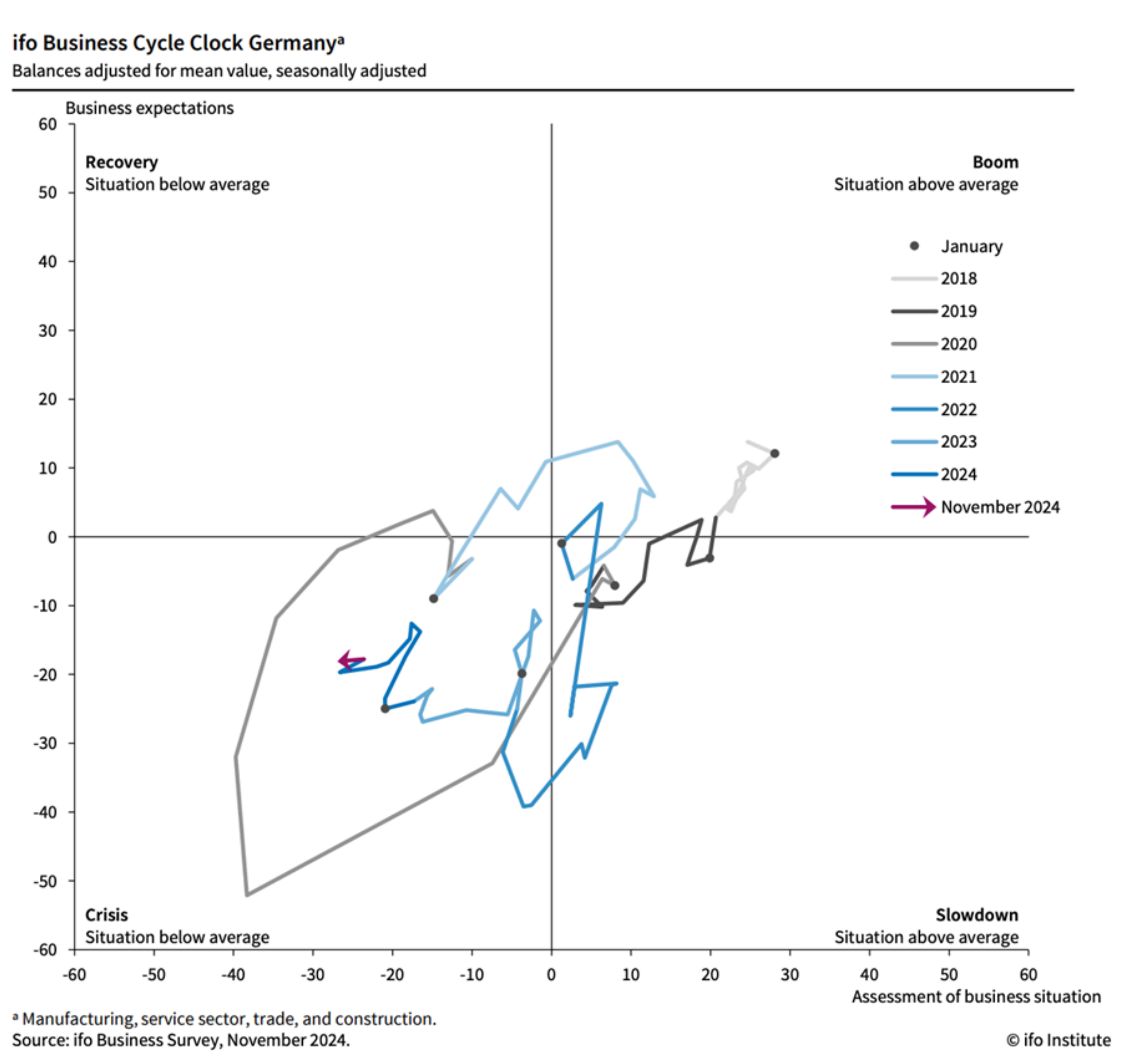
4. Taiwan October retail sale drops -0.1% m/m, -0.5% y/y after +3.6% m/m, +3.35% y/y - worse than +2.5% y/y expected and the first fall in retail trade since August 2021, as sales tumbled for pharmaceutical and medical goods and cosmetics (-0.14% vs 2.41% in September) and motor vehicles, motorcycles and related parts (-7.93% vs 9.72%). Moreover, sales continued to fall for textiles and clothing in specialized stores (-2.12% vs -0.05%), cultural and recreation goods (-6.63% vs -1.14%), fuel and related products (-10.17% vs -6.83%), and trade not in stores/stalls (-0.72% vs -0.62%). In contrast, sales accelerated for household appliances and goods (3.78% vs 1.73%).

5. **Taiwan October industrial production slows -1.32% m/m, 8.85% y/y after +0.9% m/m, 11.15% y/y - worse than 10.7% y/y expected** - softest since March, as output slowed for manufacturing (9.32% vs 11.99% in September) and slipped for mining and quarrying (-2.48% vs 2.49%). Meanwhile, production decreased at a softer pace for electricity and gas supply (-1.55% vs -5.59%) and accelerated notably for water supply (4.4% vs 1.88%).

6. **Singapore October CPI slows to -0.3% m/m, 1.4% y/y after +0.3% m/m, +2% y/y - lower than 1.8% y/y expected** - best since March 2021, as prices moderated for housing and utilities (2.7% vs 3.2% in September), miscellaneous goods and services (0.9% vs 1.2%), education (3.1% vs 3.4%), recreation and culture (1.5% vs 4.5%), and health care (2.1% vs 4.1%). In contrast, deflation slowed for transport (-1% vs -0.9%) and communication (-0.5% vs -1%). Meanwhile, the annual core inflation rate eased to 2.1% in October 2024 from a three-month high of 2.8% in the preceding month, and compared to a market expectations of 2.5% rise. It was also the lowest reading since November 2021.

7. **German November Ifo business climate drops to 85.7from 86.5 - weaker than 86 expected -** blamed on Trump election and fall of coalition government. The sub-index for current conditions worsened to 84.3 from 85.7 and business expectations edged down to 87.2 from 87.3. "The German economy is lacking strength. Companies were somewhat skeptical again about the coming months", Ifo president Clemens Fuest said. The business climate in the manufacturing sector has deteriorated, with companies expressing increased skepticism about the months ahead, although they were slightly more satisfied with the current situation. In the services sector, the business climate index has dropped sharply, with companies viewing the current situation much more negatively and adopting a more pessimistic outlook. In contrast, the retail sector saw an improvement, but optimism remains far from widespread.

Exhibit #2: What gets Germany out of crisis?



Source: German Ifo, BNY

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

Disclaimer & Disclosures

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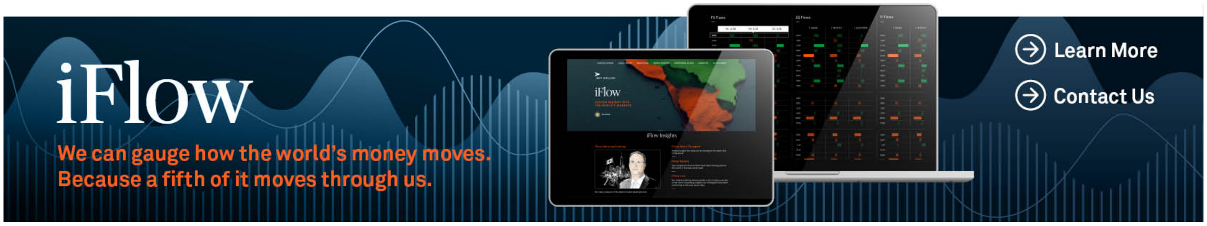

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