

December 11 2024

## Almost Perfect

*“We live in an almost perfect stillness and work with incredible urgency.” – Rem Koolhaas*

*“He who can preserve gentleness amid pains, and peace amid worry multitude of affairs, is almost perfect.” Francis De Sales*

### Summary

Risk mixed as focus shifts to US CPI today expected up 0.3% m/m, with FOMC priced for 21bps cut - almost perfect for growth and US shares. The Bank of Canada is expected to cut 50bps today even with the C\$ at 4 1/2 lows as rising unemployment drives. On the other hand, the Brazil Copom is expected to hike 75bps to 12% with BRL at historic lows. Overnight the headline was that China could use CNY as a tool in any trade dispute added to USD buying everywhere. The focus on US rates and US growth dominates and leaves many worried that US 2025 is priced almost to perfection.

### What's different today:

- **US MBA weekly mortgage applications rose 5.4% w/w**, while US mortgage rates for 30Y fell to 6.67% off 2bps – lowest in 7-weeks. The increase in applications was led by a 30% surge in refinancings.
- **iFlow shows ongoing USD buying** mostly against the EUR and BRL while TRY sees gains in EM. G10 Equities mostly negative except in Japan and New Zealand, mixed in rest of world even as Mood Index drops further near historic lows. Bonds were bought in the US, India and China sold in Mexico and Canada.

### What are we watching:

- **US November CPI** expected up 0.3% m/m, 2.7% y/y after 0.2% m/m, 2.6% y/y with core CPI flat at 0.3% m/m, 3.3% y/y.
- **Bank of Canada rate decision** expected 50bps easing to 3.25% with key focus on press conference and future pace.
- **Brazil BCB Copom rate decision** expected 75bps tightening to 12% with focus on statement and risks into 2025.
- **US Sells \$39bn in reopening of 10-year note**

### Headlines

- Japan Dec Reuters Tankan off 6 to -1- first negative in 10-months - but services +11 to 30 - while Nov PPI rose 0.1pp to 3.7% y/y - most since July 2023 - and the 4Q BSI jumps 1.9pp to 6.4% q/q - most since 4Q 2021 – Nikkei up 0.01%, JPY off 0.4% to 152.70
- Korea Nov unemployment steady at 2.7% - still back to June highs - while police try to raid President Yoon's office - Kospi up 1.02%, KRW off 0.1% to 1430.10
- China suggests weaker CNY maybe tool in countering Trump tariffs - while Nov vehicle sales jump 4.7pp to 11.7% y/y – CSI off 0.17%, CNH off 0.2% to 7.2720
- RBI new Governor Malhotra pledges “stability” - Sensex up 0.02%, INR up 0.15% to 84.83
- Turkey Oct retail sales up 2.3% m/m, 15% y/y - smallest gain in 5-months - TRY off 0.1% to 34.867
- South Africa Nov CPI rises 0.1 to 2.9% y/y but core off 0.2pp to 3.7% y/y - while retail sales jump 1.6% m/m, 6.3% y/y - best since July 2021 – ZAR flat at 17.805
- US weekly API crude oil inventories rise 0.499mb - more than the -1.3mb draw expected - while gasoline rose 2.852mb still 4% below average and distillate rose 2.452mb 5% below average – WTI is up 1.45% to \$69.60

**The Takeaways:**

The hope for a soft landing in the US in 2025 has become the consensus in forecasts. The CPI today will test this though many expect this data to be less impactful than jobs on the course of any FOMC decisions ahead. The markets have priced in a 25bps easing and to remove that will require a shock over 0.4% m/m increases in headline and higher still in core CPI. The larger mover overnight has been the USD and how that acts as a damper on US import inflation will remain a talking point long after this morning's CPI release. While correlation isn't causality, the link of USD strength to views on US easing is clear and the USD trades more on rates than vice versa as the carry trade is more about real volatility adjusted returns.

**Exhibit #1: USD correlates to CPI?**



## Details of Economic Releases:

### 1. China November vehicle sales rises 11.7% y/y after 7% y/y - better than 8% y/y

**expected.** Sales rose to 3.316mn units making this the second monthly rise up 8.6% m/m, following the launch of government policy measures aimed at boosting the auto market.

Sales of new energy vehicles surged by 47.4% in November to a fresh record peak of 1.512 million units, surpassing the previous record of 1.43 million units in October, as the year-end peak season continues. For the first eleven months of 2024, total vehicle sales grew by 3.7% to 27.94 million units, with new energy vehicles soaring by 35.6%.

### 2. Japan December Reuters Tankan drops to -1 from +5 - worse than 7 expected - first

negative report in 10 months, reflecting growing concerns over US protectionist policies and the struggling Chinese economy. Still, expected to bounce back to +5 in March. Services rose to 30 from 19 - with 32 expected in March. Business confidence deteriorated across a broad range of manufacturing sectors, with pessimism significantly outweighing optimism, particularly among electronics, machinery, steel, and nonferrous metal manufacturers.

Several respondents expressed worry over the potential impact of new, hefty tariffs proposed by Trump, fearing that these measures could disrupt global trade. One respondent noted, "We are seeing many investment projects delayed as a 'wait-and-see' approach has taken hold since Trump's election victory." Another cited weak sales in China, where a combination of a prolonged property crisis, high local-government debt, and sluggish consumption continues to strain the economy.

### 3. Japan November PPI up 0.3% m/m, 3.7% y/y after 0.3% m/m, 3.6% y/y - more than the

**0.2% m/m, 3.4% y/y expected** - the highest figure since July 2023, as cost rose further for most commodities: transport equipment (1.0% vs 1.0% in October), beverages & foods (1.8% vs 1.9%), petroleum & coal (1.6% vs 4.9%), iron & steel (0.2% vs 0.3%), electrical machinery (3.7% vs 4.0%), production machinery (1.6% vs 2.2%), general-purpose machinery (3.9% vs 3.7%), metal products (3.7% vs 4.4%), other manufacturing (3.8% vs 3.6%), plastics (3.2% vs 2.7%), non-ferrous metals (13.6% vs 14.7%), information (3.2% vs 2.9%), and business-oriented machinery (2.4% vs 2.0%). In contrast, prices of chemical products continued to fall (-0.4% vs -0.7%).

### 4. Japan 4Q BSI Large Manufacturing index rises 6.4% q/q after 4.5% q/q - more than

**-1% q/q expected** - the highest level since the fourth quarter of 2021. This positive shift in sentiment supports a hawkish outlook on the Bank of Japan's monetary policy ahead of its December meeting. The survey coincided with final data showing that Japan's economy grew by 0.3% quarter-on-quarter in the three months to September, surpassing both the preliminary estimate and market expectations of 0.2%. The business survey index measures the difference between the percentage of firms expecting business conditions to improve versus those expecting deterioration. Looking ahead, large Japanese manufacturers are anticipating a slowdown in the coming months, with a forecasted index of 2.1% for the first quarter of next year.

### 5. Korean November unemployment flat at 2.7% - as expected - holding at June highs.

The number of unemployed individuals decreased by 21,000, or 3.1% year-on-year, bringing the total to 656,000. Meanwhile, employment grew by 123,000, or 0.4% year-on-year, reaching 28.821 million people. The seasonally adjusted labor force participation rate remained steady at 64.6% in October, unchanged from the same period last year.

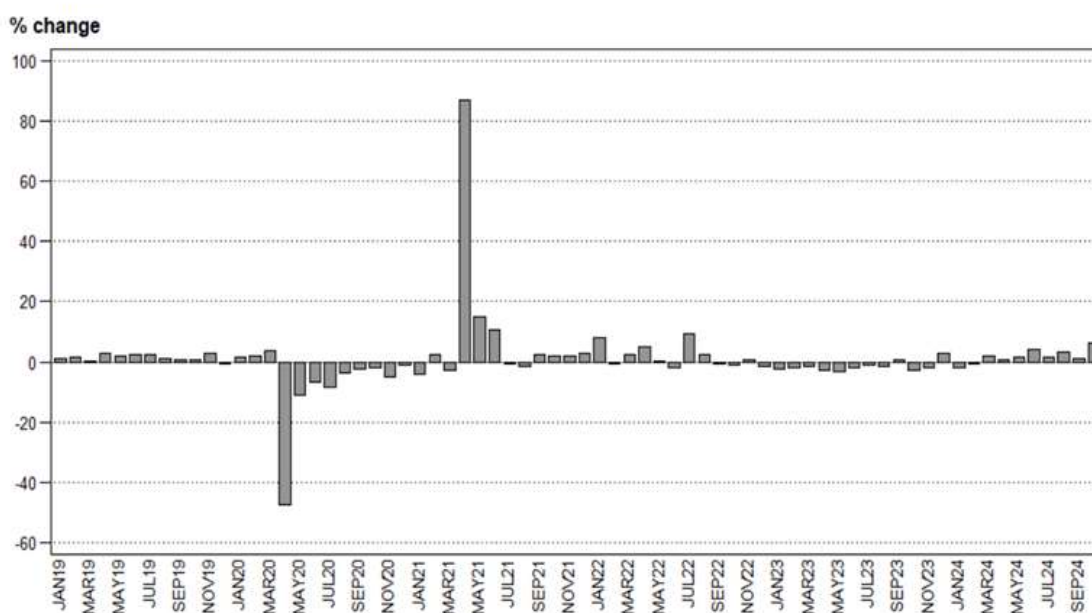
**6. Turkey October retail sales rises 2.3% m/m, 15% y/y after 2.5% m/m, 16.4% y/y - less than the 17% y/y expected** - smallest gain in 5-months, boosted by higher sales in food, drinks, and tobacco (+10.6%) and non-food products (+20.1%), particularly computers, books, and telecommunications equipment (+37.3%), sales via mail orders and the internet (+19.9%), medical goods and cosmetics (+10.2%), electronic goods and furniture (+9.2%), textiles, clothing, and footwear (+4.9%), and automotive fuel (+1.0%).

**7. South Africa November CPI rises to 0% m/m, 2.9% y/y after -0.1% m/m, 2.8% y/y - better than the 3% y/y expected** - still the first increase in consumer inflation after five consecutive periods of easing, though it remains well below the South African Reserve Bank's preferred midpoint target of 4.5%. There was a softer decline in transport costs, which fell by 2.9% compared to a 4.8% drop in October, largely due to a less sharp decrease in fuel prices (-13.6% vs. -19.1%). Meanwhile, price growth slowed for food and non-alcoholic beverages (2.5% vs. 3.6%) and housing and utilities (4.7% vs. 4.8%). The core inflation rate, which excludes volatile items such as food, non-alcoholic beverages, fuel, and energy, eased to 3.7%, its lowest level since February 2022, down from 3.9% in October.

**8. South Africa October retail sales rise 1.6% m/m, 6.3% yy after -0.6% m/m, +1.1% y/y - better than the 2% y/y expected** - the strongest since July 2022. The largest positive contributors to this increase were general dealers (+11.5% and contributing 4.9 percentage points), followed by retailers in household furniture, appliances and equipment (+16.6%); retailers in textiles, clothing, footwear and leather goods (+3.1%) and retailers in pharmaceuticals and medical goods, cosmetics and toiletries (+5.3%).

## Exhibit #2: Is South Africa primed for growth?

Figure 2 – Retail trade sales at constant 2019 prices: year-on-year percentage change



Source: South Africa Statistics, BNY

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

### Disclaimer & Disclosures



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