BNY

MARKET MOVERS

iFlow

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Fumes

- **Bank of Korea leaves rates at 3% -** surprising market that expected a cut - 1 Dissent for easing while 6 cited KRW weakness and political turmoil as reason to hold, most see cut in next 3-months- Kospi up 1.23%, KRW off 0.15% to 1458.50
- **BOJ sources tell Bloomberg a rate hike likely next week** dependent on Trump tariff plans and PPI stays at June 2023 highs – Nikkei up 0.33%, JPY up 0.2% to 156.15
- **Australian December unemployment up 0.1pp to 4%**, but jobs rise 56,300 - all part-time - leaves market pricing RBA easing in 1Q – ASX up 1.38%, AUD off 0.45% to .6200
- **Eurozone November trade surplus off E2bn from last year to E16.4bn** - as exports and imports both drop – EuroStoxx 50 up 1.35%, EUR off 0.15% to 1.0265
- **UK November GDP rises 0.1% m/m** -weaker than hoped - while industrial production -0.4%, trade deficit steady - leaves 3M growth flat increasing stagflation fears – FTSEE up 0.6%, GBP off 0.35% to 1.2195

Summary

Risk on as markets rethink FOMC easing post PPI/CPI and embrace view that rest of world can grow despite any Trump tariffs and take comfort in strong bank earnings to start 4Q reporting season. The fumes of lower rates extending AI/Tech investments fires like a Glenn rocket into orbit. A Dovish hold from the Bank of Korea, more hawkish BOJ talk for next week, and better China shares on back of

RRR cut hopes helped. But weaker UK GDP views left markets locked into growth over inflation with US leading still. This leaves the US retail sales, weekly jobless claims, more 4Q earnings, the Senate hearing on Treasury Nominee Bessent - all key in keeping the hope for less surprising policy shifts in the weeks ahead.

What's different today:

- **European natural gas prices drop to E46 mwh** - despite colder weather as supply remains steady - storage 65% down from 77% in 2024 still supports EUR as link to energy prices has been negatively correlated since Russian invasion of Ukraine.
- **Oil prices hold near 5-month highs with Brent at $82 bbl** after EIA reported US crude draw, OPEC keeps forecasts for 2025 demand up 1.43mb and IEA report sees tighter oil supply in 2025.
- **iFlow shows extended US shares selling** despite price action – but Mood index up to extreme longs – a one-month full turn from extreme shorts – with rest of world leading particularly LatAm and EMEA. The FX markets are buying USD and selling GBP and EUR and AUD. In Fixed income UK Gilts and EU bonds sold but US bought while Chile and Brazil see outflows extending along with South Africa. APAC sold as well with even India seeing outflows.

What are we watching:

- **US December retail sales** expected up 0.6% after 0.7% with control group up 0.4% m/m flat.
- **US weekly jobless claims** expected up 9k to 210k with focus on continuing claims up 3k to 1.87mn
- **US January Philadelphia Fed business survey** expected up to -5 from -10.9
- **US NAHB January housing** index expected off 1 to 45
- **US 4Q corporate earnings**: Bank of America, Morgan Stanley, M&T Bank, UnitedHealth, US Bancorp, PNC Financial, JB Hunt
- **US Senate confirmation hearing** for U.S. Treasury Secretary nominee Scott Bessent

The Takeaways:

The markets want to believe that US bond yields are contained. This is not only a US story. The focus on the 20bps drop in UK Gilts and what that means to UK BOE policy given a modest downward drift in inflation and the weaker than expected GDP today make UK rates the most interesting as US 10Y is up 2.5bps, Japan JGBs are off 4.5bps to 1.195% and German Bunds are up 2bps but equivalent 10-year Gilts are flat to -0.5bps at 4.72%. The point is that rates matter but no longer drive the full market for risk in equities or FX. The USD is up against the GBP and down against the JPY. Rate spreads aren't the driver. Longer term its more about the growth and return on risk in equities implied. As Robert Amstrong in the FT highlighted – the rise of US equities on back of tech and AI booms drives the spreads against the rest of the world and the rise of the USD over the 4Q reflects the overhang of US asset exposure unhedged. The one thing that might be the shock to the current system comes from the hit of the LA wildfires on how finance deals with the insurance claims and long-term health of insurance in the US markets – given this tragedy is the worst natural disaster in the history of the US with costs over 1% of GDP. The hit to growth and markets isn't yet fully priced.

Exhibit #1: Is US value stretch going to snap risk ahead?

Source: FT, Bloomberg, BNY

Quotes of the Day:

"There isn't smoke without fire." – French Proverb

"Though fame is smoke, its fumes are frankincense to human thought" – Lord Byron

- **Australian December unemployment rises to 4% from 3.9% but jobs rise to 56,300 after 28,200 - better than 15,000 expected.** The number of unemployed rose by 10,300 to 604,100 with those seeking full-time jobs advancing 14,900 to 412,100 while those looking for part-time jobs fell by

4,500 to 192,100. Part-time employment climbed 80,000 to an all-time high of 4.55 million, but full-time employment declined 23,700 to 10.04 million. The participation rate edged up to 67.1%, returning to its July peak and surpassing forecasts of 67.0%, which matched November's figures. The underemployment rate ticked down to 6.0% from the prior 6.1%. Monthly hours worked in all jobs rose 10 million to 1,976 million.

- **Japan December PPI rose 0.3% m/m, 3.8% y/y after 0.3% m/m, 3.8% y/y - as expected.** the 46th straight month of producer inflation, remaining at its highest level since June 2023, as cost continued to grow for transport equipment (1.7% vs 1.6% in November), beverages & foods (1.9% vs 2.1%), iron & steel (-0.1% vs -0.1%), electrical machinery (4.7% vs 4.1%), production machinery (1.8% vs 1.4%), general-purpose machinery (4.3% vs 4.3%), metal products (3.8% vs 4.0%), other manufacturing (3.6% vs 3.8%), plastics (3.6% vs 3.3%), non-ferrous metals (12.6% vs 13.5%), information (2.2% vs 2.7%), and business-oriented machinery (2.2% vs 2.7%). By contrast, prices fell for chemical products (-0.2% vs -0.5%), petroleum & coal (-0.7% vs 1.7%), and lumber and wood products (-2.6% vs -3.1%).
- **Eurozone November trade surplus jumps to E16.4bn after E8.6bn -more than the E8.5bn expected** - but down from E18.2bn in November 2023. Exports fell by 1.6% y/y to E248.3 billion, while imports decreased by 1% to E231.9 billion. Regarding the whole European Union, the trade surplus narrowed to €14.3 billion from €17.2 billion in November of the previous year, as exports fell 1.2% to €223.1 billion, as reduced shipments of energy products (-16.5%), machinery & vehicles (-6.7%) more than offset a 12.9% rise in exports of chemicals & related products. Meanwhile, imports edged up by 0.1% to €208.8 billion, driven by increased purchases of food and drinks (+18.7%), raw materials (+3.9%), and other manufactured goods (+7%), which partially offset a sharp 13% decline in energy imports.
- **UK November GDP rises 0.1% m/m after -0.1% m/m - weaker than 0.2% m/m bounce expected.** The services sector was the largest contributor (0.1%), driven by accommodation and food service activities (2%), computer programming, consultancy (1%), and telecommunications (1.2%). However, administrative and support service activities declined by 1.2%, particularly rental and leasing activities (-2.4%). The construction sector also expanded (0.4%). Conversely, the production sector contracted by 0.4%, weighed down by a 0.3% decline in manufacturing, particularly in manufacturing and repair (-2.1%) and the production of basic pharmaceutical products and preparations

(-1.9%). Other declines were seen in mining and quarrying (-1.5%) and water supply, sewerage, waste management, and remediation activities (-0.3%). Considering the three months to November, the GDP showed no growth compared to the previous period.

- **UK November industrial production drops -0.4% m/m, -1.8% y/y after -0.6% m/m, -1.1% y/y - worse than +0.1% m/m expected.** Output decreased at a softer pace for mining and quarrying (-1.5% vs -2.9% in October) and manufacturing (-0.3% vs -0.6%). On the other hand, production slowed for electricity, gas, steam and air-conditioning supply (0.2% vs 1.5%) while it slipped for water supply, sewerage and waste management (-0.3% vs 0.5%).

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

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