

July 9, 2024

Switch

“I like switching gears. I’m kind of a chameleon.” – Adam Schlesinger

“Not everything that is faced can be changed, but nothing can be changed until it is faced.” – James Baldwin

Summary

Risk mixed with bounce in AI tech bonanza and focus on FOMC Powell disinflation hopes dominating against political uncertainty, but the divergence of outcomes overnight suggests something about the depth of conviction in rushing ahead rather than switching losers for winners in positioning. The Hong Kong shares continue to lag while Japan soars. French shares drop on the election hangover while US markets take in the Labour agenda and slide. USD weakness returns on rate focus for now, while US bonds are lower – making the carry story less obvious with focus on 3Y clearly important.

What’s different today:

- **US June NFIB business optimism index up 1 to 91.5** - better than 89.5 expected - highest since January. The survey showed that a net 21% of owners noted inflation as the single most important problem in their business. The increasing compensation costs to keep up with inflation drove a net 22% of companies surveyed to raise wages. In the meantime, recent dependency on backlogs prevailed as a net negative 2% planned to invest in inventories.

- **iFlow** – Mood up for 7th day, Trend similarly but not significantly, carry negative. FX saw further USD selling in G10 with CHF, EUR, AUD and SEK buying. EM saw MXN and TRY vs. ZAR selling. Fixed Income saw G10 selling except in New Zealand while India, Turkey, South Africa and Peru all saw inflows. Equities mixed again with Swiss buying, and APAC led by Singapore.

What are we watching:

- **Fed Speakers:** Federal Reserve chair Jerome Powell testifies to the Senate Banking Committee; Fed Governor Michelle Bowman on financial inclusion, and Fed Vice Chair for Supervision Michael Barr both speak
- **US Treasury** auctions \$58 billion of 3-year notes, \$46 billion of 12-month bills

Headlines

- Australian July consumer confidence off 1.1% to 82.7- lowest in 6-months - while June business confidence up 6 to +2 - best since Jan – ASX up 0.86%, AUD off 0.1% to .6730
- Japan June machine tool orders jump 7.5% m/m, 9.7% y/y- led by foreign orders -BOJ speaking with investors about JGBs – Nikkei up 1.96%, JPY off 0.2% to 161.10
- Taiwan June trade surplus narrows to \$4.68bn as imports surge 33.9% y/y 0 TWD off 0.1% to 36.39
- Philippines rejects China charges that war ship damages environment of South China Sea shoal – PHP up 0.1% to 58.53

The Takeaways:

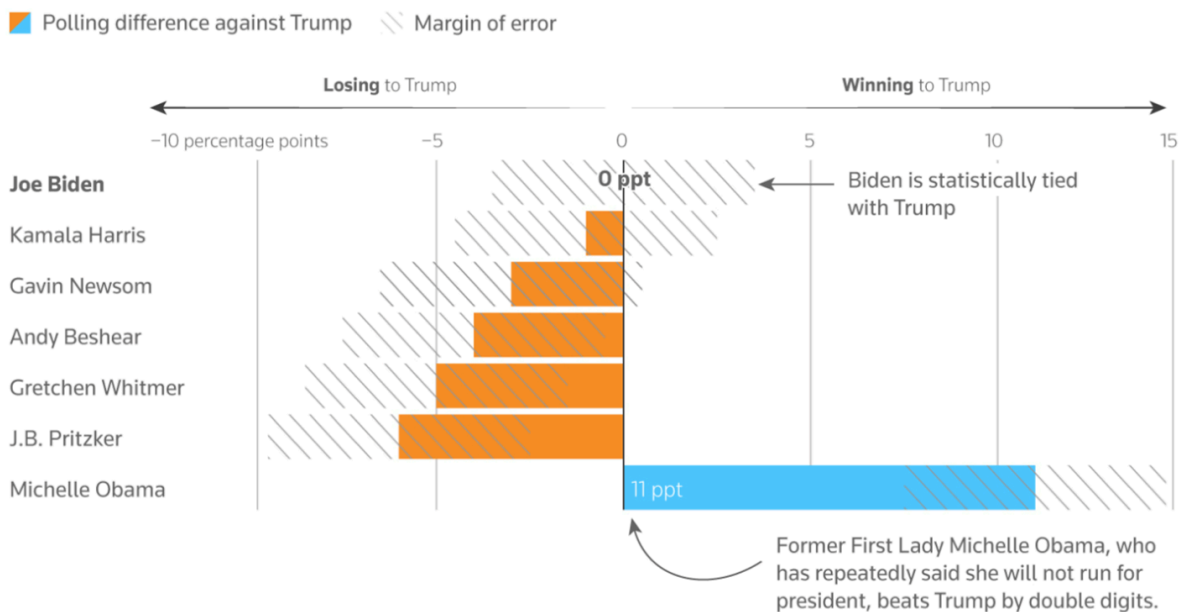
Focus shifts from economic data to policy responses with FOMC Chair Powell testimony the key focus on the day ahead. In second place, the US election risks as Trump returns to campaign and democrats meet to discuss Biden. The hope for disinflation shows up in business surveys globally today while the pain of prices stays with consumers. Many investors look content to wait for Thursday CPI and Friday PPI along with the US bank earnings starting the 2Q reporting season. Net interest income and credit provisions are the key focus ahead for banks, while for the broader economy, the question is whether mood improvement in business translates into investment and growth helping support consumers. The ability for

Fed Powell to change the thinking of the market has been proved over the last 6 months as the market shifted from six rate cuts to one and after the weaker data in the last 2 weeks back to two. Whether the Chair believes in one or two cuts in 2024 seems less important than what he thinks about politics and fiscal risks - both of which he will try to avoid discussing. The soft-landing beckons and the slowing growth and lowering of inflation has given the central bank room to breathe but the cost of waiting will be clear as he faces politicians anxious to please battered voters. How the testimony moves today may be more about Congress than the Fed - with the pressure on switching from inflation to growth key. What alternatives the Fed has to wait for inflation to drop further before easing seems difficult to balance unless there is a data surprise. What alternatives politicians have in the November election looks even more complicated.

Exhibit #1: Is switching going to help?

Democrats have few choices other than Biden

Democratic President Joe Biden polls best against Republican former President Donald Trump compared to other top Democrats among U.S. registered voters, according to a Reuters/Ipsos survey, but the results are within the margin of error.



Note: The nationwide poll, conducted July 1-2, collected responses online from 892 U.S. registered voters. It has a margin of error of 3.5 percentage points.

Source: Reuters/Ipsos poll

Moira Warburton and Prinz Magtulis • July 8, 2024 | REUTERS

Bar chart with data from Reuters/Ipsos poll showing the polling difference against leading Democratic presidential candidates to Donald Trump.

Source: Reuters, BNY Mellon

Details of Economic Releases:

1. Australian July Westpac consumer confidence fell -1.1% to 82.7 from +1.7% at 83.6 - weaker than 83.4 expected - lowest in 6-months and 5th decline of the year as fears of persistent inflation and higher borrowing costs offset any boost from tax cuts and other fiscal support measures. The 'family finances vs a year ago' sub-index slumped 8.4% to a very weak at 63.5, and family finances for the next 12 months dipped 4.5% to 92.1. Meanwhile, sentiment around jobs was close to its long-run average. At the same time, consumers' views on economic conditions for the next 12 months rose 3.6% to 84.1 and their assessment for the next 5 years added 0.5% to 94.5. Simultaneously, the 'time to buy a major item' increased 3.1% but stayed low at 82.1. "... the main concern in July was around how high inflation and rising rates may impact parts of the economy that are already struggling," said senior economist Matthew Hassan.

2. Australian June NAB business confidence rises to +4 from -2 - better than -5 expected - best since January as seven out of eight industries see gains including manufacturing and wholesale. Meanwhile, business conditions edged down further (4 vs 6 in May), falling below average in the face of a slowing economy through late 2023 and early 2024. Employment tumbled (0 vs 5) while both sales (10 vs 11) and profitability (2 vs 3) were slightly lower. Forward orders were almost flat (-6 vs -7) amid a sharp fall in capex (-1 vs 4) and a tick-up in capacity utilization (83.5% vs 83.3%). At the same time, labor cost growth fell to 1.8% in quarterly equivalent terms from the prior 2.3%, and purchase cost growth eased to 1.3% from 1.7%. Retail price growth was broadly stable at 1.5%. "Our take on the survey is that it continues to signal another soft quarter in Q2," said NAB Head of Australian Economics Gareth Spence.

3. Japan June machine tool orders rise up 7.5% m/m, 9.7% y/y after 4.2% y/y - more than 2.5% y/y expected - the second straight month of growth in tool orders, mainly boosted by a jump of 14.6% in foreign orders to JPY 92,993 million. At the same time, domestic demand edged down 0.1%, compared with a fall of 7.9% in May, to JPY 40,824 million.

4. Taiwan June trade surplus moderates to \$4.68bn after \$6.05bn - less than \$6.6bn expected - as imports rose 33.9% to USD 35.22 billion, mainly due to increased arrivals of information, communication & audio-video products (+63.2%) and base metals & articles of base metal (+58.9%). Meanwhile, exports rose at a softer 23.5% to USD 39.90 billion, driven by a sharp increase in sales of information, communication, and audio-video products (114.1%). From January to June, the

trade surplus widened to USD 36.12 billion compared to USD 26.78 billion in the corresponding period last year, with exports advancing 11.4% and imports by 7.8%.

Disclaimer & Disclosures

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