BNY

iFlow MARKET MOVERS

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Disruptions

"The greatest danger in times of turbulence is not the turbulence, it is to act with yesterday's logic." – Peter Drucker

"Change is inevitable, and the disruption it causes often brings both inconvenience and opportunity." – Robert Scoble

Summary

Risk off as technical outages disrupt markets with global exchanges affected with focus on Crowdstrike cybersecurity software blamed for airline flight delays, bank service challenges and stock exchange troubles. The volatility of the week notable with VIX at 16.2% April highs driven by Trump trades and stock rotations. The odds for Trump election are lower at 60% as Biden replacement risks rise – with that USD is up, bonds flat. Focus overnight was also on Japan CPI missing expectations while government cut GDP outlook. Aftermath of ECB holding also matters to EUR and the weak UK retail sales left GBP lower as well. No one is sure what happens on summer Fridays, but the odds for stabilization are there given the messy week and the lack of bigger news on the agenda. Disruptions are opportunities as much as they are inconvenient.

What's different today:

- **Hong Kong Hang Seng fell 2% to 3M lows** and off 4.8% on the week with traders disappointed by China Third Plenum communique which lacked details

on reform. However, China CSI 300 rose 0.51% on the day and up 1.92% on the week – with officials seeing bumpy economy ahead.
- **iFlow** – Mood still significantly positive even as G10 bourses all lower except New Zealand – APAC and EMEA lead inflows for equities. The FX markets noisy with USD buying along with CAD and CHF while EM mixed seeing notable LatAm selling except for MXN, while ZAR, PHP see outflows. The fixed income markets were notable in selling Mexico and Malaysia versus buying Peru and China.

What are we watching:

- **US 2Q Earnings:** American Express, Fifth Third, Regions Financial, Huntington Bancshares, Travelers, Halliburton, Schlumberger
- **Fed Speakers:** NY Fed Williams and Atlanta Fed Bostic
- **Canadian May retail sales** expected -0.6% m/m after +0.7% m/m with ex autos -0.5% m/m after +1.8% m/m

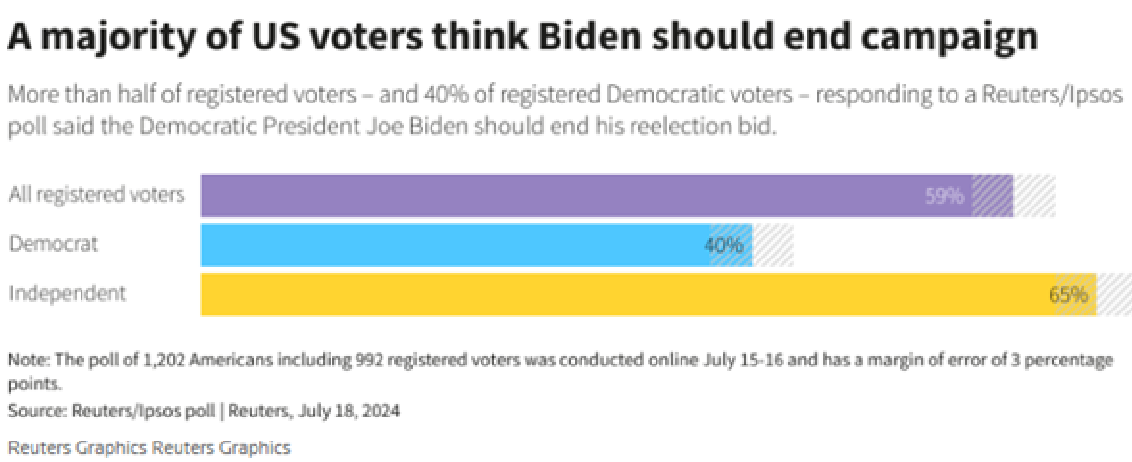
Headlines

- Crowdstrike CEO says fixe for global outage has been deployed; US President Biden may soon depart from election race according to Washington Post – US S&P500 futures off 0.1%, US 10Y yields flat at 4.20%, USD index up 0.15% to 104.33
- Japan June core CPI up 0.1pp to 2.6% y/y – second month of gains – PM Kishida: Must be vigilant on rising prices, effect of weak JPY while government cuts GDP outlook by 0.4pp to +0.9% for FY24 - Nikkei off 0.16%, JPY off 0.1% to 157.45
- Malaysia 2Q GDP up 0.7% q/q, 5.8% y/y – led by services – MYR off 0.25% to 4.6840
- German June PPI rises 0.2% m/m, -1.6% y/y – 12th month of disinflation but highest in a year – DAX off 0.6%, Bund 10Y yields up 1bps to 2.44%
- Eurozone May C/A steady near E37bn – with goods and service and primary income driving – ECB 3Q survey of forecasters show 2% CPI target expected by 2025 - EuroStoxx 50 down 0.35%, EUR off 0.1% to 1.0885
- UK June retail sales drop -1.2% m/m after +2.9% m/m – blames on election and weather – while PSNB ex banks fell £3bn to £14.5 billion - FTSE off 0.4%, GBP off 0.2% to 1.2920

The Takeaways:

The pain of this week in equities stands out with the US rotation trade not the only place of trouble as we learned from the technical disruptions overnight being resilient matters – consider EM shares with MSCI EM off 3% - or in FX where CHF again leads the price winners while EM and other carry high yielders suffer notably ZAR. The bond markets are messy and confused with the odds of the Trump trade playing out linked to the question of whether the democrats switch from Biden to someone else. The pressure on markets from the fear of new US policy with higher tariffs and weaker USD is in play with polling now part of the market screen. The other ongoing driver for volatility ahead is the Fed where today's speaker matter as much as the others in describing how a September ease will lead to other cuts later. With the path to neutral policy as important as ever. The last and most likely biggest driver today is 2Q earnings where the bottom's up of beats and misses clash with the managing of 3Q expectations. The rotation trade will only sustain if the viability of the value play on lower rates helping SME and regional banks can have hope in the details of each companies reports.

Exhibit #1: US polls matter to markets



Source: Reuters, BNY Mellon

Details of Economic Releases:

1. **Japan June inflation steady at 2.8% y/y - as expected – while core rises to 2.6% y/y from 2.5%** and core-ex food and inflation rises 2.2% y/y from 2.1% y/y**.** This is the second month of acceleration in Core CPI and 24-months of being over 2% target. Electricity prices stayed elevated (13.4% vs 14.7% in May) while the cost of gas rose for the first time in 13 months (2.4% vs -2.5%) after energy subsidies

fully ended in May. At the same time, prices continued to rise for food (3.6% vs 4.1%), housing (0.6% vs 0.6%), transport (2.5% vs 2.3%), furniture & household utensils (3.7% vs 2.9%), clothes (2.2% vs 2.2%), healthcare (1.4% vs 1.1%), culture (5.6% vs 5.2%), communication (1.3% vs 0.4%), and miscellaneous (1.1% vs 1.2%). By contrast, education prices fell for the third month (-1.0% vs -1.0%).

2. German June PPI rises 0.2% m/m, -1.6% y/y after 0% m/m, -2.2% y/y – more than the 0.1% m/m expected – still, the 12th straight month of producer deflation but the softest figure in the sequence, amid falling energy prices (-5.9%), notably natural gas (-14.8%) and electricity (-11.0%). At the same time, the cost of intermediate goods dropped by 0.9%, namely paper, paperboard & paper products (-4.4%), basic chemicals (-3.4%), wood products (-3.8%), fiberboard (-8.9%), and metals (-4.1%). On the other hand, capital goods prices increased 2.3%, mainly due to machinery (2.5%) and motor vehicles, trailers & semi-trailers (1.5%). Also, the cost of non-durable consumer goods climbed 0.6%, mainly confectionery (24.7%) and butter (24.5%), while that of durable consumer goods rose 0.7%. Excluding energy, producer prices advanced by 0.3%.

3. Eurozone May current account surplus moderates to E36.7bn from E38.6bn – more than the E34.6bn expected. The May C/A is 2.4% of GDP y/y. Primary income - financial accounts showed positive inflow of investments E113 y/y adding 0.2% while trade was positive and added 2.4% y/y. Secondary income was -1.1% y/y.

4. UK June public sector net borrowing fell to £13.6bn after £16.8bn – still more than £12.0bn expected. Total public sector spending declined by £1.6 billion to £102.7 billion, as increases in spending on public services and benefits were more than offset by lower expenditures in other areas, particularly large reduction in debt interest payable compared to June last year. Meanwhile, receipts grew by £1.6 billion to £88.2 billion, driven by a rise in central government tax receipts. Considering the entire financial year ending June 2024, borrowing rose to £49.8 billion, £1.1 billion less than was borrowed in the three months last year but more than the £46.6 billion forecasts by the OBR.

5. UK June retail sales fell -1.2% m/m, -0.2% y/y after +2.9% m/m, +1.7% y/y – worse than -0.4% m/m, +0.2% y/y expected, hurt by election uncertainty, poor weather, and low footfall. Sales at non-food stores were down 2.1%, namely department stores, clothing and footwear retailers, and furniture stores. Sales at food stores dropped 1.1%, mainly due to supermarkets, and the amount spent online fell 2.7%. Considering the three months to June, retail sales contracted 0.1%.

Exhibit #2: UK Retail Sales weak all around

Volumes fell across all sectors except automotive fuel

Volume sales, monthly percentage change, seasonally adjusted, Great Britain, June 2024

Source: Monthly Business Survey, Retail Sales Inquiry from the Office for National Statistics

Source: ONS, BNY Mellon

Disclaimer & Disclosures

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

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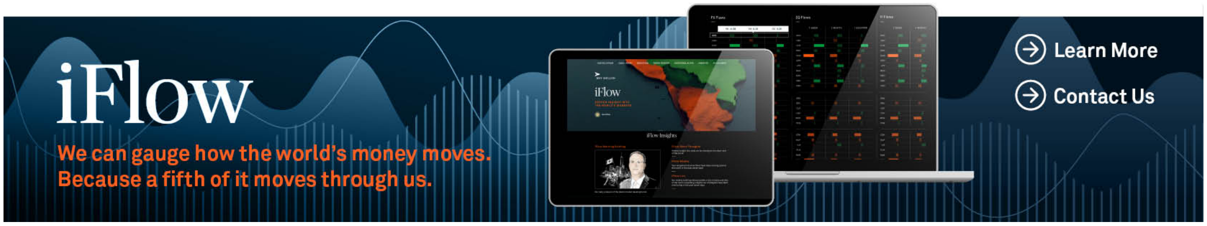

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