

August 26, 2024

Commitment

“Commitment is an act, not a word.” – Jean-Paul Satre

“Individual commitment to a group effort – that is what makes a team work, a company work, a society work, a civilization work.” – Vince Lombardi

Summary

Risk on as the post Jackson Hole markets embrace rate cut expectations in the US while UK holiday keeps markets quiet. The weekend rocket and air attacks in Lebanon contained while Russia launched a huge missile attack on Ukraine - Oil while up 2.1% isn't the barometer as much as gold up just 0.45% with USD clawing back some ground, up 0.1% after touching 13-month lows, while bond yields drop and futures rally into the end of the month duration squeeze against the short-end supply with US \$76bn in 3M and \$70bn in 6M bills starting today. The weaker German Ifo confirms that economy is in crisis at 6-month low, but the US durable goods today will be watched for a just-right growth story with a big bounce back expected. China kept the 1Y MLF rate unchanged but surveys there suggest more easing ahead while Sweden's Riksbank minutes show a bit less appetite for larger easing. Markets are waiting for the bigger data ahead and more clarity on the timing and size of US rate cuts before committing to larger portfolio reallocations.

What's different today:

- **German Bund 10-year yields rise 2bps to 2.24%** after weekend comments from ECB economist Lane pushing back on faster rate cut expectations while the US 10Y yields drop 1bps to 3.79% after Jackson Hole
- **Copper futures rise to 5-week highs** over \$4.20 per pound – with US rate cuts and hopes for China demand driving.
- **iFlow** – Friday FX flows in G10 showed NOK, JPY and CHF selling along with USD vs. NZD, SEK CAD, AUD and GBP buying. The equity market selling of US stands out while APAC inflows counterbalance it. The bond flows were notable in US buying vs. UK, NZ selling and in EM, Peru, Philippines and India all saw notable inflows.

What are we watching:

- **US July durable goods orders** expected up 5% m/m after -6.7% m/m with the capital goods ex defense and aircraft up 0.1% after 0.9% m/m – key for capex and US 3Q growth views.
- **Fed Speaker** – SF Fed Daly speaks on Bloomberg TV post Jackson Hole

Headlines

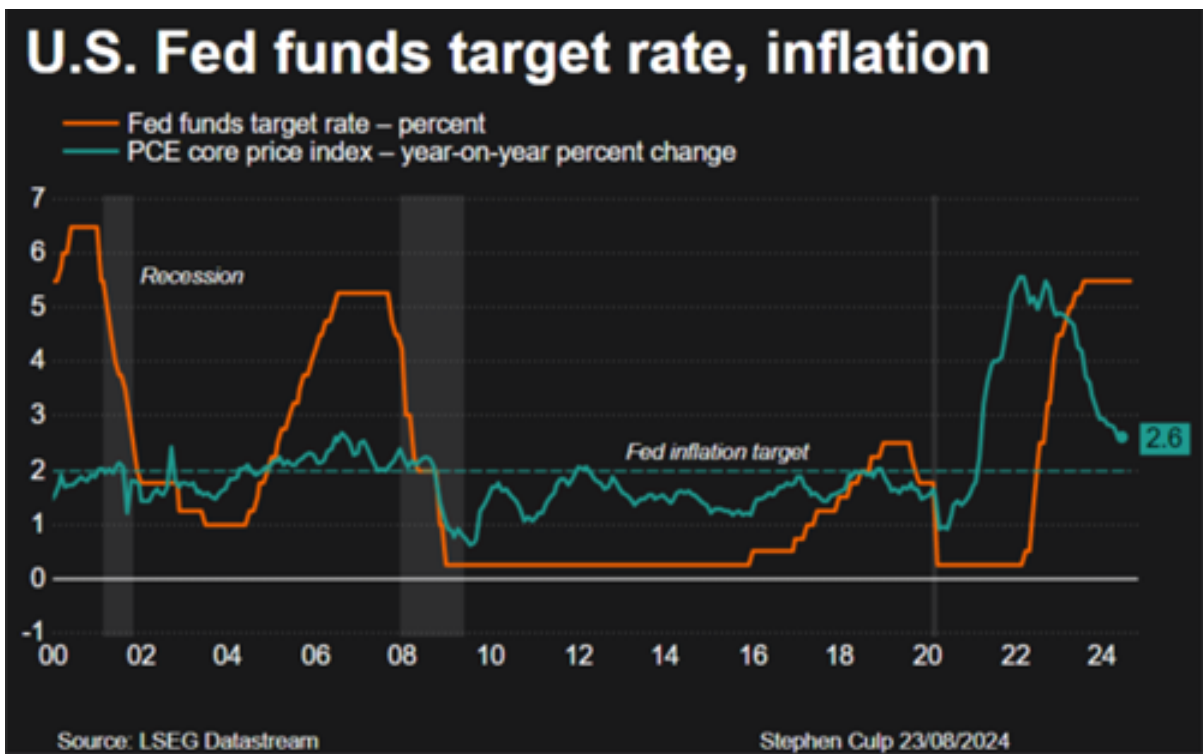
- Israel and Hezbollah exchange fire Sunday, neither want further escalation – while Israel-Hamas cease-fire talks continue from weekend – Brent up 2.6% to \$81.05
- China PBOC keeps 1Y MLF at 2.3% - adds over CNY300bn liquidity via 7-day repo with that rate up 11bps at 1.959% – PBOC starts bank stress tests on bond risks – CSI 300 off 0.09%, CNH off 0.1% to 7.1215
- Japan scrambles jets as China aircraft violates airspace, Typhoon Shanshan heading to islands with \$10bn threat – Nikkei off 0.66%, JPY up 0.2% to 144.10
- Singapore July industrial production jumps 10.1% m/m, 1.8% y/y – bets growth since Feb – SGD off 0.2% to 1.3035
- Norway July unemployment drops 0.2pp to 3.9% - best since Feb – NOK off 0.7% to 10.55
- Swedish Riksbank minutes show higher bar for bigger cuts after 25bps cut last week – SEK off 0.35% to 10.22
- Swiss 2Q payrolls rise 1.3% to 5.499mn – new record highs – CHF up 0.1% to .8475

- Turkey Aug manufacturing confidence drops 1.8 to 98.5 – weakest since Dec 2022 –
- Spanish July PPI rise 1.7% m/m, -1.4% y/y – highest since March 2023 – IBEX up 0.1%, SPGB 10Y yields up 4bps to 3.055%
- German Aug Ifo business climate drops 0.4 to 86.6 – hit by manufacturing and services as trade improved – DAX off 0.2%, Bund 10Y up 3.5bps to 2.26%, EUR off 0.2% to 1.1165

The Takeaways:

Does inflation matter anymore? The dual mandate of the FOMC leaves the focus on US jobs post Jackson Hole speeches and papers. The most discussed being Eggertsson's Paper on post-Covid Phillips and Beveridge curves. The take-away being that US jobs markets are nearing an inflection point and that Fed cuts will be needed to prevent a larger rise in unemployment. This sparked the hope for 50bps into September and remains the critical storyline for bulls in equities as the Fed expectations in the front-end return markets to buying small caps and searching for value into August month end. There is no simple way of trading markets that remain data dependent as the FOMC decisions ahead are interlinked to jobs over PCE core prices but both matter and this week the ECB focus on its flash CPI and the US one on PCE will matter regardless of dual mandates. The balancing act of policy and growth and financial stability act as throttles on the animal spirits of the moment. The question is which data set and what policy tool most relevant and how committed central bankers are to using them – whether its tapering QT or cutting rates or forward guidance.

Exhibit #1: Does core PCE matter anymore?



Source: Reuters, BNY

Details of Economic Releases:

1. Singapore July industrial production rose 10.1% m/m, 1.8% y/y after -4.3% m/m, -4.3% y/y – better than the 5.3% m/m, -1.1% y/y expected – best monthly growth since February 2024. The upturn was mainly driven by the rebound in output for electronics (2.8% vs -6.7% in June), due to a recovery in manufacturing for semiconductors (2.8% vs -6.7%) and a further rise in output for computer peripherals & data storage (34.9% vs 14%). Additionally, activity also rebounded for precision engineering (0.7% vs -2.4%), while growth accelerated for transport engineering (13.3% vs 9.2%) and general manufacturing industries (7.3% vs 1.7%). Meanwhile, production continued to fall for biomedical manufacturing (-17.4% vs -22.3%), and activity grew at a softer pace for chemicals (1.7% vs 5.7%).

2. Norway July unemployment drops to 3.9% from 4.1% - better than 4.1% expected - the lowest unemployment rate since February, as the number of unemployed persons fell by 5,000 to 118,000, while employment was unchanged at 2.888 million, with the employment rate edging down to 69.7% from 69.8%. The labor force participation rate ticked lower to 72.5% in July, compared to June's 72.7%. Meanwhile, the youth unemployment rate, which measures the number of job-seekers between 15 to 24 years old, dropped to 11.9% from 12.1% in the prior month.

3. Swiss 2Q non-farm payrolls rise 18,000 or 1.3% to 5.499mn after 1.8% to 5.481mn – better than 5.1mn expected – new record high. Employment in the industrial sector went up 0.7 percent to 1.134 million, driven by growth from all sectors, namely mining & quarrying (0.4 percent), manufacturing (0.7 percent), electricity, gas, steam & air-conditioning supply (6.1 percent), water supply & waste management (1 percent), and construction (0.4 percent). Additionally, payrolls in services grew 1.4 percent to 4.365 million, mainly due to increase in transport & stockage (3.7 percent) and water & air transport (16.6 percent).

4. Turkey August business confidence slips to 98.5 from 100.3 – weaker than 100.1 expected - the lowest reading since December 2022 and below the 100 mark, indicating a shift to a pessimistic business outlook among manufacturers. Expectations deteriorated for employment (101.9 vs. 105.7 in July), production (114.5 vs. 117.9), and export orders (107.1 vs. 115) over the next three months. Assessments also weakened for current orders (78.8 vs. 81.3), fixed investment expenditure (109.6 vs. 110), and the general business situation (86.4 vs. 86.3). Conversely, views on stocks of finished goods improved (95.6 vs. 94.4).

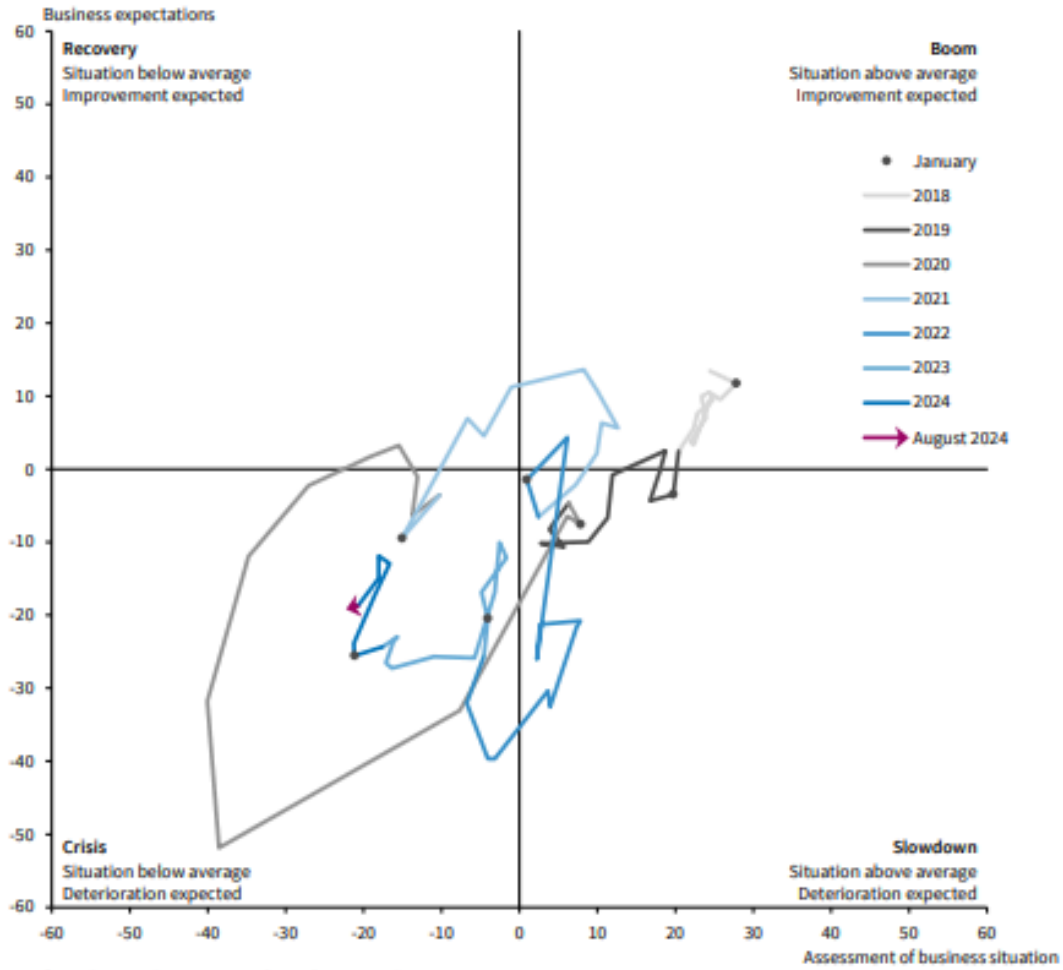
5. Spanish July PPI rises +1.7% m/m, -1.4% y/y after +2.2% m/m, -3.2% y/y – more than the -3.2% y/y expected – highest since March 2023, amid slower reductions in the costs of energy (-6.6% vs -11.9% in June) and intermediate goods (-1.2% vs -2.1%). Meanwhile, prices increased for consumer goods (2.5% vs 3.5%) and capital goods (2.1% vs 1.8%). Excluding energy, producer prices increased by 0.9%.

6. German August Ifo business climate drops to 86.6 from 87.0 – better than 86 expected. The subindex for current conditions fell to 86.5 from 87.1, while business expectations decreased to 86.8 from an upwardly revised 87. Ifo president Clemens Fuest expressed concern, noting, "The German economy is increasingly entering a crisis."

Exhibit #2: Is German Economy in crisis?

ifo Business Cycle Clock Germany^a

Balances adjusted for mean value, seasonally adjusted



^a Manufacturing, service sector, trade, and construction.
Source: Ifo Business Survey, August 2024.

© Ifo Institute

Source: German Ifo, BNY

Disclaimer & Disclosures

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

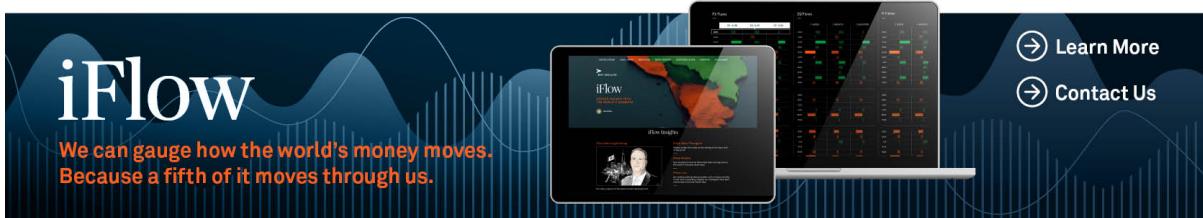


Bob Savage
HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB



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