BNY

iFlow

MARKET MOVERS

September 12, 2024

Recalibration

"Recalibration of the mind means clearing our perceptions and recovering our capacity for pure observation" - Ichi Lee

"Once we reach a certain age, we tend to recalibrate our expectations. We expect less from the world once we have seen it up close." - Marianne Williamson

Summary

Risk on continues post the US nears allowing Nvidia chips to Saudia Arabia - driving tech and AI boom rebound. The lower oil price has helped terms of trade in APAC and the US FOMC rate cut recalibration from 50 to 25bps is less painful given the expectation of another 25bps easing from he ECB today. The BOE joins the Fed in watering down the Basel III bank capital requirements, but the OBR warns on the sustainability of public debt. US PPI and the 30Y bond sale are on the docket but the case for being scared about the current environment fades back. Overall, the contentment with risk and where markets have priced bonds, stocks and the USD stands out with little in the short-term to change the course, recalibration today means tighter ranges, less volatility and bigger risks into October that this thinking misses in the noisy reality of the economy.

What's different today:

- **Japan sold Y766.2bn of 20Y JGBs #189 at 1.703% with 3.47 bid/cover** - stronger sale than expected despite BOJ Tamura comments pre-sale suggesting need for more rate hikes, and as August saw a record $51.3bn of foreign bond buying due to JPY gains beating July 2016 outflows

- **China 10-years bond yields drop to 2.06% - new record lows** - with concerns over economic outlook adding to expectations for RRR easing and further policy action. China 10Y bond yields are 58bps lower from a year ago.
- **iFlow shows ongoing** USD selling in G10 continues with JPY, AUD, CAD inflows. Bonds were mixed US bought but UK and Japan sold and all of LatAm,ex Chile and India buying slows notably.. Equities negative across sectors except Utilities, and APAC sees mostly inflows except China and Taiwan.

What are we watching:

- **ECB rate decision** - expected to cut 25bps to 3.5% and then to guide for further easing.
- **Brazil July retail sales** expected up 0.5% after -1% - state of economy matters given rate and BRL uncertainty.
- **US August PPI** expected up 0.1% m/m while core expected up 0.2% m/m - with the CPI core higher focus falls on PPI and inputs to PCE.
- **US weekly jobless claims** expected up 3k to 230k while continuing claims expected up 12k to 1.85mn - matters to labor market stability vs weakness views.
- **US Treasury** sells $80bn in 1m and 2m bills along with $22bn in 30Y bonds

Headlines

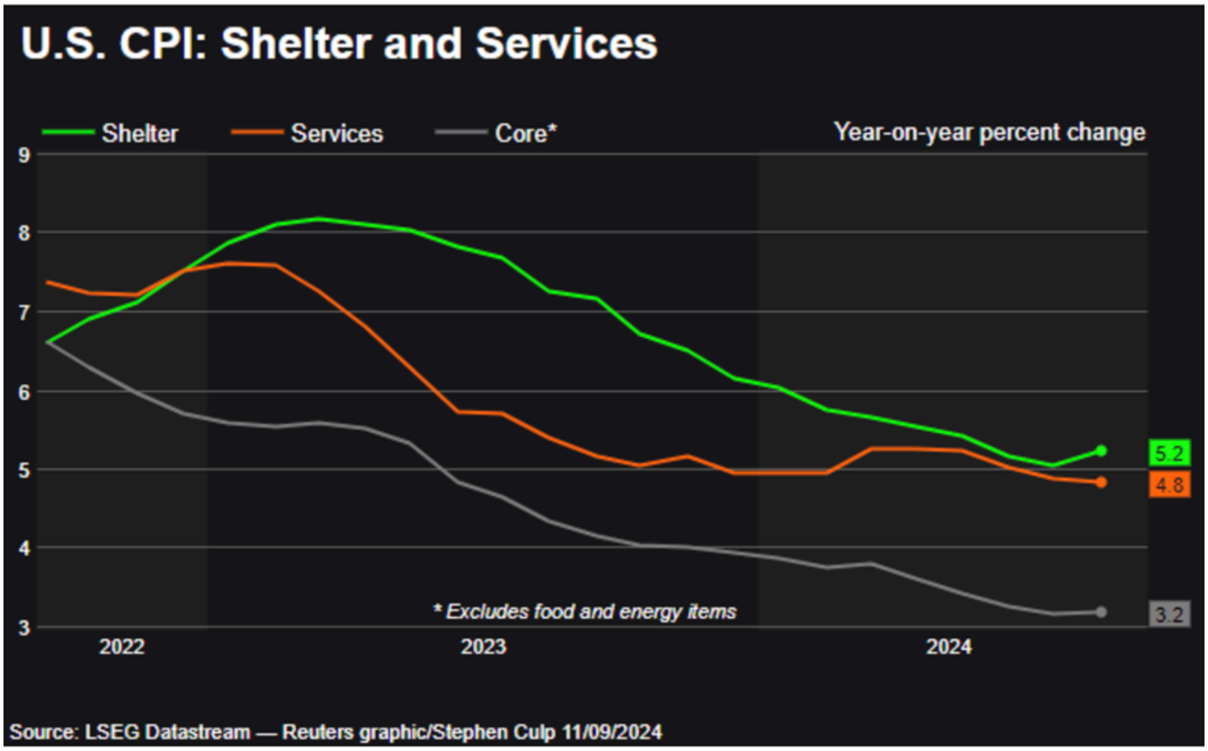
- Japan 3Q BSI jumps to +4.5% - first gain in 3 quarters - BOJ Tamura calls for rate to rise to at least 1% - while Aug PPI fell -0.2% m/m, +2.5% y/y - lowest since May - Nikkei up 3.41%, JPY flat at 142.40
- Australian Sep consumer inflation expectations off 0.1pp to 4.4% y/y – ASX up 1.1%, AUD up 0.1% to .6680
- German Aug WPI drops -0.8% m/m, -0.1% y/y - 16th month of deflation - led by mineral oils – DAX up 1.15%, Bund 10Y up 1bps to 2.12%
- Spanish Aug final CPI revised higher to 0% m/m, 2.3% y/y - still lowest since July 2023 – IBEX up 1.1%, SPGB 10Y flat at 2.93%, EUR up 0.1% to 1.1020
- Sweden Aug CPIF -0.5% m/m, 1.2% y/y- lowest since July 2021 - led by housing – OMX up 1.2%, SEK up 0.2% to 10.36

- UK OBR warns UK debt on unsustainable path - while the BOE pushes to cut Basell III bank capital requirements – FTSE up 0.7%, GBP flat at 1.3045

The Takeaways:

The recalibration of FOMC easing next week when from 40% odds of 50bps to 13% after the CPI yesterday. The question to ask today is whether this changes further and will it matter? The view that many investors see is that the timing of faster cuts may be more data dependent on jobs leaving October and its labor report as the next big event risk for changing short-end rates in the US. However, the weekly jobless claims remain part of the key and the best data we can get real-time on the state of the labor markets. The lack of bigger moves from 230-240k claims a week matters and puts today's report onto the news watch list again. How investors see US growth in 3Q 2-2.5% vs. 4Q 1.0-1.5% is important as well so the data today on PPI isn't going to change any of that but the mood about stocks and how corporate profits play out does and that is part of the PPI story. The story of Japan PPI overnight is a lesson for the US market as any downside surprise could help. The BSI jump in Japan highlights the power of JPY strength and what it means for better margins. The risk for the US with the USD wobble is something to consider. The JPY remains the most undervalued of the G10 FX pairs and with the FOMC the BOJ next week matters. As for the US story today, beyond the economic data is the pesky risks for fiscal linked to the US election which seems to be gridlocked. Whether gridlock is good as it was before maybe more about the the US debt size and sustainability, that brings on the UK OBR report on the debt there and how it may just explode to 270% of GDP by 2070 without action now. The US has similar risks. Overall, many are happy with the trajectory of the world and the US economy but would like some recalibration of their risks - which makes the CPI and PPI reports key for the focus on what sectors matter in US shares, what IG bonds have the best yield to volatility and credit outlook and where the next worry for investors could surprise. This is where the US could learn from Sweden's Riksbank where housing deflation finally showed up in its CPI.

Exhibit #1: Is US housing still a problem?



Source: Reuters, BNY

Details of Economic Releases:

1. Japan 3Q BSI Large Manufacturing jumps 4.5% after -1% - better then -2% expected - first gain in 3 quarters. The business survey index measures the percentage of firms that expect the business environment to improve from the previous quarter minus the percentage that expect it to worsen. Looking ahead, large Japanese manufacturing firms expect business conditions to improve further in the coming months, with an outlook of 8.9% in the fourth quarter.

2. Japan August PPI drops -0.2% m/m, +2.5% y/y after +0.5% m/m, 3.0% y/y - less than the 0% m/m, 2.8% y/y expected - the lowest producer inflation since May, as cost eased for beverages & foods (2.1% vs 2.3% in July), chemicals (1.3% vs 2.4%), electrical machinery (2.5% vs 2.8%), metal products (3.0% vs 3.4%), other manufacturing (2.9% vs 3.7%), non-ferrous metals (11.4% vs 18.9%), and information (2.5% vs 2.9%). At the same time, prices fell for petroleum & coal (-4.0% vs 0.4%) and iron & steel (-0.2% vs -0.3%). Simultaneously, inflation was stable for production machinery (at 3.9%) while accelerating for transport equipment (1.3% vs 1.2%), general-purpose machinery (3.2% vs 3.0%), business-oriented machinery (3.3% vs 2.7%), and plastic products (1.9% vs 1.6%).

3. Australian September MI consumer inflation expectations slow to 4.4% y/y from 4.5% y/y - easing from 4-month highs. Australia's headline inflation rose to

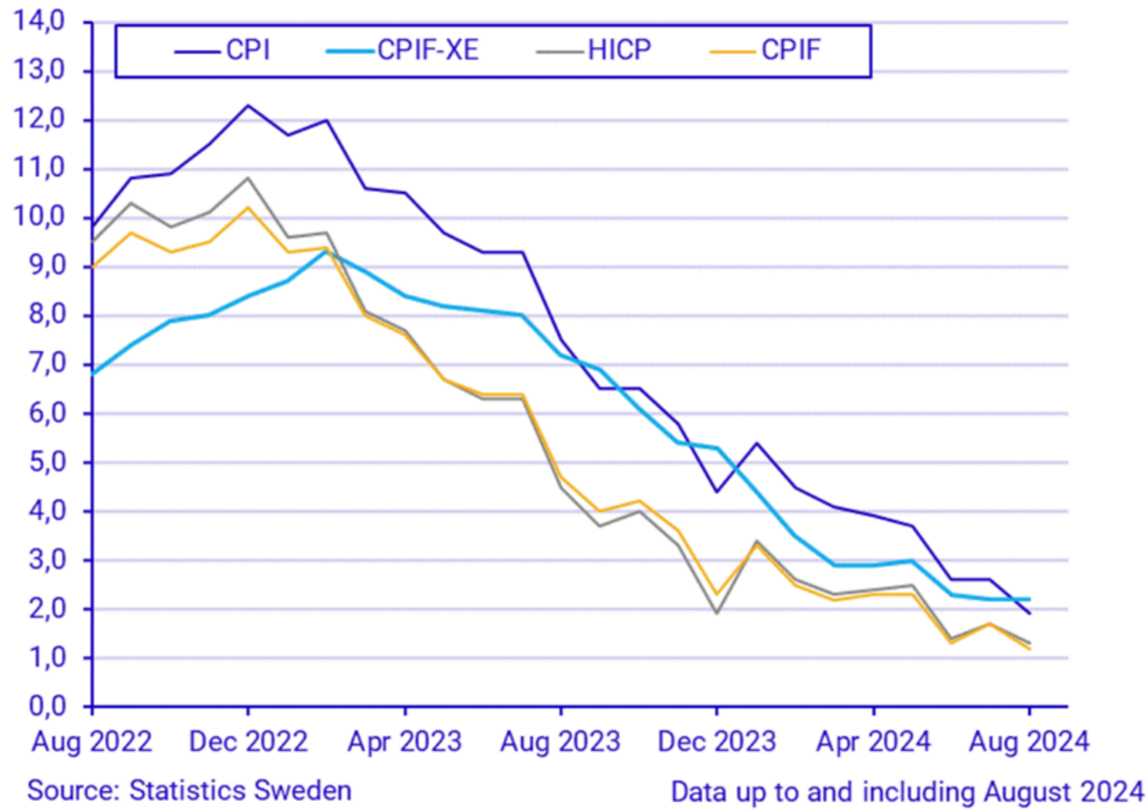
3.8% in Q2 2024, up from a nine-quarter low of 3.6% in Q1, marking the first increase since Q4 2022. Meanwhile, the monthly CPI index went up by 3.5% yoy in July, slowing from June's 3.8% and reaching its lowest reading in four months, due to the extended Energy Bill Relief Fund rebate.

4. German August WPI fell -0.8% m/m, -1.1% y/y after +0.3% m/m, -0.1% y/y - less than the 0.1% m/m expected - the 16th consecutive month of falling producer prices and the sharpest decline since April, attributed to lower prices for mineral oil products (-7.7%), live animals (-8.3%), iron, steel and ferrous semi-finished metal products (-6.5%), and chemical products (-5.8%). On the other hand, costs increased for coffee, tea, cocoa and spices (19.6%), non-ferrous ores, non-ferrous metals and non-ferrous semi-finished metal products (14.7%), waste and scrap (14.4%), sugar, confectionery and bakery products (9.3%), and tobacco products (5.2%).

5. Sweden August CPIF drops -0.5% m/m, +1.2% y/yafter 0.1% m/m, 1.7% y/y - less than the 1.5% y/y expected - the lowest since July 2021 as headline CPI fell to 1.9% from 2.6% y/y - mainly due to a broad slowdown in prices for housing & utilities (4.5% vs 6.3% in July), attributed to lower electricity costs. Additionally, inflation moderated for health (5.7% vs 6.2%), restaurants & hotels (4.3% vs 4.6%), and miscellaneous goods & services (3.6% vs 4.1%), while prices declined for transport (-1.6% vs 1.2%). In contrast, inflation for food & non-alcoholic beverages accelerated to 1.4% from 1.1% in the preceding period

Exhibit #2: Does the SEK gain on lower CPIF make sense?

Measures of inflation



Source: Stats Sweden, BNY

Disclaimer & Disclosures

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

Can't see the email? View online

This message was sent from an unmonitored email box. Please do not reply to this message.

.