BNY

iFlow

WEEK AHEAD

November 17, 2024

Peace

"There is no peace for the wicked." – Isaiah 48:22

"Peace cannot be kept by force. It can only be achieved by understanding." – Albert Einstein

- **iFlow new indicator – Peace Index.** The equity sector flows are used to show investor preference for risk in "guns" or "butter" areas of the economy. This is useful as it contrasts with our Mood and Carry indices.
- **The focus for the week ahead** will be on G20 headlines, ongoing political news from Trump nominees to rest of world with a focus on China, Mexico and Canada, along with global PMI flash, CPI reports and EM central bank decisions.
- **The role of Nvidia and the risk of a stock market rotation** driving a dent in USD exceptionalism stand out in the next week.

Summary:

The central question between now and year-end for investors is how to position for 2025. The main component of change has been delivered with the US election and the Republican trifecta of Trump's win and control of both the Senate and House. The Trump trades continue to be the focus and track the key nominees for cabinet positions. How much the US changes taxes, tariffs and immigration will drive the global economy. Last week unwound much of the equity rally from the US election, but US rates and the USD along with Bitcoin are still higher. Much of the move down in EUR was linked to weaker data and the uncertainty around the German election in February. The China data also mostly disappointed markets and left CNY weaker. The week ahead will test the role of inflation and the FX markets as EM central bankers decide on rates in Turkey, Indonesia, Hungary and South Africa. The CPI releases from Canada, Japan and the UK look critical to how these G10 central banks decide on rates

ahead, with many fearing sticky inflation and higher rates into 2025. The largest uncertainty for the rest of the year is in geopolitics as the G20 meetings in Brazil will highlight. The weekend meeting between Biden and Xi made clear that Russia, North Korea, Taiwan and cybercrime are all hot-button issues. Peace hopes for the world in 2025 matter just as much as monetary or fiscal policy. Putting it all together, the last full week of trading for global markets before the Thanksgiving holiday in the US and then Christmas makes the lighter economic data releases this week insufficient to drive peaceful markets.

Themes:

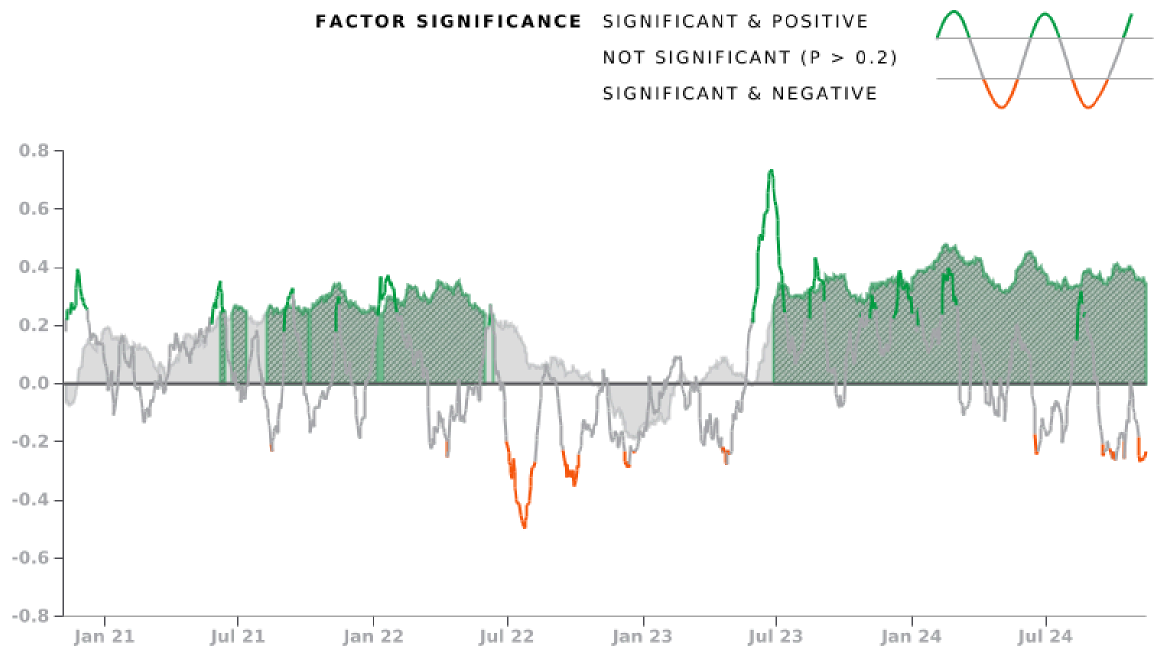
- **Volatility** – Less news might not matter. The next week is the last ahead of the trading sessions from Thanksgiving to year-end – so many expect the key positioning for year-end to take place next week. The bias for USD up stands out, but there are plenty of doubts heading into 2025 and that puts volatility into play with VIX up on the week, CVIX up and MOVE at the yearly trend line. More doubts about policy will likely feed the markets with ECB and FOMC speakers key along with flash PMI reports globally. The focus is on CPIs from the UK, Japan and Canada to drive FX and rate risks.
- **Fed Pause Talk** – The link between the Fed cutting less than previously priced and higher US bonds and a stronger USD will be tested with more Fed speakers next week along with the focus on housing data and how more bond supply is absorbed. The arguments for a pause are also linked to inflation related to Trump policy fears, but that will likely wear thin as investors can only trade what they know. Asset price inflation from stocks is also stalling as an argument but portfolio allocation matters as much as value factors.
- **Global Growth Fear** – The focus on the EU and China continues to dominate discussions about 2025 and many think the US is priced to perfection while the rest of the world is priced for the worst-case scenario. How China LPR and ECB speeches next week drive outlooks will matter. This battles the trend chasing to year-end and risks of the usual consensus trade being pushed into December for 2025. The CNH role on EM Asia and EUR role on all periphery in EMEA from CHF to GBP to SEK and NOK matters.

What is iFlow showing us?

- **EQ:** The Mood Index slipped to extremely negative at -0.168 at the 15.9 percentile as the equity rally stalled and short bill buying rose. The momentum is negative on a daily, weekly and monthly basis, but we are just two days into this with the average 16.5 days. The end of the Q3 earnings season is underwhelming, while the focus is on valuation with PE high and US rates rising. The US FOMO indicators are negative with selling in Energy, Consumer Discretionary, Health Care, Financials, IT and Utilities all notable. Abroad in APAC FOMO buying in Consumer Discretionary, Materials, Communication Services, while in EMEA FOMO buying shows up in IT and Real Estate. Globally sector selling in Consumer Staples and Industrial stand out for the week while in the US it's Industrials and Financials. The correlation of equity flows to USD flows is negative -0.48 while equities to bond flows is positive 0.42.

- **FI:** US bond flows were positive on the week with notable buying in under 1Y bills and the 10+Y duration. Paradoxically, our cash and equivalents fell sharply on the week. While many are highlighting the rise in money markets now at over $6trn, that isn't a cash story. The directional maturity indicator rose sharply on the week. Cross-border flows also bounced back with the US again in top three of scored flows along with Malaysia and Brazil, while India, Australia and Mexico were at the bottom of the list. The heavy US corporate issuance this week drove yields higher – with 10-year US yields up 80bp from their lows of 3.60% just two months ago. The only negative flows in the US, by duration, were in 7-10Y linked to corporate hedging, while 10+Y was two standard deviations higher than normal, highlighting portfolio rebalancing pressures linked to stock valuations. European bonds were mixed selling in 1Y out to 7-10Y and minor buying further out. APAC selling across the board except in 3-5Y. EM selling in bonds has been most notable in India and Mexico as well as the Philippines.
- **FX:** The FX Carry Trade is significantly negative at -0.238 in the 13.7 percentile. This is risk-off and has wider implications for bills and stocks. The biggest inflows for the week were in the USD, JPY, NOK and SEK while selling was led by EUR, then INR, TWD, AUD and PLN. The largest holdings are in INR, TRY, MXN and IDR – making clear there is room for carry to unwind further while keeping the focus on USD. The biggest pain trades, according to iFlow holdings/flows, are in KRW, CLP, DKK, NOK and HUF. The most likely to gain over the next few weeks are PEN, MYR, ZAR, CZK and, in G10, SEK, CHF, AUD and JPY. It is interesting to compare that to the biggest movers over the last five days: ZAR, GBP, MYR, HUF and CLP.

Exhibit #1: Is iFlow Carry Negative a Warning on Risk?



Source: iFlow, BNY

What happened this weekend?

- **Biden and Xi meet in Peru –** During their two-hour meeting the two discuss cybercrime, trade, Taiwan, North Korea and Russia. "China's goal of a stable, healthy and sustainable China-US relationship remains unchanged" after Trump's election, Xi said as he met Biden, acknowledging "ups and downs" between the countries. "China is ready to work with the new US administration to maintain communication, expand cooperation and manage differences." Biden told Xi that the two leaders have not always agreed but their discussions have been "frank" and "candid."
- **China sees another mass attack days after Zhuhai driver tragedy as a former student kills 8 and injures 17 at a vocational college in Wuxi.** Saturday's knife attack took place at the Wuxi Vocational College of Arts and Technology in Yixing, part of Wuxi city in the eastern province of Jiangsu. The suspect, a 21-year-old man, was arrested at the scene and confessed, police said. Also on Saturday, authorities in the southern Chinese city of Zhuhai said they had charged a 62-year-old man, who they said rammed his car into a crowd outside a sports stadium, killing 35 people and injuring 43 on Monday night. In both cases, the suspects lashed out with fatal violence against unrelated bystanders after suffering an economic loss, according to the sparse details released by police.
- **Russia launches large drone and missile attack on Ukraine targeting power facilities -** "A massive, combined strike on all regions of Ukraine" took place overnight and into the morning, said President Volodymyr Zelenskyy. Russia launched about 120

missiles and 90 drones, he said. Ukrainian air defenses – including anti-aircraft missiles, mobile fire units, electronic warfare groups and Western-supplied F-16 jets – took down more than 140 of them, he added.

What happened last week?

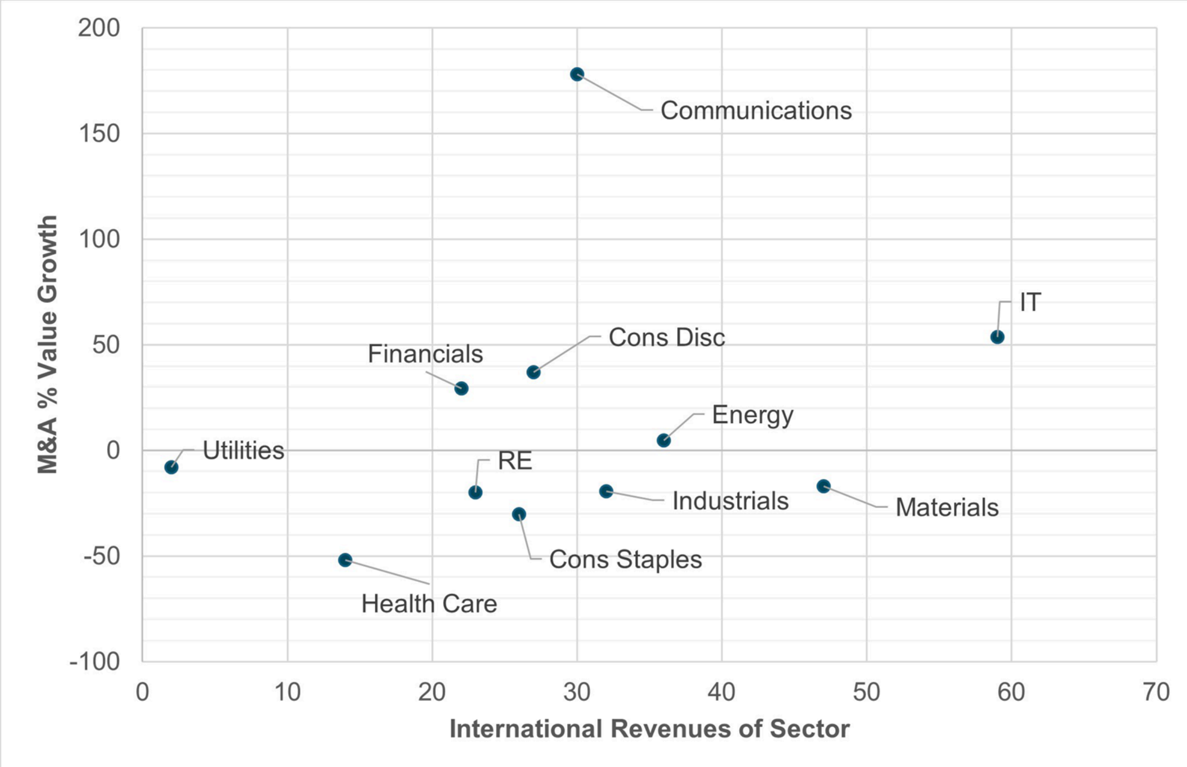
- **US data were stronger** with a benign CPI and PPI but better jobless claims, retail sales and Empire NY Fed while industrial production was also less scary. Globally, China missed on industrial production, CPI, PPI, housing prices and investment but beat on jobs and retail sales, while Europe watches Germany and a February 23 election, UK GDP misses and more doubts about Labour budgets.
- **The role of rate cuts saving the growth story fell into question** with FOMC Chair Powell driving down December cut hopes, but the market remains near 60% priced for a 25bp cut and another 50bp in cuts in 2025. There is plenty of focus on the EM world with Mexico's Banxico cutting 25bp, but carry isn't the fear factor driving FX – with trade and fiscal key. Brazil continues to wait for its fiscal plan while India got higher CPI hurt.
- **The week delivered a weaker global equity market** with the world index off 2.3% on the week. US shares fell 1-3% while China fell more than 3% and Hong Kong fell over 6%. Europe was mixed, with Italy up but Sweden OMX off 1.91%and Swiss Mkt off 1.45% – with worries about Phara, global trade tariffs and energy all dominant.
- Overall, the EM world had lower growth expectations, with lower commodity prices hurting – **Oil was off 3.1% on the week, but NatGas up 9.7%** in Europe and 4.2% in the US. All industrial metals fell 5-7% while all foods ex-coffee fell with wheat off 5.85% most notable.
- **Gold prices fell 4.5% on the week, 7% on the month** closing Friday at $2,561/oz. – the biggest drop in more than three years, linked to a strong USD and Trump policy expectations. In contrast**, Bitcoin rose 3.3% on the week** running to $92.9k before pulling back to $87.8k but trades Sunday at $90.8k.

News Agenda – G20, UK, Japan, Canada CPI, US housing data, Fed and ECB speakers, EM central bank decisions, Nvidia

It will be a relatively quiet week for economic data in the US, with the spotlight on the flash manufacturing and services PMI data, along with housing market updates such as building permits, housing starts and existing home sales. On the monetary policy front, speeches by Federal Reserve officials and ECB President Christine Lagarde will draw attention, as will interest rate decisions from China, Hungary, Indonesia, Turkey and South Africa and RBA Meeting Minutes. Inflation figures will be key in Canada, the UK, South Africa and Japan, while Germany will release producer price data. Flash November PMI readings are expected from Australia, Japan, India, France, Germany, the Euro Area and the UK. Meanwhile, balance of trade figures will be released for Spain, the Euro Area, Switzerland and Japan. Retail sales data will be highlighted in Canada and the UK, alongside the UK's GfK consumer confidence index. On the political front, the ongoing announcements from President-elect Trump about his cabinet nominees and the G20 meetings in Rio look important for markets as well. The focus on AI and how Nvidia revenues report will be critical as well as how we finish Q3 earnings this week.

1. The US outperformance and the risk of an S&P 500 rotation. The focus on the week ahead for equities centers around the outperformance of AI and technology shares, with chipmaker NVIDIA reporting on Wednesday after the close. The company's shares are up nearly 200% on the year and it is the highest market cap company in the US, beating out Apple in October. The consensus calls for Q3 sees revenues up 80% to $32.8bn. What matters for the bigger macro picture is the connection of IT buying chips for AI development and making money from it. Q3 earnings show that companies that make money abroad beat earnings by 10%. As FactSet notes, for companies that generate more than 50% of sales inside the US, the blended revenue growth rate is 5.3%. For companies that generate more than 50% of sales outside the US, the blended revenue growth rate is 6.1%. The rotation risk for Q4 and 2025 is in the details of Trump's policy plans as many see the reliance on foreign revenues as a risk given the stronger USD and that trade tariffs could hamper business for such companies. Against that is the SME world where the summer Russell 2000 vs. NASDAQ trade first saw inflows on the back of Fed rate cut hopes. Now the shift is different with mergers and acquisitions a key driver with Trump deregulation hopes a key part of the puzzle. The chart to consider came from our Thursday, November 14 Morning Briefing on USD exceptionalism.

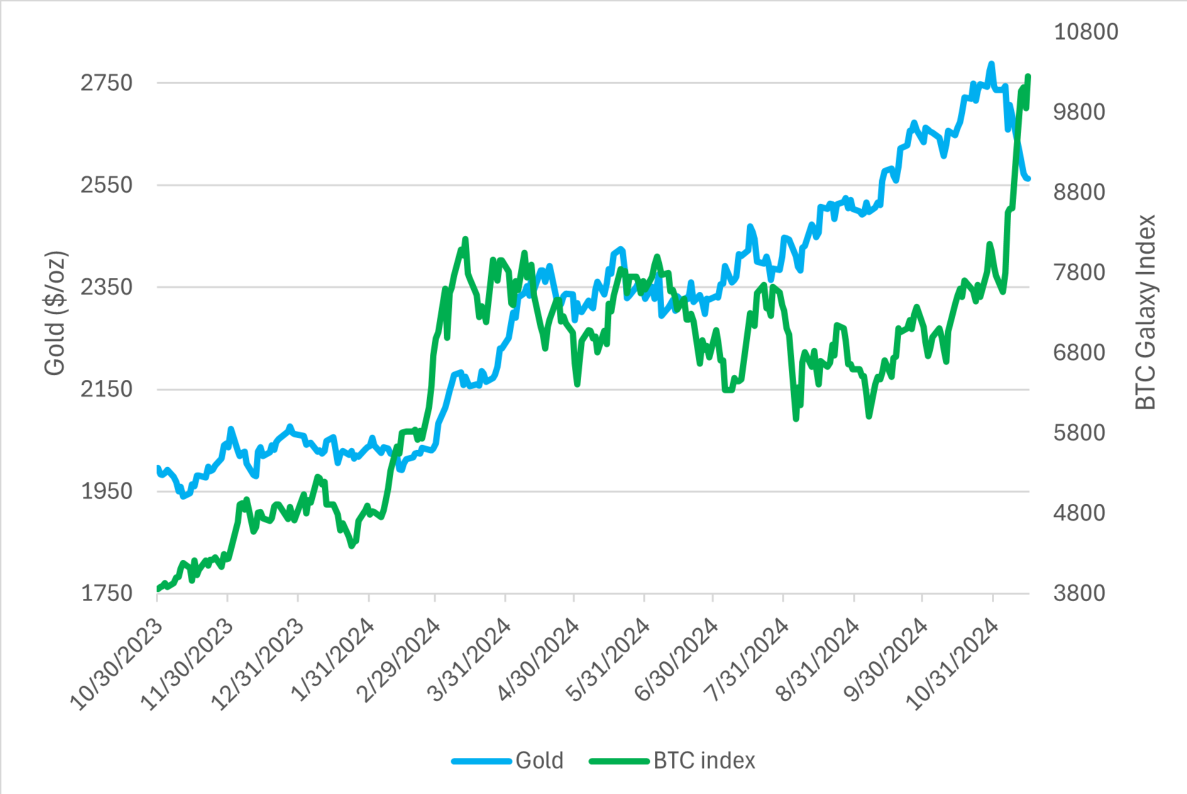
Exhibit #2: M&A vs. International Revenue by US Sector



Source: iFlow, FactSet, PwC, BNY

2. USD exceptionalism vs. BTC vs. Gold. The role of deregulation shows up most clearly in the BTC price action. Bitcoin beat gold on the week and the USD. The attraction of the digital dollar alternative matters to how 2025 plays out. BTC is up 30% since the election and broke $90k this week. The market cap of all crypto now exceeds $3trn – for the first time ever. Flows into exchange-traded funds have skyrocketed in recent days. LSEG data show the largest ETFs tracked by Reuters took in a net $3.5 billion in the week to Nov. 14, the most since March 15.

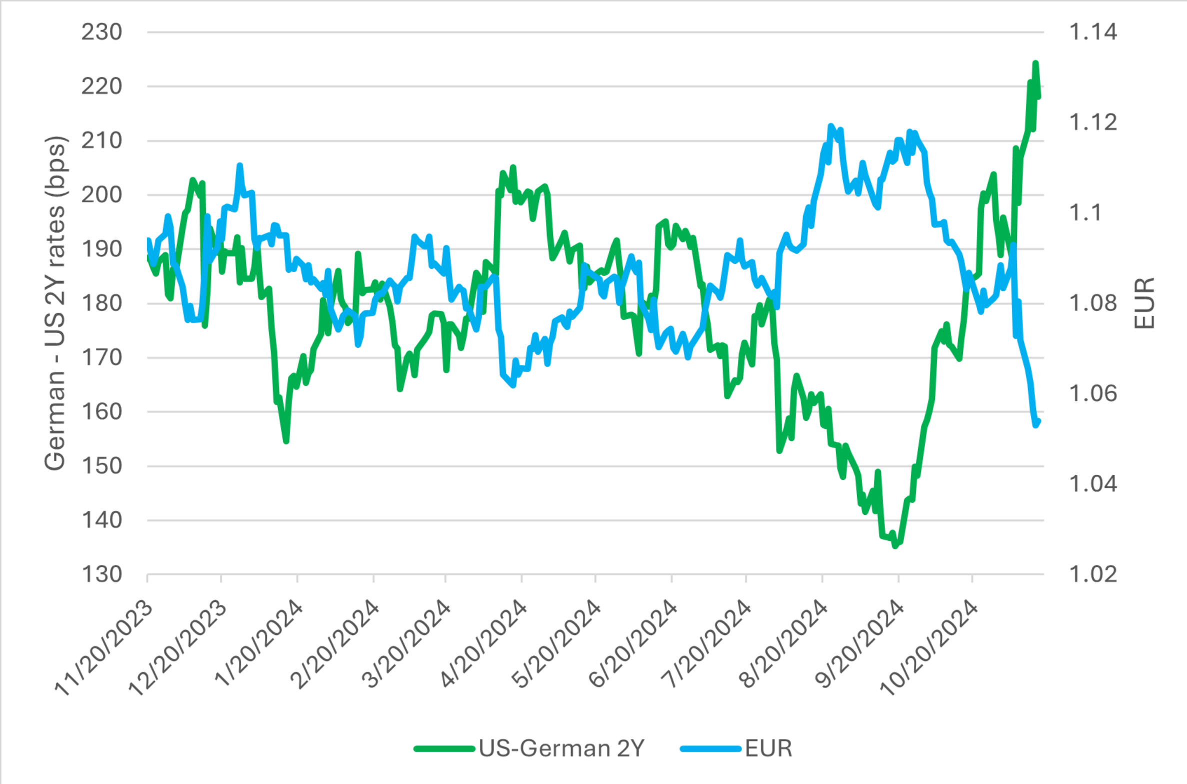
Exhibit #3: Gold Shows FX Intervention Risks vs. BTC



Source: Bloomberg, BNY

3. EUR weakness vs. USD strength. The EUR is off about 5% from its September highs on the year. Calls for 1.00 are rising with investors focused on the speed of ECB rate cuts vs. the FOMC. With GDP in Europe lagging the US and with how the German election in February 2025 plays out. The latest ZEW Institute survey showed German investor confidence is weakening – after seven months of gains – while markets price a one-in-five chance the European Central Bank will cut rates by 50bp next month. The breakdown of German GDP data due out on November 22 could be a critical part of the EUR story ahead. While the bigger market focus comes Friday with the flash global PMI reports. PMIs from Europe and the US will likely confirm that global manufacturing activity remains stuck in a downturn, while the services sector soldiers on. Each country is facing its own uncertainties. Germany's flagging economy is on the cusp of new elections, Britain's employers are bracing for a rise in social security contributions expected to hit hiring and costs. But it's Trump's re-election that is dominating the outlook. Leaving EUR volatility linked to rates views as Trump inflation risks price.

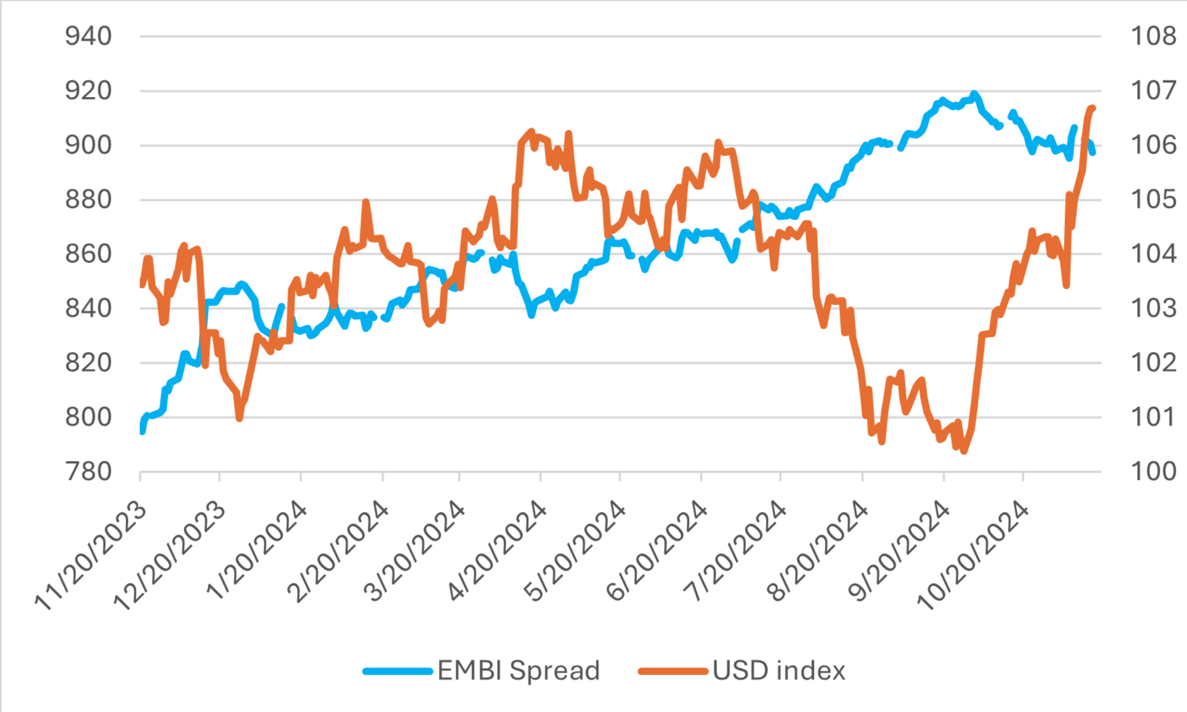
Exhibit #4: Is the EUR a Rate Trade?



Source: Bloomberg, BNY

4. EM Markets and the role of the USD. Indonesia's central bank will decide on interest rates on Wednesday, and it is a toss-up whether policymakers will ease rates or stand pat. Slowing inflation, disappointing growth and the Fed's recent rate cut cement the case for further easing. But the weakening IDR, currently languishing near three-month lows at 15,942 and down more than 3% from when the BI last met in October and off 4% from this year's peak, matters to the works for a central bank whose main mandate is to maintain currency stability, even though much of that might be driven by the strong dollar. Similar decisions will be delivered by other large emerging market central banks from Hungary to Turkey to China where the 1Y and 5Y LPR decision matters to the CNH. Both the 1-year and 5-year Loan Prime Rates (LPRs) are expected to remain stable at 3.10% and 3.60%, respectively, following a symmetrical reduction of 25bp in October. Further easing likely won't matter to the economy as the 5Y average mortgage rate is already 3.14%. The Hungary MNB is also expected to hold at 6.5% when it meets on Tuesday, reflecting HUF weakness. The only place in EM where FX may be less of an issue is South Africa, where 25bp of easing is expected given the drop in CPI and the market already pricing such. The risk there is this is a hawkish easing with Q1 2025 cuts pushed further out given the state of uncertainty globally and the role of the USD.

Exhibit #5: EMBI Spreads to USD



Source: Bloomberg, BNY

Calendar for November 18-22

Central Bank Decisions

- **Hungary MNB (Tuesday, November 19) –** No change is expected in Hungarian rates as the MNB has acknowledged a period of stability is needed in financial conditions as domestic demand remains strong. High wage growth – which remains in the teens on an annualized basis – is the main risk to price stability but the downside surprise in October CPI data (at 0.1%) suggests the path for inflation remains manageable. Barring even stronger fiscal impulse, CEE will likely feel the effects from growth weakness in Germany, and caution is also needed to counter trade tensions up ahead.
- **Indonesia BI (Wednesday, November 20) –** Bank Indonesia is expected to keep rates on hold at 6% as the easing path is managed carefully. Even though IDR's movements in November were far more moderate compared to October, pass-through risk is growing, and the entire region is grappling with renewed strength in the dollar. However, the weakness in CNY, JPY and other key currencies in the IDR's exchange range basket would have provided some offset. Data remains robust as Q3 GDP came in largely in line with expectations at 1.5%q/q and export growth remains strong. However, the global trade status quo will change up ahead and EM central banks need to adapt accordingly.
- **Turkey TCMB (Thursday, November 21) –** No change is expected in Turkish benchmark rates as real rates remain well above TCMB's targets and pass-through

risk has only increased considering the market has shifted into a new dollar environment, and Turkey will be directly or indirectly affected by any pick-up in trade conflict between the US and the European Union. There was no marginal increase in portfolio outflows, and we believe market positioning is now more balanced. TCMB could provide some guidance for potential rate cuts next year but otherwise the need to maintain high real rates has only grown.

- **South Africa SARB (Thursday, November 21) –** Due to the perception of remoteness and vastly different economic exposures, ZAR has generally outperformed other major EM currencies over the past week, though it will be affected by a stronger dollar as well. For now, it appears that ZAR's China beta – with ongoing hopes of stimulus as support – is limiting additional losses in the currency. This way SARB can remain on track to ease policy accordingly. CPI figures due before the decision is expected to show flat growth on the month and provide further support to their policy objectives.

Key data/releases

Date	GMT	EST	Country	Event	Period	Cons.	Prior
11/17/24	23:50	18:50	JN	Core Machine Orders MoM	Sep	1.50%	-1.90%
11/19/24	10:00	05:00	EC	CPI YoY	Oct F	--	2.00%
11/19/24	10:00	05:00	EC	CPI MoM	Oct F	--	0.30%
11/19/24	***13:00***	***08:00***	***HU***	***Central Bank Rate Decision***	***Nov-19***	***6.50%***	***6.50%***
11/19/24	13:30	08:30	US	Housing Starts	Oct	1338k	1354k
11/19/24	13:30	08:30	CA	CPI NSA MoM	Oct	0.30%	-0.40%
11/19/24	13:30	08:30	CA	CPI YoY	Oct	1.90%	1.60%
11/20/24	07:00	02:00	UK	CPI MoM	Oct	--	0.00%
11/20/24	07:00	02:00	UK	CPI YoY	Oct	2.10%	1.70%
11/20/24	07:00	02:00	UK	CPI Core YoY	Oct	--	3.20%
11/20/24	***07:20***	***02:20***	***ID***	***BI-Rate***	***Nov-20***	***6.00%***	***6.00%***
11/20/24	08:00	03:00	SA	CPI YoY	Oct	3.00%	3.80%
11/20/24	11:00	06:00	SA	Retail Sales Constant YoY	Sep	--	3.20%
11/20/24	12:00	07:00	US	MBA Mortgage Applications	Nov-15	--	0.50%
11/21/24	***11:00***	***06:00***	***TU***	***One-Week Repo Rate***	***Nov-21***	***50.00%***	***50.00%***
11/21/24	13:30	08:30	US	Initial Jobless Claims	Nov-16	--	217k
11/21/24			***SA***	***SARB Announce Interest Rate***	***Nov-21***	***7.75%***	***8.00%***
11/21/24	15:00	10:00	US	Existing Home Sales	Oct	3.88m	3.84m
11/21/24	23:30	18:30	JN	Natl CPI YoY	Oct	2.30%	2.50%
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11/22/24	08:30	03:30	GE	HCOB Germany Manufacturing PMI	Nov P	--	43
11/22/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Nov P	46	46
11/22/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Nov P	--	49.9
11/22/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Nov P	--	48.5
11/22/24	15:00	10:00	US	U. of Mich. Sentiment	Nov F	72	73

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11/19/24	13:30	08:30	CA	CPI NSA MoM	Oct	0.30%	-0.40%
11/19/24	13:30	08:30	CA	CPI YoY	Oct	1.90%	1.60%
11/20/24	07:00	02:00	UK	CPI MoM	Oct	--	0.00%
11/20/24	07:00	02:00	UK	CPI YoY	Oct	2.10%	1.70%
11/20/24	07:00	02:00	UK	CPI Core YoY	Oct	--	3.20%
11/20/24	***07:20***	***02:20***	***ID***	***BI-Rate***	***Nov-20***	***6.00%***	***6.00%***
11/20/24	08:00	03:00	SA	CPI YoY	Oct	3.00%	3.80%
11/20/24	11:00	06:00	SA	Retail Sales Constant YoY	Sep	--	3.20%
11/20/24	12:00	07:00	US	MBA Mortgage Applications	Nov-15	--	0.50%
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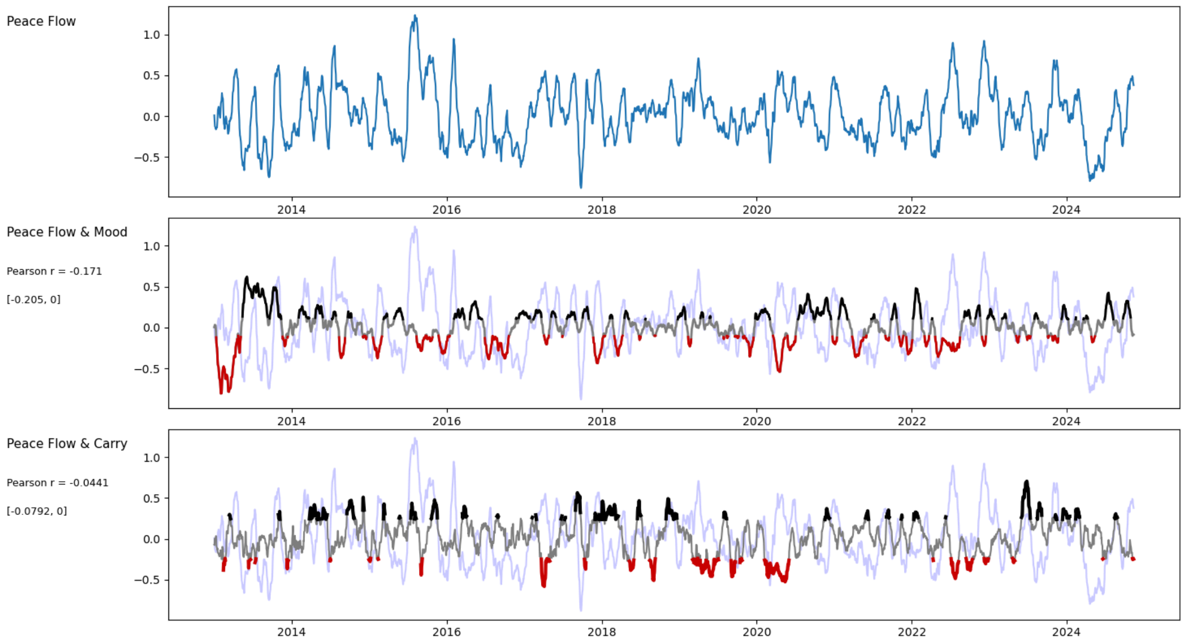
Source: Bloomberg, BNY

Conclusions: Is Peace in 2025 Unlikely?

As investors sit down to think through 2025 risks and rewards, one of the hopes that continues to play out from 2024 is that geopolitical risks will decrease. The hope for peace in the Middle East and Ukraine matters to how money gets allocated in the next few weeks. The new indicator from iFlow that tracks what our investor flows show about world peace hopes is informative. The index, like that of mood or carry, mean reverts. There is also a negative correlation between the mood indicator and this peace indicator – which many will find odd. But as you dig into our mood indicator you see that equity buying also has to match “T-bill” selling (or the equivalent in G5 nations). The significant negative correlation of mood to peace is from fixed income. Money flows on bullets as much as it does on roses. There is also a negative correlation between our FX carry index and peace. Higher carry environments require higher rates and risk premiums.

Bottom Line: The hope for 2025 trades continuing in 2024 into the holidays is part of the seasonal bias that trades expect. If this time is different will rest on the week ahead and how the CPI reports from the UK, Canada and Japan drive other monetary policy plans along with how the FOMC and ECB speakers give forward guidance on their plans. The G20 meeting is likely to highlight the role of the new US administration in driving geopolitical risks and plans as well as keeping "green" in the spotlight. How markets deal with growth and inflation and policy prescriptions for keeping them in balance will be the ongoing driver of volatility in an otherwise light week.

Exhibit #7: New iFlow Peace Index and Correlations



Source: iFlow, BNY

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

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