BNY
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MARKET MOVERS

October 17, 2024

Whelmed

"Rome has grown since its humble beginnings and now is overwhelmed by its own greatness." - Livy
"Vote for the candidate that promises the least, they will be the least disappointing." - Bernard Baruch

Summary

Risk mixed with APAC lower and EMEA and US higher as markets are underwhelmed by China stimulus again and not convinced that ECB easing is enough but the TSMC earnings in Taiwan eased tech fears and countered some of the doubts about investment globally. The overwhelming views come from UK budget being an issue, on Japan PM Ishiba risky election (as his cabinet confidence drops to 28%) and as worries about US data – which proved wrong and short-lived – but still wrapped around the US election risks and ongoing 3Q earnings surprises. Investors are climbing the wall of worry as the US data continues with exceptionalism intact and soft-landing the central path expected ahead and that alone drives a rethinking of being under or overwhelmed.

What's different today:

- **US September retail sales rose 0.4% m//m a**fter 0.1% m/m – surprising the market with control group sales up 0.7% after 0.3% m/m – making 3Q GDP outlook higher.

- **US October Philadelphia Fed business outlook jumped to 10.3** from 1.7 – better than the 3 expected and adding to views that the post US election certainty will put money to work in both markets and the economy from business.
- **US weekly jobless claims surprised lower at 241,000** from 260,000 – with hurricanes and Boeing notable stories but continuing claims rose to 1.867mn from 1.858mn.

What are we watching:

- **ECB eased 25bps – as expected – to 3.25% -** Lagarde forward guidance in December key along with tone of here conference call.
- **US September industrial production** expected -0.2% m/m after up 0.8% m/m — weakness in manufacturing key worry
- **US 3Q earnings:** Netflix, Snap-on, Intuitive Surgical, Blackstone, Travelers, Truist, M&T, Elevance Health, Marsh & McLennan, Huntington Bancshares, KeyCorp

Headlines

- China to boost support for unfinished properties by CNY4trn - expands white list of project – CSI 300 off 1.13%, CNH flat 7.1385
- Japan Sep trade deficit narrows to Y294.3bn - even with surprise export drop – Nikkei off 0.69%, JPY off 0.1% to 149.85
- Australian Sep jobs jump 64,100 leaving unemployment at 4.1% - ASX up 0.86%, AUD up 0.3% to .6690
- Turkey TCMB leaves rate at 50% - as expected – TRY up 0.15% to 34.15
- Eurozone Sep final CPI rivised lower to 1.7% y/y from 1.8% y/y flash - lowest since April 2021 - ECB cuts 25bps to 3.25% - EUR off 0.15% to 1.0845
- US API weekly oil inventories report -1.58mb draw when 2.4mb build expected - while gasoline fell 5.926mb leaving it 4% below average and distillates fell 2.62mb leaving it 9% below 5Y average – WTI up 0.5% to $70.80

The Takeaways:

The origin of the verb whelm is old English - meaning to cover over. The use in modern English is with the adverb under or over - and its almost exclusively about expectations. The future casting ability of markets to price the economy remains part of the theory of efficient markets and the wisdom of crowds. The pricing of betting markets on the US election is now the rage and one that clashes with the polls. The pricing of stocks to the actual 3Q earnings is now central to how risk trades into the uncertainty of policy and the election ahead. Both Japan and the US elections will matter to markets and could challenge investors positioned for less change. The reaction today of markets to the ECB will also be critical as ECB Lagarde lays out her own expectations for the future and the risks of the world ahead. There is little faith in the ability of central bankers to be perfect forecasters - but there is expectations that they error correct - and so it is with the easing plans ahead - with current growth doubts pushing forward faster easing hopes in Europe and slower ones in the US. The difference drives FX and rates and eventually risk overall.

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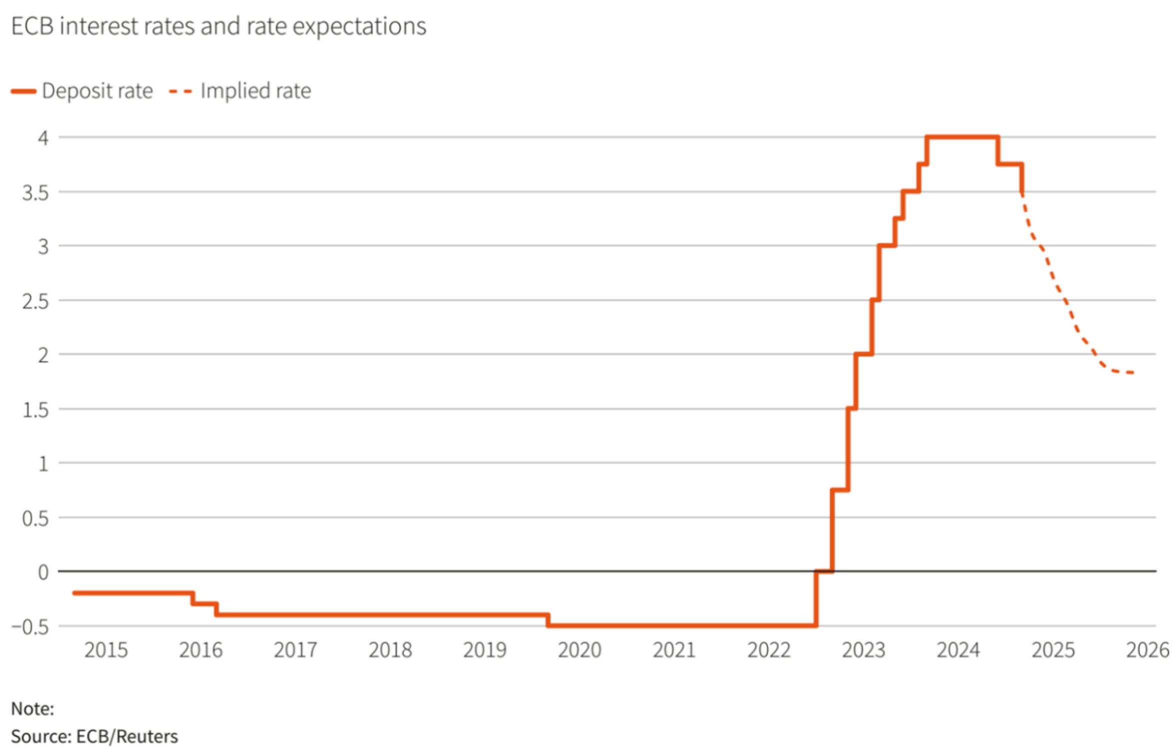
Exhibit #1: Does one size fits all work for ECB?



ECB interest rates and rate expectations

Source: Reuters, BNY

Details of Economic Releases:

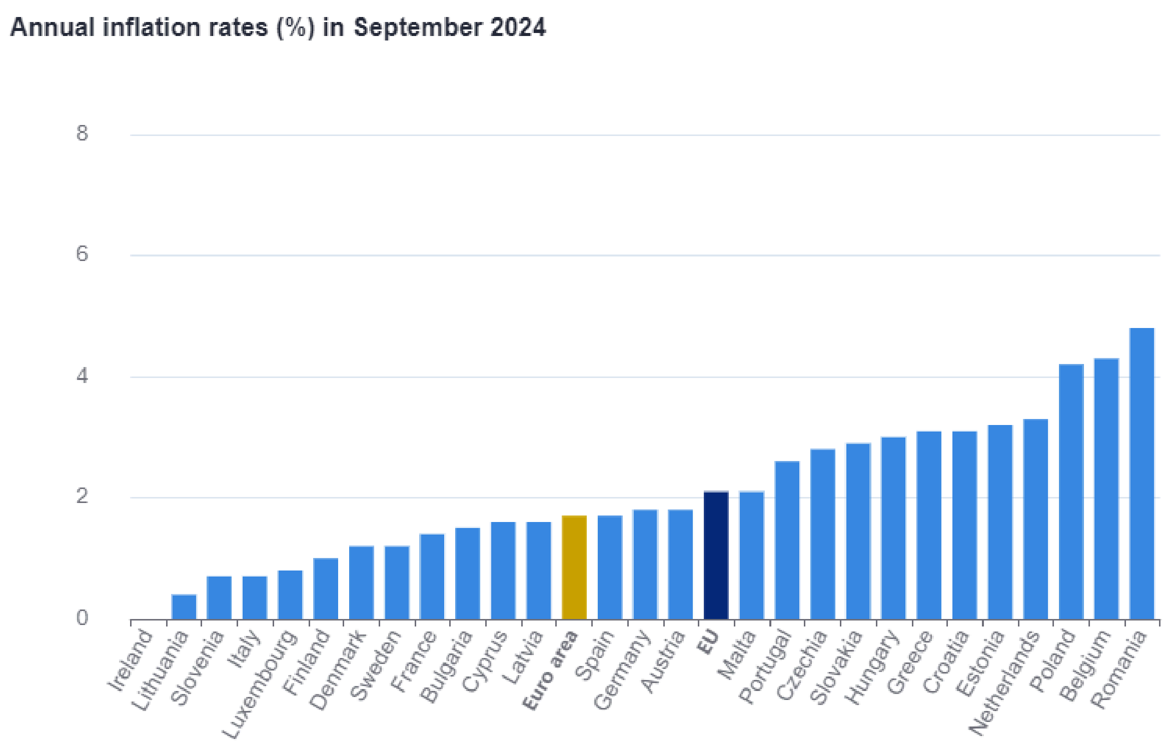
1. Japan September trade deficit narrows to Y294.3bn after Y703.2bn - worse than the Y230bn expected - the third straight month of a trade gap, with exports unexpectedly shrinking while imports grew. Sales declined by 1.7% to JPY 9,038.20 billion, marking the first drop since November 2023 and missing consensus of a 0.5% rise. Meantime, imports rose

2.1% to JPY 9,332.55 billion, pointing to the sixth straight month of expansion but falling short of estimates of 3.2%

2. **Australian September unemployment steady at 4.1% - better than 4.2% expected** - as jobs jump 64,100 after 42,600 - better than the 25,000 expected. Full-time employment surged by 51.6 thousand, a strong reversal from a fall of 5.9 thousand in August. However, part-time employment added 12.5 thousand, down sharply from August's 48.5 thousand. Through the year to September, employment increased by 434.9 thousand or 3.1%.

3. Eurozone September final CPI revised to 1.7% y/y from 2.2% y/y - lower than 1.8% y/y flash. Inflation is now at April 2021-lows, and below the ECB target of 2%. Services inflation slowed (3.9% vs 4.1%) and cost of energy fell at a faster pace (-6.1% vs -3%). On the other hand, inflation steadied for non-energy industrial goods (0.4%) and rose faster for food, alcohol & tobacco (2.4% vs 2.3%). Annual core inflation rate which excludes prices for energy, food, alcohol and tobacco, eased to 2.7% from 2.8%, in line with the preliminary estimate. Among the Eurozone largest economies, inflation eased in Germany (1.8% vs 2%), France (1.4% vs 2.2%), Italy (0.7% vs 1.2%) and Spain (1.7% vs 2.4%).

Exhibit #2: Does CPI mean faster ECB easing?



Source: UK ONS, BNY

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

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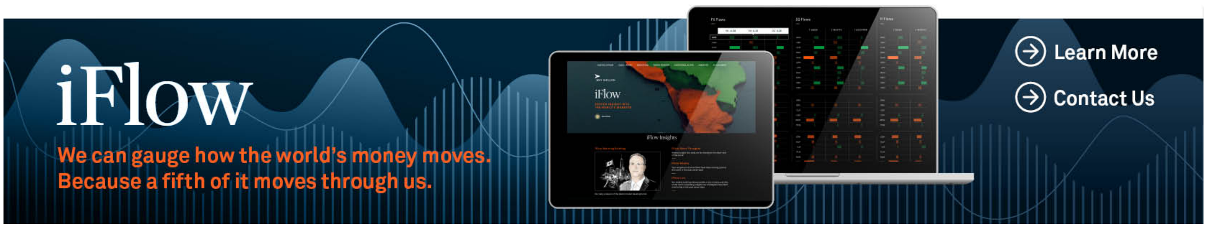

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