BNY

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MARKET MOVERS

October 18, 2024

Ducks

“Feed the ducks while they are quacking.” – Peter Klinger
“Be like a duck. Calm on the surface, but always paddling like the dickens underneath.” – Michael Caine

Summary

Risk on as the China data prove better than feared even with GDP at 4.6% in 3Q, while UK retail sales rise again and as bonds rally in Europe post the ECB cut and expectations for more in December. The Oil market is lower and markets are back to focus on US election with a return of Trump trades from BTC longs to MXN shorts. Gold is back at highs and market moods across assets classes are upbeat.

What’s different today:

- **Gold breaks $2700 – new record highs –** with demand for safe-haven assets linked to expectations of more rate cuts in G10 nations and ongoing geopolitical fears.
- **China steel rebar futures trade at 4-month lows** of CNY3,250 – as many remain skeptical of China stimulus measures on raising steel demand. China House price drop added to concerns.

What are we watching:

- **US September housing starts** expected down –0.4% m/m to 1.35mn after 1.356mn – with permits expected lower -0.7% m/m to 1.46mn rate – housing market and rate sensitivity key for 2025 growth

- **Fed Speakers**: Governor Waller and Atlanta Fed Bostic – post higher retail sales and jobless claims focus will be on pace of easing plans.

Headlines

- China 3Q GDP up 0.9% q/q, 4.6% y/y – slowest since 1Q 2023 – with Sep industrial production up 0.9pp to 5.6% y/y, Retail Sales up 1.1pp to 3.2% - both best since May, while housing prices -5.7% y/y, Fixed Investment flat at +3.4% y/y – CSI 300 up 3.62%, CNH up 0.25% to 7.1195
- Japan MOF Mimura warns against excessive FX moves as JPY traded 150 while Japan Sep CPI fell 0.5pp to 2.5% - lowest since April but Rengo, the biggest union, pushes 5% wage hike for 2025 – Nikkei up 0.18%, JPY up 0.2% to 149.85
- Sweden Sep unemployment rises 0.3pp to 8.2% - worst since June – OMX up 0.3%, SEK up 0.2% to 10.52
- Eurozone Aug C/A narrows E10bn to E31bn – even as trade gains rose – while Aug construction output fell 0.2pp to -2.5% y/y, ECB survey of forecasters sees 2.4% CPI for 2024, 1.9% for 2025 – EuroStoxx 50 up 0.6%, EUR up 0.1% to 1.0840
- UK Sep retail sales rose 0.3% m/m, 3.9% y/y – best since Feb 2022 – FTSE off 0.25%, GBP up 0.2% to 1.3040

The Takeaways:

This is the time of year when ducks migrate South. The weather change in the season has been a mirror for markets shifting views about the US growth and need for more from the FOMC. What is perhaps most surprising today is in the calm globally as US growth and less rate cut expectations didn't lead to more troubles abroad – with both Europe and China doing better as their own policy mixes help and find comfort in better US growth hopes. All of this makes clear that the old adage of feeding the ducks when they quack – ie selling assets when they are in demand – may be in play in the week ahead as many see the risks from the US election on the rise, as the Japan election looks more important and as the UK budget looks critical to keeping the pace of growth there intact. All of this leaves volatility expectations higher not lower and the uncertainty of it all gets wrapped in the ongoing geopolitical fears – which being Friday – usually mean some reluctance to add to risk. Perhaps the chart that best shows the risks is the BNY Mood Indicator – a rough measure of fear vs. greed across global markets and one that has been extended into positive territory for 19 days – which is over the historic average in the 98% percentile – stretched and likely ready for some moderation.

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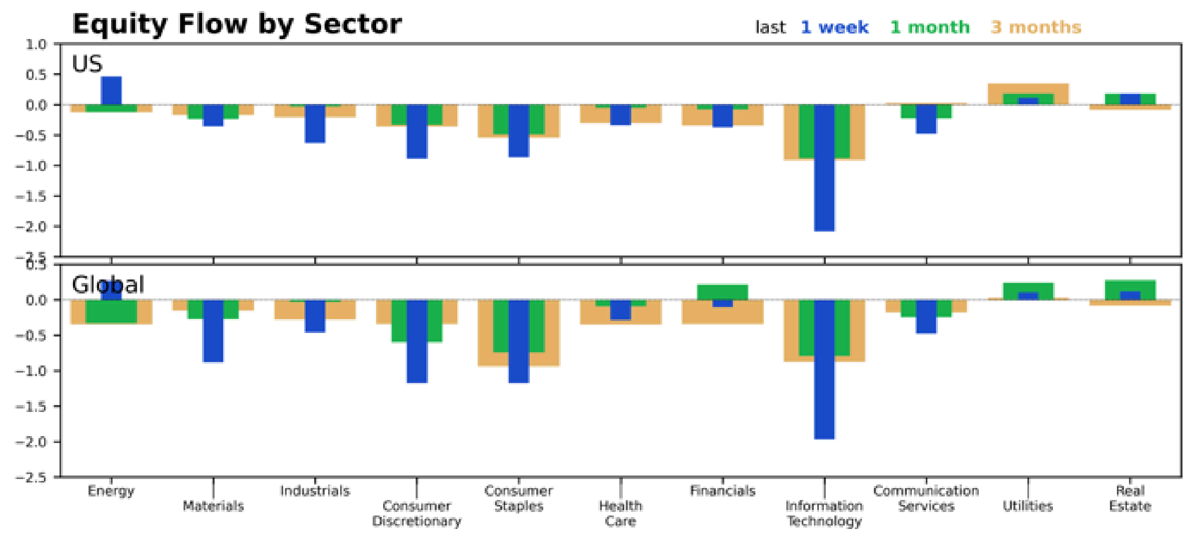
Exhibit #1: Is there a sector rotation risk ahead?



Source: iFlow, BNY

Details of Economic Releases:

1. Japan September CPI -0.3% m/m, _2.5% y/y after +0.5% m/m, 3% y/y with the core CPI 2.4% y/y from 2.8% y/y – slightly higher than 2.3% y/y expected. The core-core also higher at 2.1% y/y from 2.0% y/y. Headline CPI was the lowest reading since April and first monthly drop since February 2023. Electricity prices increased the least in three months as the impact of energy subsidy removal in May waned (15.2% vs. 26.2% in August), and the cost of gas rose much more slowly (7.7% vs. 11.1%). Moreover, costs moderated for food (3.4% vs. 3.6%), furniture & household utensils (4.8% vs. 5.2%), transport (0.1% vs. 0.2%), and culture (4.3% vs. 4.8%). Additionally, prices fell further for communication (-2.6% vs. -2.4%) and education (-1.0% vs. -1.0%). On the other hand, inflation remained unchanged for housing (0.7%) and healthcare (1.5%), while edging higher for clothes (2.4% vs. 2.3%) and miscellaneous (0.9% vs. 0.8%).

2. China September house price index fell -5.7% y/y from -5.3% y/y – worst since October 2014. This marked the 15th consecutive month of decrease and the steepest pace since May 2015, despite Beijing's continuous efforts to address the persistent weakness in the property sector, including reducing mortgage rates and lowering home buying costs. Prices dropped at steeper rates in most cities, such as Beijing (-4.6% vs -3.6% in August), Guangzhou (-10.3% vs -10.1%), Shenzhen (-8.6% vs -8.2%), Tianjin (-2.3% vs -1.4%), and Chongqing (-6.2% vs -5.4%). On the other hand, costs continued to increase in Shanghai (4.9% vs 4.9%). Monthly, new home prices dropped by 0.7% for the fifth straight month in September, staying at their fastest fall since October 2014.

3. **China 3Q GDP rose 0.9% q/q, 4.6% y/y after 0.7% q/q, 4.7% y/y – slightly better than 4.5% y/y expected** - the slowest annual growth rate since Q1 2023, amid persistent property weakness, shaky domestic demand, deflation risks, and trade frictions with the West. The latest figures came as Beijing had intensified stimulus measures to boost economic recovery and rebuild confidence. In September alone, there were some positive signs: industrial output and retail sales both saw their largest increases in four months, and the urban jobless rate fell to a three-month low of 5.1%. On the trade front, however, exports rose the least in five months while imports were sluggish. In the first three quarters of the year, the economy grew by 4.8%, compared with China's full-year target of around 5%. During the period, fixed investment rose by 3.4% y/y, topping consensus of 3.3%.

4. **China September industrial production rose +0.59% m/m, 5.4% y/y from 4.5% y/y – better than 4.6% y/y –** best monthly gain since April, best yearly growth since May and marking the 1st acceleration in five months, amid the government's efforts to spur growth. Output growth mostly accelerated in manufacturing (5.2% vs. 4.3% in August) and the electricity, heat, gas, and water production and supply sectors (10.1% vs. 6.8%), while growth in mining remained steady (at 3.7%). Within manufacturing, 36 out of 41 major sectors advanced, notably railway, ship, and aviation (13.7%); computer and communication (10.6%); heat production (10.2%); non-ferrous metal smelting (8.8%); textile (5.1%); special equipment manufacturing (4.6%); and chemicals (4.6%). By contrast, output fell for non-metallic mineral products (-3.8%). For the 1st nine months of the year, industrial output rose by 5.8%.

5. **China September retail sales rose +0.39% m/m, 3.2% y/y after +0.02% m/m, 2.1% y/y – more than 2.5% y/y expected** - the strongest growth in retail activity since May, mainly driven by increased sales in grain, oil, and food (11.1% vs 10.1% in August), personal care (3% vs 1.3%), sports and entertainment (6.2% vs 3.2%), household appliances and audio-visual equipment (20.5% vs 3.4%), and Chinese and Western medicine (5.4% vs 4.3%). Moreover, sales decreased at a softer pace for clothing, shoes and hats, textile products (-0.4% vs -1.6%), cosmetics (-4.5% vs -6.1%), gold and silver jewelry (-7.8% vs -12%), and building and decoration materials (-6.6% vs -6.7%) while rebounded significantly for cultural and office supplies (10% vs -1.9%) and automobile (0.4% vs -7.3%).

6. **China September fixed asset investment rose 0.16% m/m, 3.4% y/y after 3.4% y/y – better than 3.3% y/y expected**. Investment in the secondary sector grew (12.3% vs 12.1% in January to August), driven by increases in investment in mining (13.2%), manufacturing (9.2%), and electricity, heat, gas, and water production and supply (24.8%). On the other hand, investments in the primary (2.3% vs 2.9%) and the tertiary (4.1% vs 4.4%) sectors rose at a slower pace. At the same time, real estate investment dropped by 10.1% from a year earlier in the first nine months of the year.

7. China September unemployment fell to 5.1% from 5.3% - better than 5.3% expected – best in 3-months. The jobless rate for locally registered residents decreased by 0.2 percentage points to 5.2%, in which non-local registrants had a rate of 4.8%, while the rate for non-local agricultural registrants stood at 4.6%. In 31 major cities, the urban unemployment rate was also 5.1%. On average, employees in enterprises worked 48.8 hours per week. From January to September, the average surveyed jobless rate was 5.1%, 0.2 percentage points lower than the same period last year.

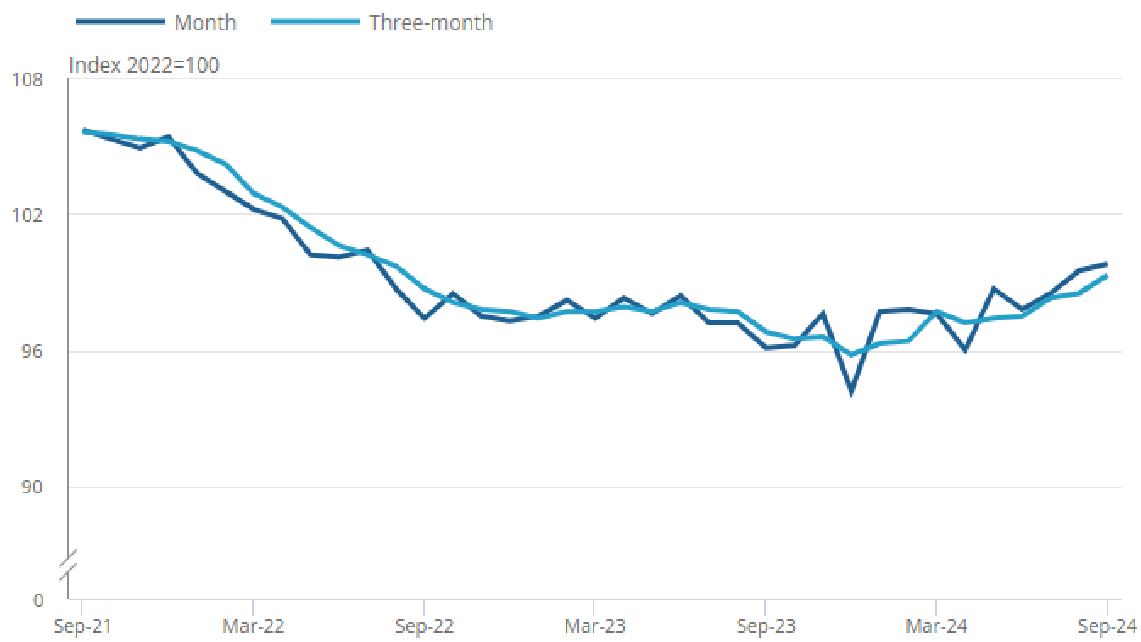
8. Eurozone August construction output drops -2.5% y/y after -2.3% y/y – worse than -2% y/y expected - marking the seventh consecutive month of declines even as monthly construction rose 0.1% m/m. Output shrank for building activity (-2.1% vs -3.2% in July), civil engineering works (-3.2% vs -0.3%) and specialized construction activities (-3% , the same as in July). Among the largest economies in the Euro Area, construction activity declined markedly in France (-5.3%) and Germany (-3.8%) but increased in Spain (+1.1%). Construction output fell by 2.4% in the European Union.

9. Eurozone August Current Account surplus narrows to E31bn from E41bn – less than the E42.2bn expected. The goods surplus increased to €24.1 billion from €22.9 billion, and the services surplus went up to €21.7 billion from €14.1 billion. Also, the secondary income gap narrowed to €13.9 billion from €14 billion, while the primary income surplus edged down to €3.3 billion from €3.8 billion.

10. UK September retail sales rose 0.3% m/m, 3.9% y/y after 1% m/m, 2.3% y/y – better than the -0.3% m/m, +3.2% y/y expected – best since February 2022. Sales at non-food stores jumped 2.5%, following a 0.6% rise in August, mostly led by computers and telecommunications retailers. On the other hand, sales at supermarkets fell 2.4%, the largest drop so far this year, dragged down by unseasonably poor weather and consumers continuing to cut back on luxury food items. Online sales went up 1.3%.

Exhibit #2: Does the UK recovery have legs?

Volume sales, seasonally adjusted, Great Britain, September 2021 to September 2024



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

Source: UK ONS, BNY

Disclaimer & Disclosures

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

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