BNY

iFlow
MARKET MOVERS

October 21, 2024

Heart

"The best and most beautiful things in the world cannot be seen or even touched – they must be felt with the heart." – Helen Keller

"True navigation begins in the human heart. It's the most important map of all." – Elizabeth Lindsey

Summary

Risk mixed as a quiet start to the week ahead leaves focus on China rate cuts and hope that stimulus there will work while Japan waits for the Sunday election, South Korea frets about escalation with Russia and North Korea joining forces in Ukraine and as the tension with Israel and Hezbollah shows no sign of slowing. Gold has been the main story in markets as it makes new record highs, while USD waffles a bit and as the world meetings of the IMF and World Bank promise to focus on debt and growth risks. The trading of risk today is going to be all heart – with little input other than faith in trends and value.

What's different today:

- **Gold hits another record high - up 0.4% on day to $2,732.45** and up 40% on years - with analysts calling for $3000 oz - with Middle East tensions, BRICS+ summit and de-dollarization pressures cited.
- **iFlow Mood indicator drops back to 0.25 or 94.5% percentile –** peaking out risk in play – while carry factor still negative and trend still positive. USD flows from Friday show upticks along with CAD, CHF, NOK while AUD, EUR and

SEK sold. In equities, selling across G10 and in EM notable selling in Mexico, Turkey and India. Bond inflows into Australia and India and most of LatAm except Mexico, while outflows in EM notable in South Africa and China.

What are we watching:

- **US September conference board leading economic index** expected -0.3% m/m after -0.2% m/m - while hardly a key statistic there is a forward-looking component and the ongoing weakness suggests 2025 troubles
- **US 3Q earnings**: Nucor, WR Berkley, Alexandria Real Estate Equities
- **Fed Speakers**: San Francisco Federal Reserve President Mary Daly, Dallas Fed President Lorie Logan, Kansas City Fed chief Jeffrey Schmid and Minneapolis Fed boss Neel Kashkari all speak

Headlines

- China PBOC cuts LPR 25bps putting 1Y at 3.1% and 5Y jat 3.6% - more than expected – CSI 300 up 0.25%, CNH off 0.1% to 7.1250
- South Korea asks Russia to not use North Korea troops in Ukraine - seen as huge "escalation risk." – Kospi up 0.43%, KRW off 0.7% to 1378.3
- LDP headquarters attacked in Japan, election expected to force coalition LDP government - Asahi Poll shows LDP losing 50 seats – Nikkei off 0.07%, JPY off 0.2% to 149.90
- RBA Hauser: Encouraged by market reaction to policy - still surprised by strength of jobs -ASX up 0.74%, AUD off 0.25% to .6685
- Malaysia 3Q GDP rises 5.3% y/y - best in 6 quarters - but services slow – MYR flat at 4.3045
- Moldovia votes to back EU accession talks with thin 50.24% support- while Incumbent Sandy faces Russia backed Stoianoglo in Nov 3 run-off – EuroStoxx 50 off 0.8%, EUR off 0.1% to 1.0850
- German Sep PPI drops -0.5% m/m, -1.4% y/y - first monthly drop since February - led by energy – DAX off 0.85%, Bund 10Y up 7.5bps to 2.255%
- UK Chancellor Reeves expected to deliver GBP35bn in tax hikes including inheritance tax -FTSE off 0.2%, GBP off 0.2% to 1.3025
- Israel targets Hezbollah linked financial institutions- WTI up 2.2% to $70.75
- Elon Musk offers $1mn price a day for voters to sign petition, Governor warns of election law breach – US S&P500 futures off 0.2%, 10Y US yiels up 4.5bps to 4.125%

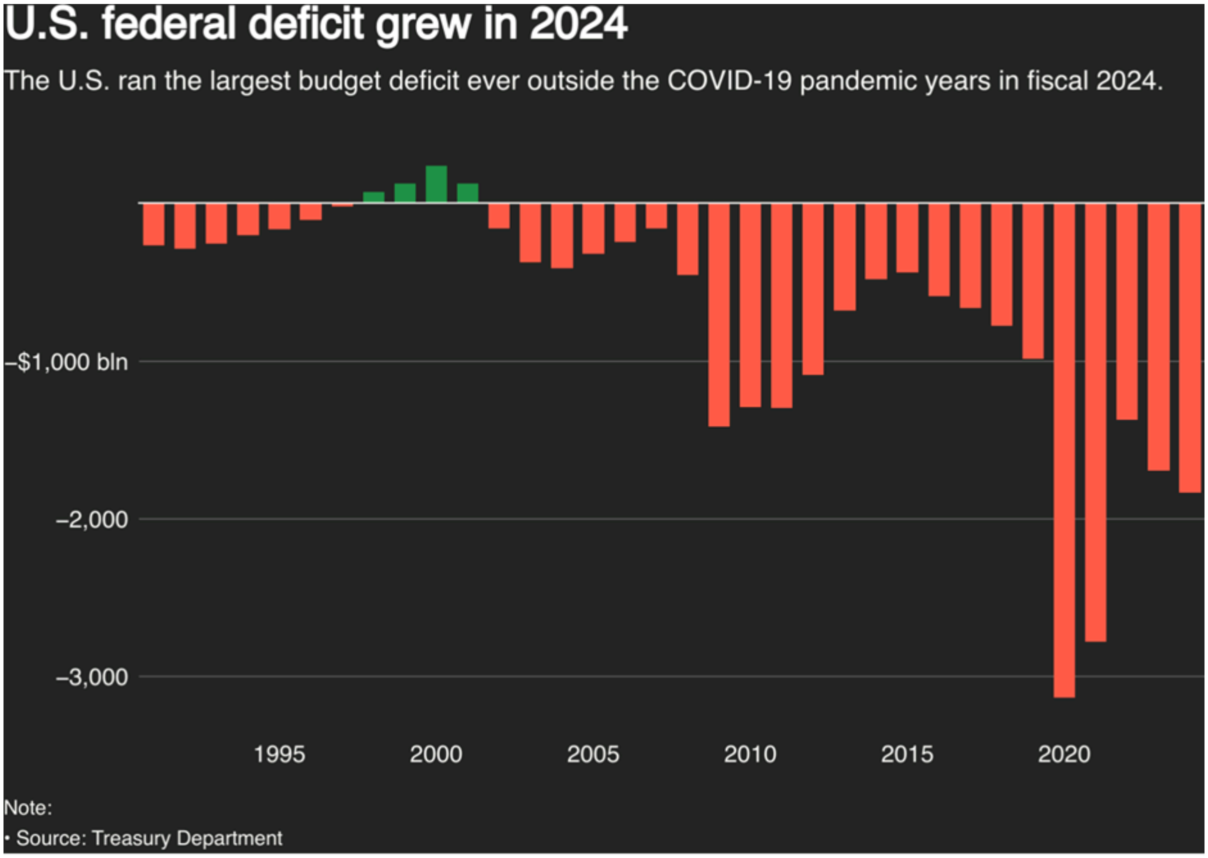
- US Boeing workers to vote on 35% pay hike and other benefit plan to end strike

The Takeaways:

This week, 3Q earnings will dominate, given the lack of big economic data releases with only S&P PMI flash composite and durable goods to guide investors on US growth expectations. The Fed Beige Book will also matter given the shift in US data of late and the stark report from the last Fed meeting. The key will be in the 3Q results of 114 companies this week - 22% of the S&P500 - with focus on their outlook for 4Q and 2025. Of the S&P 500 companies that have reported results so far, 83.1% have beaten earnings estimates, as of Friday, versus the 79.1% average of the previous four quarters, according to LSEG data. While the blended annual profit growth estimate for the 500 has dipped to 4% from the 5% expected pre-season. There is also the US bond market to consider this week with the election just 2 weeks away, many are worried about the lack of focus by either party on government finances. The week ahead in Washington will clearly focus on debt as the IMF and World Bank have already clearly stated. The US budget deficit grew 8% to $1.833 trillion for fiscal 2024, the highest outside of the COVID era, as interest on the federal debt exceeded $1 trillion for the first time, the Treasury said on Friday. The shortfall amounted to 6.4% of gross domestic product, up from 6.2% a year earlier. Bottom Line: The USD rally on rates reflecting less speed of FOMC easing ahead may be tempered by US politics and US earnings. This week will likely test the “Trump” trade and the views on how the USD plays out against debt and earnings.

.

Exhibit #1: Is the US deficit sustainable?

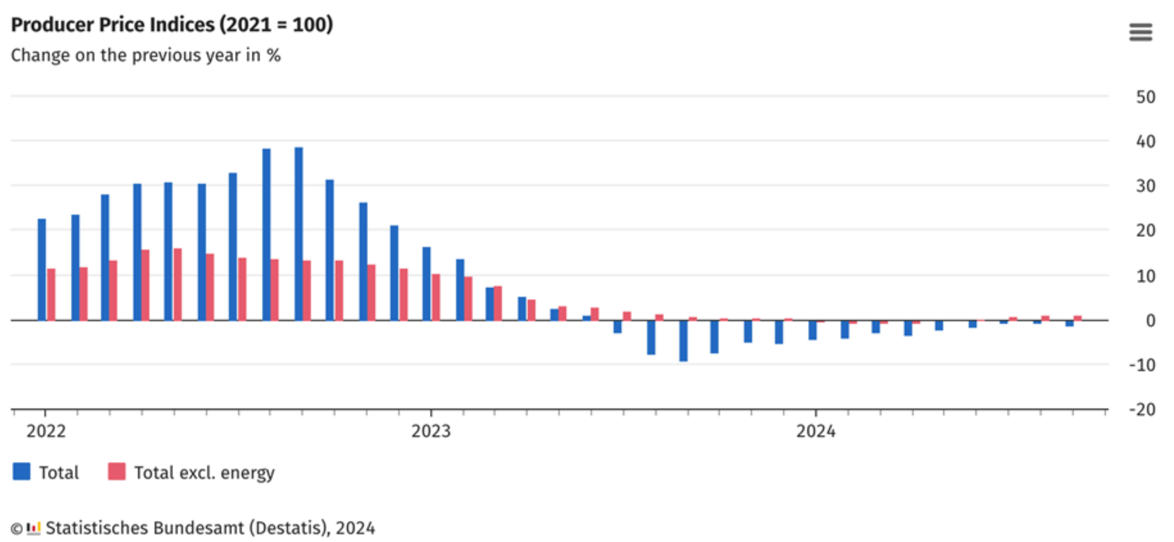


Source: iFlow, BNY

Details of Economic Releases:

1. **German September PPI drops -0.5% m/m, -1.4% y/y after +0.2% m/m,-0.8% y/y - more than -0.2% m/m expected** and first monthly decline since February and the 15th annual consecutive period of producer deflation, driven by a sharp decline in energy prices (-6.6%), with costs falling for mineral oil products (-14.4%), light heating oil (-27.8%), fuels (-16.1%), natural gas (-10.4%), and electricity (-9.5%). Excluding energy, producer prices rose by 1.2%. Meanwhile, the biggest price increases were seen in capital goods (2%), driven by higher costs for machinery (2.1%) and motor vehicles and parts (1.5%). Prices also rose for consumer goods (1.5%), durable goods (0.9%), and intermediate goods (0.5%).

Exhibit #2: Does PPI open room for more ECB easing?



Source: German Destatis, 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

managing your preferences.

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

Contact Us | iflow@bnymellon.com

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

.