BNY

iFlow
MARKET MOVERS

October 22, 2024

Unnerved

"Do something every day for no other reason than you would rather not do it, so that when the hour of dire need draws nigh, it may find you not unnerved and untrained to stand the test." - William James

"All your youth you want to have your greatness taken for granted; when you find it taken for granted, you are unnerved." - Elizabeth Bowen

Summary

Risk off as higher global bond yields drive the USD higher in APAC, derail EM growth hopes and leave focus on IMF WEO forecasts and US election risks for larger deficits and trade policy shifts. Markets are unnerved despite lack of larger headlines and anything new. This is the moment when calm matters but not straight forward. For example, the mixture of risks with the Japan election Sunday and JPY back over 150 and the BOJ rate cuts less sure, leaves APAC back to watching FX as a barometer. The IMF meetings usually don't matter but the need for soothing forward guidance leave open risks for the ECB, BOE and Fed. On the day, expect 3Q earnings to again drive as investors look for alternative bricks to climb. That is clearly the case for Turkey Erdogan in Russia making his push to join the BRICS+ after a decade of EU waiting.

What's different today:

- **US 10-year bond yields hit 4.20%** - first time since late July - as market rethinks pace and size of Fed rate cuts and US election worries rise.

- **Lithium falls below 3-year lows at CNY71,500 ton** - lowest since March 2021 - with overcapacity in China EV batteries one key factor and expectations for more supply in 2025.
- **iFlow stuck** with mood slowing but extremely positive, carry negative but bottoming, trend positive and rising. The FX markets in G10 saw more AUD, SEK and EUR selling and CAD, CHF, NOK buying in EM it was KRW and PHP leading the buyers while MXN, COP and TWD saw outflows. The Equity markets remain G10 negative and mixed in APAC as India outflows continue. Bonds are mixed with notable South Africa selling and Australia buying

What are we watching:

- **IMF WEO October revisions -** watching for mix on growth and inflation.
- **IMF Speakers** - European Central Bank President Christine Lagarde, ECB chief economist Philip Lane and Bank of Portugal governor Mario Centeno all speak; Bank of England Governor Andrew Bailey, deputy governor Sarah Breedon and BoE policymaker Megan Greene all speak
- **US October Richmond Fed manufacturing index** expected -18 after -21 - with services revenue -2 after -1 - adds to data on US manufacturing stall vs. services stability with 4Q growth key for market.
- **3Q Earnings**: Texas Instruments, General Motors, General Electric, Verizon, Baker Hughes, Enphase Energy, Packaging Corp of America, Invesco, CoStar, Seagate Technology, Paccar, Fiserv, 3M, Moody's, Quest Diagnostics, Pentair, Pultegroup, Sherwin Williams, Danaher, Freeport-McMoRan, Interpublic, Norfolk Southern, RTX, Genuine Parts, AO Smith

Headlines

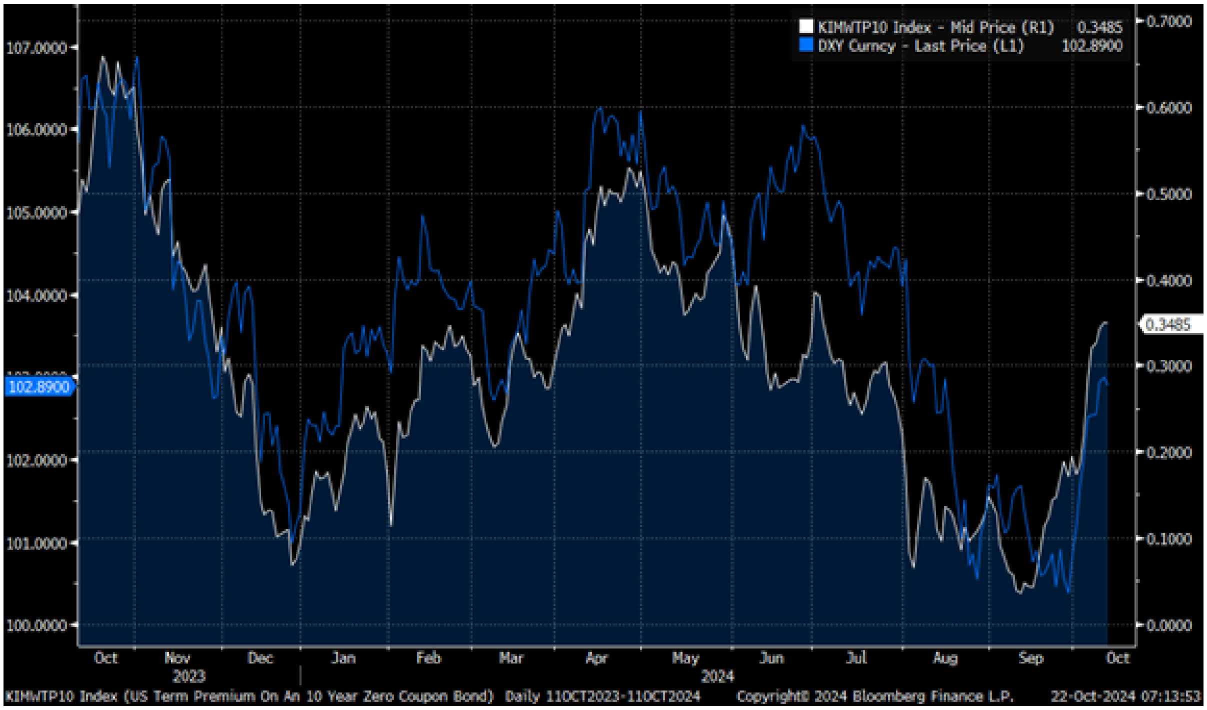
- Japan September BOJ core CPI drops 0.1pp to 1.7% y/y – Nikkei off 1.39%, JPY off 0.9% to 150.90
- Korea September PPI off 0.6pp to 1.0% y/y- linked to manufacturing products and services – Kospi off 1.31%, KRW off 0.7% to 1378.60
- China government advisor sees CNY12trn available for stimulus in 2025, urges more measures quickly - FT article focuses on Xi shift on debt – CSI 300 up 0.57%, up 0.05% to 7.1330
- Hong Kong September CPI eases 0.3pp to 2.2% y/y - lowest since June - led by food and transport – Hang Seng up 0.1%
- Bank Indonesia sells dollars in spot and NDF markets to smooth volatility – IDR off 0.1% to 15,555

- South Africa Oct composite business cycle index -0.7% m/m - worst drop since March – ZAR up 0.2% to 17.574
- UK September public sector net borrowing rises £2.1bn y/y and £3.1 m/m to - 3rd highest September borrowing on record – FTSE off 0.7%, GBP off 0.65% to 1.2975
- ECB Escriva:" ECB rate decisions will be data dependent." – EuroStoxx 50 off 0.5%, EUR off 0.3% to 1.0825

The Takeaways:

While the FX carry trade as a factor is not winning the day, the USD is showing some life as risk premiums around the world change. The US term premium for 10-year debt has risen 14bps ub October to highest of the year and reversing sharply from negative levels this summer and spring. The role of the US election, the US deficit and the decreased flow of excess capital into the US chasing yield all are part of the narrative as to why this has happened. The outcome matters for emerging markets, stocks and FX as many see the nascent power of FOMC rate cuts and the new easing cycle offset. The problem for the world is that soft-landing hopes in the US require something to happen in the rest of the world as well – namely growth and stability. Today the dissection of US election fears and US rates policy doubts collide with 3Q earnings the only obvious driver that could derail the mood. While many started this week hoping for calm, the delivery of noise and doubt is notable and leaves many unnerved for the troubles yet to come.

Exhibit #1: Is the USD rally with term premium going to last?



Source: Bloomberg, BNY

Details of Economic Releases:

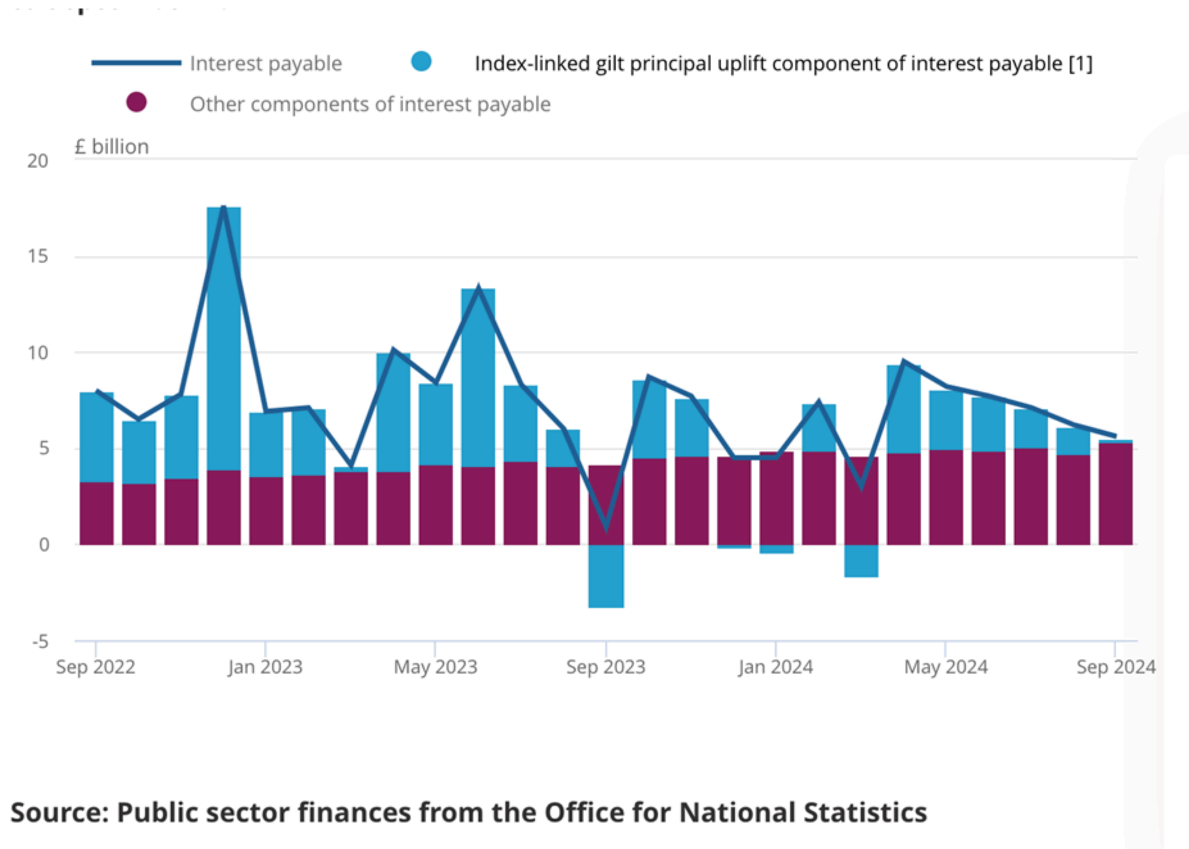
1. **Korea September PPI off -0.2% m/m, +1% y/y after -0.2% m/m, +1.6% y/y - less than the 0.2% m/m expected**. The fall in factory gate prices were mostly attributed to a fall costs in manufacturing products (-0.7% vs -0.8%% in August) and services (-0.2% vs 0.0% in August). Also, prices for electric power, gas, water & waste (+0.9% vs +1.2% in August) rose at a slower pace.

2. **South Africa Oct leading business cycle index -0.7% m/m after +0.7% m/m - weaker than -0.3% m/m expected** - the sharpest contraction since March, driven primarily by declines in seven of the ten available component time series, which outweighed gains in the remaining three. The most significant negative contributors were a deceleration in the six-month smoothed growth rate of the real M1 money supply and a drop in South Africa's USD-denominated export commodity price index. On the positive side, the RMB/BER Business Confidence Index improved and the number of approved residential building plans increased.

3. **UK September public sector net borrowing increased to £16.6 billion from £13.5 billion - above market forecasts of £10.3 billion.** otal public sector spending increased by £5.9 billion to £105.9 billion, driven by higher debt interest and increased spending on public services, partially offset by reduced benefit expenditures. Meanwhile, receipts grew by £3.8 billion to £89.3 billion, largely due to higher central government tax revenues. For the financial year ending in September

2024, borrowing reached £79.6 billion, £1.2 billion more than the amount borrowed in the same six months last year and £6.7 billion higher than the £73.0 billion forecast by the OBR for this period. This marks the third-highest year-to-September borrowing since monthly records began in January 1993.

Exhibit #2: Does the UK face a term risk premium?



Source: UK ONS BNY

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

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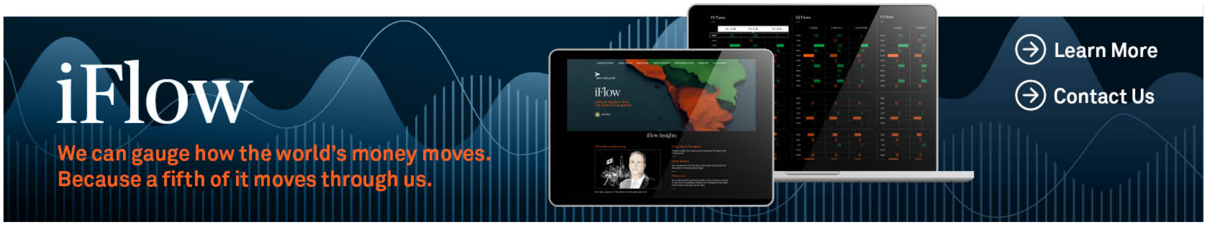

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