

October 28, 2024

Reality

“The bridge between reality and a dream is work.” – Jared Leto

“Reality is created by the mind; we can change our reality by changing our mind.” - Plato

Summary

Risk on as the melt up in equities continues as clocks fell back in Europe this weekend defying the grim reality of the season and the bigger worries as markets await a heavy week of data and 3Q earnings reports with focus on BOJ, UK budget and US jobs - all overlaid with the wait for November and the US election and Fed rate decision. The Japan election delivered no winners with JPY weaker over 153 but Nikkie rallies 1.5%, Oil slips on a constrained Israel strike on Iran while rate markets await \$139bn of US 2Y and 5Y note sales today, not to mention the \$153bn in 3M and 6M bills. Supply of paper, higher shares, lower inflation fears and political uncertainty start a long week ahead with the US dollar bid and forcing central bankers to balance FX and rates against inflation.

What's different today:

- **Japan LDP coalition stripped of majority - worst election result in 15-years.** PM Ishiba under pressure to resign, vows to stay on,
- **Bulgaria election - the seventh in four years** - shows Gerb party with 26% according to exit polls - again short of majority to rule.

- **Oil drops 5.9%** with Brent off \$4.3 to \$71.70 bbl after Israel strike on Iran bypasses oil and nuclear facilities.
- **iFlow shows ongoing consolidation** with mood lower but still in extreme positive, carry bouncing back to flat, Trend dropping nearly flat. The USD was bought Friday along with DKR, CHF and NOK while in EM LatAm saw CLP buying and selling in BRL, MXN while EMEA was bought but ZAR sold. APAC saw outflows except in PHP and KRW. Equities were negative except in South Africa, Hong Kong and Malaysia.

What are we watching?

- **US October Dallas Fed Manufacturing Index** expected -9.2 after -9.0 – highlights the tech and oil sectors.
- **US Treasury** sells \$69 billion of 2-year notes and \$70 billion of 5-year notes; also sells \$153 billion of 3- and 6-month bills
- **US 3Q Earnings:** Ford, ON Semiconductor, Regency Centers, Waste Management, SBA Communications, F5, Welltower, Cadence Design, Brown & Brown, Centerpoint Energy

Headlines

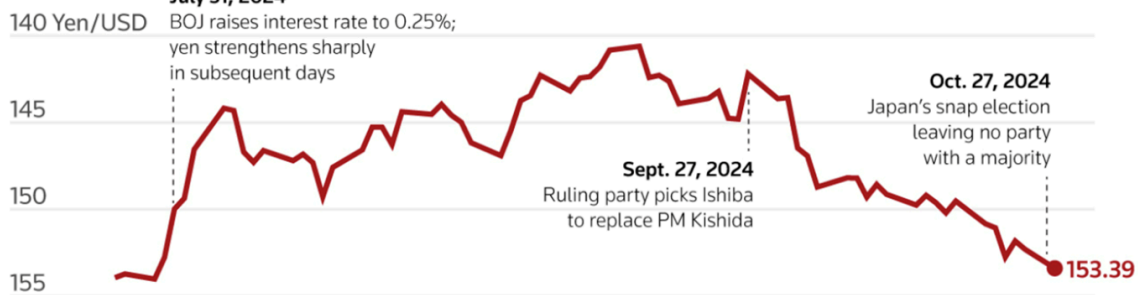
- China Sep industrial profits -3.5% y/y - with both SOE and private companies showing losses - PBOC launches outright reverse repos with primary dealers – CSI up 0.2%, CNH off 0.1% to 7.1395
- Japan Election - LDP and Komeito take 215 seats down from 279 while CDP rises to 148 from 98 - both far from 233 majority needed - Nov 11 likely next key vote for setting Premier – Nikkei up 1.82%, JPY off 0.2% to 152.65
- Thailand Sep exports slow to +1.1% y/y down from 7% y/y - weakest in 3-months – THB off 0.2% to 33.85
- Spanish Sep retail sales jump 1% m/m, 4.1% y/y - best since March 2023 – IBEX up 0.3%, SPGB 10Y off 1.6bps to 2.977%, EUR up 0.2% to 1.0815
- Sweden Sep trade surplus narrows to SEK0.8bn - with exports -8.7% - OMX up 0.25%, SEK up 0.2% to 10.602
- Volkswagen plans to close 3 German plants and cut thousands of jobs – DAX off 0.2%, Bund 10Y off 1bps to 2.28%
- UK Oct CBI retail trade -6 from +4 – blamed on Autumn Budget wait – FTSE off 0.2%, GBP up 0.1% to 1.2975
- Uruguay voters reject proposal to lower retirement age to 60 from 65 - while Presidential election heads to Nov 25 run-off vote

The Takeaways:

The reality of waiting for something bigger to change the asset markets dominates the day but leaves many worried that the volatility ahead will make the gains over the overnight immaterial. The focus on Japan and the election was intense last week and markets were prepared for some of the surprise loss there for the LDP. How this translates into fiscal and monetary policy is yet to be known and the worry of the moment driving JPY weakness and the hope for some bounce back in the Nikkei. The broader concerns are around the UK budget and what that means for corporate and consumer spending as the CBI showed today it matters. The US 3Q earnings are in focus as well with 5 of the 7 magnificent tech megacaps reporting. The risk on and off of markets are driving a rethinking of safe and the focus on CHF and SEK in FX remains in play with Sweden winning today after losing last week. The role of China and its stimulus is also in play with many watching the CNH and the CSI 300 for confirmation of stability. The biggest take away from today maybe in the balancing of FX weakness and stock market gains with the Japan example dominant. This reality as we all know won't last but as Einstein put it best – reality is an illusion, but a persistent one.

Exhibit #1: Is the JPY the key driver for risk again?

YEN



NIKKEI 225 INDEX



Note: Data as of Oct. 28, 2024 0620GMT.

Source: LSEG Workspace

Source: Reuters, BNY

Details of Economic Releases:

1. China September industrial profits fell -3.5% y/y after +0.5% y/y - weaker than 0.3% y/y expected. The latest result reflected an uncertain economic recovery due to persistent weak demand, deflation risks, and a property downturn. Profits declined in both state-owned companies (-6.5% vs -1.3% in Jan-August) and the private sector (-9.6% vs 2.6%). Among industries, profits shrank for non-metallic minerals (-51.0%), coal mining (-21.9%), machinery (-7.2%), special equipment (-5.5%), chemicals (-4.0%), and cars (-1.2%). Meanwhile, petroleum and other fuels, and ferrous metal smelting turned from profits to losses. On the other hand, profits rose for non-ferrous metal smelting (52.5%), heat production (13.8%), textile (11.5%), computer, communications (7.1%), agriculture, food (6.6%), oil and natural gas (0.9%), and general equipment (0.2%). Monthly, industrial profits plunged 27.1%, after a 17.8% decrease in August.

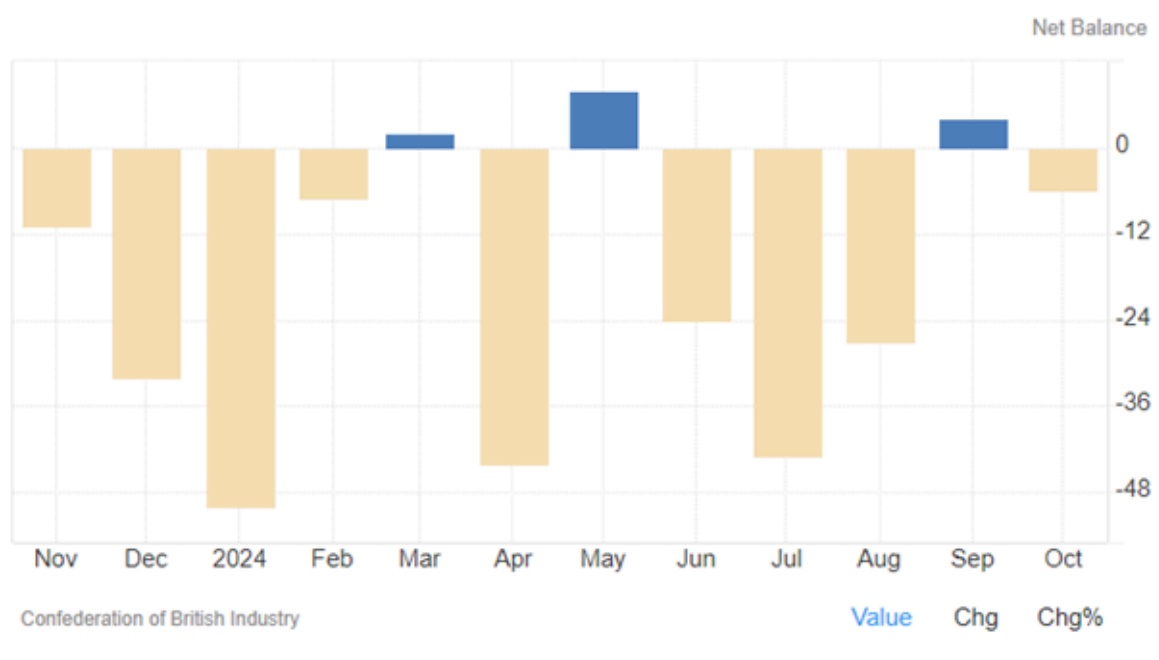
2. Spanish September retail sales rose 1% m/m, 4.1% y/y after 0.4% m/m, 2.4% y/y - better than the -0.6% m/m, +1.5% y/y expected - the strongest growth in retail activity since March 2023, mainly boosted by sales of non-food products

(+4.8%), of which household equipment (+6.8%), healthcare products (+3.7%) and personal goods (+3.2%). Also, spending on food products rose by 3.3%.

3. Sweden September trade surplus narrows to SEK 0.8bn after SEK 2.3bn same month 2023 - less than the SEK 3.4bn expected but up from -6.5bn in August. Exports fell 8.7% y/y with exports to the EU (-10.9% to SEK 90.5 billion) and non-EU countries (-6% to SEK 78.5 billion). Meanwhile, imports sank at a slightly slower 8% to SEK 168.2 billion, due to decreased purchases from both EU (-8% to SEK 114.6 billion) and non-EU countries (-8.1% to SEK 53.6 billion). On a seasonally adjusted basis, the country's trade surplus fell to SEK 3.3 billion compared to SEK 4.2 billion in August.

4. UK October CBI distributive trade index -6 from +4 – weaker than +10 expected. Some firms noted consumers were holding back on their spending due to uncertainty surrounding the Autumn Budget. New supplier orders -5 from -14 but outlook worsens to -24 next month. "This weakness in activity was reflected across the broader distribution sector, with wholesale and motor trade firms also reporting declining sales. Looking ahead, retailers aren't expecting an immediate turnaround, with annual sales set to be flat in November.

Exhibit #2: Does the UK Autumn Budget drive a CBI retail trades bounce back?



Source: UK CBI, BNY

Disclaimer & Disclosures

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

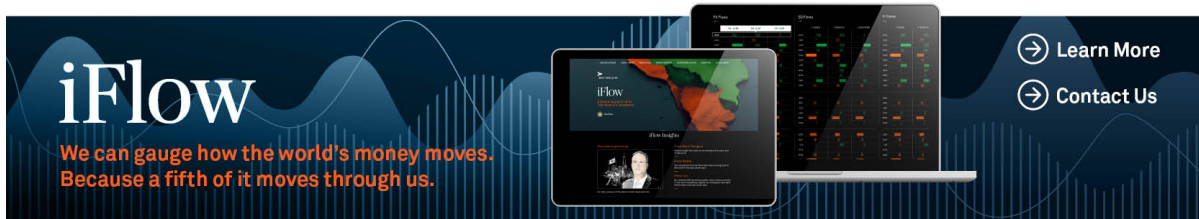


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