BNY

iFlow
MARKET MOVERS

October 30, 2024

Growing

"Out of difficulties grow miracles." – Jean de la Bruyere
"We don't stop playing because we grow old, we grow old because we stop playing." – George Bernard Shaw

Summary

Risk off even as evidence of global 3Q growth beats expectations as 4Q outlooks from 3Q earnings drag and as markets await US data with US exceptionalism on the line with 3Q flash GDP, ADP jobs and pending home sales. Australian CPI lower helps the RBA easing hopes but AUD is higher. Germany averting a technical recession offset by the higher state CPI reports where ECB easing hopes are the key. The bigger wait is the UK new Labour government's Autumn budget where details matter for growth not austerity and the reaction of BOE matters most. The GBP holds 1.30 and Gilts are the key barometer for tax and spending policy tweaks in a world fearing fiscal dominance – they are off 10bps ahead of Reeves. The heavy data releases today are still overshadowed by the US election next week. Focus remains on the outcome but the reality of month-end nags trading into adjustments. Expectations for today rest on how growth beats inflation with the German flash CPI expected to be higher, with the US 3Q PCE important but the overlay of how bonds trades into fiscal deficits matters even more with the US Treasury refunding details important.

What's different today:

- **US weekly MBA mortgage applications drop just -0.1% w/w** – while it's the fifth negative week – it's still the best of the five. Applications for refinance fell 6% but new mortgage applications rose 5% even as mortgage rates rise to 3-month highs at 6.73%
- **iFlow Mood now back to neutral** albeit still marginally positive at 75%. The carry trade and trend near neutral as well. USD buying continued yesterday and selling of EUR stood out along with CAD and AUD. The EM world saw KRW and PHP buying along with EMEA except PLN. Equities outflows in EM mixed with India and Singapore leading again while only Norway and Swiss saw G10 inflows. Bonds were bought in New Zealand, sold in Poland and China with US buying modest but ongoing.

What are we watching?

- **US Q3 GDP flash** expected up 2.9% q/q annualized after 3.0% previously with core PCE prices up 2.1% y/y from 2.8% y/y
- **US October ADP private sector payrolls** expected 111k after 143k – with focus on noise of where the drop in jobs comes from due to hurricanes vs. manufacturing.
- **US September pending home sales** expected up 1.9% m/m, -1.1% y/y after 0.6% m/m – how sales follow rates matters still.
- **US 3Q earnings**: Microsoft, Meta Platforms, Eli Lilly, Amgen, AbbVie, BioGen, Metlife, Prudential Financial, Caterpillar, Kraft Heinz, Paycom Software, Global Payments, Automatic Data Processing, Gen Digital, Cognizant Technology, Verisk, Clorox, Ventas, GE Healthcare, Equinix, Allstate, Hess, Garmin, Booking, MGM Resorts, Otis, Illinois Tool Works
- **UK Budget -** British finance minister Rachel Reeves presents first budget of new Labour Party government

Headlines

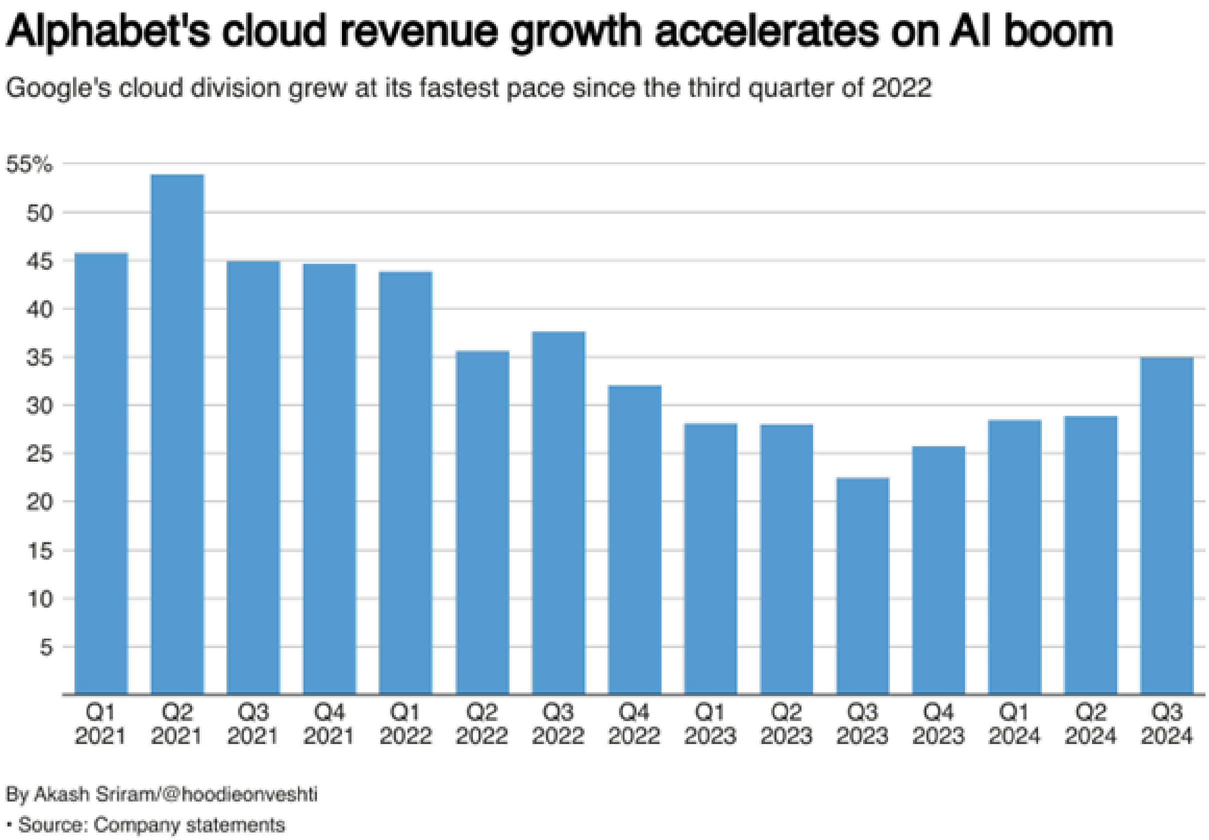
- Australian 3Q CPI off 1pp to 2.8% y/y - lowest since 1Q 2021 – ASX off 0.83%, AUD up 0.25% to .6575
- Japan Oct consumer confidence dips 0.7 to 36.2- lowest since May – Nikkei up 0.96%, JPY up 0.3% to 152.85
- China plans return of a space shuttle as it delivers 3 new astronauts to its national space station – CSI 300 off 0.9%, CNH up 0.1% to 7.1340

- French 3Q flash GDP up 0.4% q/q, 1.3% y/y - best growth since 4Q 2023 - linked to Olympics – CAC 40 off 1.4%, OATs 10Y off 2.5bps to 3.055%
- Spanish 3Q flash GDP up 0.8% q/q, 3.4% y/y - led by consumer demand while Capex fell - while Oct flash CPI rose 0.6% m/m, 1.8% y/y - as expected led by fuel – IBEX 35 off 0.7%, SPGB 10Y off 1.5bps to 3.02%
- German 3Q flash GDP up 0.2% q/q, -0.2% y/y - led by government and consumer consumption - while Oct jobless rise 27,000 with unemployment up 0.1pp to 6.1% - most in a year – DAX off 0.85%, Bund 10Y off 3.2bps to 2.305%
- Eurozone 3Q flash GDP up 0.4% q/q, 0.9% y/y - best in 2-years with EU economic sentiment down 0.7 to 95.6 – EuroStoxx off 1.2%, EUR up 0.1% to 1.0825
- Swiss Oct KoF economic barometer drops 5 to 99.5 - first time below 100 since Jan – Swiss Mkt off 0.7%, CHF flat at .8675
- Norway Sep retail sales -0.3% m/m -0.6% y/y - first monthly drop since June – NOK flat at 10.955
- Sweden Oct consumer confidence jumps 1.6 to 101.3 - best since Dec 2021 - while business confidence slips 1.3 to 93.6 - worst since Feb – OMX off 1%, SEK off 0.3% to 10.67
- US weekly API crude oil inventories report -0.573mb draw - when 2.3mb build expected - gasoline inventories fell 0.282mb now 3% below 5Y average while distillate fell 1.463mb off 9% from average WTI up 1.2% to $68.05

The Takeaways:

The resilience of the US economy and perhaps the world matters today. The ability to grow regardless of the season has been linked to the switch of central bankers to easing policy but today will test the fiscal policy bias and risk of austerity. There is, of course, a larger story behind growth in the world and that starts with how consumers feel – which is mixed as Japan lags and the US leads. The other part of growth that dominates today is investments and this comes out in the myriad of 3Q earnings reports and 4Q outlooks. The way that one of the magnificent seven reported yesterday matters but the aggregate matters even more. AI and the boom of money into the tech sector that tracks it is still important even as we want to just focus on the simplicity of economic numbers. Jobs follow and the even though the German GDP was better than feared, the rise in unemployment there matters just as the fragility of the German government coalition reopens talk of a snap 1Q election. As usual, there is too much to watch and absorb in too little time making today a good day to start leaning on AI to help highlight the key stories. Whether that analysis is more than a consensus call for better growth matters.

Exhibit #1: Is AI boom ongoing?



Source: Reuters, BNY

Details of Economic Releases:

1. **Australian 3Q inflation rises 0.2% m/m, 2.8% y/y after 1% q/q, 3.8% y/y - less than the 0.3% q/q, 2.9% y/y expected** - lowest since 1Q 2021, with goods inflation sharply slowing (1.4% vs 3.2% in Q2), mainly due to declines in electricity and fuel prices amid the continued impact of Energy Bill Relief Fund rebates. Meanwhile, services inflation stayed elevated (4.6% vs 4.5%). Notably, prices eased for alcohol and tobacco (6.7% vs 6.8% in Q2), clothing (1.7% vs 2.9%), housing (2.8% vs 5.2%), health (4.8% vs 5.7%), and financial services (6.2% vs 6.4%). In addition, transport costs fell for the first time since Q4 2020 (-0.9% vs 4.6%). In contrast, inflation was steady for food (at 3.3%), while costs accelerated for recreation (2.1% vs 0.9%), education (6.4% vs 5.6%), and household services (0.7% vs -1.1%). The RBA's Trimmed Mean CPI rose 3.5% from 4% y/y, while the weighted mean rose 3.8% y/y from 4.2% - still, the softest gain in nearly three years,

2. **Japan October consumer confidence slips to 36.2 from 36.9 - weaker than the 37 expected** - lowest consumer morale since May, as household sentiment weakened for all components: income growth (39.4 vs 40.1 in September), employment (41.6 vs. 41.4), willingness to buy durable goods (29.7 vs 31.0), and overall livelihood (34.2 vs 34.4).

3. **French 3Q flash GDP rose 0.4% q/q, 1.3% y/y after 0.2% q/q, 1.0% y/y - better than the 0.3% q/q expected** - the strongest quarterly growth since Q4 of 2023, supported by positive contributions mainly from final domestic demand (0.2 ppts) following the Paris Olympics. Household consumption picked up (0.5% vs flat reading in Q2), with purchases of goods rebounding after falling in the prior three quarters, due to rises in other manufactured goods, food, and energy. Also, spending on information services accelerated. Simultaneously, government expenditure rose further (0.5% vs 0.5%). On the trade front, exports (-0.5% vs. 0.5%) and imports (-0.7% vs. 0.1%) declined, making a slight positive contribution to GDP. Meanwhile, a fall in fixed investment deepened (-0.8% vs -0.1%), due to a further drop in investment for manufactured goods and a slowdown in market service investment.

4. **Spanish 3Q flash GDP rose 0.8% q/q, 3.4% y/y after 0.8% q/q, 3.2% y/y - better than the 0.6% q/q, 3% y/y expected.** Consumer spending rose faster (1.4% vs 0.9%). In contrast, gross fixed capital formation contracted (-0.9% vs 0.4%), the first decline in four quarters, with investment in machinery, capital goods and weapons systems, transport material (-4.2%) and construction materials (-4.2%) recording the biggest decreases.

5. **Spanish October flash CPI rose 0.6% m/m, 1.8% y/y after -0.6% m/m, 1.5% y/y - as expected.** The rise was driven by higher fuel prices, and, to a lesser extent, by rising electricity and gas prices, which saw a decline in October 2023. The core rate, excluding volatile items like food and energy, ticked higher to 2.5% in October 2024, up from an over 2-1/2-year low of 2.4% in the prior month.

6. **Swiss October KoF leading indicator slips to 99.5 from 104.5 - sharply weaker than 105 expected** - first time since January that the figure is below the 100 mark, amid a sluggish recovery of the Swiss economy. All production-side indicators showed declines, including manufacturing, financial and insurance services, other services, hospitality, and construction. Meanwhile, demand-side indicators, such as foreign and consumer demand, did not show significant growth. The manufacturing and construction sectors also faced pressure across most business areas, particularly export prospects, production activity, competitive positioning, and order

income. Only primary product purchases and inventory levels helped ease the downward trend.

7. **Norway September retail sales slip -0.3% m/m, -0.6% y/y after +0.1% m/m, -0.1% y/y - weaker than the +0.1% m/m expected** - the first decline in retail sales since June, driven by weaker sales in non-specialized stores (-0.5% vs 0.7% in August), automotive fuel (-0.1% vs 0.1%), other household equipment (-0.6% vs -0.1%), and cultural & recreational goods (-0.7% vs -3.5%). In contrast, sales rebounded for food, beverages, and tobacco (4.5% vs -1.5%) and information & communication equipment (10.3% vs -5.2%), while sales of other goods in specialized stores continued to increase (0.1% vs 1.8%). Excluding motor vehicles, motorcycles, and automotive fuel, retail trade grew by 0.4%, following a 0.1% decrease in August.

8. **Sweden October consumer confidence jumps to 101.3 from 99.7 - better than 99.6 expected** - the highest reading since December 2021, as households grew more optimistic about their financial situation over the next 12 months (29 vs 28 in September) and concerns about future unemployment eased (26 vs. 31). Moreover, expectations for the general economic outlook remained unchanged (23), as well as their confidence in their ability to save over the next 12 months (56). Meanwhile, households were more hesitant to make large purchases in the next year (-12 vs. -11).

9. **Sweden October business confidence slips to 93.6 from 94.9 - weaker then 95 expected** - the lowest business morale since February, as sentiment weakened among manufacturers (91.8 vs 93.7 in September), constructors (94.2 vs), as well as those service providers (93.9 vs 95). Meanwhile, confidence among retailers remained unchanged at 105.6.

10. **German 3Q flash GDP up 0.2% q/q, -0.2% y/y after -0.3% q/q, -0.3% y/y - better than the -0.1% q/q expected.** Government and household final consumption in particular, were up. Data for Q2 was revised to show the economy contracted at a sharper 0.3%, compared to previous estimates of a 0.1% decline. Year-on-year, the GDP shrank 0.2%, a sixth consecutive quarter of no growth, following a downwardly revised 0.3% fall in Q2. The German government projects a 0.2% contraction in GDP for 2024, marking the country’s first two-year recession since the early 2000s, following a 0.3% decline in 2023. The economy faces significant headwinds, including elevated energy costs, weak external demand, and a loss of competitiveness in the auto sector. However, the government expects a recovery in

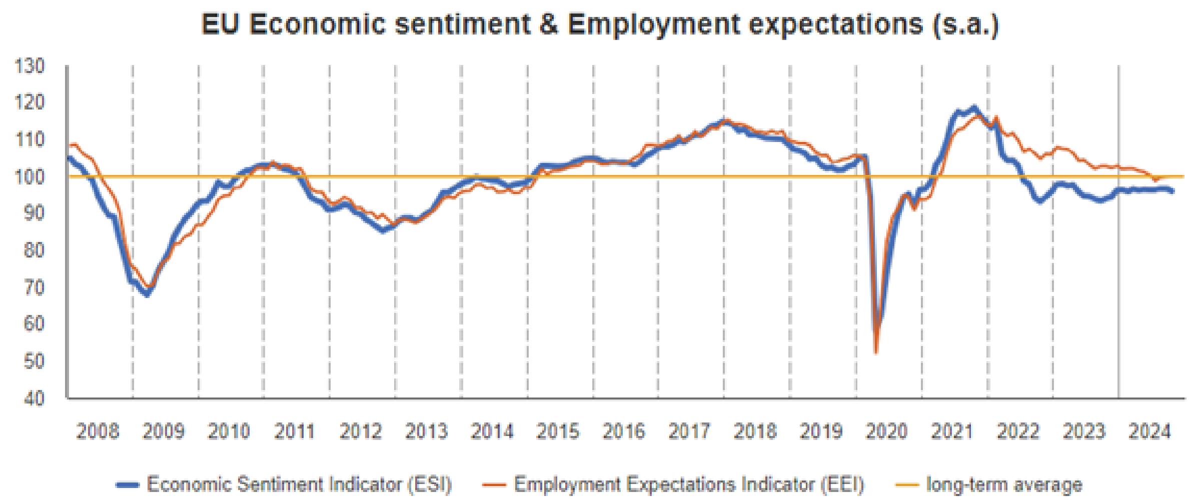
2025, forecasting a 1.1% GDP growth driven by a rebound in private consumption, renewed demand for industrial exports, and a turnaround in investment activity.

11. German October unemployment rises 27,000 after 17,000 putting rate up to 6.1% from 6.0% - biggest rise in a year. The number of unemployed individuals rose by 27K to 2.856 million, the highest level since September 2020, and more than forecasts of a 15K rise. "The autumn upturn in the labour market has largely failed to materialise this year", labour office head Andrea Nahles said

12. Eurozone 3Q flash GDP rises 0.4% q/q, 0.9% y/y after 0.2% q/q, 0.6% y/y - better than 0.2% q/q expected - best growth in 2-years. The German economy expanded 0.2%, surprisingly avoiding a recession, after a downwardly revised 0.3% decline in Q2. GDP growth also quickened in France (0.4% vs 0.2% in Q2) and the Spanish economy remained robust (0.8% vs 0.8%). In addition, the Portuguese economy grew 0.2%, the same as in Q2 while the GDP in Ireland (2% vs -1%) and Austria (0.3% vs 0%) rebounded and grew faster in Lithuania (1.1% vs 0.3%). On the other hand, the Italian economy stalled, following a 0.2% rise in Q2 and Latvia remained in contraction (-0.4% vs -0.3%). Year-on-year, the Eurozone GDP expanded 0.9%, the best performance since the Q1 2023, compared to a 0.6% rise in the previous quarter and higher than forecasts of 0.8%. The ECB expects the GDP in the Eurozone to expand 0.8% this year.

13. Eurozone October Economic Sentiment Indicator drops to 95.6 from 96.3 - worse than 96.3 expected and lowest since February. The decline was largely due to increased pessimism in industry (-13 vs -11 in September), the most in over two years, amid declines in both production and order book levels. In the meantime, the survey pointed to a rebound in consumer inflation expectations (13.3 vs 11), rebounding to its highest since February, potentially jeopardizing the progress in disinflation from the ECB’s tightening cycle. On the other hand, positive trends were picked up by stronger-than-expected results for the services sector (7.1 vs 7.1)

Exhibit #2: Does the EU mood matter more than 3Q GDP?



Source: EU economics, BNY

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

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