BNY

iFlow

MARKET MOVERS

October 31, 2024

Capacity

"Leadership is the capacity to translate vision into reality." – Warren Bennis

"What people have the capacity to choose, they have the capacity to change." – Madeleine Albright

Summary

Risk off as the focus on big tech drags markets, with Microsoft Cloud revenue rising but a weaker AI outlook due to capacity constraints spooks on this Halloween month-end soiree. The China stimulus first wave effect shows up in the NBS PMI manufacturing but troubling not in the services. The Japan and Korea industrial productions trouble as does the BOJ forecasts and inaction. The overall mood in Asia tracked the downbeat outlooks from the US and that extended to Europe where earnings there coupled with doubts about rates led by the UK hurt and higher CPI adds to ECB faster easing doubts. We face another big US economic data day with employment costs, PCE and weekly jobless claims all key.

What's different today:

- **UK 10-year Gilts off with yields up 6bps to 4.405%** - as markets rethink UK Reeves budget while German and French bonds drop with yields back at 3-month highs.
- **Hong Kong Hang Seng fell almost 4% this month** despite China stimulus push – concerns over US election, EU tariffs, and growth doubts drove.

What's are we watching?

- **US 3Q employment cost index** expected up 0.9% after 0.9% - key for productivity and wage expectations.
- **US September PCE core price index** expected up 0.2% m/m, 2.6% y/y after 2.7% - with focus on being below 2.8% y/y and improving for FOMC easing path.
- **US weekly jobless claims** expected up 3k to 230k with focus on continuing claims as well with -17k drop to 1.88mn expected.
- **3Q Earnings**: US corporate earnings: Apple, Amazon, Intel, Uber, Comcast, Amcor, Eastman Chemical, Conocophillips, Merck, Bristol-Myers Squibb, Regeneron, Cigna, Estee Lauder, Mastercard, Intercontinental Exchange, Southern, Ingersoll Rand, Borgwarner, International Paper, Coterra, Juniper Networks, Entergy, Xcel Energy, Kellanova, Huntington Ingalls, Wills Towers Watson, WW Grainger, Eaton, Altria, Linde, IDEXX, CMS Energy.

Headlines

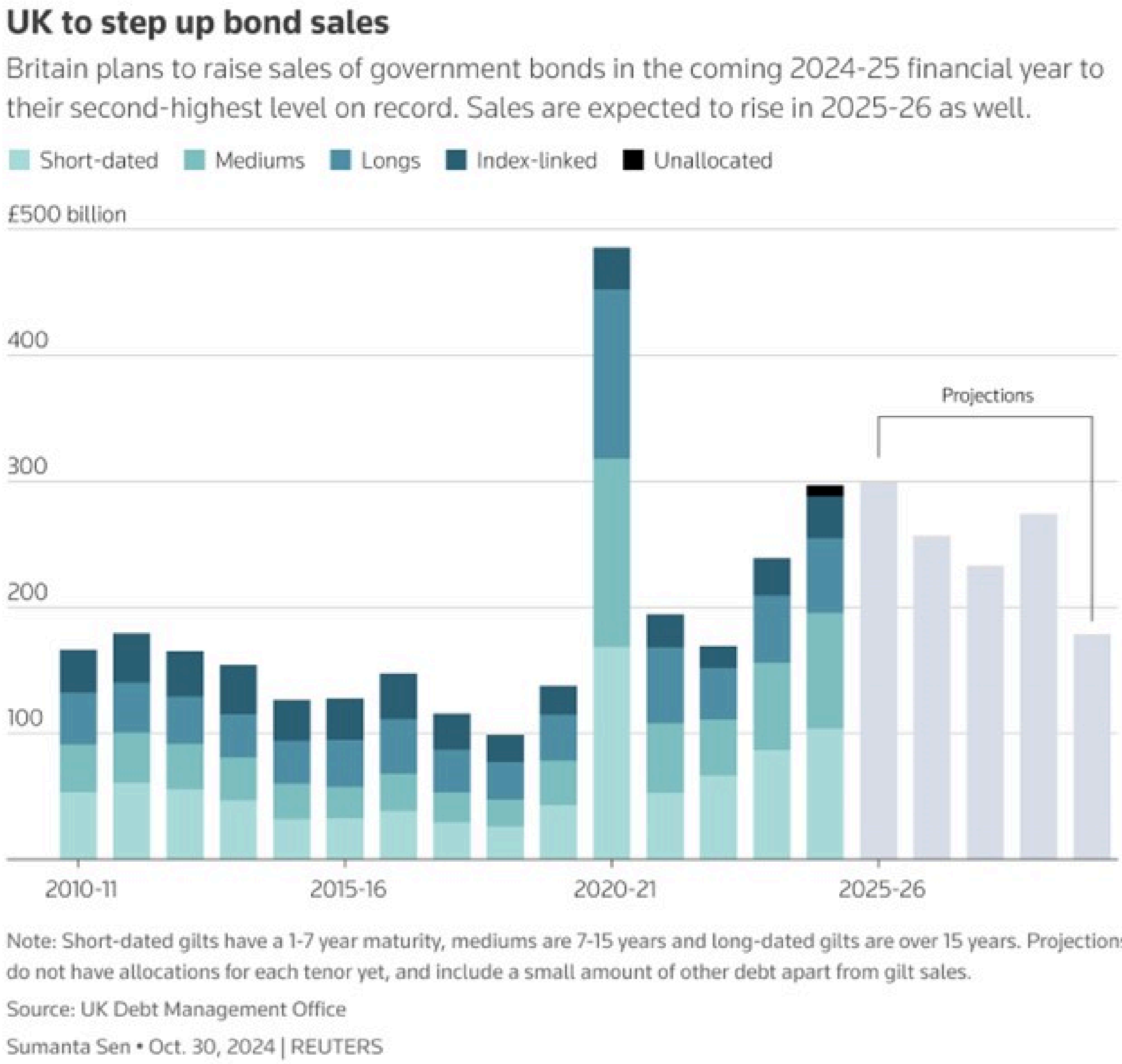
- Korea Sep industrial production drops -0.2% m/m, -1.3% y/y- first annual drop since July 2023 - linked to Semiconductors – Kospi off 1.45%, KRW up 0.3% to 1377
- BOJ keeps rates unchanged at 0.25% - as expected - with 9-0 vote, lower CPI forecasts; Japan Sep industrial production rises 1.4% m/m, -2.8% y/y - fourth monthly rise of year - led by autos - while retail sales fell -2.3% m/m, +0.5% y/y - weakest since Feb 2022.- Nikkei off 0.5%, JPY up 0.5% to 152.75
- Australian Sep building permits rise 4.4% m/m, while retail sales rise 0.1% m/m - linked to weather noise – ASX off 0.25%, AUD off 0.15% to .6565
- China Oct NBS manufacturing PMI up 0.3 to 50.1 - first expansion in 6 months - while services PMI up 0.2 to 50.2 even as new orders and jobs drop – CSI 300 up 0.04%, CNH flat at 7.1300
- Taiwan 3Q flash GDP up 3.97% y/y - as domestic demand moderates – TWD up 0.2% to 32.018
- Hong Kong 3Q flash GDP 1.8% y/y - weaker than 3.1% expected – Hang Seng off 0.31%
- North Korea launched long range ballistic missile - follows US/S.Korea condemnation of North Korea troops in Ukraine – WTI up 0.6%, Gold off 0.35%
- German Sep retail sales jump 1.2% m/m, 3.8% y/y - led by internet sales – DAX off 0.5%, Bund 10Y yields up 1.7bps to 2.405%
- Eurozone Oct flash CPI up 0.3pp to 2.0% y/y - while core steady at 2.6% y/y and with Sep unemployment steady at 6.3% - EuroStoxx 50 off 0.75%, EUR up

0.1% to 1.0865

The Takeaways:

The balancing act of the day is one about the capacity of investors to fund both the AI boom and the fiscal expansions of governments. The US fiscal worry is on hold until the US election next week, but the rest of the world leads with the UK rethinking the Autumn budget effects. The role of German and French rates trading at the 3Q high yields adds to the concern. Technically we are on the edge of breakouts and breakdowns in bonds and stocks. What happens today matters accordingly with fear that the US data could flip further hopes for US Fed easing lower and that this will add to US fixed income troubles. The core PCE, jobless claims and ECI all matter – but so too is the personal spending and income data as that will be used to view the sustainability of US exceptionalism as the consumer needs more capacity to spend which only comes from income. The other worry for markets is China where the stimulus effect was less dramatic than hoped for in October, but there is always November data to hold up hope. To build out more capacity in investors, you need more money, and the printing presses need tepid inflation to keep the mood of 2024 abundance intact.

Exhibit #1: Is the Gilt market leading global bond risks?



Source: Reuters, BNY

Details of Economic Releases:

1. **Korea September industrial production slips -0.2% m/m, -1.3% y/y after +4.1% m/m, +3.8% y/y - weaker than the +1.2% m/m, +0.2% y/y expected -** first annual decline since July 2023. The drop was linked to semiconductor production retreating 2.6% The all industry index fell -0.3% m/m, -1.1% y/y. At the same time retail sales fell -0.4% m/m, -2.2% y/y after a +1.7% m/m gain.

2. **Japan September industrial production rose 1.4% m/m, -2.8% y/y after -3.3% m/m, -4.9% y/y -better than the 1% m/m, -5% y/y expected** - the fourth monthly gain but the seventh annual decliee. mainly contributed by higher output of motor vehicles (7.1% vs -10.7% in August), inorganic and organic chemicals (6.6% vs -8.1%), and electrical machinery, and information and communication electronics equipment (2.2% vs -6.2%).

3. **Japan Sspetember retail sales fell 2.3% m/m,+0.5% y/y after +1% m/m, +3.1% y/y - weaker than the 2.3% y/y expected** - first monthly drop in 6-months, worst since August 2021 and weakest annual rates since February 2022.Sales rose in categories such as machinery & equipment (0.4%), food and beverages (0.4%), non-store retailers (2.9%), miscellaneous items (3.1%), and textiles, clothing, and personal goods (10.7%). In contrast, sales declined in fuel (-1.5%), pharmaceuticals & cosmetics (-0.8%), miscellaneous goods - including department stores, etc (-0.2%), and automobiles (-3.5%).

4. **Australian September building permits jump 4.4% m/m after -3.9% m/m - more than the 1.7% m/m expected.** Private home approvals rise 2.2% m/m after 2.3% m/m - in line - highlighting the gain was driven by a 4.7% jump in permits for private sector dwellings excluding houses and a 2.2% rise in approvals for private sector houses. On a geographical basis, total dwellings approved increased in Queensland (14.3%), Western Australia (11.4%), South Australia (8.2%), Victoria (6.0%), and Tasmania (0.5%), while falling in New South Wales (-14.8%).

5. **Australian September retail sales rise 0.1% m/m after 0.7% m/m - weaker than 0.3% m/m expected.** Sale rose mostly for household goods retailing (0.5% vs -0.4% in August), and cafes, restaurants, and takeaway food (0.4% vs 1.0%). Meanwhile, other retailing stagnated after increasing 1.3% previously. At the same time, sales fell for food retailing (-0.1% vs 0.5%), clothing, footwear, personal accessories (-0.1% vs 1.6%), and department stores (-0.5% vs 1.8%). Geographical-wise, sales rose in New South Wales (0.2%), South Australia (0.1%), and Western Australia (0.1%) but stalled in Queensland. Simultaneously, trade fell in Victoria (-0.1%), Tasmania (-0.3%), Northern Territory (-0.7%), and Australian Capital Territory (-0.1%).

6. **China October NBS manufacturing PMI rises to 50.1from 49.8 - better than 50 expected** - first expansion since April, as output grew for the second consecutive month, reaching its highest level in six months (52.0 vs. 51.2 in September), amid stimulus measures. New orders stabilized after five months of decline (50.0 vs. 49.9), though foreign sales dropped at an accelerated pace (47.3 vs. 47.5). Additionally, purchasing levels contracted at the slowest rate in five months (49.3 vs. 47.6), while employment declined at a slower rate (48.4 vs. 48.2). Delivery times lengthened at a softer pace (49.6 vs. 49.5). On the pricing front, input prices rose for the first time in four months and at the fastest pace since May (53.4 vs. 45.1), while output prices recorded the smallest decrease in five months (49.9 vs. 44.0). Lastly, business sentiment improved to a four-month high (54.0 vs. 52.0). The **NBS**

Services PMI rose to 50.2 from 50.0 - weaker than 50.4 expected as New orders (47.2 vs. 44.2 in August) and employment (45.8 vs. 44.7) both declined at a slower pace. Meanwhile, new export orders stabilized at 50.0 after falling for the previous nine months, and delivery times improved (51.2 vs. 50.2). On the pricing front, input costs rose for the first time in three months (50.6 vs. 48.2), while the decline in selling prices eased (48.5 vs. 46.1). Lastly, confidence reached a three-month high, rising to 56.1 from 54.4 in August.

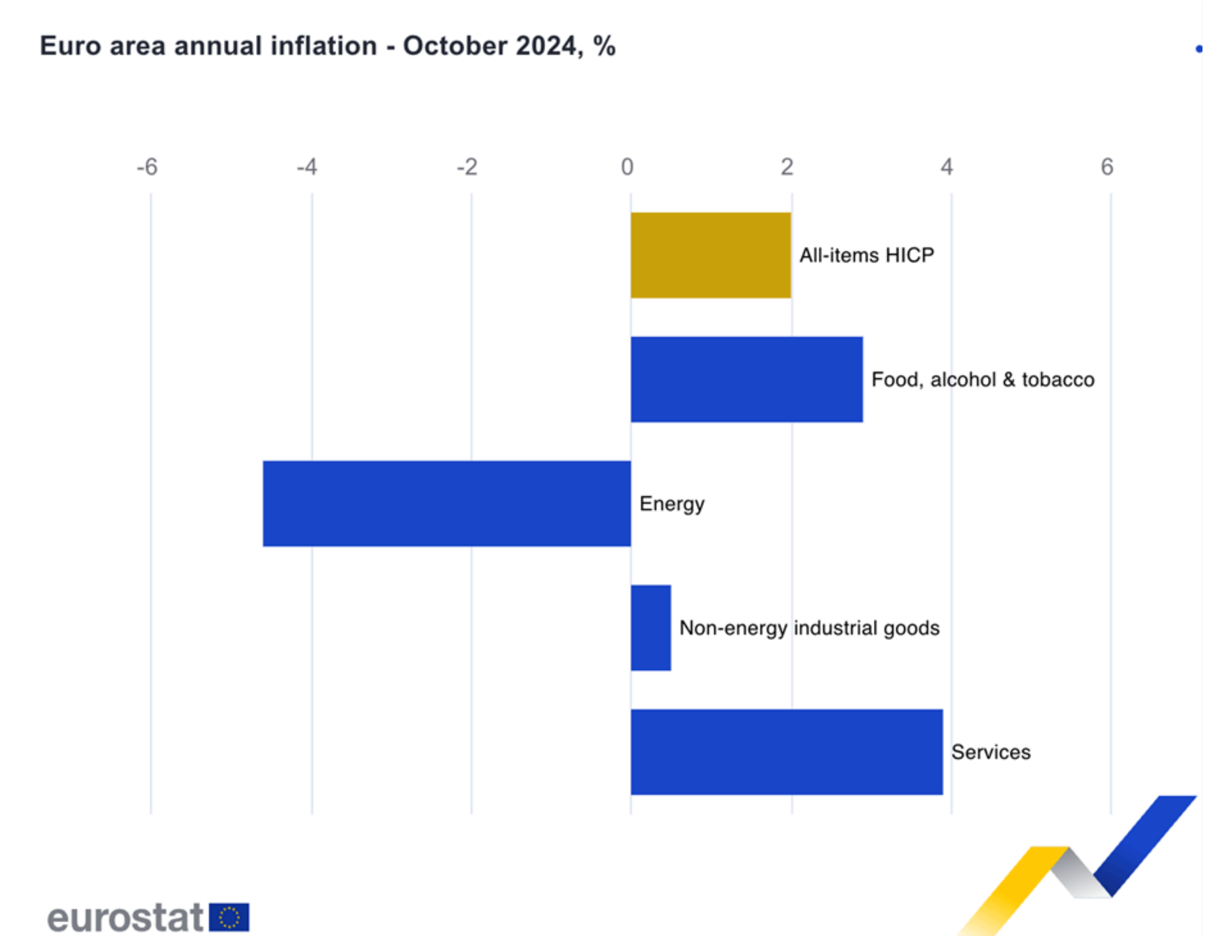
7. Taiwan 3Q flash GDP up 4.38% q/q, 3.97% y/y after 1.16% q/q, 5.06% y/y - better than the 3.4% y/y expected. Domestic demand contributed to the slowdown of the country's GDP, with household consumption easing (1.92% vs. 2.77% in Q2), while government spending increased (3.9% vs. 1.9%). Meanwhile, net external demand rose, as both exports (8.67% vs. 7.65%) and imports (13.33% vs. 10.15%) continued to accelerate.

8. German September retail sales rose 1.2% m/m 3.8% y/y after 1.2% m/m, 2.2% y/y - better than the -0.5% m/m, 1.6% y/y expected. Sales in the non-food sector soared 1.7% and sales via internet and mail were up 3.1%, offsetting a 0.8% fall in sales of food

9. Eurozone September unemployment steady at 6.3% - better than the 6.4% expected - The number of unemployed individuals decreased by 13,000from the prior month to 10.884 million. The youth unemployment rate, reflecting those under 25 seeking employment, ticked up to 14.4% in September from an upwardly revised 14.3% in the prior month. Among the major Euro Area economies, Spain still showed the highest unemployment rate at 11.2%, followed by France at 7.6% and Italy at 6.1%. In contrast, Germany reported the lowest rate at 3.5%. A year earlier, the jobless rate was higher at 6.6%.

10. Eurozone October flash CPI rise 0.3% m/m, 2% y/y after -0.1% m/m, 1.7% y/y - more than the 1.9% y/y expected. This year-end increase was largely expected due to base effects, as last year's sharp declines in energy prices are no longer factored into annual rates. Inflation has now reached the European Central Bank's target. In October, energy cost fell at a slower pace (-4.6% vs -6.1%) and prices rose faster for food, alcohol and tobacco (2.9% vs 2.4%) and non-energy industrial goods (0.5% vs 0.4%). On the other hand, services inflation steadied at 3.9%. Meanwhile, annual core inflation rate which excludes prices for energy, food, alcohol and tobacco was unchanged at 2.7%, the lowest since February 2022 but above forecasts of 2.6%.

Exhibit #2: Does the ECB care about CPI higher?



Source: EU economics, 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

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

.