BNY

iFlow
MARKET MOVERS

November 1, 2024

Saints

"A church is a hospital for sinners, not a museum for saints." – Pauline Phillips

"Pray a though everything depended on God. Work as though everything depended on you." – Saint Augustine

Summary

Risk mixed as the 3Q earnings from big tech support overnight but Asia PMI lower except in China worries and markets are light due to All Saints Holiday – fittingly for markets it's a day to celebrate martyrs that have died for a religious cause. The faith in markets to believe in a US soft landing will revolve around the NFP data today long with ISM while the overnight clearly spread doubts. US bonds matter and October was the first loss for treasuries since April and worst since September 2022. The role of all this on the USD seems clear enough – higher USD adding to troubles for the central bankers ahead that would like to ease rates faster.

What's different today:

- **UK October Nationwide home index off 0.8pp to 2.4% y/y-** still the 8th month of positive prices.
- **EU NatGas drop back from 11-month highs – off from E43.6 to E39.4 mwh –** reflects talk of Azerbaijan deals for Russia NatGas flows into EU this winter.
- **iFlow shows ongoing pull back in Mood index** – now nearly flat, with carry flat and trend lower. The USD was sold yesterday on month end with CHF, SEK and GBP buying in G10 while in EM CZK, HUF, ILS saw inflows while TRY, PLN, INR outflows.

Notable outflows in equities with all sectors lower, big India outflows along with Singapore. Bonds were again bought in US and New Zealand and a bit of Europe.

What's are we watching?

- **US October non-farm payrolls** expected 110,000 after 254,000 with hurricane and strike noise. The unemployment rate expected steady at 4.1% and the average hourly earnings flat at 4% y/y
- **US October manufacturing ISM** expected 47.6 from 47.2 – with state of industrial production key worry for 4Q. The final S&P manufacturing PMI expected 47.8 from 47.3.
- **US September construction spending** expected 0% m/m after -0.1% m/m – link to rates matters.
- **US 3Q Earnings**: Exxon, Chevron, PPL, Dominion Energy, T Rowe Price, Cboe Global Markets, Church & Dwight, Cardinal Health, Waters, LyondellBasell Industries, Charter Communications
- **Canada October manufacturing PMI** expected 50.5 from 50.4 – with autos a key focus along with oil/natgas.
- **Mexico September unemployment** expected flat at 3% - key for Banxico cuts ahead.
- **Brazil September industrial production** expected up 0.9% m/m, 2.8% y/y after 0.1% m/m, 2.2% y/y – key for COPOM rate hikes next week

Headlines

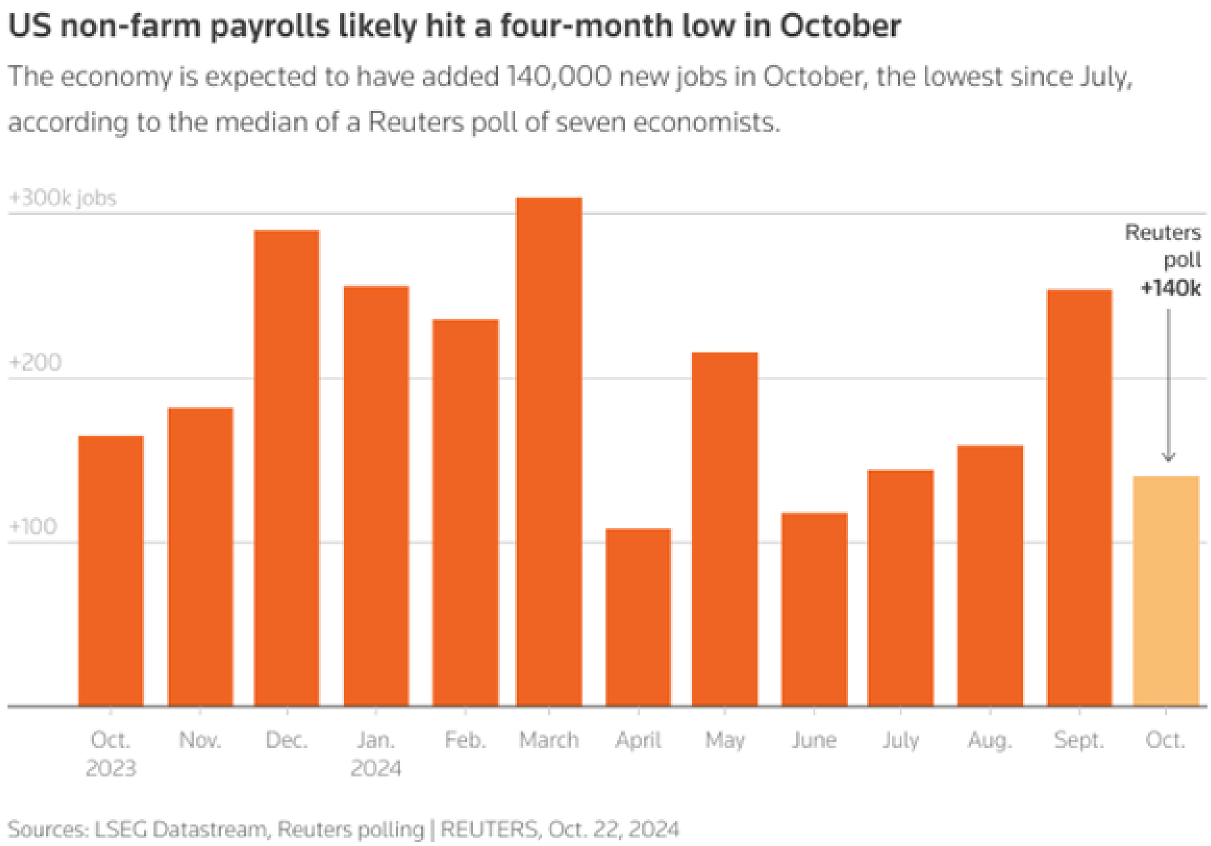
- Oil rises as press reports suggest Iran planning Israel attack – Brent up 2.5% to $74.60
- IMF warns on risks to Asian economies with trade tensions and softer China growth – sees regional GDP off 0.2pp to 4.4% in 2025 – Asian FX index -0.1%
- Australian Oct final manufacturing PMI up 0.6 to 47.3 while PPI 3Q up 0.9% q/q and home loans rise just 0.1% m/m - ASX off 0.5%, AUD off 0.3% to .6560
- Korea October exports slow to 4.6% y/y, trade surplus drops in half to $3.17bn while Oct manufacturing PMI flat at 48.3 worst output drop in 16-months – Kospi off 0.54%, KRW off 0.1% to 1377.50
- Japan Oct final manufacturing off 0.5 to 49.2 – worst in 4 months – Nikkei off 2.63%, JPY off 0.5% to 152.75
- China Oct Caixin manufacturing PMI up 1 to 50.3 – best in 4-months – with orders and inventories higher – CSI 300 off 0.03%, CNH off 0.15% to 7.1310
- Indonesia Oct CPI up 0.08% m/m, 1.71% y/y – lowest since Oct 2021 – while manufacturing PMI flat at 49.2 - IDR off 0.15% to 15,715

- Swiss Oct CPI -0.1% m/m, +0.6% y/y – lowest since June 2021 – Swiss Mkt up 0.7%, CHF off 0.5% to .8680
- Norway Oct PMI up 0.7 to 52.4 -led by new orders - while October jobless slows 0.2pp to 1.9% - NOK off 0.2% to 11.025
- UK Oct final manufacturing PMI off 1.6 to 49.9 – first contraction since April – led by orders drop into Autumn Budget, Moody's warns on growth after budget – FTSE up 0.6%, GBP up 0.1% to 1.2910

The Takeaways:

Fear dominated markets yesterday and seems to have been swept away today. The issues for the week ahead remain from the US election to the host of central bank decisions including the Fed. However, the moment of respite for anxiety comes from the 3Q earnings where Amazon's positive outlook offsets some of the other Magnificent 7 doubts. Overall, with more than 60% through the current earnings season, the blended annual profit growth estimate for the S&P500 has actually improved to as much as 7.5% - well up on pre-season forecasts of just over 5%. The hope for margins also gets a boost as the US PCE yesterday at 2.1% was the lowest since February 2021. Also better economic data from the US continued this week leaving 4Q outlooks healthy – but this brings us to today and this relative calm with Non-Farm Payrolls, Manufacturing ISM and the ongoing polling and prodding of the last few days for the US election. Overlay this with the ongoing worries about geopolitics – whether the North Korean Troops in Ukraine or the imminent threat of Iran attacking Isreal and you have some room for volatility into the weekend where US clocks fall behind to catch up to Europe. Whether the headlines in the next few hours prove as spooky as Halloween or confirm the saintly quality of US resiliency will matter.

Exhibit #1: Does NFP matter?



Source: Reuters, BNY

Details of Economic Releases:

1. **Australian October Judo Bank manufacturing final PMI 47.3 from 46.7 – better than 46.6 flash** – still ninth month of contraction. New orders fell sharply, extending the contraction to nearly two years, while export orders decreased more significantly due to reduced demand from key markets. Production also declined but at a slower pace than in September, with manufacturers clearing outstanding work at the fastest rate since May 2016. Employment levels fell for the fifth straight month, marking the steepest decline since July. Purchasing activity dropped sharply, with firms hesitant to hold excess raw materials amid falling demand. Delivery lead times lengthened due to delays in the Red Sea region and Asia, while shipping costs and input prices rose. Despite these challenges, business sentiment remained positive, as firms anticipated improved economic conditions supporting future production.

2. **Australian 3Q PPI up 0.9% q/q, 3.9% y/y after 1% q/q, 4.8% y/y – more than the 0.7% q/q expected** and the 17th straight period of producer inflation, with main contributors the output of property operators (1.9%), boosted by fees linked to higher rents; residential building construction (0.9%), amid rising labor cost and ongoing labor shortages of skilled tradespeople. Offsetting the rise was a price drop in petroleum refining and petroleum fuel manufacturing (-9.4%) due to reduced demand for oils and refined fuels. Through the year to

Q3, producer prices increased 3.9%, the least in four quarters, slowing from a 4.8% growth in Q2, which was the fastest pace in five quarters.

3. Australian September home loans rose 0.1% m/m after 2.4% m/m – less than the 0.3% m/m expected. Investor loans rose 29.5% y/y while new occupied home loans rose 13.1% y/y. Corelogic October home prices rose 0.3% m/m after 0.4% m/m – the 21st month of gains but suggesting some limits due to borrowing and affordability. Construction of dwellings grew by 1.7%., much weaker than a 7.5% surge in August. At the same time, there was a sharp slowdown in the purchase of existing dwellings (0.3% vs 2.0%). Simultaneously, the purchase of newly erected dwellings continued to decline (-0.2% vs -4.1%). Geographical-wise, new home loans increased in New South Wales (0.1%), West Australia (3.6%), Tasmania (3.3%), Northern Territory (20.0%) and the Australian Capital Territory (3.7%), but dropped in Victoria (-0.9%), Queensland (-1.7%), and South Australia (-1.0%).

4. Korea October trade surplus narrows to $3.17bn after $6.66bn – less than the $4.25bn expected – still the 17th month of surplus. Exports grew 4.6% year-on-year to $57.52 billion, the 13th consecutive month of expansion, but the softest pace in seven months, and below forecasts of a 6.9% gain, supported by robust semiconductor demand. Meanwhile, imports increased 1.7% from a year earlier to $54.35 billion, the fourth straight month of increase, but the softest pace in sequence, easing from a 2.2% rise in September and softer than estimates of a 2.9% growth.

5. Korea October manufacturing PMI steady at 48.3 – weaker than 49.5 expected - the fastest deterioration in operating conditions in 16 months. A significant drop in new orders contributed to the sharpest decline in production levels since June 2023. This overall weakness also prompted a renewed decrease in purchasing activity, marking the first decline since August 2023. Business confidence for the year ahead remains subdued compared to earlier in the year, with increasing evidence of spare capacity leading to a notable reduction in outstanding business. On a positive note, cost pressures continued to ease in October, enabling firms to lower charges for the second month in a row.

6. Japan October Jibun Bank final manufacturing PMI drops to 49.2 from 49.7 – better than 49.0 flash - the fourth consecutive month of contraction in factory activity and the sharpest decline since March. Output shrank at the fastest pace in six months, while new orders fell for the seventeenth month in a row and the steepest pace in three months, with export orders falling the most in seven months due to weak demand. Job creation stagnated amid reduced capacity pressures, with backlogs of work dropping at the steepest rate in seven months. Additionally, purchasing activity fell while supplier delivery times lengthened. On the pricing front, input cost inflation eased to a six-month low while output price inflation accelerated. Finally, business sentiment remained positive but was little changed from September's 21-month low amid concerns regarding the timing of the recovery from the current economic malaise.

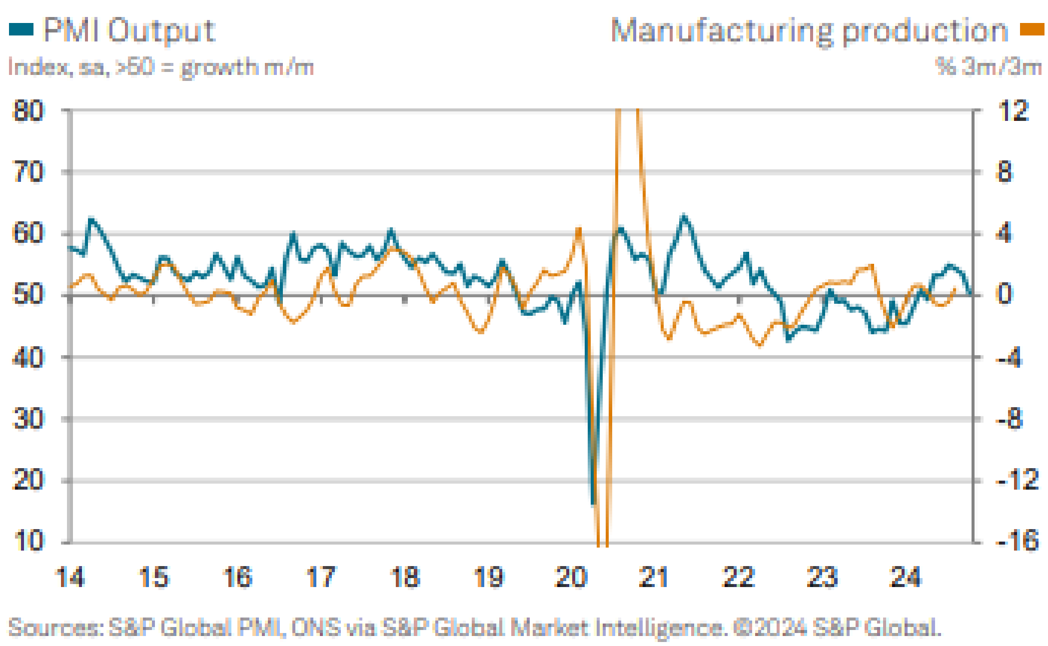
7. Indonesia October CPI up 0.08% m/m, up 1.71% y/y after -0.12% m/m, 1.84% y/y – in line with expectations – lowest rate since October 2021 but the first rise in monthly prices in six months. Food prices rose the least in 15 months (2.35% vs 2.57% in September), as rice supply remained abundant following delays in the harvest season to May from the typical March. Additionally, inflation moderated for recreation and culture (1.53% vs 1.55%) and education (1.90% vs 1.94%) while transport prices edged down (-0.08% vs 0.92%). Prices accelerated for health (1.71% vs 1.69%), clothing (1.20% vs 1.18%), and accommodation (2.36% vs 2.25%), while inflation was steady for housing (at 0.60%) and furnishing (at 1.08%). Meanwhile, communication prices continued to fall (-0.28% vs -0.28%). The core inflation rate hit a 15-month high of 2.21%, up from September's 2.09%.

8. China October Caixin manufacturing PMI rises to 50.3 from 49.3 – better than 49.7 expected - Output grew at the fastest pace in four months, driven by a renewed rise in new orders and increased buying levels. However, export orders continued to fall, albeit at a slower rate. Employment shrank the most in almost 1-1/2 years, with unfinished work growing due to a reduction in workforce capacity. On prices, input cost rose after falling in the previous two months, reflecting rising material costs. Consequently, selling prices increased for the first time since June as firms passed on the higher input costs. Despite this, export charges continued to fall as exporters faced heightened competition. Meantime, freight costs fell for some exports but lead times lengthened again. Finally, confidence notched a five-month peak.

9. Swiss October CPI off -0.1% m/m, +0.6% y/y after -0.3% m/m, +0.8% y/y - less than the 0.8% y/y expected – the fifth month of disinflation and the lowest since June 2021. Inflation slowed for housing and energy (3.5% vs 3.6%) and prices fell for transport (-2.7% vs -2.3% in September); food & non-alcoholic beverages rebounded (-0.3% vs 0.2%); household goods & services (-2% vs -3.5%); clothing & footwear (-1% vs -1.3%); and healthcare (-0.8% vs -0.7%).

10. UK October final manufacturing PMI slips to 49.9 from 51.1 – worse than the 50.3 flash – first contraction since April. New orders fell as clients applied a wait-and-see approach before the delivery of the UK budget. Also, new orders from foreign markets fell for the 33rd month amid lower client intakes from Europe, China, and the US. In turn, production edged higher through factories' efforts to deplete backlogs of work. Also, manufacturing employment increased for the third time in the last four months, albeit at a slower pace due to the lower demand for capacity that comes with lower order intakes. On the price front, input costs slowed to a ten-month low, and average selling prices rose the least since February. Looking forward, business optimism recovered only slightly from the nine-month low in September.

Exhibit #2: Does the UK budget matter that much to BOE?



Source: S&P PMI, BNY

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

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