BNY

iFlow

MARKET MOVERS

November 5, 2024

Finishes

"Do not plan for new ventures before finishing what is already on hand." - Euripides

"Being the first to cross the finish line makes one a winner in only one phase of life. It's what you do after you cross the line that really counts." - Ralph Boston

Summary

Risk on as markets await the results of the US election but timidly given the too close to call uncertainty leaves many wary of polls and surprises. Happy Guy Fawkes Day. Bonfires to follow with a finishing of fireworks. Gridlock is now the central assumption of markets with the chances for sweeps for both democrats and republicans lower. Further, overnight the RBA was on hold, the China PMI higher in Services and the Korea CPI lower - all things that push the view that global growth into 2025 is firm and that central bankers have room to help. There is still some news today before the results of the election come – ISM services, 10Y bond sale, more 3Q earnings, US trade – but the odds are that the race to the finish leaves markets waffling and nervous. It's about tomorrow and what happens after the finish that matters.

What's different today:

- **US October Logistics manager's index rose 0.3 to 58.9 - highest since Sep 2022** and pointing to solid growth for the sector. This is the 11th monthly rise and reflects rising warehouse use, transportation and worryingly the highest price rise there since May 2022.

- **Copper jumps to $4.45 / lbs - highest in a month** and led by greater confidence in China stimulus.
- **iFlow further equity selling in G10** and less from EM with LatAm selling, EMEA and APAC mixed – all sectors seeing outflow. The USD was sold yesterday, first time in weeks, AUD, CHF, SEK and GBP main winners. EM saw ILS, CNY, KRW inflows. Bonds flows are back to selling LatAm buying New Zealand and India.

What's are we watching?

- **US October service sector ISM** expected down 1.1 to 53.8 with focus on prices and jobs still, while the final S&P Global services PMI expected unchanged from flash at 55.3
- **US September trade deficit** expected $84bn up from $70.4 – goods accounted for most of this with exports down in the flash report.
- **US 3Q corporate earnings**: Super Micro Computers, Marathon, Dupont De Nemours, Archer-Daniels-Midland, Emerson, Microchip Technology, Jack Henry, Devon Energy, Assurant, International Flavors and Fragrances, Yum! Brands, Gartner, Progressive, Cummins, STERIS, Henry Schein, Targa.
- **US Treasury** auctions $42 billion of 10-year notes
- **Bank of Canada meeting minutes** – debate about 25 or 50bps and what follows into 2025 key.

Headlines

- RBA leaves rates on hold at 4.35% as expected, Oct final services PMI up 0.5 to 51 - 9th month of growth – ASX off 0.4%, AUD up 0.6% to .6625
- Korea Oct CPI drops 0.3pp to 1.3% y/y - lowest since Jan 2021 - 7th month below BOK target top – Kospi off 0.47%, KRW off 0.25% to 1379.90
- China Oct services PMI jumps 1.7 to 52.0 - best since July – CSI 300 up 2.53%, CNH up 0.1% to 7.1055
- Indonesia 3Q GDP rises 1.5% q/q, 4.95% y/y - lower due to slowing consumption – IDR up 0.1% to 15,730
- Swiss unemployment steady at 2.5% - Swiss Mkt off 0.1%, CHF up 0.2% to .8625
- French Sep industrial production off -0.9% - first drop since May – CAC 40 up 0.1%, OAT 10Y yields up 4.5bps to 3.18%
- German auto supplier Schaeffler plans to cut jobs and close two plants – DAX up 0.1%, Bund 10Y up 4bps to 2.43%, EUR up 0.15% to 1.0895
- UK Oct final services PMI slows 0.2 to 52.0 - weakest since November 2023 – FTSE flat, GBP up 0.3% to 1.2990

- Boeing strike ends with 58% of union supporting 38% pay hike - Boeing shares up over 2%, S&P500 futures up 0.1%, US 10Y yields up 3bps to 4.317%.

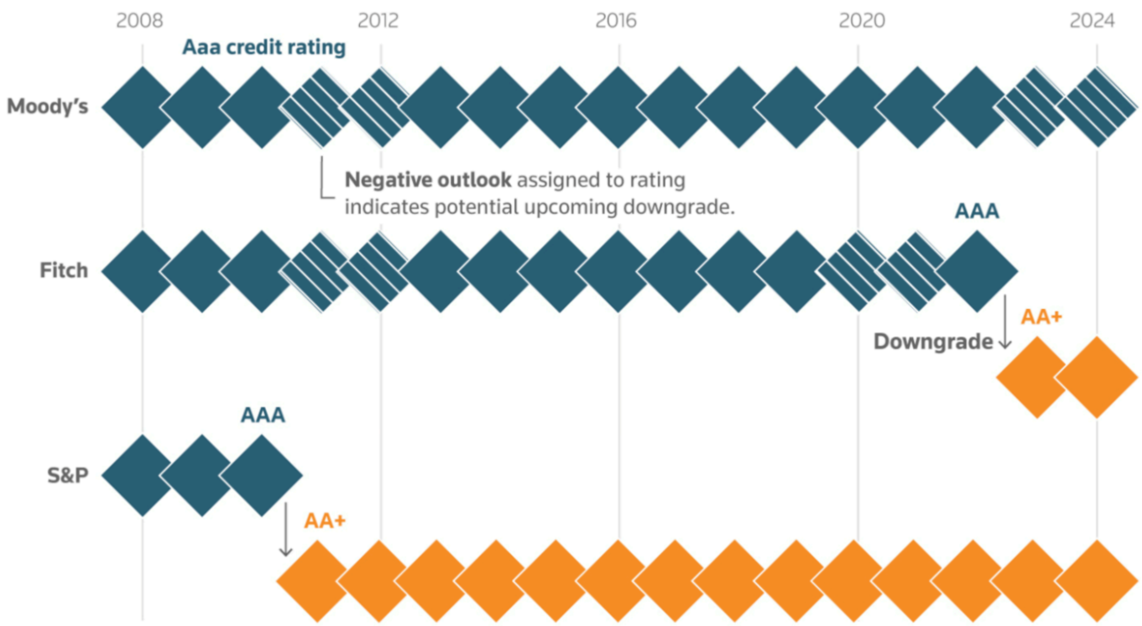
The Takeaways:

The good news is that the wait for the US election is over, the bad news is that it will be a long night for volatility and vote counting. Markets are set up for a divided government. Odds for a Republican sweep dropped from 45% to 35% over the last 2 weeks while those for a Democrat sweep steady at 20%. The splitting of of government control has usually helped the US markets as the ability to spend money requires agreement between Congress and the President. However, this may be insufficient for risks ahead as the debt size now and the heavy debates over raising taxes and cutting spending loom into 2025 with the budget ceiling returning and taxes set to revert to pre-2016 levels. The risk for the markets is in debt and credit as the US government will be tested on its ability to get to a sustainable debt path. In many ways the 2024 election may be over, but the 2028 one is just starting as that will be the time that spending and debt service truly collide. We have seen the cost of the US debt service rise from 2% in the decade of low rates to over 15% now - the history of compound interest costs makes clear that doubling the size of the debt in less than 7 years means trouble. What the implications are for tonight and the bond market and the USD are all intertwined into the rhetoric of what voter's think is important - and perhaps that is the divide between Wall Street and Main Street as the economy rests on both.

Exhibit #1: Does US debt matter after the vote?

Next US administration faces risk of another credit rating downgrade

Moody's is the only major debt watcher that rates the U.S. triple-A, but the outlook is negative. S&P and Fitch downgraded the sovereign in separate occasions, after debt ceiling disputes.



Source: Credit rating agencies

Prinz Magtulis • Nov. 1, 2024 | REUTERS

Chart shows the U.S. credit rating from three major debt watchers, Fitch, S&P and Moody's from 2008 to 2024.

Source: Reuters, BNY

Details of Economic Releases:

1. Australia October final Judo Bank services PMI rises to 51 from 50.5 - better than the 50.6 flash and marking nine straight months of growth in the services sector. Activity in the Australian services sector grew at its fastest pace since May 2022, primarily due to higher domestic demand, especially in finance and insurance. This growth was domestic-focused, with export business shrinking for the second consecutive month. Input and wage costs eased, resulting in the lowest input inflation rate in 45 months. However, firms raised selling prices more quickly to offset recent cost pressures, pushing inflation above its long-term average. Employment saw its fastest growth in five months, aiding backlog clearance, which has steadily declined since May. Optimism improved in early Q4, with service providers expecting stronger sales amid better economic conditions.

2. Korea October CPI slows to 0% m/m, 1.3% y/y after 0.1% m/m, 1.6% y/y - lower than the 0.2% m/m, 1.4% y/y expected and lowest since January 2021 and marked the seventh consecutive month that price growth stayed below 3%. This reinforces expectations that the Bank of Korea could cut interest rates again after kicking off its easing cycle in October, with the next reduction likely to be brought forward as early as January. The BOK slashed its policy rate by 25 basis points to 3.25% last month, marking the first reduction since May 2020.

3. **China October Caixin Services PMI rises to 52.0 from 50.3 - better than the 50.5 expected -** highest reading since July, as new business inflows grew for the first time in four months, with a solid rise in export orders. Meanwhile, employment increased for the second consecutive month, though only marginally, while backlogs of work rose slightly for the third straight month. On the cost side, input prices increased due to higher material and energy costs, although the inflation rate eased to a three-month low and remained below the series average. Output prices, meanwhile, stabilized after two consecutive months of decline. Finally, business confidence improved to a five-month high, rebounding from September's four-and-a-half-year low amid hopes for better economic conditions and increased promotional efforts

4. **Indonesia 3Q GDP rises 1.5% q/q, 4.95% y/y after 3.79% q/q, 5.05% y/y - less than the 1.6% q/q, 5.0% y/y expected.** Private consumption (-0.48% vs 3.12% in Q2) fell amid some factory closures and job cuts. Also, government spending shrank (-0.67% vs 19.57%) due to a seasonal pattern. Meanwhile, fixed investment showed a bounce back (8.44% vs -0.66%). On the trade front, exports (8.1% vs 0.85%) and imports (8.99% vs 2.56%) grew, adding positively to GDP. Turning to the production side, activity was sluggish for agriculture (0.1% vs 23.43%), transport and warehouse (0.98% vs 7.05%), and accommodation (0.4% vs 4.14%). Moreover, education output shrank (-6.40% vs 6.72%), as did financial services and insurance (-1.81% vs 2.27%), and state administration (-16.84% vs 0.12%). By contrast, production picked up for manufacturing (4.24% vs 0.3%) and utilities (3.42% vs 1.46%) while rebounding for mining (5.62% vs -2.17%) and construction (6.06% vs -1.72%).

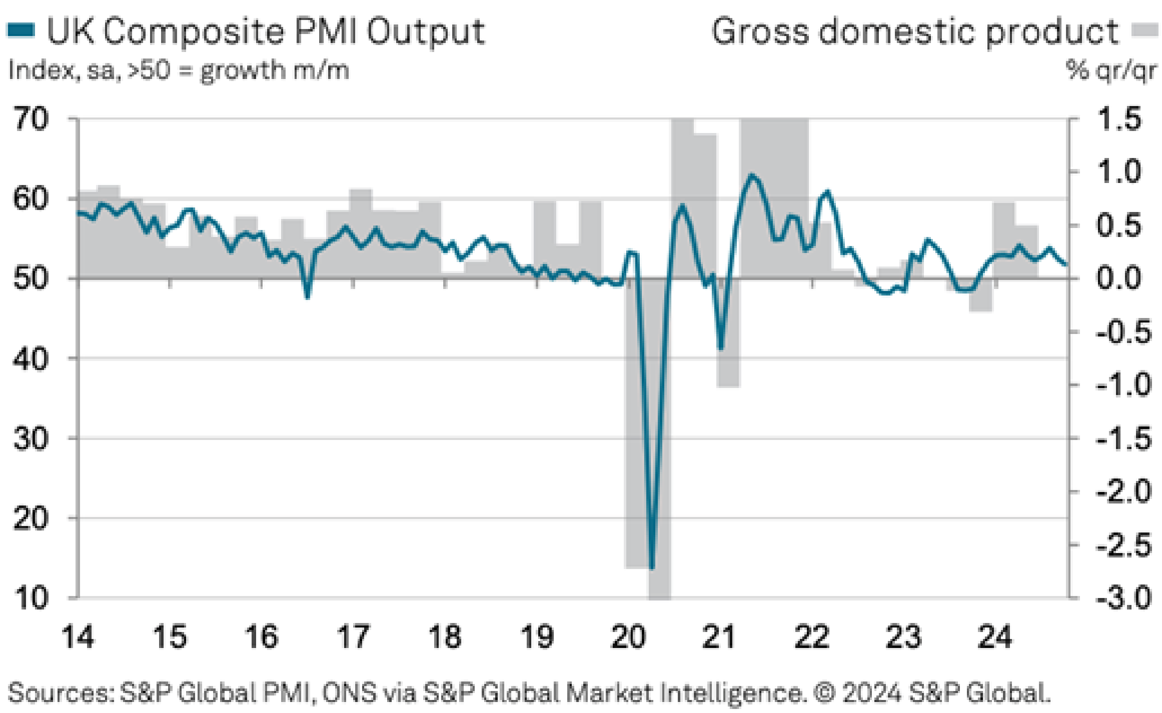
5. **Swiss October unemployment steady at 2.5% - as expected.** The number of unemployed persons increased by 3,202 from a month earlier to a 32-month high of 116,447. Meanwhile, the youth unemployment rate, measuring job-seekers between 15 to 24 years old, edged down to 2.6% from 2.7% in each of the previous two months, with the number of young unemployed falling by 336 to 11,621. The number of vacancies reported dropped by 3,849 to 34,471 positions during the month.

6. **French September industrial production drops -0.9% m/m after +1.1% m/m - weaker than the -0.7% m/m expected.** the first fall in industrial activity since May, with output decreasing in manufacturing (-0.8% vs. 1.4% in August), particularly in machinery & equipment goods (-0.9% vs. 1.7%) and other manufacturing (-1.8% vs. 2.4%). Additionally, activity fell in mining & quarrying, energy, water supply, and waste management (-1.2% vs. -0.1%), as well as in construction (-0.3% vs. -0.6%).

7. **UK October final services PMI slows to 52.0 from 52.4 - better than the 51.8 flash -** but the second slowing month and the lowest since November 2023. Companies suggested that improving domestic economic conditions had helped to boost overall business activity although heightened business uncertainty ahead of the Autumn Budget was a factor delaying spending decisions among clients. New work growth was the slowest since June, but export sales growth accelerated to its fastest since March 2023. In addition, employment fell for first time this year. On the price front, higher salary payments continued to push up input costs and efforts to pass on rising wages contributed to another robust increase in average prices charged by service sector firms. Finally, business optimism eased

---

Exhibit #2: Does the PMI suggest a topping out?



Source: S&P PMI, BNY

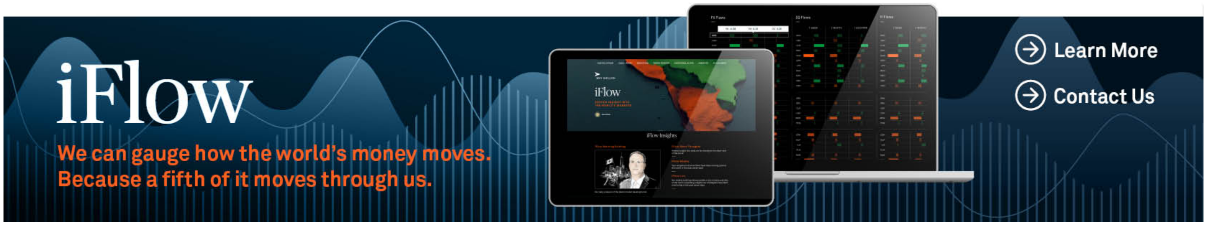
Disclaimer & Disclosures

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.