

October 15, 2024

## Listening

*“We have two ears and one mouth, so that we can listen twice as much as we speak.” – Epictetus*

*“Listening is an art that requires attention over talent, spirit over ego, others over self.” – Dean Jackson*

### Summary

Risk mixed again with China doubts about stimulus one factor, European doubts about growth another despite better German and EU ZEW and lower inflation. UK jobs were mixed and GBP is higher regardless. Markets are also watching oil as it drops 5% - this should be good for reducing price concerns but likely adds to doubts about demand weakness. The focus shift back to 3Q earnings and to US growth today will be important as will the ongoing heat up of coverage on the US election – Trump interview at mid-day may matter for markets – while Fed speakers and NY Empire Fed fill out the news agenda today. USD is lower thanks mostly to GBP and JPY after a short-lived test of 150 while US rates are lower thanks mostly to oil and Fed speakers with 10Y off 3bps. US equity futures near flat. Markets are likely to hear what they want to hear again today with US equity indices at records while sentiment is average at best.

### What's different today:

- **Crude Oil is off 5%** - as fears about Israel attacks on Iran oil infrastructure fell and as both OPEC and IEA cut demand outlooks linked to China.

- **Hong Kong Hang Seng fell 3.7%** - off for the second straight session - as fears rise that China stimulus plans are waiting for US election clarity
- **iFlow still showing extreme positive mood** – showing our client buy risk – even with most G10 equities seeing outflows with APAC mixed. The bond markets continued to see New Zealand favorite in G10 and China selling in EM while in FX USD buying vs. AUD, CHF notable and in EM CNY selling vs. THB buying stands out as does the ZAR buying.

#### What are we watching:

- **Canada September CPI** expected -0.2% m/m, 1.8% y/y after 2% y/y with trimmed mean expected up 0.1pp to 2.5% y/y - key for BOC rate cut expectation post stronger jobs report.
- **US October NY Empire State Manufacturing index** expected down to 2.3 from 11.5 - precursor to other regional Fed reports on manufacturing - key for growth outlook 4Q.
- **US 3Q earnings:** Bank of America, Goldman Sachs, Citigroup, State Street, PNC, Progressive, Charles Schwab, Omnicom, Johnson & Johnson, Walgreens Boots Alliance, Unitedhealth, United Airlines, JB Hunt etc
- **Central Bank Speakers:** Federal Reserve Board Governor Adriana Kugler, San Francisco Fed President Mary Daly and Atlanta Fed chief Raphael Bostic all speak. European Central Bank President Christine Lagarde speaks

#### Headlines

- Israel Netanyahu willing to only strike military targets according to US officials - while IEA sees oil demand slowdown in 2024 and 2025 linked to China – WTI off 4.75% to \$70.34
- Canada expels top India diplomats links them to murder of Sikh leader – CAD off 0.15% to 1.3815, INR flat at 84.04
- Japan Aug final industrial production -3.3% m/m, -4.9% y/y - linked to autos – Nikkei up 0.77%, JPY up 0.3% to 149.25
- China Caixin reports suggests CNY6trn for special bond issuance over 3 years – CSI 300 off 2.66%, CNH off 0.4% to 7.1280
- North Korea blows up inter-Korea road and rail lines near border – Kospi up 0.39%, KRW off 0.2% to 1360.50
- Indonesia Sep trade surplus up \$0.5bn to \$3.26bn - led by US and Japan exports – IDR off 0.15% to 15,575

- German Sep WPI falls -0.3% m/m, -1.6% y/y - 17th month of declines and fastest drop since April - while German Oct ZEW bounces up 9.5 to 13.1 - on lower inflation view – DAX up 0.2%, Bund 10Y off 3.5bps to 2.237%
- French Sep final CPI revised lower by 0.1pp to 1.1% y/y while Spanish confirmed at 1.5% y/y – CAC40 off 0.8%, OAT 10Y off 5bsp to 2.98%
- Eurozone Aug industrial production rose 1.8% m/m, 0.1% y/y - best since Feb 2023- while EU ZEW jumps 10.8 to 20.1 - The 3Q ECB Bank Lending Survey shows net increase in loan demand, led by housing – EuroStoxx 50 off 0.45%, EUR off 0.1% to 1.09
- UK Sep claimant count rises to 27,900 while 3M Sep unemployment drops 0.1pp to 4.0% and wages drop 0.2pp to 4.9% y/y – FTSE off 0.5%, GBP up 0.15% to 1.3080

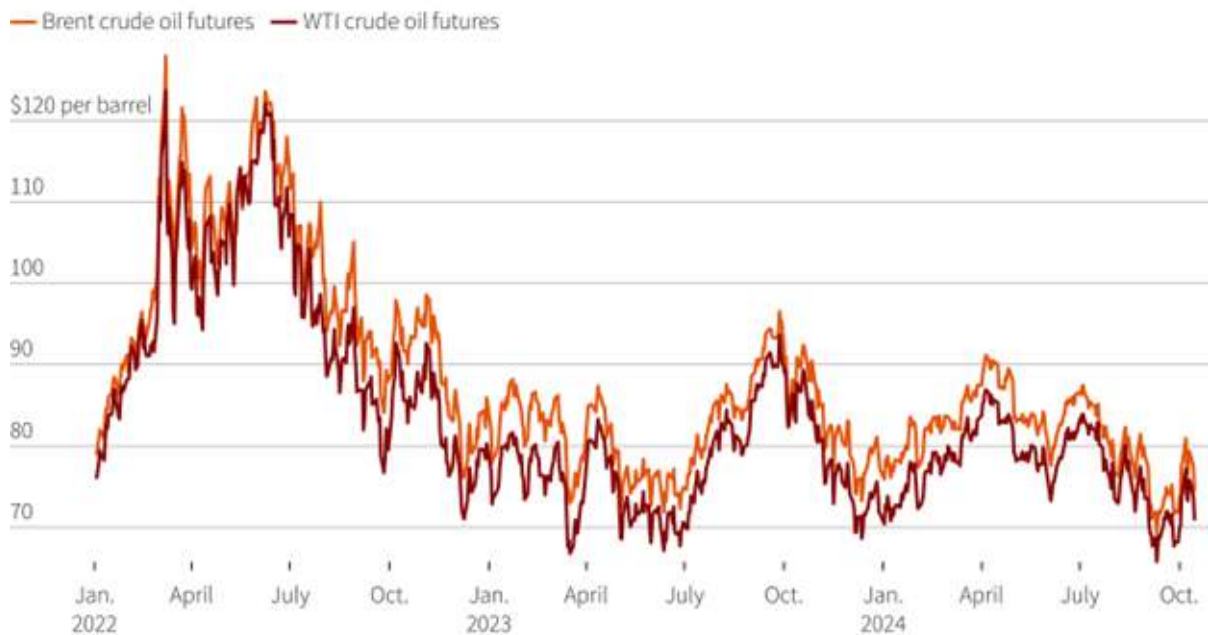
### **The Takeaways:**

Markets listen but hear what they want. There is no better example of this than China where the actions of the government to bolster property, consumer mood and markets has not proved sufficient. This is the driver for the day as trends fight value and growth with the news ahead likely less able to shift anyone from thinking that stocks continue to melt higher, bonds drift and the USD should dribble lower. The biggest story overnight remains that of oil which is back to \$70 bbl and matters to consumers most everywhere. The cost of gasoline and carbon heavy driving remains a fact of the present and leaves the outlook for bonds and monetary policy easier. The room allowed by easier energy prices into Autumn and the set up for Winter storage demands matters to how inflation and growth plays out in 4Q. The day ahead is likely to pivot on how price action moves in a lower news, lower confidence world where any surprise could derail the current constraint. Listening for that shift in thinking or mood matters now more than usual and it could come from anywhere politics, geopolitics, weather or even the 3Q earnings where outlooks for 4Q look just as important as 3Q performance.

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### **Exhibit #1: Will the stimulus matter to energy prices in 4Q?**

## Oil prices drop as China weakness dents demand



Source: LSEG | Reuters, Oct. 15, 2024 | By Harry Robertson

Source: Reuters, BNY

### Details of Economic Releases:

**1. Japan August final industrial production fell -3.3% m/m, -4.9% y/y after +3.1% m/m, +2.9% y/y - as expected** - fifth decline of the year, mainly attributed to lower output of motor vehicles (-10.7% vs 1.9% in July), electrical machinery, and information and communication electronics equipment (-6.2% vs 7.5%), and production machinery (-4.6% vs 7.0%).

**2. Indonesia September trade surplus \$3.26bn after \$2.78bn - more than the \$2.83bn expected** but down from \$3.4bn in September 2023. Exports increased by 6.44% from a year earlier, marking the sixth consecutive month of growth, though at the slowest pace in three months and below market expectations of an 8% gain. Export growth was mainly driven by higher shipments to the US (20.45%), Japan (14.78%), China (3.53%), ASEAN countries (12.15%), and the EU (16.96%). Meanwhile, imports rose by 8.55%, below market forecasts of an 11.8% increase and softer than August's 9.46%, amid the government's plans to impose import duties on several commodities.

**3. German September WPI drops -0.3% m/m, -1.6% y/y after -0.8% m/m, -1.1% y/y - lower than the +0.2% m/m expected.** This was the 17th straight month of falling producer prices and the fastest decrease since April, dragged by lower prices for mineral oil products (-14.6%), live animals (-5.8%), iron, steel and ferrous semi-

finished metal products (-5.8%), and computers and peripheral equipment (-5.2%). On the other hand, costs increased for coffee, tea, cocoa and spices (24.2%), non-ferrous ores, non-ferrous metals and non-ferrous semi-finished metal products (15.8%), sugar, confectionery and bakery products (9.4%), waste and scrap (8.8%), and tobacco products (5.6%).

**4. German October ZEW economic sentiment index rises to 13.1 from 3.6 - better than 10 expected.** The rise is mostly due to "expectation of stable inflation rates and the associated prospect of further interest rate cuts by the ECB. Positive signals are also coming from Germany's export markets. Economic expectations for the eurozone, the USA, and China have also significantly improved. The increased optimism for China is likely linked to the Chinese government's economic stimulus measures", according to the ZEW President Professor Achim Wambach. On the other hand, the assessment of the economic situation in Germany continued to worsen (-86.9, the lowest since May 2020 vs -84.5 in September).

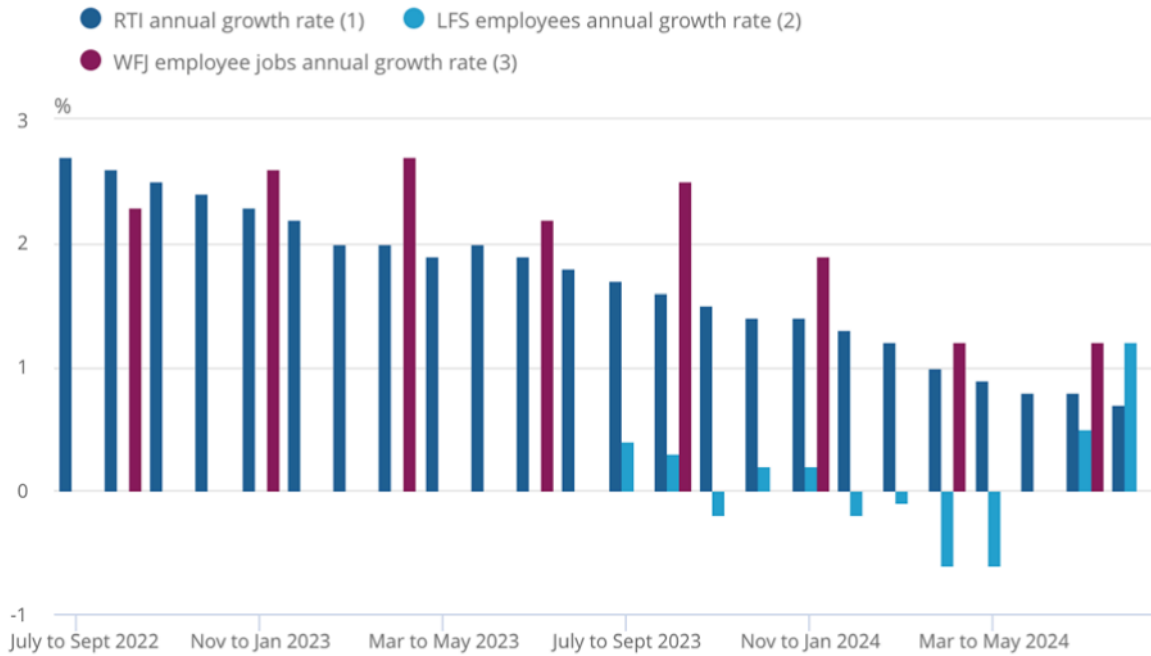
**5. Eurozone August industrial production rose 1.8% m/m, +0.1% y/y after -0.5% m/m, -2.1% y/y - better than the -1% y/y expected** - the first gain of the year. Gains were seen in energy up 0.4% m/m, capital goods up 3.7% m/m, durable goods up 1.7% m/m while intermediate goods fell -0.3% m/m. Ireland had the biggest gains up 4.5% m/m, while Germany was up 3.3% m/m.

**6. UK September claimant count unemployment rises to 27,900 from 300 - worse than the 20,000 expected - while the 3-month average to August unemployment rate dips to 4% from 4.1%** - best level since January, as the number of unemployed individuals declined by 141 thousand to a seven-month low of 1.39 million. During this period, the number of people unemployed for up to six months dropped below levels from a year ago, while those unemployed for over six months also decreased but remained above last year's estimates. Meanwhile, the number of employed individuals surged by 373 thousand, the highest increase on record, reaching 33.37 million, primarily driven by a rise in both full-time and part-time employees. The number of people with second jobs also increased, accounting for 3.8% of all employed individuals. Lastly, the economic inactivity rate fell by 0.1 percentage point to 21.8%. Average weekly earnings including bonuses were up 3.8% y/y from 4.1% y/y - lowest since November 2020. Pay growth slowed sharply in the public sector (0.1% vs 0.8%) and eased slightly in the private sector (4.7% vs 4.8%). This is affected by the NHS and civil service one-off payments made in June, July and August 2023.

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## Exhibit #2: Does UK job data matter to BOE?

### Annual growth rates, employment indicators, seasonally adjusted, UK, July to September 2022, to June to August 2024



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