

October 16, 2024

Dikes

“We must build dikes of courage to hold back the flood of fear.” – Martin Luther King, Jr.

“By gnawing through a dike, even a rat may drown a nation” – Edmund Burke

Summary

Risk off as Europe dragged lower by LVMH and ASML selling post earnings, as rate cuts from Thailand and Philippines are seen as necessary more than good surprises, while BI holds and as China plans another housing briefing while cynics continue to doubt stimulus, with the only exception to worry coming in the UK FTSE as lower CPI - 2% for the first time since 2022 - adds to BOE rate cut hopes and pushes the GBP back to 2-month lows. The higher USD, lack of any economic data leave markets watching 3Q earnings and waiting for more from retail sales tomorrow and ECB decision. The lack of confidence in China hurts Europe more than the US today while the lack of demand for chips outside of AI hurts as well. The lower CPI in UK and weaker stocks in EU leave US bond yields lower and many see the key for today in growth outlooks from earnings calls more than anything new in the US election which remains too close to call.

What's different today:

- **Copper futures steady at \$4.31/lbs bouncing back from 3-week lows** as investor again cover risks into China housing briefing tomorrow -

- **US weekly MBA mortgage applications drop -17%** worst drop since 2015 – blamed on rate moves in mortgages. Applications to refinance homes fell 26% w/w, while new home applications fell 7%.
- **iFlow indicators show trend higher but positioning in that negative**, with carry positions long and factor negative – both suggest risk reversals ahead. Mood remains extremely positive while G10 equity flows were mostly negative while bond buying was only in New Zealand, with China selling of bonds notable. FX in G10 saw dollar buying vs. CHF, AUD, EUR outflow. The APAC flows were negative except in THB.

What are we watching:

US 3Q earnings: Morgan Stanley, US Bancorp, Citizens Financial, Discover Financial, Equifax, Synchrony, Prologis, Abbott Laboratories, CSX, PPG, Kinder Morgan, Steel Dynamics, Crown Castle

ECB Lagarde speaks ahead of the ECB decision tomorrow - few expect any hints on rates but some color on EU growth

US September import/export prices - with imports ex oil expected up 0.1% m/m while exports expected -0.4% m/m – reflects USD valuation and global demand.

Headlines

- Bank of Thailand cuts rates 25bps to 2.25% - surprising market in 5-2 decision - first cut since 2020, aiming to ease debt burdens – THB up 0.4% to 33.19
- Philippines Central Bank cuts rates 25bps to 6% - as expected - second consecutive easing even with higher CPI forecasts – PHP up 0.15% to 57.73
- Bank of Indonesia keeps rates on hold at 6% - as expected – IDR up 0.4% to 15,505
- China housing minister plans Thursday briefing with PBOC – CSI 300 off 0.63%, CNH up 0.15% to 7.1260
- Korea Sep unemployment up 0.1pp to 2.5% - Kospi off 0.88%, KRW up 0.2% to 1360.50
- Japan Aug core machinery orders fell -1.9% m/m, -3.4% y/y - 5th drop of year - with transport leading - while BOJ Adachi calls for “very moderate” pace of rate hikes – Nikkei off 1.83%, JPY off 0.1% to 149.35
- Australian Westpac MI LEI flat - with 6M average up 0.11 to -0.15% y/y pointing to ongoing sluggish growth - while RBA Hunter sees inflation

expectations anchored – ASX off 0.4%, AUD off 0.2% to .6685

- UK Sep CPI 0% m/m, 1.7% y/y - led by transport, air fares and gasoline - lowest since May 2022 and below BOE target – FTSE up 0.65%, GBP off 0.4% to 1.3015

The Takeaways:

Worry like water finds the lowest path - and like the famous Dutch proverb of a boy with a finger in the Dike- all overwhelms those that can't see above the curb. The flow of fear moves from the Tech valuation to China demand and back to rates and the broader economy. The rally up in the USD today and the drop in the two key sectors that have led EU stock gains stands out -as it maybe a foreshadowing of US troubles today. Markets are global even and world economies try to remain in their silos, the interdependence of money flows on valuation and trend and carry intersect. There is one way back for US exceptionalism and that remains linked to growth and productivity. The NY Fed Williams speech on a global R* is the food for thought for those wanting to dig deeper into how growth and rate policy and inflation matter. Many will argue that the US natural rate is higher now post the pandemic with higher growth and better productivity making the neutral rate 3.5% not 2.85%. The end result matters to the bond market, to how debt costs are considered in the future and how the USD trades. On the day, the focus is on equities not bonds or FX, but the web of markets can't be separated without a larger breakdown in the safety blanket of easing policy.

Exhibit #1: Will the EU worries about tech and consumer discretionary continue in US?

European luxury and tech stocks struggle for momentum



Note: YTD percentage change as of Oct. 15 close.

Source: LSEG | By Ankur Banerjee

Source: Reuters, BNY

Details of Economic Releases:

1. Korea September unemployment rises to 2.5% from 2.4% - as expected - moving up from 1-year lows. The number of unemployed persons declined by 39,000 or 5.9% year-on-year to 622,000. The number of employed persons also totaled 28.842 million, up 144,000 or 0.5% from a year ago. The seasonally adjusted labor force participation rate stood at 64.5% in September, remaining the same year-on-year.

2. Japan August core machine orders drop -1.9% m/m -3.4% y/y after -0.1% m/m, +8.7% y/y - worse than the -0.1% +3.6% y/y expected. the fifth drop so far this year as orders for the manufacturing sector fell by 2.5% to 388.4 billion yen. Industries that saw the biggest declines were other transport equipment (-38%), information & communication electronics (-28.4%) and non-ferrous metals (-23.4%). Orders for the non-manufacturing sector also declined by 7.7% to 446.9 billion yen, driven mainly by decreases in transportation & postal activities (-34.4%), wholesale & retail trade (-23.6%) and finance & insurance (-15.6%).

3. Australian September Westpac leading index 0% m/m after -0.0% m/m - less than 0.2% m/m expected - muted for 6th month. The 6M annualized average up to -0.15 from -0.26 - pointing to ongoing sluggish growth ahead. Westpac added that it

continues to expect no change in the cash rate target in both November and December. However, we do expect to see a shift in the board's messaging, moving away from the 'inflation vigilance' that has dominated its communication in 2024. The exact timing and nature of this will depend on the dataflow.

4. UK September CPI slows to 0% m/m, 1.7% y/y after 0.3% m/m, 2.2% y/y - less than the 0.3% m/m, 1.9% y/y expected. The core CPI fell to 3.2% from 3.6% y/y - lowest in 3-years. The largest downward contribution came from transport (-2.2% vs 1.3%), namely air fares and motor fuels. Fares usually reduce in price between August and September, but this year this was the fifth largest fall since monthly data began in 2001. Also, the average price of petrol fell to 136.8 pence per litre compared to 153.6 pence per litre in September 2023. In addition, prices continued to fall for housing and utilities (-1.7% vs -1.6%) and furniture and household equipment (-1% vs -1.3%) and cost rose less for recreation and culture (3.8% vs 4%) and restaurants and hotels (4.1% vs 4.3%). Meanwhile, services inflation slowed to 4.9%, the lowest since May 2022, from 5.6% in August. On the other hand, the largest offsetting upward contribution came from food and non-alcoholic beverages (1.9% vs 1.3%).

Exhibit #2: Does UK CPI mean more BOE easing?

CPIH, owner occupiers' housing (OOH) costs component and CPI annual inflation rates, UK, September 2014 to September 2024



Source: Consumer price inflation from the Office for National Statistics

Source: UK ONS, BNY

Disclaimer & Disclosures

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