

October 20, 2024

## No Words

*“I found I could say things with color and shapes that I couldn’t say any other way – think I had no words for.” – Georgia O’Keefe*

*“For those who believe, no words are necessary. For those who do not believe, no words are possible.” – Saint Ignatius*

### Summary:

As the US election is two weeks away and as the Japan just one, many want to believe the outcomes are clear and the certainty that will follow provides some relief. The markets are ready for some lower volatility and most expect that to lead to USD weakness but for the US election and the return of a “Trump” trade pricing particularly in MXN and CNH. The problem of the dollar is likely to grab headlines in the week ahead with the IMF and World Bank meetings. The role of USD debt and the \$100trn of public debt led by the US and China are going to be discussed along with the other meetings in Russia for the BRICS+. Many are going to watch the Bank of Canada to see if 50bps is possible and how policy matters to FX still. The role of month-end and setting up for both the US and Japan elections looks to be the main generator for risk in for trading anything. There is a lack of words to describe the uncertainty ahead, trepidation or limbo come to mind but perhaps markets are more efficient than all that and we will learn that words are not a prerequisite for thinking risks through. The lack of a clear narrative to guide investors may miss the ability for money to go where it’s needed and stay where its well-treated.

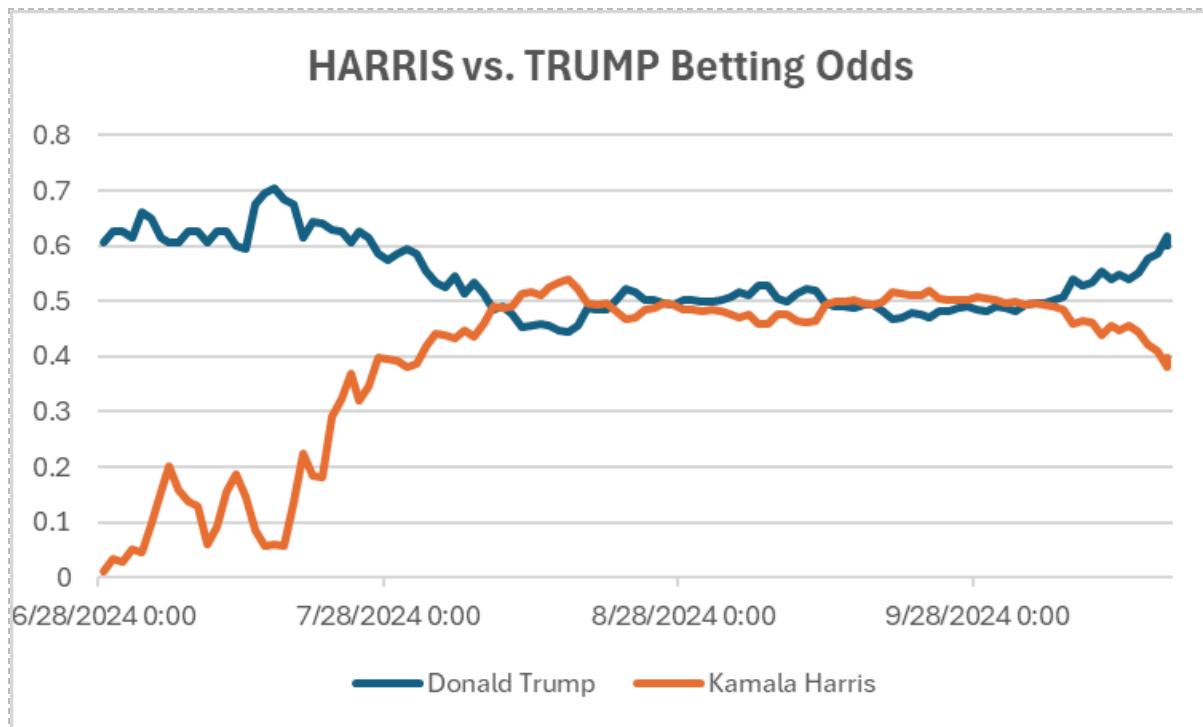
### Themes:

- **US Exceptionalism.** The rise of US 3Q growth expectations and the dip in US CPI combined with a FOMC easing cycle have shifted expectations for 4Q and 2025 growth

expectations. The soft-landing and no-landing views for the US have returned. The journalism around the US view is bullish – considering the [Business Insider US super-cycle article](#) this weekend.

- **3Q Earnings and the Rotation Trades.** The focus on tech remains intense in the week ahead and markets are set up for the rotation trade to continue. The Philadelphia SE Semiconductor index has pulled back after climbing more than 40% in the first half of the year. It is now up about 25% in 2024 against a 22.5% gain for the benchmark S&P 500. Semiconductor and related equipment stocks account for 11.5% of the weight of the S&P 500 while Nvidia alone holds 6.8%. The next focus for investors will be on TXN and LRCX reports next week along with one of the key users Tesla which as a magnificent 7 stock has a key focus for risk as well.
- **Politics and Markets.** The uncertainty of the US election and other elections (like Japan next weekend) drives consumers to wait. The pent-up demand from such matters to how 4Q plays out and growth. This makes many investors expect a relief rally after November, except for the uncertainty of how close the vote proves – with the risk of a repeat of 2000 and contested elections seen as a worst-case scenario. The NYT published a piece on consumers and election anxiety making clear that this vote is having some economic impact. The confusion between polls and betting markets of late has set the course for November 5th to be a critical surprise.

**Exhibit #1: Betting markets at odds with polls**



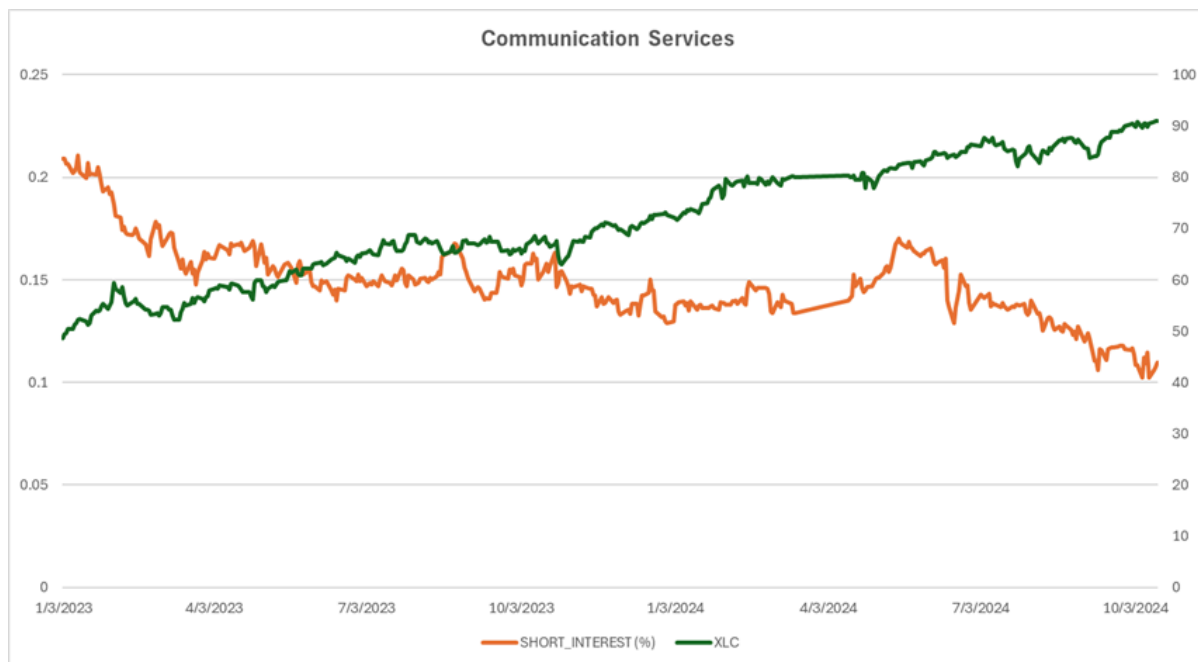
Source: Polymarkets, BNY

## What is iFlow showing us?

- **For Equities** – Notable that CLP led the week lower in price off 2.6% but that is in the top ten for inflows for iFlow. The KRW is in the same position – up 0.6 scored weekly iFlow but down 1.3% in price. The iFlow biggest EM outflows were in TRY, COP, TWD, and SGD. In G10, AUD and EUR led the decliners. Carry remains negative but the delta is bottoming out while the positive Trend factor is also slowing. Both are “old” to the history of being where they are and suggest month end flows could matter to a factor rotation risk.
- **For Bonds** – The US government bonds saw an outflow – first week in month but still positive for the quarter. The selling in bonds was both domestic and international. Further, duration demand sagged. Product wise – selling was seen across all products from corporates with the worry about fallen angel credit to ABS – suggesting a renewed focus on collateral. Interestingly, cash also fell. Globally, bonds were sold aggressively in China, Philippines, and South Africa while they were bought in Indonesia (with BI on hold) and Australia/New Zealand. Corporate bonds were bought in Turkey and India. Also notable is that the correlation of sovereign bonds to the USD flows is now -0.77 correlation – statistically significant.
- **For FX** – While the US markets are up again in the week, the only sectors iFlow saw inflow into was Real Estate and Consumer Staples. Notable selling was in Industrials and ongoing selling in Financials. Equity styles in the US show a slight downtick in cyclicals even though the data was better. Leveraged companies are still on the rise as a style factor. Of course, Mood at 0.285 today shows a modest slowing for the week -0.04 and opening some expectations that at extremely positive for 19 days, we are due for a shift down in stock market enthusiasm. Globally, APAC and EMEA both show FOMO (fear of missing out bias) in seven sectors compared to just five in US. In the US all are selling bias, in APAC two are buying notably IT and Financials, while in EMEA buying is seen in three real estate, health care and consumer staples. Worth noting that one sector in the US communication services has enjoyed a rally and a notable drop in shorts (using our new iFlow Short indicator) – the link of this to Fed rate cut plans seems obvious and important to how all risk trades ahead.

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### Exhibit #2: Fed policy matters as shown by Shorts and Communications Sector



Source: iFlow, BNY

### What happened this weekend?

- Canada British Columbia provincial election contested** – as provisional results tied after most votes counted. The NDP in power for seven years won 40 seats and leads in six others while the Conservative Party won 40 seats and leads in five. The Green Party won two seats. To control the provincial legislature a party must win 47 seats. Bottom Line – this adds to pressure on Trudeau and an early election risk.
- Moldova votes with EU referendum key focus** - Polls show pro-Western incumbent Maia Sandu has a comfortable lead over her 10 rivals on the ballot, though the race will go to a Nov. 3 run-off if she fails to reach the 50% threshold to win outright. Sandu hopes to see a resounding "yes" at the referendum, which will decide whether to insert a clause into the constitution defining EU accession as a goal.
- Indonesia ex-general Prabowo sworn in as 8<sup>th</sup> President of nation – promised free school meals and 8% GDP growth.** The 73-year ran unsuccessfully for President twice before, now said he would be president for all Indonesians and challenged the nation to help him face down the country's problems. Prabowo said self-sufficiency for food was possible within five years, while also pledging to become self-sufficient in energy. The new president vowed to eradicate corruption and said that while he wanted to live in a democracy, it must be "polite".

### What happened last week?

- The last week delivered higher equities** with S&P500 up 0.85% for the sixth week of gains while DAX rose 1.46% and CSI 300 rose 0.98% - only Nikkei off 1.01% and Hang

Seng off 2.11% stand out.

- **The USD rallied 0.6% on the index** while the biggest movers were MXN off 2.9%, KRW off 1.5%, NOK off 2.1%.
- **In Bonds, US 10Y is holding over 4%** but little changed from last week and 2Y is back to testing that level – leaving 2/10 curve at +11bps with ECB rate cut notable story for EMEA leaving Italian BTPs off 19bps while Australia saw rates up 3.5bps on the week.
- **Economic and policy news mattered** - China stimulus and growth, US retail sales and UK CPI/retail sales all mattered to how policy expectations and markets traded

## **News Agenda – IMF Meetings, 3Q Earnings, Global flash PMIs, Fed Beige Book, China PBOC, BOC**

Next week, the IMF meetings in Washington will bring global central bankers and finance ministers to the spotlights, with a focus on debt and growth views. Also, the earnings season will continue with major companies such as Tesla, Coca Cola, 3M, General Motors and Verizon unveiling their quarterly reports. In the United States, the economic calendar will feature the Fed Beige Book, PMI flash releases, durable goods orders, and reports on existing and new home sales. Across the Atlantic, investors will closely watch Germany's IFO business climate index and consumer confidence figures for the Euro Area, UK, France, Italy, South Korea, and Turkey. Also, manufacturing and services PMI data will be in focus for Australia, Japan, India, France, Germany, and the UK. In Canada, attention will be on the Bank of Canada's interest rate decision and retail sales data. Finally, South Korea will release its Q3 GDP growth rate.

**1. China and Recovery:** How will authorities get to 5% growth in 2024? How will they double the GDP by 2035 as set out in 2020 plenum? The IMF just forecast real GDP growth will be 4.5% in 2024 and slowing to 3.3% by 2029 – far below the 4.7% needed to meet the 2020 goals. The China PBOC is expected to cut the loan prime rate Monday, October 21 for both the 1-year and 5-year by 20bps. The 7-day repo rate has already been cut 20bps in September. There is a chance of a larger 25bps cut in the 5-year to push lower mortgage rates. The 20bps cut expected will save households CNY150bn a year in interest rate costs. Also on Friday, the PBOC rolls the 1-year medium term lending facility (MLF) – this has been locked into rolling on the 25<sup>th</sup> of each month since the September edict. Most expect this rate to hold at 2% but the size of the roll is key and will be watched for clues about an RRR cut in 4Q. The push of policy to restart the consumer will likely continue as the weekend push by President Xi over the weekend. The problem for measuring the success of any of the measures comes down to markets with international and domestic flows key to gauging confidence in any new plans.

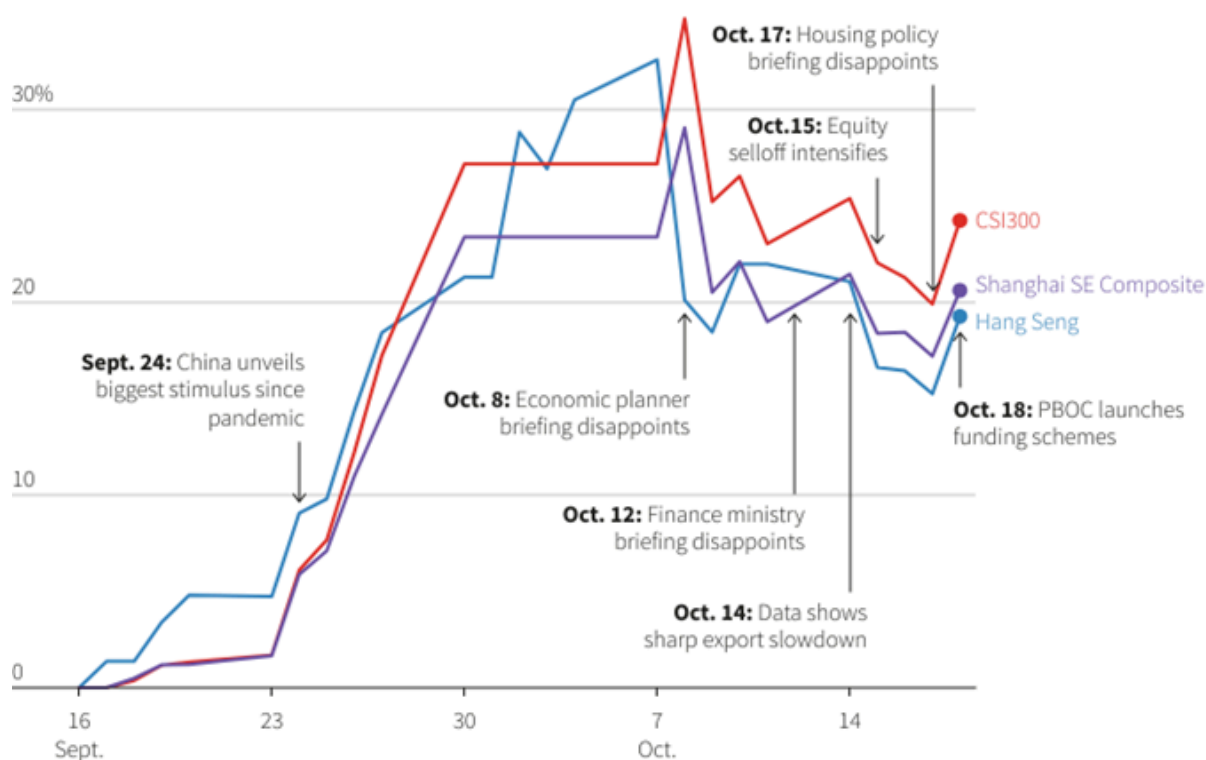
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## Exhibit #3: China 5% 2024 target matters

### China market rollercoaster

Optimism over stimulus lifted stocks to 2022 high but dearth of details has sapped momentum.

*Index performances rebased to Sept. 16, 2024*



Source: LSEG Workspace; Reuters reporting | Reuters, Oct. 18, 2024 (0750 GMT) | By Pasit Kongkunakornkul

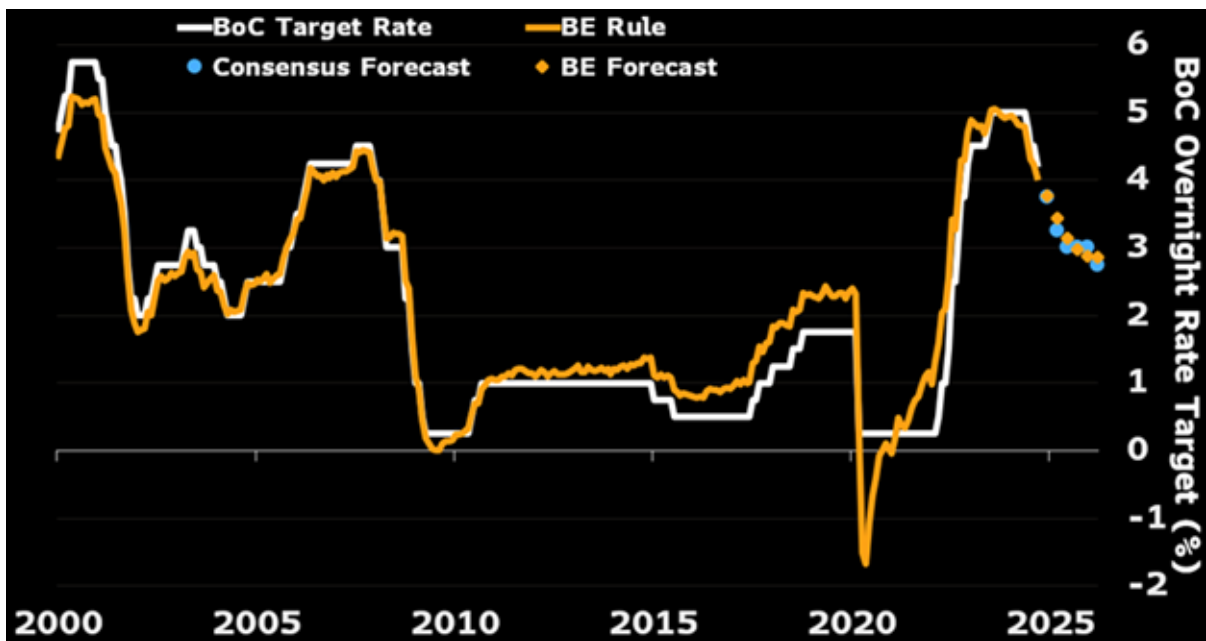
Source: Reuters, BNY

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**2. Bank of Canada and Jumbo easing** – The BOC meets Wednesday, October 23 and is widely expected to ease – but there is a debate about 25bps or 50bps – with the market pricing in 45bps Friday. The economic data has been weaker on the economy and with wages. Also, Governor Macklem had warned about downside growth risks repeatedly in Q3. The role of a jumbo cut from the BOC will be most notable on CAD which remains near the upper part of its recent ranges with 1.3880 seen as a pivot point for more USD gains. The recent CAD weakness hasn't shown up in import prices. Weaker oil prices have also played a key role in both keeping CPI lower and hurting growth.

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## Exhibit #4: BOC isn't worried about CAD?



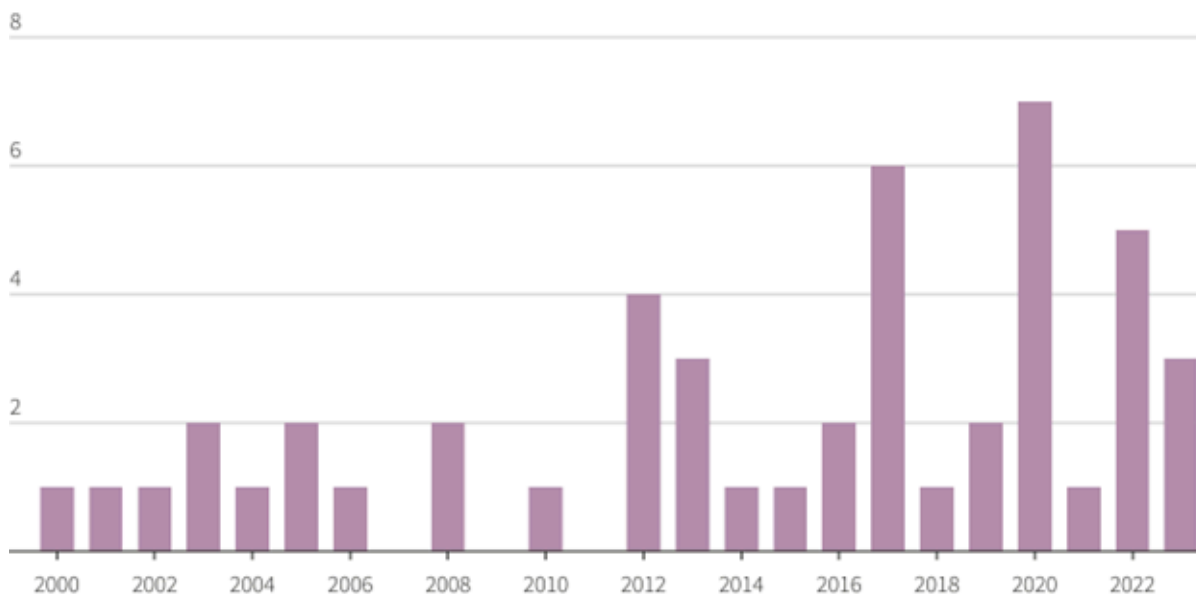
Source: Bloomberg Economics, BNY

**3. IMF Meetings and debt defaults.** Global Finance officials head to Washington DC for the annual meeting of the International Monetary Fund and World Bank Group from Monday to debate how countries can navigate slowing growth and ever-rising debt. At the same time, Russia hosts the BRICs summit with leaders from Brazil, India, China, South Africa, Egypt, the UAE and Saudi Arabia – which account for over 30% over the world GDP – will be debating how to end US dollar dominance. The role of US dollar debt for emerging and frontier markets has been questioned since 2008. The China belt and road along with other development lending from the AIIB. Many will be focused on the IMF Fiscal monitor set for release on Wednesday warning in a blog post that public debt levels are set to reach \$100 trillion this year led by the US and China issuance.

#### Exhibit #5: Does the USD matter to debt defaults?

## Foreign currency defaults have become more frequent

More than half of the foreign currency defaults between 2000 and 2023 have occurred in the last seven years.



Source: S&P Global | Reuters, Oct. 18, 2024 | By Sumanta Sen

Source: Reuters, BNY

**4. Global PMI Flashes and the EUR.** The compare and contrast event of the week comes on Thursday with the October flash PMI reports. The ECB rate cut last week is still seen as needed and not sufficient to right the growth trajectory for the EU, while in contrast, the US growth rate for 3Q is seen over 3% and the Beige Book next week will be watched closely for its own spin on the US growth story. The German IFO and sentiment will be watched closely as well – with many thinking the EU has skirted a recession risk again. The problem with FX is the shift from watching rates to watching growth as the driver for price. The role of PMI reports this week ahead will test this logic.

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### Exhibit #6: Will global PMI reports drive EUR?



## Eurozone business activity lagged other regions in September

Composite Flash Purchasing Managers' Index (PMI) across major economies **Expansion > 50 > Contraction**

Last 12 months	Oct. 2023	Nov.	Dec.	Jan. 2024	Feb.	Mar.	Apr.	May	June	July	Aug	Sep.
Australia	47	46	47	48	52	52	54	53	51	50	51.4	50
Eurozone	47	47	47	48	49	50	51	52	51	50	51.2	49
France	45	45	44	44	48	48	50	49	48	50	52.7	47
Germany	46	47	47	47	46	47	51	52	51	49	48.5	47
UK	49	50	52	53	53	53	54	53	52	53	53.4	53
US	51	51	51	52	51	52	51	54	55	55	54.1	54
Japan	50	50	50	51	50	52	53	52	50	53	53.0	53

Note: Purchasing Managers' Index (PMI) is an index compiled through the results of the monthly survey of purchasing managers in enterprises and shows whether market conditions are expanding, staying the same, or contracting.

Source: LSEG Datastream | Reuters, Oct. 17, 2024 | By Vineet Sachdev

Source: Reuters, BNY

## Calendar for October 21-25

### Central Bank Decisions

- China PBoC** (Monday, October 21) – The PBoC is expected to reduce the 1y and 5y Loan Prime Rates by 20bp, continuing its recent round of comprehensive easing on a quantitative and price basis. These measures have been well-flagged in advance though much of the market had expected the cut to have happened in September, especially considering the Fed cut had given EM central banks more policy space in general. Such easing continues to anchor commitments to ease debt financing burdens for households and small businesses. While we expect the CNY to remain under pressure as well from rate differentials, the pace of declines will likely remain closely managed by the central bank.
- Hungary MNB** (Tuesday, October 22) – The MNB's easing cycle is over for now as this week's comments by Deputy Governor Vlrág point to a "sustained period" of stable rates. Even with the ECB engaging in sustained easing with downside risk, MNB has likely decided that the real rate buffer is now at the lower bounds of tolerance thresholds, though we note that sequential inflation remains manageable. The bigger risk continues to come from wage growth, which is in the mid-double digits on an annualised basis, resulting in a relatively muted pace of declines in private demand.
- Canada BoC** (Wednesday, October 23) – We expect the Bank of Canada to cut rates by 50bps this coming week. Recently, inflation has swiftly declined, and economic data continue to slip. The meeting will coincide with the quarterly Monetary Policy Report

and the Bank's now-regular press conference. We'll be looking for clues about future rate moves and whether or not the prospect of additional jumbo rate moves seem likely.

**Key data/releases**

Date	Time	EDT	Country	Event	Period	Cons.	Prior
<b>10/21/24</b>	<b>02:00</b>	<b>*21:00</b>	<b>CH</b>	<b>5-Year Loan Prime Rate</b>	<b>Oct-21</b>	<b>3.65%</b>	<b>3.85%</b>
10/21/24	09:00	04:00	PD	Sold Industrial Output YoY	Sep	0.60%	-1.50%
10/21/24	09:00	04:00	PD	PPI YoY	Sep	-5.70%	-5.10%
10/21/24	22:45	17:45	NZ	Trade Balance NZD	Sep	--	-2203m
<b>10/22/24</b>	<b>13:00</b>	<b>08:00</b>	<b>HU</b>	<b>Central Bank Rate Decision</b>	<b>Oct-22</b>	<b>6.50%</b>	<b>6.50%</b>
10/23/24	09:00	04:00	SA	CPI YoY	Sep	3.80%	4.40%
10/23/24	12:00	07:00	US	MBA Mortgage Applications	Oct-18	--	-17.00%
<b>10/23/24</b>	<b>14:45</b>	<b>09:45</b>	<b>CA</b>	<b>Bank of Canada Rate Decision</b>	<b>Oct-23</b>	<b>3.88%</b>	<b>4.25%</b>
10/23/24	15:00	10:00	US	Existing Home Sales	Sep	3.90m	3.86m
10/24/24	01:30	*20:30	JN	Jibun Bank Japan PMI Mfg	Oct P	--	49.7
10/24/24	08:30	03:30	GE	HCOB Germany Manufacturing PMI	Oct P	40.7	40.6
10/24/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Oct P	45.1	45
10/24/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Oct P	51.7	51.5
10/24/24	13:00	08:00	BZ	IBGE Inflation IPCA-15 MoM	Oct	--	0.13%
10/24/24	13:30	08:30	US	Initial Jobless Claims	Oct-19	--	241k
10/24/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Oct P	--	47.3
10/24/24	15:00	10:00	US	New Home Sales	Sep	713k	716k
10/25/24	00:30	*19:30	JN	Tokyo CPI Ex-Fresh Food YoY	Oct	1.70%	2.00%
10/25/24	09:00	04:00	GE	IFO Business Climate	Oct	85.9	85.4
10/25/24	11:30	06:30	RU	Key Rate	Oct-25	20.00%	19.00%
10/25/24	13:30	08:30	US	Durable Goods Orders	Sep P	-1.00%	0.00%
10/25/24	15:00	10:00	US	U. of Mich. Sentiment	Oct F	69.5	68.9

### Key speeches/events

Date	Time	EDT	Country	Event
10/21/24	02:00	*21:00	AU	RBA's Hauser-Fireside Chat
10/21/24	08:00	03:00	EC	ECB's Simkus Speaks in Vilnius
10/21/24	13:55	08:55	US	Fed's Logan Speaks at SIFMA Annual Meeting
10/21/24	18:00	13:00	US	Fed's Kashkari Participates in Townhall Event
10/21/24	22:05	17:05	US	Fed's Schmid Speaks on Economic and Monetary Policy Outlook
10/22/24	00:00	*19:00	NZ	RBNZ Assistant Governor Silk Speaks on Financial Markets
10/22/24	14:00	09:00	PO	ECB's Centeno Speaks in Washington
10/22/24	14:05	09:05	EC	ECB's Knot Speaks in New York
10/22/24	14:15	09:15	UK	BOE's Greene Speaks
10/22/24	14:25	09:25	UK	BOE's Bailey Speaks
10/22/24	14:45	09:45	EC	ECB's Holzmann Participates in Panel
10/22/24	15:00	10:00	US	Fed's Harker Speaks at Fintech Conference
10/22/24	15:00	10:00	US	Fed's Harker Gives Opening Remarks
10/22/24	18:00	13:00	EC	ECB's Villeroy speaks in New York
10/22/24	19:00	14:00	FI	ECB' Rehn speaks at Peterson Institute event in Washington, DC
10/22/24	19:00	14:00	EC	ECB's Rehn Speaks in Washington
10/22/24	20:15	15:15	UK	BOE's Breeden Speaks
10/22/24	20:15	15:15	EC	ECB's Lagarde, Panetta Speak
10/23/24	12:30	07:30	SW	Riksbank Deputy Governor Per Jansson speaks
10/23/24	14:00	09:00	UK	BOE's Breeden Speaks
10/23/24	14:00	09:00	US	Fed's Bowman Gives Opening Remarks
10/23/24	15:00	10:00	EC	ECB's Lagarde Speaks in Washington
10/23/24	15:00	10:00	EC	ECB's Lane Speaks in Washington
10/23/24	16:30	11:30	EC	ECB's Cipollone Speaks in Washington
10/23/24	17:00	12:00	EC	ECB's Escriva Speaks in Washinton
10/23/24	17:00	12:00	US	Fed's Barkin Speaks About Community Colleges
10/23/24	18:00	13:00	NZ	RBNZ Governor Speaks on Monetary Policy
10/23/24	19:00	14:00	US	Federal Reserve Releases Beige Book
10/23/24	19:15	14:15	EC	ECB's Knot Speaks in Washington
10/23/24	20:00	15:00	EC	ECB's Centeno Speaks in Washington
10/23/24	21:30	16:30	UK	BOE's Bailey Speaks
10/24/24	05:30	00:30	AU	RBA-Annual Report
10/24/24	09:00	04:00	NO	Norges Bank 3Q Survey of Bank Lending
10/24/24	13:45	08:45	US	Fed's Hammack Gives Welcome Remarks

Source: Bloomberg, BNY

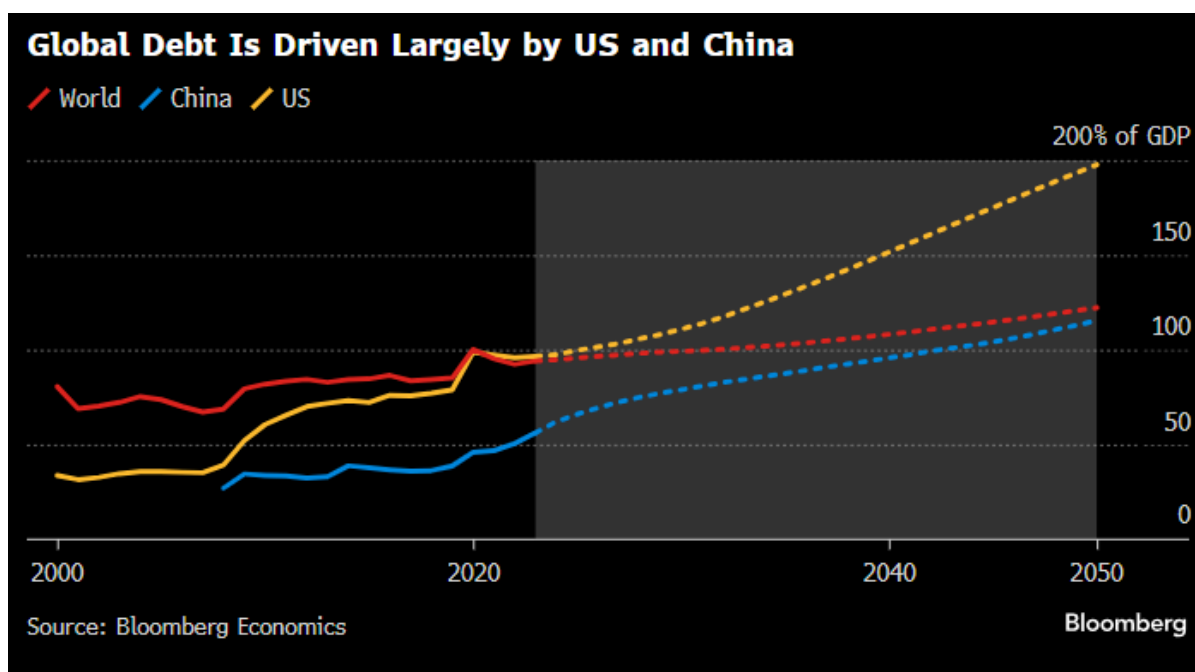
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## Conclusions: Does the US deficit matter?

There are many ways of resolving a debt – inflation, default or growing faster than the compound interest rate. The US markets have been blessed with the seigniorage of the USD, the decade of low to zero interest rates and the ability of the rest of the world to buy US debt and feel confident in the FX and the stability of the market. Whether the US exceptionalism holds will be critical for 2025 after the US election. The rise of gold in 2024 to record highs has been one factor highlighting this concern. There is no relief in sight as the deficit will expand under either Donald Trump or Kamala Harris, though less so under the Democrat, according to the Penn Wharton Budget Model and the Committee for a Responsible Federal Budget.

Beyond the US election, the world has its own issues which the IMF is likely to discuss this week from the persistent high prices that disproportionately affect the poor, and the potential of the escalating Middle East conflict to destabilize regional economies and global commodity markets. IMF Head Georgieva has also expressed concerns over increased military spending affecting the funding available for other priorities, including aid to developing countries. Rising protectionism and increasing trade restrictions were fracturing the global economy, limiting growth in trade and "pouring cold water on an already lukewarm world economy," said Georgieva, who started her second five-year term this month. "Our forecasts point to an unforgiving combination of low growth and high debt - a difficult future," Georgieva said, pointing to mixed economic forecasts for major players.

### Exhibit #7: When will US debt matter?



Source: Bloomberg, BNY

Please direct questions or comments to: [iFlow@BNY.com](mailto:iFlow@BNY.com)

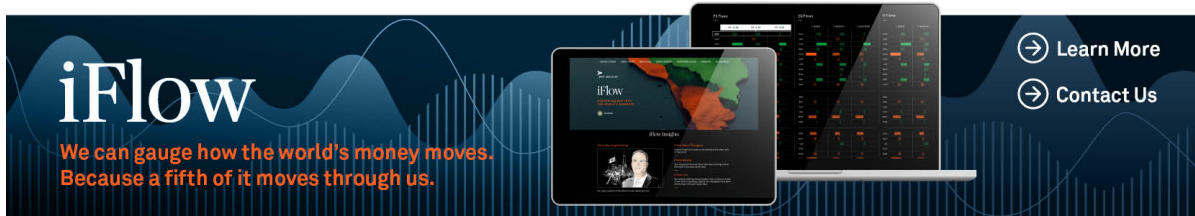


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