BNY

iFlow
MARKET MOVERS

November 6, 2024

Volatility

“As love without esteem is capricious and volatile; esteem without love is languid and cold.” – Jonathan Swift

“Volatility is a symptom that people have no idea of the underlying value.” – Jeremy Grantham

Summary

Risk on as markets jump into Trump trades again – with some news agencies seeing election going to Trump – with votes still being counted but leads in all 7-swing states as well as the Senate flipping to Republicans and the House too close to call but with Republicans gaining 2 seats so far. The certainty of the election being over is a relief and the volatility in markets significant, paradoxically the VIX is already down. The reaction so far - US bonds are lower with focus on 4.45% 10Y yields, USD is higher with index up 1.4% with MXN off 2.6%, EUR off 1.5% and JPY off 1.4%. The biggest focus was US stock futures up 3%. Focus on the US session will be on the relief trade of election certainty and nascent trend chasing with an eye on rotation trades – as investors race to see what sectors and markets gain with a new US administration all that overlayed with the usual work of watching the rest of the world’s reactions with central bank meetings and economic data key. Overnight Malaysia Bank Negara kept rates unchanged, Poland NBP is expected to do the same while Brazil BCB is seen hiking. China NBP ongoing with President Xi pushing to meet 5% GDP target while economic data from Australia to Japan weaker while European Service PMI better and German factory orders rebound. Net global growth is the counterweight to overdoing US exceptionalism ahead.

What's different today:

- **Bitcoin trades to new record highs at $75k** - up 6.8% as Trump victory seen as supporting crypto deregulation and promoting acceptance.
- **US weekly MBA mortgage applications fell 10.8% w/w** – sixth weekly drop off 35% through October – while rates surges 67bps.
- **iFlow shows Mood in negative territory** but still not significant while USD selling yesterday stood out against AUD, CHF, JPY buying stood out. The bond markets saw US bond buying but more New Zealand on scored basis and selling in EMEA and LatAM still. Equities were mixed with Australia, Japan, Sweden buying.

What's are we watching?

- **Poland NBP rate decision** with policy on hold expected.
- **Brazil BCB rate decision** with 50bps hike to 11.25% expected.
- **Central Bank speeches** from ECB Lagarde, ECB Buch and BOC Rogers
- **US Treasury** auctions $25 billion of 30-year bonds
- **US 3Q corporate earnings**: Qualcomm, Gilead, Ameren, Mckesson, Albemarle, Sempra, Corteva, Atmos, CVS, Howmet, STERIS, ANSYS, Take Two, Host Hotels, Match, Williams, PTC, APA, Iron Mountain, Marketaxess, Cencora, Trimble, American Electric Power, Pinnacle West, Charles River, Johnson Controls

Headlines

- US news agencies declare Trump winner with Senate flipping to Republicans, House still too close to call – US S&P500 futures up 2.2%, US 10Y yields up 21bps to 4.475%, USD index up 1.85% o 105.26
- Malaysia Bank Negara keeps rates on hold at 3%- as expected – MYR off 1.1% to 4.40
- BOJ Meeting Minutes: confirm rate hike path as long as forecasts on growth and inflation met - while Oct Reuters Tankan slips 2 to 5 - with inflation and China cited - weakest since February and final Services PMI off 3.4 to 49.7 - worst since June – Nikkei up 2.61%, JGB 10Y up 3.3bps to 0.955%, JPY off 1.8% to 154.35
- Australian Ai Group Oct industry index off -10.2 to -28.8 citing disinflation to 2020 lows, job weakness – ASX up 0.83%, AUD off 1.6% to .6555
- India Oct final service PMI rises 0.8 to 58.5 - with more jobs and higher wages – Sensex up 1.13%, INR off 0.2% to 84.273
- German Sep Factory Orders jump 4.2% m/m - led by transport aircraft, ships, trains – DAX u 0.36%, Bund 10Y yields off 1.3bps to 2.41%
- Eurozone Sep PPI drops -0.6% m/m, -3.4% y/y - linked to energy - while final Oct Services PMI up 0.2 to 51.6 with Germany up 1.0 to 51.6, France off 0.4 to 49.2, Italy

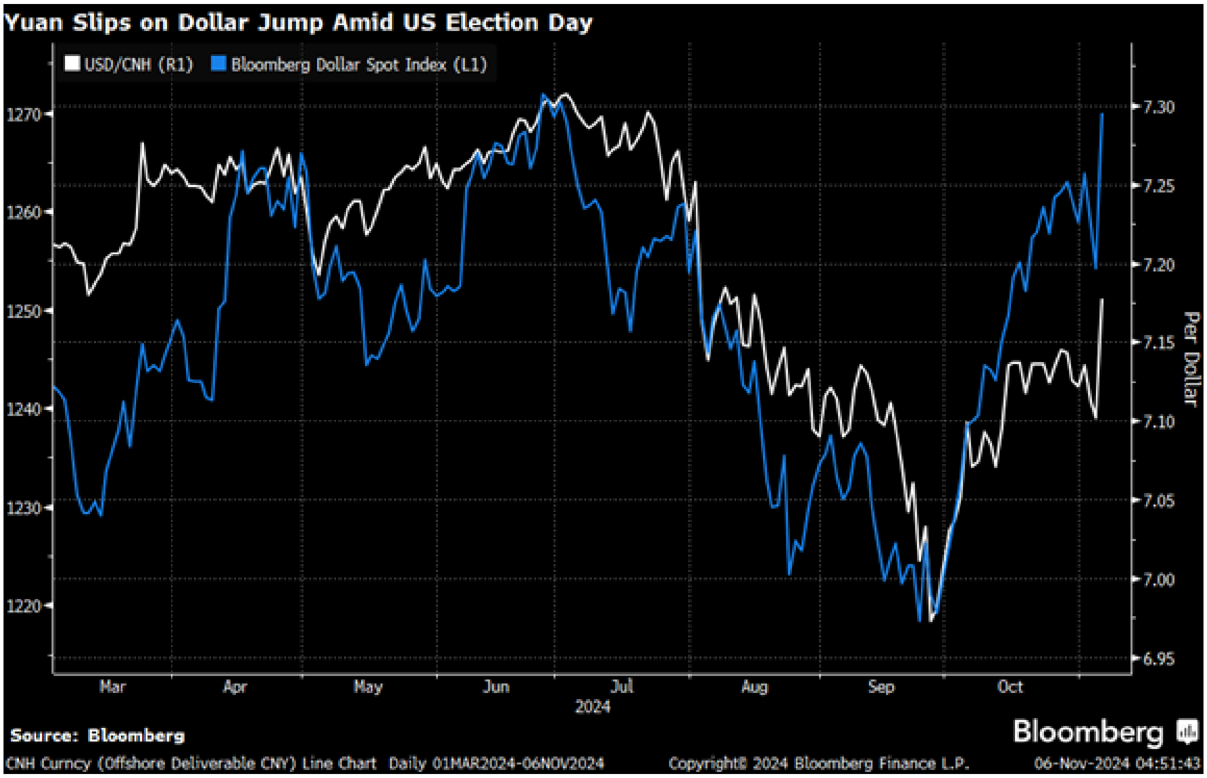
up 1.9 to 52.4 and Spain off 2.1 to 54.9 – EuroStoxx 50 up 0.2%, EUR off 1.9% to 1.0695

- UK Oct Construction PMI slips 2.9 to 54.3 - renewed house building drop, 10-month lows in business optimism – FTSE up 1%, GBP off 1.6% to 1.2850
- US weekly API crude oil inventories rise to 3.132mb - double expected - but gasoline stocks fell 0.928mb - leaving inventories 3% below average while distiallates fell 0.852mb 9% below average – WTI off 1.5% to $70.88

The Takeaways:

The balancing act for markets after the US election rests on the rest of the world. There are 8 other central bank meetings this week and a host of key economic data. The China NPC is ongoing, and President Xi made clear he wants to reach his growth targets. The implication of more stimulus and government support seems clear. The focus tonight will be on Brazil and LatAm in general given the moves in MXN and the role it plays in the region. Weaker Mexico growth due to politics leaves Banxico stuck with the FX markets a block to faster easing, while the Brazil BCB seems already there as they are seen hiking 50bps to 11.25% tonight. What drives tomorrow is the compare and contrast of policies in Europe with the Swedish Riksbank expected to cut 50bps while the Norges Bank is seen on hold and the Bank of England is a close call for 25bsp easing – we think they hold. This all sets up for the FOMC tomorrow and whether the USD cares about a rate cut – will lower rates help growth and stocks at the expense of bonds and leave USD overvalued? FX moves are part of the story now and how the US dollar exceptionalism trade plays today is essential to the decisions ahead. The biggest move in two years for the Chinese currency is an example to consider.

Exhibit #1: Does CNH and MXN reflect policy risks?



Source: Bloomberg, BNY

Details of Economic Releases:

1. Japan November Reuters Tankan slips to 5 from 7 - weaker than 9 expected - 5th monthly decline and worst since February driven by China's economic slowdown and ongoing inflationary pressures. Respondents also highlighted volatility in currency markets and uncertainty surrounding the US presidential election as additional sources of risk. One manager expressed concern over the slump in Japanese automakers' sales in China, noting that this downturn was affecting the auto parts industry, while demand for environmentally-related products remained sluggish due to weak Chinese market conditions. Another respondent mentioned that rising material costs were gradually squeezing profits, despite continued demand. Looking ahead, manufacturers expect only a modest improvement in business sentiment over the next three months, with the index forecast to rise to +6.The Service Sector index fell 1 to 19 - the weakest since Feb 2023.

2. Japan October final Jibun Bank services PMI drops to 49.7 from 53.1 - better than 49.3 flash - still, the first drop in the service sector since June, as new business slowed due to a renewed and moderate reduction in exports that was the steepest since June 2022. Employment increased for the thirteenth consecutive month and the fastest pace in three months, as firms had sufficient capacity to work through existing work, albeit fractional depletion in the level of outstanding business. Regarding prices, input cost inflation accelerated and remained well above the long-run survey average due to higher labor and raw material costs. Meanwhile, output cost inflation has little changed amid ongoing pressure on profitability. Finally, confidence eased to a 31-month low due to concerns that demand would stay stagnant.

3. Australian October Ai Group industry index drops to -28.8 from -18.6 - worse than the -13 expected - marking thirty consecutive months of contraction. All key indicators of industrial activity declined, with employment—previously the strongest—continuing its downward trend. Input prices fell to their lowest level since 2020, signaling reduced inflationary pressure. The sales price indicator turned negative, showing that more businesses cut prices than raised them. The activity/sales indicator declined by 7.5 points to -32.9, and the employment indicator dropped by 9.6 points to -23.9. Employment has steadily declined throughout 2024 in trend terms, reflecting a delayed impact from lower activity levels. While most respondents reported slower sales, some saw activity gains from seasonal promotions linked to summer and the holiday season.

4. Taiwan October CPI up 0.11% m/m, 1.69% y/y after 0.38% m/m, 1.82% y/y - less than the 1.8% y/y expected - driven by lower inflation in several sub-indexes, including food (2.70% vs 3.0% in September), housing (2.25% vs 2.39%), health (2.51% vs 2.60%), and education & entertainment (1.27% vs 1.74%). Additionally, clothing prices declined by 0.74%, following a 0.16% rebound in September.

5. India October final HSBC services PMI rises to 58.5 from 57.7 - better than 58.3 flash- the 39th consecutive month of expansion in services activity driven by robust sales and strong demand conditions. Sales grew beyond September's ten-month low, highlighting a recovery in the growth of foreign sales. Employment increased to the greatest degree in 26 months due to improvement in new business. On prices, input cost inflation accelerated to a three-month high, driven by higher food and wage costs. However, the overall rate of inflation remained below its long-run average. Meanwhile, output cost inflation rose to a three-month high, and outpaced the series trend as companies shared part of their additional cost burdens with clients. Finally, business sentiment remained positive, despite receding a little from September.

6. German September Factory Orders rebound 4.2% m/m after -5.4% m/m - better than +1.5% m/m expected. The upturn was driven by large-scale orders for aircraft, ships, and trains (117.1%), and a 2.9% growth in orders for the automotive industry. Conversely, demand decreased for basic metals (-10.0%) and machinery and equipment (-3.6%). New orders rose for both capital goods (8.3%) and consumer goods (3.8%), but fell for intermediate goods (-2.4%). Notably, foreign orders increased by 4.4%, buoyed by a 14.6% jump in orders from the Eurozone, while demand from outside the Eurozone declined by

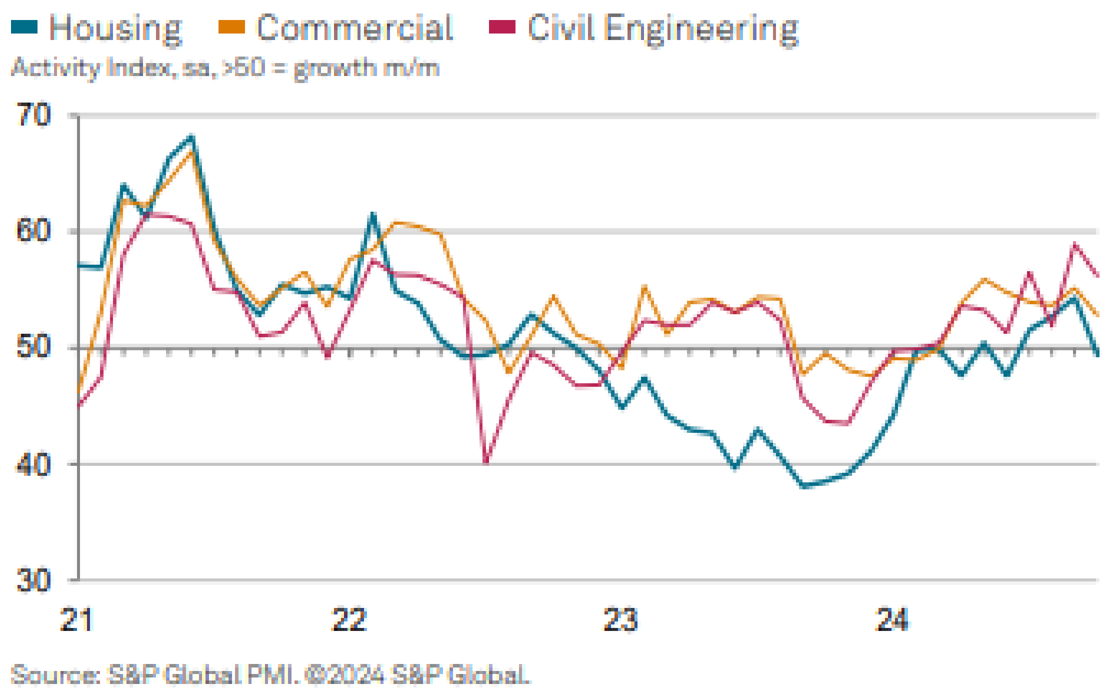
1.6%. Domestic orders also expanded by 3.6%. Excluding large orders, incoming orders rose by 2.2% from August.

7. Eurozone September PPI drops -0.6% m/m, -3.4% y/y after +0.6% m/m, -2.3% y/y - slightly more than the -3.5% y/y expected. Prices were down for energy (-11.6% vs -7.8% in July) and intermediate goods (-0.7% vs -0.9%) but rose for capital goods (1.3% vs 1.5%), durable (0.5% vs 0.3%) and nondurables (1.5% vs 1.1%).

8. Eurozone October final HCOB services PMI rises to 51.6 from 51.4 - better than 51.2 flash. Still, new contracts for service providers fell for a second consecutive month, particularly with clients from outside each Eurozone member's country with export orders falling the most in ten months. Still, the depletion of outstanding work prevented a sharper drop in output. Nonetheless, employment levels continued to rise, although the rate of job creation was the lowest since February 2021. On the price front, inflation rose for both input costs and output charges. Looking forward, respondents continued to show confidence in activity levels in the upcoming 12 months.

9. UK October construction PMI slips to 54.3 f rom 57.2 - weaker than 55.5 expected - still 8th month of expansion. New orders rose solidly but at a slower pace than September's peak, held back by political uncertainty and lower household spending. Despite a dip in overall business confidence, companies expanded hiring, with job growth reaching a three-month high. Purchasing activity increased marginally, reflecting greater workloads but marking the slowest expansion since May. Supplier delivery times improved slightly for a third month, helped by higher inventories, although shipping issues limited gains. Cost inflation remained high but eased from September, as competition among suppliers helped moderate price pressures for raw materials.

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



Source: S&P PMI, BNY

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

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