BNY

iFlow

MARKET MOVERS

November 7, 2024

Animal Spirits

"The markets are moved by animal spirits, not by reason." – John Maynard Keynes

"Ride the horse in the direction its going." – Werner Erhard

Summary

Risk on. The Trump trade extends into the BOE and FOMC rate decisions. Investors brace for animal spirits as the expected easing of rates adds to the momentum trade to own equities, shun bonds. The USD is a bit less clear cut – with index off 0.3%. Some of this is about the Fed, but the risks from intervention and more holdings than cuts from other central banks could be part of the story as well – with Norway the example as NOK gains and Norges holds. The volatility in FX reflects the uncertainty of the policy both monetary and fiscal ahead as they clash and as there are limits to their divergence. The biggest story overnight isn't in the central banks but in the German coalition as it cracks opening the risk of a March election there and as spending in Germany moves bond yields higher everywhere. The USD wobble maybe more about that story than about Trump or Powell.

What's different today:

- **German 10-year yields are now higher than swap rates** – first time since 2009 – the collapse in the spread follows the German FinMin Lidner sacking
- **iFlow** – USD buying yesterday but more AUD, CHF, JPY and only CAD, NZD, and NOK selling in G10. Markets in EM less active – CNY buying SGD selling. The equity markets were mixed with Australia, Sweden and Japan inflows notable while UK and

US outflows continued. Bonds still mixed with US buying seen against the tape while EM was selling China, Taiwan, Philippines.

What’s are we watching?

- **US weekly jobless claims** expected up 5k to 221k - with focus on manufacturing states
- **US 3Q productivity** expected down to 2.3% from 2.5% with unit labor costs 1% up from 0.4% - key for Fed potential growth/inflation balance
- **FOMC rate decision** with consensus for 25bps easing to 4.75% - we expect the same and another 25bps in December.
- **3Q Earnings**: Airbnb, Expedia, News Corp, Moderna, Consolidated Edison, Halliburton, Molson Coors, Warner Brothers, Tapestry, Arista Networks, Axon, Motorola, Akami, Insulet, Corpay, Ralph Lauren, Hershey, Monster Beverage, Evergy, PG&E, Fortinet, Duke Energy, Vistra, Mettler Toledo, EOG

Headlines

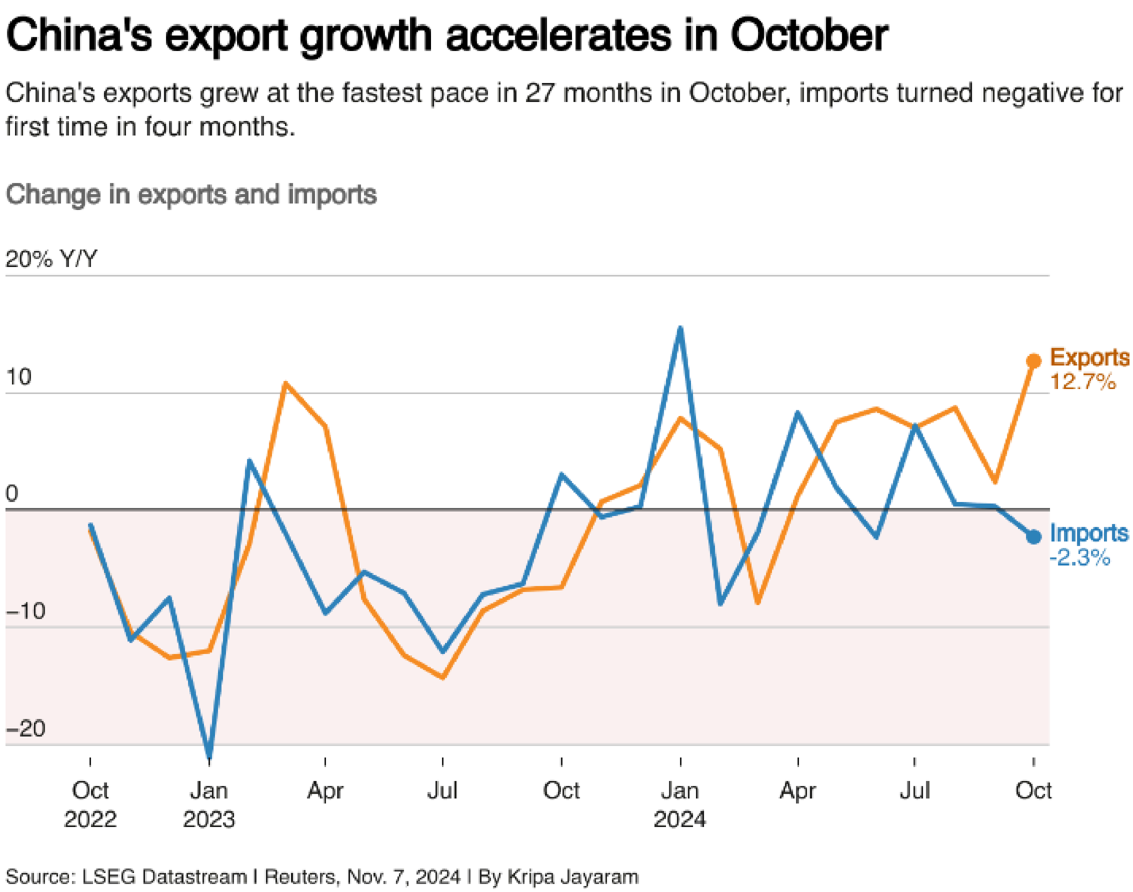
- Brazil BCB hikes rates 50bps to 11.25% - as expected - cites strong economy, narrow output gap, inflation expectations – BRL off 0.1% to 5.6850
- Sweden Riksbank cuts rates 50bsp to 2.75%- as expected - even as Oct CPIF up 0.4pp to 1.5% y/y – OMX up 1.4%, SEK up 0.6% to 10.795
- Norway Norges bank leaves rate unchanged at 4.5%- as expected - see no move until 2025 – NOK up 1.4% to 10.933
- Bank of England cuts 25bps to 4.75% - as expected – sees further gradual easing in 8-1 vote – FTSE -0.15%, GBP up 0.5% to 1.2940
- China Oct trade surplus jumps $13.5bn to $95.27bn- as exports jump 12.7% y/y - most since June -while PBOC cuts SCAF on CNY fix weakest since 2023 amid tariff risks – CSI 300 up 3.02%, CNH up 0.45% at 7.1710 from 6.2130 highs on fix
- Australian Oct trade surplus dips to A$0.675bn to A$4.6bn - smallest since March – ASX up 0.33%, AUD up 1% to .6635
- Japan Sep wages hold 2.8% y/y as base pay at 31-year highs but real wage -0.1% adding to BOJ pressures – Nikkei off 0.25%, JPY up 0.5% to 153.95
- Germany Scholtz calls for Jan 15 confidence vote as coalition breaks on sacking of Finance Minister- while the trade surplus for September narrows to E4.5bn to E17bn - exports -1.7% m/m to 3-month lows – DAX up 1.2%, Bund 10Y yields up 7.5bps to 2.477%
- Eurozone Sep retail sales up 0.5% m/m, 2.9% y/y - while Oct construction PMI up 0.9 to 43.0 - best of year – EuroStoxx 50 up 0.7%, EUR up 0.3% to 1.0765

- Mexico Oct CPI up 4.76% - makes Banxico cut next week less clear – MXN up 0.7% to 19.922

The Takeaways:

Markets can remain irrational longer than any one speculator can remain solvent. The test of today is about the FOMC and what Powell says against the animal spirits unleased by a Trump clear-cut win. The expected shift in policies for tax cuts and deregulation explain some of the equity buying, but the bounce globally is a follow up and ignores the tariff risks. The other story overnight that caught the imagination of investors is in China as the threat of tariffs moves trade flows faster – with China exports at 2-year highs and that has a growth and inflation impact ahead. Markets will be watching Bunds, the ongoing count for the US House – as the Red sweep is assumed but not verified and as the FOMC cut comes but is qualified by the Fed Chair. Markets are also going to be watching the USD against EM and particularly China as the PBOC fix clearly makes FX a tool in countering tariffs.

Exhibit #1: Does CNH counter the US tariff threats?



Source: Reuters, BNY

Details of Economic Releases:

1. **China October trade surplus jumps to $95.27bn after $81.71bn - more than the $75.1bn expected -** largest since June, mainly due to a jump in exports. Sales surged 12.7% y/y, far above forecasts of 5% to mark the fastest pace since July 2022 and after a 2.4% gain in September, as manufacturers are front-loading orders in anticipation of further tariffs from the US and the EU. Meanwhile, imports fell 2.3%, reversing from a 0.3% rise in September and missing consensus of a 1.5% fall due to weak domestic demand. The trade surplus with the US widened slightly to $33.50 billion in October from $33.33 billion in September. For the 1st ten months of 2024, the trade surplus was at $785.3 billion, with exports rising 5.1% to $2.93 trillion while imports grew at a softer 1.7% to $2.14 trillion. During the period, the trade surplus with the US stood at $291.38 billion.

2. **Japan September wages up 2.8% y/y same as August - as expected.** However, real wages slipped 0.1% in September, as consumer inflation accelerated to 2.9%, outpacing the growth in nominal wages. Real wages had turned positive in June and July, largely due to the seasonal summer bonus period. The latest wage data adds complexity to the Bank of Japan's outlook for future interest rate hikes. In another key indicator, overtime pay—a gauge of corporate health—dipped by 0.4% in September.

3. **Australian September trade surplus narrows to A$4.609bn after A$5.284bn - less than the A$5.3bn expected -** smallest trade gain since March as exports fell more than imports. Shipments dropped by 4.3% from a month earlier to a 33-month low of AUD 40.83 billion, primarily due to lower other mineral fuels, with outbound shipments shrinking mainly to India (-13.6%), Indonesia (-25.1%), and Japan (-15.9%). Purchases also fell by 3.1% to a nine-month low of AUD 36.22 billion, mainly weighed down by fuels and lubricants.

4. **Sweden October CPIF flash up 0.4% m/m, 1.5% y/y after 0.3% m/m, 1.1% y/y - more than the 1.3% y/y expected.** The headline inflation rose 0.2% m/m, 1.6% while the CPIF ex energy rose 2.1% from 2.0% y/y.

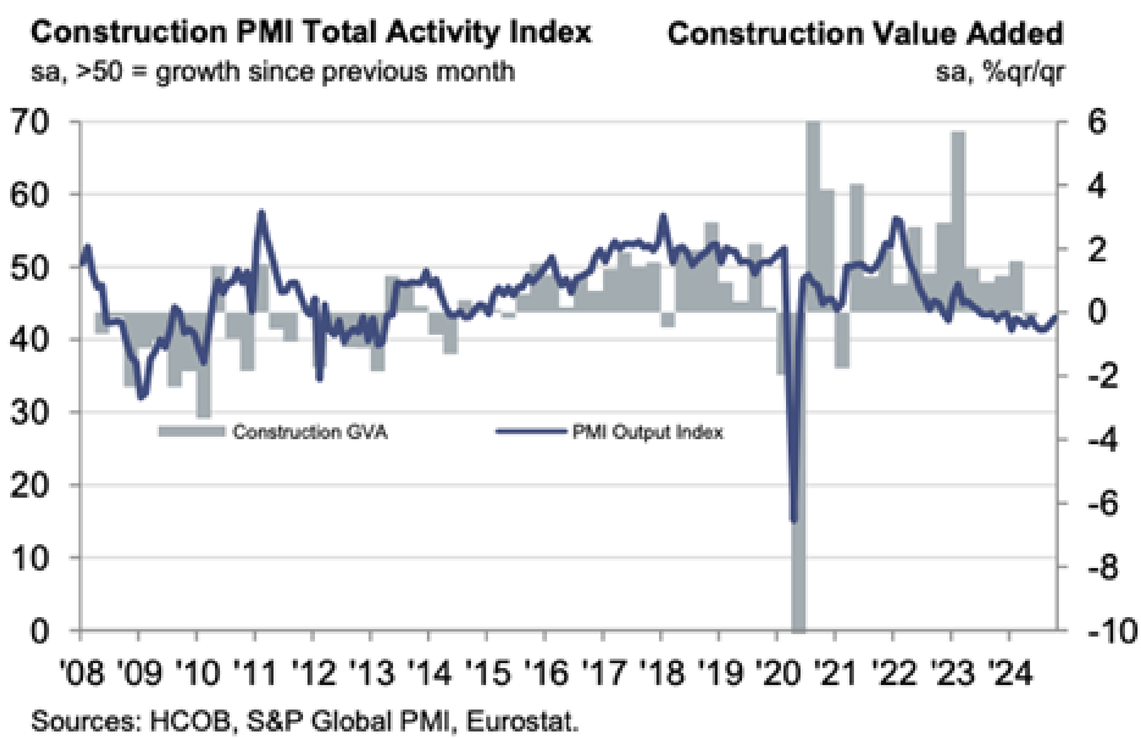
5. **German September trade surplus narrows to E17bn after E21.4bn - less than the E20.9bn expected.** Exports fell 1.7% m/m to a three-month low of E128.2 billion, compared to forecasts of a 1.4% drop, reversing from a downwardly revised 1.2% growth in August. Shipments to the EU fell by 1.8%, and those to third countries dropped by 1.6%, with exports to China declining by 3.7% and the UK by 4.9%. By contrast, exports rose to Russia (3.6%) and the US (4.8%). Meanwhile, imports grew 2.1% to E111.3 billion, after a downwardly revised 2.6% drop in August. Imports from the EU rose by 1.6%, and purchases from non-EU increased by 2.6%, particularly from China (5.6%) and Russia (20.1%) while declining to the

US (-0.3%) and the UK (-0.6%). For the first nine months of 2024, the country recorded a surplus of E186.9 billion.

6. Eurozone September retail sales up 0.5% m/m, 2.9% y/y after 1.1% m/m, 2.4% y/y - more than the 0.4% m/m, 1.3% y/y expected. Sales soared 1.1% for non-food products and edged up 0.2% for auto fuel, but declined 0.4% for food, drinks and tobacco.

7. Eurozone October HCOB construction PMI rises to 43.0 from 42.1 - better than 42.7 expected - still the Eurozone construction sector continued to contract at the start of Q4, though at the slowest pace since December 2023. The downturn was driven by falling new orders across sectors. Business confidence hit its lowest in 2024, with employment and input buying reduced. Germany experienced the fastest decline, while France and Italy had milder decreases. The residential sector fared worst, and civil engineering saw the smallest drop. New orders contracted faster, except in Italy, which saw only a slight dip. Cost pressures eased, with input price inflation slowing to a pace last seen in July 2023. Job cuts persisted for the 20th month, especially in Germany and France, though Italy saw job growth. Input buying fell, extending a long decline. Supplier performance improved less, with renewed setbacks in France and Italy.

Exhibit #2: Does the EU PMI suggest a bounce?



Source: S&P PMI, BNY

Disclaimer & Disclosures

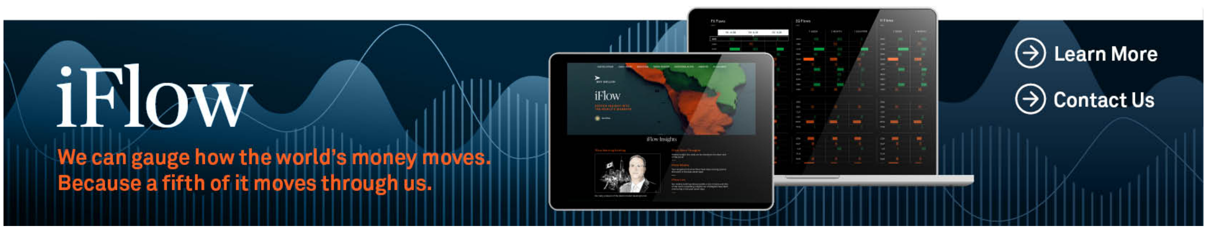
Please direct questions or comments to: iFlow@BNY.com

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.