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MARKET MOVERS

November 8, 2024

Dependence

"True happiness is to enjoy the present, without anxious dependence upon the future." – Seneca
"Success is dependent on effort." - Sophocles

Summary

Risk off. After the FOMC cut 25bps the questions for Powell were more about Fed independence than the economy. While the Chair pushed data dependence, reporters were more concerned about Trump plans and the response of the Fed to them – which was clear as Powell noted they don't guess, speculate or assume on the government policy ahead. The mood for the rest of the world sank with the end of the China NPC delivering a $1.4trn local debt swap overshadowed by US tariff fears. The Taiwan October exports missed expectations and Japanese household spending fell again. The EMEA session has the debate about how quickly to hold a German election at the front, and then the Belgian PM De Croo calling the Trump election a "catharsis for the EU" while former ECB Draghi says the US election makes it urgent to fix EU competitiveness. The mood into the US session is gloomy and that shows up in the FX markets with CHF and JPY leading. The US session gets the return of Fed speakers and a flash consumer sentiment with keen focus on the ongoing US House race count expected to keep Republicans in control with a handful of seats while Trump cabinet plans are anxiously awaited.

What's different today:

- **The UN FAO food price index rose 2% in October to 127.4 – highest since April 2023** – led by vegetable oils up 7.3% to Nov 2022 highs.
- **Copper prices drop 2.3% to $4.3 lbs** – off from $4.50 lbs earlier in week - as the NPC debt swap underwhelms outlook for demand.
- **iFlow** – Mood indicator is significantly negative even as US markets rally reflecting the lag of the index but also the rest of the world. The USD is bought notably yesterday along with AUD, JPY and in EM both MXN an CNH. Stocks are sold in APAC, and EMEA and LatAm except Chile – while G10 saw some buying for Sweden, Japan, Australia. Bonds are mixed with only India, New Zealand and US clearly positive.

What's are we watching?

- **University of Michigan November preliminary consumer sentiment** expected 71 from 70.5 with current conditions 65.5 from 64.9 and expectations 75 from 74.1, with no change in 1Y CPI outlook at 2.7% and 5-10Y at 3%.
- **Canadian October unemployment** expected up 0.1pp to 6.6% with 25k new jobs, led by part time – while wages seen dropping 0.1pp to 4.4% y/y
- **Fed Speakers**: Federal Reserve board governor Michelle Bowman will take part in a conversation on banking topics at the University of Mississippi School of Business Banking and Finance Symposium. Later in the day, St Louis Fed president Alberto Musalem will deliver welcome remarks at the 22nd Annual St Louis Fed Professors Conference.

Headlines

- China NPC approves $1.4trn (10trn CNY) local debt swap but with no new direct stimulus – while 3Q C/A jumps to $146.9bn – most in 2-years - CSI 300 off 1%, CNH off 0.35% to 7.1735
- Japan Sep household spending drops -1.3% m/m, -1.1% y/y – 7th month of declines – while LEI rose 2.5 to 109.4 – best since May – Nikkei up 0.3%, JPY up 0.4% to 152.30
- Taiwan Oct trade surplus steady at $6.87bn – exports up 8.4% y/y – TWD up 0.4% to 32.115
- Turkey CBRT inflation report revises forecasts higher 44% for end of 2024– TRY off 0.3% to 34.35
- Sweden Sep household spending -0.3% m/m, +0.1% y/y – first drop since June – while industrial production rose 1.2% m/m, -1% y/y – best in 6-months buts orders lower– OMX -1.1%, SEK off 0.3% to 10.715
- French Sep trade deficit widens E0.6bn to E8.3bn – largest since Oct 2023 – CAC40 off 0.9%, OAT 10Y off 4.3bps to 3.155%.

- Italian Sep retail sales up 1.2% m/m, +0.7% y/y – best since Jan 2023 – but industrial production fell -0.4% m/m, -4% y/y – worst drop of 2024 – MIB off 0.55%, BTP 10Y off 3.5bps to 3.695%, EUR off 0.2% to 1.0780
- Brazil October CPI up 0.56% m/m, 4.76% y/y – slightly worse than expected – BRL off 0.6% to 5.73

The Takeaways:

The US markets are still in the post-election boom phase – historically this lasts 6-weeks – but the focus is still more on the US dollar and US bond curves. Even as the S&P500 risk indicator, the VIX, is below 15% - first print there in over a month – the other moves in volatility are less dramatic particularly in the G10 FX world where the EUR has suffered its worst week in over a year and as the politics of the moment overwhelm. In US bonds, the FOMC easing was delivered and while the language removed some of the inflation improvement, the pricing for another December 25bps cut is 90%. The risk of a Fed pause is seen linked more to the reality of what happens with fiscal policy under a Trump Presidency again. The role of the USD as a haven is clearly going to remain a question on the day given the dour price action from the rest of the world with JPY and CHF gains highlighting the need for safety. The next set of data for the US consumer and the restart of Fed speakers today will leave the markets vulnerable to ongoing volatility shocks from any outside surprises.

Exhibit #1: Is the trend for volatility higher?

Source: Bloomberg, BNY

Details of Economic Releases:

1. **Japan September household spending fell -1.3% m/m, -1.1% y/y after +2% m/m, -1.9% y/y – this was worse than the -0.7% m/m, better than -2.1% y/y expected** – and the seventh month of reduced household spending in 2024. Spending decreases were noted in several categories, including transportation and communication (-11.8%), housing (-3.4%), medical care (-2.6%), consumption expenditures (-1.1%), and furniture and household goods (-0.3%). However, spending rose in other areas, such as clothing and footwear (17.5%), fuel, light, and water charges (8.5%), education (8.8%), and other consumption items (0.3%).

2. **Japan September flash leading economic index jumps to 109.4 from 106.9 – better than 108.9 expected** – best in five months with jobs key. The coincident index rose to 115.7 from 114 – also better than 115.3 expected - suggesting a moderate recovery, highlighted by increases in private consumption and business investment. Moreover, corporate profits improved, along with better employment and income situations. However, the slowdown in overseas economies remains a downside risk for the Japanese economy, including the effects of sustained high interest rates in the US and Europe, and the ongoing stagnation in China's real estate market.

3. **China 3Q preliminary current account surplus jumps to $149.6bn after $60.8bn – more than the $65bn expected** – the largest in 2-years. The goods surplus widened sharply to a record-high of $229.8 billion from $156.1 billion in the earlier year, as the weakening domestic demand for goods drove companies to rely on foreign markets to meet sales targets. In turn, the services deficit narrowed to $58.5 billion from $60.9 billion and the primary gap narrowed to $28.5 billion from $36.7 billion. In turn, the secondary income surplus narrowed to $4 billion from $23 billion.

4. **French September trade deficit widens to E8.3bn from E7.7bn – worse than -E6.3bn expected** - the largest deficit since October 2023, as exports dropped by 1.4% to €48.59 billion, their lowest level since May 2022. The main drag came from sales of industrial products (-0.9%), transport equipment (-7.9%), natural hydrocarbons and other extractive industries, electricity, and waste (-9.3%), as well as refined petroleum products and coke (-21.3%). Exports fell across key regions: the European Union (-0.7%), Asia (-3.7%), and the Americas (-1.9%). Meanwhile, imports declined by 0.3% to €56.85 billion, driven by reduced purchases of mechanical, electrical, electronic, and computer equipment (-4.4%) and agricultural, forestry, fishing, and aquaculture products (-1.8%). Regionally, imports from the EU dropped by 0.4%, from the Americas by 2.5%, and from Africa by a significant 15.8%.

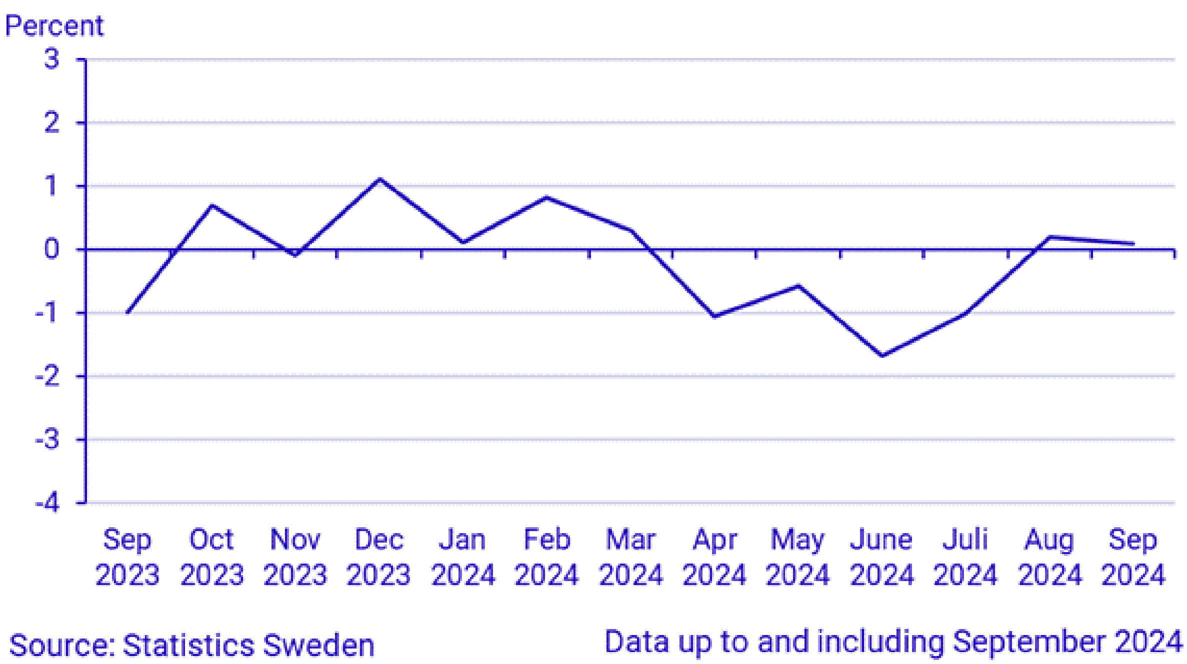
5. **Italian September industrial production fell -0.4% m/m, -4% y/y after 0% m/m, -3.2% y/y – weaker than the -0.2% m/m expected**. Output fell for consumer goods (-2.5% vs 2.8% in August) and energy goods (-3.8% vs 2.3%). Meanwhile, it rebounded for capital goods

(1.8% vs -2.5%) and intermediate goods (1.9% vs -2.8%). While retail sales rebounded up 1.2% m/m, 0.7% y/y after -0.3% m/m, +0.9% y/y – as expected - the sharpest increase in retail turnover since January of 2023. The data challenged growing concerns that weaker consumers in Italy would contribute to economic stagnation at the end of the year. Retail sales for food items soared by 1.7% from the previous month, while non-food sales rose by 0.9%.

6. Sweden September industrial production up 1.2% m/m, -1% y/y after+ 0.7% m/m, -4.4% y/y – better than the +0.9% m/m expected – still, the sixth consecutive month of falling industrial activity albeit, the best in the sequence, as output decreased less for manufacturing (-0.7% vs -4.5% in August) and accelerated for electricity, gas, steam and hot water plants (10% vs 7.7%).

7. Sweden September household consumption fell -0.3% m/m, +0.1% y/y after +0.9% m/m, +0.2% y/y – worse than the 0.4% m/m expected – and the first decline in household spending since June. Spending decreased for restaurants, cafes, hotels, and other accommodation services (-1.3% vs 0.3% in August), furniture, furnishings, household equipment, and consumables (-1.6% vs -0.3%), and other goods and services (-1.9% vs -0.5%). Meanwhile, spending increased for food and beverages (0.6% vs 0.1%), post and telecommunications (0.4% vs 1.1%), and clothing and footwear (1.5% vs -1.8%), while spending on housing, electricity, gas, and heating remained flat (vs -0.8%).

Exhibit #2: Sweden adjusted for work week and volume sales



Source: Stats Sweden, BNY

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

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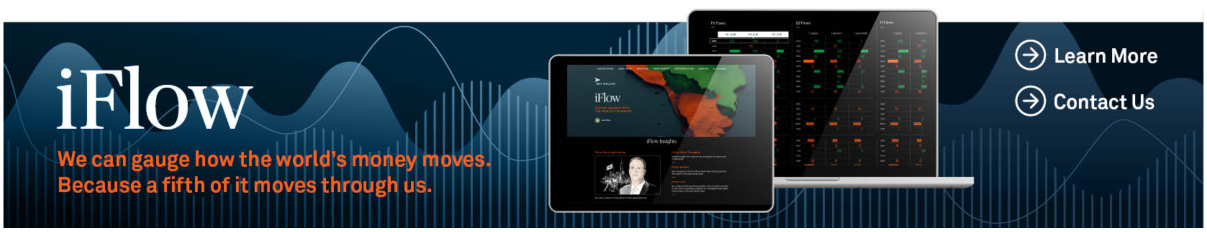

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