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iFlow
MARKET MOVERS

November 13, 2024

Pauses

"The pause has just as much power as the push." - Viktor Frankl

"With a fast-paced world and wanting to reach and accomplish goals sometimes we neglect to pause and just enjoy the moment." - Paul Millsap

Summary

Risk off as markets await US CPI and reconsider global effects of Trump 2.0. MSCI AWCI off 0.2% with European shares struggling to hold a rebound after dipping 2% yesterday while Asia suffered ex China and as US futures are in retreat again with US bond yields at July highs. The math of rates key with FOMC expectations for easing diving with less than 75bps more easing expected by the markets - and pause risks for December rising to 38% from 23% last week, all of which makes today's CPI central. Overnight little news other than weaker Korea jobs, higher Japan PPI, more China stimulus plans, with Xi in Peru celebrating the made in China Cosco port there. Australian wages were lower - should help on RBA easing hopes but not enough, while trade war concerns driver commodities lower except natural gas in Europe. The focus on US bonds and what CPI means for Fed easing dominates alongside any new Trump cabinet choices.

What's different today:

- **Copper holding at 2-month lows at $4.11 lbs** - as high inventories and low demand outlooks from China dominate.
- **India Sensex falls 1.08% to 5-month lows -** as the CPI yesterday pushes above RBI 6% tolerance band - the most in a year at 6.21% for October.

- **US MBA mortgage applications rise 0.5% w/w – first rise in 6 weeks** but still down 35% during the decline from October – with applications for refinance down 2% on the week while new home mortgages rose 2% even as 30Y mortgage rates rose 5bps to 6.86% - most since July.
- **iFlow highlights** the USD buying and EUR selling yesterday,but carry remains in negative zone making clear the pain in EM FX particularly in APAC. Bonds were bought in US again while sold in Europe and Canada. The equity markets are mixed with APAC and LatAm inflows.

What's are we watching?

- **US October CPI** expected up 0.2% m/m, 2.6% y/y after 2.4% y/y bouncing from Feb 2021 lows and first rise in 7-months. The Core CPI is expected up 0.3% m/m but steady at 3.3% y/y
- **US Trump and Biden meet at White House** with focus on further cabinet appointments
- **US 3Q Earnings:** Cisco Systems after the close

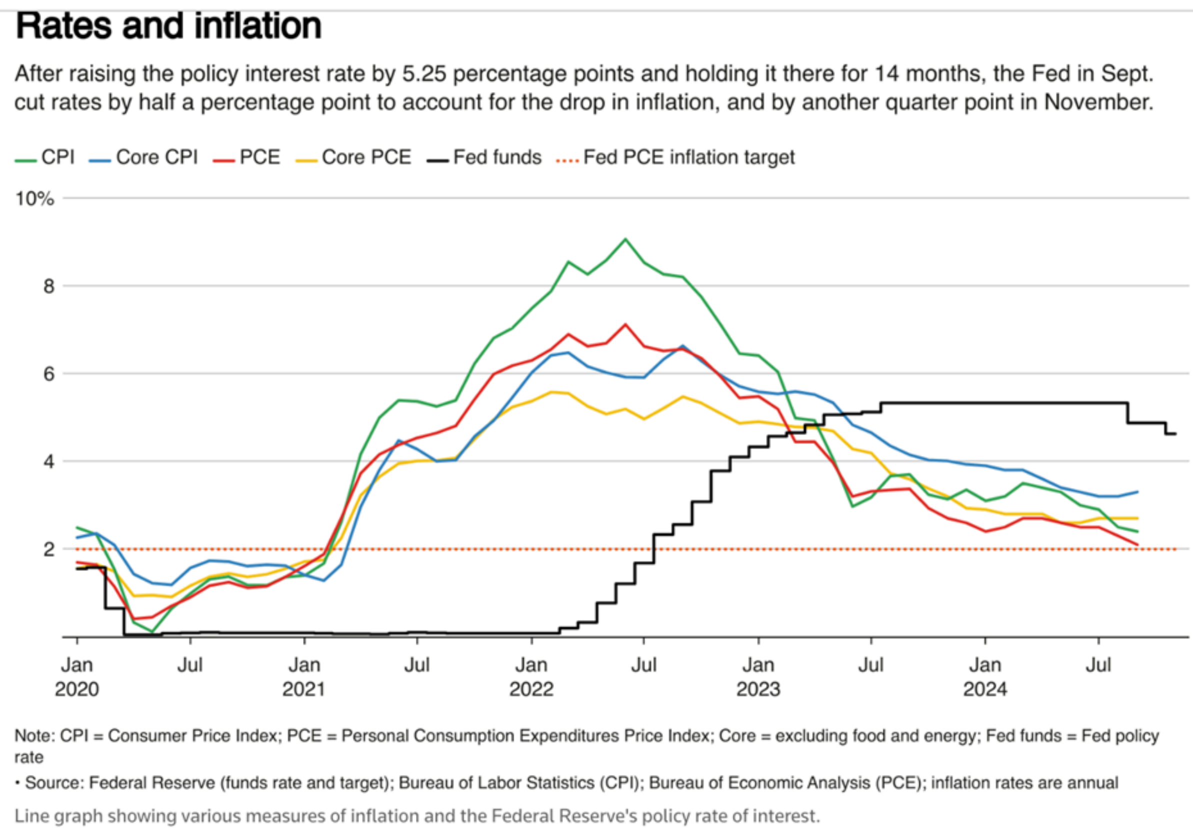
Headlines

- Korea Oct unemployment rises 0.2pp to 2.7% - 2nd monthly rise - Kospi off 2.6%, KRW up 0.7% to 1398.10
- Japan Oct PPI rose 0.2% m/m, 3.4% y/y - highest since August 2023 - Nikkei off 1.71%, JPY off 0.15% to 154.85
- Australian 3Q wage price index slows 0.6pp to 4.1% y/y - lowest since 4Q 2022 – ASX off 0.75%, AUD off 0.1% to .6525
- China plans to cut home deed taxes by 2% to 1% - SCMP up 0.51%, CSI 300 up 0.625%, CNH up 0.35% to 7.2185
- French 3Q unemployment rate up 0.1pp to 7.4% - CAC 40 off 0.15%, OAT 10Y up 3.7bps to 3.15%, EUR up 0.1% to 1.0630
- DOGE plan for Trump cabinet will be led by Musk and Ramaswamy- while Fox News reporter Hegseth name for defense secretary - US S&P500 futures off 0.2%, USD off 0.15% to 105.85

The Takeaways:

The day ahead pivots on the risk of a Fed pause and CPI as part of that decision. Markets price in a 62% chance of a December cut but after that just over 2 more 25bps easing. The uncertainty over fiscal and global trade adds to the sticky price fears ahead. US shares ended their rally yesterday and wait for clarity on inflation to continue. The pause is one that some investors think will refresh animal spirits while others are wary about how the rest of the world matters to US equities. Rates and inflation matter and they are sticky. Just how much so will likely set the tone for further Fed easing pace and the terminus for this cycle. 4% is far different than 3% - which was the consensus just one month ago. The Fed easing trajectory and the level of the USD are intertwined as well with many expecting the US to be a high yielder until 2026 at least. The drop off in USD today looks interesting and highlights how US policy plays out abroad with pass-through inflation worries, and growth forcing FX to become a tool for monetary policy abroad. The gains in CNH and MXN today are important to watch and consider. The temporary uneasiness of today could break should a Fed pause fear become a reality all of which will push other markets and central bankers to react.

Exhibit #1: Is inflation sticky enough for a Fed pause?



Source: Reuters, BNY

Details of Economic Releases:

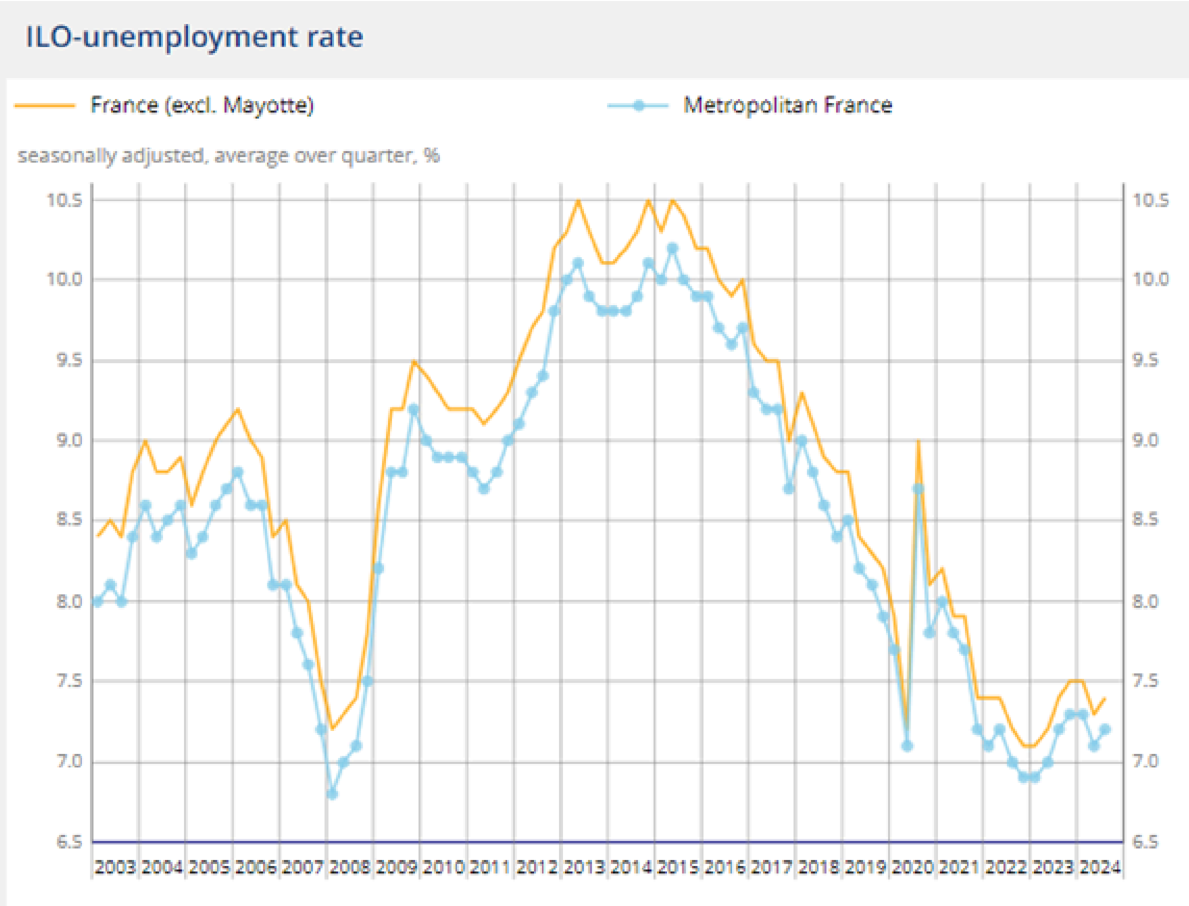
1. Korea October unemployment rose to 2.7% from 2.5% - worse than the 2.5% expected and the second monthly increase. The number of unemployed individuals grew by 51,000, or 8.5%, compared to the same month last year, bringing the total to 678,000. Meanwhile, employment saw a modest increase, with the number of employed persons rising by 83,000, or 0.3%, to reach 28.847 million. The seasonally adjusted labor force participation rate held steady at 64.7% in October, unchanged from the same period a year earlier.

2. Japan October PPI rose 0.2% m/m, 3.4% y/y after 0.3% m/m, 3.1% y/y - more than the 0% m/m, 3.0% y/y expected - the 44th straight month of producer inflation, marking the highest figure since August 2023, as cost rose further for most commodities: transport equipment (1.1% vs 1.3% in September), beverages & foods (1.8% vs 2.1%), petroleum & coal (4.5% vs 1.5%), iron & steel (0.3% vs 0.4%), electrical machinery (3.7% vs 3.3%), production machinery (2.6% vs 4.1%), general-purpose machinery (3.4% vs 3.2%), metal products (3.9% vs 2.8%), other manufacturing (3.6% vs 3.7%), plastics (2.7% vs 2.2%), non-ferrous metals (14.6% vs 9.7%), information (2.4% vs 3.6%), and business-oriented machinery (1.9% vs 2.8%). By contrast, prices of chemical products fell 0.6% after rising 0.3% previously.

3. Australian 3Q Wage Price Index rises 0.8% q/q, 3.5% y/y after 0.8% q/q, 4.1% y/y - less than the 0.9% q/q, 3.6% y/y expected - and the lowest wage gains since 4Q 2022, as wage growth in both the public sector (3.7% vs 3.9% in Q2) and the private sector (3.5% vs 4.1%) moderated, with annual public sector wage growth higher than private sector growth for the first time since Q4 of 2020. In original terms, the main contributors to the growth were electricity, gas, water, and waste services (5.0%), education and training (4.4%), administrative and support services (3.9%), mining (3.8%), manufacturing (3.8%), transport, postal & warehousing (3.7%), healthcare and social assistance (3.6%), construction (3.5%), and accommodation and food services (3.5%).

4. French 3Q unemployment rate rises to 7.4% from 7.3% - as expected. The number of unemployed persons increased by 35 thousand over the prior quarter to reach 2.3 million. Among age groups, the unemployment rate for those aged 15 to 24 rose by 1.8 percentage points to 19.7%, while it fell by 0.1 percentage points to 6.6% for those aged 25 to 49, and by 0.3 percentage points to 4.7% for those aged 50 and over. By gender, the jobless rate for men rose by 0.3 percentage points to 7.6%, while it fell by 0.2 percentage points to 7.2% for women. The activity rate reached 74.8%, 0.3 percentage points higher than in the previous quarter.

Exhibit #2: Is there a stagflation risk in France?



Source: Insee, BNY

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

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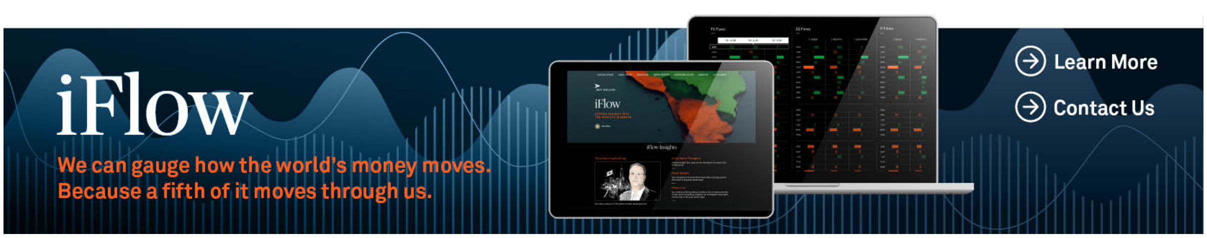

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