November 15, 2024

No Hurry

"One can find time for everything if one is never in a hurry." – Mikhail Bulgakov

"Rushing into action, you fail. Trying to grasp things, you lose them. Forcing a projection to completion, you ruin what was almost ripe." - Laozi

Summary

Risk off as the Fed Chair no hurry and no worry speech drove rate cut hopes lower and dragged down global equities while lifting yields and the USD. The China October retail sales bounce from golden week spending but property still nags and shares there weaker and the PBOC fixed CNY stronger again, while Japan saw slightly better 3Q GDP but not enough to lift stocks positive for the week with weather driving up stockpiling and exaggerating consumption. EMEA has weaker than hoped UK GDP with weaker manufacturing, while the EU Commission Autumn forecasts slash 2025 outlook to 1.3% and make clear Europe lags behind the US hopes for 2025, even so the EUR is higher along with JPY and the USD weakness is taken to reflect a pause rather than a reversal, as investors like the Fed are in no hurry to extend trends into 2025 and policy uncertainty.

What's different today:

- **Steel prices fell to 2-month low** with China futures at CNY3,180 tone – with supply and demand concerns wrapped around the global outlooks for 2025.
- **iFlow –** still more USD buying, more mood retracement, more trend factor index declines and ongoing US bond buying. The biggest loser in FX is EUR then AUD, INR

and PLN. The bonds saw a reversal in New Zealand buying and Malaysia selling which is notable. Equities are mixed with APAC most directly weaker.

What's are we watching?

- **US October retail sales** expected up 0.3% m/m after 0.4% m/m – domestic demand key driver for 4Q outlook.
- **US October industrial production** expected -0.4% m/m after -0.3% m/m with manufacturing -0.5% m/m after -0.4% m/m – with focus on hurricane and Boeing disruptions
- **US November Empire Fed manufacturing index** expected 0 after -11.9 – with some bounce back key
- **Fed Speakers**: NY Fed Williams, Chicago Fed Goolsbee, Boston Fed Collins – who already said a December cut wasn't a sure bet.
- **US President Biden to meet China President Xi** in Peru at APEC meeting sidelines likely Saturday

Headlines

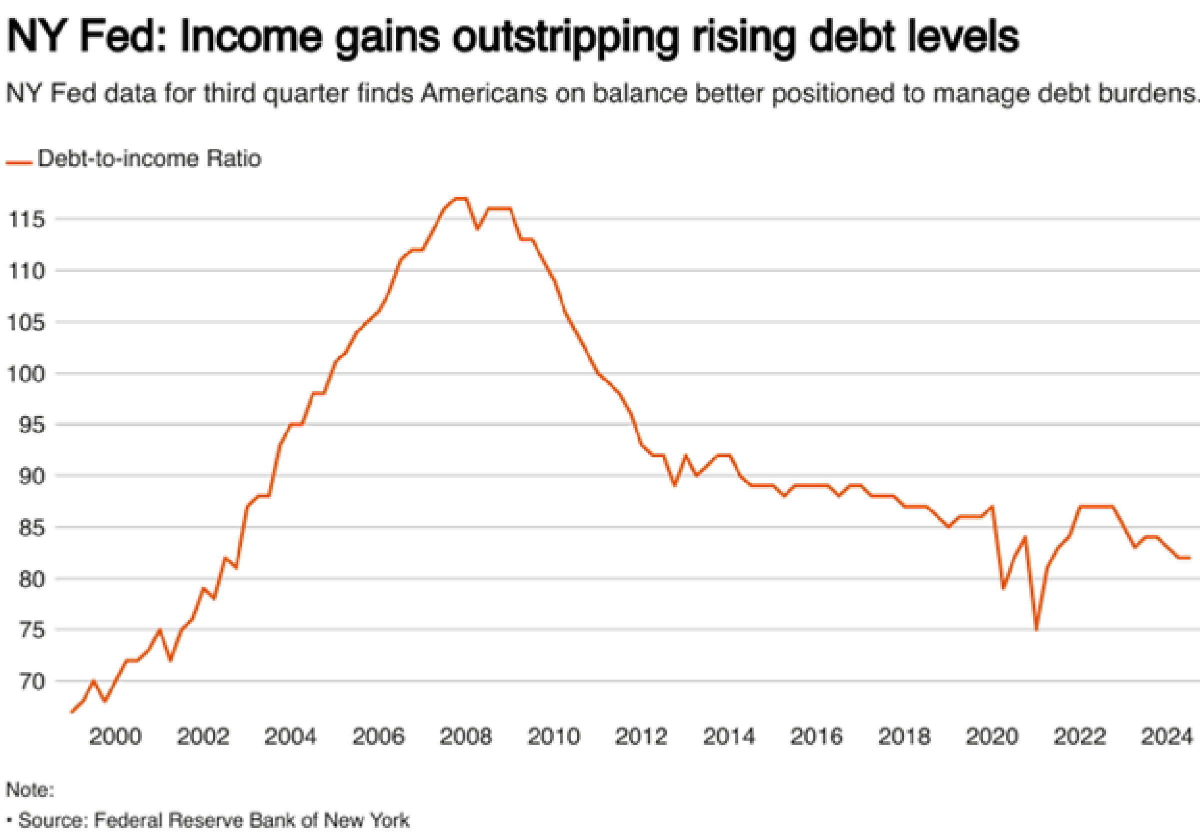
- Japan 3Q GDP rose 0.2% q/q, 0.9% y/y – 2nd quarter of growth led by private consumption – while Sep Industrial production revised up 1.6% m/m- Nikkei up 0.28%, JPY up 0.3% to 155.55
- China Oct house prices drop 5.9% y/y – worst in 9-years, retails sales jump 4.8% y/y - best since Feb - while industrial production slows to 5.3% y/y and unemployment 5% at 4-month lows – CSI 300 off 1.75%, CNH off 0.5% to 7.2370
- Indonesia October narrows to $2.47bn – smallest since June as exports up 10.25% y/y but imports jump 17.59% y/y linked to year-end holidays – IDR flat at 15,850
- German Oct WPI up 0.4% m/m, -0.8% y/y – most since May – as food inputs rose – DAX off 0.2%, Bund 10Y yields up 0.5bps to 2.343%
- Eurozone 2025 growth forecasts cut 0.1pp to 1.3%, private sector 1.1% - half US outlook – EuroStoxx 50 off 0.4%, EUR up 0.35% to 1.0570
- UK 3Q GDP up 0.1% q/q, 1% y/y – weakest in 3 quarters with Sep monthly -0.2% m/m due to manufacturing drop – FTSE off 0.1%, GBP up 0.15% to 1.2685
- Boston Fed Collins WSJ interview: Another rate cuts is on the table, but it's not a done deal." – S&P500 futures off 0.2%, US 10Y yields flat at 4.435%, USD index off 0.2%

The Takeaways:

Markets have repriced the December rate cut back below 60% after the FOMC speakers yesterday and less than 3 cuts more in 2025. The terminal rate for this economic cycle is now

4% not 3% as it was just 2 months ago. "The economy is not sending any signals that we need to be in a hurry to lower rates," Powell said at a Dallas Fed event – that was the pivotal statement, and it leaves international markets risk off. The USD is paradoxically lower and that connects to the fact that US shares have stalled their ascent higher holding around 6000 S&P500. The hedging of US assets by international investors will eventually mean selling stocks or bonds will lead to a higher USD but that competes with the domestic views where USD exceptionalism dominates still – growth vs. carry is battle for factors driving markets. The pulling of US money abroad is just as important, and the home bias everywhere matters. The balancing act for today is in the data as that will matter to the urgency of Fed action – with the US retail sales and industrial production. The ability for the higher restrictive rates to hold rests on higher real growth. The role of higher asset prices in the process from houses to stocks feeds along with higher wages. As the data from the 3Q New York Fed highlighted yesterday – income increases beat debt servicing burdens. Whether that continues will be a function of Fed rate cuts, inflation and asset performance into the new year.

Exhibit #1: Is the US growth linked to wages for 2025?



Source: Reuters, BNY

Details of Economic Releases:

1. Japan 3Q GDP rose 0.2% q/q, 0.9% y/y after 0.5% q/q, 2.2% y/y – better than the 0.7% y/y expected. Both private consumption and government spending increased further, while capital spending declined after robust growth in the previous quarter. Simultaneously, a deterioration in external demand persisted, contributing negatively for the third consecutive quarter. Business investment shrank by 0.2% q/q, following a robust expansion of 0.9% previously, in line with expectations. Concurrently, net trade subtracted 0.4 percentage points, as exports (0.4% vs 2.6%) rose much less than imports (2.1% vs 2.9%). At the same time, private consumption, which accounts for more than half of the economic output, rose further (0.9% vs 0.7% in Q2), easily exceeding the consensus of a 0.2% growth, driven by rising wages. Meanwhile, government spending logged its third straight quarter of rise (0.5% vs 0.1%), reflecting efforts to mitigate the impact of natural disasters during the summer.

2. Japan final September industrial production revised to +1.6% m/m, -2.6% y/y after -3.3% m/m, -4.9% y/y – better than +1.6% m/m flash – Still the 7th annual drop. The monthly rise came mainly from higher output of motor vehicles (7.1% vs -10.7% in August), inorganic and organic chemicals (6.6% vs -8.1%), and electrical machinery, and information and communication electronics equipment (2.2% vs -6.2%).

3. China October house prices drop to -0.5% m/m, -5.9% y/y after -0.7% m/m, -5.8% y/y – worse than the -5.8% y/y expected. This marked the 16th consecutive month of decrease and the steepest pace since April 2015, despite Beijing's continuous efforts to mitigate the impact of persistent weakness in the property sector, including lowering mortgage rates and cutting home buying costs. Prices dropped at steeper rates in most cities, such as Beijing (-4.9% vs -4.6% in September), Guangzhou (-10.4% vs -10.3%), Shenzhen (-8.1% vs -8.6%), Tianjin (-2.8% vs -2.3%), and Chongqing (-6.3% vs -6.2%). On the other hand, cost continued to increase in Shanghai (5.0% vs 4.9%).

4. China October industrial production slows to +0.41% m/m, +5.3% y/y after +0.59% m/m, +5.4% y/y – weaker than 5.8% y/y expected. The slowdown came amid a sharp moderation in electricity, heat, gas, and water production and supply activities (5.4% vs 10.1% in September). Meanwhile, output growth accelerated in manufacturing (5.4% vs 5.2%) and mining (4.6% vs 3.7%). Within manufacturing, 35 out of 41 major sectors advanced, notably computer and communication (10.5%); heat production (5.5%); non-ferrous metal smelting (7.7%); coal, mining, and washing (4.5%), oil and natural gas (5.8%); textile (3.8%); chemicals (6.9%), railway, ship, and aviation (4.4%); cars (6.2%), general equipment manufacturing (2.4%). Conversely, output shrank for non-metallic mineral products (-2.6%). For the first ten months of the year, industrial output increased by 5.8%.

5. China October retail sales rose 4.8% y/y after 3.2% y/y – better than the 3.8% y/y expected -the fastest growth in retail turnover since February, boosted by a week-long holiday, a recent shopping festival, and a series of support measures from Beijing in late

September to bolster demand. Sales quickened for personal care (8.5% vs 3.0% in September), sports and entertainment (26.7% vs 6.2%), household appliances (39.2% vs 20.5%), office supplies (18.0% vs 10.0%), and automobile (3.7% vs 0.4%). In addition, trade rebounded strongly for clothing, shoes and hats, textile products (8.0% vs -0.4%), and cosmetics (40.1% vs -4.5%) amid a further rise in sales of grain, oil, and food (10.1% vs 11.1%). At the same time, sales decreased at slower paces for jewelry (-2.7% vs -7.8%) and building materials (-5.8% vs -6.6%). During the first ten months of the year, retail sales grew by 3.5%.

6. China October fixed asset investment steady at 3.4% y/y – weaker than the 3.5% ytd y/y expected. Investment growth in the secondary sector remained steady (at 12.3%), with increases in mining (13.2%), manufacturing (9.3%), and electricity, heat, gas, and water production and supply (24.1%). Meanwhile, investments in the primary (2.5% vs 2.3% in January to September) and the tertiary (4.3% vs 4.1%) sectors went up. However, real estate investment declined by 10.3% from a year earlier in the first ten months of the year

7. China October unemployment drops to 5% from 5.1% - better than the 5% expected - the lowest reading in four months. The jobless rate for local registered residents decreased by 0.1 percentage points to 5.1%, with non-local registrants at 4.8%, and non-local agricultural registrants at 4.7%. In 31 major cities, the urban unemployment rate stood at 5%. On average, employees in enterprises worked 48.6 hours per week. From January to October, the average surveyed jobless rate was 5.1%, 0.2 percentage points lower than the same period last year. In October 2024, the surveyed unemployment rate was again 5%.

8. Indonesia October trade surplus narrows to $2.47bn after $3.23bn – less than the $3.05bn expected - the smallest trade surplus since June, mainly due to a surge in imports. Exports rose by 10.25% y/y, marking the seventh consecutive month of growth and the fastest pace since January 2023, well above market expectations of a 3.84% gain, supported by higher palm oil prices. Export growth was primarily driven by increased shipments to the US (28.49%), India (8.04%), the ASEAN (18.00%), and the EU (25.68%). Meanwhile, imports soared by 17.49%, much faster than market forecasts of a 7.1% rise and an 8.55% gain in the previous month, the fastest pace since September 2022, boosted by strong domestic demand leading up to year-end festivities. For the 1st ten months of 2024, the trade balance registered a surplus of USD 34.04 billion, with exports and imports advancing by 1.33% and 5.25%, respectively.

9. German October Wholesale Prices up 0.4% m/m, -0.8% y/y after -0.3% m/m, -1.6% y/y - the softest decrease since July, dragged by lower prices for mineral oil products (-11.5%), iron, steel and ferrous semi-finished metal products (-5.3%), computers and peripheral equipment (-4.9%), and chemical products (-4.6%). On the other hand, costs increased for coffee, tea, cocoa and spices (26.0%), non-ferrous ores, non-ferrous metals and non-ferrous semi-finished metal products (24.0%), sugar, confectionery and bakery products (9.9%), waste and scrap (8.3%), and metals and metal ores (6.2%).

10. UK September industrial production fell -0.5% m/m, -1.8% y/y after +0.5% m/m, -1.7% y/y – weaker than the 0.1% m/m rise expected. Output tumbled for manufacturing (-1% vs 1.3% in August), electricity, gas, steam and air-conditioning supply (-1.9% vs 0.9%), and water supply, sewerage and waste management (-0.7% vs 1.1%). In contrast, output rebounded for mining and quarrying (3.7% vs -5.3%).

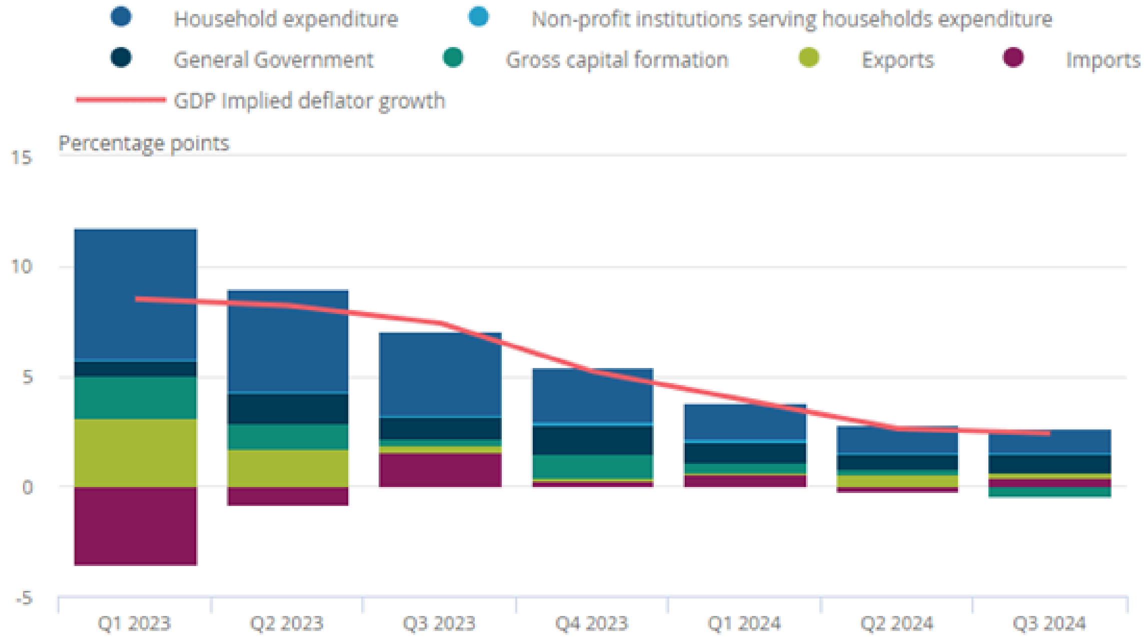
11. UK September trade deficit widens to £3.46bn after £2.015bn – with goods deficit - £16.32bn after - £15.21bn – as expected. Goods Exports plunged 12.6% month-on-month to a 32-month low of £28.5 billion, while imports dropped by 6.3% to a nine-month low of £44.8 billion. Meanwhile, imports from non-EU countries fell by 9.3%, while services imports grew by 0.8%. Goods exports plunged by 12.6%, weighed by a £0.9 billion decline in machinery and transport equipment shipments, a £0.3 billion fall in fuel exports, and a £0.2 drop in chemical exports to the EU, including aircraft to Germany and gas to Belgium. Additionally, exports to non-EU countries shrank by £1.8 billion, largely due to a £1.3 billion decrease in machinery and transport equipment. Meanwhile, services exports edged down by 0.3%

12. UK 3Q labor productivity drops -0.8% q/q.-1.8% y/y after +0.2% q/q, -0.3% y/y – worse than the +0.1% q/q expected . The drop was attributed to a 2.8% growth in the number of hours worked, which outpaced the 1% rise in gross value added (GVA). Meanwhile, productivity was 2% above its pre-pandemic levels, driven by a 3.6% increase in GVA since 2019, while the number of hours worked rose by 1.5% over the period.

13. UK 3Q flash GDP up 0.1% q/q, 1% y/y after 0.5% q/q, 0.7% y/y – less than the 0.2% q/q expected. The September monthly GDP -0.1% m/m after +0.2% m/m – weaker than the 0.2% m/m expected. Production output shrank 0.5%, reversing from a 0.5% gain in August, led by a 1% drop in manufacturing. There were also negative contributions from water supply, sewerage, waste management and remediation activities (-0.7%), and from electricity, gas, steam and air conditioning supply (-1.9%). Also, services output showed no growth, following an increase of 0.1% in August 2024, with the largest negative contribution coming from a 2.6% fall in computer programming, consultancy, and related activities. Construction output grew by 0.1%, following a growth of 0.6% in August, and led by an increase in repair and maintenance (0.4%), while new work fell by 0.2%.

Exhibit #2: Is a UK growth problem ahead?

UK, Contributions to quarter on quarter a year ago growth in the implied price deflator, Quarter 1 (Jan to Mar) 2023 to Quarter 3 (July to Sept) 2024



Source: GDP first quarterly estimate from the Office for National Statistics

Source: UK ONS, BNY

Disclaimer & Disclosures

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

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