BNY

iFlow MARKET MOVERS

November 20, 2024

Gamed

"Play the game, never let the game play you." – Tupac Shakur

"You have to learn the rules of the game. And then you have to play better than anyone else." – Albert Einstein

Summary

Risk on as the fears of yesterday are the hopes for tomorrow and that leaves today chasing the Nvidia and Target earnings along with more data and more forward guidance from monetary and fiscal policy makers. The wait for the US Treasury nominee is expected to close today and how the US 20-year bond does will be important but AI boom and Nvidia earnings dominate stocks. Overnight the CPI was higher in UK and that saved GBP from the otherwise uniform race higher in the USD. JPY and CHF reversed on risk on and rates in the US and EU are higher – after wages in 3Q jumped beyond ECB targets. There is also lower CPI in South Africa opening up SARB for a cut today. The talk of negotiations from Putin leave many feeling gamed by geopolitical risks – and Oil up 0.6% while Natural Gas up 1.8% reflect this doubt. Into the US focus is on Fed speakers, Trump tweets and how markets balance the games ahead.

What's different today:

- **Bitcoin breaks to new highs over $94k** – the move was linked to Bakkt deal talk and views that this will mean Trump is more lenient on crypto regulation

- **iFlow** – carry is back in just neutral zone as is value, but mood remains in extreme negative zone with bond buying in US and stock selling in G10 uniform while EM seeing buying in Thailand, India and Chile. Markets in FX bought USD again, bought DKK, JPY and NOK but sold EUR, GBP and AUD. EM saw uniform APAC selling except CNY.

What are we watching:

- **Nvidia reports after the close** - expected to show 83% y/y jump in revenues to $33.2bn
- **Fed Speakers:** Vice-chair Barr testimony to House financial services, Governor Lisa Cook in Virginia and Governor Michelle Bowman also speak in Florida
- **US Treasury sells $16 billion of 20-year bonds**

Headlines

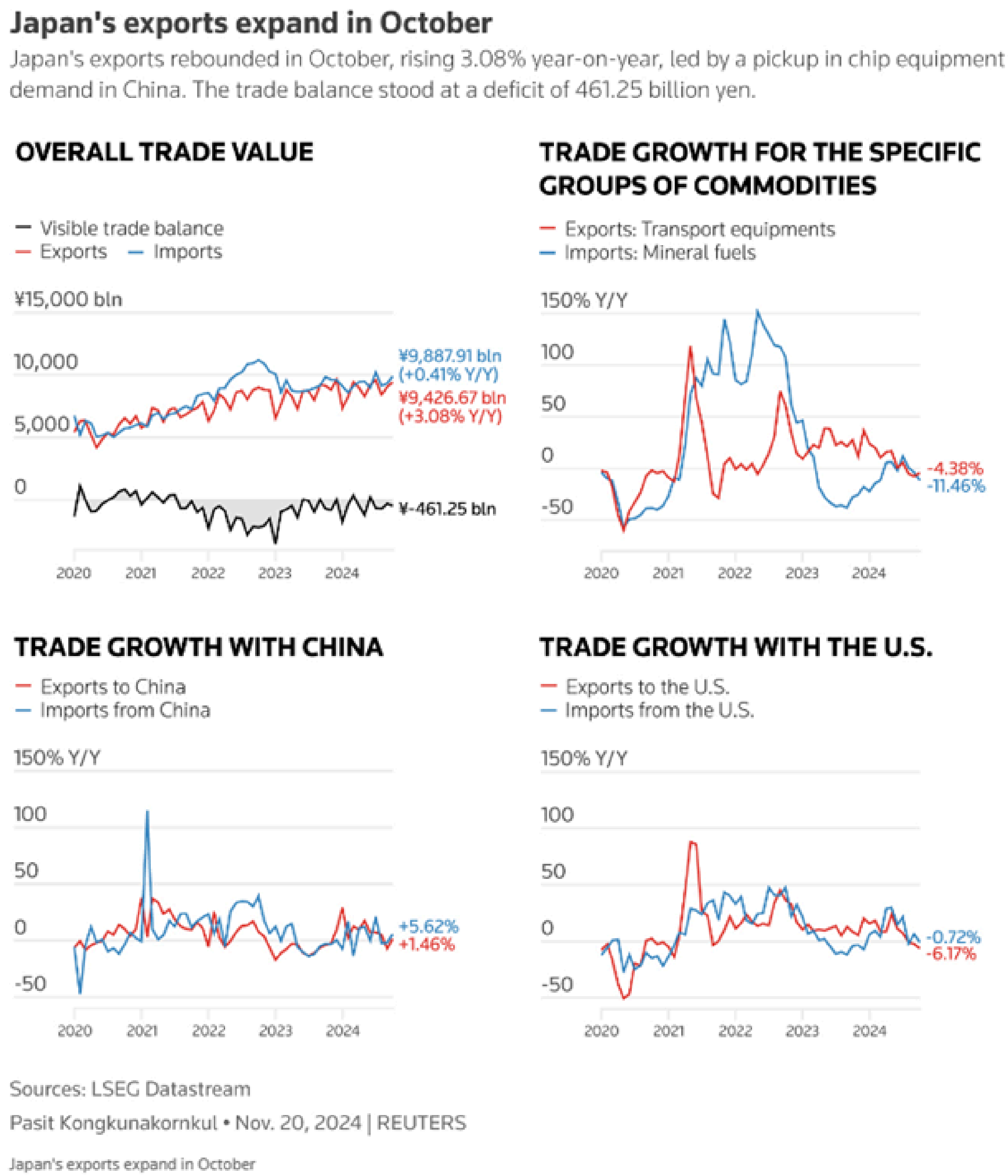
- China PBOC leaves loan prime rates unchanged - as expected - 1Y 3.1%, 5Y 3.6% - CSI 300 up 0.22%, CNH off 0.2% to 7.2495
- Bank Indonesia leaves rates unchanged at 6.0% - as expected – IDR off 0.2% to 15,850
- Australian Oct Westpac leading index up 0.2% - best in six months – ASX off 0.57%, AUD off 0.4% to .6505
- Japan October trade deficit widens to Y461.2bn- 4th monthly deficit but better on year as exports up 3.1% y/y to 3M highs – Nikkei off 0.16%, JPY off 0.7% to 155.85
- Korea Oct PPI -0.1% m/m, +1% y/y - holding at Nov 2023 lows – Kospi up 0.42%, KRW off 0.2% to 1396.2
- German Oct PPI rose 0.2% m/m, -1.1% y/y- 16th month of deflation led by energy – DAX up 0.2%, Bund 10Y yields up 4.5bps to 2.377%
- EU Sep construction output -1.6% y/y while 3Q wage growth seen up 1.1pp to 5.42% - led by Germany - ECB Financial Stability report see vulnerabilities - cites low growth and high debt – EuroStoxx 50 up 0.2%, EUR off 0.3% to 1.0560
- South Africa Oct CPI drops -0.1% m/m, +2.8% y/y – ZAR off 0.3% to 18.102
- UK Oct CPI rises 0.6% m/m, 3.2% y/y - first rise since July - higher than BOE estimate – FTSE off 0.1%, GBP off 0.1% to 1.2665
- US weekly API crude oil inventories reported a build + 4.753mb - larger than 0.8mb expected - while gasoline fell 2.48mb - putting it 4% below 5Y average a

distillates fell 0.688mb - 5% below average – WTI up 0.8%

The Takeaways:

Trade matters and it shows up in the JPY today where the deficit widened mostly due to seasonality factors but also because the world isn't growing like it used to and supply chains are less stable and sure. The JPY weakness today stands out with the 155 break looking important to how the BOJ and MOF have to think about the rest of the year policy mix. The risk of higher rates everywhere isn't likely to help growth and yet the sticky inflation is there – in wages – as shown in the EU data this morning. This was the push of the BOJ plan and its spreading. The logical connection to corporate investments is to find productivity – and that begat the AI boom over the last 2 years. The story comes to a head today with NVIDIA and how that company performs from a macro perspective matters significantly to how the world will think about productivity into 2025. The coattails of the story drive energy markets as the push for data centers and more electricity to power them has left the current winter looking more volatile. The most important story for Japan in the data overnight came from China imports rising and US falling – the mean reversion of demand isn't a game but a reality to how markets may be over pessimistic on Asia and over optimistic on the US.

Exhibit #1: Does trade matter more in 2025?



Source: Reuters, BNY

Details of Economic Releases:

1. **Australian October Westpac leading index up 0.2% m/m after 0.0% m/m - better than 0.1% m/m expected** and showing growth for the first time in 6-months. The key 6M average annualized rate increased to 0.26 in October from -0.20 in September. The latest reading pointed to a more constructive signal on the economy's future momentum. It was broadly consistent with Westpac's view that the pace of economic growth, having hit a nadir of 1.0% yoy in the middle of the year, is set to pick up pace, reaching 1.5% by year-end and 2.4% by the end of 2025. "We

continue to expect no change in the cash rate at the central bank's meeting in December," said Ryan Wells, Westpac Group economist. "... as we move into the new year is how close to target inflation needs to be before moving off the peak level of policy restrictiveness."

2. Japan October trade deficit widens to Y461.2bn after Y294.1bn - more than the Y350bn expected - but down from Y702.8bn in October 2023.
Exports increased by 3.1% to a three-month high of JPY 9,426.67 billion, reversing a 1.7% decline in September and surpassing forecasts of a 2.2% growth. Meanwhile, imports rose by 0.4%, decelerating from a downwardly revised 1.8% increase in the previous month, yet outperforming expectations of a 0.3% decline.

3. Koea October PPI -0.1% m/m +1% y/y after -0.2% m/m 1% y/y - less than the 0% m/m expected - the lowest level since November 2023. Cost continued to rise for electric power, water, and gas (4.2 percent vs 3.8 percent in September), service (2.2 percent vs 2.1 percent) and agricultural, forestry, and marine products (+0.5 percent vs +3.8 percent). On the other hand, prices fell for manufacturing products factory gate price (-0.3 percent vs -0.5 percent).

4. German October PPI rose 0.2% m/m, -1.1% y/y after -0.5% m/m, -1.4% y/y - as expected. This marked the 16th consecutive period of producer deflation, driven by a sharp drop in energy prices (-5.6%), with costs falling for mineral oil products (-12.9%), light heating oil (-22.7%), fuels (-12.1%), natural gas (-10.1%), and electricity (-7.3%). Excluding energy, producer prices rose by 1.3%. The largest price increases were observed in capital goods (2.0%), led by higher costs for machinery (2.0%) and motor vehicles and parts (1.4%). Prices also rose for consumer goods (1.9%), durable goods (0.9%), and intermediate goods (0.4%).

5. Eurozone September construction output fell -0.1% m.m, -1.6% y/y after -2.5% y/y - worse than the -1% y/y expected and the eighth monthly decline. Output shrank for building activity (-1.6% vs -2.5% in August), civil engineering works (-0.5% vs -2.5%) and specialized construction activities (-2.2% vs -3%). Among the largest economies in the Euro Area, construction activity declined markedly in Germany (-4.8%) and France (-4.1%), but increased in Spain (+2.2%). Construction output fell by 2% in the European Union.

6. Eurozone 3Q negotiated wage growth rises 5.42% y/y after 3.54% y/y - more than the 4% y/y expected. this jump, largely driven by Germany, complicates the European Central Bank's plans for interest rate cuts as inflation eases. The ECB expects a slowdown in wage growth over the next two years, but high pay increases in Germany, where wages rose by 8.8% in Q3, may limit the scope for future rate cuts.

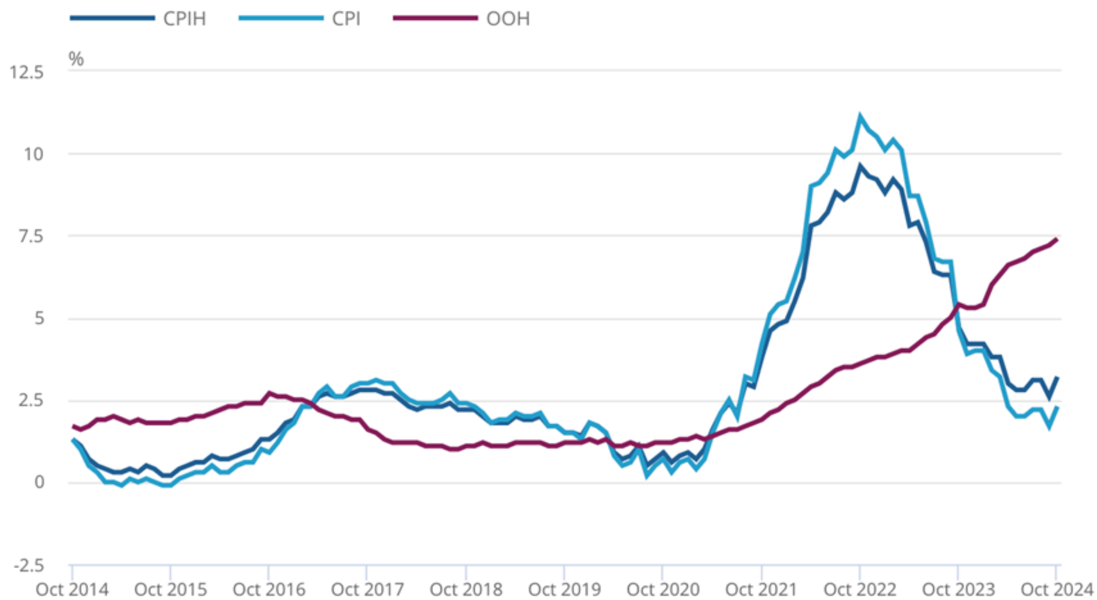
7. South Africa October CPI -0.1% m/m, 2.8% y/y after +0.1% m/m, 3.8% y/y - lower than the 3.1% y/y expected. First monthly drop in a year - led by fuel. Falling fuel prices remain the primary factor behind the slowdown. Petrol and diesel prices declined by 5.3% between September and October, taking the annual rate for fuel to -19.1%. Additionally, prices moderated for some CPI items, including restaurants & hotels (5.9% vs 7.4% in September); food & non-alcoholic beverages (3.6% vs 4.7%), alcoholic beverages & tobacco (4.5% vs 4.7%) and health (4.8% vs 5.1%). The core inflation rate, which excludes volatile items such as food, non-alcoholic beverages, fuels, and energy, eased to 3.9% in October, the lowest since April 2022, down from 4.1% in each of the previous two months.

8. UK October CPI rises 0.6% m/m, 2.3% y/y after 0% m/m, 1.7% y/y - worse than the 2.2% y/y expected - first rise since July. The largest upward contribution came from housing and household services (5.5% vs 3.8% in September), mainly electricity (-6.3% vs -19.5%) and gas (-7.3% vs -22.8%), reflecting the rise of the Office of Gas and Electricity Markets (Ofgem) energy price cap in October 2024. Also, prices rose faster for restaurants and hotels (4.3% vs 4.1%) and rebounded for housing and utilities (2.9% vs -1.7%). Prices of services increased slightly more (5% vs 4.9%), matching estimates from the central bank. On the other hand, food inflation was steady at 1.9% and the largest offsetting downward contribution came from recreation and culture (3% vs 3.8%).

Exhibit #2: Does the UK CPI mean a BOE pause?

Figure 1: Annual CPI and CPIH inflation rates rise for the first time since July 2024

CPIH, owner occupiers' housing (OOH) costs component and CPI annual inflation rates, UK, October 2014 to October 2024



Source: Consumer price inflation 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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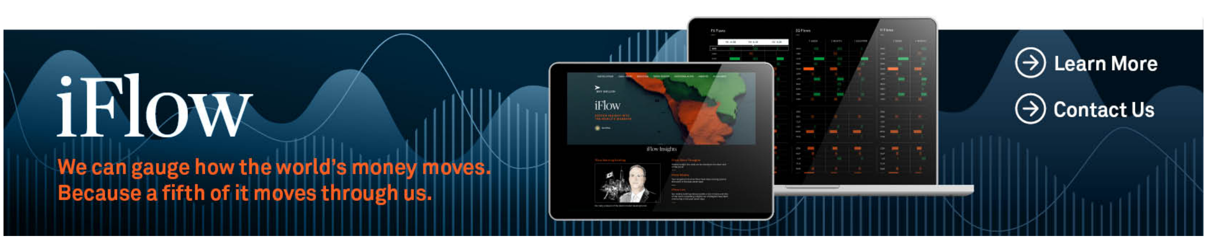

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