BNY
iFlow
MARKET MOVERS

**November 22, 2024**

# Snow

*"When snow falls, nature listens." – Antoinette Van Kleff*

## Summary

Risk off as markets are waiting for fresh signals. The worry about Putin making the Russia/Ukraine war global is one factor, while the weakness in the Eurozone flash PMI is another. However, the UK leads the drop in FX today as its own flash PMI and retail sales missed and matched EU weakness. Positions still matter and hopes for 2025 still drive flows. There was little joy in the Japan CPI drop as it was still higher than expected and electricity cost drops were offset by housing – the cost-of-living pressures on voters and consumers continues to worry investors. The one bright spot was in Chips bouncing in APAC tracking Nvidia – with Korea seeing inflows. The day ahead for US markets is now watching for the next EUR level before parity (off 4% from the election) and the much watch $100k Bitcoin test (up 40% since the election). Odds for US Treasury Secretary pick are mixed between Bessent and Warsh. US bonds are bid but the supply into the holiday shortened week ahead (>$720bn) matters and the US flash PMI and final Michigan consumer sentiment could flip that back – along with the ongoing jockeying for funding into year-end.

**What's different today:**

- **The US-German 2-year rate spread is 229bps** – back to 2022 levels and linked to the EUR weakness today, led by ECB comments on cutting rates faster and on weaker EU data.
- **FDA finds asthma drug impacts brain** – adding the nervousness about Pharma sector as Trump's HHS pick Kennedy vows a battle on industry.
- **iFlow still shows USD buying** – along with DKK, JPY, NOK and SEK against EUR, AUD, GBP selling in G10. The equity mood index still extremely negative with all G10 seeing

outflows while EM saw inflows for Korea, Thailand, Poland and Chile. The Bond flows were positive in US, Australia, UK and Brazil but negative in all other places

**What are we watching:**

- **Mexico 3Q final GDP** expected up 1% q/q, 1.5% y/y after 2.1% y/y – key for Banxico and rate cuts with Sep economic activity expected up 0.1% m/m after -0.3% m/m and **Mexico mid-month November CPI** expected 0.17% m/m, 3.72% y/y from 3.87% y/y
- **Canada September retail sales** expected up 0.4% m/m, 1.4% y/y after 0.4% m/m – with new home prices also in the mix expected up 0.1% m/m, key for BOC 50bps cut hopes and growth story.
- **US November S&P flash composite PMI** expected 54.3 from 54.1 with manufacturing up to 48.8 from 48.5 and services 55.2 from 55.0 – first snap of business mood post-election key for Fed cut odds.
- **US November final University of Michigan consumer sentiment** expected 73.7 from 70.5 with focus on inflation rise 3.1% from 3.0%
- **Fed Speaker:** Governor Bowman speaks at AI symposium.
- **ECB speakers**: Nagel and Villeroy will speak on a panel at 8 am. While Schnabel at 10.45 am – all matter to 50bps easing priced for December now

## Headlines

- Australia Nov flash composite PMI flips to contraction off 0.8 to 49.4 led by services – 10-month lows - ASX up 0.85%, AUD off 0.2% to .6500
- Japan October core CPI off 0.1pp to 2.3% y/y – lowest in 6M led by electricity decline offset by housing – the flash Nov composite PMI up 0.2 to 49.8 led by services – Nikkei up 0.68%, JPY up 0.1% to 154.35
- Singapore 3Q GDP revised up to 3.2% q/q, 5.4% y/y – led by manufacturing and trade – SGD off 0.1% to 1.3475
- India Nov flash composite PMI rises 0.4 to 59.5 – with inflation at 12-year highs – Sensex up 2.54%, INR up 0.5% to 84.45
- Eurozone Nov flash composite PMI drops 1.9 to 48.1 – ten-month lows led by services -Eurostoxx 50 off 0.25%, EUR off 0.5% to 1.0415
- UK Oct retail sales drop -0.7% m/m, 2.4% y/y – worst in 4-months – while the Nov flash composite PMI drops 1.9 to 49.9 worst in 13 months – FTSE up 0.7%, GBP off 0.7% to 1.2515

**The Takeaways:**

The first snow of the season hit today and it's a good analogy for markets, as there was a surprise to it. Snow also has another meaning harkening back to old technology when TV antennas were the only way to get a signal and bad weather left the screens filled with snow static rather than pictures. That is the place to start the day as markets are filled with the noise of snow rather than of a clear picture for the rest of the month and year. There is the usual hopes that Friday ends after the US data but there is the ongoing geopolitical and US political focus to keep traders watching screens. There is also the week ahead with bond supply and the risk of more concessions. The ongoing focus for how the "turn" of the year leaves rates matters and the USD exceptionalism that dominates today with the dollar index up 0.5% to 107.55 makes clear that demand matters. However, there are costs to the trend with the fear that higher rates, stronger USD limit the stock markets and leave value concerns weighing against the hopes of a fresh deregulation pick-up.

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**Exhibit #1: Is the USD linked to US stock performance?**


Source: Reuters, BNY

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### Details of Economic Releases:

**1. Australian November Judo Bank flash composite PMI 49.4 from 50.2 – weaker than 50.5 expected**. The decline was driven by a reduction in services activity (49.6 from 51.0) and a continued contraction in manufacturing (49.4 from 47.3). New business growth slowed, with domestic demand driving a modest increase while export business fell for a third consecutive month. Backlogs of work decreased, indicating less pressure on business capacity, which led to slower job creation. Price pressures eased, with input prices rising at the slowest pace in over four years, and manufacturing cost inflation fell to its lowest since June 2023. Businesses raised selling prices more slowly, reflecting eased cost pressures. Business confidence in the service sector remained below the long-run average but rose to its highest level since August 2023, with firms expressing cautious optimism for the future.

2. **Japan October inflation rate slows to +0.4% m/m, 2.3% y/y from -0.3% m/m, 2.5% y/y - more than the 2.2% y/y expected** – while core slows to 2.3% y/y from 2.4% y/y – also more than 2.2% y/y expected but 6-month lows. Electricity prices saw the smallest increase in six months (4.0% vs 15.2% in September), as the effects of the energy subsidy removal in May diminished. Also, gas prices rose more slowly (3.5% vs 7.7%). In addition, costs slowed for furniture and household utensils (4.4% vs. 4.8%) and culture (4.3% vs. 4.8%). Moreover, prices dropped further for communication (-3.5% vs -2.6%) and education (-1.0% vs. -1.0%). On the other hand, prices edged higher for food (3.5% vs 3.4%) and housing (0.8% vs. 0.7%). Meanwhile, transport prices jumped (0.5% vs. 0.1%) amid faster rises in cost of clothing (2.8% vs 2.6%), healthcare (1.7% vs 1.5%), and miscellaneous items (1.1% vs 0.9%).

3. **Japan November Jibun Bank flash composite PMI up to 49.8 from 49.6 – weaker than 49.9 expected -** the second consecutive month of contraction in private sector activity. The service sector saw a modest renewal in growth (50.2 from 49.7) while manufacturing output (49.0 from 49.2) declined for the fifth consecutive month. Demand conditions stalled, indicated by stagnant new orders and a further drop in foreign orders. However, employment growth reached a four-month high, accompanied by a rise in outstanding business for the first time since April. Cost pressures remained elevated due to rising raw material prices and a weak yen. Although input cost inflation eased, output prices increased at a faster rate. Finally, overall confidence improved.

4. **Singapore 3Q GDP revised to 3.2% q/q, 5.4% y/y after 0.5% q/q, 3.0% y/y – better than 2.5% q/q, 4.7% y/y expected** and better than 4.1% y/y flash. The Ministry of Trade and Industry upgraded its 2024 GDP growth forecast to "around 3.5%" from the previous range of "2-3%." The growth was primarily driven by the manufacturing, wholesale trade, and finance and insurance sectors, supported in part by the global recovery in electronics. However, consumer-facing sectors such as retail trade and food and beverage services continued to contract, partly due to sustained outbound travel by locals, slower-than-expected recovery in international visitor arrivals, and weak tourist spending

5. **India November flash HSBC composite PMI rises to 59.5 from 59.1 – better than 59.4 expected -** the highest reading since August, surpassing its long-run average, with accelerated growth in the services sector (59.2 from 58.5) and robust expansion in manufacturing (57.3 from 57.5 with output 60.2 from 60.4). Total new orders expanded at the fastest pace since August and overseas demand remained resilient. Outstanding business hit its highest since May, prompting firms to increase recruitment. The rate of job creation quickened to the steepest since composite data began in December 2005, driven by rising workforce numbers in the service sector. Regarding prices, input costs rose the most since August 2023, due to rises in raw material prices, food costs, and wage bills. Output price inflation reached a near 12-year high, with strong demand enabling companies to pass on

cost burdens to clients. Finally, sentiment rose to a six-month high, supported by marketing efforts and new client inquiries.

**6. Eurozone November flash HCOB composite PMI drops to 48.1 From 50.0 – weaker than 50.0 expected** – ten month lows. The result consolidated the poor momentum for demand in the Eurozone's largest economies with German composite PMI (47.3 from 48.6) and France composite PMI (44.8 from 48.1), with fresh weakness in the previously-resilient service sector (49.2 vs 51.6 in October) magnifying the impact of a deeper contraction for manufacturers (45.2 vs 46). Aggregate output was lower for the second time in three months, with both sectors recording contractions for the first time this year. This was due to sharp drops in new orders, as the depletion of backlogs could not sustain activity. Consequently, the lower demand for capacity drove firms to shed their workforce. On the price front, input cost inflation rose to a three-month high, accelerating output charges. Looking forward, confidence in the year ahead waned.

**7. UK October retail sales drop -0.7% m/m, +2.4% y/y after +0.1% m/m, 3.2% y/y – weaker than the -0.3% m/m, 3.4% y/y expected -** the biggest decline in four months, with retailers across a range of industries suggesting that low consumer confidence and uncertainty around the Budget announcement affected sales. Non-food stores sales declined 1.4% following a rise of 2.3% in September, led by a 3.1% drop in clothing stores. This fall follows growth in previous months attributed to end of season sales and improved weather. Also, online sales contracted 1.2%. The ex-fuel sales fell to 2% y/y from 3.2% y/y – also sharply weaker than 3.3% y/y expected.

**8. UK November flash composite PMI drops to 49.9 from 51.8 – weaker than 51.8 expected** – first contraction in a year, worst in 13-months led by services. The unexpected contraction was in line with lower economic activity across major economies in mainland Europe, challenging the view that activity had somewhat gained traction in the environment of restrictive interest rates. The lower momentum was more pronounced for manufacturers (48.6 vs 49.9 in October), although service providers unexpectedly refrained from expanding (50 vs 52). New business growth was the softest pace seen this year as firms reported muted demand conditions, while backlogs continued to be depleted. In turn, input prices rose sharply, driving companies to plan capacity with caution and reduce their workforces. Looking forward, most expressed concern for their outlook.

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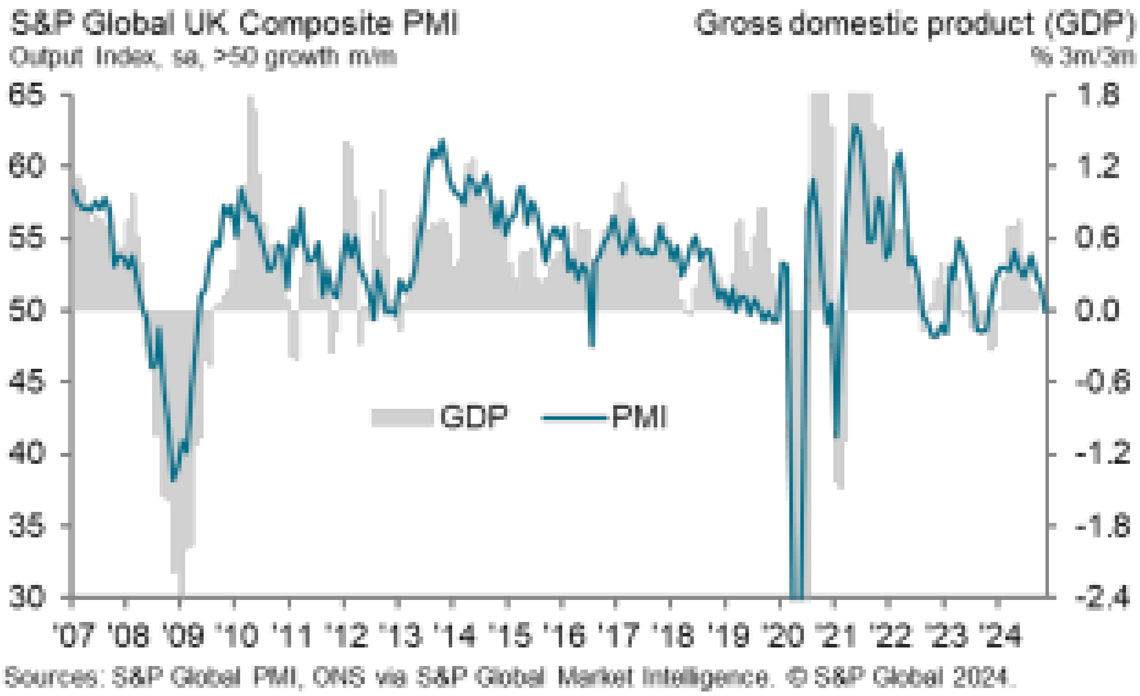
**Exhibit #2: Can the UK break from EU weakness?**




Source: S&P PMI, BNY

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

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