

November 26, 2024

Talk

"Wisdom is the reward you get for a lifetime of listening when you would have preferred to talk." - Doug Larson

"Our lives begin to end the day we become silent about the things that matter." - Martin Luther King, Jr.

Summary

Risk off as the Trump talk of 25% tariffs on Mexico and Canada and 10% on China evoked an immediate USD rally, selling of shares followed but bonds haven't rallied to match and that is the focus still as the policy worries into 2025 rise. The oil market is up 1% even as the talks with Israel spark hope and commodities overall are higher with Nat Gas adding another 1% overnight. There is a raft of US economic data releases, more note sales and more central bank speeches. FOMC minutes will be the pivotal story for the US markets as the debate over 25bps or none drives and still matters perhaps more than any speculation about future US trade policies.

What's different today:

- **German 10-year Bund yields drop to 2.2%** - back to 1-month lows - as odds for 50bps easing in December from ECB rise to 58% and as tariff fears in EU rise post Trump talk overnight.
- **iFlow – Mood still extremely negative** with bill buying and equity selling across G10 and inflows only in Chile, Colombia, Israel, Poland and Thailand. Bonds bought in US and Australia but sold in EU and New Zealand. In EM

bonds sold in EMEA, APAC but only in Mexico and Colombia in LatAm. The FX markets continue with EUR selling, USD buying while in APAC SGD and TWD selling.

What are we watching:

- **FOMC Minutes from November** - watching to see split on rate cuts ahead and election effect
- **US September Case-Shiller home prices** expected -0.1% m/m, +4.8% y/y after 5.2% y/y while FHA prices expected flat at 0.3% m/m, 4.2% y/y
- **US November consumer confidence** expected up to 111.3 from 108.7 - with keen focus on jobs hard to get.
- **US October new home sales** expected down -3.6% m/m to 0.73mn from 0.738mn - focus is on home affordability.
- **Richmond Fed November manufacturing index** expected -10 from -14 - watching to see if it tracks NY and Philadelphia

Headlines

- Trump plans 25% tariffs on Mexico and Canada, 10% more on China to block migrants and fentanyl – China warns no one wins trade war - CSI 300 off 0.21%, CNH off 0.2% to 7.2575 (high was 7.2728)
- Japan PM Ishiba urges US President Biden to approve Nippon-US Steel Deal – Nikkei off 0.87%, JPY up 0.6% to 153.15
- Korea November consumer confidence off 1 to 100.7 - worries about future growth – Kospi off 0.55%, KRW up 0.2% to 1395.30
- Thailand October exports jump 14.6% y/y to 19-month highs - led by agriculture – THB off 0.2% to 34.695
- Hong Kong October exports slow 1.2pp to 3.5% y/y— weakest in 8 months – Hang Seng up 0.04%
- Singapore October manufacturing slows to +0.1% m/m, +1.2% y/y - hit by Pharma slowdown – SGD up 0.1% to 1.3445
- South Africa September LEI up 0.9% m/m - bouncing on building plans – ZAR off 0.15% to 18.083
- Sweden October PPI up 0.5% m/m -1.3% y/y- with export and import prices both higher – OMX off 0.45%, SEK up 0.3% to 10.94
- UK November retail trade volumes off 12% to -18% - outlook sours into Dec – FTSE off 0.2%, GBP up 0.3% to 1.2600

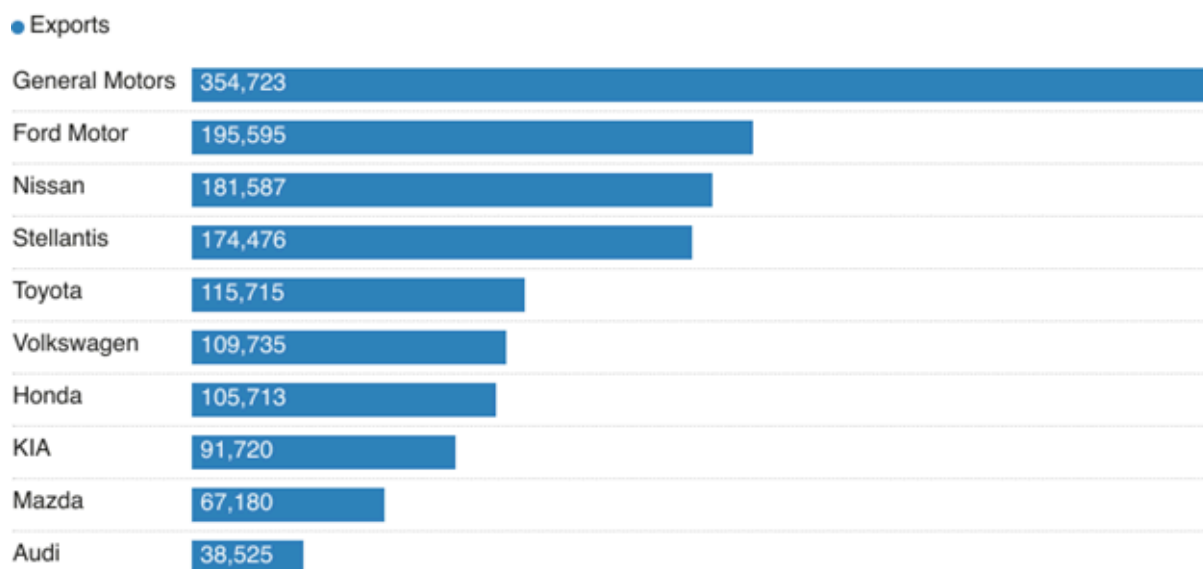
The Takeaways:

The MXN, CAD and CNY account for 40% of the US dollar trade weighted basket. The Trump comment overnight drove USD up 1% against the CAD - to 4 1/2-year highs at 1.4178 - and 2.2% against the MXN to 20.7504 - most since July – what didn't move much in comparison was CNH. What matters most on the day is how the USD holds these gains and whether month-end and stretched holdings matter. The other issue is whether markets have missed the risks to growth implicit to trade flows being uncertain. The barometer to watch should be less about bonds or FX but the stock market as key trading partners is interrelated to profit margins and supply. The biggest questions for today beyond our economic data are what happens to the US supply chain.

Exhibit #1: Is the risk today in supply chains and equities?

U.S. firms lead car exports from Mexico to North America

Exports of light vehicles from Mexico to North America from January to July 2024, 90% of which went to the United States.



Note: Data compiled and published by AMIA from Mexico's statistics agency INEGI.

Source: Asociación Mexicana de la Industria Automotriz (Mexican Automotive Manufacturers Association)

Source: Reuters, BNY

Details of Economic Releases:

1. Korea November consumer confidence slips to 100.7 from 101.7 - weaker than 102.2 expected. While views on current living standards and future household income improved slightly, concerns about future domestic economic conditions and current economic conditions weighed on overall sentiment. Notably, the expected inflation rate for the next year remained moderate at 2.8%.

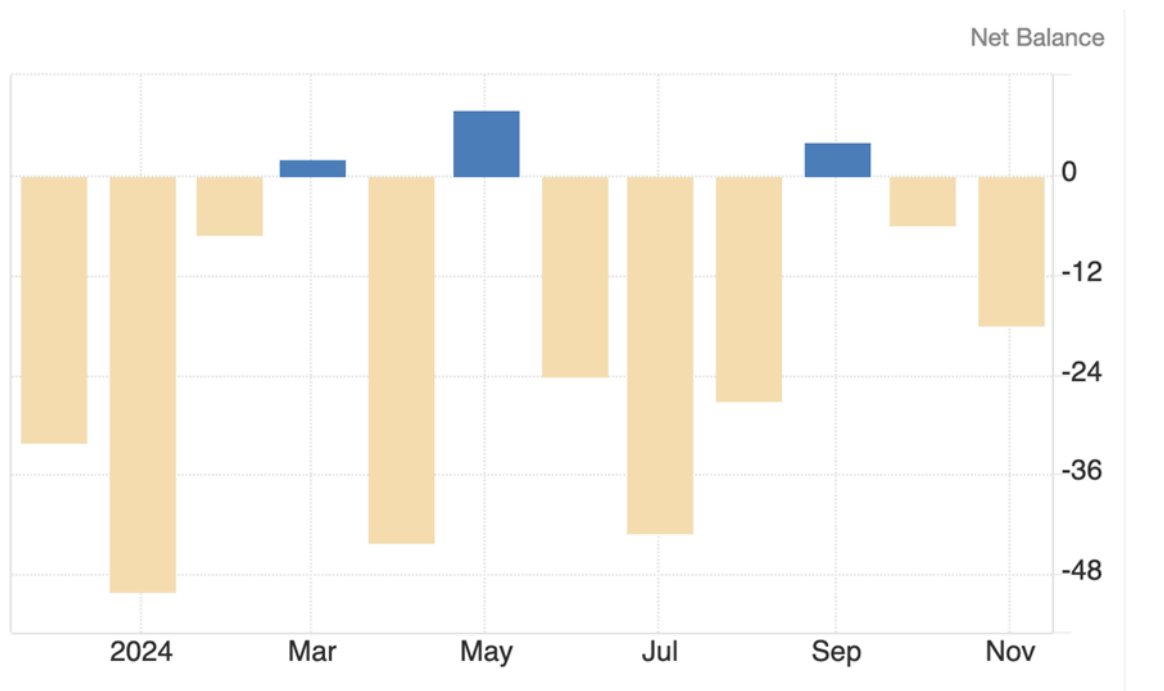
2. Singapore October manufacturing production slows to +0.1% m/m, 1.2% y/y from -1.5% m/m, +9% y/y - weaker than the +1.5% y/y expected. Activity slowed significantly for biomedical manufacturing (7.8% vs 62.3% in September), attributed to weaker output growth in pharmaceuticals (10.5% vs 143.9%). At the same time, output contracted for chemicals (-2.2% vs 3.1%), precision engineering (-15.9% vs 14.5%), and general manufacturing industries (-0.6% vs 2.4%). On the other hand, output rose for electronics (4.3% vs 0.9%) and rebounded sharply for transport engineering (10.9% vs -0.6%).

3. South Africa September Leading Business Cycle Indicator up 0.9% m/m after -0.7% m/m - weaker than 1.5% m/m expected. as increases in four of the eight available component time series outweighed decreases in the remaining four. The most significant positive contributors were an acceleration in the six-month smoothed growth rate of the real M1 money supply and a rise in the number of residential building plans approved. Conversely, the largest negative contributors were a slowdown in the six-month smoothed growth rate of the number of new passenger vehicles sold and a narrowing of the interest rate spread.

4. Sweden October PPI up +0.5% m/m, -1.3% y/y after -1.8% m/m, -2.3% y/y - more than the -1.3% y/y expected - stabilizing from sharpest drop in prices since January 2023. Prices fell at a softer pace for energy-related products (-12.9% vs. -18.7% in September). The cost of capital goods also decreased by 0.1%, following a 0.3% rise in the prior period. Meanwhile, producer inflation for consumer goods accelerated to 1.8%, up from 1.4% in the previous month. Excluding energy-related products, annual producer inflation came at 0.5%.

5. UK November CBI retail trade volume drops -18% after -6% - worse than -14% expected .Looking ahead to December, retailers expect annual sales growth to deteriorate. Volumes are set to remain below seasonal norms next month, albeit to a lesser extent than in November, with retail firms anticipating a rise in online sales.

Exhibit #2: Will there be a holiday season in UK for consumers?



Source: UK CBI, BNY

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

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