

November 27, 2024

Last Minute

"There is always time for another last minute." – Terry Pratchett

"If weren't for the last minute, nothing would get done." -Rita Mae Brown

Summary

Risk off as Europe dives with ECB Schnabel warning rate cuts aren't a magic wand and pushes back on 50bps easing, while weaker German and French confidence surveys make clear economic worries dominate along with political discord. Risk premiums in debt are back to France and that worry matters globally. Peace deals with Israel offered small relief in Oil or ILS. The raft of US data today and the last-minute plans for many as they rush to Thanksgiving and Black Friday sales is absorbing it all – from core PCE prices to jobless claims to the goods trade deficit. The US session looks frantic but that misses that its also month-end for trading – making many even more worried about liquidity premiums over political worries or economic surprises.

What's different today:

- **US weekly mortgage applications rise 6.3% as 30Y mortgage rates drop to 6.86%** off 4bps – first decline in 9-weeks. The applications for new mortgages rose 12% while refinancing fell 3%.
- **iFlow – bottoming out in Mood Index and Trend** – both still negative but off lows. The USD buying slowed and the selling of equities was less intense in G10 with New Zealand seeing inflows. Bonds were still bought but for EU and APAC (except for India). There is notable FX cross currents in G10 with JPY buying yesterday standing out.

What are we watching:

- **US 3Q GDP revisions** expected unchanged at 2.8% with personal consumption at 3.7%
- **US weekly jobless claims** expected up 2k to 215k with continuing claims expected 1.892mn down from 1.908mn – key for labor market views.
- **US October PCE price index** expected up 0.2% m/m, 2.3% y/y after 2.1% y/y – with core up 0.3% m/m, 2.8% y/y from 2.7% y/y- key for FOMC 25bps easing in December.
- **US October Personal Income** expected up 0.3% m/m after 0.3% m/m while spending expected up 0.4% m/m after 0.5% m/m.

- **US October goods trade deficit** expected down to \$102.7bn after \$108.2bn – key for 4Q growth baseline.
- **US October durable goods orders** expected up 0.5% m/m after -0.7% m/m with ex-transport up 0.1% after 0.5% m/m and with capital goods ex defense and air up 0.1% after 0.7% m/m – also key for capex and growth outlooks.
- **US October pending home sales** expected -2% m/m after +7.4% m/m – with some noise around hurricane disruptions.
- **US Treasury sells \$44 billion of 7-year notes**

Headlines

- RBNZ cuts rates 50bps to 4.25% - as expected – keeps open 50bps easing for Feb = NZD up 1% to .5890
- Australian Oct CPI steady at 2.1% - holding July 2021 lows – ASX up 0.56%, AUD flat at .6475
- China Oct industrial profits drop 10% y/y on month, -4.5% year-to-date – CSI 300 up 1.74%, CNH flat at 7.2605
- Japan BOJ 1H financials show 45% drop of ¥13.7trn paper losses on bond holdings due to policy pivot – Nikkei off 0.8%, JPY up 1% to 151.50
- Korea Nov business confidence off 1 to 68 – weakest since Sep 2023 – Kospi off 0.69%, KRW up 0.2% to 1393.40
- French Nov consumer confidence off 3 to 90 – weakest since June 2024 – while LePen warns on budget and bringing down Barnier government - CAC 40 off 1.2%, OAT 10Y yields off 2.5bps to 3.02%
- German Dec GfK consumer climate drops -4.9 to -23.3 – lowest since May – DAX off 0.6%, Bund 10Y off 2bps to 3.165%
- ECB Schnabel – ECB cuts no magic wand for structural faults – EuroStoxx 50 off 1.1%, EUR up 0.2% to 1.0520
- Mexico President Sheinbaum: “For every tariff, there will be a response in kind.” – MXN off 0.15% to 20.68
- Hamas ready for Gaza truce following Israel-Hezbollah cease-fire in Lebanon – ILS off 0.3% to 3.6555
- US weekly API crude oil inventories drop 5.94mb – surprising market when 0.25mb build expected, but gasoline rose 1.81mb still 4% below average while distillates rose 2.543mb also 4% below average – WTI up 0.3% to \$69

The Takeaways:

Pricing positions into month end is always noisy as passive rebalancing clashes with active opportunities in value and growth. The FX markets have rethought the BOJ risks ahead and the rush into JPY overnight stands out as does the relief rally in NZD post another jumbo rate cut from the RBNZ. Clearly policies to push growth and stable prices are rewarded, but this isn't evenly spread across the world as there is a last-minute rush to get it all done today ahead of Thanksgiving in the US. There is uncertainty as well from geopolitics to national ones as the Trump tariff plans still sting. Risk premiums due to politics are hard for investors to price. The French markets today are back to worrying about the risk of another election. The coalition government is stuck with 2025 budget battles and cracks in support with the National Rally far-right pushing back. There are broader implications about political risks everywhere. First is that in 2024, the voters have kicked on incumbents -signaling frustration over cost of living and national interests. Second is that deficits built up from pandemic

responses are now problematic as debt servicing and austerity plans clash against fragmented coalitions. Setting what is most important in the years to come is the role of political leaders – and the best way forward will be to lead with growth but spending more money will not work in the same way it did during 2020. The problems of current policy and future policies show up most clearly not in FX or Equities but in Bonds. The risk premium for French debt is an example and a lesson for other governments.

Exhibit #1: Is the risk in French bonds going to spread?

French risk premium jumps to highest since 2012

Gap between French and German 10-year bond yields jumps as markets worry about government's chances of passing belt-tightening budget



Source: LSEG | Reuters, Nov. 27, 2024 | By Harry Robertson

Source: Reuters, BNY

Details of Economic Releases:

1. Korea November business confidence slips to 68 from 69 – weaker than 71 expected

- the lowest figure since September 2023 due to deterioration in financial situation (81 vs 83 in September). Meanwhile, production (79 in September) remained steady, while new orders (75 vs 74 in September) and inventory conditions (105 vs 103 in September) improved.

2. China October industrial profits drop -10.0% y/y and -4.3% year-to-date from -3.5% ytd – worse than the -3.6% ytd expected. Profits in state-owned companies dropped further (-8.2% vs -6.5% in January-Sept), while those in the private sector fell much slower (-1.3% vs -9.6%). Among industries, profits shrank for non-metallic minerals (-49.6%), coal mining (-23.7%), chemicals (-7.7%), special equipment (-5.2%), electrical machinery (-5.1%), cars (-3.2%), and oil and natural gas (-1.8%). Meanwhile, petroleum and other fuels, and ferrous metal smelting turned from profits to losses. On the other hand, profits rose for non-ferrous metal smelting (40.0%), heat production (13.8%), textile (5.3%), computer, communications (8.4%), and agriculture, food (2.8%).

3. Australian October monthly CPI steady at 2.1% y/y - less than the 2.3% y/y expected

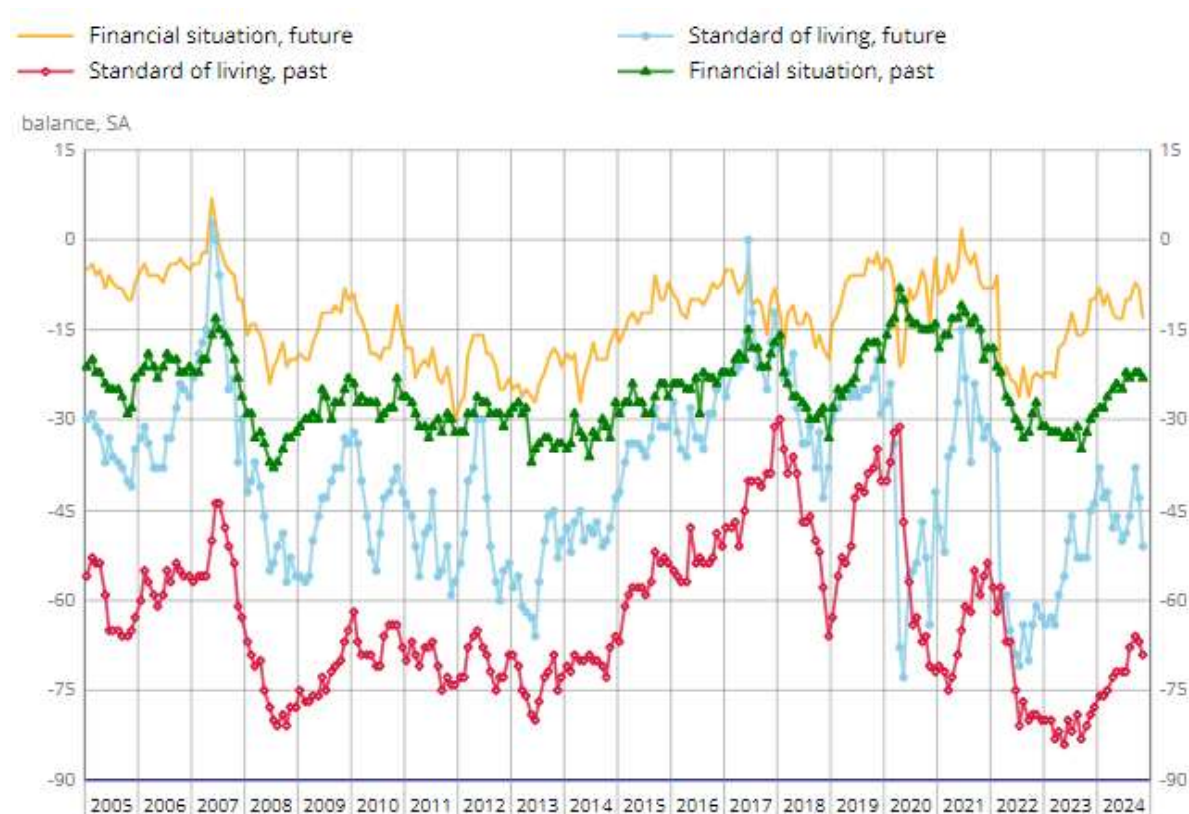
-staying for the second month at July 2021 lows, prevailing within the central bank's target range of 2 to 3% for the third month in a row, amid the ongoing impact of the Energy Bill Relief Fund rebate. Electricity prices saw another record decrease (-35.6% vs -24.1% in September), while automotive fuel continued to decline (-11.5% vs -14.0%). On the other hand, prices rose further for food (3.3% vs 3.3%), alcohol and tobacco (6.0% vs 6.3%), health (3.9% vs 4.8%), education (6.3% vs 6.4%), and recreation & culture (4.3% vs 2.4%).

Excluding volatile items and travel, the CPI rose by 2.4% in October, slowing from a 2.7% gain in September and marking the lowest figure since November 2021.

4. German December GfK consumer confidence drops -23.3 from -18.4 – weaker than -18.6 expected – lowest since May. Income expectations dropped sharply, down 17.2 points to a nine-month low of -3.5, fueled by recession fears, rising unemployment, and reduced growth forecasts. Concerns about job security, industrial layoffs, and increasing insolvencies heighten uncertainty. Purchase inclination also fell, losing 1.3 points to -6, reflecting subdued consumer readiness, even below early pandemic levels. Rising savings intentions (up 4.7 points) further dampened the outlook. Economic outlooks remain pessimistic, with the economic indicator dropping to -3.6 points, its fourth consecutive decline. Growth forecasts for 2024 and 2025 remain modest at 0.4%. Overall, economic uncertainty and diminishing income confidence keep consumer sentiment in a slump.

5, French November consumer confidence drops to 90 from 93 – weaker than 94 expected - the weakest reading since June 2024, as consumers grew more pessimistic about their financial outlook (-13 vs. 8 in October) and standard of living (-51 vs. -43). Additionally, expectations for future savings declined (11 vs. 13), concerns about future employment increased (42 vs. 33), and views on major purchases became more negative (-30 vs. -29). Meanwhile, saving intentions rose slightly (38 vs. 37), and inflation expectations continued to decrease (-41 vs. -49).

Exhibit #2: Will French rates hurt consumers?



Source: Insee, BNY

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

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