BNY

iFlow

MARKET MOVERS

December 2, 2024

Catching Up

"Hard work without talent is a shame, but talent without hard work is a tragedy." – Robert Half

"Perseverance is the hard work you do after you get rired of doing the hard work you already did." – Newt Gingrich

Summary

Risk on. After November ends with the biggest monthly fall in the Euro since early 2022, the steepest drop in German bond yields this year, the biggest bitcoin surge since February and one of the biggest monthly jumps in US stocks this year. There was a lot of news between Thanksgiving and today and the catch-up phase of US markets will be key as investors want to see economic growth to justify current valuations in equities, current hope for FOMC easing and ongoing views of US exceptionalism into 2025 and Trump 2.0. The day ahead revolves around the data with ISM key with views on jobs and prices the focus. The overnight was about the ongoing weakness in rest of world as final manufacturing PMI in Europe miss and Barnier government struggles for survival. The barometer of US bonds holds despite the host of data and the key Trump focus on BRICS +6 and warning of 100% tariffs if they try to take on the USD. Watching 4.05-4.45% US10Y range this week and USD 105.50-108 index.

What's different today:

- **Rebels take Aleppo in Syria -** the attack on the Assad government reopens the simmering conflict and highlights the significant changes in balance of power with Turkey and Russia both playing key roles.
- **Putin warns Trump threat over 100% tariffs on BRIC+6** if they use alternatives to USD will fail. Plans to create a USD alternative have been discussed by the group for years.
- **iFlow carry index back to flat while Friday month-end still saw USD buying –** with only GBP also bought – rest sold. EM was also mixed with MXN and COP and TRY, PLN buying but in APAC only CNY saw inflows. Equities were mixed in G10 with Denmark and New Zealand inflows and notable India and Colombia in EM. Fixed Income saw big US inflows and EU selling while India also saw notable bond buying.

What are we watching:

- **US November final manufacturing PMI** expected up to 49 from 48.8 – key for ISM comparison.
- **US November ISM manufacturing** expected up 47.6 from 46.5 – with prices paid expected 56 from 54.8 key.
- **US October construction spending** expected up 0.2% from 0.1% m/m – key for growth in 4Q.but likely hit by hurricanes

Headlines

- China Nov Caixin manufacturing PMI up 1.2 to 51.5- best since June – CSI 300 up 0.79%, CNH off 0.5% to 7.2850
- Australian final Nov manufacturing PMI up 2.1 to 49.4 - 6M highs - while Oct retail sales rose 0.6% m/m up for 3rd month - while 3Q profits drop 4.6% q/q led by mining – ASX up 0.14%, AUD off 0.3% to .6490
- Japan 3Q capital spending up 0.7pp to 8.1% y/y - 14th quarterly gain - while Nov final manufacturing PMI confirmed off 0.2 to 49.0 - worst in 8 months – Nikkei up 0.8%, JPY off 0.2% to 150.05
- Korea Nov manufacturing PMI rises 2.3 to 50.6 - first growth in 3M – Kospi off 0.005%, KRW off 0.4% to 1404.50
- Indonesia Nov CPI slows to 0.3% m/m, 1.55% y/y - lowest since July 2021 – IDR off 0.2% to 15,895
- India Nov final manufacturing PMI off 1 to 56.5 - output prices at 11-year highs – IDR off 0.2% to 84.695
- Eurozone Nov final manufacturing PMI off 0.8 to 45.2- worst jobs since August 2020 – EuroStoxx 50 up 0.65%, EUR off 0.5% to 1.0520
- UK Nov final manufacturing PMI off 1.9 to 48.0 - worst since Feb – FTSE up 0.35%, GBP off 0.25% to 1.2705
- US Black Friday spending in stores and on-line rises 3.4% y/y – S&P500 futures flat, US 10Y yields up 3bps to 4.197%, USD index up 0.55% to 106.29

Headlines from Weekend and Thanksgiving

- Bank of Korea surprises with 25bps cut to 3% - lowest since October 2022 - BOK cuts CPI and GDP forceat to 1.9% in 2025 - citing export risks
- Japan Tokyo Nov CPI up 0.4pp to 2.2% y/y - highest in 3M - adds to BOJ hike expectations -
- Australian 3Q Capex recovers to +1.1% q/q second expansion of year - with 4Q seen up 5.1%
- Taiwan 3Q GDP 4.17% better than flash - outlook for 2025 3.25%
- German Oct retail sales -1.2% m/m -
- S&P holds French credit rating at AA- keeps outlook stable despite political uncertainty - but Moody's cuts Hungary credit outlook to negative - citing pre-election spending risks
- Eurozone Nov economic sentiment up 0.1 to 95.8 - better than expected - while Nov flash CPI -0.3% m/m, 2.3% y/y - as expected -
- Sweden 3Q GDP up 0.3% q/q, 0.7% y/y -
- Swiss 3Q GDP rose 0.4% q/q, 2% y/y - while Nov KoF LEI up 2.1 to 101.8 - best since Jan -
- Turkey 3Q GDP slows -0.2% q/q, 2.1% y/y - worst capital formation in 2-years, weaker trade -

- India 3Q GDP slows 1.3pp to 5.4% y/y - weakest in 7 quarters - led by manufacturing -
- Canada 3Q GDP slows to 0.3% q/q, 1% y/y - supported by vehicles and financial services -
- China Nov NBS manufacturing rose 0.2 to 50.3 - as expected - best since April but services PMI slips 0.2 to 50.0 with new export orders contracting -
- US President elect and Canada PM Trudeau discuss border and trade -
- Georgian President calls government illegitimate - puts nation into crisis as PM halts EU talks despite referendum -

Themes:

- **The French political risks and focus on Bund/OAT spreads**.Iflow highlighted the outflows in French bonds and suggest market is priced for the risk ahead. Barnier on Thanksgiving dropped plans to raise electricity taxes in 2025, but the fair-right National Rally warned the concession was insufficient to avoid a no-confidence vote in the week ahead. The worries about politics are also showing up in EUR. The growth and policy mixes from fiscal constraints linked to debt stand out. But the Friday flash Eurozone CPI helps as some see the Eurozone disinflation as enough to keep 50bps from ECB intact in December.
- **Japan Tokyo CPI puts BOJ into 25bps hike risk for December.** The JPY is looking cheap and the risk of more USD downside linked to monetary policy expectations into 2025 but the government debt and the BOJ balance sheet are still problems along with APAC fears about global trade disruption from tariffs. The 145 risk for JPY in short term looks to matter again.
- **India slowing growth and RBI** - the flows into India shares and the outflow from India bonds in November reflect higher CPI, MSCI rebalancing and views on more government fiscal support. The risk for INR and weakness stands out. How the RBI handles the rate forward guidance this week will matter significantly.
- **Bank of Korea rate cut and APAC worries over exports**. The set up for Korea into 2025 is interesting as the Bank of Korea surprised with a 25bps easing and looks set up to do more depending on growth, inflation and how tariffs play out. The risk of 1400 and the likely intervention from the central bank there is also important with cross-border investors inclined to hedge bonds and stocks with BOK cuts making cost to do so more attractive.
- **Brazil yields surge, BRL record lows, fiscal doubts, BCB warnings** - The 10Y Brazil government bond yields rose to 13.8% back to April 2016 highs while BRL traded to 6.05 lows against the USD - with government fiscal policies worried, compounded by BCB hawkish warnings and lower commodity prices and weaker demand for exports. The fiscal package had BRL70bn in spending cuts and tax hikes but markets had hoped for deeper spending cuts.
- **Irish election: Fianna Fáil and Fine Gael set for Coalition highlights fears about housing.** The pushing out of Sinn Fein will be important to how nation handles risks ahead. Early tallies suggested the centrist Fianna Fáil could emerge as the largest party, with 21.9 per cent of the votes, with conservative Fine Gael on 20.5 per cent and the main opposition party Sinn Féin on 19.1 per cent, according to an analysis by Virgin Media. Business leaders were rattled by Sein Fein promises of personal tax cuts and spending packages along with more regulation. The exit poll by Ipsos B&A pointed to

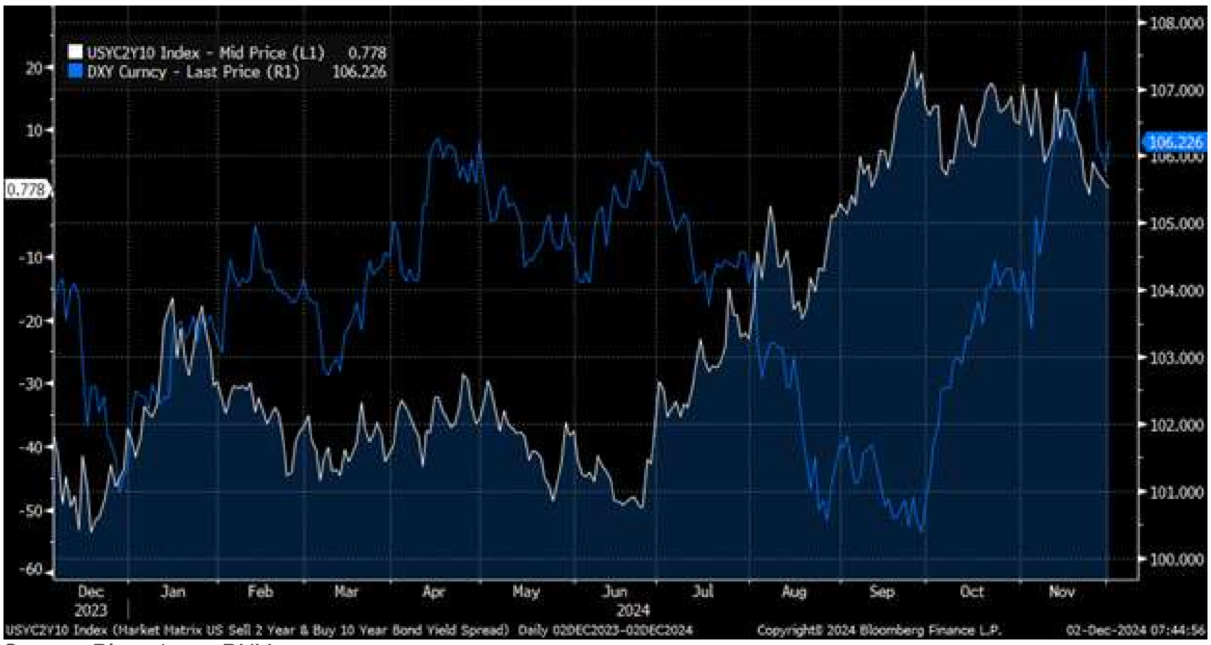
housing as the most important issue among voters, and Martin as the top choice to be taoiseach, replacing incumbent Simon Harris from Fine Gael.

- **US Black Friday and US consumer health - better so far.** Black Friday U.S. e-commerce retail sales increased by 14.6%year-over-year as consumers shopped for deals online, while in-store sales increased by 0.7%, according to Mastercard SpendingPulse, a metric measuring U.S. retail sales across the Mastercard payments network combined with estimates for cash and check payments. Spending during the holiday season overall, from November 1 through December 24, is expected to be up 3.2% year-over-year, according to earlier estimates from Mastercard SpendingPulse. Separately, Salesforce, a cloud-based software company that tracks a different array of online spending categories, said online sales in the U.S. rose 7% on Friday to $17.5 billion, according to its own updated tally on Saturday. Salesforce, which analyzed the activity of more than 1.5 billion global shoppers, said shoppers bought more home appliances and furniture.
- **Trump, USD and tariffs -** In a Friday post, Trump called on the so-called BRICS countries to commit to not creating a new currency or supporting another currency over the U.S. dollar. If those countries do so they will face "100% tariffs", Trump said."We require a commitment from these Countries that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar or, they will face 100% Tariffs and should expect to say goodbye to selling into the wonderful U.S. Economy," Trump wrote.

The Takeaways:

There is a risk in the week ahead for Goldilock's economics - where FOMC rate cuts are dependent on the data ahead in being just right and in the role of the FOMC to confirm such. The key will be the US labor market data from JOLTs to US non-farm payrolls. Stocks are heading into December with the benchmark S&P 500 near record highs following an over 25% year-to-date gain. Part of that performance has been fueled by expectations that the Federal Reserve will continue cutting interest rates into next year, after already cutting 75 basis points in 2024. The problem for the week is that markets have already pulled back 1% of easing for 2025 as the US data on inflation and growth proved better and the US election has left many expecting more fiscal stimulus, higher inflation risks from tariffs and tax cuts. The correlation of the USD to a steeper US yield curve and to US trade tariffs fears seems likely to be tested in the week ahead.

Exhibit #1: USD and curve correlation risk



Source: Bloomberg, BNY

Details of Economic Releases:

1. **China November Caixin manufacturing PMI up to 51.5 from 50.3 - better than 50.5 expected -** the fastest expansion in factory activity since June, driven by the strongest growth in foreign orders since February 2023 and a renewed rise in exports. Moreover, output growth accelerated, hitting its highest level in five months. Buying levels and stocks of purchases gained as firms built safety stock. However, employment shrank for the third month though the rate of fall was modest, and backlogs of work accumulated for the second month. Delivery time stabilized after lengthening for the past five months. On the price front, input prices rose the most in five months, due to rising raw material costs. Meanwhile, selling prices saw their steepest gain since October 2023. Finally, confidence notched an 8-month peak on hopes of better economic conditions and supportive government policies

2. **India November HSBC final manufacturing PMI slows to 56.5 from 57.5 - weaker than 57.3 flash.** Still, the reading signaled significant improvement in the sector, with solid but slower growth in new business and production, as strong demand was moderated by competition and price pressures. Factory employment rose for the ninth month, and manufacturers increased their purchases of inputs, although the rise was the weakest in nearly a year. Meanwhile, lead times shortened due to strong supplier relationships, and vendor performance improved slightly. On prices, input cost inflation rose to its highest level since July, though it remained below the long-term average, leading to the largest increase in selling prices since October 2013. Looking ahead, Indian firms remained optimistic, driven by expectations of successful marketing, new product launches, capacity expansions, and strong demand forecasts for 2025.

3. **Australian November Judo Bank final manufacturing PMI up to 49.4 from 47.3 - same as flash -** six month highs, evenwhile production and new orders, including exports, continued to decline, the rates of contraction eased. Business sentiment improved significantly, reaching the highest optimism level since January 2023, which spurred employment growth for the first time in six months. Despite rising optimism, firms remained cautious, reducing inventories and buying activity due to subdued demand. Supply delays persisted, driven by congestion in the Red Sea and Asia, increasing transportation and input costs. However, cost inflation eased to its second-lowest rate since 2016, with firms raising selling prices at a marginal rate, the slowest since August 2020. Overall, the manufacturing environment remained challenging but showed signs of stabilization amidst cautious optimism for future recovery.

4. **Australian October retail sales rise 0.6% m/m after 0.1% m/m - better than the 0.3% m/m expected.** According to Robert Ewing, ABS Head of Business Statistics, "After a steady result last month, retailers reported stronger sales activity in October ahead of the Black Friday sales. The unusually strong October was driven by retailers offering early discounts, especially on discretionary items." Turnover increased across several sectors, including other retailing (up 1.6%), household goods retailing (up 1.4%), food retailing (up 0.3%), and cafes, restaurants, and takeaway food services (up 0.3%). However, sales declined for clothing, footwear, and personal accessory retailing (down 0.6%) as well as department stores (down 0.3%). Geographically, sales rose in all states except for Northern Territory.

5. **Australian 3Q gross corporate profits drop -4.6% q/q after -6.8% q/q - worse than the +0.8% q/q expected** - 3rd quarterly contraction due to drops in profits of miners (-8.8% vs -12.9% in Q2), wholesale traders (-4.8% vs -8.8%), transport and warehousing providers (-2.8% vs -3.6%), accommodation (-5.2% vs -4.8%), information (-3.7% vs -3.5), rental, hiring (-2.2% vs -3.8%), manufacturers (-2.2% vs 1.4%), administrative and support services (-2.8% vs 5.7%), and other services (-8.0% vs 3.2%). Conversely, profits grew for utility providers (1.7% vs 1.4%), while those rebounded for builders (1.1% vs -5.0%), retail traders (1.4% vs -2.0%), financial and insurance (3.8% vs -6.1%), arts and recreation (6.5% vs -4.4%). Through the year to September, corporate profits dropped 8.5%, the 6th straight quarter of decline, and the steepest fall in the sequence, after an upwardly revised 4.0% fall in the prior period.

6. **Japan 3Q capital spending rises 8.1% y/y after 7.4% y/y - better than the 7.1% y/y expected** - 14th quarterly increase. he sectors driving the rise in capital spending included general-purpose machinery (up 61.8%), petroleum and coal products (up 56.5%), and transport and postal activities (up 32.7%). On the other hand, industries that reduced capital spending included fabricated metal products (down 20.3%), information and communication (down 10.5%), and goods rental and leasing (down 8.5%).

7. **Japan November Jibun Bank final manufacturing PMI slows to 49.0 from 49.2 - same as flash** - the fifth consecutive month of contraction in factory activity, as output shrank the most since April amid a sustained reduction in new orders, with subdued demand from both domestic and international markets. Firms reduced employment levels for the first time since February, and backlogs of work fell significantly. Delivery times continued to lengthen, though the rate of deterioration was the softest in the current three-month sequence and only marginal. On the pricing front, input cost inflation remained unchanged from October's six-month low, while output cost inflation accelerated to its highest rate since July. Despite these challenges, business sentiment improved to a three-month high. Despite these challenges, sentiment improved to a three-month high amid hopes of recovery in demand.

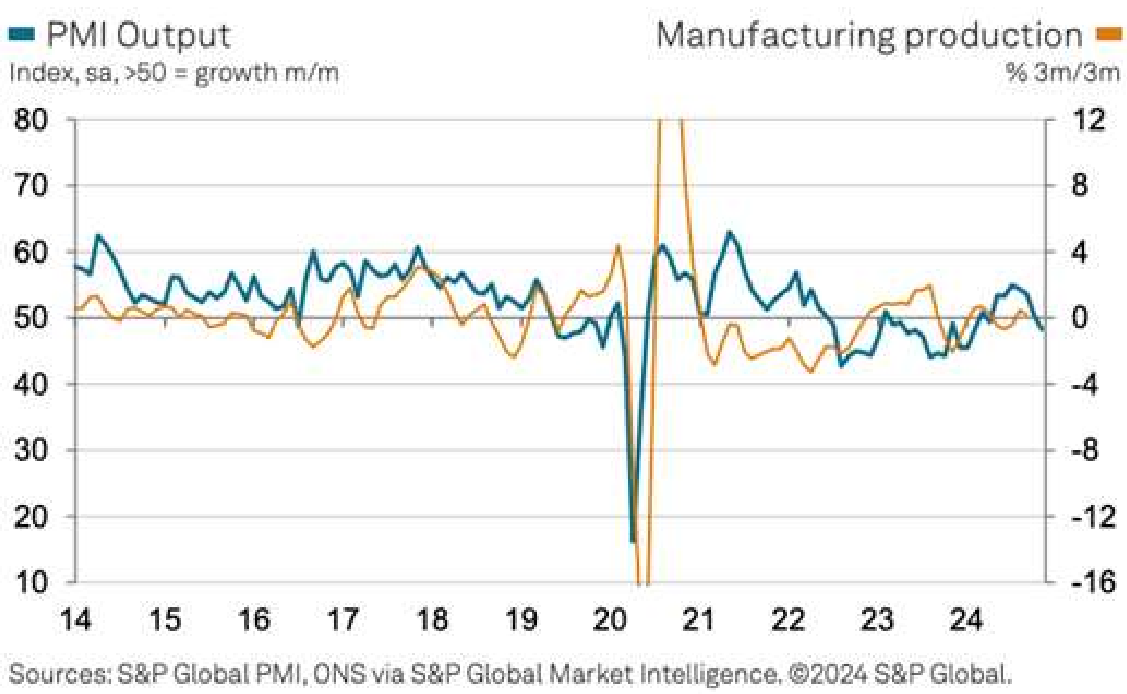
8. **Korea November Manufacturing PMI rises to 50.6 from 48.3 - better than 49.0 expected** - first growth in 3-months, evenwhile production volumes continued to decline, firms reported stronger demand conditions, with new orders showing a renewed increase. New export orders also rose, marking the highest growth in four months. Despite this, manufacturers reduced employment levels for the second time in three months, and input prices rose at a faster pace. In response to rising costs, companies chose to absorb the pressure rather than pass it on to customers, reducing output charges for the third consecutive month. Looking ahead, the 12-month output outlook improved in mid-Q4 but remained below the historical average. Optimism was driven by expectations of higher demand for new products and a domestic economic recovery.

9. **Indonesia November CPI slows to 0.3% m/m, 1.55% y/y after +0.08% m/m, 1.71% y/y - slightly more than 1.5% y/y expected** - still the lowest level since July 2021 - andt remains within the central bank's target range of 1.5 to 3.5%. Food prices rose the least since August 2020 (1.68% vs 2.35% in October), as rice supply stayed ample following delays in the harvest season. Inflation also tended lower for housing (0.59% vs 0.60%), recreation & culture (1.49% vs 1.53%), education (1.89% vs 1.90%), and health (1.65% vs 1.71%). Meantime, a drop in communication cost continued (-0.28% vs -0.28%). Conversely, accommodation prices rose slightly (2.40% vs 2.36%), along with signs of recovery in transport costs (0.03% vs -0.08%), and steady inflation in furnishing (1.08%) and clothing (1.20%). The core inflation rate hit a 16-month high of 2.26%, above estimates of 2.20%.

10. Eurozone November HCOB final manufacturing PMI slows to 45.2 from 46.0 - same as flash - worst employment since August 2020, weakest in 2-months led by Germany and Austria. Weak demand drove aggressive price discounts, while operating costs fell slightly for the third month. Key economies, including Germany, France, and Italy, faced significant downturns, while Spain and Greece showed slower improvements. Backlogs fell sharply, reflecting persistent overcapacity. Despite subdued historical levels, business confidence ticked up to a three-month high, signaling cautious optimism for recovery.

11. **UK November final manufacturing PMI slows to 48.0 from 49.9 - weaker than 48.6 flash** - worst since February. Output fell for the first time in seven months following the sharpest retrenchment in new order intakes since February. Ongoing concerns surrounding the economic outlook, costs and weak demand meanwhile led to cutbacks in staffing, purchasing and inventory holdings. "The export climate also remained bleak, as weaker demand from the US, China and EU led to a further drop in new export business. Meanwhile, supply chain worries have intensified as the combination of the Red Sea crisis, port disruptions and border regulation issues led to longer supplier delivery times, input shortages and rising costs", Rob Dobson, Director at S&P Global Market Intelligence said. In addition, the outlook for the manufacturing sector remained positive overall in November.

Exhibit #2: Can the UK do better than the EU?



Source: S&P PMI, BNY

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

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