BNY

iFlow
MARKET MOVERS

December 4, 2024

Turmoil

“The best thinking has been done in solitude; the worst has been done in turmoil.” – Thomas Edison
“Turmoil accompanies every great change.” – Christopher Paolini

Summary

Risk on as US exceptionalism continues with S&P500 at a new record yesterday, 55th of the year, driving. The speed limit for valuation abroad revolves around growth and stability as political turmoil in South Korea and France dominate the headlines. The EUR remains closer to 2-year lows, while the KRW remains over 1410. The PMI data globally wasn’t great - Australian weaker and GDP missed, Europe remains in contraction as both Spain and Italy drop, and China missed expectations, while Japan leads but with inflation. The US focus is on Service ISM, factory orders, the Fed Beige Book and Chair Powell interview. The risk of FOMC rate easing plans shifting rests on data and some focus on US value into the uncertainty of the New Trump economic policy.

What’s different today:

- **US weekly MBA mortgage applications rose 2.8% w/w** - the fourth consecutive week of increases, helped by a surge in purchases activity. On the other hand, refinancing activity fell again in the last week. Meanwhile, the average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($726,200 or less) fell to 6.69% from 6.86%.
- **iFlow continues to see carry higher, trend lower in FX factors** while mood languishes in extreme negative territory. USD buying jumped again yesterday with CAD biggest outflows but most of G10 suffered with only GBP small inflows. The EM world was more than KRW headlines BRL selling notable. G10 bonds were negative except in US, Japan and UK, while EM saw big India inflows again. Equities globally mixed with 4 sectors up consumer discretionary, health care, real estate and communication services.

What are we watching:

- **French Budget vote** with risk for no-confidence in government leading to further political turmoil.

- **US November ADP employment** change expected 150k after 233k – with any big surprise expected to matter to rate views
- **US S&P November final service PMI** expected unchanged at 57 – while service ISM is expected off 0.3 to 55.7 with focus on jobs and prices.
- **US October factory orders** expected up 0.2% after -0.5% with focus on durable goods final expected at 0.2% m/m and capital goods ex defense, aircraft at -0.2% m/m.
- **Fed Speakers**: Chair Jerome Powell, St. Louis Fed President Alberto Musalem and Richmond Fed chief Thomas Barkin all speak
- **Fed Beige Book** – with the anecdotal views from regional reports key for FOMC outlook for 2025 growth

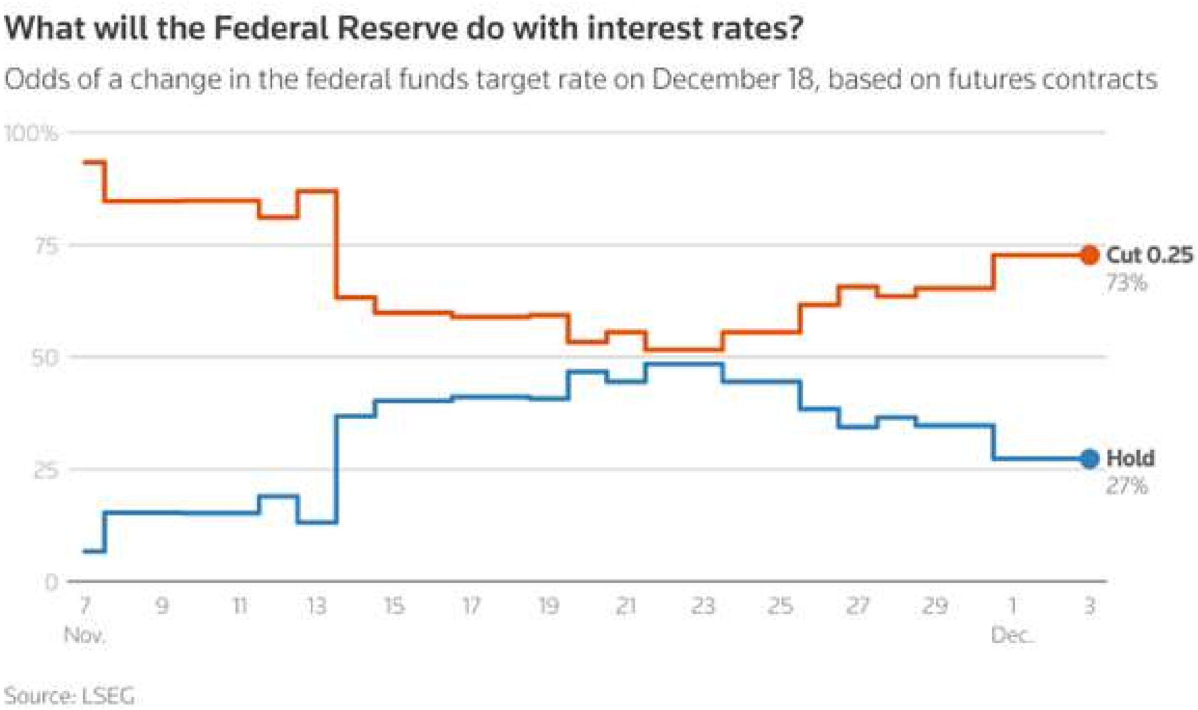
Headlines

- Australian Nov AiGroup Industry index up 17.9 to -10.8 -with jobs better -while final services PMI off 0.5 to 50.5 - lowest selling price inflation since Dec 2020 - while 3Q GDP misses at up 0.3% q/q, 0.8% y/y - weakest since 4Q 2020 – ASX off 0.38%, AUD off 1.2% to .6410
- Japan Nov final services PMI up 0.8 to 50.5 - charge inflation at 6-month highs – Nikkei up 0.07%, JPY off 1% to 151.07
- China Nov Caixin services PMI off 0.5 to 51.5 - optimism at 7-month highs – CSI 300 off 0.54%, CNH up 0.15% to 7.2810
- Bank of Korea announces market stabilization measures- will continue until KRW and assets markets stable- as National Assembly moves to impeach President – Kospi off 1.44%, KRW 1M NDF off 0.15% at 1415.50
- India Nov final services PMI off 0.1 to 58.4 - lower than flash - with record jobs and charge inflation at 12-year highs – Sensex up 0.14%, INR off 0.1% to 84.73
- Turkey Nov trade deficit widens to $7.36bn - as exports slow to 3.1% ytd – TRY off 0.1% to 34.753
- Eurozone November final services PMI off 2.1 to 49.5 - 10-month lows – EuroStoxx 50 up 0.8%, EUR off 0.1% to 1.05
- UK Nov final services PMI off 1.2 to 50.8 - lowest in a year - with optimism at Dec 2022 lows – FTSE off 0.2%, GBP flat at 1.2675
- US Weekly API crude oil inventories rose just 1.232mb when +2.5mb expected - while gasoline rose 4.623mb still 3% below average and distillates rose 1.014mb near 5% below average - focus is next on OPEC+ with production increases elsewhere a risk – WTI flat at $70

The Takeaways:

The risk of the day is back to rates. What will Fed Chair Powell say matters as the US gets another heavy dose of important economic data with service ISM seen as a guide for 2025 growth views. Expect the day ahead to also start to watch equities in the balancing act of how the financial conditions require some response from policy makers as they watch financial stability risks and the rest of the world. USD exceptionalism starts with the hope of the US soft landing and that pivots on how the Fed thinks about the year ahead. Trading risk on the odds of a December rate cut probably isn't big picture enough for the surprise headlines that keep coming from abroad – with all eyes today on the French no-confidence vote and the Korea ongoing Presidential turmoil. There is some clarity that democracy works, however, as there is no way forward when it comes to budgets without compromises. How money flows into debt markets will be the barometer to track, not just in the US.

Exhibit #1: US rate cut odds for December key for today?



Source: Reuters, BNY

Details of Economic Releases:

1. Australian November Ai Group industry index improves to -10.8 from -28.8 - better than -21.5 expected. The activity/sales indicator remained in contraction at -15.1, although it improved significantly from the previous month. Employment showed some positive movement, with the employment indicator rising to -2.0, marking its strongest result since April 2024, although employment levels have still been in mild contraction over the year. Input prices saw a slight increase to 38.6, though still well below the July 2024 peak. The fall in sales prices softened by 1.5 points to -3.7, with trend data showing a negative shift. Additionally, the gap between input and sales price indicators widened to 42.3, up from 39.5 in October.

2. Australian November final Judo Bank services PMI drops to 50.5 from 51 - better than 49.6 flash - 10th month of expansion. Higher demand and successful business development efforts fueled the growth of new business, especially in domestic markets. The information and communication sector led the way with the fastest growth in new work. Employment levels also increased, allowing firms to address rising workloads and reduce unfinished orders. However, despite a quicker rate of input price inflation, firms were hesitant to pass on the increased costs to customers due to heightened competition, opting instead to absorb some of the price rises to maintain sales. This led to the lowest rate of selling price inflation since December 2020.

3. Australian 3Q GDP up 0.3% q/q, 0.8% y/y after 0.2% q/q, 1% y/y - weaker than 0.4% q/q, 1.1% y/y expected. Fixed investment picked up strongly, marking the strongest growth in 5 quarters (1.5% vs. 0.2% in Q2) and contributing 0.4ppts to the GDP, primarily driven by a record-high public investment (6.3% vs -1.1%). Government spending growth was stable (at 1.4%), as social benefits to households extended. Household spending remained flat, after a 0.3% decline in Q2, as a rebate-driven drop in electricity spending was offset by increases in other categories. On the trade front, exports of goods and services were 0.2% higher while imports fell by 0.3%, adding 0.1ppts to GDP. Changes in inventories subtracted 0.4ppts, reducing for the second consecutive quarter. The household savings ratio rose to 3.2% from the previous 2.4%.

4. Japan November final Jibun Bank services PMI rises to 50.5 from 49.7 - better than 50.2 flash - boosted by the fifth straight month of growth in new orders. Meanwhile, a decline in overseas orders slowed despite pointing to the second straight month of contraction. On the labor market side, employment growth hit a four-month peak. That said, the level of outstanding business rose for the second time in three months, with the rate of accumulation the strongest since March amid pressure on capacity. Regarding inflation, input costs continued to rise significantly, though at a slower pace. Companies passed these costs on to clients with a historically sharp and accelerated increase in selling prices, reaching a six-month high. Finally, sentiment improved to a four-month high, supported by hopes that business expansion plans and new client wins could boost order books and customer numbers.

5. China November Caixin Services PMI slows to 51.5 from 52.0 - weaker than 52.5 expected - with a slowdown in the growth of new business and foreign sales. Meanwhile, employment increased for the third consecutive month, though only marginally, with a modest rise in backlogs of work for the fourth month. On the cost side, input price inflation fell to its lowest in 53 months, staying below the series average. Output prices decreased for the third time in four months, due to intensified competition. Lastly, business confidence reached a seven-month high, fueled by optimism about improved economic conditions and supportive government policies potentially boosting sales. " Service providers generally expressed confidence in market improvement amid policy support, although some were concerned about the future trade environment.” According to Dr. Wang She, head economist at Caixin.

6. India November final HSBC services PMI fell to 58.4 from 58.5 - weaker than 59.2 flash. Still, the 40th consecutive month of services activity expansion, driven by strong demand and new business gains. Total sales grew softer but above its long-run average and consistent with robust growth, with new export orders rising the most in three months. In response, firms raised employment to the highest level since the survey began in December 2005. On prices, input cost inflation accelerated to a 15-month high, primarily due to higher food and wage costs. As a result, output cost inflation rose to the fastest rate in close to 12 years as firms passed on additional cost burdens to their clients. Finally, business sentiment improved to a six-month high, boosted by predictions of continued demand strength and expectations that marketing efforts will drive new business.

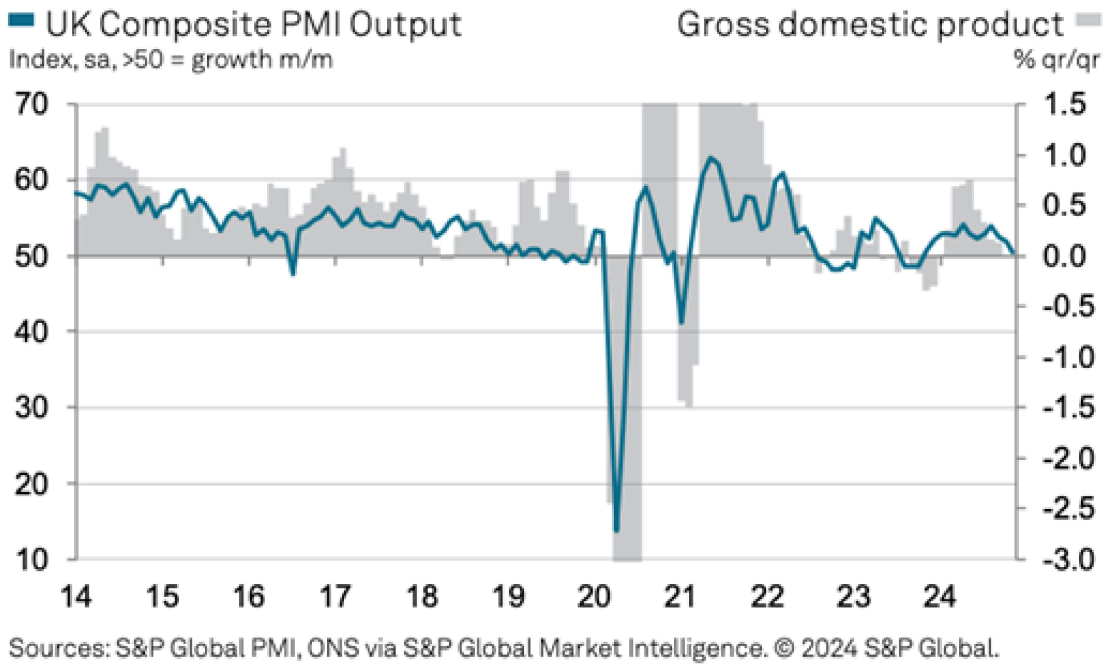
7. Turkey November trade deficit wides to $7.36bn after $5.91bn - worse than $5.7bn expected and from $6n in Nov 2023 - the largest trade deficit since April, as exports fell 3.1% year-on-year to USD 22.29 billion while imports rose 2.4% to USD 29.65 billion. From January to November 2024, the country recorded a trade deficit of USD 73.2 billion, with exports increasing by 2.5% while imports decreased by 6.4%.

8. **Eurozone November final HCOB services PMI drops to 49.5 from 51.6 - better than 49.2 flash -** still the first drop in sector since January. New business from non-domestic sources provided a sharper drag on total orders, with the respective HCOB index at a 13-month low. Services employment continued to rise, however, sustaining a run of job creation that stretches back almost four years. This was despite backlogs of work falling for a seventh straight month, suggesting service providers have spare capacity. Meanwhile, confidence levels weakened. Expectations for growth were at their softest since September 2023. Turning to prices, the latest survey data showed an uplift in pressures as both input cost and output charges increased at faster rates than in the previous month. Compared to their respective pre-pandemic trends, inflation rates were elevated in both cases.

9. **Eurozone October PPI rose 0.4% m/m, -3.2% y/y after -0.6% m/m, -3.4% y/y - as expected.** Prices rebounded for energy (1.4% vs -1.9%) and continued to increase for durable consumer (0.3%) and non-durable consumer goods (0.2%). Meanwhile, prices were unchanged for capital goods, the same as in the previous month. Among the bloc's largest economies, producer prices rose 1% in Italy, 0.9% in France, and 0.2% in Germany, but fell 0.1% in Spain.

10. **UK November final services PMI drops to 50.8 from 52.0 - better than 50 flash.** the slowest observed since the current expansionary phase started in November 2023. Service providers cited significant challenges stemming from heightened economic uncertainty and apprehension over the tax increases outlined in the Autumn Budget. New business volumes rose for the thirteenth consecutive month, driven by resilient consumer spending, but the growth was the weakest since June's pre-election slowdown. New work from abroad also moderated, despite stronger demand from US clients. Employment fell for the second month, though less than in the prior month. On the price front, cost inflation accelerated to its fastest since April, while price charged inflation rose to its highest since July. Confidence in the outlook for business activity dropped to its lowest level since December 2022.

Exhibit #2: UK slowdown - does this shift BOE thinking?



Source: S&P PMI, BNY

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

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