December 5 2024

Caution

“The scars of others should teach us caution.” - St. Jerome

“Caution, not exuberance, should be our fiscal motto.” – John Chafee

Summary

Risk mixed as markets think through the overnight stories of China sanctions on US companies, Korea politics, French politics and generally weaker EU data with construction, industrial production all lower and with forecasts into 2025 being cut. There isn’t much on the news agenda to shake markets away from a pause other than the animal spirits in Bitcoin which breaks to new highs on Trump’s SEC pick. The weekly jobless claims will matter but so too will the US trade deficit – both will anchor investors into their caution mode as they wait for Trump and for the FOMC. Focus on rates and debt and budgets continues to matter globally across markets.

What’s different today:

- **BTC trades to $102,500 new record highs** - as Trumps pick for SEC Chair Paul Atkins is seen as a strong advocate for digital assets
- **Italian Istat national statistics agency cuts GDP for 2024 to 0.5% from 1%,** sees 2025 down at 0.8% - down from 1.1% earlier – reflecting Germany economic weakness, matter to PM Meloni new budget debates
- **iFlow – Carry higher, Mood lower, trend lower –** with some interest in how Korea flows show up yesterday but there is nothing exciting, with modest equity buying and bond selling while KRW outflow was in line with others. EM selling vs. USD is seen in BRL first and MXN second. The USD buying in G10 continued starting with CAD and continuing in EUR. Bonds in US are still being bought but sold in Australia and EU.

What are we watching:

- **US weekly jobless claims** expected up 2k to 215k and with continuing claims off 3k to 1.904mn – key for labor market check ahead of bigger November report Friday.
- **US October trade deficit** expected down $9.5bn to $75bn – with key focus on trade with China/Mexico/Canada.
- **Richmond Fed President Thomas Barkin** addresses Charlotte Regional Business Alliance economic event

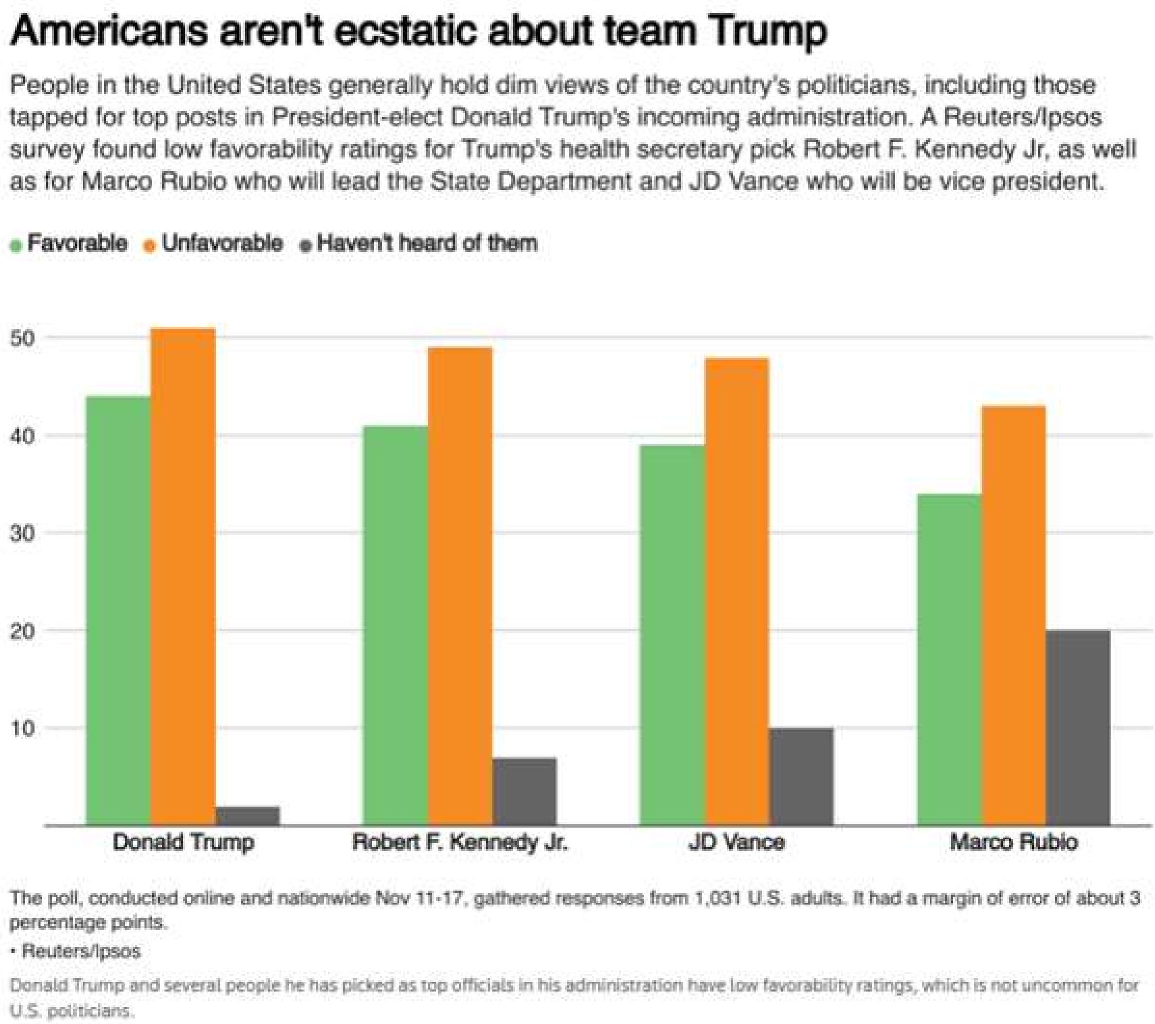
Headlines

- BOJ Nakamura- notes rate decision will be data dependent – Nikkei up 0.3%, JPY up 0.1% to 150.45
- China imposes sanctions on 13 US defense firms for selling to Taiwan – CSI 300 off 0.23%, CNH flat at 7.2750
- Korea 3Q GDP unrevised at up 0.1% q/q, 1.5% y/y - led by government spending, private consumption - while President Koon fires defense minister and parliament moves to vote on impeachment – Kospi off 0.9%, KRW off 0.3% to 1418.1
- Taiwan Nov CPI up 0.4pp to 0.08% m/m, 2.08% y/y - TWD off 0.1% to 34.33
- Australian Oct trade surplus up A$1.4bn to A$5.953bn - biggest since February- AUD flat at .6430
- Swiss Nov unemployment up 0.1pp to 2.6% - 34-month high for joblessness – Swiss Mkt up 0.15%, CHF flat at .8840
- Sweden CPI holds 1.6% y/y while CPIF up 0.4pp to 1.9% y/y - most in 6-months – OMX up 0.20%, SEK off 0.1% to 10.94
- German Oct factory orders -1.5% m/m led by autos – DAX up 0.35%, Bund 10Y up 2.5bps to 2.08%
- Spanish Oct industrial production up 1.9% y/y - best since Mar 2023 - led by cap goods – IBEX up 1.2%, SPGB 10Y off 0.5bps to 2.75%
- French Oct industrial production fell 0.1% m/m, -0.6% y/y- led by transport drop – CAC40 up 0.15%, OAT 10Y flat at 2.895%
- Eurozone Oct retail sales drop -0.5% m/m, +1.9% y/y - while construction PMI for Nov fell 0.3 to 42.7 - with orders worst in 14-months – EuroStat up 0.5%, EUR up 0.2% to 1.0535
- UK Nov construction PMI rises 0.9 to 55.2 - led by commercial activity at 2 1/2 year highs - while BOE survey shows wage growth expectations slowing, BOE Bailey thinks markets accurate to his thinking on rates – FTSE off 0.1%, GBP up 0.2% to 1.2720

The Takeaways:

Markets are mixed and the pause in US equities after 56 record highs makes some logic ahead of bigger news. FOMC Powell yesterday kept intact a December rate cut expectation but remained data dependent on the 2025 pricing and that mixed with a 1-month reflection on the US election leaves many looking for more information before adding to positions. The US rate markets have defined a range with 4.10% 2Y a bottom rung and 4.30% the modest top. The USD is similarly watching 105-108. Then there is BTC which rose and then paused with new clear levels for upside $110k next up and downside $92k support on today's $100k breakout. The markets like ranges but they don't like uncertainty. There is the rub and the role of the data in the world mattering. Weaker EU data and more French political uncertainty make the French OAT 10Y still a key barometer for risk. Korea stability matters as does the ongoing political focus on President Yoon with 1410 KRW 1M the key focal point. What could be important today beyond US jobless claims and US trade is whether there is anything new from the President Elect. The polling of the US voters on his cabinet choices isn't compelling and the pressure to deliver change intense. How a diverse set of thinkers and leaders mix to produce such will be the focus of the world in January until then we have to wait and have caution for any surprise.

Exhibit #1: US support the Trump cabinet, does it matter?



Source: Reuters, BNY

Details of Economic Releases:

1. **Korea 3Q final GDP up 0.1% q/q, 1.5% y/y after -0.2% q/q, 2.3% y/y - unrevised.** The modest growth was driven mainly by modest increases in government and private consumption. On the expenditure side, private consumption grew by 0.5%, as expenditures on goods (e.g. electricity, gas & other fuels, and motor vehicles) and services (e.g. health services and transport services) both increased. Government consumption also rose by 0.6%, with increased social security benefits in kind (e.g. expenditures on health care benefits). Meanwhile, construction investment shrank by 3.6%, while facilities investment increased by 6.5%. Elsewhere, exports fell by 0.2%, as exports of motor vehicles and chemical products decreased, while imports were up by 1.6% as imports of machinery & equipment increased.

2. **Australian October trade surplus rises to A$5.953bn after A$4.532bn - better than A$4.55bn expected** - the biggest trade surplus since February, largely driven by a recovery in exports. Exports rose by 3.6% from the previous month to AUD 42.15 billion, reversing a 4.7% decline in September, largely boosted by other mineral fuels. Meanwhile,imports edged up by 0.1% to AUD 36.20 billion after declines in recent months, mainly supported by processed industrial supplies n.e.s.

3. **Swiss November unemployment rises to 2.6% from 2.5% - worse than 2.5% expected.** The number of unemployed persons grew by 4,667 from the previous month to a 34-month high of 121,114. Meanwhile, the youth unemployment rate, measuring job-seekers between 15 and 24 years old, remained unchanged at 2.6% in November 2024, with the number of young unemployed increasing by 196 to 11,817. The number of vacancies reported dropped by 1,563 to 32,908 positions during the month. Adjusted for seasonal factors, the jobless rate remained at 2.6% in November.

4. **Sweden November CPIF up 0.5% m/m, 1.9% y/y after 0.4% m/m, 1.5% y/y -less than 0.7% m/m expected -** still the most in 6-months and biggest monthly since December 2023 - while the headline CPI holds 1.6% y/y - at July 2021 lows.

5. **German October factory orders reverse to -1.5% m/m after +7.2% m/m - better than -2% m/m expected.** Orders for machinery and equipment saw the largest drop (-7.6%), followed by the automotive industry (-3.7%). On the other hand, demand increased for basic metals (10.2%) and computer, electronic and optical products (8.0%). New orders rose for both intermediate goods (0.9%) and consumer goods (4.2%), but fell for capital goods (-3.6%). Notably, domestic orders shrank by 5.3%. Meanwhile, foreign orders increased by 0.8%, largely driven by higher demand from outside the Eurozone (6.3%) while orders from the Eurozone plunged (-7.6%). Excluding large orders, incoming orders edged up 0.1% from September. In a three-month comparison, new orders were 2.7% higher in the period from August to October compared to the preceding three months.

6. **Spanish October industrial production up 1.9% y/y after 1.1% y/y - better than 0.3% y/y expected** - the strongest rise in industrial activity since March 2023, with output rebounding for capital goods (2% vs -1.9%). Meanwhile, output growth eased for energy (0.8% vs 2.5%), intermediate goods (0.5% vs 1.5%), and consumer goods (1.8% vs 1.9%).

7. **French October industrial production fell -0.1% m/m, -0.6% y/y after -0.8% m/m, -0.6% y/y - weaker than +0.3% m/m expected.** Manufacturing output stagnated after a 0.7% decline in the previous period, as a sharp decrease in transport equipment production (-2.4%) offset a significant increase in coke and refined petroleum products (4.8%). Meanwhile, activity continued to decline in mining and quarrying, energy, water supply, and waste management (-1% vs. -1.3%), while construction output rebounded slightly (0.1% vs. -0.3%).

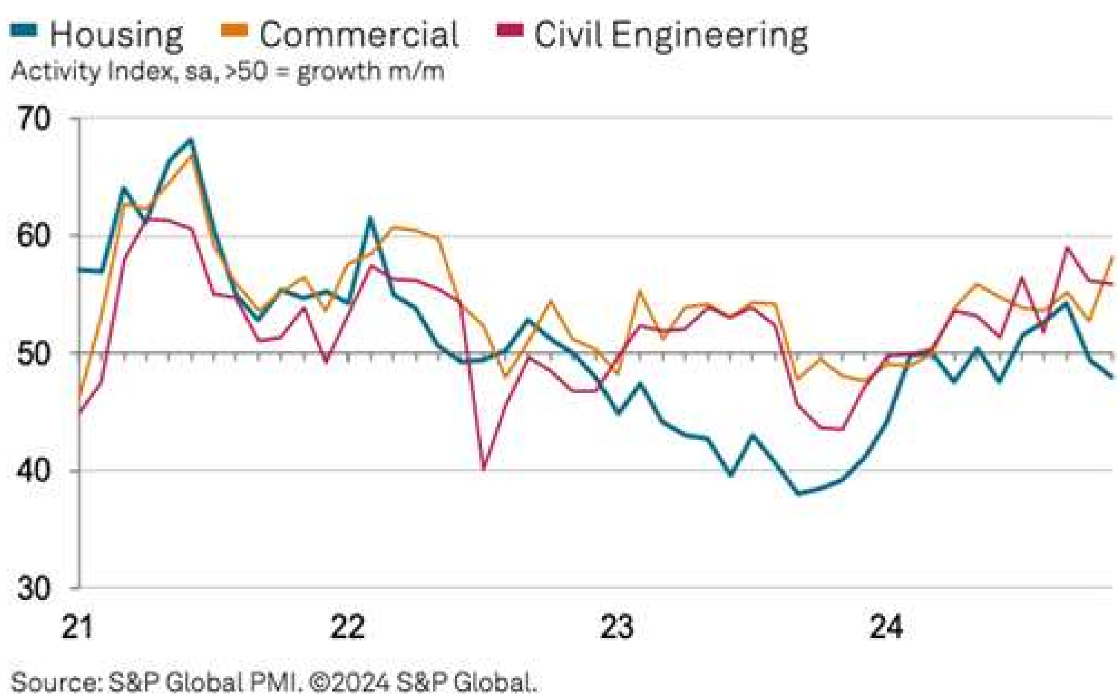
8. **Eurozone October retail sales fell -0.5% m/m, +1.9% y/yafter +0.5% m/m, 3% y/y - slightly better than -0.3% m/m, +1.7% y/y expected**. Sales declined mostly for non-food products (-0.9% vs 1.3%) and auto fuel (-0.3% vs -0.6%) while sales of food, drinks and tobacco rebounded (0.1% vs -0.7%). Among the largest economies, retail sales shrank 1.4% in Germany and flattened in France and Spain.

9. **Eurozone November HCOB construction PMI drops to 42.7 from 43.0 - weaker than 43.5 expected** - as the rate of decrease quickened on the month amid a robust contraction in new orders, which fell at the strongest rate since September 2023. Lower new orders sparked a further round of job shedding, while retrenchment was reflected through steep reductions in input buying and subcontractor use. Cost burdens rose moderately but at the most pronounced rate in nine months. Meanwhile, activity in Germany fell the most since April. French firms recorded a strong decrease that was nonetheless the softest for a year, while firms in Italy saw the least pronounced decline since May. In addition, pessimism about output for the coming year was the most pronounced since April 2020. The level of negative sentiment worsened in Germany and France, while Italian firms expressed a stronger and solid degree of optimism.

10. **UK November construction PMI rises to 55.2 from 54.3 - better than 53.4 expected -** The upturn was driven by the sharpest rise in commercial work in 2-½ years. However, residential work declined at the steepest rate since June. New orders across the sector grew for the tenth consecutive month, though the growth rate slowed to its weakest since June. Employment rose marginally, but the rate of job creation eased to a three-month low. At the same time, purchasing activity increased at the slowest pace since the current phase of

expansion began in May, and supplier performance deteriorated to its worst level since February 2023. On the price front, input cost inflation accelerated to an 18-month high, attributed to rising raw material prices and some suppliers passing on increased staff costs. Lastly, business confidence weakened, with activity expectations falling to their lowest level since October 2023.

Exhibit #2: UK construction uneven



Source: S&P PMI, BNY

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