BNY

iFlow MARKET MOVERS

December 6, 2024

Jobs

"I am a great believer in luck, and I find the harder I work, the more I have of it." – Thomas Jefferson
"Pleasure in the job puts perfection in the work." - Aristotle

Summary

Risk mixed even as the overnight session enjoyed gains in most equity markets with EU shares up for 7-days in a row, but Japan and Australia lower. Japan waiting for BOJ and rate hike risk with wages up in real terms again. France rebounds as Macron vows to stay and the unrevised GDP 3Q is still the best growth in 2-years, but German production lower. ECB easing expectations aren't sufficient. USD is up on the index but flat against the EUR. The RBI kept repo steady but cut the CRR for the first time easing there since the pandemic – hurting bonds which wanted more. The US markets are set up for a benign jobs report, but no one really knows the noise of revisions with 220k NFP expected and steady 4.1% unemployment. Most expect today to drift quietly away into next weeks bigger bond coupon supply and start of more central bank decision making with end of year rallies and outlooks for 2025 driving.

What's different today:

- **UN November FAO food price index rises 0.5% to 127.5** – most since April 2023. Prices of vegetable oils soared 7.5% to hit the highest level since July 2022. Cost for dairy products edged up 0.9% to hit a new high since January 2023
- **iFlow** – ongoing erosion in Mood nearing historic pandemic lows – while carry up, trend down. USD inflows continue to stand out vs. CAD, EUR and SEK outflows. EM continues to see BRL and MXN outflows vs. TRY and CNY inflows. Equities negative in G10 but for Swiss and New Zealand and in EM but for Indonesia and Philippines. Bonds mixed as well with India inflow ahead of RBI, and China up vs. outflows in LatAm and EMEA EM.

What are we watching:

- **US November non-farm payrolls** expected up 220,000 after 12,000 with focus on revisions and unemployment holding at 4.1%, also hourly earnings expected 0.3% from 0.4% - mix of jobs and participation key for FOMC easing plans

- **US December University of Michigan consumer sentiment preliminary** expected 73.3 from 71.8 with current conditions 65.2 from 63.9 and expectations 77.7 from 76.9 – state of consumer mood matters for 2025 growth views and FOMC
- **US October consumer credit** expected up $10bn from $6bn – with focus on type of borrowing fixed or credit card.
- **Canadian November employment** expected up 25k after 14.5k with unemployment up 0.1pp to 6.6% - key for BOC 50bps easing.

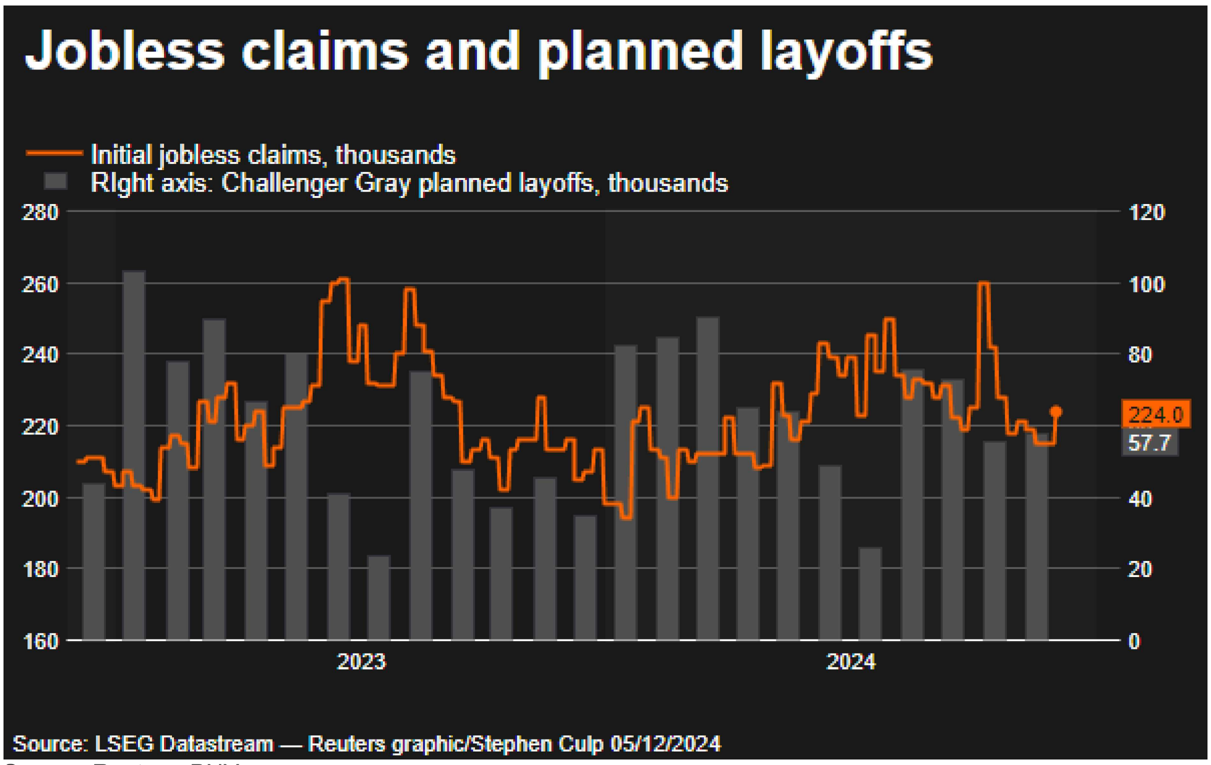
Headlines

- India RBI keeps repo rate unchanged at 6.5% - as expected – but cuts CRR by 50bps to 4%, first easing since Apr 2020 - Sensex off 0.07%, INR up 0.1% to 84.687
- Korea Oct C/A off $1.2bn to $9.8bn – South Korea PPP opposes Yoon impeachment, but push for him to step aside – Kospi off 0.56%, KRW off 0.2% to 1420.50
- Japan Oct cash earnings slips 0.2pp to 2.6% y/y while Oct household spending rebounds up 2.9% m/m – still hampered by rising prices – while Oct LEI off 0.3 to 108.6 but coincident up 2.5 to 116.5, best since May – Nikkei off 0.77%, JPY off 0.3% to 150.55
- German Oct industrial production -1% m/m – led by energy and autos – DAX up 0.15%, Bund 10Y +1bp to 2.12%
- Italian Oct retail sales off -0.5% m/m, +2.6% y/y – MIB up 0.6%, BTP 10Y flat at 3.195%
- French Oct trade deficit narrows to €7.7bn – led by refined energy exports – while Macron vows to serve full term as President, to name new PM in days – CAC 40 up 1.4%, OAT 10Y off 2.5bps to 2.865%
- Eurozone final 3Q GDP up 0.4% q/q, 0.9% y/y – unrevised - while employment up 0.2% q/q, 1% y/y – EuroStoxx 50 up 0.6%, EUR flat at 1.0585

The Takeaways:

The US job report today matters significantly as it sets the tone not just for the FOMC December easing but the outlook to start 2025. The market prices in a 65% chance of a 25bps Fed cut still. The price action in US bonds is important across markets and the demand for duration in the US dominated the last few days as investors talk about risks for slowing around the rest of the world, worry about US equity valuation stretches and hope for a Trump policy mix that doesn't drive debt burdens higher. The 30Y yield in the US fell to 4.31% yesterday – 6-week lows and that flattened the 2/30Y curve to just 16bps the smallest since August. 2/10Y curve was flat yesterday and is now up just 2bps. The Trump trade of curve steepening paused and this matters in the context of today's data and outlook. How equities end the week and how investor moods set up for 2025 is in play. The key for understanding the risks on the day is in the data and its noise – with the revisions to NFP likely key. The headline expectations for 220k jobs up from 12k is driven by the hurricane and Boeing strike events. How the US labor market recovers from that noise and the holes in reporting displaced and encumbered workers and business is part of the problem. The fact that job offers are normalizing back to pre-pandemic levels matter, but so too does the time required for those looking for a job when fired. The duration of unemployment maybe the next focus for those peering into 2025 risks.

Exhibit #1: US job data has been mixed



Source: Reuters, BNY

Details of Economic Releases:

1. India RBI keeps repo rate unchanged at 6.5% - as expected – but cuts CRR by 50bps to 4%, first easing since Apr 2020, adding liquidity ahead of tax bills. RBI also adds Secured Overnight Rupee Rate (SORR) as key benchmark in effort to bolster derivates and clarity of rates. Forecasts slowing GDP to 6.6% from 7.2% for 2025, CPI 4.8% up from 4.5%

2. Korea October current account surplus slows to $9.78bn from $10.94bn – less than the $12bn expected – still more than the $7.44 billion in October 2023. The goods account posted an $8.12 billion surplus, as exports grew by 4.0% year-over-year to $60.08 billion, while imports edged down by 0.7% to $51.96 billion. In contrast, the services account recorded a $1.73 billion deficit, mainly due to shortfalls in manufacturing and other business services. Meanwhile, the primary income account saw a surplus of $3.45 billion, driven by higher income from equity investments. The secondary income account posted a minor deficit of $0.05 billion.

3. Japan October average cash earnings slow to 2.6% y/y after 2.8% y/y – as expected – slowest since May.   In contrast, inflation-adjusted real wages—an important measure of consumers' purchasing power—remained flat compared to October 2023. This was an improvement from the 0.4% decline in September and a 0.8% drop in August. The stability in real wages bolsters expectations for an interest rate hike by the Bank of Japan. Additionally, overtime pay—a key indicator of corporate health—rebounded in October, growing by 1.4% after a 0.9% decline in the previous month.

4. Japan October household spending rises 2.9% m/m, -1.3% y/y after -1.3% m/m, -1.1% y/y – better than the 0.4% m/m, -2.6% y/y expected. Food expenditure, which accounts for around 30 percent of spending, fell 0.8% y/y, as consumers saved by buying chicken instead of pork and beef, while staying away from chocolate due to rising prices. Spending on clothing and shoes plunged 13.7% y/y, affected by weak demand for winter apparel amid unusually warm temperatures in the reporting month, the ministry said. Outlays on housing including renovations dropped 10.7%, while education expenditures, such as tuition fees, fell 14.0% y/y.

5. **Japan October leading economic index slows to 108.6 from 108.9 – weaker than 108.9 expected**. The latest reading came after the unemployment rate edged up to 2.5% in October from September's eight-month low. In the meantime, the services sector contracted for the first time since June, while the factory activity shrank the most in seven months amid easing price pressures. Meanwhile, consumer confidence improved to its highest level in five months. The coincident index rose to 116.5 from 114.0 – the best since May.

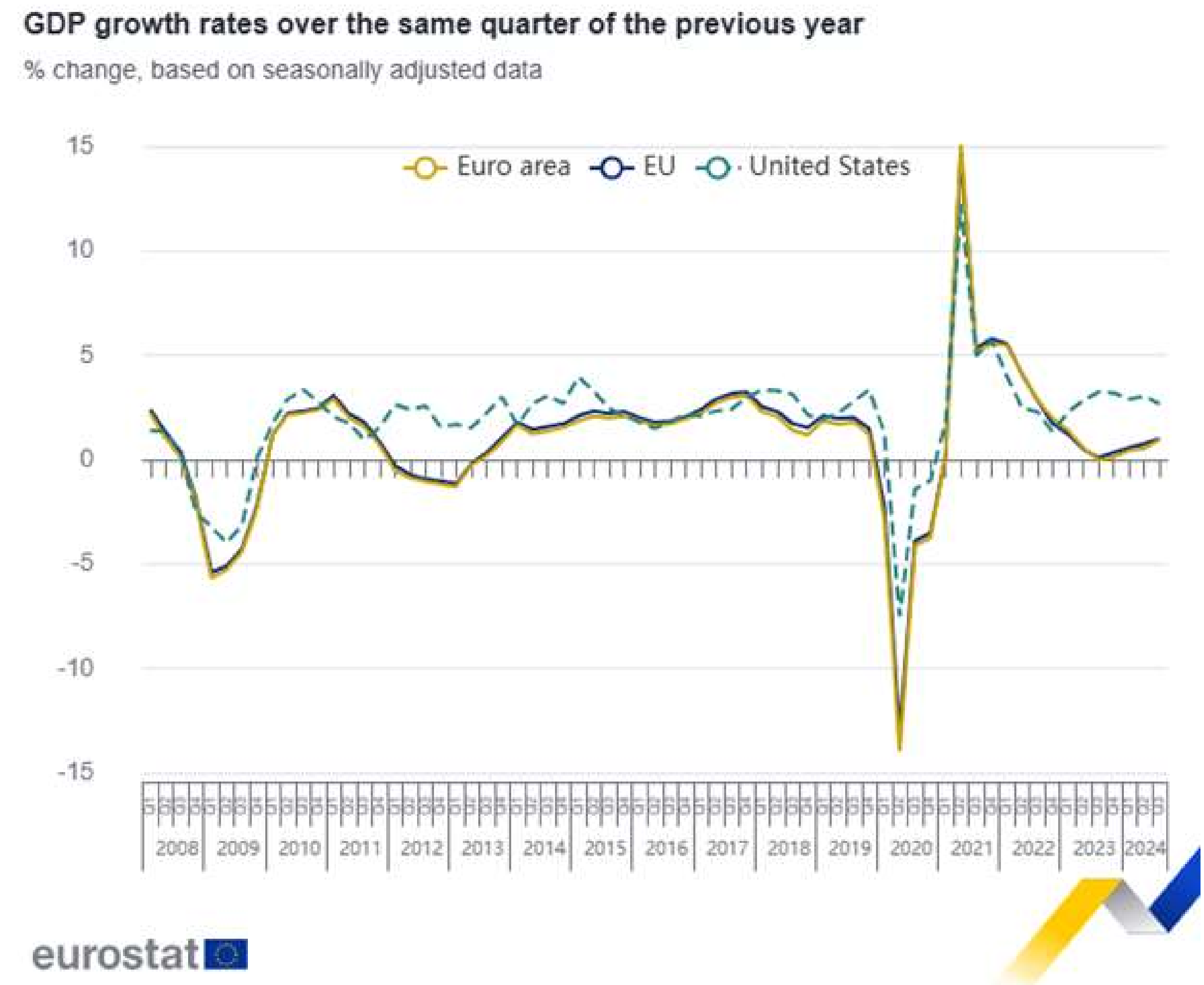
6. **German October industrial production fell -1% m/m, -4.5% y/y after -2% m/m, -4.3% y/y – worse than the +1.2% m/m expected**. The sustained drop was primarily driven by an 8.9% annual decrease in energy production. Additionally, automotive industry output fell by 1.9%, while production in industry excluding energy and construction decreased by 0.3%. Within industry, lower output of consumer goods (-1%) and capital goods (-0.4%) outweighed a 0.4% increase in intermediate goods. Meanwhile, production in energy-intensive industrial branches went down by 0.9%.

7. **Italian October retail sales off -0.5% m/m, +2.6% y/y after +1.3% m/m, 0.7% y/y – weaker than +0.9% m/m expected**. Retail sales for food items fell by 0.7% from the previous month, while non-food sales went down by 0.3%.The largest growth was observed for Cosmetic and toilet articles, which increased by 6.4%, and Electric household appliances, audio-video equipment rising by 6.1%, while Shoes, leather goods and travel items experienced the largest fall, decreasing by 1.9%.

8. **French October trade deficit narrows to €7.7bn after €8.0bn – better than the €8bn expected**. Exports rose 0.9% m/m to €48.7 billion, mainly driven by higher sales of refined petroleum products and coke (+24.4%), and agricultural, forestry, fishing and aquaculture products (+3.7%). Exports grew to all key regions, namely the European Union (+0.7%), Africa (+0.5%), America (+5.4%), Middle East (+0.7%), and Asia (+3.9%). Meanwhile, imports fell 0.5% to €56.4 billion, primarily due to lower purchases of refined petroleum products and coke (-2.2%), and transport equipment (-6.5%). Among regions, imports fell from the European Union (-0.6%), America (-1.4%), and Asia (-3.7%).

9. **Eurozone 3Q GDP up 0.4% q/q, 0.9% y/y after 0.2% q/q, 0.5% y/y – unrevised as expected** – best growth in 2-years. Household spending (0.7%), gross fixed capital formation (2%) and inventories were the main contributors while government spending also increased (0.5%). On the other hand, the net trade weighed down on the growth, as exports declined 1.5% while imports edged up 0.2%. Among the largest economies, the GDP in Germany expanded 0.1%, below 0.2% in the preliminary estimates, but surprisingly avoiding a recession. Also, the GDP in France expanded at a faster 0.4% and the Spanish economy remained resilient (0.8%). On the other hand, the Italian economy stalled while Netherlands slowed (0.8%).

Exhibit #2: Is the growth spread EU vs US going to last?



Source: Eurostat, BNY

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

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