

December 9 2024

Calm Changes

“The nearer a man comes to a calm mind the closer he is to strength.” – Marcus Aurelius

“I have the strength to remain calm in the face of change.” – Louise Hay

Summary

Risk mixed as Asia sells equities and buys USD on back of Korea uncertainty, Syrian government collapse and doubts about central banks being able to fix it all. But, the China politburo promises “moderately loose” policy for 2025 - the first time in 14-years - while November CPI softer at 0.2% y/y. This news turned the mood around in EU shares and US optimism keeps futures near flat. Oil rises over 1% on the fear that the Syrian rebels fast victory over Assad will require a long process for national unity. France’s Macron held a meeting with US Trump and Ukraine Zelensky but hasn’t yet named a new PM. The US CPI later this week is seen as a last economic data point that matters to changing Fed odds - 85% right now priced for a 25bps easing December 18. With no major US economic data releases and with supply the key focus for bonds, markets are expected to tread water until CPI despite the geopolitical uncertainty.

What’s different today:

- **Gold higher by 1% trading at \$2,655.5 oz** – as China resumed buying for reserves after 6-months pause and as markets prepare for Fed easing. Also some connect to Syria surprise Assad ousting.
- **iFlow – Mood extremely negative -0.379** – near historic lows as global shares and bill buying dominate despite US S&P500 closing Friday at record highs. The Health Care and Communications sectors are seeing inflows while industrials and energy lower. USD buying is ongoing while CAD, EUR and SEK selling stand out. EM saw BRL, MXN selling but TRY and modest CNY buying. Fixed income sees US bonds buying along with India.

What are we watching:

- **US October final wholesale inventories** expected up 0.2% m/m – key plug in for GDP 4Q.

- **US November consumer inflation expectations** from NY Fed – expected flat at 2.9%

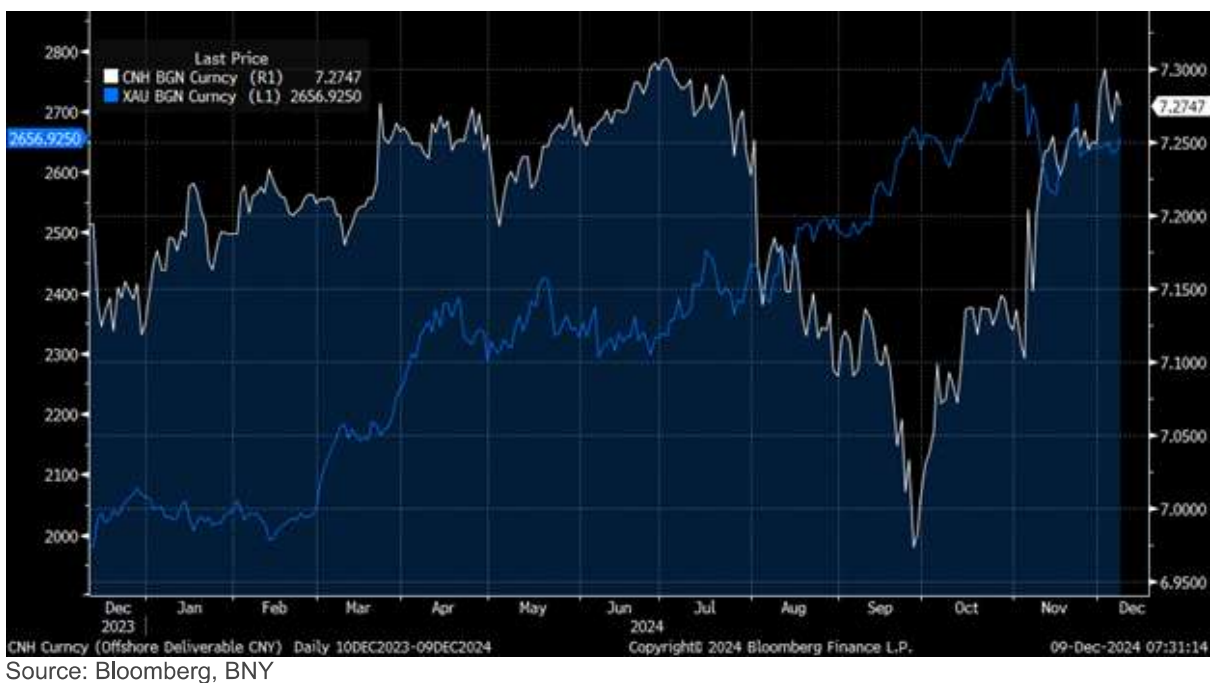
Headlines

- China Politburo will embrace “moderately loose” policy for 2025 - first time in 14-years - while Nov CPI up 0.2% y/y - worst since June, but PPI -2.5% y/y - highest since August - CSI 300 off 0.17%, CNH up 0.15% to 7.2745
- South Korean President Yoon survives impeachment vote but opposition pushes for another vote, nation bans Yoon from travel – Kospi off 2.78%, KRW off 0.65% to 1432.1
- Japan 3Q GDP revised up 0.1pp to 0.3% q/q, 1.2% y/y - 2nd quarter of growth - while Nov Eco Watchers up 1.1 to 49.4 – Nikkei up 0.18%, JPY off 0.3% to 150.60
- Australian Oct building permits up 4.25 m/m - led by private dwellings – ASX up 0.03%, AUD up 0.8% to .6445
- Taiwan Nov exports rises 9.7% y/y - led by electronics – TWD off 0.25% 32.48
- Syria HTS rebel leader Abu Mohammed al-Golani promises orderly transfer of government from Assad - while Israel seizes buffer zone in Golan Heights – WTI up 1.3% at \$68.05
- Eurozone Dec Sent investor index drops 4.6 to -17.5- lowest since Nov 2023 – EuroStoxx 50 up 0.15%, EUR flat at 1.0565

The Takeaways:

USD exceptionalism holds overnight. Markets are watching geopolitical uncertainty and rethinking safe-havens, with Bitcoin lower and Gold higher. The move up in Gold stands out overnight and suggests that the China buying again for its FX reserves matters. The other China news is about moving from neutral to easy policy for monetary – the first time in 14-years. The lack of inflation in China and the lack of demand from consumers begs the question of how to fix it all. The buying of gold and supporting their reserves for CNY may be part of the offset of worries that its currency could face more volatility in the weeks ahead as many expect Trump drama over tariffs. The drop in China CPI was about food as the weather helped crops and food prices fell 2.7% - this hides the rise in core prices and the subtle risk to the Politburo policy shift into 2025. Markets will be watching commodities again with oil linked to the Middle East uncertainty around Syria, with demand hopes back risking on China and the US. How Gold and the CNY correlate into 2025 now matters along with all commodities.

Exhibit #1: Watch FX and commodity correlations?



Source: Bloomberg, BNY

Details of Economic Releases:

1. Japan 3Q final GDP revised up to 0.3% q/q, 1.2% y/y after 0.5% q/q, 2.9% y/y - better than the 0.2% q/q, 0.9% y/y flash - the second consecutive quarter of yearly expansion. Capital expenditure sharply moderated in the face of rising interest rates while government spending eased sharply. Meanwhile, private consumption grew solidly, reflecting the impact of wage hikes. At the same time, external demand remained a drag on the GDP, contributing negatively for the third successive quarter.

2. Japan November EcoWatchers outlook jumps to 49.4 from 48.3 - better than 48.1 expected. The current index rose to 49.4 from 47.5 - beating 47.3 forecasts and the highest since March. The measure for household budget trends increased, primarily due to a rise in the retail-related sector, despite a decline in the service-related sector. Meanwhile, the gauge for corporate trends declined, driven by drops in the manufacturing industry. At the same time, employment levels were lower. Meanwhile, the economic outlook index improved to 49.4 from October's three-month low of 48.3. This increase was supported by hopes of a moderate economic recovery, even as the impact of cost pressures persisted.

3. Australian October building permits rise 4.2% m/m after 5.8% m/m - same as flash - mainly boosted by a 24.8% jump in permits for private sector dwellings, excluding houses. On the other hand, approvals for private sector houses dropped by 5.2%, after reaching a two-year high in September. Regionally, the number of total dwellings approved was higher in New South Wales (34.8%), Victoria (8.9%), and Tasmania (3.9%) but fell in Queensland (-14.1%), Western Australia (-11.9%), and South Australia (-0.3%).

4. China November CPI slips -0.6% m/m, 0.2% y/y after -0.3% m/m, +0.3% y/y - lower than the -0.3% m/m, +0.5% y/y expected - the lowest figure since June. This slowdown highlighted mounting deflation risks in the country despite recent stimulus measures from Beijing and the central bank's supportive monetary policy stance. Food prices rose the least in four months (1.0% vs 2.9% in October), driven by softer increases in both fresh vegetables and pork. Meantime, non-food prices remained unchanged (vs -0.3% in October), with further rises in the cost of healthcare (1.1% vs 1.1%) and education (1.0% vs 0.8%) and more declines in prices of transport

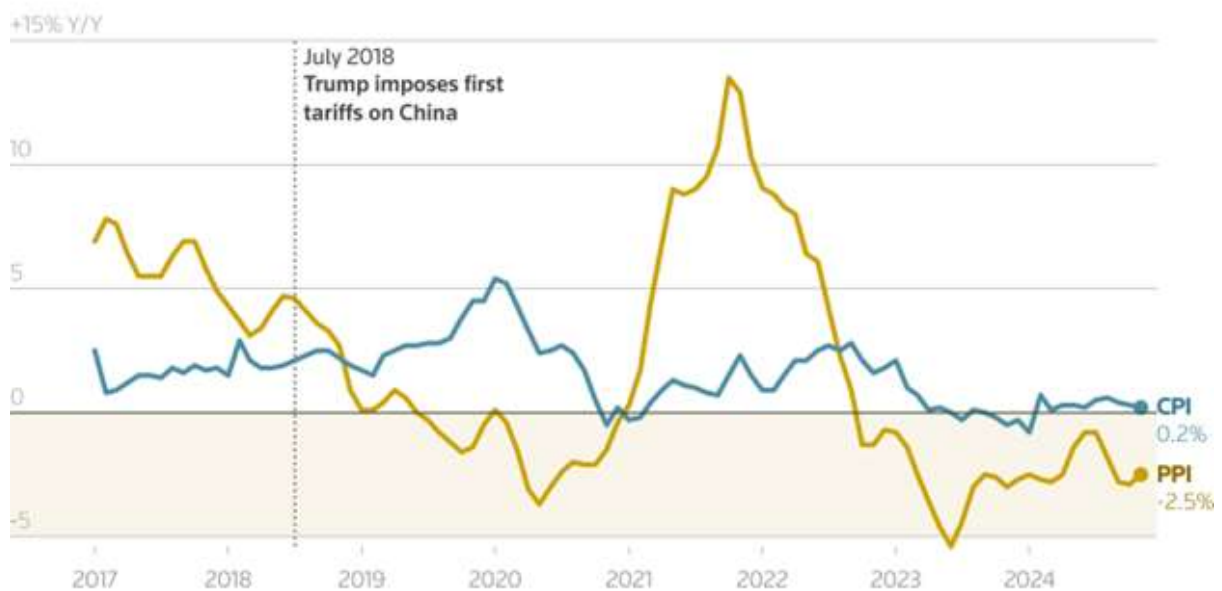
(-3.6% vs -4.8%) and housing (-0.1% vs -0.1%). Core consumer prices, excluding food and energy, rose 0.3% yoy, the most in 3 months, after a 0.2% gain in October.

5. China November PPI rises up 0.1% m/m, -2.5% y/y after -0.1% m/m, -2.9% y/y - better than the -2.8% y/y expected - highest annual since August and first monthly increase in six months - still, the 26th consecutive month of producer deflation, but the softest figure since August amid ongoing measures from Beijing to reverse weak demand as the year-end approaches. The cost of production materials shrank at a slower pace (-2.9% -3.3% in October), with further declines in mining (-4.9% vs -5.1%), raw materials (-2.9% vs -4.0%), and processing (-2.7% vs -2.9%). Also, a decline in consumer goods softened slightly (-1.4% vs -1.6%), due to more drops in food (-1.5% vs -1.6%), clothing (-0.3% vs -0.4%), and durable goods (-2.7% vs -3.1%), while daily-use goods prices edged higher (0.2% vs 0.1%).

Exhibit #2: China watching for inflation?

Strong deflationary winds

China's consumer inflation hit a five-month low in November, while producer price deflation persisted, as the world's second-largest economy braces for likely fresh tariffs from a second Donald Trump White House.



Note: Data through Nov. 2024.

Source: LSEG Datastream | Reuters, Dec. 9, 2024 | By Kripa Jayaram

Source: Reuters, BNY

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

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Bob Savage
HEAD OF MARKETS STRATEGY
AND INSIGHTS

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