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iFlow

MARKET MOVERS

December 10 2024

Thinking Carefully

“Think carefully first and then act boldly.” – Linda Sue Park
“Be careful how you think; your life is shaped by your thoughts.” – Proverbs 4:23

Summary

Risk mixed as markets unwind some of the hopes of faster China stimulus, more ECB rate cuts and easy resolutions to Syria. The US focus on the day is revisions about 3Q labor costs, the start of coupon supply and more focus on Trump plans for 2025. The overnight decision by the RBA to leave rates on hold wasn’t a surprise but AUD is lower as the rate cut door was left open for 1Q 2025. RBA Bullock promises to think carefully. The China trade surplus was higher but due to lack of imports and that worries investors hoping for consumers there. The brain surgery of Brazil President Lula will worry that nation, but the 79-years is doing “well” according to reports. The inflation was higher making COPOM hike this week 75bps. The mood is mixed even as the hopes for stimulus and bottoming out in Europe and China remains a key component to thinking about 2025.

What’s different today:

- **INR at record lows of 84.85** with bond yields lower 10Y off 2bps to 6.695% - after RBI Governor Das replaced by Malhotra.
- **US November NFIB small business optimism jumps to 101.7** from 93.7 - best since June 2021 - first break over 98 long-term average in 34-months. NFIB noted - “...Owners are particularly hopeful for tax and regulation policies that favor strong economic growth as well as relief from inflationary pressures. In addition, small business owners are eager to expand their operations."
- **iFlow shows no respite for USD buying –** with EUR, CAD, DKK selling. In equities Mood remains extremely negative, with buying in industrials, health care and communications offset by selling in financials and industrials globally. The bond buying in the US and India and now China stands out against selling in Mexico and most of G10.

What are we watching:

- **Q3 unit labor costs revision** expected 1.3% from 1.9% q/q, while overall productivity seen 2.2% from 2.0% - key for value plays in bonds/stocks.
- **US corporate earnings**: Autozone
- **European Union finance ministers meet** in Brussels on draft budget plans, with European Central Bank Vice President Luis de Guindos
- **US Treasury sells $58 billion of 3-year notes**

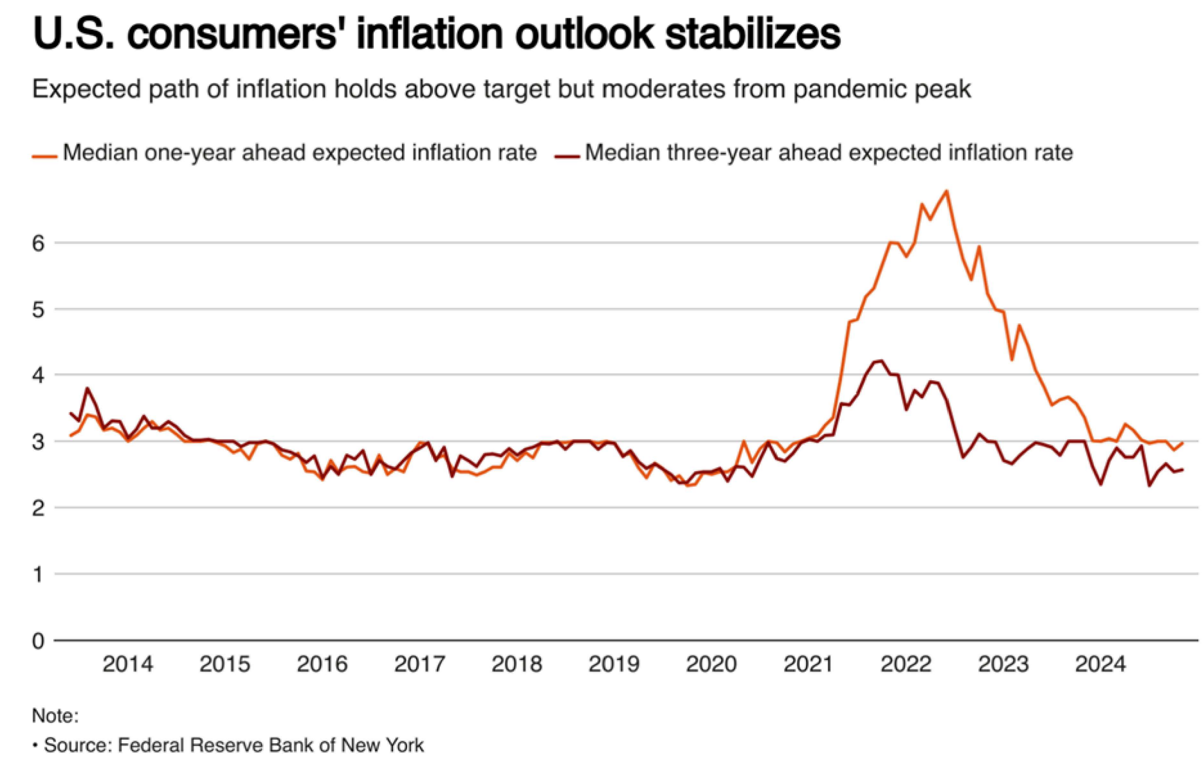
Headlines

- RBA leaves rates on hold at 4.35%- as expected - drops some hawkish language raising odds for February easing - Nov NAB business confidence drops 8 to -3 – ASX off 0.36%, AUD off 0.7% to .6395
- China Nov trade surplus up $2.2bn to $97.44bn with exports slow +6.7% y/y but imports contract to -3.9% y/y - China Xi confident of reaching economic goals, will remain engine of world growth – CSI 300 up 0.73%, CNH up 0.1% to 7.2610
- Japan Nov machine tool orders slow to 3% y/y - led by domestic orders – Nikkei up 0.53%, JPY off 0.25% to 151.65
- German Nov CPI -0.2% m/m, 2.2% y/y- unrevised as expected – DAX up 0.1%, Bund 10Y flat at 2.118%
- Italian Oct industrial production 0% m/m, -3.6% y/y - led by intermediate goods – MIB flat, BTP 10Y off 0.5bps to 3.19%, EUR off 0.2% to 1.0525
- Turkey Oct industrial production -0.9% m/m, -3.1% y/y while unemployment up 0.1pp to 8.8% - most since July - TRY off 0.1% to 34.945
- Israel bombs Syrian army and air bases, denies further incursion- beyond 1973 demilitarized zone – ILS off 0.15% to 3.5750, WTI off 0.3% to $68.15
- Brazil President Lula in intensive care after brain surgery - follows October fall – while Nov CPI up 0.39% m/m – as expected - BRL up 0.3% to 6.0690

The Takeaways:

The new word for Trump 2.0 is sequencing. How will the new President deliver tariffs, tax cuts, deregulation and deportation and not drive-up inflation or drive down growth? Markets are divided on the outlook in part because of the order in which policy changes come matters. The Trump 1.0 economy had tax cuts before tariffs. Also the tariffs were targeted. Consumers did bear the brunt of those but it didn't overwhelm the economy. The rest of the world saw a significant slowdown in global trade and growth. Most now see the inflation game for 2025 as a balancing act between global growth risks and the one-off of tariffs. There is no simple way to add in the FOMC thinking about risks ahead. The US jobs report helped keep 25bps in December in play, while the CPI this week will be key to making that an easy decision and one that keeps the 2025 easing intact. The biggest point to watch for many on the FOMC is the anchoring of inflation expectations. The NY Fed yesterday showed a modest 0.1% rise to 2.97% in 1Y outlooks. This is down significantly from the world levels and maybe sufficient for some of the doubters on the board to keep easing to a more "neutral" rate. The risk of politics and of labor markets stalling, confidence eroding and the order of thinks from the start of 2025 being disorderly requires careful thinking.

Exhibit #1: Watch FX and commodity correlations?



Source: Reuters, BNY

Details of Economic Releases:

1. **Australian November NAB business confidence drops to -3 from +5 - sharply worse than +4 expected** - due to declines across most industries, except for construction. Meanwhile, business conditions sank to their lowest since late 2020 (2 vs 7 in October), with all sub-components now at or below average: sales (8 vs 13), profitability (5 vs -1), and employment (2 vs 3). Activity shrank across all industries, with retail and manufacturing seeing the worst conditions. Labor cost growth in quarterly terms was unchanged (at 1.4%) while purchase cost growth ticked up to 1.1%. Product price growth stayed at 0.6%, with retail price growth slowing (0.6% vs 1.1%). Forward orders fell further (-5 vs -3). Capex rose slightly (10 vs 8), amid stable capacity utilization at 82.4%. "The survey points to ongoing soft growth in Q4... it will likely take more time for price pressures to normalize fully," said NAB chief economist Alan Oster.

2. **China November trade surplus rises to $97.44bnafter $95.27bn - better than $95bn expected** - largest since June, Exports rose 6.7% y/y, below forecasts of 8.5%, easing from a 12.7% jump in October but marking the largest amount in 26 months, as manufacturers front-loaded orders in anticipation of further tariffs from the incoming US administration. Meanwhile, imports unexpectedly shrank 3.9%, following a 2.3% fall in October and missing estimates of a 0.3% rise due to weak domestic demand. The trade surplus with the US widened to USD 34.9 billion in November from USD 33.5 billion in October. For the 1st eleven months of 2024, the trade surplus was at USD 884.7 billion, with exports rising 5.4% to USD 3.24 trillion while imports grew at a softer 1.2% to USD 2.36 trillion. During the period, the trade surplus with the US stood at USD 326.8 billion.

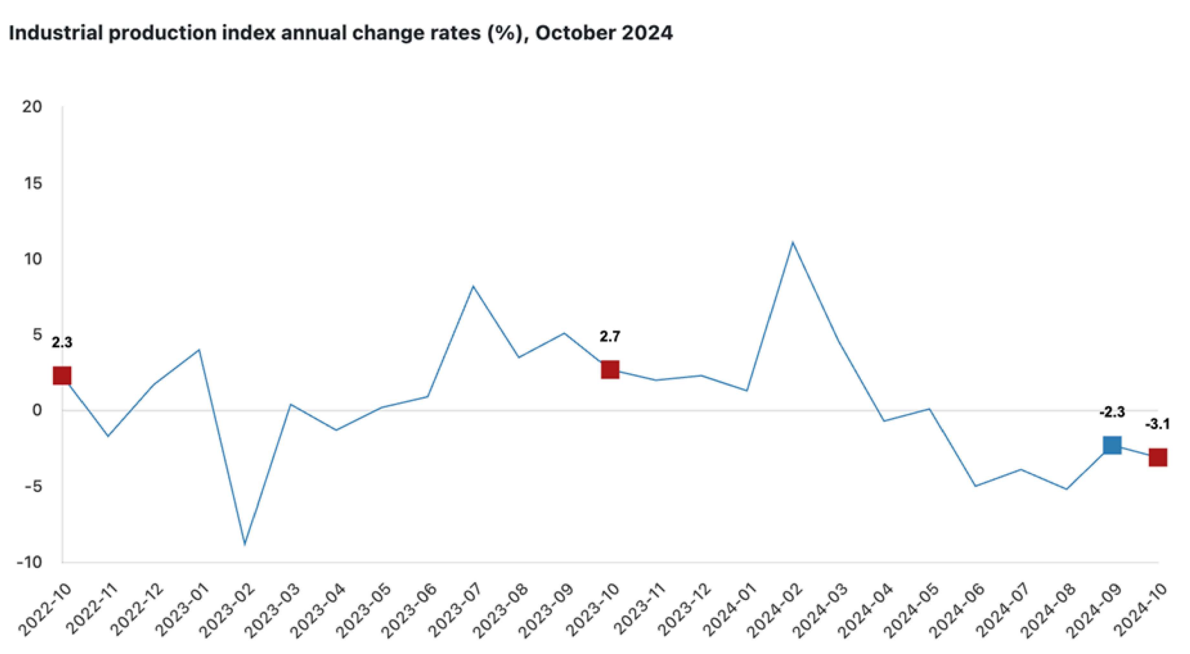
3. **Japan November machine tool orders slows to 3% y/y from 9.3% y/y - as expected** - The expansion was brought by a jump in domestic demand of 5% from a year earlier to JPY 34,326 million and from foreign orders of 2.2% to JPY 85,010 million. On a monthly basis, machine tool orders declined by 2.6%, slipping further from a 2.3% fall in the preceding period. Considering the first eleven months of the year, machine tools went down 1.3% to JPY 1,342,024 million.

4. **Italian October industrial production moderates to 0% m/m -3.6% y/y after -0.3% m/m, -3.9% y/y - weaker than +0.2% m/m expected** - 4th month of no growth. The stall was owed to a drop in production in intermediate goods (-1%) and capital goods (-0.2%), which offset the growth in output of energy goods (1.7%) and consumer goods (1.5%). From the corresponding period of the previous year, industrial output was 3.6% lower in October, stretching the current trend of over 18 months of consecutive contractions.

5. **Turkey October unemployment rises to 8.8% from 8.7% - worse than 8.5% expected** - highest jobless rate since July, as the number of unemployed persons rose by 61k to a four-month high of 3.2 million persons. Meanwhile, employment climbed by 156k to 32.970 million, pushing the employment rate up by 0.2 percentage points to 49.9%. Also, the number of persons in the labour force rose by 219k to 36.146 million. The labour force participation rate increased to a record high of 54.7% in October, from 54.4% in September. Meanwhile, the youth unemployment rate was 16.6%, down by 0.3 percentage points compared to the previous month.

6. **Turkey October industrial production drops -0.9% m/m, -3.1% y/y after +1.6% m/m, -2.3% y/y - worse than the +1.4% m/m, -2.9% y/y expected**. Output continued to decelerate for both mining and quarrying (-14.2% vs -5.2% in September) and manufacturing (-3.3% vs -2.4%). In contrast, output increased sharply for electricity, gas, steam and air-conditioning supply (7.6% vs 1.1%).

Exhibit #2: Turkey has room for easing?



Source: Turkey Statistics Agency, BNY

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

Disclaimer & Disclosures

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