

December 12 2024

Up and Down

“Everything that goes up must come down. But there comes a time when not everything that’s down can come up.” - George Burns

“Life is like the ocean; it goes up and down.” - Vanessa Paradis

Summary

Risk on as markets enjoy the trend into year-end and find relief in as expected US CPI, rate cuts from the SNB and more expected from the ECB. The Asia session found some comfort from Reuters report that suggested the BOJ is in no hurry to hike next week while the flows back to Korea despite Yoon political defiance confirms investors just want to have a bounce back. Trump inviting Xi to inauguration has been taken as a slower path to trade tariffs, though all that could change in the 5 weeks ahead. The Australian jobs uptick was good but not enough for the AUD. There is an up and down feeling to markets however as Brazil BCB hiked 1% and promises more. The USD rally have left EM markets with their worst year in two and the cracks around FX continue. The India CPI slows but not enough to give RBI all clear for easing. The ongoing focus for US is on the stretch between stocks up and bonds down and whether the PPI or jobless claims or 30Y bond sale will derail the makings of a quieter holiday rally up.

What’s different today:

- **European natural gas prices TTF off to 1M lows trades below E44 mwh.**
Linked to milder weather forecasts and stable supply as gas storage is 81% full (down from 91% same time last year).
- **iFlow same flows** – USD buying, US bond buying, US equity selling – with mood index near historic lows, with carry and trend factors flat. The EUR, AUD selling in G10 and BRL and INR in EM stand out in FX while in equities Sweden and New Zealand inflows vs. Hungary, Taiwan outflows. Bonds outflows notable in Mexico and Canada and up in India, China.

What are we watching:

- **ECB rate decision** expected to cut 25bps to 3.0% - with ECB Lagarde news conference and economic projections key for forward guidance.

- **US November PPI** expected up 0.2% m/m, 3.2% y/y after 3.1% - key for PCE price forecasts.
- **US weekly jobless claims** expected down 4k to 220k with continuing claims up 9k to 1.88mn

Headlines

- Brazil Copom raises rates 1% to 12.25%- more than 75bps expected - promises same in next two meetings – BRL up 1% to 5.90
- Swiss SNB cuts rates 50bps to 0.5%- more than 25bps expected – Swiss Mkt flat, CHF off 0.35% to .8875
- Australian Nov jobs up 35.6k with unemployment off 0.2pp to 3.9% - best since March – ASX off 0.28%, AUD up 0.45% to .6395
- BOJ leaning towards hold not hike next week according to Reuters - linked to Trump, wage uncertainty and JPY stability – Nikkei up 1.21%, JPY up 0.15% to 152.20
- Hong Kong 3Q manufacturing drops - 0.1% y/y - first drop since 4Q 2022 – Hang Seng up 1.20%
- S.Korea President Yoon vows to “fight to the end” defying impeachment threats - Kospi up 1.62%, KRW off 0.8% to 1430.8
- India Nov CPI -0.15% m/m, +5.5% y/y -near expectations – off 0.29%, INR off 0.1% to 84.86
- Sweden Nov CPI flat at 1.6% y/y - still lowest since July 2021 – OMX off 0.67%, SEK up 0.1% to 10.955
- NATO EU member discuss 3% target for defense spending – EuroStoxx 50 flat, EUR flat.
- US President elect Trump invites China Xi to inauguration – S&P500 futures off 0.2%, US 10Y bond yields up 3bps to 4.30%, US dollar index flat
- Ontario PM Ford threatens to cut off US energy supply on Trump tariffs – CAD flat at 1.4160

The Takeaways:

ECB walk and talk. Whether the EUR rallies on a rate cut today isn't about the “jumbo” size like that of other central banks but rather on their promises of persistence until they get to their neutral rate. The focus today is on central bank actions. There is an up and down that follows – with Brazil hiking more than expected up 1% while Switzerland eased more than expected 50bps. The difference matters and the ECB today is going to set a tone for risk markets next week where the FOMC and BOJ will finish off the wrapping of present into the holiday weeks that follow. The risk on mood isn't fully trusted as the NASDAQ 20K hat has a DJIA 45k hurdle. There is a value stretch, rate mismatch and all that makes for financial conditions in Europe, in the US and in Asia to matter more than they usually do into a new year where policy shifts proliferate. The key point of today is in the forward guidance as the ECB projections like the FOMC dot plot in the week ahead dominate how markets see the risks and rewards of the next few weeks.

ECB rates vs inflation

ECB interest rates have started to decline as inflation is nearing 2% target



Note: HICP inflation rate

• Source: ECB, Eurostat, Reuters data

Source: Reuters, BNY

Details of Economic Releases:

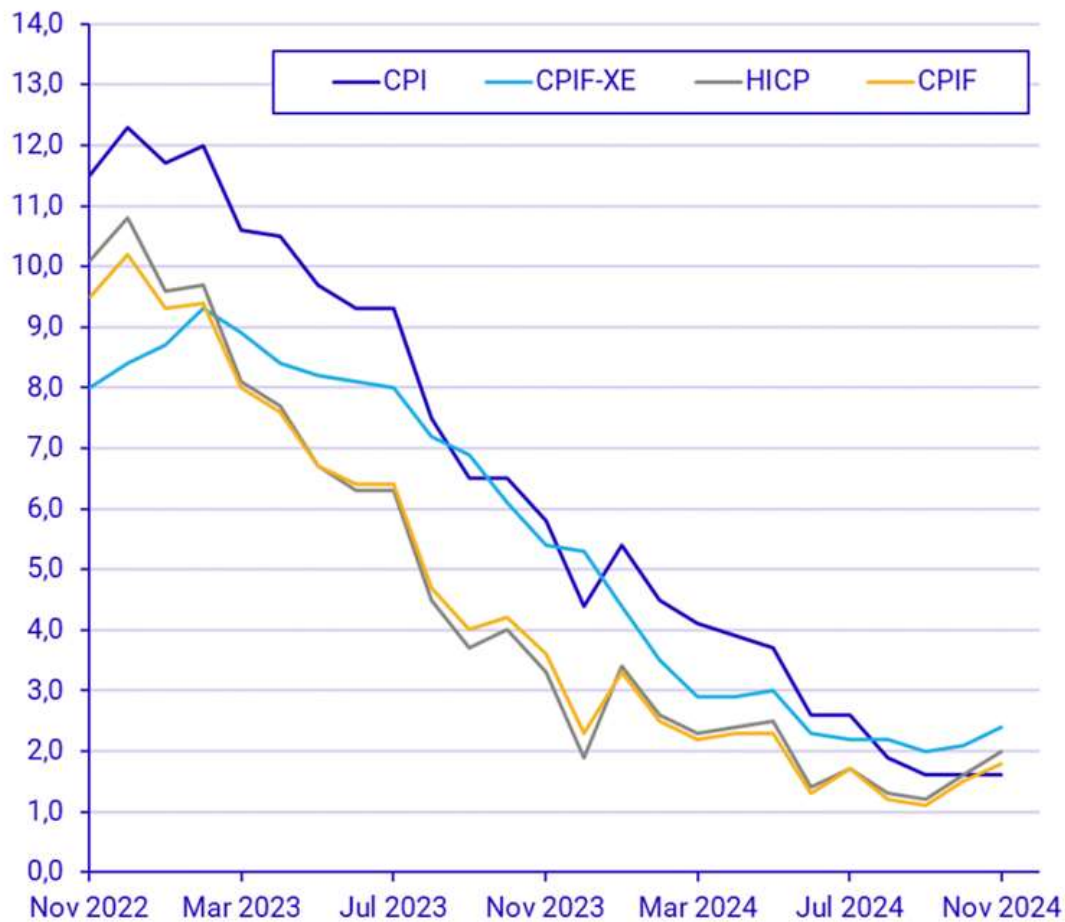
1. Australian November unemployment drops to 3.9% from 4.1% as employment rose 35,600 after 12,200 - better than the 25,000 and 4.2% expected. the lowest jobless rate since March as the number of unemployed fell by 27,000 to an 8-month low of 595,300 with those seeking full-time jobs down 14,900 to 397,600 and those looking for part-time jobs dipping 12,100 to 197,700. Full-time employment climbed 52,600 to 10.07 million, but part-time employment dropped 17,000 to 4.47 million. The participation rate stood at 67.0%, compared with forecasts of 67.1% which was also October's print and a record peak previously hit in September. The underemployment rate inched down to 6.1% from the prior 6.2%. Monthly hours worked in all jobs were stable at 1,965 million.

2. India November CPI -0.15% m/m, +5.48% y/y after +1.34% m/m, 6.21% y/y - slightly better than 5.53% y/y expected. Despite easing back to the target range, the result showed that inflation remained firmly above the averages from earlier in the year, raising risks for the RBI to commence its rate-cutting cycle in the first quarter of 2025. Inflation remained elevated but eased for food (9.04% vs 10.87% in October), which accounts for half of the Indian consumer price basket. Price growth remained steady for housing (2.87% vs 2.81%) and slowed more for fuel and light (-1.83% vs -1.39%).

3. Sweden November CPIF up 0.5% m/m, 1.8% y/y after 0.4% m/m 1.5% y/y - less than the 1.9% y/y expected. The headline CPI flat at 1.6% y/y - still the lowest since July 2021. Price growth slowed significantly for housing and utilities (1.72% vs. 3.29% in October), while deflation continued in transport (-2.27% vs. -2.34%) and furnishings and household goods (-0.51% vs. -1.08%). In contrast, inflation accelerated for food and non-alcoholic beverages (1.90% vs. 1.75%), recreation and culture (1.89% vs. 0.04%), and clothing and footwear (3.68% vs. 2.29%).

Exhibit #2: CPIF opens 50bps easing for Riksbank next week?

Measures of inflation



Source: Statistics Sweden

Data up to and including November 2024

Source: South Africa Statistics, BNY

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

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