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MARKET MOVERS

December 13, 2024

Lackluster

"He loves using lackluster ingredients, because doing so makes it clear where the true credit should go." – Trip Lee
"It's a poor sort of memory that only works backwards." – Lewis Carroll

Summary

Risk mixed as APAC suffers with weaker China M2 and new loans, ongoing trade fears, a better Japan Tankan didn't help as it adds to BOJ hike risk for next week, while in Europe Macron delivers a new PM Bayrou bringing some relief but the Bundesbank slashes 2025 German recovery forecasts. UK GDP misses in October as industrial production drops for the second month in a row. Those headlines are going to matter more to the US session than the US import/export prices – the only release on the economic calendar ahead of the Fed next week. There is a lackluster mood for risk everywhere even as today is St. Lucia day and light and holiday lightness should help momentum. Focus remains on S&P500 gains (second year in a row over 20%) and what financial conditions mean for 2025 along with the new Trump presidency.

What's different today:

- **USD is up 1% this week** – biggest weekly gain in over a month and the ninth consecutive weekly rise. The dollar index trades up 0.03% to 106.99.
- **Chinese bonds rally driving yields to new record lows – 10-year at 1.77%.** This follows the two-day Central Economic Work Conference where promises of lower rates and more debt issuance followed.
- **Oil rises to 3-week highs at $74 for Brent Crude futures** – up nearly 5% on the week – as markets return to expecting more demand from China – November showed crude imports rose, worry more about US/Iran relationships and supply disruptions.

What are we watching:

- **US November import prices** expected -0.2% m/m after +0.3% m/m while exports prices seen -0.3% m/m after +0.8% m/m – some focus on USD effects on the data.

Headlines

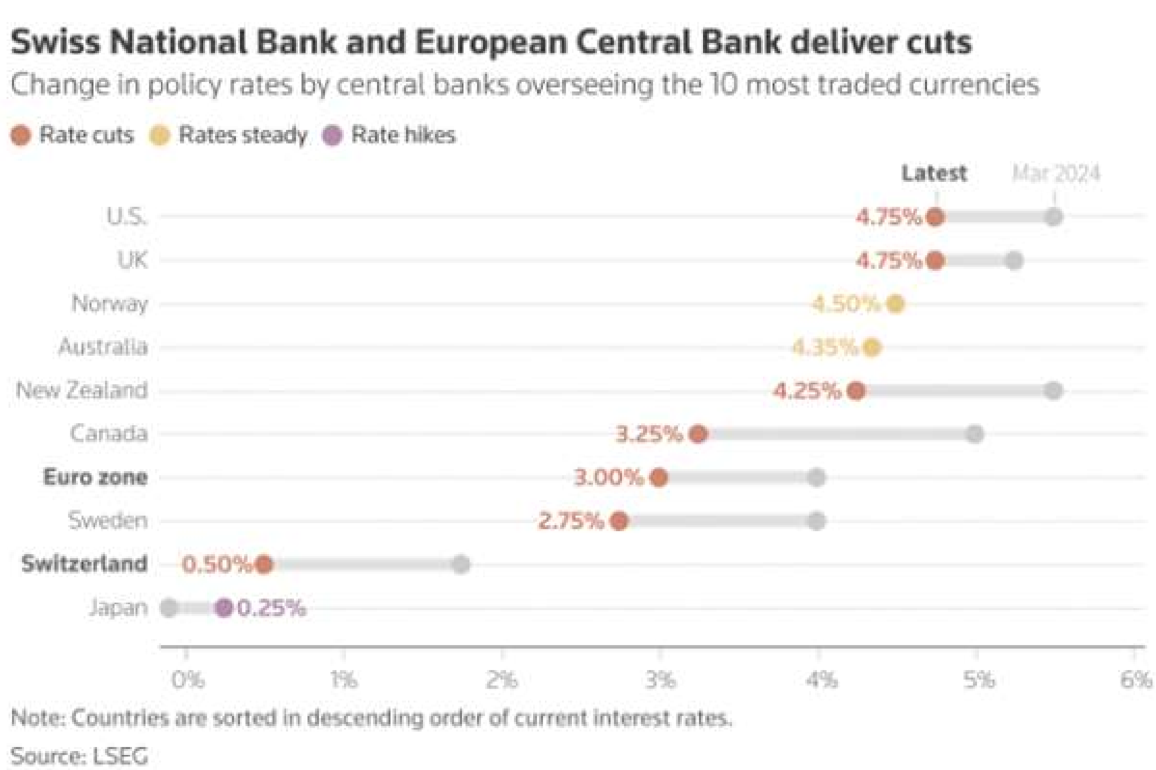
- China Nov M2 off 0.4pp to 7.1% y/y while new CNY loans half of 2023 Nov at 580bn – CSI 300 off 2.37%, 10Y CGB off 4.5bps to 1.765%, CNH off 0.1% to 7.2820

- Japan 4Q Tankan large manufacturing rises 1 to 14 – best since 1Q 2022, services -1 to 33, while capex rises to 11.3% - Nikkei off 0.95%, JPY off 0.6% to153.60
- German Oct trade surplus narrows E3.5bn to E13.4bn – smallest since Nov 2022 with exports -2.8% m/m – while Nov WPI 0% m/m, -0.6% y/y – most since July; Bundesbank cuts 2025 GDP forecast to 0.1%, warns on Trump tariffs – DAX up 0.35%, Bund 10Y +3.5bps to 2.24%
- French 3Q NFP up 0.2% m/m, while Labor Cost Index up 0.6% q/q, 3.2% y/y and CPI Nov confirmed up 1.3% y/y, President Macron names Bayrou new PM – CAC 40 up 0.3%, OAT 10Y up 2.5bps to 3.01%
- Eurozone Oct industrial production 0% m/m, -1.2% y/y – EuroStoxx 50 up 0.35%, EUR up 0.2% to 1.0490
- UK October GDP -0.1% m/m as industrial production -0.6% m/m, construction output -0.7% m/m and goods trade deficit up £2.5 to £-18.97B – FTSE up 0.15%, Gilt 10Y up 1.5bps to 4.375%, GBP off 0.3% to 1.2640

The Takeaways:

The US exceptionalism trade continued this week with the S&P500 nearly up 27% on the year and the USD rising back to 107 on the index. The focus on the day is on what could go wrong between now and year end and then what reversals could happen in 1Q 2025. While we doubt any of the data today will change any investor minds, the spirit of chasing momentum in stocks and doubting it in rates is notable. The FX markets has its own idiosyncratic story as well given that trend and carry factors are neutral despite the torrid US dollar rally. If we learned anything about 2025 this week its about how the spread of rates between nations matters less to FX markets than the terminal rate destination and what that means for potential growth. In some ways the Bank of Canada did more for CAD by its "hawkish jumbo cut" of 50bps than the ECB did in its 25bps and promises of doing more. Getting ahead of the uncertainty of 2025 and what trade tariffs mean for markets is now a key to trading and its likely to remain so for the four weeks before Trump takes office again.

Exhibit #1: Does a Fed 25bps easing or BOJ 15bps hike matter?



Source: Reuters, BNY

Details of Economic Releases:

1. **China November new CNY loans 580bn from 500bn – less than 950bn expected.** The outstanding loan growth slows to 7.7% y/y from 7.8% - less than 7.9% y/y expected while M2 drops to 7.1% from 7.5% - sharply less than 7.6% y/y expected. In turn, total social financing, a broad measure of credit and liquidity in the economy that includes off-balance sheet debt recently tackled by authorities, eased to CNY 2.34 trillion from CNY 2.46 trillion last year, also firmly below expectations of a CNY 2.7 trillion.

2. **Japan 4Q Tankan large manufacturing rises to 14 from 13 – better than 12 expected** - the highest since Q1 of 2022 but outlook slows to 13 from 14 for 1Q. Confidence strengthened among firms producing pulp & paper (25 vs 18 in Q3), chemicals (21 vs 15), petroleum and coal (17 vs -9), general-purpose machinery (29 vs 23), production machinery (21 vs 13), and motor vehicles (8 vs 7). Meantime, sentiment remained stable for business-oriented machinery (at 22), textiles (at 23), and non-ferrous metals (at 12). However, mood weakened among companies producing food & beverages (10 vs 15), electrical machinery (8 vs 11), and shipbuilding & heavy machinery (18 vs 23), while it further deteriorated for firms producing lumber & wood (-7 vs 0) and iron & steel (-8 vs -5). Meantime, large firms planned to increase capital expenditure by 11.3% in the current FY ending in March 2025, the strongest rise in a year and above forecasts of 9.6%. The large service index rises to 33 from 34 – also better than 32 expected – while 1Q outlook steady at 28.

3. **Japan October final industrial production up 2.8% m/m, 1.4% y/y after 1.6% m/m, -2.6% y/y – weaker than 3% preliminary** – still, the second consecutive month of expansion in industrial output and the strongest pace since July. The main contributors to the upturn were production machinery (21.6% vs -1.7% in September), motor vehicles (6.4% vs 7.1%), and fabricated metals (7.8% vs -0.2%). Yearly, industrial production rose by 1.6%, swinging from a 2.6% decline in September and pointing to the first increase in three months.

4. **German October trade surplus narrows to E13.4bn after E16.9bn – weaker than E16.1bn expected** - the smallest trade surplus since November 2022. Exports dropped 2.8% mom to a 31-month low of EUR 124.6 billion, faster than forecasts of a 2% drop, following a downwardly revised 1.7% fall in September. Shipments to the EU dropped by 0.7%, and those to third countries fell by 5.3%, with exports to the US, China, and Russia slumping by 14.2%, 3.8%, and 9.4% each. By contrast, exports rose to the UK (2.1%). Meanwhile, imports edged down 0.1% to EUR 111.2 billion, reversing from a downwardly revised 2.0% drop in September, compared to market forecasts of a 0.6% drop. Imports from non-EU countries fell by 0.6%, with notable declines in purchases from China (-3.0%). Meanwhile, imports from the EU were up by 0.4%. For the first ten months of 2024, the country posted a surplus of EUR 200.4 billion.

5. **German November WPI 0% m/m, -0.6% y/y after +0.4% m/m, -0.8% y/y – less than the +0.2% m/m expected** – still the mildest decline since July. Prices continued to decline for mineral oil products (-10.9%), computers and peripheral equipment (-6.3%), iron, steel, and ferrous semi-finished products (-5.4%), and flat glass (-3.9%). These decreases were partially offset by higher wholesale costs for coffee, tea, cocoa, and spices (+25.4%), non-ferrous metals and semi-finished products (+22.7%), sugar and bakery goods (+10.9%), milk products (+6.8%), and waste and scrap (+5.2%).

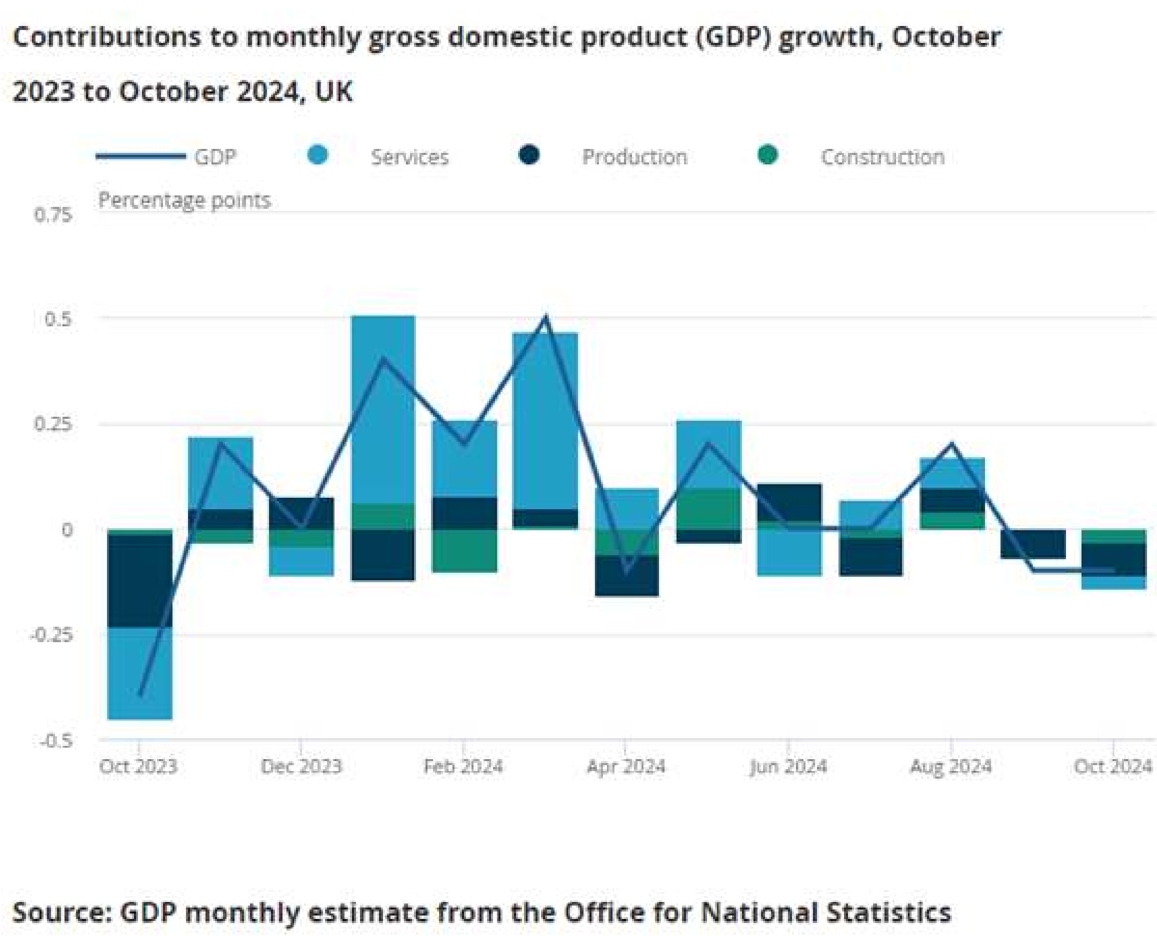
6. **French 3Q non-farm payrolls up 0.2% q/q after -0.1% q/q – better than 0.1% q/q expected**. Hourly wages rose 0.8% q/q. 2.8% y/y while hourly costs rose 0.6% q/q, 3.2% y/y While November CPI confirmed -0.1% m/m, 1.3% y/y after 0.3% m/m, 1.2% y/y – as expected.

7. **Eurozone October industrial production 0% m/m, -1.2% y/y after -1.5% m/m, -2.2% y/y – better than -0.1% m/m expected.** Output was unchanged for intermediate goods (vs -1.5% in September) and a rise in production of capital goods (1.7% vs -3.8%) offset falls for energy (-1.9% vs -1.1%), durable consumer goods (-1.8% vs 1%), and non-durable consumer goods (-2.3% vs 1.9%). Among major Euro Area economies, Germany posted a significant 1.1% drop in production, while France recorded a smaller 0.2% decline. Conversely, Spain reported an increase of 1%. On an annual basis, industrial output fell by 1.2%, easing from a 2.2% decline in September.

8. **UK October industrial production drops -0.6% m/m, -0.7% y/y after -0.5% m/m, -1.8% y/y – weaker than +0.3% m/m, + 0.2% y/y expected** - this marked the second consecutive month of declining industrial activity, as output continued to fall for mining and quarrying (-4.8% vs. -4% in September). On the other hand, output stalled for manufacturing (0% vs. -0.7%), while the contraction eased for electricity, gas, steam, and air-conditioning supply (-0.4% vs. -6.5%) and water supply, sewerage, and waste management (-1.9% vs. -2.2%).

9. **UK October GDP -0.1% m/m after -0.1% m/m – weaker than +0.1% m/m expected/** The largest downward contribution came from production which fell 0.6%, due to manufacturing (-0.6%), mostly pharmaceutical products and preparations (-2.6%), machinery and equipment (-2.8%) and chemicals (-3.7%). Also, the mining and quarrying sector dropped 3.1% and sewerage and waste management edged 0.2% lower while utilities grew 1.4%. Construction fell by 0.4% and the services showed no growth, as positive contribution from the information and communication subsector (0.9%), mainly telecommunications (2.8%) and others was offset by falls in support service activities (-0.8%), employment activities (-2.3%) and others. “Oil and gas extraction, pubs and restaurants and retail all had weak months, partially offset by growth in telecoms, logistics, and legal firms”, ONS director of economic statistics Liz McKeown said.

Exhibit #2: Does the UK economy need a rate cut?



Source: South Africa Statistics, BNY

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

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