BNY

iFlow MARKET MOVERS

December 16, 2024

Tea Parties

“Politics is no tea party. When its is time to act, you have to move fast and decisively.” Edward Burke
“Where there is tea there is hope.” – Arthur Wing Pinero

Summary

The risk off mood started with China missing on retail sales, continued with ongoing weakness in flash PMI growth in Europe. The fear of waiting on rate cuts is key for the week as 14 central bankers meet and must balance financial stability and FX against growth and inflation. FOMC is expected to ease but remove some of the 2025 cuts from their forecasts. The USD reigns supreme as does Bitcoin and Gold. This is a three-some that doesn’t fit well into the tea-party of waiting for central bankers and Trump new policies. The ability for US mood to diverge and hold rests on tech and AI Boom hopes against US rates and growth.

What’s different today:

- **French 10-year bond yields trade over 3% - highest in 3-weeks** - linked to doubts over budget and new PM coupled with Moody’s Friday downgrade
- **Bitcoin trades to new record over $105,000 –** up over 50% since Trump elected – trading $106.4k now with strategic reserve talk key.
- **iFlow –** Friday had something differing in big SEK and CHF and JPY buying along with USD. The EM markets continue to see TRY and PLN outperform. The equity markets are mixed and the iFlow Mood is ever so slightly better (though still extremely negative) while bonds are still seeing inflows in US, Peru, Hungary and India.

What are we watching:

- **US December NY Empire Fed manufacturing** expected 10 from 31.2 – bounce and dip – will set tone for ISM.
- **US December flash S&P composite PMI** expected up to 55.1 from 54.9 with focus on services expected 55.8 from 56.1

Headlines

- Australia Dec flash composite PMI dips 0.3 to 49.9 - led by manufacturing - first job drop since August 2021 – ASX off 0.56%, AUD off 0.1% to .6355
- Japan Dec flash composite PMI rises 0.7 to 50.8 - led by services best since Sep 2024 - while Oct machinery orders jump +2.1% m/m, 5.6% y/y – Nikkei off 0.03%, JPY off 0.2% to 153.90
- China Nov industrial production up 0.1pp to 5.4% y/y but retail sales -1.8pp to 3% y/y- worst since August 2024 - CSI off 0.54%, CNH off 0.15% to 7.2915
- Indonesia Oct trade surplus +$2bn to $4.42bn - most since July led by exports up 9.14% y/y – IDR off 0.3% to 15,995
- India Dec flash composite PMI jumps 2.1 to 60.7 - best since August - while WPI slips 0.4pp to 1.89% y/y linked to food prices – Sensex off 0.47%, INR off 0.1% to 84.86
- Eurozone Dec flash composite PMI up 1.2 to 49.5 - still contracting led by manufacturing, despite service bounce – EuroStoxx 50 off 0.4%, EUR flat at 1.0495
- UK Dec flash composite PMI flat at 50.5- with biggest job drop in 4-years – FTSE off 0.3%, GBP up 0.2% to 1.2650

The Takeaways:

The Boston Tea Party was 301 years ago. That event has been linked to the start of the US revolution – a mercantile protest over a tax on tea. That history might not matter much today but it highlights the importance of governments and their role in rates as they tax and spend. How central bankers match off against growth and inflation this week, the role of money and how its spent is the driver with China retail sales highlighting a lack of confidence in the China consumer still. The European PMI flash reports make clear that exports and manufacturing are still weak. There is no quick way to get through this week of important economic data and a plethora of rate decisions from central bankers. The question that remains most pressing is whether acting fast on rates ahead of trade policy shifts helps or sparks more inflation and weaker FX. The move up in US bonds today from the big selling last week isn't likely to help that much as it's more about rates outside the US. Focus on the manufacturing index from the NY Fed and the composite S&P PMI flash and whether services make up for the ongoing slowdown in global industrial production. Where the money goes matters and the rally overnight in Bitcoin is telling as its not likely to fix moods or growth into 2025.

Exhibit #1: Does Bitcoin help USD gains?

Bitcoin surges above $106,000

Bitcoin has surged more than 50% since the U.S. election on Nov. 5, when Donald Trump was elected. The latest surge was boosted by Trump's comments suggesting he plans to create a U.S. bitcoin strategic reserve similar to its strategic oil reserve.

Note: Data as of Dec. 16, 2024 02:30 a.m. GMT

Source: LSEG Workspace | Reuters, Dec. 16, 2024 | By Pasit Kongkunakornkul and Tom Westbrook

Source: Reuters, BNY

Details of Economic Releases:

1. **Australian December flash Judo Bank composite PMI dips to 49.9 from 50.2 - weaker than 50.4 expected** - suggests a slight decline in the Australian private sector, driven by a downturn in manufacturing production (flash 48.2 from 49.4) and in contrast to steady service sector (50.4 from 50.5). Growth in new orders softened, and export business declined again and at a more pronounced pace than in November. Consequently, there was little pressure on capacity, leading firms to reduce their workforce capacity for the first time since August 2021. On prices, cost pressures intensified in December, with input prices rising faster. However, businesses were reluctant to fully pass on cost increases, resulting in muted selling price inflation. Despite the weaker conditions, optimism rose to its highest level in over two-and-a-half years.

2. **Japan December flash Jibun Bank composite PMI rises to 50.8 from 50.1 - better than 50.2 expected -** the strongest pace since September, largely driven by an acceleration in service sector expansion (51.4 from 50.5). Meanwhile, manufacturing output remained subdued (49.5 from 49.0), shrinking for the fourth month. New order growth quickened, with service firms seeing the fastest rise in new business in four months. Total employment rose further while backlogs of work declined after rising in November. However, foreign sales remained weak, down at a steeper rate. On inflation, input price gained the most in four months, due to the impact of the yen's weakness on inputs from abroad. Consequently, firms raised selling prices at a faster pace, marking the highest inflation rate since May. Finally, sentiment eased to the second-weakest in over three years, dragged by concerns over labor supply and the influence of high inflation on activity.

3. **Japan October machinery orders rise 2.1% m/m, 5.6% y/y after -0.7% m/m, -4.8% y/y - better then 1.2% m/m, 0.7% y/y expected-** first rise in 3-months. Orders from the manufacturing sector surged 12.5% to 436.8 billion yen, while non-manufacturing orders declined by 1.2% to 448.4 billion yen. The largest gains were seen in industries such as pulp, paper & paper products (up 560%), electricity supply (up 116.2%), iron & steel (up 75.7%), non-ferrous metals (up 65.4%), and other transport equipment (up 49.9%).

4. **China November house price index improves to -0,5% m/m, -5.7% y/y from -0.5% m/m, -5.9% y/y - better than -6% y/y expected -** still the 17th consecutive month of decreases, suggesting that Beijing's continuous attempts to mitigate the prolonged downturn in the property sector, such as reducing mortgage rates and slashing home buying costs, had yet to reverse conditions. Prices continued to drop in most cities, including Beijing (-5.3% vs -4.9% in October), Guangzhou (-9.1% vs -10.4%), Shenzhen (-7.1% vs -8.1%), Tianjin (-2.9% vs -2.8%), and Chongqing (-5.8% vs -6.3%). On the other hand, cost increased further in Shanghai (5.0% vs 5.0%).

5. **China November industrial production rises +0.5% m/m, 5.4% y/y from +0.4% m/m, 5.3% y/y - better than 5.3% y/y expected -**mainly supported by faster rises in manufacturing (6.0% vs 5.4% in October). Meanwhile, electricity, heat, gas, and water production and supply activities (1.6% vs 5.4% in October) and mining (4.2% vs 4.6%) continued to rise. Within manufacturing, 34 out of 41 major sectors increased, notably computer and communication (9.3%), heat production (1.8%), non-ferrous metal smelting (7.4%); coal, mining, and washing (3.7%), oil and natural gas (5.3%), cars (12%), general equipment manufacturing (4.4%), chemicals (9.5%), and railway, ship, and aviation (7.9%). Conversely, output contracted for non-metallic mineral products (-2.3%). For the first eleven months of the year, industrial output grew by 5.8%.

6. **China November retail sales slow -0.2% m/m, +3% y/y from 4.8% y/y - weaker than 4.6% y/y expected** - worst growth in retail activity since August, as sales eased sharply for sports and entertainment products (3.5% vs 26.7% in October), daily necessities (1.3% vs 8.5%), and household appliances and audio-visual equipment (22.2% vs 39.2%). Additionally, sales continued to fall for beverages (-4.3% vs -0.9%), tobacco and alcohol (-3.1% vs -0.1%), gold and silver jewelry (-5.9% vs -2.7%), and petroleum and its products (-7.1% vs -6.6%). Moreover, sales tumbled for clothing, shoes and hats, textile products (-4.5% vs 8%), cosmetics (-26.4% vs 40.1%), and Chinese and Western medicine (-2.7% vs 1.4%). During the first eleven months of the year, retail sales grew by 3.5%.

7. **China November fixed asset investment dips to +0.1% m/m, 3.3% y/y after +0.2% m/, 3.4% y/y (ytd) - weaker than 3.4% y/y expected**. Investment in the secondary sector continued to increase despite its expansion rate slightly softening (12.1% vs 12.3% in January to October), supported by increases in mining (10.3%), manufacturing (9.3%), and electricity, heat, gas and water production and supply (23.7%). Similar trends were observed for investments in the primary (2.4% vs 2.5%) and the tertiary (4.2% vs 4.3%) sectors. In the meantime, real estate investment shrank by 10.4%.

8. **China November unemployment flat at 5% - as expected.** The jobless rate for local registered residents increased by 0.1 percentage points to 5.2%, with non-local registrants at 4.6%, and non-local agricultural registrants at 4.4%. In 31 major cities, the urban unemployment rate remained at 5%. From January to November, the average surveyed jobless rate was 5.1%, 0.1 percentage points lower than the same period of the previous year. In November 2023, the surveyed unemployment rate was also 5%.

9. **Indonesia November trade surplus jumps to $4.42bn after $2.48bn - better than $4.2bn expected** - the largest trade surplus since July, mainly due to a surge in exports, which rose by 9.14% y/y, marking the eighth consecutive month of growth and topping expectations of 4.92%. Shipments increased to the US (20.75%), China (15.47%), the ASEAN countries (8.08%), and the EU (6.57%). Meanwhile, imports almost stalled, up only 0.01%, missing forecasts of a 6.15% rise and deteriorating from a 17.49% surge in October. For the first eleven months of the year, the trade balance registered a surplus of USD 28.89 billion, with exports rising by 2.06% and imports expanding at a faster 4.74%.

10. **India December flash HSBC composite PMI rises to 60.7 from 58.6 - better than 58.2 expected** - the fastest pace since August, as the manufacturing sector grew faster (60.4 from 59.1), while the services sector expanded at the fastest rate in four months (60.8 from 58.4). Both goods producers and service providers saw a faster rise in output. Demand continued to improve in both the manufacturing and services sectors, with a sharp increase in new orders and a sustained upturn in foreign sales. Meanwhile, employment reached a new record high in both the manufacturing and services sectors, with backlogs of work rising at the fastest pace since August. Regarding prices, input cost inflation in the private sector accelerated to a 15-month high while output cost inflation eased from November's near 12-year high but remained above the series trend. Finally, business sentiment improved to a 15-month high.

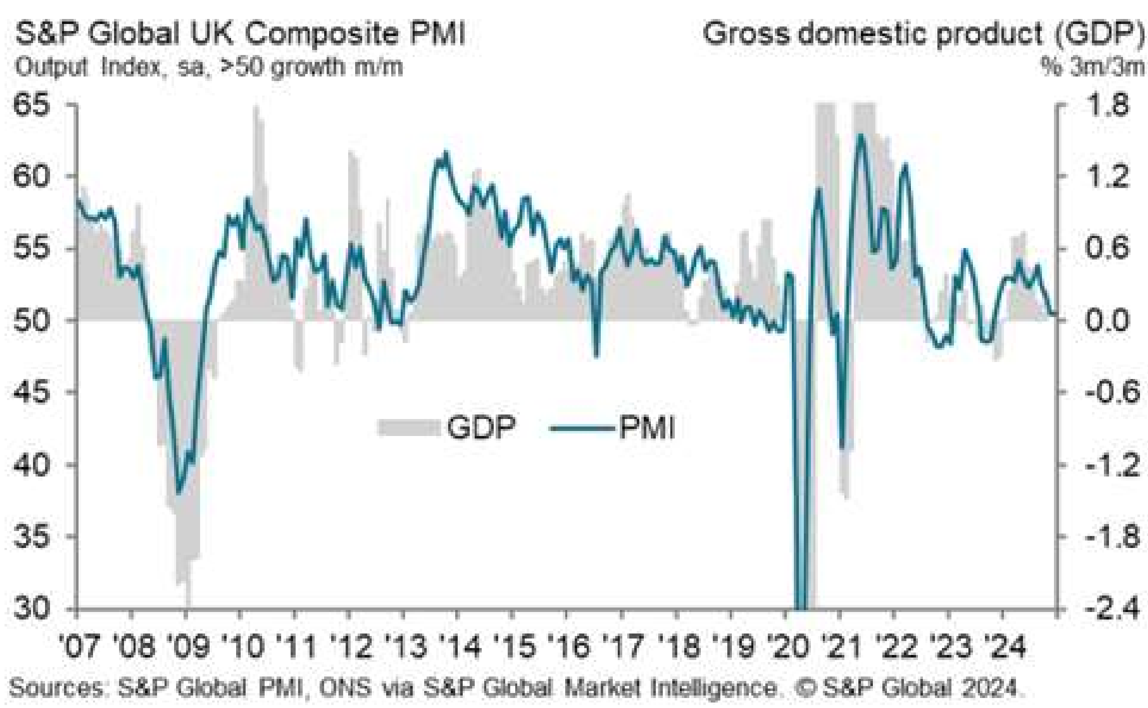
11. **India November WPI slows to -0.06% m/m, +1.89% y/y from +0.9% m/m, 2.36% y/y - better than +2.2% y/y expected** - due to softer rises in food prices. This marks the 13th consecutive month of wholesale inflation, boosted by further rises in food and manufacturing prices. Primary articles saw softer growth (5.49% vs 8.09% in October), while food prices moderated (8.92% vs 11.59%), mainly due to a slower rise in the prices of vegetables (28.57% vs 63.04%) and onion (2.85% vs 39.25%). Meanwhile, manufacturing prices accelerated to a 22-month high (2.00% vs 1.50%), mainly driven by faster increases in food products (9.44% vs 7.77%) and pharmaceuticals, medicinal, chemical, and botanical products (1.19% vs 0.42%). In contrast, fuel & power prices fell the most since August 2023 (-5.83% vs -5.79%), attributed to drops in petrol (-6.83%) and HSD (-5.68%).

12. **Eurozone December flash HCOB composite PMI rise to 49.5 from 48.3 - better then 48.5 expected.** While the reading indicated a second consecutive monthly decline in private sector activity, the contraction eased. The manufacturing sector remained weak (45.2, unchanged), but the services sector rebounded into expansion territory (51.4 vs. 49.5). New orders continued to decline, and the pace of job cuts accelerated to its fastest in four years as firms adjusted to reduced workloads. Inflation rates for both input costs and output prices also picked up. The

overall drop in business activity was driven by contractions in Germany and France, the Eurozone's largest economies. However, the rest of the region saw solid output growth. On a brighter note, optimism for the 12-month outlook improved in both manufacturing and services.

13. UK December flash composite PMI steady at 50.5 - weaker than 50.7 expected. While holding the one-year low from the previous month, the result marked the 14th straight month of expansion in the British private-sector activity, with an expansion services providers (51.4 vs 50.4 in November) offsetting another contraction for manufacturers (47.3 vs 48), its highest in nearly one year. Still, total new orders dropped for the first time in 13 months to raise doubts on future spending patterns for key consumers. Additionally, firms cut jobs at the fastest pace since the global financial crisis when excluding the pandemic shock, aligned with concerns of lower employment as the UK's new budget hiked the payroll tax. Higher salaries also supported cost inflation.

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



Source: S&P PMI, BNY

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

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