BNY

# iFlow
MARKET MOVERS

**December 17, 2024**

# Grist

***“The mill cannot grind with the water that is past.” – Daniel D. Palmer***
***“Numbers instill a feeling for the lay of the land and furnish grist for the mathematical mill that is the physicist’s principal tool.” – Hans Christian von Baeyer***

## Summary

Risk mixed as the US waits for retail sales and industrial production as the FOMC starts its two-day meeting.  The rate cuts and talk of such starts with other central banks today and that focus will remain beyond tomorrow and the Fed. The rise in overnight bond yields higher matters and leaves the USD back near the highs of the year. Fear of a hawkish Fed cut permeates as equities continue to hold bid and as there seems little alternative to US. The overnight news wasn’t supportive of alternatives – with weaker Australian consumer confidence, weaker German Ifo, higher UK wages leaving BOE rate cuts less likely. The markets are also in the usual end of year mode where liquidity and willingness to think differently is hard. The grist for markets today is in the data.

**What’s different today:**

- **Argentina 3Q GDP rose 3.9% q/q – first quarter of growth since 4Q 2023**. Still GDP is -2.1% y/y. This growth follows the libertarian President Milei’s first year where sharp spending cuts and deregulation shifted the economy.
- **South Korean Equity Index Kospi fell 1.3%, now down 7.5% y/y** after Bank of Korea minutes pushed back on further rate cuts and BOK Governor sees no FX crisis

**What are we watching:**

- **US November retail sales** expected up 0.6% m/m after 0.4% m/m with ex auto/gas up 0.4% after 0.1% m/m. The key control group sales expected up 0.4% m/m after -0.1% m/m – this is a key part of 4Q GDP inputs given role of consumer.
- **US November industrial production** expected up 0.3% m/m after -0.3% m/m with capacity utilization up to 77.3% from 77.1%. The manufacturing production seen up 0.5% m/m after -0.5% m/m – some hurricane, Boeing strike noise in the data.
- **US December NAHB housing market index** expected up at 47 from 46 with housing demand ongoing.

- **Canada November CPI** expected up 0.1% m/m, 2% y/y after 0.4% m/m, 2.0% y/y with trimmed mean expected to dip to 2.5% y/y from 2.6% y/y – BOC Macklem yesterday noted departure of Freeland and repeated BOC independence. This data crucial for credibility.

### Headlines

- China 2025 budget to be 4% of GDP up from 3%, still targets 5% GDP - according to Reuters sources – CSI 300 up 0.26%, 10Y bond yields up 2bps to 1.722%, CNH flat at 7.2925
- Australian Dec Westpac consumer confidence -2% to 92.8 – erasing over half the gains in last 2 months – ASX up 0.78%, AUD off 0.5% to .6340
- Singapore Nov non-oil exports rebound up 14.7% m/m, +3.4% y/y – best since August – SGD off 0.1% to 1.3505
- Japan new energy plan pushes renewables for 50% of use by 2040 – Nikkei up 0.78%, JPY up 0.2% to 153.75
- German Dec Ifo business climate drops 0.9 to 84.7 – sees economy floundering – DAX up 0.1%, Bund 10Y yields off 1bps to 2.233%
- Eurozone Oct trade surplus drops to €6.8bn – led by slowing manufacturing exports – EuroStoxx 50 up 0.3%, EUR off 0.2% to 1.0490
- UK Oct unemployment flat at 4.3% while wages up 0.3pp to 5.2% y/y – FTSE off 0.7%, Gilt 10Y yields up 6bps to 4.50%, GBP up 0.1% to 1.2695

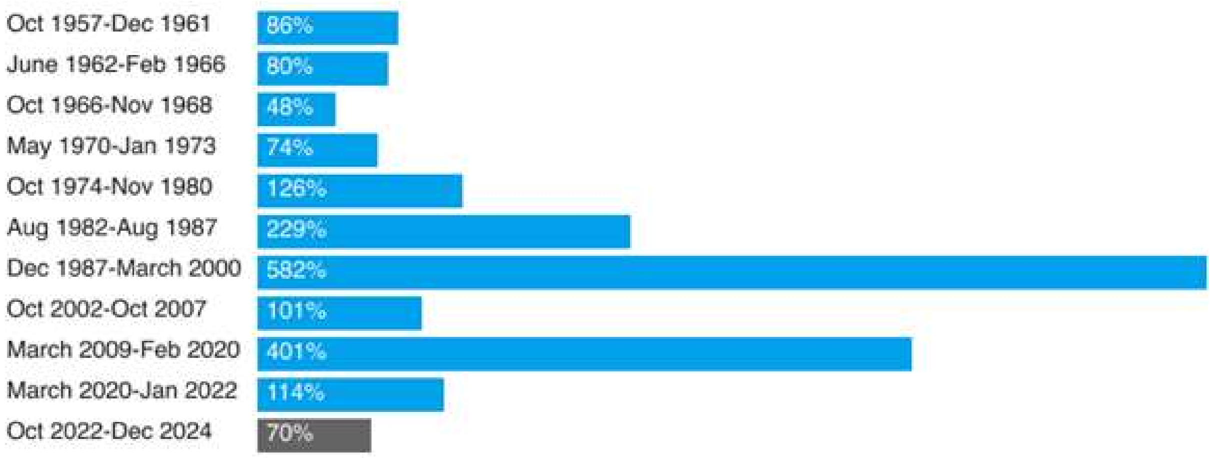
**The Takeaways:**

Bull markets don't die of old age, something stops them. The mills of grinding out money from trading are slowing and the grist rests in the data and FOMC and other central bankers. Most of the blame for dying equity market bull runs has been put on the Fed in raising rates to restrictive levels. But the time between Fed action and the economy turning enough to wash equity risk is long – witness the 1996 Greenspan "irrational exuberance" speech.  The balancing act today revolves around how the US rate markets deal with the FOMC likely turning from a normal easing cycle to a pause. The rest of the world has that worry and global trade policy fears adding to FX volatility, all of which makes financial stability more difficult. Overnight US bond yields rise, as does most of the rest of the world – particularly in the UK where good news on jobs was hurt by higher wages and push further out hopes for the BOE easing. The problem isn't unique to the UK, it's likely to be the steady problem for the week with 14 central banks deciding on rates. The question to ask is at what level will US bond yields slow the US equity market rally? The ability for financial conditions to support consumers dealing with higher than hoped rates.

**Exhibit #1: Is the US stock market vulnerable for correction?**

## Historical bull market returns

The current S&P 500 bull market has posted a gain that so far trails the 108% median gain and 184% average rise of the prior bull markets




Note: Percentage change for current bull market as of Dec 15 2024
• Source: Truist Advisory Services
Source: Reuters, BNY

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### Details of Economic Releases:

1. **Australia December Westpac consumer confidence -2% m/m to 92.8 from 94.6 – weaker than 96 expected**. This decline reflects a renewed pessimism about the economic outlook, with the sub-index tracking the "economic outlook for the next 12 months" plunging 9.6% to 91.2, and the "economic outlook for the next 5 years" falling 7.9% to 95.9. Both sub-indexes retraced approximately half of the gains made in the previous two months. Several factors likely contributed to this shift in sentiment, including a disappointing GDP update in Q3, inflationary concerns, and rate cut uncertainties. Despite this overall decline, consumers reported continued improvements in "current conditions," which assess financial well-being compared to a year ago and whether it is a good time to purchase major household items.

2. **German December Ifo business climate drops to 84.7 from 85.6 – weaker than 85.6 expected.** The sub-index for business expectations declined sharply to 84.4 from 87 but the current conditions gauge improved to 85.1 from 84.3. "The weakness of the German economy has become chronic", the Ifo reported. Business sentiment has fallen considerably in the manufacturing and the services sector and has declined for retailers. In contrast, sentiment improved for the construction industry.

3. **Eurozone October trade surplus drops to €6.8bn from €12.5bn – less than the €11.7bn expected** and narrowing from €9.4bn in October 2023. Imports to the Eurozone rose by 3.2% from the previous year to €247.2 billion. In turn, exports rose by a softer 2.1% y/y to €254 billion, aligned with recent concerns of slowing manufacturing sectors within the Eurozone's largest economies. Regarding the whole European Union, the trade balance narrowed sharply to €3.9 billion from €8.4 billion in October of the previous year. Imports to the EU expanded by 3% to €223.1 billion, amid higher demand for raw materials (13.1%), chemicals and related products (16.4%), and food and drink (21.1%). In turn, exports rose a softer 0.9% to €227 billion, with contractions in sales of energy (-29%) and machinery and vehicles (-4.7%) offsetting a rise in sales of chemicals and related products (10.6%) and other manufactured goods (4.3%).

4. **UK October unemployment steady at 4.3% while wages rose to 5.2% y/y from 4.9% y/y (ex bonus) – more than the 5.0% y/y expected**. The November claimant count rose just 300 after dropping -10,900 – much better than 28,200 expected. While payroll jobs fell 35,00 to 30.4mn after +24,000 gain in October. Across regions, the highest annual increase in payrolled employment was recorded in Orkney Islands (2.3%), while the biggest drop was in Westminster

(-2.9%). At the same time, the median monthly pay increased by 6.3% year-on-year to £2,472. The accommodation and food service activities sector posted the highest pay growth (11.9%), while the education sector had the lowest increase (2.4%).

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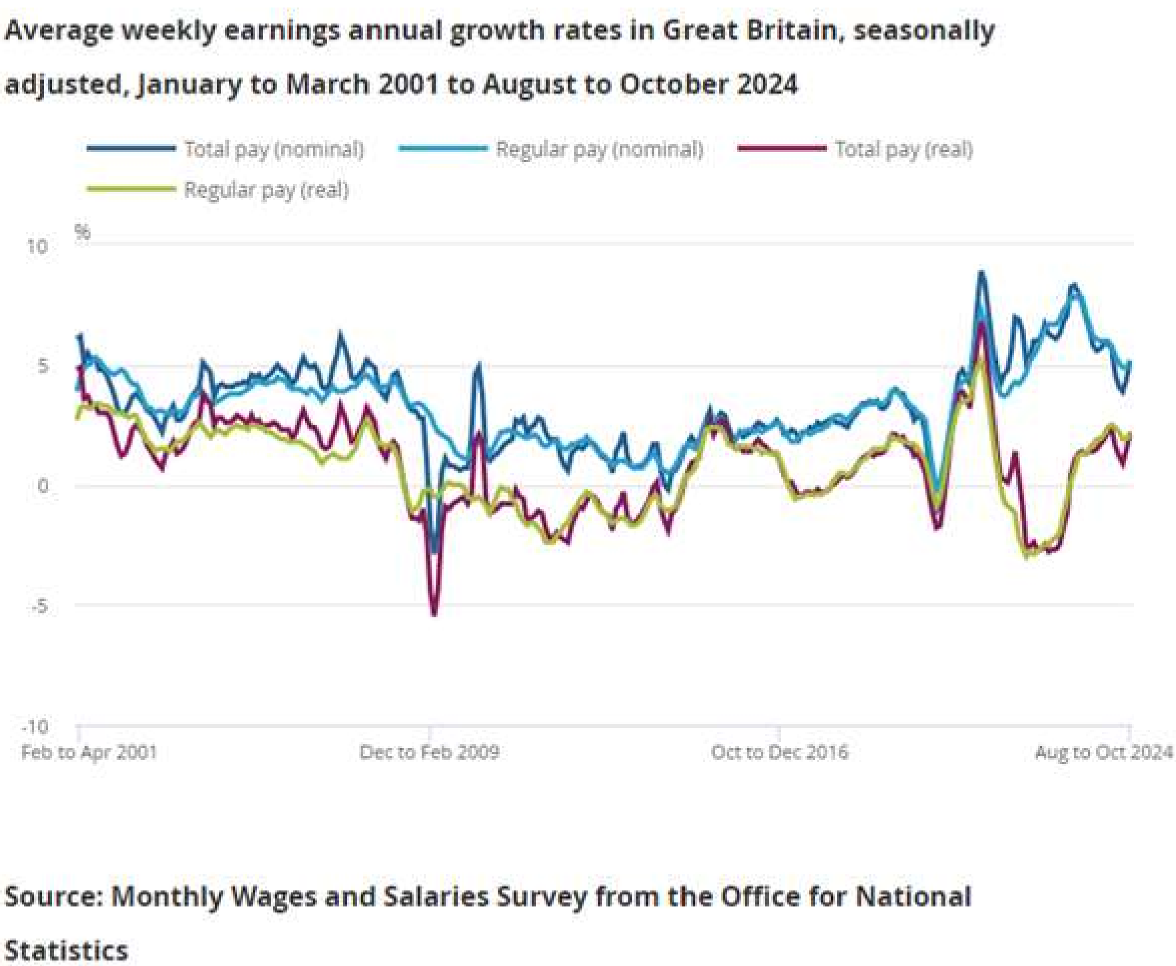
### Exhibit #2: Do the wages mean delays to rate cuts?




Source: UK ONS, BNY

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

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