BNY

iFlow
MARKET MOVERS

December 18, 2024

Destinations

"Enjoy the journey as much as the destination." – Marshall Sylver
"I can't change the direction of the wind, but I can adjust my sails to always reach my destination." – Jimmy Dean

Summary

Risk on as investors wait for the FOMC easing and confirmation of soft-landing forecasts. The mood has some connection to the holidays ahead as well as the decisions today and tomorrow from central bankers is the ticket taking exercise before the long 2025 journey. The overnight news as less scary with steady but slow growth in Australia expected, with Japan trade better, with Eurozone CPI lower - but UK CPI was higher as expected and the CBI industrial trends sharply weaker. The UK stagflation risks are clear and BOE tomorrow may be more important to global mood than the expected Fed easing today. What many fear is a "hawkish cut" where the Fed today makes clear that they are pausing. The role of USD also is clear from overnight as both the central banks of Thailand and Indonesia are holding rates higher than where they hope to be in 2025. The destination of the easing cycle needs some clarification and a heavy dose of confidence that we can get there.

What's different today:

- **Eurozone natural gas futures eased back -2.2% to E41mwh** - cutting the sharp jump to near E50 with hopes for a deal on Ukraine and Russia natural gas supplies.
- **Indian Rupee (INR) trades beyond 84.90 to USD - new record lows.** The blame for weakness linked to capital outflows and expectations for RBI easing from new RBI governor.
- **US weekly MBA mortgage applications fell -0.7% w/w –** first drop in 5 weeks – with applications for new home up 1% but refinancing -3% as 30Y mortgage rates rose 0.7bps to 6.75% on the week.
- **iFlow – carry is back toward the highs as FX factor** – with EM inflows for PLN, TRY, COP, IDR, and even MXN and BRL. The USD is also still seeing inflows albeit less, while AUD, CAD and EUR still seeing outflows. In equities, mood index bottoming but extremely negative still and US stock outflows larger but APAC almost uniformly seeing inflows. Bonds mixed with US inflows

notable still along with India while China, New Zealand and Poland seeing outflows.

What are we watching:

- **US November housing starts** expected up 2.6% to 1.345mn rate after -3.1% at 1.311mn – key for how rates, growth playing out into 1Q. Permits seen up 1% to 1.43mn
- **US 3Q C/A deficit** expected higher at $287.1bn from $266.8bn – part of the policy and USD debate ahead.
- **FOMC rate decision with Fed Chair Powell press conference** and quarterly economic projections – "dot plot" key for markets.

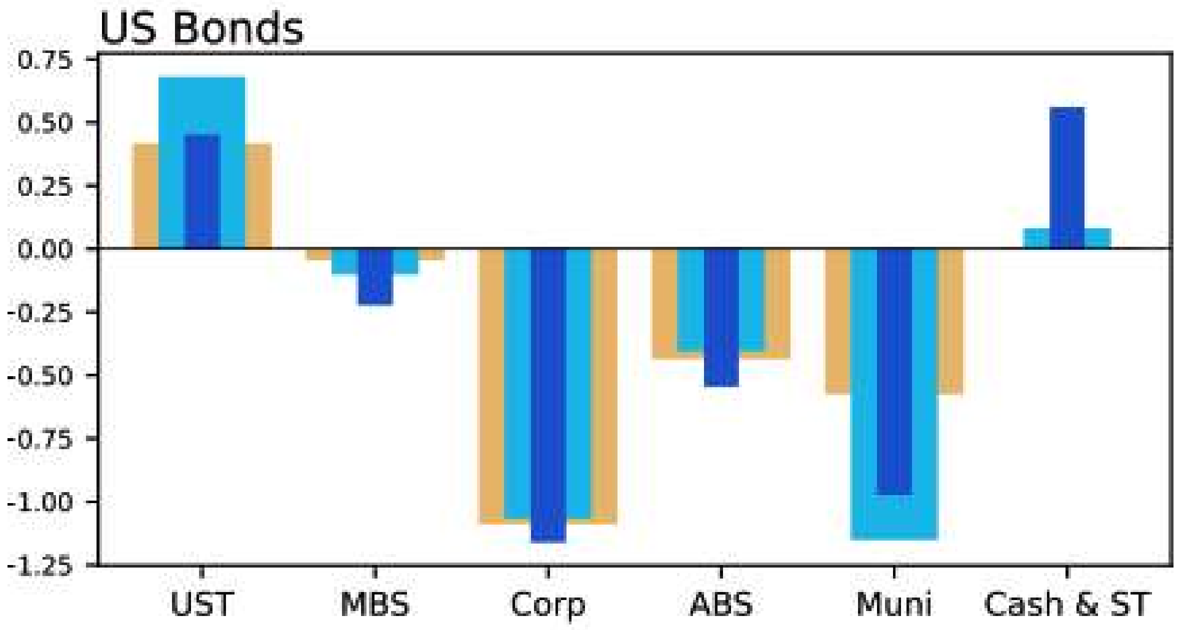
Headlines

- Bank of Thailand leaves rates unchanged at 2.25% - but sees rate cuts ahead – THB up 0.1% to 34.245
- Bank Indonesia leaves rates unchanged at 6.0%% - IDR stability key – IDR off 0.1% to 16,085
- Japan Nov trade deficit narrows to Y117.6bn - smallest since July 2023 – Nikkei off 0.72%, 10Y JGB yields off 2bps to 1.046%, JPY off 0.1% to 153.65
- New Zealand 3Q C/A deficit doubles to NZ$10.58bn- as expected – NZD off 0.35% to .5730
- Australian Nov MI Westpac LEI up 0.1% - suggests slow growth ahead – ASX off 0.06%, AUD off 0.3% to .6315
- Eurozone Nov final CPI revised -0.1pp to 2.2% y/y - while construction output up 0.2% y/y – EuroStoxx 50 up 0.3%, EUR flat at 1.0495
- UK Nov CPI rises 0.3pp to 2.6% - as expected - still most in 8-months - while Dec CBI industrial trends drop -21 to -40 – FTSE up 0.1%, Gilt 10Y up 2bps to 4.545%, GBP flat at 1.2715
- US weekly API crude oil inventories report -4.7mb draw - while gasoline inventories rose 2.4mb still 4% below average, while distillate roes 0.7mb also 4% below average – WTI up 0.7% to $70.55

The Takeaways:

The FOMC rate cut today is widely expected. What isn't clear is where the Fed will stop in this easing cycle. Some see them finished from today, others see 1% more easing. The summary of economic projections (SEP) will be important for all markets as they try and calibrate the new Fed "dot plot" against the economy today. How much of a debate the Fed had over Trump 2.0 and policy shifts likely won't be clear from the Chair press conference, but it will come out in January and perhaps in the dots of expectations on policy and growth ahead. The central question and focus are where the end of rate cuts is ahead 3% or 3.5% or 4%? The answer will be used to explain how $6trn in money market funds gets put to work. Will banks need deposits and compete with T-bills? Will loan demand rise with clarity on the pause? The rise in US cash holdings from iFlow is worth considering, is this a risk off signal or a demand for year-end funding or both? The ability for the money in the front end of the US market to stay rests on how the Fed spells out 2025. The risk-on mood in equities led by tech and AI booms will pivot on the journey to a soft-landing as much as the actual destination. Clearly, the throttle for how fast we get there is in the control of the FOMC.

Exhibit #1: Is the rise in cash this week a risk-off signal or year-end noise?



Source: iFlow weekly, BNY

Details of Economic Releases:

1. **Japan November trade deficit narrows to Y117.6bn after Y461.2bn - better than Y689bn expected** - the smallest since July 2023. Sales increased by 3.8% to JPY 9,152.38 billion, accelerating from a 3.1% rise in October and topping forecasts of a 2.8% growth. Meanwhile, purchases declined by 3.9%, swinging from a the prior 0.4% increase, defying expectations of a 1.0% gain.

2. **New Zealand 3Q current account deficit widens to NZ$10.58bn after NZ$4.83bb - as expected -** and down from 3Q23 N$Z11.22bn. The goods balance deficit shrank to NZD 4.6 billion from NZD 5.8 billion in Q2, and the primary income deficit fell to NZD 3.5 billion from NZD 3.7 billion. However, the services account deficit widened to NZD 2 billion from NZD 1.4 billion, and the secondary income gap increased to NZD 0.3 billion from NZD 0.1 billion. For the year ending September 30, 2024, New Zealand's annual current account deficit totaled NZD 27.0 billion (6.4% of GDP), compared to NZD 27.6 billion (6.6% of GDP) for the year ending June 30, 2024.

3. **Australia November Westpac leading index up +0.1% m/m after +0.2% m/m - as expected** - but first back to back gains in 2 1/2 year with 6M annualized up 0.32% from 0.22%, amid optimism that economic output will expand slowly over the next few quarters. Australia's GDP is forecast to rise from 0.8% y/y pace currently to 2.2% by the end of 2025. "We expect the central bank to leave interest rates unchanged at its February meeting, with an easing expected to commence in May," said Matthew Hassan, head of Australian Macro-Forecasting.

4. **Eurozone November final CPI raised to 2.2%y/y from 2.0% y/y - lower than 2.3% y/y flash.** This year-end increase was largely expected due to base effects, as last year’s sharp declines in energy prices are no longer factored into annual rates. Prices of energy fell at a much softer pace (-2% vs -4.6% in October, compared to -1.9% in the preliminary estimate) and cost for non-energy industrial goods rose more (0.6% vs 0.5%, compared to 0.7% in the preliminary estimate). On the other

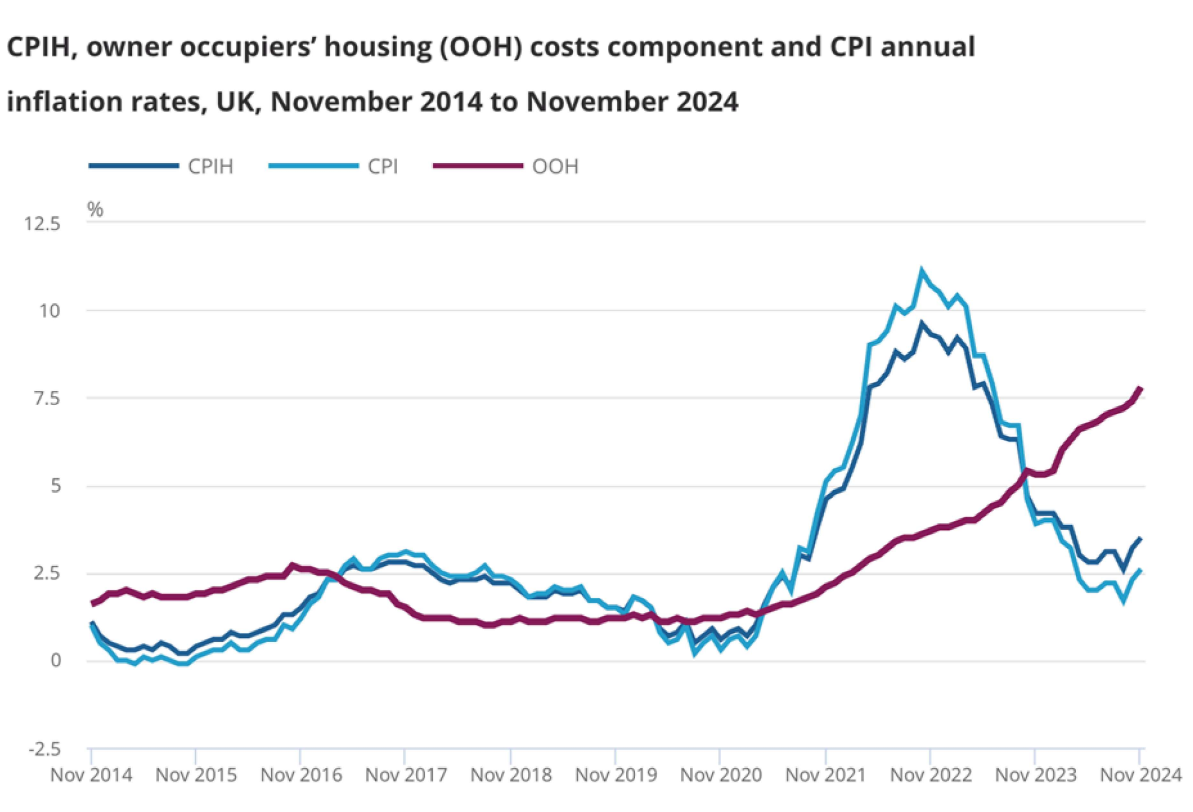
hand, inflation eased for services (3.9% vs 4%, matching the preliminary estimate) and food, alcohol and tobacco (2.7% vs 2.9%, also below 2.8% in the first estimate). Compared to the previous month, the CPI fell 0.3%, matching the figures from the advance estimate. Annual core inflation was confirmed at 2.7%, in line with the flash reading.

5. Eurozone October construction output up 1% m/m, +0.2% y/y after -2% y/y - better than -0.5% y/y expected. Output was carried by rebounds in the construction of buildings (0.6% vs -1.7%% in September) and civil engineering activity (3% vs -0.8%). In the meantime, the decline in specialized construction activities eased (-0.9% vs -2.5%). Output grew the most in Portugal (6.9%), Spain (6.3%), Belgium (3.8%), and Austria (3.8%).

6. UK December CBI industrial trends orders -40 from -19 - weaker than -22 expected - the lowest since November 2020

7. UK November CPI rises 0.1% m/m, 2.6% y/y after 0.6% m/m, 2.3% y/y - as expected - the highest inflation rate in eight months, with prices rising at a faster pace for recreation and culture (3.6% vs 3% in October), mostly admission fees to live music events and theaters and computer games; housing and utilities (3% vs 2.9%), particularly actual rents for housing; and food and non-alcoholic beverages (2% vs 1.9%). In addition, transport prices fell much less (-0.9% vs -1.9%) as upward effects from motor fuels and second-hand cars were partially offset by a downward effect from air fares. Meanwhile, services inflation was steady at 5%. Compared to the previous month, the CPI edged up 0.1%, less than 0.6% in October and matching forecasts. The core CPI rose 3.5% on the year from 3.3% in October but below forecasts of 3.6%.

Exhibit #2: Is CPI all about shelter costs?



Source: UK ONS, BNY

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

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