

December 19, 2024

Floors

“Opportunity dances with those already on the dance floor.” – H. Jackson Brown, Jr.

“The floor seemed wonderfully solid. It was comforting to know I had fallen and could fall no farther.” – Sylvia Plath

Summary

Risk mixed as global markets readjust post the hawkish Fed cut and stocks market pullback. The MSCI world fell 0.5% overnight while S&P500 yesterday was off 2.95%. The focus today is on rates and how other central banks matter into 2025 growth outlooks. The question is whether there is a new floor to global rates. As many now see the Fed stuck at 4%. So far, Japan, Taiwan, Norway and the UK kept rates on hold while Sweden and Philippines cut 25bps. This leaves the Czech and Mexico central banks for the rest of today. The notable stories beyond central banks came from the stabilization of the USD – the contrast of SEK up and JPY down stands out. Brazil and early intervention there is another one but BRL vs. MXN maybe in play all day. The global reaction to the FOMC has been tame compared to the domestic one – and that might mean something for how the US data today is seen – with jobless claims, GDP revisions and home sales all important to the puzzle of pauses ahead. The headline that might make rates the bigger story is from Trump opposing the continuing resolution to keep the government open – leaving the week ahead into the Holidays less certain.

What's different today:

- **US natural gas jumps to 1-year highs** – up 3% to \$3.48 mbtu – partially reflecting LNG demand from EU, Trump talk on exporting more, EIA report on demand.
- **iFlow carry in positive extremes, mood still bottoming but negative in the extreme** – yesterday clearly was US catch up to rest of world in stock pain, but notable that Swiss and New Zealand saw inflows, as did Peru, Poland, South Africa. In bonds buying in US and India still but selling in EU, China. FX was still USD buying, AUD, CAD and EUR selling, and notable SGD selling vs. THB and TWD buying.

What are we watching:

- **US Q3 GDP revision** expected 2.8% unchanged – could surprise on shifting consumption or prices.
- **US weekly jobless claims** expected down 12k to 230k with continuing claims up 6k to 1.892mn – key for focus on inflation vs. jobs.
- **US Philadelphia Fed December business survey** expected up 2.8 after -5.5 – key for industrial and ISM outlook.
- **US November existing home sales** expected up 3% to 4.08mn after 3.96mn
- **US Treasury sells 5-year inflation-protected securities** – B/E rates matter given FOMC yesterday.
- **US corporate earnings:** FedEx, Nike, Conagra Brands, Lamb Weston, Darden Restaurants, Accenture, Carmax, Factset, Paychex, Cintas

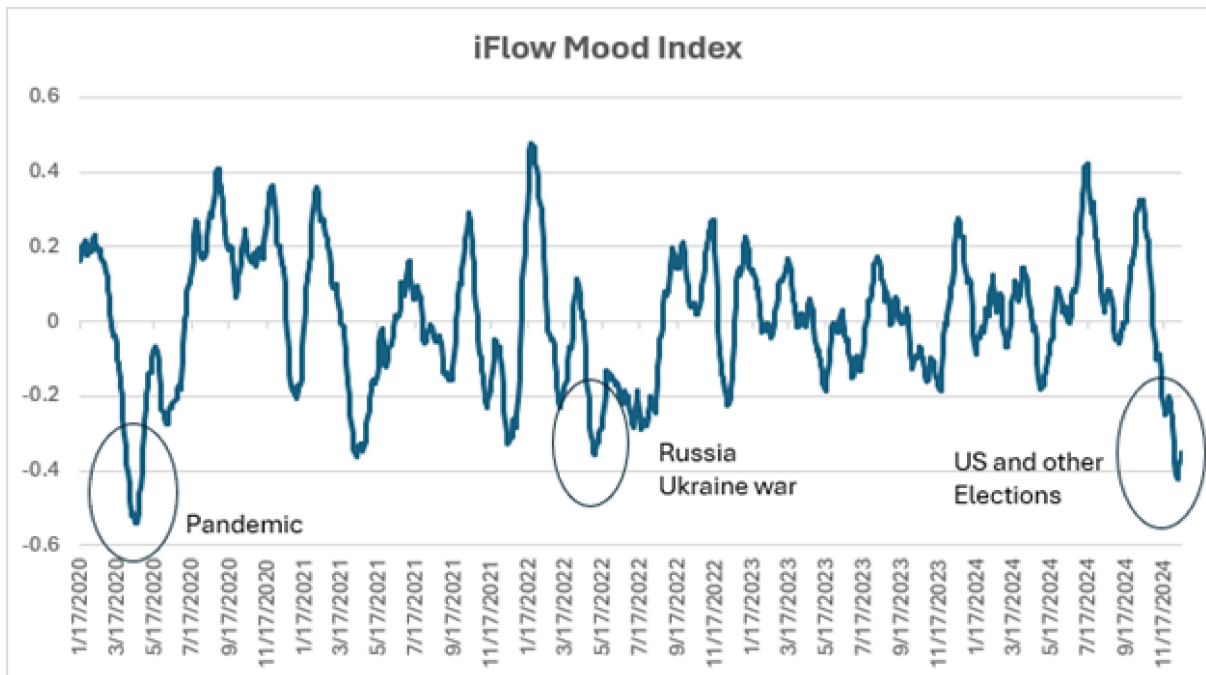
Headlines

- Bank of Japan leaves rates unchanged at 0.25%- as expected - 1 dissent from Tamura pushing for 25bps hike – Nikkei off 0.69%, JGB 10Y yields flat at 1.047%, JPY off 1.3% to 156.80
- Taiwan CBC leaves rate unchanged at 2% - as expected - lifts GDP outlook - TWD off 0.5% to 34.53
- Philippines BSP cuts rates 25bps to 5.75% - as expected – PHP off 0.5% to 58.995
- Sweden Riksbank cuts rates 25bps to 2.5% - as expected - 5th rate cut of 2024, totaling 1.5% - sees 25bps more in 1H25 – OMX off 1.75%, SEK up 1% to 11.02
- Norges Bank leaves rate unchanged at 4.5% - as expected - signals March cut 2025 – NOK up 0.3% to 11.37
- Bank of England leaves rates unchanged at 4.75% - as expected – vote 6-3 with dissent calling for 25bps cut – FTSE off 1.1%, GBP up 0.2% to 1.26
- New Zealand 3Q GDP -1% q/q, -1.5% y/y - confirming recession - worst drop since 2021 – NZD up 0.5% to 0.5655
- Australian Dec consumer inflation expectations rise 0.4 to 4.2% - most since Sep – ASX off 1.7%, AUD up 0.5% to .6250
- German Jan GfK consumer confidence improves 1.8 to -21.3 - led by income outlook – DAX off 0.9%, Bund 10Y yields up 4bps to 2.285%
- French Dec business climate dips 2 to 94, confidence steady at 97 – CAC 40 off 1.2%, OAT 10Y yields up 5bps to 3.092%
- Spanish Nov consumer confidence rises 1 to 80.6 – IBEX 35 off 1.45%, SPGB 10Y up 5bps to 2.985%
- Eurozone Oct C/A surplus slows E13bn to E26bn - still 2.9% of GDP – EuroStoxx 50 off 1.3%, EUR up 0.4% to 1.04
- Putin news conference - ready to meet Trump, denies Syria pullback a sign of weakness, sees economy stronger – WTI off 0.2% to \$70.40,
- US Amazon workers to go on strike ahead of holiday rush - seeks contract talks – while US President Trump opposes Congress continuing resolution to keep government open – US S&P500 futures up 0.3%, 10Y US rates up 2.5gbps to 4.54%, USD index flat at 107.90.

The Takeaways:

Does cutting not hiking help in an uncertain world? The compare and contrast of policy decisions overnight stand out with Sweden cutting 25bps and with Japan holding instead of hiking. The BOJ is still over their 2% CPI target and the JPY now trades over the 155 lines where MOF interventions worry start to kick into markets. There is little room for JPY weakness to continue and not to erode confidence and lift inflation in Japan. The Swedish contrast is important with tame CPI and with slowing growth, the rate cuts have been timely and the currency weakness this year contained without intervention. The lesson for investors into 2025 is that growth matters more than rates even as the carry trade returns as a driver for EM markets. The flows that keep FX in tow are about assets and value. The US hit to confidence yesterday maybe the start of a larger normalization globally, where USD exceptionalism shifts and where bonds offset stocks and help contain volatility rather than drive it. That obviously didn't happen yesterday but could be a factor today as we wait for the last big data of the week in jobless claims, GDP 3Q final revisions and home sales. If you look at the Mood Index from iFlow, the pain in the US equity market yesterday was well expected and the bottom out action is ongoing suggesting 2025 has upside more than downside for risk.

Exhibit #1: Is global equity market closer to the floor?



Source: iFlow weekly, BNY

Details of Economic Releases:

1. New Zealand 3Q GDP -1% q/q, -1.5% y/y after -1.1% q/q, -0.5% y/y - worse than -0.4% q/q, -0.4% y/y expected - and bringing the nations back into a recession. The big falls in the 2Q and 3Q were the biggest quarterly drops since late 2021 at the height of the pandemic and lockdowns. The main downward pressure came from manufacturing (-2.6% vs. +1.3% in Q2), business services (-1.5% vs. -0.7% in Q2), and construction (-2.8% vs. -1.6% in Q2). However, positive contributions came from rental, hiring, and real estate services (+1.0% vs. -0.1% in Q2) and agriculture, forestry, and fishing (+1.4% vs. +0.3% in Q2).

2. Australian December consumer inflation expectations rise to 4.2% y/y after 3.8% y/y - more than the 4% expected and most since September. This rise followed the Reserve Bank's decision to maintain the cash rate at 4.35% for the ninth consecutive meeting during its final session of 2024. While acknowledging that headline inflation has eased significantly, the board warned that underlying inflation

remains too high. In October, the monthly CPI index rose by 2.1% year-on-year, holding steady for the second consecutive month and remaining at its lowest level since July 2021, due to the ongoing impact of the Energy Bill Relief Fund rebate.

3. German January GfK consumer confidence rises to -21.3 from -23.1 - bouncing from lowest levels since May, driven by a recovery in income expectations (1.4 vs -3.5 in December) and a slight increase in willingness to buy (-5.4 vs -6.0). Simultaneously, economic prospects stabilized at a low level (0.3 vs -3.6), roughly mirroring last year's figures amid a weak growth outlook for 2025. Meanwhile, the propensity to save dropped sharply (5.9 vs 11.9). "At -21.3 points, the consumer climate remains very low," said Rolf Bürkl, a consumer expert at NIM. He added that a sustained recovery in consumer sentiment is not yet in sight due to high economic uncertainty, rising food and energy prices, and lingering job security concerns.

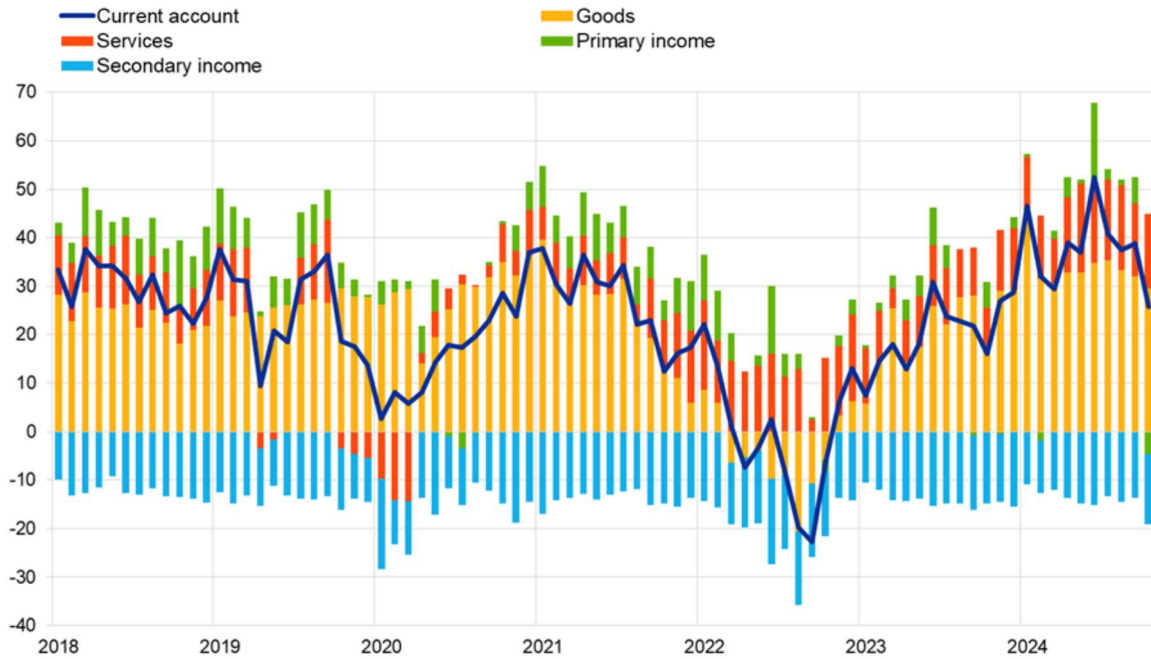
4. French December business climate slips to 94 from 96 - worse than 96 expected - weakest since July, The decline was driven primarily by a drop in forward-looking opinions on demand and activity. Sentiment deteriorated across sectors, including retail (96 vs. 98 in November), services (96 vs. 98), and construction (98 vs. 99), with construction sentiment falling to its lowest level since July 2020. Meanwhile, the business climate in the manufacturing sector remained stable at 97 up from 96.7. Manufacturers were less pessimistic about overall order books (-18 vs. -21 in November) and foreign order books (-8 vs. -19), while assessments were more optimistic for finished goods inventory (14 vs. 8), which now returns above its long-term average. However, views turned pessimistic on expected workforce changes (-2 vs. 2) and personal production outlook (-1 vs. 5), with increased pessimism about general production expectations (-19 vs. -14). Expected selling price trends were also slightly less positive (2 vs. 3), and the gauge for perceived economic uncertainty rose significantly to 32, up from 23 in the prior month.

5. Spanish November consumer confidence rises to 80.6 from 79.6 - better than 79.5 expected. The improvement in sentiment was broad-based, with an increase in the gauge measuring consumer expectations for the upcoming year (87.5 vs 86.2 in October) and an improvement in the gauge measuring current conditions (73.8 vs 73). Compared to the corresponding period of 2023, the consumer confidence index rose by 3.9 points.

6. Eurozone October current account surplus narrows to E26bn after E39bn - less than the E33.5bn expected. On an unadjusted basis, the surplus narrowed from E51.5bn to E32bn - but remains up from E17.8bn in October 2023. The C/A surplus holds 2.9% of GDP and is up E206bn in the year. Residents' net acquisitions of non-euro area portfolio investment securities totalled €623 billion and non-residents' net acquisitions of euro area portfolio investment securities totalled €741 billion in the 12 months to October 2024.

Euro area current account balance

(EUR billions unless otherwise indicated; working day and seasonally adjusted data)



Source: ECB.

Source: ECB, BNY

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

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