

December 20, 2024

## Breaks

*“Sometimes you gotta take a break from all the noise to appreciate the beauty of silence.” – Robert Tew*

*“The world breaks everyone, and afterward, some are strong at the broken places.” – Earnest Hemingway*

## Summary

Risk off with markets watching US government shutdown risks, watching interventions in FX from BRL to KRW and JPY, watching yields in China, and inflation in Japan. The rise in PPI in Germany, lower retail sales than hoped in Sweden and UK all make clear the rest of the world isn't taking off for 2025 with much momentum or joy. There is a need for a break from doubt about how rate cuts work to smooth over all ills. The weekend beckons and with much of next week blocked off for holidays, few expect the markets in the US today to try and challenge the pervading risk reduction trends – with the core PCE price index critical to how FOMC easing plans play out in 1Q 2025. The mood of consumers is also key from the University of Michigan report. What is hopeful for those looking for a Santa rally back in equities is that the USD is off 0.3% and that the break of interventions may provide some cover.

### What's different today:

- **JPY trades near 158 – weakest against the USD since July – sparks MOF warning.** "We have been recently seeing one-sided and sharp moves," Finance Minister Katsunobu Kato told a regular news conference on Friday." As we are alarmed by recent currency market developments including those driven by speculators, we'll take appropriate action against excessive moves," he said.
- **China 1Y government yields fell 17bps to 0.85% - lowest since 2003.** The break of 1% is a surprise and reflects the expectations for 2025 easing. The PBOC has also been a notable buyer of China government paper in the short-end while 10Y fell 3bps to 1.699%.
- **iFlow shows ongoing USD buying yesterday**, selling of AUD, CAD, EUR. In EM selling across APAC except in TWD and THB. For equities yesterday, the selling was across most nations except Israel, Poland, Mexico, South Africa and Peru. Bonds were sold in China and in Thailand while US bond buying was notably lower and

Australia saw inflows. Mood bottoming but still extremely negative for equities, while carry extremely positive factor in EM FX.

### What are we watching:

- **US November personal income** expected up 0.4% m/m after 0.6% m/m while spending expected up 0.5% m/m after 0.4% m/m.
- **US November core PCE** expected up 0.2% m/m, 2.9% y/y after 0.3% m/m, 2.8% y/y while headline expected up 0.2% m/m, 2.5% y/y from 2.4% y/y.
- **US final December University of Michigan consumer sentiment** expected 74.2 from 74 with current conditions 77.1 from 77.7 and expectations 71.9 from 71.6 along with 1Y CPI 2.9% and 5-10Y 3.1%.

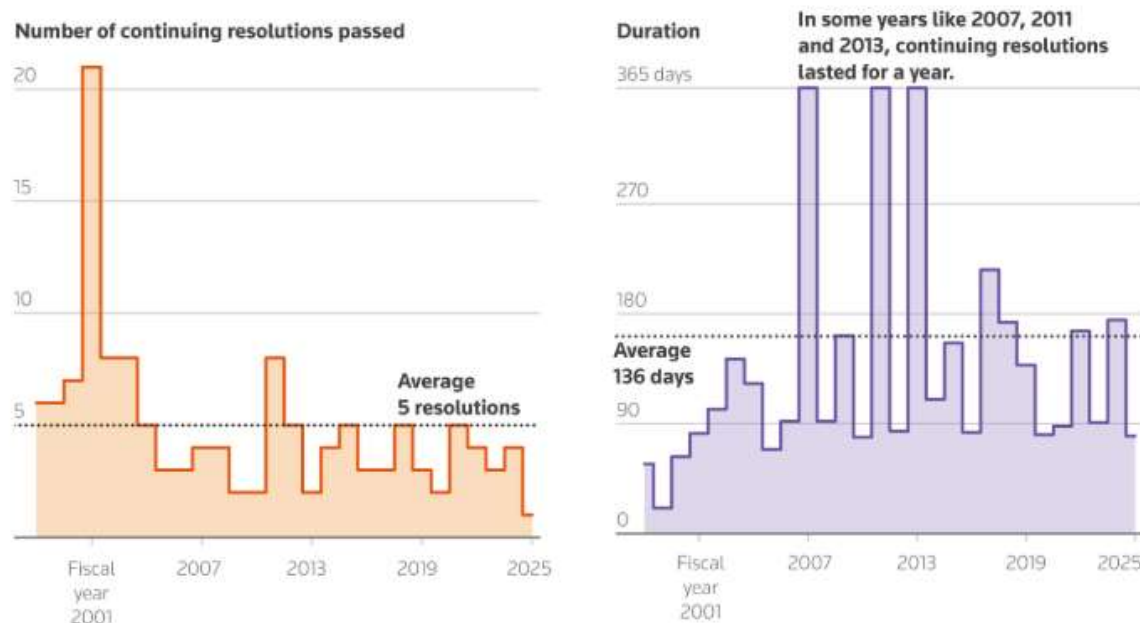
### Headlines

- China PBOC leaves LPR 1Y unchanged at 3.1% and 5Y at 3.6% - as expected – CSI off 0.45%, CNH up 0.1% to 7.3050
- Japan Nov core CPI rises 0.4pp to 2.7% y/y – most in 3-months – Nikkei off 0.29%, 10Y JGB yields fell 1bps to 1.039%, JPY up 0.3% to 156.75 (from 157.93 highs)
- New Zealand Nov trade deficit narrows by NZ\$1.2bn to NZ\$0.473bn – exports up 9.1% y/y – Kiwi exports up 44% - NZD flat at 0.5630
- Australia Nov private sector credit up 0.5% m/m, 6.2% y/y – most since May 2023 – ASX off 1.24%, AUD off 0.15% to .6230
- German Nov PPI up 0.1% y/y – first rise since June 2023 – DAX off 1.4%, Bund 10Y up 0.5bps to 2.305%, EUR up 0.3% to 1.0395
- Sweden Nov retail sales -0.2% m/m while PPI jumps 3.1% m/m, 0.3% y/y – biggest monthly rise since Aug 2022 – OMX off 1.7%, SEK off 0.1% to 11.037
- UK Nov retail sales up 0.2% m/m, 0.5% y/y – weaker than expected – while public sector borrowing slows GBP7bn to GBP 11.25bn – FTSE off 0.85%, Gilt 10Y off 2.5bps to 4.55%, GBP up 0.1% to 1.2510

### The Takeaways:

Focus on the day is how markets close out the last full week of trading for December. The rest of the month has holidays and illiquidity and noise making the tape today more important as it reflects the underlying mood trend into 2025. There is a break in the US exceptionalism but there appears to be no replacement. This is a washout market trying to regroup and recast the balance of growth and inflation views into 2025. Politics have returned to plague markets from German elections February 23 to French budget plans in February with the new PM to the US today where the odds of a government shutdown rose after the evening CR bill from Republicans failed. There is no immediate crisis for the US government as it has plenty of money to sustain until May at least but the confidence in the US takes another hit as the government function creaks under the weight of spending more than it takes in. Whether the US has competition in 2025 for growth and stability will be part of the focus for those during the “break” from now to New Years. As a note – this will be the last Morning Market Movers until the New Year. We will report on markets as needed should there be another kind of break but until then enjoy the holidays ahead.

### Exhibit #1: Is the US going to get a credit cut?



Note: Fiscal year runs from Oct. 1 to Sep. 30

Sources: Congressional Research Service, Reuters reporting

Source: Reuters, BNY

## Details of Economic Releases:

### 1. New Zealand November trade deficit narrows to NZ\$0.437bn from NZ\$1.66bn –

**smaller than the \$1.951bn expected.** Exports grew 9.1% y/y to NZ\$6.48 billion, with notable increases in milk powder, butter, cheese (+12%), precious metals, jewelry, and coins (+51%), and fruit (+162%). However, exports fell for casein (-22%), iron and steel (-20%), machinery (-6.2%), and edible preparations (-7.8%). Imports decreased 3.9% to NZ\$6.91 billion, driven by declines in petroleum (-32%), aircraft parts (-74%), and vehicles (-14%), while imports of fertilizers (+123%), electrical machinery (+7.3%), and sugars (+103%) increased. During the month, New Zealand's top export markets were China, Australia and the US, while top import partners were China, the EU and Australia.

### 2. Japan November CPI rose 2.9% y/y after 2.3% y/y – more than the 2.6% y/y expected.

The core CPI (ex fresh food but including fuel) rose 2.7% y/y – more than the 2.6% y/y expected. This marks the highest core inflation rate in three months, following gains of 2.4% and 2.3% in September and October, respectively. Core inflation in Japan has consistently stayed at or above the Bank of Japan's 2% target for about two and a half years, influencing the central bank's increasingly hawkish stance this year. In response to ongoing inflationary pressures, the Bank of Japan raised interest rates in both March and July and has signaled potential further hikes.

### 3. Australian November private sector credit rose 0.5% m/m, 6.2% y/y after 0.6% m/m, 6.1% y/y – as expected – still the strongest growth in credit annually since May 2023.

Business credit moderated (0.7% vs 1.0% in October) amid stable housing credit growth (at 0.5%). In contrast, personal credit fell by 0.2%, following a subdued 0.1% gain in October.

### 4. German November PPI up 0.5% m/m, 0.1% y/y after +0.2% m/m, -1.1% y/y – more

**than the -0.3% y/y expected.** This marked the first increase in producer prices since June 2023, mainly driven by a rise in capital goods (1.9%), led by higher costs for machinery (2.0%) and motor vehicles and parts (1.4%). Prices also rose for consumer goods (0.9%), non-durable consumer goods (2.4%), and intermediate goods (0.4%). Simultaneously, energy prices fell much softer (-2.4% vs -5.6%), with costs dropping for mineral oil products (-8.6%), light heating oil (-13.2%), motor fuels (-8.4%), natural gas (-7.5%), and electricity (-3.1%). Excluding energy, producer prices rose by 1.3%

**5. Sweden November retail sales drop -0.2% m/m, +1.6% y/y after +0.9% m/m, 1.6% y/y – weaker than 0.3% m/m expected.** Retail sales for consumables (2.2% vs 1.5%) increased faster, while it slowed those for durables (1.7% vs 2%). While December business confidence rises to 100.6 from 98.6 but consumer confidence dips to 96.7 from 101.6. Consumer expectations weakened regarding the general economic situation (7 vs 24 in November), households' financial situation (18 vs 26), and savings (50 vs 53). On the other hand, concerns about future unemployment eased slightly (20 vs 22), while consumers were less negative about making large purchases in the coming year (-11 vs -14).

**6. UK November retail sales rose 0.2% m/m, 0.5% y/y after -0.7% m/m, +2% y/y – weaker than the 0.5% m/m, 0.8% y/y expected.** Growth in sales at food stores (0.5%), mostly supermarkets and other non-food stores (0.2%) was partly offset by a fall in clothing retailers (-2.6%), which pushed volumes to their lowest level since January 2022, with retailers reporting that economic factors were affecting sales. Black Friday, officially observed on November 29th, fell outside the ONS reporting period, meaning its significant impact will only be reflected in the December report. However, some retailers reported that Black Friday sales started well in advance of the official day.

### Exhibit #2: Is UK consumer getting coal for the holiday?

**Volume sales, monthly percentage change, seasonally adjusted, Great Britain, November 2024**



**Source: Monthly Business Survey, Retail Sales Inquiry from the Office for National Statistics**

Source: UK ONS, BNY

Please direct questions or comments to: [iFlow@BNY.com](mailto:iFlow@BNY.com)

### Disclaimer & Disclosures



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