MARKET MOVERS

iFlow

January 6, 2025

See-Saws

"The world is but a perpetual see-saw." – Michel de Montaigne

Summary

Risk on as the markets start the first full week of trading with optimism that 2025 will continue the bull market in equities from 2023. The better Chinese Service PMI, followed by the better Eurozone one helps. The USD is down sharply even as US rates saw another tick up in yields. The see-saw of equities to bonds returned overnight - high real growth requires higher real yields.But the underlying cause matters with hope for more from China and Europe and less from the US as markets speculate on Trump tariff policies. The overnight focus on CAD also notable as PM Trudeau looks ready to step down after 9-years putting that nation into the same focus as Germany and perhaps Austria (where a centrist coalition failed to form a government over the weekend.) The focus on the day is on US factory orders, final service PMI and the 3Y note sale.

What's different today:

- **Canada PM Trudeau expected to resign** before caucus Wednesday according to Globe and Mail, election polls put Liberals well behind Conservatives.
- **Chinese CNY trades at 7.33 - 15-months lows** against the USD, despite PBOC keeping fixing flat to Friday. CSI 300 down 4.1% in first 3-days of trading.
- **iFlow shows Mood index now neutral** after being extremely negative in December. The equity flows globally were mostly up in G10 and in EM. Notable exceptions US, Norway, India, Malaysia. FX has USD selling CAD, buying but ongoing selling in EUR, AUD. EM was mixed with BRL and COP buying along with all of APAC. The fixed income markets saw big Brazil selling and India buying.

What are we watching:

- **US December final Services PMI** expected 58.5 same as flash – key for ISM Services forecasts.
- **US November factory goods orders** expected -0.4% after +0.2% m/m but final durables key with -0.4% m/m after -1.1% m/m expected.

- **Federal Reserve Board Governor Lisa Cook** speaks
- **US Treasury sells $58bn in 3Y notes** and 3M $84bn and 6M $72bn bills

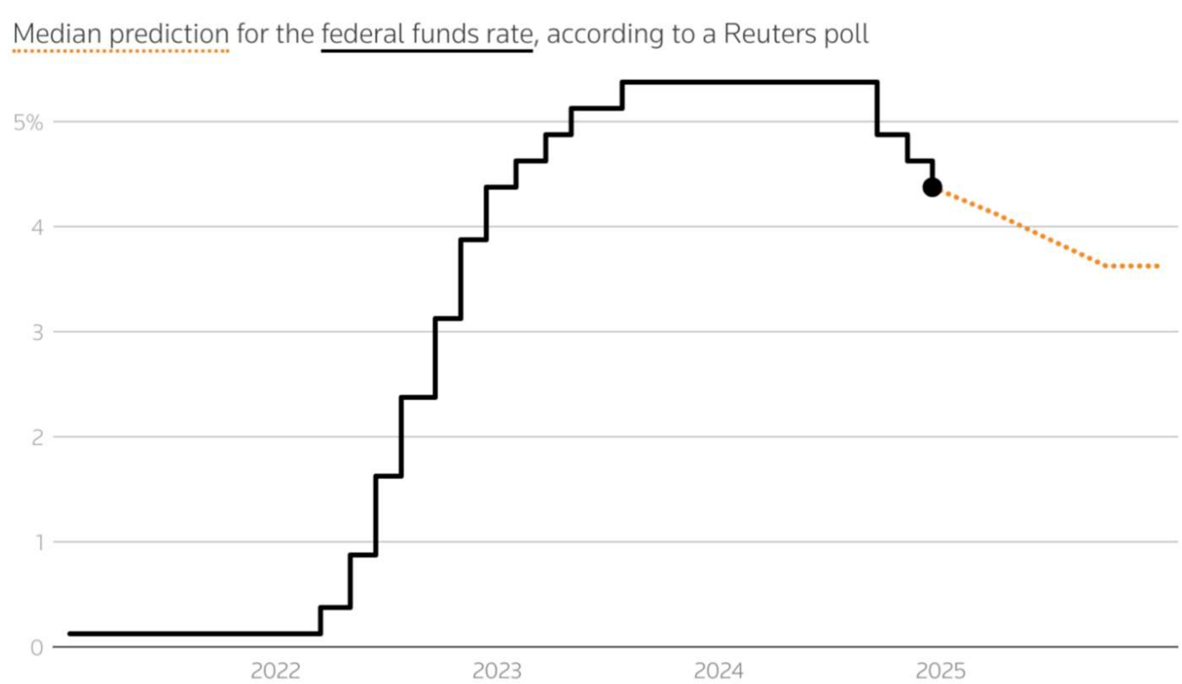
Headlines

- China Dec Caixin services PMI up 0.7 to 52.2- best since May 2024 – CSI 300 off 0.16%, CNH up 0.3% to 7.3320 from 7.3583 highs
- Japan Dec final services PMI up 0.4 to 50.9 - best since Sep 2024 – Nikkei off 1.47%, JPY up 0.15% to 157.05
- Australian Dec final services PMI up 0.3 to 50.8 – worst job losses in 3 1/2 years – ASX up 0.08%, AUD up 1% to .6275
- India Dec final services PMI up 0.6 to 59.2 - best since August, with slowing cost pressure – Sensex off 1.59%, INR off 0.2% to 85.825
- Eurozone Dec final service PMI up 2.1 to 51.6- first demand rise since August – EuroStoxx 50 up 2%, EUR up 0.85% to 1.04
- UK Dec final service PMI up 0.3 to 51.1 - worst job cuts in four years – FTSE up 0.1%, GBP up 0.8% to 1.2530
- Fed Daly and Kugler warn battle with inflation not finished - S&P500 futures up 0.8%, 10Y US yields off 1bps to 4.59%, US dollar index off 0.8% to 108.07

The Takeaways:

The regulator of markets has always been in the correlation of bonds to stocks as the role of mean reversion in trading extremes in both makes one the offset to the other. The biggest mover today follows a report from the Washington Post the Trump tariff plans will be less than fears – focused only on critical imports. A weaker USD gives global relief as it pushes back on intervention and holding rate policy to support FX elsewhere. The question for many this week is what happens to US rates with supply the first order of business starting today with $58bn in 3Y notes, while the second is economic data from JOLTS to Friday jobs report. The feedback from the FOMC speakers this week will also matter. San Francisco Fed boss Mary Daly and Fed governor Adriana Kugler said over the weekend that the job was not yet done on reining in inflation. All of this matters to the see-saw of how bonds regulate the rise of equities to valuations that might not support prices. The risk of the day is in some pushback from both stocks and the USD as correlations aren't causality.

Exhibit #1: Is the US rate cut risk too high?



Source: Reuters, BNY

Details of Economic Releases:

1. **Japan December final Jibun Bank services PMI 50.9 from 50.5 - weaker than 51.4 flash** - still, the second consecutive month of growth in the service sector and the strongest pace since September. New orders increased for the sixth straight month, with the growth rate reaching its strongest since August. Employment also rose, marking the 15th month of gains, though the rise was modest. Meanwhile, outstanding business accumulated for the second month in a row, with the growth rate marginal but surpassing the long-run series average. Concurrently, export sales declined for the third month. On prices, input cost inflation remained unchanged, attributed to higher raw material and wage costs. Firms partially passed these costs on to clients, leading to a sharp, though steady, rise in prices charged. Finally, sentiment stayed upbeat despite a slight moderation in optimism, which was softer than the average for 2024.

2. **China December Caixin services PMI rises to 52.2 from 51.5 - better than 51.7 expected** - best since May, supported by greater new business inflows. Sales growth was notably driven by higher domestic demand, as new export business fell for the first time since August 2023 amid softening foreign interest. Meanwhile, employment declined for the first time in four months, due to resignations and cost concerns. On the cost side, input price inflation accelerated for the first time in three months, though it remained only marginally, driven by higher material and wage costs. As a result, selling prices increased for the first time since June, as firms sought to pass on rising cost burdens to clients. Finally, sentiment weakened to the second-lowest level since March 2020, amid concerns over rising competition and the negative economic outlook for international trade.

3. **Australian December final services PMI rises to 50.8 from 50.5 - better than 50.4 flash** -the eleventh successive monthly expansion in the sector, supported by strengthening market demand, with foreign sales rising for the first time in four months. However, employment fell for the first time since August 2021 as capacity pressures softened. On prices, input cost inflation accelerated to a three-month high due to higher material, transport, and wage costs. As a result, output cost inflation rose as firms shared additional cost burdens with clients. Finally, business sentiment improved to the highest level since May 2022, due to hopes of greater output growth amid prospects for lower interest rates.

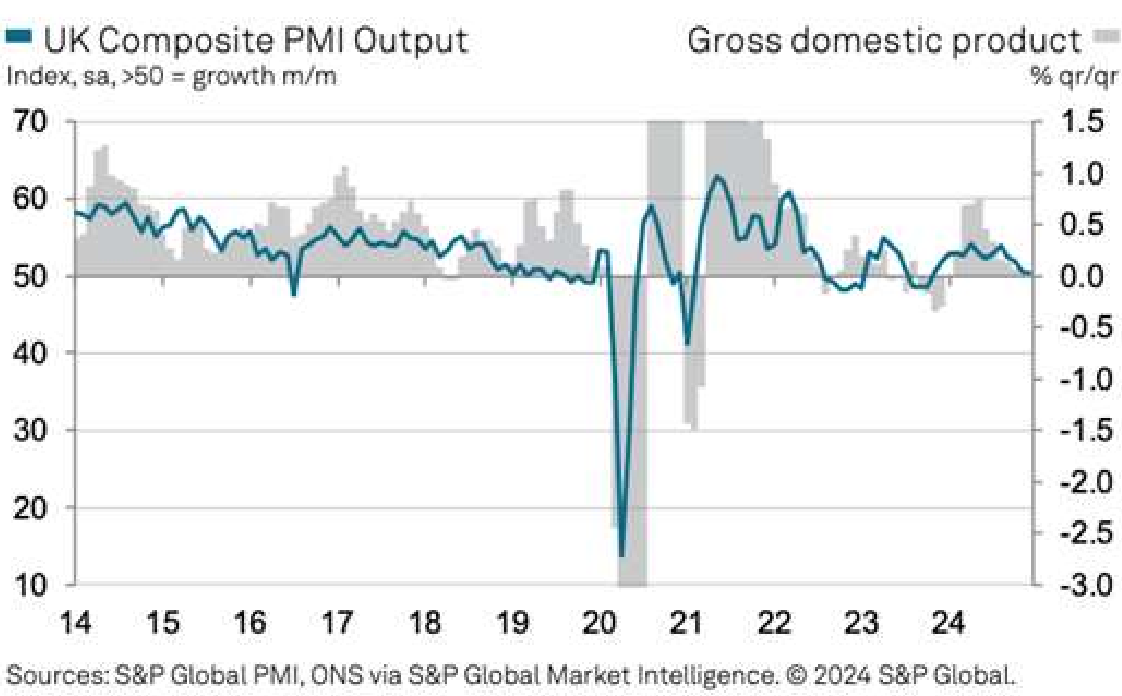
4. **India December final HSBC services PMI rises to 59.2 from 58.6 - weaker than 60.7 flash** - still best since August and the 41st monthly expansion, with service providers recording a quicker increase in business activity as factory production growth softened. New orders rose at a stronger rate, with the fastest rise in new business at service firms more than offsetting a fractional slowdown at goods producers. Meanwhile, employment expanded at a slower pace, though it remained among the strongest on record. Job creation was stronger in the service sector compared to the manufacturing industry. Regarding prices, input costs eased while prices charged rose at a lower rate.

5. **Eurozone December final HCOB services PMI rises to 51.6 from 49.5 - better than 51.4 flash** - the first month since August that demand had improved. The

increase in sales was largely driven by domestic client demand, as new export business contracted for the nineteenth consecutive month. Services companies maintained hiring, extending job creation to nearly four years, although the growth rate was marginal and among the weakest in this period. On the price front, both input costs and output charges saw their rates of inflation accelerate for the third month running to reach five- and seven-month highs, respectively. Lastly, optimism in the 12-month outlook for output strengthened from November's 14-month low but remained historically subdued.

6. UK December final services PMI rises to 51.1 from 50.8 -weaker than 51.4 flash - near the yearly lows, still the 14th month of expansion. The new orders index, at its lowest since October 2023, indicated only a marginal increase, reflecting ongoing weak demand post-Autumn Budget, particularly due to concerns over upcoming National Insurance hikes for employers. Export sales declined for the first time since September 2023, with lower orders from EU clients partially offset by stronger demand from US markets. Employment declined for the 3rd month and at the sharpest rate since January 2021. Meanwhile, input price inflation spiked to an eight-month high, driven by rising wages and raw material costs. Consequently, output inflation reached a six-month high in December, remaining well above pre-pandemic levels.

Exhibit #2: Is UK job shedding going to hit growth?



Source: UK S&P PMI, BNY

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

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