

January 7, 2025

Sharp Edges

“Time has a way of fading the sharp edges of a person’s image.” – Kristen Callihan

“Let your life lightly dance on the edge of Time like dew on the tip of a leaf.” – Rabindranath Tagore

Summary

Risk on as markets skate around the edge of 2025 fears with focus on the USD as APAC sees a rally back led by KRW. EU rates rose with flash CPI – Bund 10Y at 2-months highs but UK 30Y Gilts at 1998 highs – the mix of intervention, growth hope, rate support and positioning drive overnight even with most of the economic data mixed to weaker. For the day, the blades for change are in ISM, JOLTS and the US 10Y sale. Markets are focused on keeping calm until January 20 and the expected policy changes ahead.

What’s different today:

- **US December LMI Logistics managers index drops 1.1 to 57.3** - led by seasonal decrease in inventories - and weakest in 4-months.
- **US corporate bankruptcies rise to 14-year highs reflecting higher interest rates** -up 8% with 828 filings.
- **iFlow continues to show equity buying globally** except in US while bonds are quiet except with Brazil selling and India buying. FX is watching carry drop as a driver and continues to see selling of USD, EUR and AUD vs. buying of CAD, SEK and BRL.

What are we watching:

- **US November JOLTS job openings** expected 7.70mn down from 7.74mn with some focus still on quits.
- **US December Services ISM** expected 53.3 from 52.3 - with jobs expected 52 from 51.5
- **US November trade deficit** expected \$78bn from \$73.8bn - with focus on energy exports, China trade
- **US Treasury** sells \$39bn in 10Y notes and \$85bn in 42-day bills -

- **Fed Speakers:** Richmond Fed Barkin to Raleigh Chamber

Headlines

- China December FX Reserves drop \$60bn - lowest in 8-months – **CSI 300 up 0.72%, CNH up 0.1% to 7.3375**
- Nvidia unveils robot training and Toyota deal - while Japan MOF warns against JPY selling - as USD jumps to 158.33 - July highs – **Nikkei up 1.97%, JGB 10Y up 1bps to 1.12%, JPY off 0.2% to 157.85**
- Taiwan Dec CPI up 0.15% m/m, 2.1% y/y - as expected – **Taiex up 0.44%, TWD up 0.1% to 32.723**
- Australian Nov building permits drop -3.6% m/m - first drop in 3 months – **ASX up 0.33%, AUD off 0.5% to .6275**
- Tibet earthquake 6.9 - 50 miles from Mount Everest kills 100, rattles Nepal
- North Korea tests new intermediate range missile – **Kospi up 0.14%, KRW up 0.6% to 1450.6**
- India forecasts 2025 GDP at 6.4%- with government spending 4.1% up from 2.5% - **Sensex up 0.3%, INR up 0.15% to 85.72**
- Swiss CPI down 0.1% m/m, +0.6% y/y – puts 2024 average at 1.1% y/y – **Swiss Mkt up 0.55%, CHF off 0.2% to .9070**
- Eurozone Dec flash CPI up 0.2pp to 2.4% y/y - with consumer expectations up 0.1 to 2.6% y/y - while unemployment steady at 6.3% and Dec construction PMI up 0.2 to 42.9 -32nd month of contraction led by France and Germany – **EuroStoxx 50 up 0.5%, EUR up 0.1% to 1.0405**
- UK Dec construction PMI slips 1.9 to 53.3 – lowest in 6 months - **FTSE off 0.3%, GBP up 0.1% to 1.2540**

The Takeaways:

Higher CPI in Europe and doubts about US jobs drove the USD lower overnight while the day ahead will pivot on the JOLTS and ISM Services, there is a larger focus on the set up for 2025 and risk overall. The correlation of USD to stocks globally is notable still and likely not sustainable. The ability for the world to run forward and faster in 2025 is not a sure thing with fiscal and political issues in abundance. The India forecasts today are a case in point with growth projected to slow to 4-year lows even as the government plans to increase its spending. The PMI reports globally, while better yesterday, highlight the bigger problems for how markets see allocation into 2025 – with US exceptionalism linked to the FOMC soft-landing success of 2024. How we see the jobs market and how Fed speakers see it are likely to dominate the rest of the week when it comes to the sharp edge of growth vs. inflation.

Exhibit #1: Is Jolts report today a market mover?

JOLTS: Quits vs consumer expectations



Source: LSEG Datastream — Reuters graphic/Stephen Culp 03/12/2024

Source: Reuters, BNY

Details of Economic Releases:

1. Australian November building permits drops -3.6% m/m after +5.2% m/m - weaker than -1% m/m expected - the first decline in three months, weighed down by a 10.8% drop in permits for private sector dwellings, excluding houses, and private sector houses (-1.7%). Regionally, the number of total dwellings approved was lower in Victoria (-12.9%), New South Wales (-9.9%), Tasmania (-4.2%), and South Australia (-1.6%) but grew in Queensland (7.3%) and Western Australia (18.1%).

2. China December FX Reserves drops to \$3.2trn from \$3.26trn - worse than \$3.25trn expected - lowest in 8-months. The yuan weakened by 1.2%, while the dollar gained 2.6% against major currencies. Meanwhile, gold reserves were at 73.29 million fine troy ounces, slightly higher than 72.96 million troy ounces in the previous month.

3. Eurozone December HCOB construction PMI up to 42.9 from 42.7 - as expected - but 32nd month of contraction driven by sharp drops in new orders, employment, and purchasing. Housebuilding was the weakest segment, while price pressures rose to a ten-month high, though still below historical norms. Supply chain delays worsened for a second month, and businesses remained pessimistic about the year ahead, reflecting ongoing challenges in the sector.

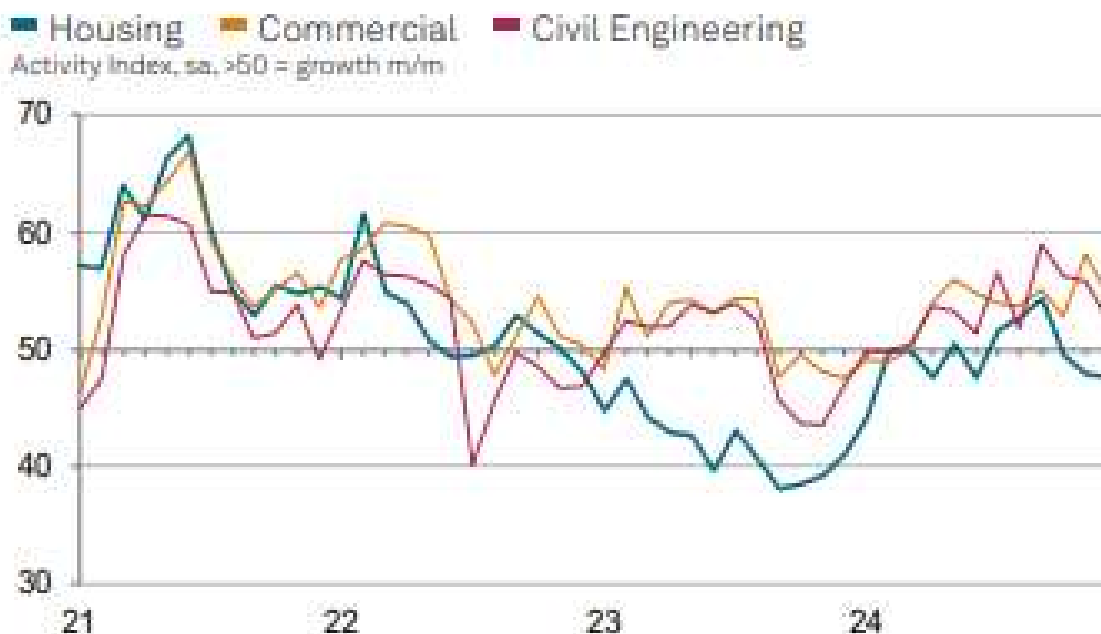
4. Eurozone unemployment steady at 6.3% - as expected - The number of unemployed individuals fell by 39,000 from the prior month to 10.819 million. The youth unemployment rate, reflecting those under 25 seeking employment, stood at 15% in November, the highest since October 2023, matching October's rate. Among the major Euro Area economies, Spain still showed the highest unemployment rate at 11.2%, followed by France at 7.7% and Italy at 5.7%. Conversely, Germany registered the lowest rate at 3.4%. A year earlier, the jobless rate was higher at 6.5%.

5. Eurozone December flash CPI rose 0.4% m/m, 2.4% y/y up from 2.2% y/y - as expected. 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 increased for the first time since July (0.1% vs -2% in November) and inflation accelerated for services (4% vs 3.9%). On the other hand, inflation steadied for food, alcohol and tobacco (2.7%) and eased for non-energy industrial goods (0.5% vs 0.6%). Considering the bloc's largest economies, inflation increased in Germany (2.8% vs 2.4%), France (1.8% vs 1.7%), and Spain (2.8% vs 2.4%) but slowed in Italy (1.4% vs 1.5%). Meanwhile, core inflation which excludes prices for energy, food, alcohol & tobacco steadied at 2.7%.

6. UK December construction PMI slows to 53.3 from 55.2 – weaker than 54.4 expected - the slowdown reflects weaker demand, higher borrowing costs, and subdued consumer confidence. Commercial construction led growth (index 55.0), followed by civil engineering (52.9), while residential construction saw its third consecutive monthly decline, contracting at the fastest rate since June 2024 (47.6). New orders also expanded at a reduced pace, with rising tender opportunities in commercial projects offset by cutbacks in residential and infrastructure work. Input buying fell for the first time in eight months, and subcontractor usage declined amid supply chain challenges and cost pressures. Despite rising costs and cautious hiring, optimism for 2025 improved, though tempered by concerns over the UK's economic outlook and budget constraints.

Exhibit #2: Is UK growth cracking?



Source: S&P Global PMI. ©2025 S&P Global.

Source: UK S&P PMI, BNY

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

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