November 24, 2024

Time

"Time isn't running out it's not even real. It's just a measure of distance we made up to understand things. Like an inch. Or a mile. Clocks do not measure time, they create it." – Megan Miranda
"Time flies over us but leaves its shadow behind." Nathaniel Hawthorne

Summary:

Running out of time to make a difference in 2024, Investors will be rebalancing for month end and with an eye to 2025. While this is a holiday shortened week it's also one that brings a hefty mix of key economic data from flash European CPI to US core PCE to GDP and FOMC minutes. The markets also must absorb over $700bn in US supply in just three days and deal with the usual month-end rebalancing pressures along with corporate year-end for much of the S&P500. The focus on the week ahead is on trends vs. value across markets. The USD has rallied 4% since the election and that trend is clearly still in play even as the trend factor index has flipped to negative. There is some confusion in the USD that shows up in AUD and CAD and that reflects the commodity world and its own tension between geopolitical risks and a world awaiting Trump tariffs and growth slowdowns

Themes:

- **Liquidity**. Markets are paying attention to end of year turn costs still and they are worried about any liquidity shocks in the holiday trading season ahead. The BIS paper out worth considering – as the last 25 years have seen tighter spreads but increased correlations leading to higher risks from skewness and kurtosis.
- **USD and Tariffs**. There have been a number of articles highlighting the logical inconsistency of higher tariffs and a strong USD in getting the wanted economic

outcome for the Trump Presidency. The market assumes and has been positioning for risks that tariffs are not just a negotiation tool and that they lead to currency depreciation as a response. The need for the US to borrow abroad to fund the government budget deficit adds to this story as the USD flows need to be positive. The net result is that USD overvaluation increases volatility risks into 2025 and adds to policy shift risk as well.

- **Bond Supply**. The Monday to Wednesday US bond supply is significant over $720 with $262bn Monday including $69bn in 2Y; with $146bn Tuesday including $70bn in 5Y; and with assumed $304bn Wednesday with $44bn in 7Y notes. There is also an expected $15-20bn in corporate supply and another $20bn in EU sovereign bonds. Global month-end pressures are going to be important as well, with the performance of bonds particularly in Europe important to how FX and equities trade

What did iFlow show us this week?

- **Equities: Our flows don't match the tape**. A positive week for equities with US indices up 1.5%, Europe mixed with Germany flat, Italy down 2%, Euro Stoxx 50 off 0.2%, UK up 2.5% while Asia suffers with Nikkei off 0.93%, CSI 300 off 2.6% and Hang Seng off 1% only ASX up 1.3%. In contrast the iFlow mood indicator is extremely negative -0.25 at 7.6 percentile. The momentum is down on the week and month. Our Mood indicator is negative for 7 days while the average for such negative signals is 17 days. By sector, only real estate has seen inflows globally, while industrials and financials were notable outflows. In the US inflows were seen in energy, while in LatAm inflows were seen in financials. In Europe consumer discretionary and real estate rose, while in APAC real estate and industrials rose.
- **Fixed Income: US bonds saw a curve flattening on the week**, with 2-10y off 5.5bps to +13.5bps on the week. 2Y rates up 5bps to 4.36%, 5Y up 1bps to 4.295%, 10Y off 0.5bps to 4.405%, 30Y off 0.5bps to 4.59% - both 10Y TIPS and 20Y bond sales tailed this week. Odds for a December rate cut were 55%. Year-end funding remains high at 5.4%, up from 4.85% at the start of the month. Our iflow showed buying of US bonds, selling of corporates, ABS, Munis and small MBS selling while cash and short-term paper rose. By duration in the US, the only negative bucket was in 3-5Y with 2Y-5Y notable shift in selling while Europe was the opposite. APAC saw sovereign bonds selling across the region with Korea, China, Philippines notable. The biggest inflows were in Brazil, Australia and the UK, while outflows were seen in Mexico EU, and Israel. Corporate issuance surprised again up $82bn in the last 2 weeks with November IG expected at $100bn with next week seen up $15-$20bn on top of the heavy US Treasury supply.

- **FX**: **The US dollar index rose 0.9% on the week** and retests multi-year highs at 107.70 on the index. The EUR leads in G10 weakness off 1.4% while CAD is up 0.7%, AUD up 0.4%. Our iFlow shows EUR and GBP outflows confirming market, but AUD selling was different, and NOK, JPY inflows were significant, but both were down 0.3% on the week. The FX Carry index improved to -0.13 up 0.02 on the week, at 27% percentile. FX Trend went to extreme negative at -0.27 at 9% percentile – which means higher volatility in FX ahead. CTA returns usually suffer and position washouts follow. Our USD short positioning is the smallest since April 2023. The most overheld currencies are TRY, INR, NOK and MXN while the least held are TWD, HKD, PHP and ZAR.

What Happened over the Weekend? –

- **US President Elect Trump picks Scott Bessent for Treasury.** Bessent has deep familiarity with global financial systems and currency markets — traits that made him palatable to investors as America's chief bond salesman and lead minder of the US dollar. And while he's indicated he'll back the president-elect's tariff plans and fight to extend Trump's tax cuts, Bessent isn't known as an ideologue, spurring Wall Street expectations that he will prioritize economic and market stability over scoring political points.
- **India Maharashtra state election big win for Modi's BJP with 220 of 288 seats**. Maharashtra, which has India's financial hub of Mumbai as its capital, is one of the most politically crucial states in the country. The BJP, however, is staring at a defeat in the eastern Indian state of Jharkhand, where main opposition Congress and its allies are on course to win. Jharkhand, where seven chief ministers have ruled since the state's formation in 2000, has also witnessed political upheaval in recent months after its chief minister Hemant Soren was arrested in February on corruption charges.
- **Iran doing more nuclear enrichment, will hold new talks for EU powers** – Talks are planned for November 29 after UN IAEA passed resolution against Tehran. The US, UK and Germany expressed "serious concern" over the Iranian plans to launch new nuclear centrifuges. Iranian President Masoud Pezeshkian's government is seeking a solution to the nuclear impasse ahead of the inauguration in January of U.S. President-elect Donald Trump.

What Happened last week?

- **Economic Data mattered.** The US jobless claims drop and the higher flash PMI support USD exceptionalism. The NVIDIA earnings beat as usual. but the outlook was less robust than some hoped. The key CPI reports from UK, Canada and Japan were all higher than expected and added to rate volatility as monetary easing expectations shift. Stagflation worries into 2025 are rising with higher debt fears from Europe along with the US and China competing for capital.

- **Geopolitics still worried.** The economic data did matter this week but the rise of geopolitical tensions from Russia/Ukraine restarted the risk aversion mood that showed up most clearly in EUR selling and in ongoing carry trade unwinding with notable weakness in CE3, more related to the conflict than rates, but MXN, CLP and BRL outflows reflect the other key – US rates which retraced back from any safe-haven buying and reflect doubt about December rate cuts and future easing ahead.
- **US Politics were ongoing**. The market also remains fixed on Trump nominees for cabinet positions with the Gaetz drop-out story more evidence of the next President moving fast to get his team approved by the Senate. We are closing the week with Bitcoin the biggest winner, then gold and oil and the USD.

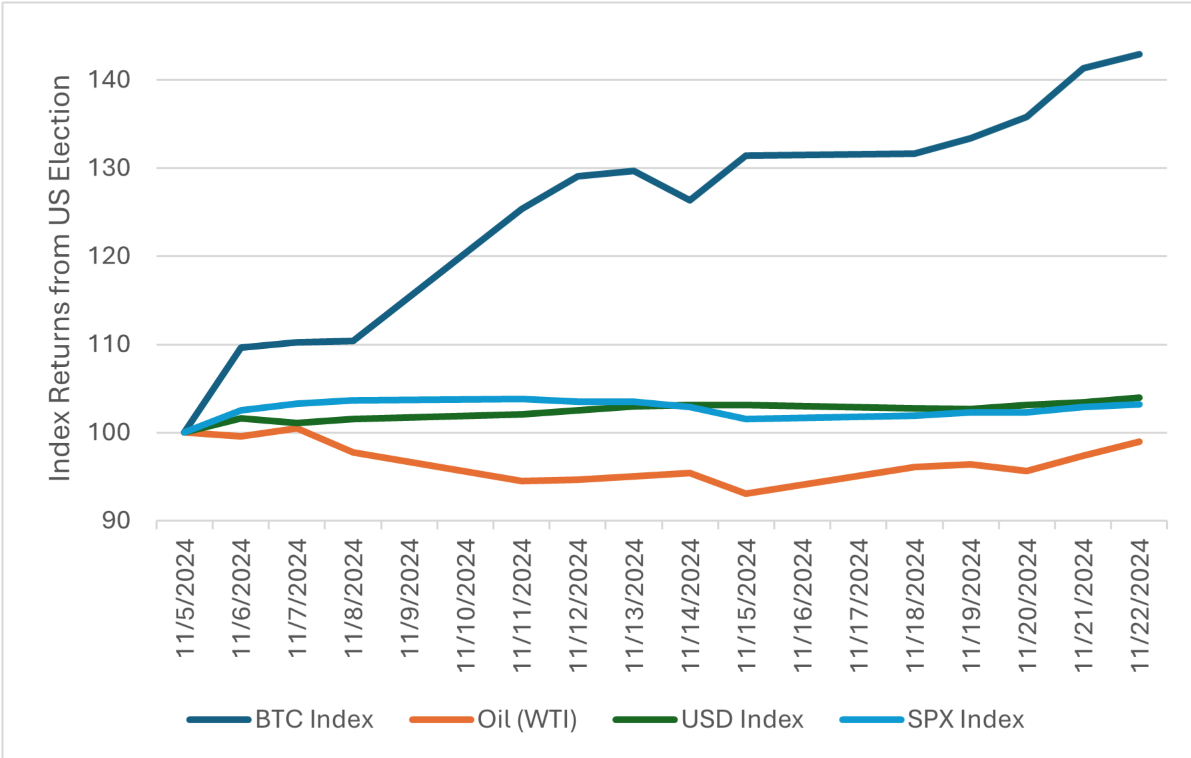
News Agenda and Weekly Themes – US GDP and PCE core prices, FOMC Minutes, Tokyo CPI, Bank of Korea decision

The shortened holiday week in the United States will center on the FOMC meeting minutes, PCE inflation data, personal income and spending figures, the second estimate of Q3 GDP growth, and the Conference Board's consumer confidence index. Additionally, economic releases on durable goods orders, corporate profits, new and pending home sales, and the S&P/Case-Shiller Home Price Index will add to 4Q growth narrative in the US. Elsewhere, inflation figures from Australia, Spain, Germany, the Netherlands, France, Poland, the Euro Area, and Italy will be closely watched. Turkey, Switzerland, India, and Canada will release their latest GDP growth rates. Germany will publish its unemployment rate, the Ifo Business Climate Index, Gfk consumer confidence, and retail sales data. Lastly, interest rate decisions are expected in South Korea and New Zealand, while Japan will reveal retail sales, industrial production, unemployment rate, housing starts and consumer confidence figures.

1. US Exceptionalism. The odd couple for investors has been in the USD 4% rally against the Bitcoin 40% one. The sweeping explanation that this is just the “Trump trade” from the election misses the contradictions of the pairing. The other oddity comes from oil up last week even as Trump pushes for more US energy supply as a key tool for controlling US inflation. The risk for month-end in USD rally and a reversal in

---

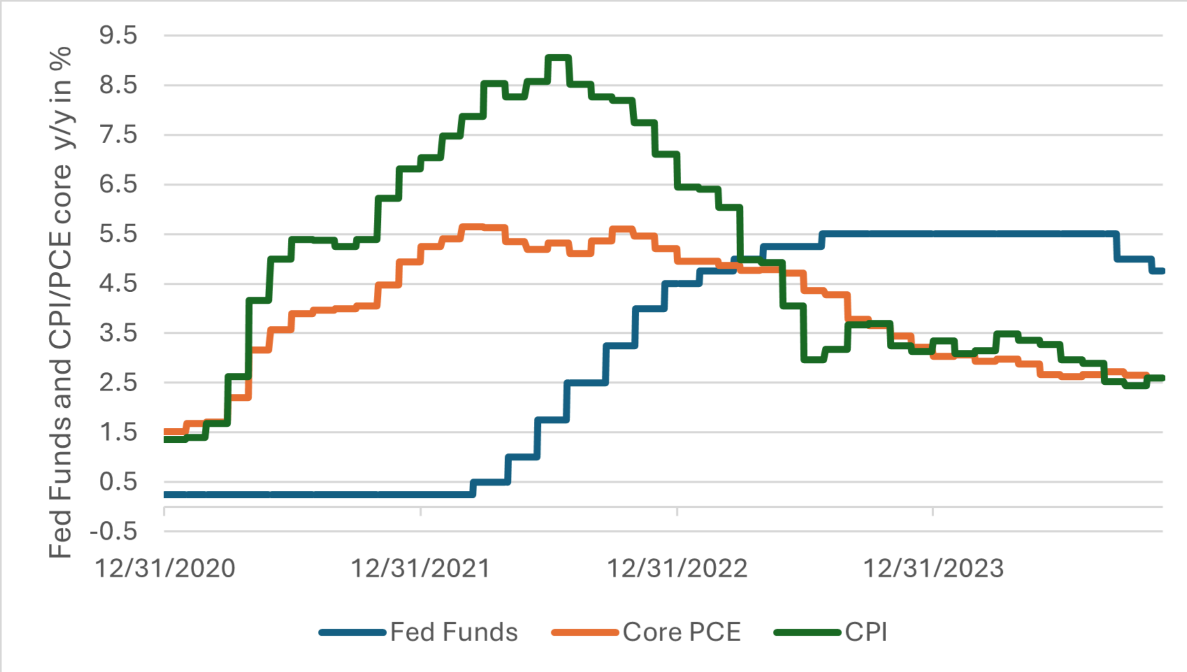
Exhibit #1: US exceptionalism vs. Trump trades post-election



Source: Bloomberg, BNY

2. US core PCE and FOMC Minutes. The chance for more rate volatility in the US is about supply, the core PCE data and the FOMC minutes – all that comes to a head Wednesday. The PCE index, which is expected to have climbed 0.2% for October, is one main data point before the Fed's Dec. 17-18 meeting. Markets show at 55-45% split over whether the Fed will hold rates steady or deliver another quarter-point cut, which would be another boost to consumers and risk assets. The ability for the FOMC to get to its 2% target in 2025 is now in question and the report this week along with their own debate about the terminal rate of this easing cycle will drive prices into the month end.

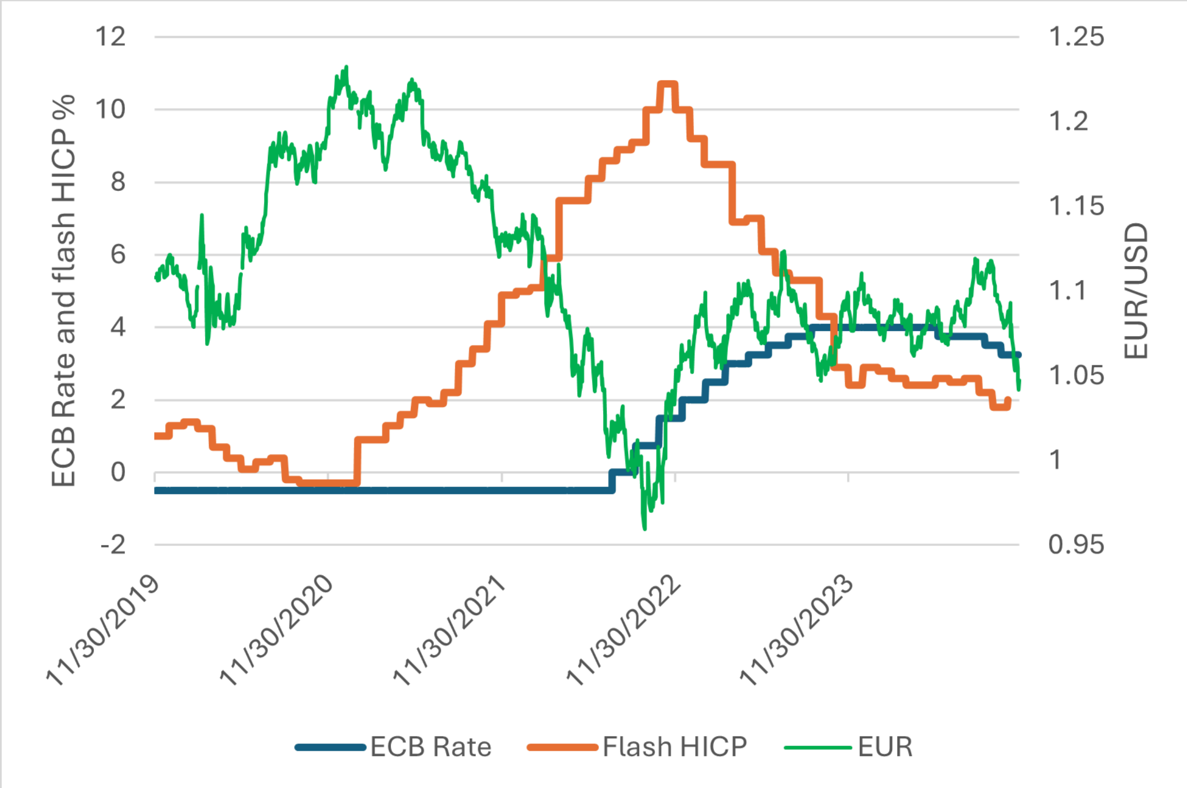
Exhibit #2: Core PCE and Fed Funds - 2% matters



Source: Bloomberg, BNY

3. The Eurozone flash November HICP, rates, politics and the ECB. The risk for Eurozone growth rests on how the ECB handles inflation and stickiness. The rise of HICP last month was seen as “temporary” but if this continues, many fear the ECB won’t deliver what is wanted – a larger rate cut. The markets price in 75% of 50bps in December. But there are other concerns. The S&P reviews France's credit rating - Fitch and Moody downgraded their outlooks to negative recently. Uncertainty remains high in France, as Michel Barnier's government seeks to pass a belt-tightening budget, with far-right leader Marine Le Pen threatening to topple the fragile ruling coalition. And Ireland holds an election, where ambitious spending plans banking on a sustained boom in multinational corporate tax revenues could be threatened by Trump's presidency.

Exhibit #3: ECB and flash CPI matters to EUR



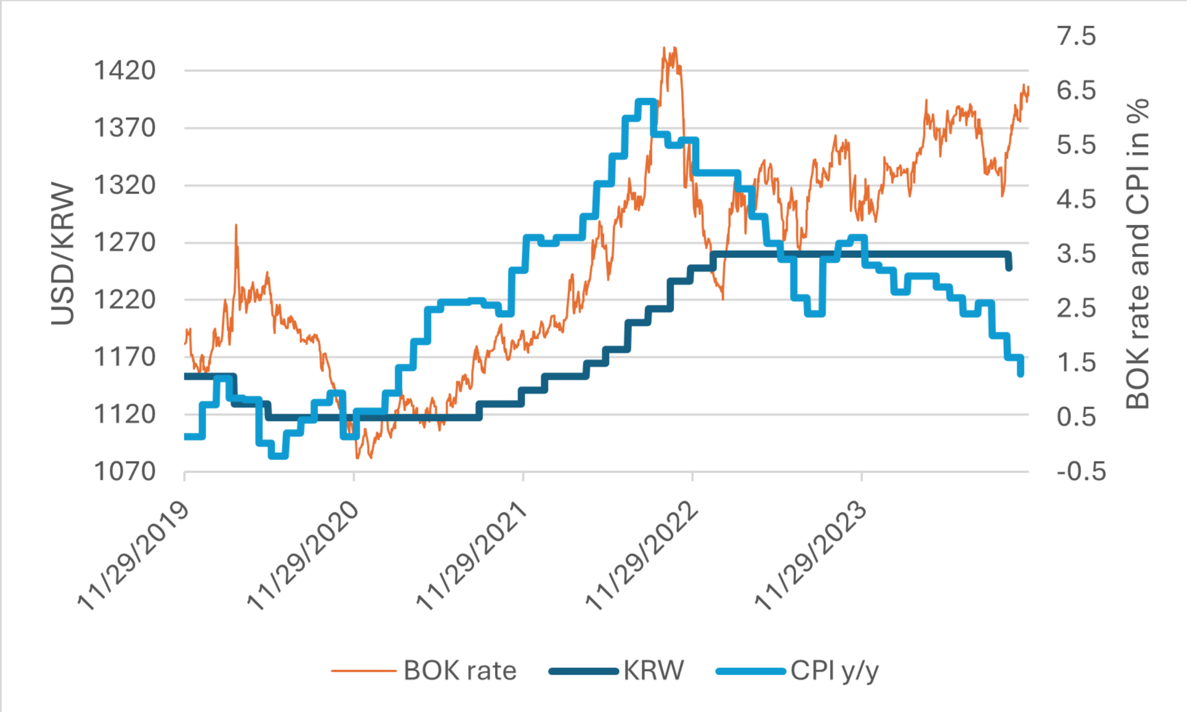
Source: Bloomberg, BNY

---

4. Korea on Hold to cut, BOJ waiting to hike? The market prices in a 55% chance of a hike from the BOJ in Japan in their December meeting. JPY is off 7% since September and the currency is watching 153-155 range consolidation after failing to stay near the 140 level after rate hikes in the summer. The politics were one reason for JPY weakness, but post the election and the minority government, the higher CPI has mattered along with the push and pull of BOJ comments for more wage inflation. How the Tokyo CPI prints for November matters to JPY and markets. The Bank of Korea is in the opposite place where a rate cut was expected a month ago and now has been priced away given the ongoing KRW weakness with 1400 seen as a line too far for policy makers. This makes the sharp improvement from over 6% CPI to under 1.5% CPI less powerful and clearly the FX consideration matters to authorities more. The BOK will revise its forecast in its meeting this week and that could set the stage for more action on easing into 2025 should trade and US relations remain status quo.

.

Exhibit #4: Korea rates, CPI and KRW



Source: Bloomberg, BNY

Calendar for Economic Releases and Events - November 25-29

Central Bank Meetings:

- **Israel BoI (Monday, November 25) –** No change is expected in the BoI base rate as the central bank will need to manage the economic status quo without too strong a view on how matters may proceed over the coming quarters. If there is a window to begin easing policy, it will be clearly signalled. In the meantime, given the USD's recovery and potential for renewed upside risk in U.S. yields, additional pass-through risk in the ILS will need careful management. Sequential inflation rebounded strongly in October and there are no signs of loosening in the labour market as unemployment continues to fall, even from extremely low levels.
- **New Zealand RBNZ (Wednesday, November 27) –** The RBNZ is expected to continue easing forcefully and deliver another 50bp in easing. Data is clearly softening and crucial non-tradable inputs such as wages are surprising to the downside – Q3's pace has fallen to 0.6% and the labour market contracted on a quarterly and annualised basis. We doubt the messaging from the RBNZ will change much as there is a sense of policy front-loading but given the fiscal outlook there is clearly room to act to prevent downside risks coming through. Household demand is expected to contract further, and medium-term inflation expectations are now well-anchored at round 2%.
- **Korea BoK (Thursday, November 28) -** We expect the BoK to maintain status quo at 3.25% but leave option open for future rates cut. Note that the 3m CD at 3.44% no longer pricing a near-term rate cut, while the KRW 9x12 FRA stands at 2.8%. BoK will

release a new set of economic forecasts, which may entail lower inflation and slowing growth, which would warrant further policy easing. However, recent asset prices volatility might deter BoK from delivering a back-to-back rate cut. BoK commented at the October policy meeting that it would “carefully determine the pace of further cuts.”

Calendar of economic releases and events

Key data/releases

Date	GMT	EST	Country	Event	Period	Cons.	Prior
11/24/24	21:45	16:45	NZ	Trade Balance NZD	Oct	--	-2108m
11/25/24	09:00	04:00	GE	IFO Business Climate	Nov	86.5	86.5
11/25/24	09:00	04:00	PD	Sold Industrial Output YoY	Oct	1.60%	-0.30%
11/25/24	09:00	04:00	PD	PPI YoY	Oct	-5.60%	-6.30%
11/25/24	***14:00***	***09:00***	***IS***	***Base Rate***	***Nov-25***	***4.50%***	***4.50%***
11/26/24	12:00	07:00	BZ	IBGE Inflation IPCA-15 MoM	Nov	--	0.54%
11/26/24	15:00	10:00	US	New Home Sales	Oct	722k	738k
11/26/24	15:00	10:00	US	Conf. Board Consumer Confidence	Nov	112.5	108.7
11/27/24	***01:00***	****20:00***	***NZ***	***RBNZ Official Cash Rate***	***Nov-27***	***4.25%***	***4.75%***
11/27/24	12:00	07:00	US	MBA Mortgage Applications	Nov-22	--	1.70%
11/27/24	13:30	08:30	US	GDP Annualized QoQ	3Q S	2.80%	2.80%
11/27/24	13:30	08:30	US	Durable Goods Orders	Oct P	0.50%	-0.70%
11/27/24	13:30	08:30	US	Initial Jobless Claims	Nov-23	--	213k
11/27/24	15:00	10:00	US	Personal Income	Oct	0.30%	0.30%
11/27/24	15:00	10:00	US	Personal Spending	Oct	0.40%	0.50%
11/28/24			***SK***	***BOK Base Rate***	***Nov-28***	***3.25%***	***3.25%***
11/28/24	07:00	02:00	TU	Trade Balance	Oct	--	-5.13b
11/28/24	13:00	08:00	GE	CPI YoY	Nov P	2.20%	2.00%
11/28/24	13:00	08:00	GE	CPI MoM	Nov P	-0.20%	0.40%
11/28/24	23:30	18:30	JN	Jobless Rate	Oct	2.50%	2.40%
11/28/24	23:30	18:30	JN	Job-To-Applicant Ratio	Oct	1.24	1.24
11/28/24	23:30	18:30	JN	Tokyo CPI Ex-Fresh Food YoY	Nov	2.00%	1.80%
11/28/24	23:50	18:50	JN	Industrial Production MoM	Oct P	4.00%	1.60%
11/29/24	07:00	02:00	SW	GDP QoQ	3Q	-0.10%	-0.30%
11/29/24	09:00	04:00	PD	CPI YoY	Nov P	4.60%	5.00%
11/29/24	10:00	05:00	EC	CPI MoM	Nov P	-0.20%	0.30%
11/29/24	12:00	07:00	SA	Trade Balance Rand	Oct	--	12.8b
11/29/24	13:30	08:30	CA	Quarterly GDP Annualized	3Q	0.90%	2.10%

Key speeches/events

Date	GMT	EST	Country	Event
11/25/24	09:00	04:00	UK	BOE's Lombardelli Speaks
11/25/24	10:30	05:30	UK	BOE's Dhingra Speaks
11/25/24	16:30	11:30	EC	ECB's Lane Speaks in London
11/25/24	17:30	12:30	EC	ECB's Nagel Speaks in Dortmund
11/25/24	19:00	14:00	EC	ECB's Makhlouf Speaks
11/26/24	07:30	02:30	SW	Riksbank's Seim speaks on neutral rate
11/26/24	08:00	03:00	EC	ECB's Villeroy Speaks in Paris
11/26/24	09:00	04:00	EC	ECB's Centeno Speaks at Banking Conference in Lisbon
11/26/24	09:15	04:15	EC	ECB's Villeroy speaks in Paris
11/26/24	10:00	05:00	FI	ECB's Rehn Speaks in Public Hearing in Finnish Parliament
11/27/24	01:00	*20:00	NZ	RBNZ Monetary Policy Statement
11/27/24	02:00	*21:00	NZ	RBNZ News Conference on Mon Policy Statement
11/27/24	07:30	02:30	SW	Riksbank's Jansson speech on monetary policy
11/27/24	08:00	03:00	NO	Norges Bank 2H Financial Stability Report
11/27/24	18:00	13:00	EC	ECB's Lane Speaks in Frankfurt
11/28/24	08:55	03:55	AU	RBA's Bullock-Speech
11/28/24	13:30	08:30	SW	Riksbank's Bunge speech on Sweden's economic conditions
11/28/24	15:00	10:00	MX	Central Bank Monetary Policy Minutes
11/29/24	07:30	02:30	SW	Riksbank seminar on payment infrastucture
11/29/24	10:30	05:30	UK	BOE release financial stability review and FPC minutes
11/29/24	13:00	08:00	EC	ECB Governing Council member Joachim Nagel Speaks

Source: Bloomberg, BNY

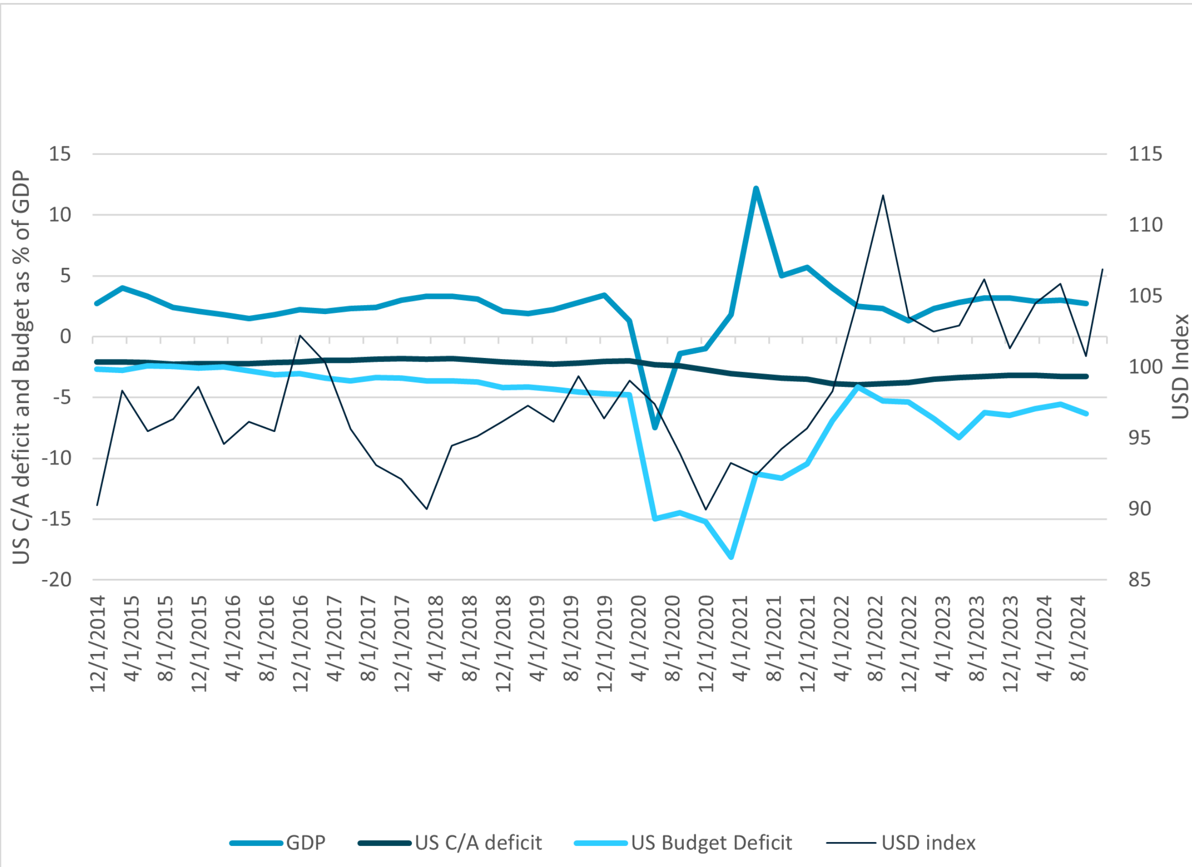
Conclusions: Is the USD overvalued?

There is an urgency to trading in the last few weeks of 2024 and that starts this week with the shortened holiday trading sessions mixed with month-end. The debate many investors have now is what matters in 2025 is different than the present but waiting may also bring a new set of risks. The balancing out of the new Trump Presidency and the change it will bring to rates, the USD, trade, taxes and tariffs all collide with the present best of times mood for US assets. The soft-landing hope in 2023 became a reality in 2024 and many see that extending with further FOMC easing into 2025.

The value of the USD in this narrative matters. On one hand, tariffs are expected to lead to a stronger USD as other nations devalue their own FX to counterbalance the burden on their exports. On the other hand, the USD overvaluation will hurt US exporters as they see their price competitiveness erode. Slower growth follows and then inflation becomes a key focus again as higher import costs and slower growth drive deflation fears. FOMC policy becomes important again and the driving force for USD value returns to growth rather than the talk of twin deficits. The USD as a carry trade rather than a stock market trade could be the key shift to watch for in the days ahead.

Bottom Line: The value of the USD over the last 10 years has been below 100 on its narrow DXY index. The fact that we are trading 10% over that average (96.50) and that we have not seen an improvement in the budget deficit makes the US hold a debt premium which lifts rates and supports the USD for as long as the world has excess capital and lower rates. Much of this points back to growth and how US policy supports faster that potential growth. The lower growth, lower rate regime pre-Covid kept the USD weaker and didn't move the C/A. The FOMC minutes will matter in this regard and any comments about trade, inflation or USD valuation will be magnified. For the week ahead, USD selling is expected given the month-end rebalancing pressures. Just how much and how important fiscal or monetary policy effects counter this portfolio shift will set the pace for the next week. Investors have time to use this volatility from now until year-end to prepare for the expected changes ahead.

Exhibit #5: USD index vs. GDP and deficits



Source: BLS, CBO, Bloomberg, BNY

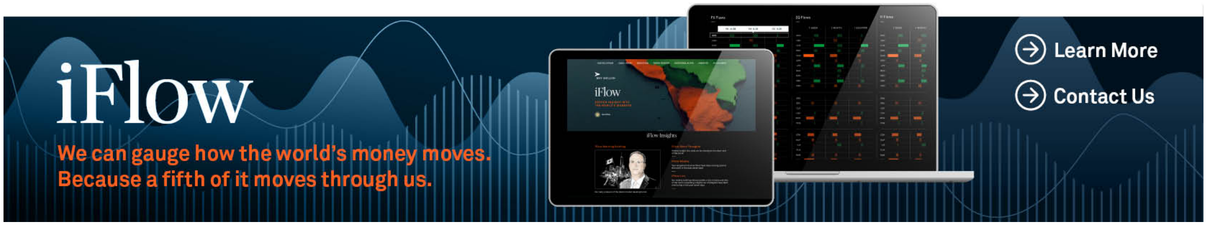
Please direct questions or comments to: iFlow@bny.com

Disclaimer & Disclosures

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

Can’t see the email? View online



This message was sent from an unmonitored email box. Please do not reply to this message.