

December 8, 2024

Jumbo

"Think big: think disruptive. Execute with full passion." - Masayoshi Son

- **Risk of 50bps in ECB, SNB and BOC rate cuts this week** while **RBA, BCRP expected on hold** and **Brazil Copom expected to hike 75bps** but there is a chance of 1% as the market prices in 91bps. Jumbo or regular is the key question for 2025 growth views for the week ahead.
- **Syria and the fall of the Assad government over the weekend** connected to lack of support from Iran, Russia and Hezbollah. What happens next matters to region and oil prices. Connection of Oil and commodities to FX linked CAD, AUD and some EM clearly in play this week.
- **South Korea President Yoon survives impeachment vote** as opposition bloc fails by 8 votes in National Assembly. How China, Japan and other markets react to Korea flows matters in the week ahead.
- **US Supply and CPI** – Focus is back on US rates this week with new supply, CPI/PPI key. Tuesday US sells \$58bn in 3Y notes, Wednesday, US CPI expected up 0.3% m/m, and sells \$39bn in 10Y notes, Thursday US PPI expected up 0.3% and sells \$22bn in 30Y bonds. Whether the data and bond auctions show demand for USD in play this week.

Summary:

The central question for the week ahead is what happens to global interest rates 6 weeks ahead of the US Trump Inauguration. The focus over the weekend was on political unrest in Europe, Korea, the Syrian rebel lightning take-over of the country and the ongoing conflicts in Ukraine. The last week saw US unemployment tick up to 4.2% locking in expectations for a Fed 25bps cut December 18. The political upheaval in France and South Korea surprised but didn't shift markets as much as some feared, while volatility continues in FX its lower in bonds and stocks. There is a sense that the next two weeks will be less than big for markets as they set up winter and the new year ahead.

Themes:

- **Yield Curves** – The US curve steepening is a key focus for investors in the weeks ahead as debate rages between slowing US and global economy vs. US debt size and inflation risks from tariffs and other policy shifts. Markets also

see the FOMC still easing, although how much more in 2025 seems key to the curve risk. Growth and inflation data remain central to US and all markets.

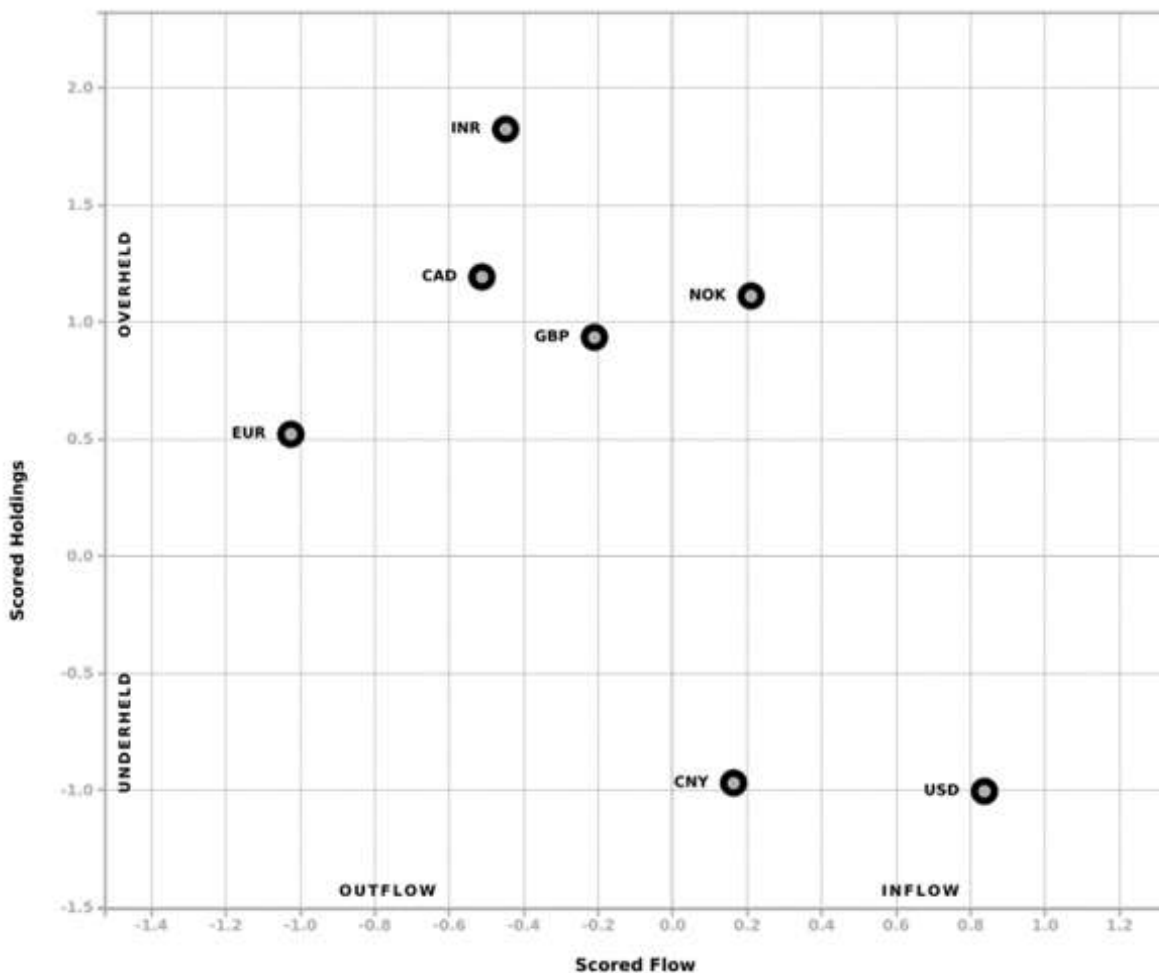
- **USD and exceptionalism.** The correlation of USD up and global shares down is very much a focus with the central bank decisions ahead. The connection between foreign rates and growth hopes into 2025 matters to how money flows and USD strength. The role of a US soft-landing and the Trump Tariff plans are key to this trade continuing.
- **Valuation and Momentum.** The key test for markets maybe in 2025 and the risk of a rotation trade as asset allocation trims the winners and supports the losers in the returns of 2024. The sharp rally in Bitcoin, post the election, is one example while US shares in big tech are another.

What does iFlow show?

- **FX:** The US dollar index rose 0.2% on the week extending its gains from November. The only currencies to do better than the USD last week were ILS, CZK and COP and in G10 CHF and GBP and DKK all rose 0.7%. The laggards were KRW off 1.4%, AUD off 1.3% and NZD off 1%. iFlow also saw the USD outperform up 1.48 on scored flows, while TRY and CNY followed. The laggards in iFlow were BRL -2.44, CAD -1.99, DKK -0.87 and MXN -0.85 – what stands out is how Korea wasn't particularly sold, and that BRL and CAD were into rate decisions this week. What was most at odds with flows are MXN and DKK suggesting some volatility ahead. From a flow/holdings perspective only CNY and JPY are seeing short-covering – a state that usually sees momentum. The FX factors of carry, trend and value are all neutral and all were up this week. The USD correlation to equities stands out in being negative -0.51 in the 26% percentile – suggesting this state could last longer and adding to USD momentum.
- **Equities:** The Mood index is nearing historic lows at -0.357 in the 1.9% percentile. The contrast of this equity selling, bill buying index to the historic new highs in US indices highlights the underperformance elsewhere. Even so, this last week had significant rallies in Europe – with Italy up 4%, Sweden 3.99%, while Mexico bounced back 3.08%. The only laggards were DJIA off 0.6% and Australia ASX off 0.18%. From a sector perspective, Health Care led while communication services also rose. By region, Europe saw inflows into materials, consumer discretionary, healthcare, IT, Communications, and real estate. Asia developed markets saw bounces up in industrials and consumer discretionary along with real estate. From a style point of view, cyclical vs. defensive remains flat in US while growth slips against value but leverage flows hold bid.
- **Fixed Income:** The US markets modestly bull steepened even with 10Y rates off 3bps to 4.15%, as 2Y rates held 4.10% as future FOMC policy is still uncertain in 2025. The biggest bond winners were Australia off 11bps to 4.22% into the RBA meeting this week, while Mexico also rallied 15.5bps to 6.03%. The biggest losers were Sweden up 12.5bps to 2.03%, Germany up 7.5bps to 2.105%, UK up 6.5bps to 4.275%. In contrast to the market prices, iFlow shows the biggest winners for bonds were India up 2.24, Japan up 0.599 and China up 0.59 while the biggest losers were Australia -0.99, Europe -0.75 and Korea -0.51. In the US, the most notable flows were in the 2Y-5Y where

buying 5Y and selling 2Y stands out. However, flows in 10Y plus dominated and our directional maturity index rose to new highs for the last 4 years.

Exhibit #1: Only USD, JPY and CNY seeing short covering in iFlow



Source: iFlow, BNY

News Agenda and Weekly Themes – Central Bank decisions, US, China, and EM CPI, UK GDP, Japan Tankan

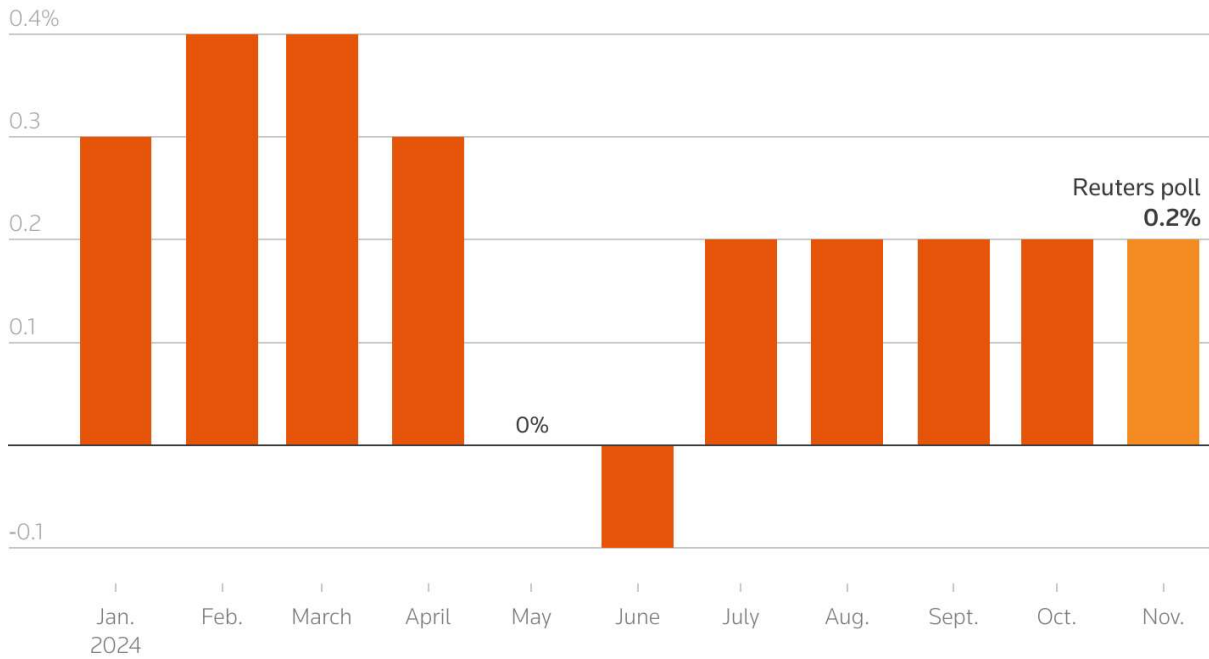
In the United States, attention will be on inflation indicators **Consumer Price Index, Producer Price Index and export and import prices**. Also, **central banks in the Euro Area, Australia, Canada, Brazil, and Switzerland** will outline their monetary policy directions. Inflation figures from Mexico, Brazil, South Africa, Russia, and India will be also closely monitored. In China, updates on consumer and producer inflation, trade data, and New Yuan Loans are awaited. Germany will report on its balance of trade and wholesale prices. In the United Kingdom, focus is on October's GDP growth and industrial production. In Australia, investors will pay attention to labor report and NAB business confidence. Finally, Japan will release the Tankan manufacturing index.

1. US CPI key for confirming 25bps easing in December? The last major release for 2024 comes from inflation – with market expectations for November CPI up 2.7% y/y from 2.6% and with core CPI expected flat at 3.3% y/y. There is vulnerability to any upside surprises given the market has priced in a FOMC December easing and US bonds rallied again last week post the as expected US non-farm payrolls. The hawkish tilt to FOMC speakers is in the 2025 pricing and risk for pauses. The dot plot and Chair Powell conference will be the last big event for US markets December 18th. From now until then many expect less not more trading.

Exhibit #2: US CPI not improving but not worse?

Staying steady

U.S. consumer prices are expected to have gained 0.2% month-on-month in November, according to a Reuters poll.



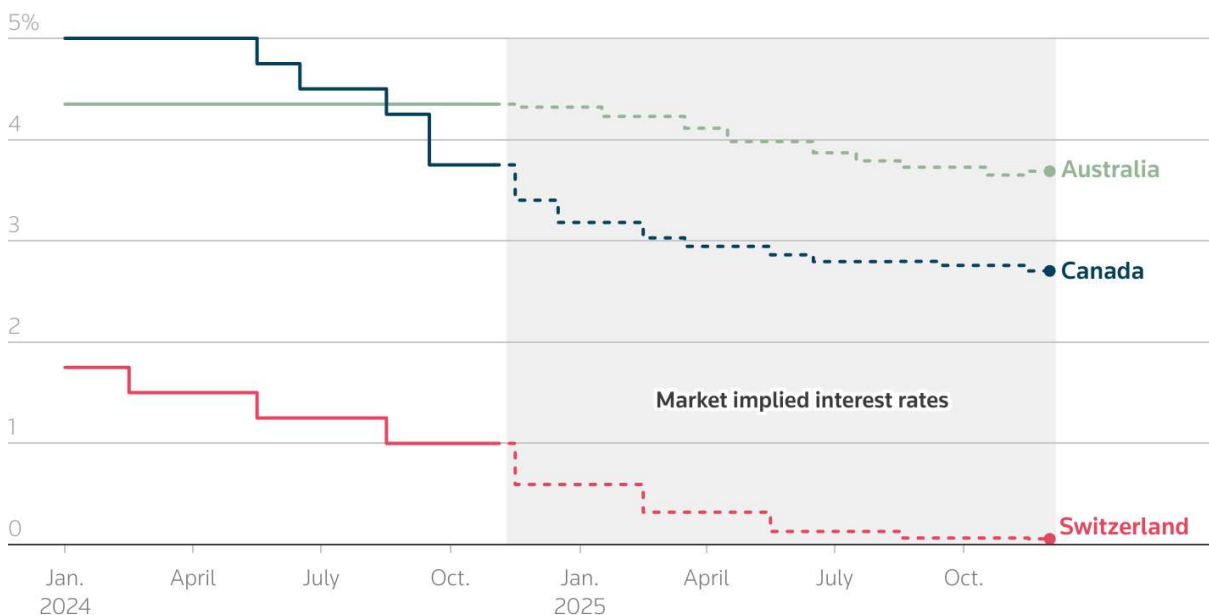
Sources: LSEG Datastream, Reuters polling | REUTERS, Dec. 4, 2024
Source: Reuters, BNY

2. RBA, SNB, BOC and the market. Australia saw its bonds rally as the GDP missed in 3Q, but CPI remains sticky. RBA speeches remain clear that a rate cut is not possible until inflation is controlled. The market prices in just a 15% chance of easing this week and 50bps of easing isn't priced until July. This contrast to the BOC where 50bps is the consensus for next week. Both AUD and CAD are weaker and in 10-15% undervalued states but they both share links to commodities which have also suffered. Switzerland is the one place in the G10 where 50bps is priced and even more expected for 2025. The CPI at 0.7% y/y is low and while growth has been uneven, its stabilizing in contrast to Europe. Markets will get a chance to see if growth matters with all three rate decisions in play next week.

Exhibit #3: Race to zero rates is won by the Swiss

Cuts ahead for Australia, Canada and Swiss central banks

Market pricing indicates that the three central banks are expected to cut rates until mid-2025.



Note: Market implied rates are as of 10 AM GMT on Dec. 5.

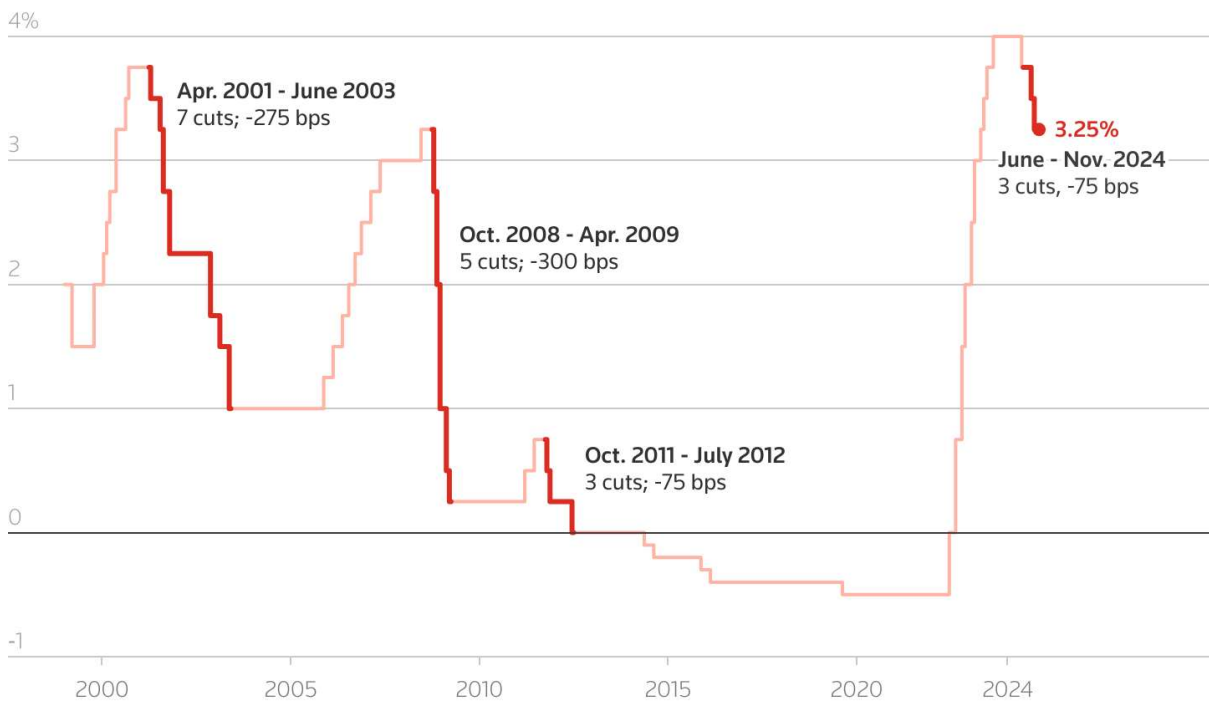
Source: LSEG | Reuters, Dec. 5, 2024 | By Sumanta Sen

3. EUR and 25bps – The ECB is expected to cut just 25bps on Thursday. This will be their 4th cut but likely is seen as insufficient to support the EUR or to help growth. The political surprises in Germany and France since the October cut are one key factor in driving the EUR down in November. EUR weakness and its role on future inflation is a factor. But the sticky inflation particularly in wages is the key holding back the ECB from any jumbo easing this week. ECB chief [Christine Lagarde](#) will likely stress caution and data-dependency and add to the uncertainty around FX and EU assets.

Exhibit #4: Is there a chance for 50bps from the ECB?

ECB gets set to lower rates again

The ECB is likely to cut the deposit rate by at least 25 bps at its next meeting.



Source: LSEG Datastream | Reuters, Dec. 5, 2024 | By Sumanta Sen
 Source: Reuters, BNY

4. Brazil Copom and the BRL. The markets price in 91bps for the Wednesday rate hike from the Brazil BCB. Analysts see 75bps and more in 2025. The final meeting under Governor Roberto Campos Neto is a jumbo hike but 75 or 100 is the debate. After two hikes brought rates to 11.25% the risk for 14% and a return to higher for longer rests on two key factors – first is the BRL which lost 1.4% on Friday and is now testing 6.09. The break of 6.0 came as the second factor that has held Brazil back from easier money remains in play – the fiscal plan where cuts in spending proved too little for the market. How fiscal dominance breaks in Brazil maybe the 2025 key question. The ability to see BRL stay over 6.0 for a longer period of time rests on how the government sets up the budget and how the elections ahead play out.

Exhibit #5: Is 12% enough to stabilize BRL?

The only way is up

Brazil's central bank holds its final meeting under Governor Roberto Campos Neto on Dec. 11 with some analysts expecting a sharper 75 basis point hike.



Source: LSEG Datastream | Reuters, Dec. 5, 2024 | By Kripa Jayaram
Source: Reuters, BNY

Calendar for Economic Releases December 9-13

Central Bank Decisions

- **Australia RBA (Tuesday, December 10)** – The RBA is expected to keep rates on hold and the central bank is expected to remain one of the least hawkish central banks in G10, though we acknowledge that it is becoming less of any outlier. The direction of travel remains towards easing and the RBA will be hoping that non-tradeable inflation will continue to soften, especially given some potential upside risks to demand arising externally if China pushes further with stimulus efforts. The market is only looking for one cut in Q1 and for now we don't see much risk of such pricing being brought forward.
- **Canada BoC (Wednesday, December 11)** – Poor productivity, a weak jobs report, and an economy operating at excess capacity will lead to a 50bp rate cut from Ottawa this coming week. Furthermore, inflation is still stable and within the Bank's target, underscoring the Bank's room to cut further.
- **Brazil COPOM (Wednesday, December 11)** – Headline rates in Brazil are expected to move aggressively higher and back to 12% as headline inflation picks up further. The additional risk of pass-through inflation from a firm dollar and given sequential inflation is now clearly running at more than 1%/m/m, the market is in no position to rule out a return to the highs of the cycle. Domestic demand data is expected to show ongoing strength in consumption though broader activity has flatlined.
- **Swiss SNB (Thursday, December 12)** – The market is on balance looking for a 25bp cut by the SNB but we believe a 50bp cut is firmly on the table – even necessary. The meeting will be the first held under new SNB President Schlegel and he has been unequivocal about negative rates staying in the SNB's toolkit. For any form of activation reaching the nominal zero lower-bound (ZLB) is a prerequisite and similar to the outlook from the Riksbank, we expect the SNB to front-loading easing to that effect, especially as inflation continues to disappoint to the downside.

- **Eurozone ECB (Thursday, December 13)** – Although no Governing Council member has openly denied the prospect of a 50bp cut, the raft of speeches over the last few weeks have not supported any such move either. This means that despite the ongoing concern over political gyrations in France and Germany, the ECB would be content with 25bp. Executive Board member Schnabel even warned against excessively loose conditions but this is an outlier view for now. However, we believe that there is a tail risk of a 50bp move over the next few meetings, especially if tariff risk escalates – several members have stated that despite pass-through risk, rate cuts should be used as an active tool in the face of income losses from exports.
- **Peru BCRP (Thursday, December 13)** – In contrast to Brazil, rates do not have much upside potential in Peru as sequential inflation is flat at best. Local real rates are quite high by Latin American standards, but economic activity is generally growing robustly. Even so, Latin American central banks will likely attempt to maintain their policy buffers for now until the direction of U.S. economic policies becomes clearer.

Key data/releases

Date	GMT	EST	Country	Event	Period	Cons.	Prior
12/08/24	23:50	18:50	JN	GDP SA QoQ	3Q F	0.30%	0.20%
12/08/24	23:50	18:50	JN	GDP Annualized SA QoQ	3Q F	1.00%	0.90%
12/08/24	23:50	18:50	JN	GDP Deflator YoY	3Q F	2.50%	2.50%
12/08/24	23:50	18:50	JN	BoP Current Account Balance	Oct	¥2347.1b	¥1717.1b
12/09/24	01:30	*20:30	CH	PPI YoY	Nov	-2.80%	-2.90%
12/09/24	01:30	*20:30	CH	CPI YoY	Nov	0.40%	0.30%
12/09/24			CH	Money Supply M2 YoY	Nov	7.50%	7.50%
12/10/24	03:30	*22:30	AU	RBA Cash Rate Target	Dec-10	4.35%	4.35%
12/10/24	07:00	02:00	NO	CPI MoM	Nov	--	0.60%
12/10/24	07:00	02:00	NO	CPI YoY	Nov	--	2.60%
12/10/24	07:00	02:00	GE	CPI YoY	Nov F	2.20%	2.20%
12/10/24	07:00	02:00	GE	CPI MoM	Nov F	-0.20%	-0.20%
12/10/24	07:30	02:30	HU	CPI YoY	Nov	3.70%	3.20%
12/10/24	08:00	03:00	CZ	CPI MoM	Nov	0.20%	0.30%
12/10/24	08:00	03:00	CZ	CPI YoY	Nov	3.00%	2.80%
12/10/24	11:00	06:00	SA	Manufacturing Prod NSA YoY	Oct	0.30%	-0.80%
12/10/24	12:00	07:00	BZ	IBGE Inflation IPCA YoY	Nov	4.83%	4.76%
12/10/24	12:00	07:00	BZ	IBGE Inflation IPCA MoM	Nov	0.35%	0.56%
12/10/24	23:50	18:50	JN	PPI YoY	Nov	3.40%	3.40%
12/11/24	08:00	03:00	SA	CPI YoY	Nov	3.10%	2.80%
12/11/24	11:00	06:00	SA	Retail Sales Constant YoY	Oct	2.00%	0.90%
12/11/24	12:00	07:00	US	MBA Mortgage Applications	Dec-06	--	2.80%
12/11/24	13:30	08:30	US	CPI MoM	Nov	0.30%	0.20%
12/11/24	13:30	08:30	US	CPI YoY	Nov	2.70%	2.60%
12/11/24	14:45	09:45	CA	Bank of Canada Rate Decision	Dec-11	3.25%	3.75%
12/11/24	21:30	16:30	BZ	Selic Rate	Dec-11	12.00%	11.25%
12/12/24	00:30	*19:30	AU	Employment Change	Nov	25.0k	15.9k
12/12/24	00:30	*19:30	AU	Unemployment Rate	Nov	4.20%	4.10%
12/12/24	07:00	02:00	SW	CPI MoM	Nov F	--	0.30%
12/12/24	07:00	02:00	SW	CPI YoY	Nov F	--	1.60%
12/12/24	07:00	02:00	SW	CPI Level	Nov	--	415.51
12/12/24	07:00	02:00	TU	Current Account Balance	Oct	1.30b	2.99b
12/12/24	08:30	03:30	SZ	SNB Policy Rate	Dec-12	0.75%	1.00%
12/12/24	12:00	07:00	BZ	Retail Sales YoY	Oct	--	2.10%
12/12/24	13:15	08:15	EC	ECB Deposit Facility Rate	Dec-12	3.00%	3.25%
12/12/24	13:30	08:30	US	PPI Final Demand MoM	Nov	0.30%	0.20%
12/12/24	13:30	08:30	US	Initial Jobless Claims	Dec-07	--	224k
12/12/24	21:30	16:30	NZ	BusinessNZ Manufacturing PMI	Nov	--	45.8
12/12/24	23:00	18:00	PE	Reference Rate	Dec-12	5.00%	5.00%
12/12/24	23:50	18:50	JN	Tankan Large Mfg Index	4Q	13	13
12/13/24	04:30	23:30	JN	Industrial Production MoM	Oct F	--	3.00%
12/13/24	07:00	02:00	UK	Industrial Production MoM	Oct	0.30%	-0.50%
12/13/24	07:00	02:00	UK	Manufacturing Production MoM	Oct	0.20%	-1.00%
12/13/24	09:00	04:00	PD	CPI YoY	Nov F	--	4.60%

Key speeches/events

Date	GMT	EST	Country	Event
12/09/24	13:00	08:00	UK	BOE's Ramsden Speaks
12/11/24	07:00	02:00	AU	RBA's Hauser-Speech
12/11/24	22:15	17:15	AU	RBA's Jones-Speech
12/11-12/12			CN	Central Economic Work Meeting
12/12/24	09:00	04:00	SZ	SNB's Schlegel Speaks After Rate Decision
12/12/24	13:45	08:45	EC	ECB President Christine Lagarde Holds Press Conference
12/13/24	01:30	*20:30	AU	RBA's Hunter-Speech
12/13/24	07:30	02:30	NO	Norges Bank Publishes 2025 Borrowing Program
12/13/24	09:00	04:00	AS	ECB's Holzmann Speaks in Vienna
12/13/24	10:00	05:00	EC	Bundesbank Publishes Semi-Annual Forecasts

Source: Bloomberg, BNY

Conclusions: Santa Rallies, BTC and the Dollar - are they correlated?

We all know that correlation isn't causation but the rally up in Bitcoin to over \$100k this week has been historic. So too, the rally up to historic highs in the S&P500. The ETFs that helped get BTC higher have seen historic record-breaking inflows since their start – over \$110bn in just 10-months. The rally up started with the US election and the Trump campaign speech to a crypto conference in Nashville and continued last week with the President elect's choice of crypto veteran Paul Atkins to run the SEC. The Trump's election promises to make America "the crypto capital of the planet" – which may now require execution more than speculation in order to keep BTC from further consolidation.

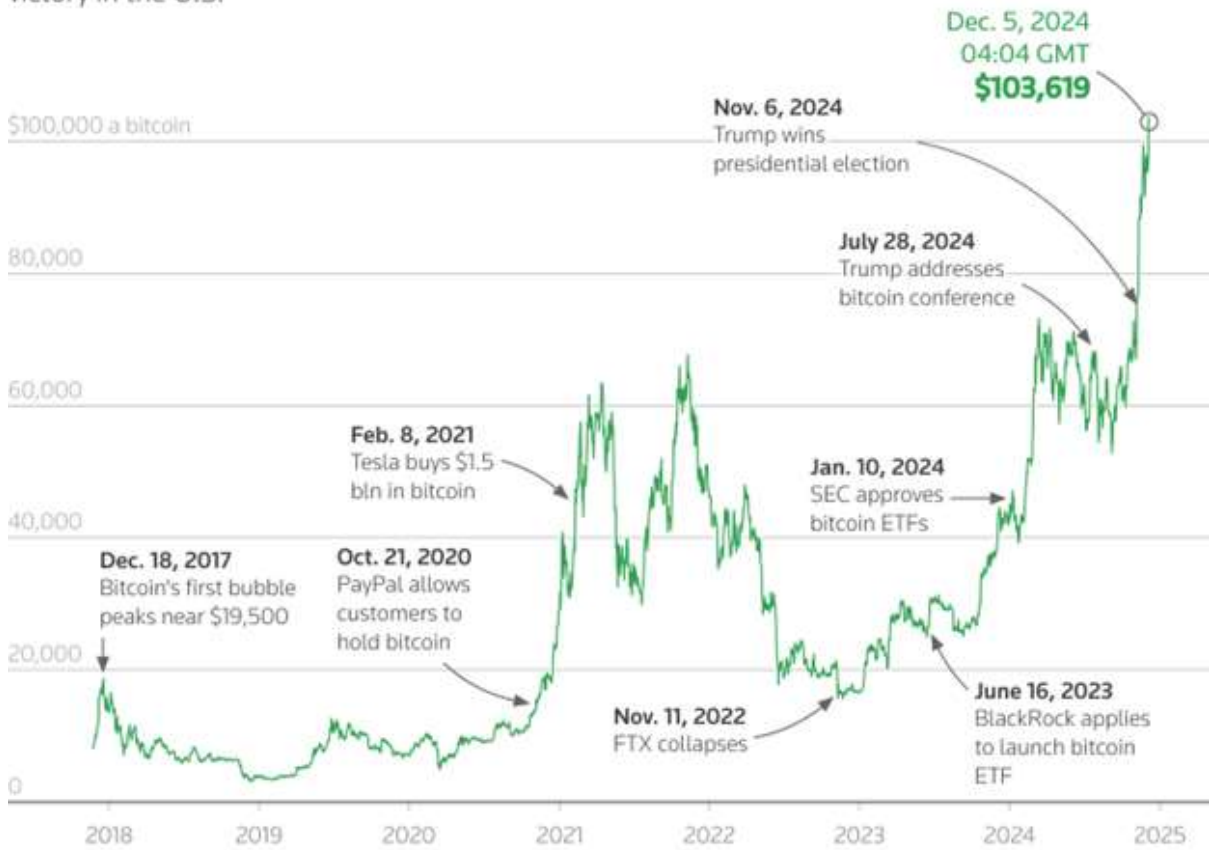
At the same time, the USD rally up over 4% since the election of Trump also matters. But the BTC and the USD have fundamentally different risks and different stories. The BTC is an anti-fiat currency, electronic gold story. The limited printing of private money is seen as a key attraction along with its lack of nationality. While the USD rally is linked to tariffs, tax cuts and deregulation expectations for Trump policy. Linking the USD to BTC would be a mistake except for the one central connection both depend on the Trump team delivering to market expectations of change.

Enter the BRIC+6 and the digital CNY. Many nations have talked about alternatives to the USD, none have really won the challenge – with the EUR the clearest alternative to date since 1970 and the US breaking from the gold standard. Central bank reserves hold about 20% EUR now almost 25 years after its start. How the rest of the world sees the USD in 2025 and how that compares to gold or BTC or just the EUR will matter for risk across all markets with US debt funding, US trade and US value all wrapped up in the dollar being the only choice in a world full of uncertainty.

Exhibit #6: BTC and the rally beats the USD and S&P500

Bitcoin hits \$100,000

Bitcoin has doubled this year, and is up about 45% in the four weeks since Trump's election victory in the U.S.



Note: Data as of Dec. 5, 2024, 04:04 GMT

Source: LSEG Workspace | Reuters, Dec. 5, 2024 | By Pasit Kongkunakornkul and Tom Westbrook

Source: Reuters, BNY

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

Disclaimer & Disclosures



Bob Savage

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