BNY MELLON

iFlow
MARKET MOVERS

April 23, 2024

Clarity

"“Clarity and simplicity are the antidotes to complexity and uncertainty.” – General George Casey
“Clarity of mind means clarity of passion, too; this is why a great and clear mind loves ardently and sees distinctly what it loves.” – Blaise Pascal

Summary

Risk on as markets watch better earnings and better economic data globally. The flash PMI reports all beat expectations from Australia to Japan to Europe. The price rises followed but the Singapore CPI was lower and the fear of inflation isn’t obvious in markets. ECB speeches added some doubt about post June cuts, but focus is more on BOJ Ueda who suggested more hike risks ahead while the 2Y auction there suggests higher than 50bps rate. The focus on the US day will be around the US 2Y sale, the flash PMI report, new home sales and the Richmond Fed manufacturing index. Throw in more speeches from BOE and ECB and you have the makings of an important economic day but one that is likely overshadowed by 1Q earnings which remain key for driving the counter-rally back for the month.

What’s different today:

- **Japan sold Y2.095trn of 2-year #460 at 0.303%** with 0.03bps tail - but with 3.48 bid/cover – highest yield in 6 years
- **Copper drops from 2-year highs** – blamed on profit taking, despite low supply of copper in China smelters.
- **iFlow from Monday data** – Equities saw 6 sectors higher globally but only APAC region has consistent inflows, while Fixed Income is mixed with EM

splits as Argentina selling vs. Brazil buying continuing, China bond inflows vs. India outflow. In FX ZAR inflow vs. MXN outflow.

What are we watching:

- **US April flash S&P composite PMI** expected 52 after 52.1 with Services 52 from 51.7 and manufacturing 52 from 51.9.
- **US March new home sales** expected up 1.1% to 669,000 after -0.3% at 662,000
- **US April Richmond Fed manufacturing index** expected -8 from -11
- **US Treasury $69bn 2Y note sale** with focus on 5% pivot in US yields, also 42-day CMB bill $65bn sale.
- **1Q earnings:** Tesla, Texas Instruments, Visa, MSCI, Invesco, Lockheed Martin, UPS, General Motors, Halliburton, GE, Chubb, Steel Dynamics, CoStar, Pepsico, IDEX, EQT, Baker Hughes, Seagate Technology, Quest Diagnostics, Freeport-McMoRan, Kimberly-Clark, Danaher, Nextera Energy, Enphase Energy, Pentair, Equity Residential, Veralto, Pultegroup, Fiserv, Sherwin-Williams, WR Berkley.
- **Central Bank Speakers**: Bundesbank President and European Central Bank policymaker Joachim Nagel speaks; Bank of England chief economist Huw Pill speaks

Headlines:

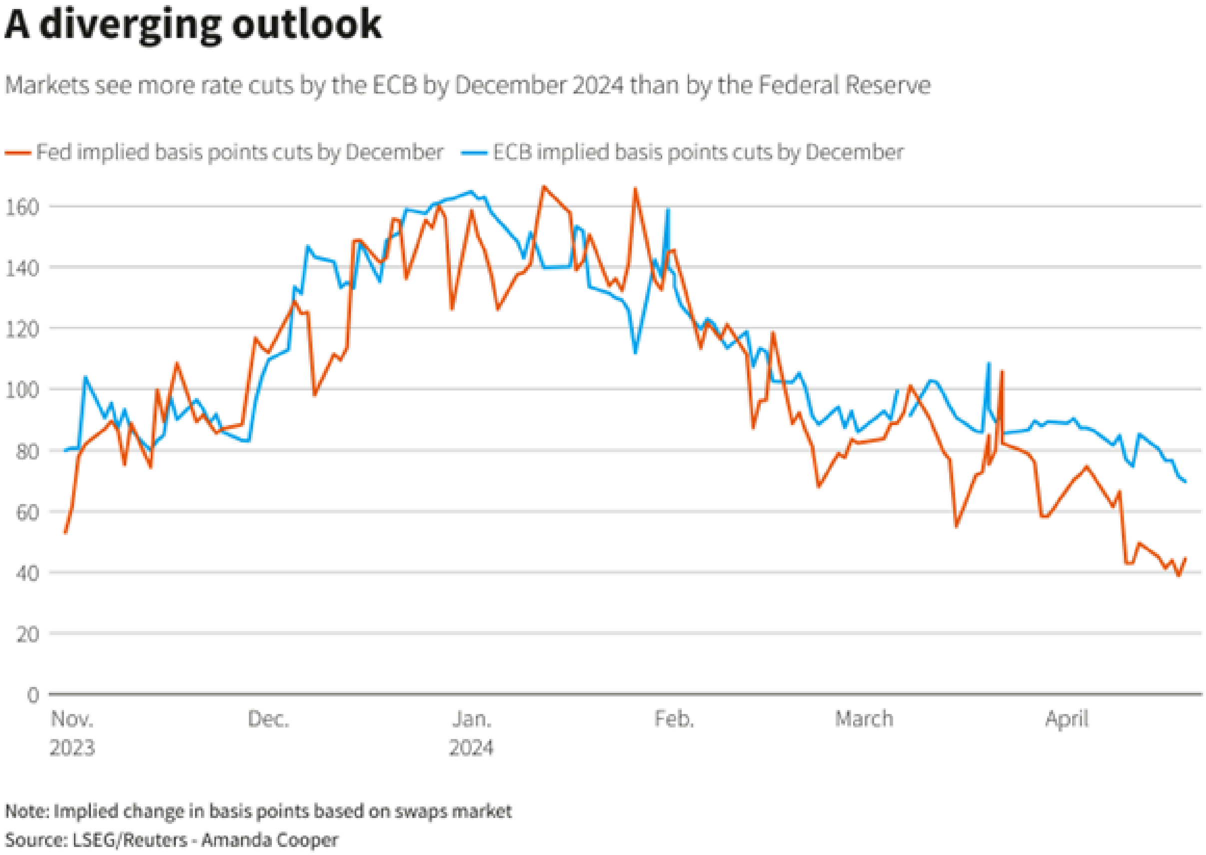
- Japan Apr flash composite PMI up 0.9 to 52.6- 4th month of expansion, best since August 2023 - BOJ Ueda will hike rates if trend inflation accelerates; BOJ March mean weighted CPI off 0.1pp to 1.3% y/y – Nikkei up 0.3%, JPY flat at 154.80
- WSJ: US drafting sanctions on some Chineses banks involved in helping Russia war efforts: China Securities Journal: still a chance for PBOC to cut MLF rate – CSI 300 off 0.7%, CNH off 0.2% to 7.2655
- Korea Mar PPI rose 0.2% m/m, 1.6% y/y- most since April 2023 – Kospi off 0.24%, KRW up 0.1% to 1378.20
- Australian Apr flash composite PMI up 0.3 to 53.6 - 3rd month of expansion, best since Apr 2022 – ASX up 0.45%, AUD flat at .6450
- India Apr flash composite PMI up 0.4 to 62.2- 33rd month of expansion, best since June 2010 – Sensex up 0.12%, INR flat at 83.338
- Singapore Mar CPI fell 0.7pp to 2.7% y/y- lowest since Sep 2021 – SGD off 0.1% to 1.3630

- South Africa Feb leading business cycle indicator jumps 1.9pp to +1.7% m/m- first expansion since Oct 2023 – ZAR off 0.2% to 19.229
- ECB de Guindos: Should be cautious about post-June rate cuts; Eurozone Apr flash composite PMI up 1.1 to 51.4 - 2nd month of expansion, best in 11-months, but with prices rising – EuroStoxx 50 up 1.15%, EUR up 0.1% to 1.0665
- UK April flash composite PMI up 1.2 to 54- best in 11-months led by services, US PSNB fell to GBP11.9bn – with taxes up 7.4% – FTSE up 0.6%, GBP up 0.2% to 1.2375

The Takeaways:

The focus on markets is about the business cycle divergence where the FOMC high for longer opens higher risks for recession later but the ECB promise to ease in June opens a door for a nascent recovery. The overnight data from flash PMI drive and the US exceptionalism argument for owning USD and US assets except bonds is in doubt. The risk of earnings is the most pressing for investors with big Tech the focus. The bigger risk on the week may be around how the rest of the world does with stocks and bonds and how other central banks dissect the data. Hungary and its rate decision starts the emerging market central bank decisions this week with BI tomorrow important in the balancing act of politics, economics and US rates driving policy with IDR still dancing near 4-year lows. Intervention risks remain key with all eyes still on Japan and the BOJ risk of a hike in July rising post today’s Ueda comments. The markets are watching divergence of policy and wondering if there are places outside the US holding value. Better earnings outside the US matter. Better economic growth prospects matter. The narrative may be changing about the dollar as the smile of policy and growth flashes teeth.

Will the ECB divergence from FOMC matter?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. Korea March PPI rose 0.2% m/m, 1.6% y/y after 0.3% m/m 1.5% y/y - less than the 1.8% y/y expected - but still the biggest rise since April 2023, as costs rose for agricultural, forestry, and marine products (+13.1 percent vs +10.8 percent in February) and electric power, water, and gas (+1.6 percent vs 0.9 percent). Meanwhile prices increased at the same pace for manufacturing (+0.4 percent) and services (2.1 percent).

2. Singapore March CPI -0.1% m/m, 2.7% y/y after +1% m/m, 3.4% y/y - less than the 3.1% y/y expected - lowest reading since September 2021, as inflation eased for most sub-indexes, particularly food (3% vs 3.8% in February), housing & utilities (3.7% vs 3.9%), and transport (0.9% vs 2.3%). Additionally, prices moderated for recreation & culture (4.6% vs 5.5%), and miscellaneous goods & services (1.9% vs 2.6%), while costs declined for clothing & footwear (-1.7% vs 0.4%).The CPI core off 0.5pp to 3.1% y/y.

3. Australia April Judo Bank flash composite PMI rose to 53.6 from 53.3 - better than 53.2 expected. Manufacturing nearly flat at 49.9 - at 3-month highs - from 47.3 while service fell to 54.2 from 54.4. The Australian private sector expanded for a third consecutive month and at the quickest pace since April 2022. While business activity growth was mainly driven by the service sector, the rate of decline in manufacturing output slowed to the least in eight months. This was supported by a slower reduction in new orders, while faster inflows of services and new business led to overall new orders rising at the fastest pace in nearly two years. Firms increased their staff levels to cope with ongoing workloads, mainly observed in the service sector. Input prices rose at a quicker rate at the start of the second quarter, attributed to rising cost inflation in both the manufacturing and service sectors. However, the pace of increase in selling prices eased for a second successive month as some firms aimed to support sales.

4. Japan April Jibun Bank flash composite PMI rose to 52.6from 51.7 - better than 52 expected - fourth straight month of growth in private sector activity and the strongest pace since last August, as the service sector expanded the most in 11 months riseing 0.5 to 54.6 while factory activity signaled a near stabilization up 1.7 to 49.9 following declines in the prior 10 months. New orders rose solidly, amid an acceleration in employment and sustained accumulation of backlogged work. At the same time, foreign sales contracted at a weaker rate. On prices, input cost quickened due to higher material, energy, and wage costs. The weaker yen played a significant part, as well. Firms passed on rising costs to customers, leading to the fastest rise in a year for average charges. Looking ahead, confidence remained upbeat, suggesting that expansion in activity may extend in the near term.

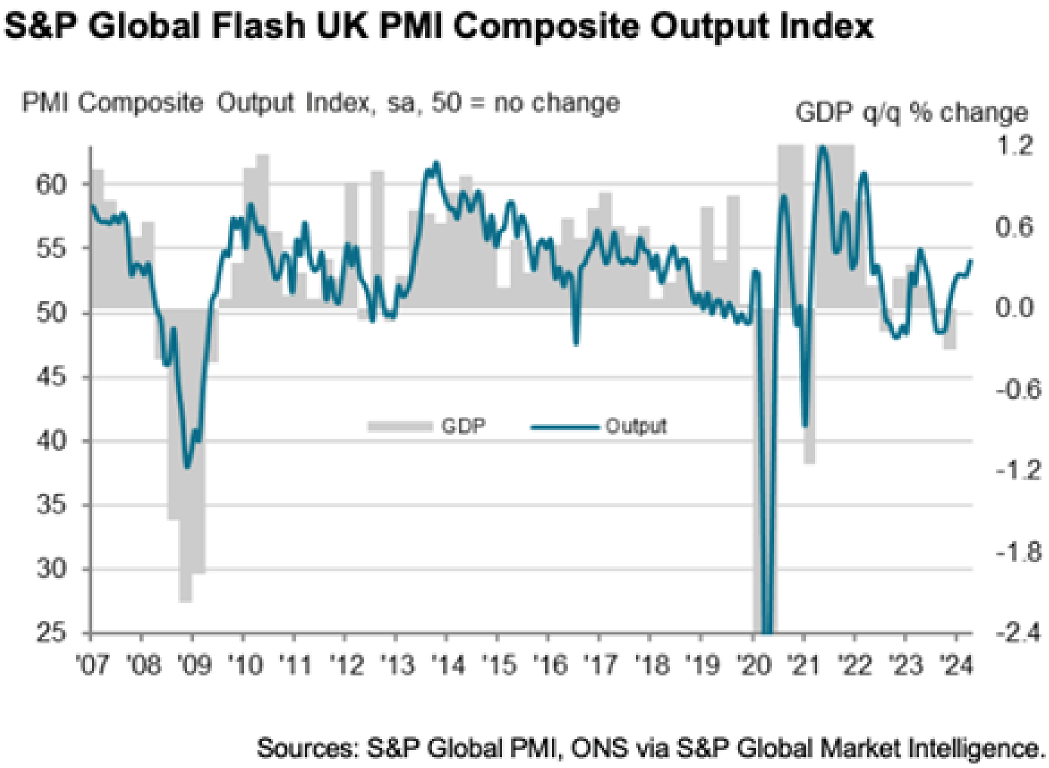
5. India April HSBC Bank flash composite PMI rose to 62.2 from 61.8 - better than 61.6 expected - the 33rd straight month of expansion in private sector activity and the fastest pace since June 2010, buoyed by robust growth in the manufacturing flat at 59.1 and services sector up 0.5 to 61.7. Both output and new orders expanded the most in nearly 14 years while foreign sales increased the most since the series began in September 2014. Meantime, employment increased slightly as firms tried to meet higher demand and clear backlogs. Pressures on capacity sustained but remained mild, with orders pending completion rising for the 28th month in a row despite the rate of growth slightly easing from that in March. On inflation, composite input and output prices moderated, albeit remaining robust. Finally, confidence improved from March's four-month low, and was above the series average, reflecting hopes of further improvements in demand and productivity.

6. South Africa February leading business cycle indicators jumps to 1.7% m/m after -0.2% m/m - better than -0.3% m/m expected - first expansion since October 2023, as increases in five of the ten available component time series outweighed decreases in the remaining five. The key positive contributors were an acceleration in the six-month smoothed growth rate in job advertisement space and an increase in the number of residential building plans approved. Meanwhile, the largest negative contributors were a decrease in South Africa’s US dollardenominated export commodity price index and the average hours worked per factory worker in the manufacturing sector.

7. **Eurozone April flash HCOB composite PMI rises to 51.4 from 50.3 - better than 50.8 expected** - the second successive month of rising output, and the fastest since May 2023, with service sector output increasing the most in 11 months up 1.4 to 52.9. On the other hand, manufacturing production continued to contract, off 0.5 to 45.6, although at the slowest rate in one year. By country, Germany returned to growth, ending a nine-month period of contraction, and France recorded the weakest pace of output decline in 11 months. Inflows of new orders remained under pressure due to sharp declines in factory demand, while employment levels increased the most since last June. On the price front, both input costs and output charges rose at a faster pace in April. Looking ahead, business expectations about the coming 12 months cooled slightly compared to March but was the second-highest recorded over the past 14 months German composite rose to 50.5 from 47.7 - led by services up 53.3 from 50.1 while manufacturing rose to 42.2 from 41.9. French composite rose to 49.9 from 48.3 - with services 50.5 from 48.3 but manufacturing 44.9 from 46.2.

8. **UK April flash composite PMI rose to 54.0 from 52.8 - better than 53 expected** - best since May 2023. Robust recovery in service sector output (PMI at 54.9 vs 53.1) helped to offset a marginal decline in manufacturing production (PMI at 48.7 vs 50.3). Output growth was supported by a solid upturn in new order volumes and a modest acceleration in staff hiring, in each case driven by the service economy. April data indicated a steep increase in average cost burdens across the private sector, with the rate of inflation up sharply from March and the highest since May 2023. Stronger input price inflation was overwhelmingly linked to higher staff wages, particularly in the hospitality and leisure sector. Many survey respondents noted pressure on labour costs from a near 10% annual increase in the National Living Wage and an indirect impact on pay awards to other employees.

Is the UK recovery going to stop BOE easing?



Source: EuroStat/BNY Mellon

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