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iFlow

MARKET MOVERS

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Impatience

"Experience has taught me this, that we undo ourselves by impatience. Misfortunes have their life and their limits, their sickness and their health." – Montaigne

"Patience is sottish, and impatience does become a dog that's mad." - Shakespeare

Summary

Risk mixed with focus on Fed pushing back on March and on BOE and Riksbank holding with divisions over the course of inflation ahead. The flash EU CPI dipped but not quite as fast as many hoped. The manufacturing global PMI reports are mostly higher and upbeat suggesting 1Q positivity. The earnings reports are coming fast and furious with focus today on 3 of the big tech companies in the US reporting while we also get US productivity, jobless claims and ISM manufacturing. There is plenty of calm in markets with little trend and more volatility as outlooks look confused making investors look impatient to put money to work but reluctant to fight central bankers as they remain higher for longer until the data force their hands.

What's different today:

- **Riksbank on hold at 4% - as expected – but highlights ongoing core inflation.** Keeps bias to remain higher for longer but see less risk of inflation rising – so market prices in cuts pre-November.
- **iFlow** – FX interesting - first outflow in USD in a week, trend now negative as FX factor, buying of EM in CEE3 extends, CNY sees notable outflows. Equities continuing to see mostly G10 selling with EM APAC inflows while in Fixed Income bond buying notable in Canada, New Zealand and US against EM new outflows in Turkey, Israel.

What are we watching:

- **US 4Q non-farm productivity** expected up 2.5% after 5.2% - with Unit Labor Costs up 1.2% after -1.2%. Productivity normalization assumed by FOMC key.
- **US weekly jobless claims** expected off 2k to 212k – whether jobs are stable or not now key to FOMC May views. Continuing claims expected up 6,000 to 1.839mn
- **US January final manufacturing PMI** expected 50.3 – same as flash – while US ISM manufacturing expected off 0.2 to 47.2 – with focus on jobs expected 47 from 47.3

Headlines:

- China Jan Caixin Manufacturing PMI flat at 50.8- 3rd month of growth but sales softer, confidence 9-month highs - while AmCham warns industrial overcapacity "here to stay" – CSI 300 up 0.07%, CNH off 0.1% to 7.1945
- Japan Jan Manufacturing PMI up 0.1 to 48- same as flash and 8th month of contraction - lowest output price gains in 31-months – Nikkei off 0.76%, JPY flat at 147.10
- Korea Jan trade surplus dips to $0.3bn - 8th months of surplus with exports up 18% y/y - while Jan Manufacturing PMI rises 1.3 to 51.2 - first expansion since June 2022 – Kospi up 1.82%, KRW up 0.1% to 1331.70
- Australian Jan Manufacturing PMI rises 2.5 to 50.1 - first expansion in 10 months - but Jan building permits drop 9.5% m/m, -24% y/y - but 4Q exports prices rose 5.6% q/q first gain in 3Q – ASX off 1.2%, AUD off 0.8% to .6515
- Indonesia Jan Manufacturing PMI rises 0.7 to 52.9 - 28th month of growth - led by new orders while Jan CPI fell 0.04pp to 2.57% y/y lowest since Oct – IDR up 0.1% to 15,760
- India Jan Manufacturing PMI up 1.6 to 56.5 - less than flash but best since Sep – Sensex off 0.15%, INR up 0.15% to 82.973
- Eurozone January flash CPI -0.4% m/m, 2.8% y/y - as expected - with Dec unemployment flat at 6.4% and with final Manufacturing PMI up 2.2 to 46.6 same as flash – EuroStoxx 50 flat, EUR flat at 1.0815
- UK BOE keeps rates on hold at 5.25%, with 6-2-1 vote - while Jan final Manufacturing PMI up 0.8 to 47 - still in contraction – FSTE up 0.35%, GBP off 0.1% to 1.2675
- EU agrees to E50bn aid for Ukraine, Farmers protest at EU parliament – Wheat off 1.2%
- Hamas expected to reject Israeli deal on withdrawal – WTI up 0.6%

The Takeaways:

The risk for investors today is in not waiting for the data like the FOMC and other central banks. The most important maybe in earnings rather than jobs. The 4Q earnings in the US have been sub-par and remain a headwind rather than tailwind for stocks which remain "priced to perfection," in the hope for Fed cuts, stable growth and ever lower inflation. The rest of the world is actually looking cheap and that is where the USD comes into play with the markets repricing odds for March post the Powell pushback to 38% but repricing May to 93%. The Fed is expected to ease and their delay opens many to fear a cost in growth that leaves the soft-landing a bit more bumpy. This is where stocks matter, but there is also a risk in the bond market as the US treasury refunding leans on tax takes and growth to sustain their optimism that their record borrowing is enough. The markets are in a bad place and they are impatient for easy returns in a longer more difficult flight path ahead.

US earnings may be the key for flows ahead

Details of Economic Releases:

1. **China January Caixin Manufacturing PMI flat at 50.8 - better than 50.6 expected -** the third straight month of growth in factory activity, contrasting with official data that showed an extended weakness ahead of a Lunar New Year celebration. Output growth was stable, with foreign sales growing for the first time in 7 months while new orders grew the least since last October. Further, buying levels increased the most in 5 months. Amid a back-to-back fall in unfinished workloads,

firms cut their workforce numbers again, though the rate of job shedding eased to a 5-month low. Supply chains improved for the third time in the past 4 months. On inflation, inputs costs rose the least in 5 months while selling prices fell slightly due to efforts to attract and secure new business. Finally, sentiment hit a 9-month top, linked to forecasts of stronger global demand, planned investment, and attempts to open new markets.

2. Korea January trade surplus narrows to $0.3bnafter $4.46bn - less than the $0.8bn expected - the eighth straight month of surplus in trade balance but the smallest amount in the sequence. Exports jumped 18% y/y, slightly faster than expectations of a 17.8% growth, the fourth consecutive month of expansion, mainly due to a recovery in semiconductor exports and rebounded in sales to China, South Korea's top trading partner. Meanwhile, imports fell 7.8%, the 11th straight month of decline, worse than market forecasts of a 7.6% drop due to high energy prices.

3. Korea January Manufacturing PMI rises to 51.2 from 49.9 - better than 50 expected - first expansion since June 2022, as the country's manufacturing sector saw a renewed improvement in operating conditions at the start of 2024. All five components of the headline PMI contributed positively to the latest reading. Output, new orders and exports all returned to expansion territory in January, alongside sustained rises in employment and purchasing activity, the latter of which rose at the sharpest rate for 21 months. Firms often commented that the launch of new products had driven new order intakes and boosted production volumes. Manufacturers were also confident that growth would continue over the coming year, as business optimism reached the highest level since last August.

4. Japan January Jibun Manufacturing PMI rises to 48 from 47.9 - same as flash - e 8th straight month of drop in factory activity, due to a sustained fall in output that was nonetheless the softest in 3 months. New work shrank for the 8th month, and export sales were also lower amid falling demand from China and the Asia-Pacific region. Employment declined for the third time in the past 4 months, and backlogs depleted the most since August 2020. Further, buying activity contracted for the 18th month. Firms saw a steeper deterioration in vendor performance, which was the most marked in 3 months. On prices, input cost rose further but the level of increase little changed from December. That said, output charges rose the least since June 2021. Lastly, sentiment stayed robust and remained above average, linked to expected improvements in demand for semiconductors and the mass production of newly-launched products.

5. Indonesia January Manufacturing PMI rises to 52.9 from 52.2 - better than the 52.1 expected - the 29th straight month of growth in factory activity and the strongest pace since last August, as faster new order growth, coupled with better supply conditions, led to production growing at the fastest pace in two years. Meanwhile, buying levels rose the most in 5 months, which contributed to a further accumulation of pre-production inventories. New export orders rose marginally while staffing levels and backlogged work were unchanged. Simultaneously, lead times shortened for a second straight month amid reports of improved efficiency at vendors. On the cost front, input price inflation eased to a 3-month low despite higher raw material and currency conversion costs. Firms were able to raise their selling prices at a slightly softer pace. Finally, sentiment stayed positive, though the level of optimism slipped to its lowest in 3 months and was below the series average.

6. Australian January Judo Bank Manufacturing PMI rises to 50.1 from 47.6 - less than 50.3 flash - still the first expansion in 10-months, supported by easing declines in new orders, production, and job shedding. Manufacturing output declined at a slower rate, driven by softer economic conditions and reduced demand, while employment levels fell marginally. Purchasing activity contracted, leading to unchanged input inventory holdings. Supply issues, including lengthening lead times, were attributed to domestic port and Red Sea disruptions. Despite increased supply delays, price pressures remained subdued, and overall sentiment improved, with increased business confidence for future sales.

7. Australian January building permits drop 9.5% m/m, -24% y/y after +0.3% m/m, -4.6% y/y - worse than the 1.1% m/m gain expected. The decline was driven by a sharp downturn in private sector dwelling excluding houses (-25.3%), as well as a 0.5% fall in private sector houses. On a geographical basis, total dwellings fell in Victoria (-18.4%), South Australia (-11.8%) and Tasmania (-2.7%), but increased in Queensland (8.2%), Western Australia (7.9%) and New South Wales (2%).

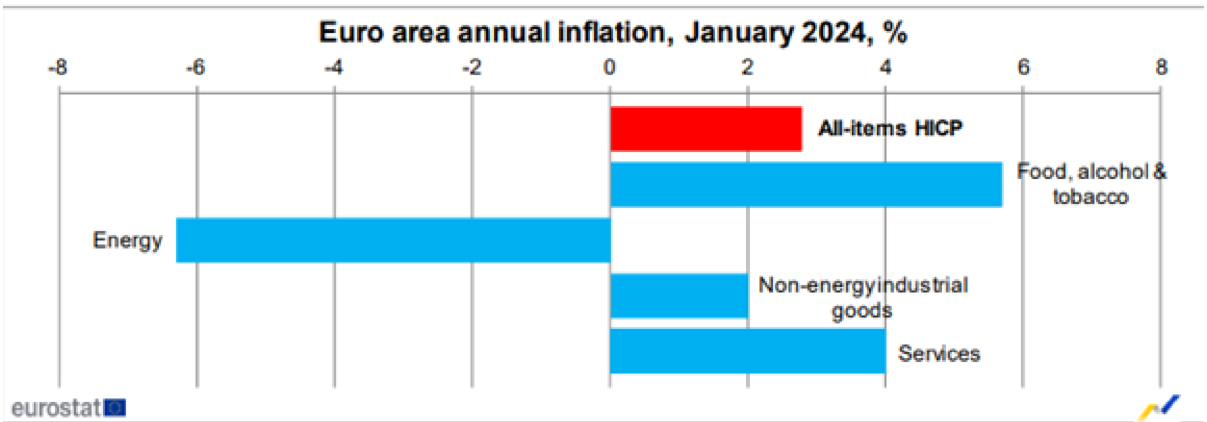
8. Indonesia January CPI rises 0.04% m/m, 2.57% y/y after 0.41% m/m, 1.8% y/y - better 0.29% m/m, worse than 2.55% y/y expected - while core CPI rose 1.68% y/y after 1.8% y/y less than 1.76% y/y expected. Still, overall the lowest inflation level since last October, due to softer rises in prices of food and beverages (5.84% vs 6.18% in Dec), transport (1.11% vs 1.27%), furnishings (1.20% vs 1.57%), health (1.88% vs 1.94%), education (1.57% vs 1.97%), and recreation & culture (1.68% vs 1.69%). Simultaneously, prices of communication & financials fell (-0.11% vs 0.20%). By contrast, prices accelerated for housing (0.58% vs 0.50%), accommodation (2.37% vs 2.07%), and clothing (1.02% vs 0.78%).

9. India January HSBC Manufacturing PMI rises to 56.5 from 54.9 - less than 56.9 flash - still, the strongest growth in the factory sector since last September, as both output and new orders expanded the most in four months while new export orders increased further. Also, buying activity was robust, rising at the fastest rate in four months and considerably above its long-run average. Meanwhile, employment was unchanged amid a moderate accumulation in outstanding business. On the cost front, input price inflation hit a three-month peak, despite the figure being moderate and among the weakest in 3-1/2 years. The rate of charge inflation also quickened to a three-month high and matched its long-run average. Finally, sentiment strengthened to a 13-month top, buoyed by new product inquiries and diversification, demand strength, and publicity efforts.

10. UK January Manufacturing PMI rises to 47 from 46.2 – better than 46.9 flash. Output and new orders continued to decline during this period, resulting in more job cuts and reduced purchasing and stock holdings. Manufacturers also faced challenges in their supply chains due to the Red Sea crisis, which forced input deliveries to be redirected from the Suez Canal. Despite these difficulties, UK manufacturers remained optimistic, with business sentiment reaching a four-month peak.

11. Eurozone January HCOB Manufacturing PMI rises to 46.6 from 44.4 – same as flash. New orders and output indices, accounting for 55% of the PMI, both increased by over two points at the start of the year, indicating further contractions but at the slowest rates in nine months. New orders from external sources also declined at the weakest margin since April. Despite this, there was substantial spare capacity at eurozone factories, as shown by a sharp drop in backlogs of work. Employment reductions continued, but at the softest rate in four months. Additionally, input costs and output charges declined at a faster rate than in previous months. Looking ahead, business confidence reached its highest level since April.

12. Eurozone January flash CPI -0.4% m/m, 2.8% y/y after +0.2% m/m, +2.9% y/y - as expected. Core CPI slows to 3.3% y/y from 3.4% y/y - more than 3.2% y/y expected still owest level since March 2022. Energy prices saw a decline of 6.3% (vs -6.7% in December), while services inflation remained steady at 4.0%. Moreover, prices slowed for food, alcohol, and tobacco (5.7% vs 6.1%), and non-energy industrial goods (2% vs 2.5%).



Source: Eurostat/BNY Mellon

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