BNY MELLON

iFlow
MARKET MOVERS

February 2, 2024

Shadows

"The eye is always caught by light, but shadows have more to say." – Gregory Maquire

"Keep your face to the sunshine and you cannot see a shadow." – Helen Keller

Summary

Risk on and happy ground hog's day – with hope that he won't see his shadow and forecast an extension of winter. There is also a familiarity to the tape at play today with big tech leading equities in the US post Amazon and Meta after the bell reports. The overnight news was light – Korea leads with hopes for equity reforms and chips, with India not far behind as the Modi government will increase spending 11% y/y but China sags into the New Lunar Year holidays and oil falls on peace talk hopes between Hamas and Israel. The economic stories were light and focus remained on 4Q earnings with more pharma and oil companies today drove – all of that will change with the US jobs report ahead expected to matter to FOMC March decision as any bad news here will be good for rate cuts ahead. The question that follows is whether the shadow of good news on jobs will cast a shadow on risk.

What's different today:

- **The FAO world food price index dropped for 6th month to 118** – fresh Feb 2021 lows - Prices of cereals were down 2.2% to December 2020-lows as global wheat export prices declined amid strong competition among exporters.
- **China Shanghai Composite fell 1.46% on the day 6.2% on the week to 4-year lows** with fears of US tariffs, Evergrande liquidation issues.
- **Brent Oil fell 5% on the week but hold prices near $79bbl** – led by Middle East peace talk hopes leading to end of Red Sea shipping disruptions and with

OPEC+ keeping current production output cuts at 2.2mbd while EIA sees 2mbd more demand for oil in 2024.

What are we watching:

- **US January Non-Farm Payrolls (NFP)** expected up 185k after 216k – with unemployment up 0.1pp to 3.8% and with earnings expected up 0.3% m/m, 4.1% y/y – flat. There are benchmark revisions which could move total jobs in 2023 down 500,000.
- **US January final University of Michigan consumer sentiment** expected 78.9 from 78.8 flash and 69.7 December - with focus on 1Y CPI 2.9% and 5Y-10Y at 2.8%.
- **US December factory orders** expected up 0.2% m/m after 2.6% m/m with durable goods 0% and with capital goods, non-defense, ex air expected flat after 0.3% m/m.
- **4Q earnings:** Exxon Mobil, Chevron, Abbvie, Bristol Myers Squibb, Regeneron, LyondellBasell, WW Grainger, Cboe Global Markets, Charter Communications, Church & Dwight

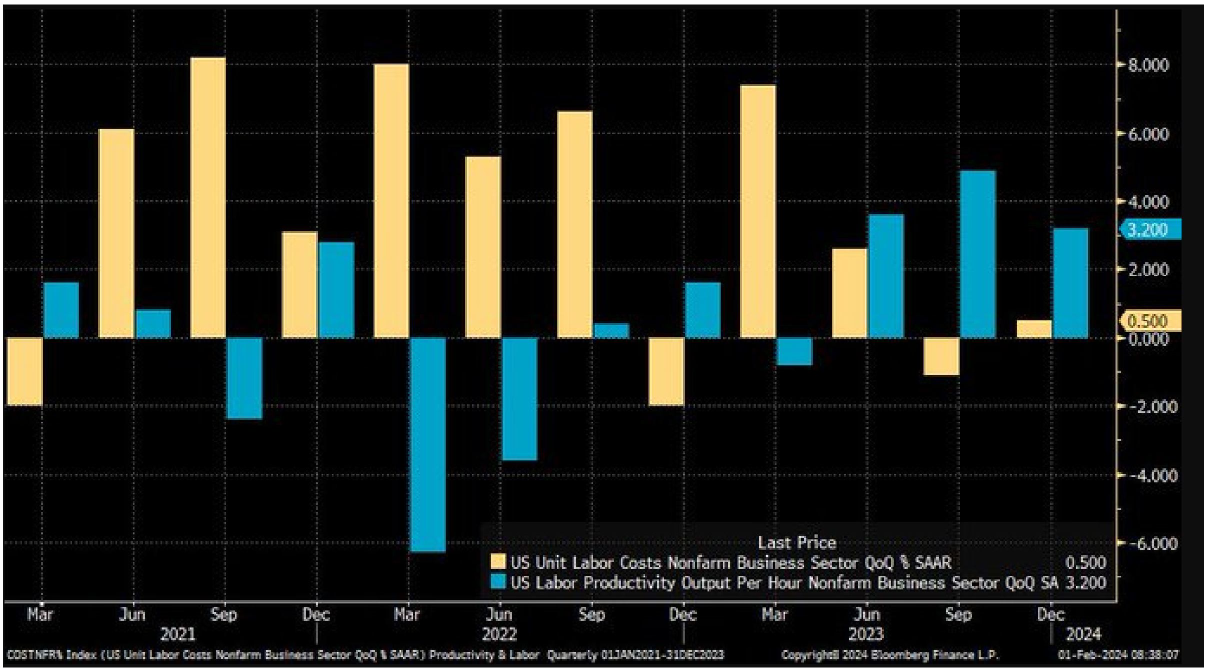
Headlines:

- Korea Jan CPI off 0.4pp to 2.8% y/y - lowest since June led by transport – N. Korea fires multiple cruise missile off west coast - Kospi up 2.87%, KRW up 0.7% to 1322.10
- Japan MOF draft government budget sees annual interest cost doubling to Y24.8trn – Nikkei up 0.41%, JPY flat at 146.50
- Australian Dec owner occupied home loans drop 5.6% m/m, still up 7.4% y/y; while 4Q PPI rose 0.3pp to 4.1% y/y led by energy – ASX up 1.47%, AUD up 0.5% to .6605
- French Dec industrial production rose 1.1% m/m – best in 7-months – CAC 40 up 0.6%, OAT 10Y up 1.5bps to 2.667%
- Spanish Jan jobless rise 2.2% - led by service sector – but still unemployment lowest since 2008 – IBEX 35 up 1%, SPGB off 1.7bps to 2.195%
- ECB 1Q professional forecasters survey – inflation revised down along with GDP but jobs flat – EuroStoxx 50 up 0.7%, EUR up 0.1% to 1.0885

The Takeaways:

There are two stories that are driving markets ahead of jobs – first is that the US has room to cut rates regardless of the jobs report as US productivity improved yesterday and makes clear that 4% y/y wages are not incompatible with 2% inflation sustained, second is that big tech shares have shifted from growth to value as Meta joins others in offering a dividend. Markets may ignore that story for the hype of bigger revenues on holiday ads and sales but there is something to be understood about how all company's age. If you want another story to overlay today its about 10-year bond yields dropping 28bps on the week back below the 4% line and how that pushes the USD lower. Overall, today the risk of the day remains in how rates and stocks interpret the US jobs report with the wages now less important than the actual economic growth gleaned from the two surveys and the annual benchmark revisions. The noise of today maybe overwhelming to the facts but the mood of the week is to be cautious and fear the shadows of trouble ahead.

US labor productivity matters



Details of Economic Releases:

1. **Korea January CPI rose 0.4% m/m, 2.8% y/y after 3.2% y/y – less than the 2.9% y/y expected** - the lowest figure since June, driven by a deceleration in the cost of alcohol and transport along with furnishings while food and health care costs rose. On a monthly basis, after being steady a month earlier, the 0.4% m/m was the sharpest rise in consumer prices in four months. Core prices were up 2.5% y/y.

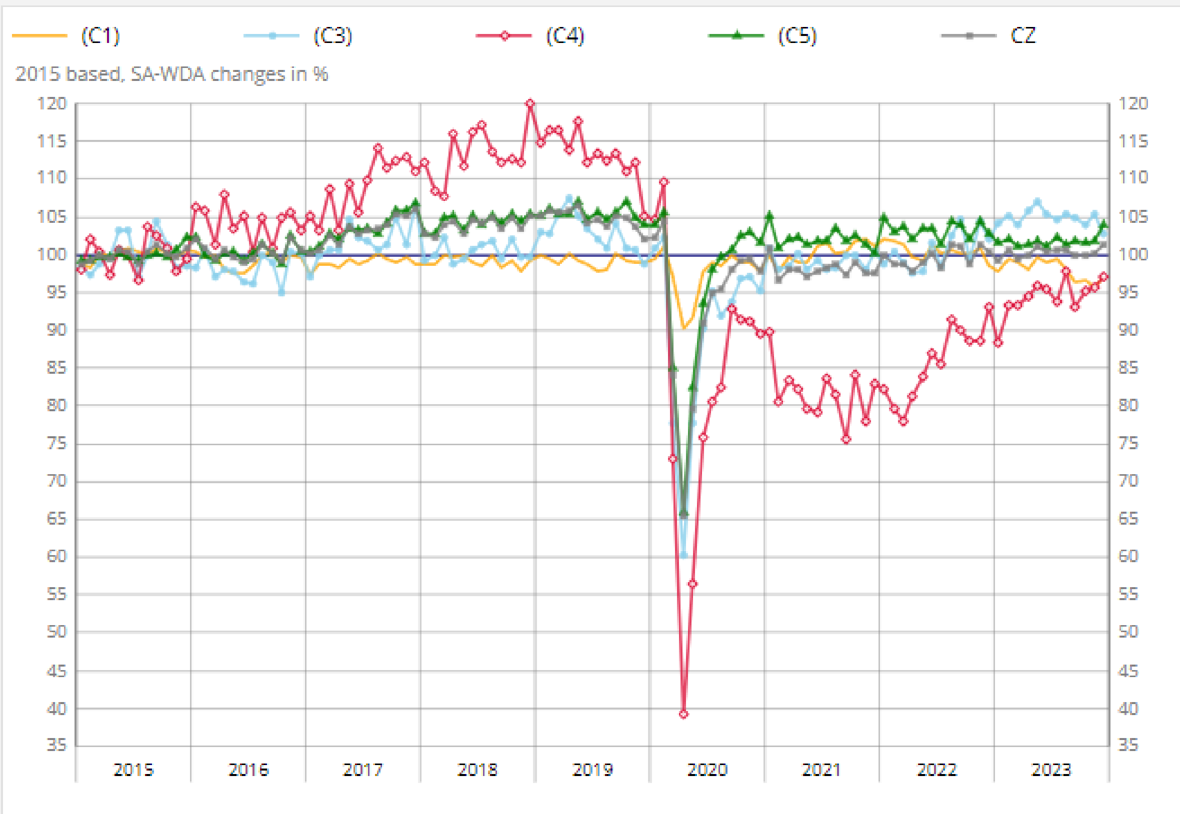
2. **Australian 4Q PPI rose 0.9% q/q, 4.1% y/y after 1.8% q/q, 3.8% y/y – more than the 3.7% y/y expected** – the most since 4Q 2021 and the 14th straight period of growth amid high crude oil and energy prices. The main upward contributors were the output of building construction (+1.9%) due to ongoing skilled labor shortages and increases in margins to mitigate against the risk of resource availability over

longer-term projects; motor vehicle and motor vehicle part manufacturing (+2.4%), boosted by rises in import prices and increased manufacturing costs over the past year; and output of heavy and civil engineering construction (+0.6%), amid ongoing skilled labor shortages and increases in operating costs of machinery.

3. **Australian December home loans fell 5.6% m/m after +0.3% m/m – weaker than +1.5% m/m expected.** Total new loans for housing fell 4.1% m/m with investor loans off 1.3% m/m. Construction of dwellings fell (-0.5% vs 0.9% in November)), as did the purchase of existing dwellings (-6.6% vs -0.4%) and that of newly erected dwellings fell slightly (-2.5% vs 2.1%). Among states and territories, new home loans dropped in Australia Capital Territory (-11.5%), South Australia (-6.2%), Queensland (-5.8%), Northern Territory (-5.5%), New South Wales (-4.1%), Victoria (-2.6%), and West Australia (-2.5%); while growing in Tasmania (3.3%). On an annual basis, the value of new home loans jumped 7.4%.

4. **French December industrial production rose 1.1% m/m, 0.9% y/y after 0.5% m/m, 0.4% y/y – more than the 0.2% m/m expected** - the highest expansion in industrial activity since May, mainly driven by a strong rebound in output for mining & quarrying, energy, water supply, waste management (5.9% vs -1.7% in November); and to a lesser extent, the further increase in manufacturing output (0.3% vs 0.1%). In contrast, construction activity continued to decline (-2.8% vs -1.2%).

Monthly Industrial Production Indices



Legend: CZ: Manufacturing - (C1): Manufacture of food products and beverages - (C3): Machinery and equipment goods - (C4): Manufacture of transport equipment - (C5): Other manufacturing.

Sources: INSEE, SSP, SDES

Source: Insee/BNY Mellon

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

.

bnymellon.com