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MARKET MOVERS

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Pushback

“Conquering any difficulty always gives one a secret joy, for it means pushing back a boundary-line and adding to one’s liberty.” – Henri Frederic Amiel

“We are limited but we can push back the borders of our limitations.” – Stephen Covey

Summary

Risk off with the room to ease is different than the will to cut and that is the “confidence” game in play as we start another week. Higher real growth merits higher real rates but lower inflation will keep hope alive. The FOMC Powell 60 minutes interview didn’t help and the mixed PMI results show another problem for Europe as growth remains tepid. Things could be worse – consider Turkey with a new central bank governor watching January inflation rise further even after more hikes. The weekend headlines didn’t shift fears about ongoing US escalation in the Middle East but it didn’t get worse either. Expect the focus on the day to be in part about 4Q earnings and whether the more main street companies are as upbeat as big tech. For economic stories – watch the Service ISM for jobs, inflation, and growth – as the narrative from the Fed is pushback with the markets on what a “soft-landing” looks like and what falls out will be volatility across markets.

What’s different today:

- **Iron Ore drops to 2-week lows** with China 63.5% content in Tiajin futures trading near $130 per ton – blamed on weaker China economy and demand.
- **TRY trades to new historic lows at 30.55** – with Faith Karahan details key – post the surprise Friday resignation of Erkan. CPI rose in January further to 64.86% y/y highest since November 2022

What are we watching:

- **Canada January Services PMI** expected 44.3 from 44.6 – key for BOC and balance on growth vs. inflation.
- **US January Services PMI** expected 52.9 from 51.4 – same as flash with order, jobs, input prices key
- **US January Services ISM** expected 52 from 50.6 – tracking upticks in PMI with focus on jobs and new orders
- **Fed 1Q Senior Loan Officer Survey –** key focus on demand and tightening credit conditions particularly for CRE
- **Atlanta Fed Bostic** expected to push for rate cuts but join in May not March talk.
- **4Q Earnings**: McDonalds, Caterpillar, Vertex, Sumitomo, Itau, Air Products, NXP semiconductors
- **US issuance**: $79bn in 3M bill, $70bn in 6M – both matter given shifts in FOMC rate cut timing and pace post Powell.

Headlines:

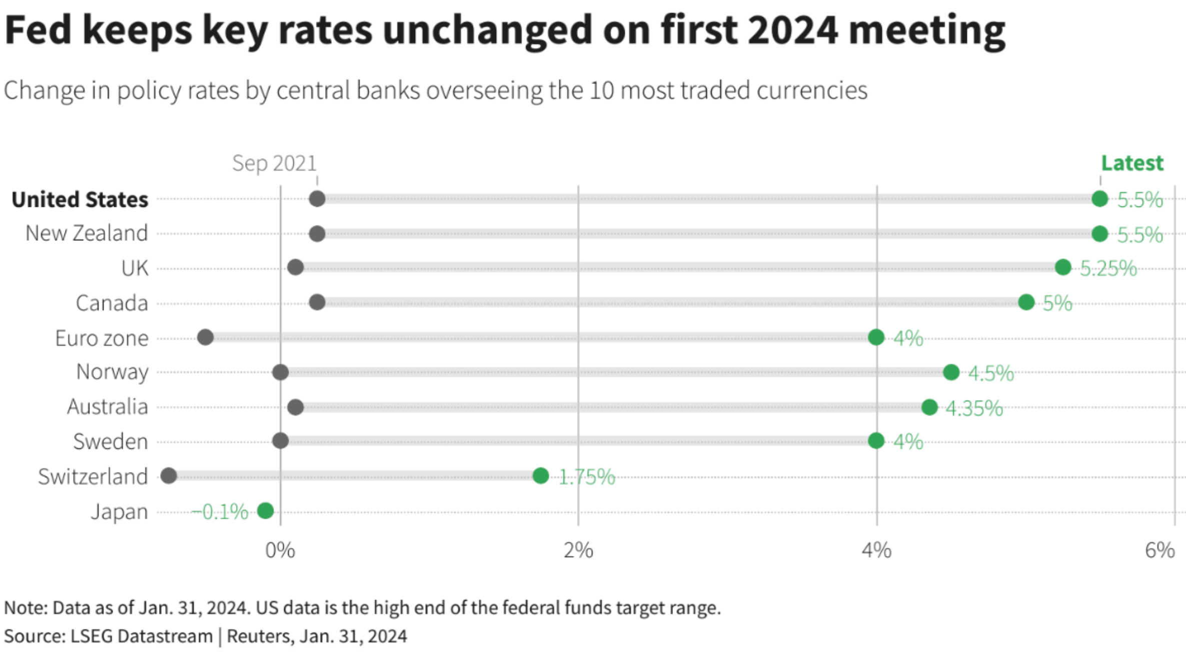
- US FOMC Chair Powell tells CBS "60 Minutes" wary of cutting rates too soon, repeats mid-year easing more likely – S&P500 futures off 0.1%, US 10Y Bond yields up 6.5bps to 4.085%, USD up 0.35% to 104.27
- Australian Jan Services PMI up 2 to 49.1 – better than flash, 4-month highs – ASX off 0.96%, AUD off 0.15% to .6505
- Japan Jan Services PMI up 1.6 to 53.1 – better than flash, best since Sep – Nikkei up 0.54%, JPY up 0.2% to 148.35
- China Jan Services PMI off 0.2 to 52.7 – output prices first drop since Apr 2022 – CSI 300 up 0.65%, CNH off 0.1% to 7.2175
- Indonesia 4Q GDP up 0.45% q/q, 5.04% y/y – weakest in 3 quarters as capex drops ahead of general election – IDR off 0.65% to 15,700
- India Jan Services PMI up 2.8 to 61.8 – best in 6 months but with higher prices – Sensex off 0.49%, INR off 0.1% to 83.055
- Turkey Jan CPI higher at 64.86% y/y – most since Nov 2022 – with minimum wage and government taxes driving – TRY off 0.2% to 30.647
- German Dec trade surplus E22.2bn – largest since Nov 2017 with exports -4.6%, imports -6.7% m/m – DAX up 0.2%, Bund 10Y up 3.1bps to 2.27%
- Eurozone Jan Services PMI off 0.4 to 48.4 – worst since July 2023 – while PPI fell 0.8% m/m, 10.6% y/y as expected – EuroStoxx 50 up 0.2%, EUR off 0.3% to 1.0750
- UK Jan Services PMI up 1.1 to 54.3 – better than flash and best in 8-months with higher wages noted – FTSE up 0.4%, GBP off 0.35% to 1.2575

- US plans further strikes against Iran-back militias – after 3-days of retaliation – WTI off 0.8% to $71.65

The Takeaways:

The pushback of the FOMC will be key to how markets trade this week with bond supply and other central banks trying to decide on rates, the speed and timing of a Powell pivot matters. Focus will be on March rate cut odds starting at 30% now from 40% last week and 5% from the start of the year. The number of cuts from 6 to 5 is also a focus with the Fed likely to stick to 3 rate cut talk – expect May or June now to be the debate with 3 or 4 cut talk, Fed speakers will be key on that point. Perhaps the most important story not discussed is about QT tapering and the way the Fed can help the bond market stability and the squeeze of cash as many expect a mess with risks of government shutdowns returning in March, ongoing tax payments. For today, most expect a bit of calm ahead of the storm of rate decisions from the RBA and others this week with the Canada data last week and BOC Macklem ahead key examples of how the FX markets matter to policy with C$ watching 1.3380-1.3550. Rates maybe sticky but the risk mood on the day is soured beyond that reason as growth fears remain key.

Real rates and timing of policy cuts matter



Details of Economic Releases:

1. **Australian January final Judo Bank Services PMI 49.1 from 47.1 – better than 47.9 flash** -the highest reading in four months, signaling a marginal contraction in services activity only. Incoming new business was broadly unchanged as increased new enquiries mostly offset instances where lower demand was reported due to high interest rates and softening economic conditions. Foreign demand continued to deteriorate on the back of reduced budgets and supply issues. Australian service providers also continued to work through their outstanding business, which fell for a nineteenth straight month. This coincided with increased workforce capacity as firms continued to hire to cope with ongoing workloads. Meanwhile, overall input costs rose again amid higher transport, fuel and wage costs. Finally, business sentiment remained positive due to hopes that services activity will expand.

2. **Japan January final Jibun Bank Services PMI 53.1 from 51.5 – better than 52.7 flash -** the 17th straight month of expansion in the service sector and the strongest pace since September due to a faster rise in new business inflows, while foreign demand grew for the first time in five months amid a weakening yen. Rises in new business also marked the 17th straight month of growth amid improvements in the tourism sector. Employment rose as firms looked to take on additional staff to meet capacity requirements, with backlogs of accumulation moderating and the strongest seen since last June. On prices, input cost inflation accelerated to a three-month high due to higher prices in fuel and labor costs. As a result, output cost inflation rose to a five-month high. Finally, sentiment strengthened to an eight-month high amid hopes that the current recovery would be sustained by business expansion plans and inbound tourism.

3. **China January Caixin Services PMI 52.7 from 52.9 – weaker than 52.9 expected** – still, the 13th straight month of expansion in services activity, signaling a further solid increase in service sector output, supported by firmer underlying demand conditions and new customer wins. However, export order growth eased, despite only fractionally. In response to the expansion in total new orders, employment rose for the second straight month, with backlogs of work expanding at the fastest pace since last October. On the cost side, input prices rose slightly but below the series average due to higher raw material, labor, and transportation costs. Meanwhile, output prices fell for the first time since April 2022, as many businesses resorted to discounts and other promotions to boost sales due to increased competition. Finally, sentiment weakened to a three-month low and below its historical average.

4. **Indonesia 4Q GDP up 0.45% q/q, 5.04% y/y after 1.6% q/q, 4.94% y/y – near expectations** – with full year 2023 up 5.05% y/y after 5.31% y/y. The gain in 4Q was the third straight period of growth but the softest in the sequence, amid a sharp

slowdown in fixed investment ahead of a general election in February 2024 (2.57% vs 7.7% in Q3). Meantime, private consumption grew 1.58%, swinging from a 0.46% fall previously, while government spending bounced back strongly (39.13% vs -3.7% in Q3). Net trade contributed positively, as exports rose 5.75% while imports went up at a softer 4.31%. On the production side, output growth eased for mining (2.76% vs 5.31%), manufacturing (0.51% vs 3.47%), utilities (2.63% vs 3.77%), and real estate (0.29% vs 1.25%). At the same time, activity shrank for agriculture (-17.70% vs 1.6%) and wholesale & retail trade (-0.27% vs 2.16%). By contrast, output quickened for transport (2.15% vs 1.84%), accommodation, food & beverages (4.53% vs 2.11%), and financial services (2.74% vs 0.43%)

5. India January Services PMI rises to 61.8 from 59 – better than 60 expected - the fastest growth in the services sector in six months. New orders expanded at the fastest in six months, with export sales rising the most in three months. Exports grew across the globe, including to Afghanistan, Australia, Brazil, China, Europe, the UAE, and the US. A further expansion in outstanding business volumes continued to support job creation in January, and one that was the most pronounced in three months. Meanwhile, backlogs of work rose to a five-month high. On the price front, input cost inflation accelerated to a five-month high due to higher food, freight, and salary costs. Meanwhile, output cost inflation eased to the lowest in 11 months. Finally, business sentiment improved to a four-month high amid expectations of investment and productivity gains to induce output growth.

6. Turkey January CPI rose 6.7% m/m, 64.86% y/y after 2.93% m/m, 64.77% y/y – more than the 6.5% m/m, 64.5% y/y expected - the highest reading since November 2022, prompted by a sharp increase in the minimum wage and government tax adjustments. Prices rose faster for housing & utilities (45.99% vs 40.39% in December), furnishings, household equipment, & routine maintenance (61.10% vs 58.46%), transport (77.54% vs 77.14%), and recreation & culture (61.82% vs 61.26%). On the other hand, the inflation for food & non-alcoholic beverages slowed to 69.71% from 72.01% in December, while those for hotels & restaurants moderated to 92.27% compared to 93.24%. Meanwhile, the core inflation came at 70.48% in January, slightly easing from 70.64% in the prior period.

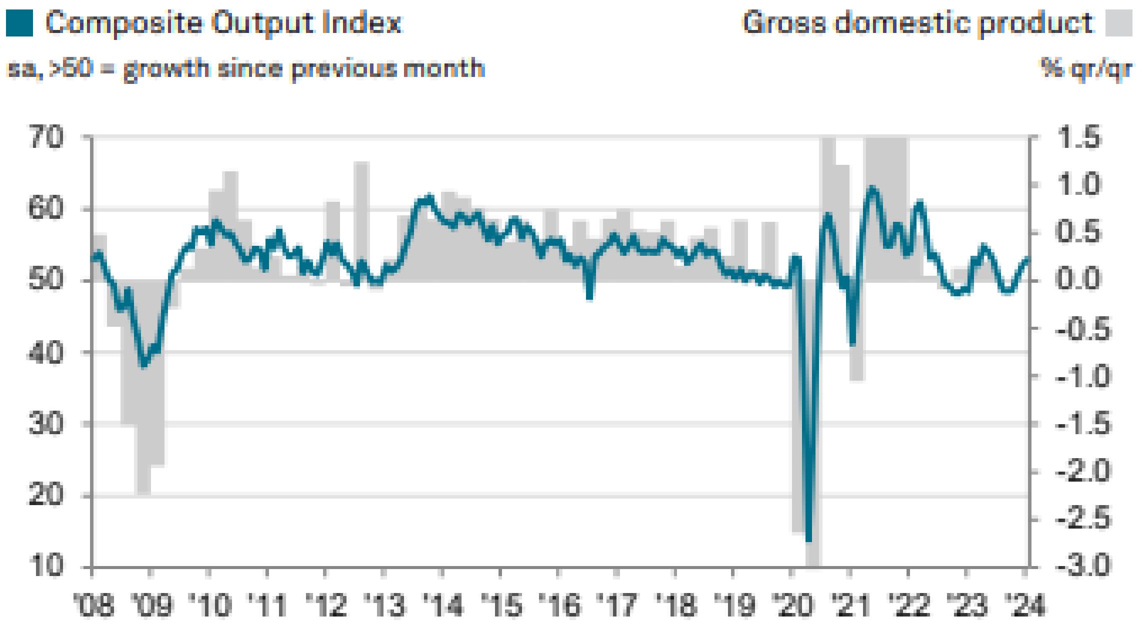
7. German December Trade Surplus E22.2bn after E20.8bn – more than E18.8bn expected - the largest trade surplus since November 2017, as exports declined less than imports. Exports fell at a softer 4.6% to a near two-year low of E125.3 billion, worse than a market expectations of 2% fall. Exports to the EU decreased by 5.5%, while those to third countries fell 3.5%, remarkably to US (-5.5%), China (-7.9%) and the UK (-4.3%). Meanwhile, imports shrank 6.7% to an over two-year low of E103.1 billion, worse than market forecasts of a 1.5% fall.

Imports from the EU slumped by 7.4%, while those from non-EU decreased y 5.9%, particularly from China (-8.5%) and the UK (-10%). However, imports from the US rose by 1.9%.

8. Eurozone December PPI off 0.8% m/m, -10.6% y/y after -0.3% m/m, -8.8% y/y – as expected. Energy prices dropped by 27.5%, accelerating from a 23.9% decrease the previous month, while costs for intermediate goods went down by 4.9%, following a 5.1% fall. Meanwhile, inflation slowed for capital goods (2.8% vs 3.1%), durables (3.0% vs 3.5%), and non-durables (3.2% vs 3.6%). Excluding energy, producer prices dropped by 0.4%, maintaining the same pace as the previous month.

9. Eurozone January Services PMI falls to 48.4 from 48.8 – same as flash – gains from Italy and Spain were offset by weakness in France and Germany. This was the sixth consecutive contraction in the EU services activity. New business dropped for the seventh consecutive month, underscoring weak demand conditions as high borrowing costs continued to magnify muted consumer appetite. Consequently, output dropped despite firms reporting an acceleration in the completion of outstanding projects. Despite the softer demand for capacity, service providers continued to increase their hiring activity. On the price front, input inflation rose to its highest in four months, driving output charges to rise the most in seven months. Looking forward, business confidence remained supported by hopes of reduced living costs and lower interest rates in the year ahead.

10. UK January Services PMI rises to 54.3 from 53.4 – better than 53.8 flash - the sharpest growth rate in the British services activity in eight months. Firms signaled a sharp increase in new business activity, attributed to strengthening economic conditions and client confidence amid expectations of imminent interest rate cuts by the Bank of England and a rebound in orders from clients in the US and Asia. Stronger order books drove service providers to deliver a renewed increase in net jobs in the period, with the pace of increase jumping to its highest since July 2023. Still, higher staff salaries were the main contributor to faster input inflation for the sector, translating to higher output charges. Looking forward, optimism over stronger client demand, long-term business investment plans, and an improved economic backdrop lifted service firms’ sentiment.



Sources: S&P Global, ONS.

*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

Source: S&P Markit/BNY Mellon

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