BNY MELLON

iFlow
MARKET MOVERS

February 6, 2024

Subtext

“Melodies are just honest. They can only be what they are. Words have the capacity for deception. They’re all full of subtext, and some of them are cliché and overused and vernacular. They’re tricky.” – Andrew Bird

“With Shakespeare, there’s no subtext: you’re speaking exactly what you’re thinking constantly.” – Oscar Isaac

Summary

Risk on as the China national team supports equities and hope for further stimulus continues ahead of Lunar New Year. Buying shares rather than wanting them is the subtext. The Japan real wages were negative for the 21st month - but the nominal trend higher leaves clear the BOJ could normalize rates in March. Fighting inflation rather than worrying about wages is the subtext. The RBA holds hawkishly warning it can’t rule out further hikes but prices in 1% of easing and lower inflation in its forecasts. Watching forecasts rather than guidance is the subtext. The drop in food prices helped Taiwan and Philippines CPI to drop while German factory orders surge on aircraft with the pain remaining in other industries. The Eurozone housing recession continues with contraction below 40 PMI in both France and Germany while outlooks bounce as it can’t get much worse, but retail sales fell in December further as inflation weighs on the consumer. All that leaves the focus on the mundane 4Q earnings ongoing along with the Fed speakers. Markets are caught in ranges with US exceptionalism the main story despite other narratives and a subtext of doubt that soft-landings are simple.

What’s different today:

- **Eurozone inflation expectations drop for 3rd month in a row to 3.2%** from 3.5% for 1Y forward. However, uncertainty for 3Y puts that rate at 2.5% from 2.4%.
- **iFlow** – USD selling against AUD, CAD, EUR and NOK while in EM mixed with CLP buying despite the tape while MXN buying with the market, CE3 saw further buying while CNY outflow notable.

What are we watching:

- **US 3Y $54bn note sale -** with focus on bidding and the concession
- **Fed Speakers:** Mester, Kashkari, Collins, Harker - with focus on rate cut timing, neutral rate and jobs.
- **4Q Earnings** with focus on Eli Lilly, KKR, Spotify, GE healthcare and Hertz along with Ford, Snap Amgen after the bell

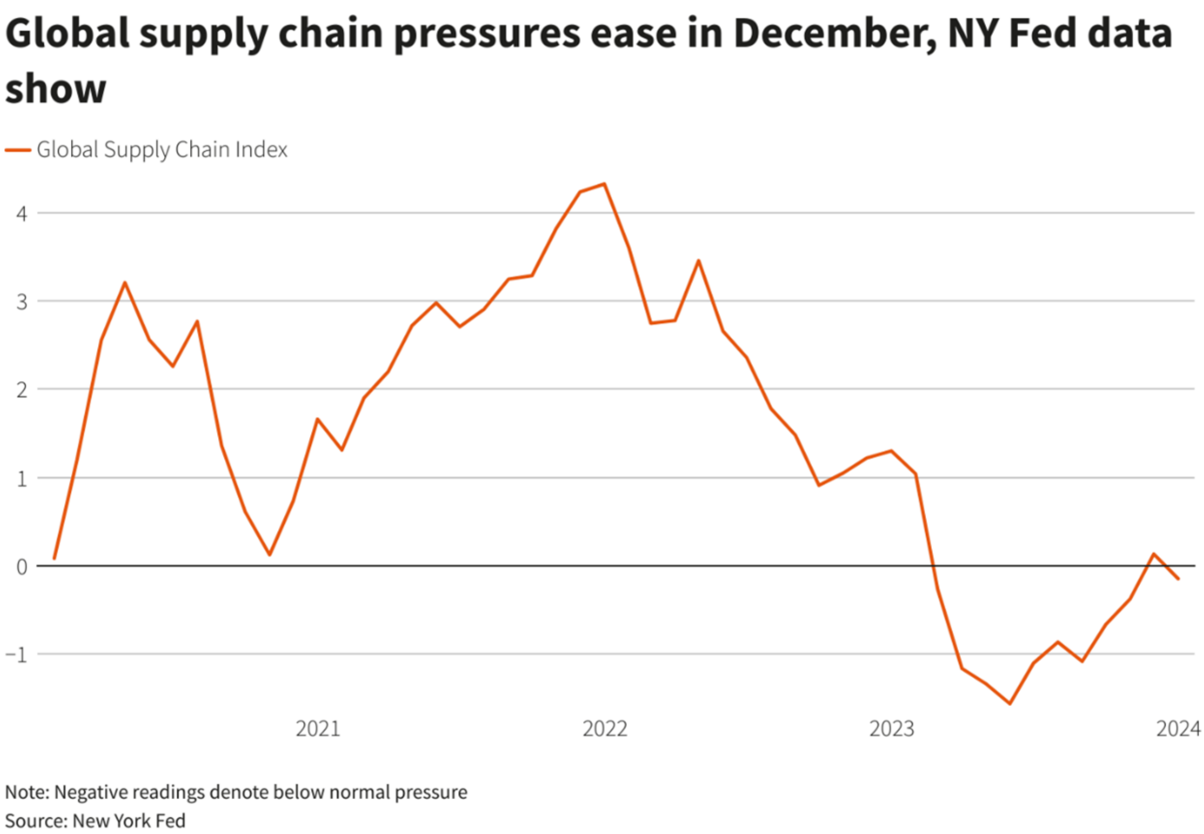
Headlines:

- Australia RBA remains on hold at 4.35% - as expected - won't rule out more hikes but sees inflation lower - while Dec retail sales confirmed -2.7% m/m - worst since Aug 2020 – ASX off 0.58%, AUD up 0.15% to .6495
- China Xi to discuss stock market with regulators - hopes for further measures drive bounce back in shares - Shanghai Composite up 3.23%, CNH up 0.3% to 7.1975
- Japan Dec cash earnings rise 1% y/y - 21st month of negative real wages - while household spending drops -0.9% m/m – Nikkei off 0.53%, JPY off 0.1% to 148.70
- Taiwan Jan CPI up 0.21% m/m 1.79% y/y- lowest since June 2023 - led by food and housing – TWD up 0.1% to 31.332
- Philippines Jan CPI up 0.6% m/m, 2.8% y/y - lowest since Oct 2020 - led by food and housing – PHP up 0.1% to 56.185
- German Dec factory orders jump 8.9% m/m - best since June 2020 led by aircraft – DAX off 0.1%, Bund 10Y up 2bps to 2.333%
- Eurozone Dec retail sales drop -1.1% m/m, -0.8% y/y - worst in a year - while Jan construction PMI drops 2.3 to 41.3 led by residential – EuroStoxx 50 up 0.2%, EUR off 0.1%
- UK Jan construction PMI rises 2 to 48.8 - best since August with optimism at 2Y highs – FTSE up 0.5%, GBP up 0.1% to 1.2545

The Takeaways:

We start the US session with stock futures higher, bonds mixed and the USD flat – not a rejection of the mood from yesterday even with the headlines supportive of growth abroad. The subtext of US exceptionalism remains key to trading markets today and interpreting the micro over the macro facts delivered from Fed Speakers and 4Q earnings along with 2024 outlooks. Underlying all markets is the fear that the US Fed soft-landing may be wishful thinking and that inflation isn't at bay as growth storms higher. Data is required to reverse such thoughts and the lack of that today matters. The China rally back in shares is not a surprise but most doubt this is sustainable - as buying rather than selling requires confidence both at home and abroad. The repricing of the Fed at 80% for May down from 100% just a week ago along with 115bps of easing for all of 2024 down from 150bps, has also played out against the USD. Oil markets cooled last week and yesterday on back of less global demand fears while today that flips with oil company earnings the focus leading EU and UK shares. However, the ongoing hopes for a deal in Gaza and the ongoing Red Sea shipping disruptions make the larger narrative of a Fed easing and global growth rest on sticky inflation and goods remaining tame.

Logistics may be back to focus with goods inflation fears



Details of Economic Releases:

1. **Japan December average cash earnings rise 1% y/y after 0.2% y/y - less than the 1.3% y/y expected** - and the 21st month of negative real wages at -1.9%

y/y. The following industries contributed the most to the wage rise: services, not elsewhere classified (6.9%), real estate & good rental & leasing (4.9%) and living-related & personal services & amusement services (3.5%). Meanwhile, wages declined in mining & quarrying of stone & gravel (-15.4%), medical, health care & welfare (-2.4%) and electricity, gas, heat supply & water (-0.8%). s

2. Japan December household spending fell -0.9% m/m, -2.5% y/y after -1% m/m, -2.9% y/y - worse than the -2.1% y/y expected - the 10th straight month of decrease as expenditure fell for most components, namely food (-1.3% vs -1.2% in November), fuel, light & water charges (-1.3% vs -0.8%), housing (-3.4% vs -20.9%), furniture & household utensils (-10.8% vs 4.7%), clothing & footwear (-7.1% vs 15.4%), culture & recreation (-1.1% vs 0.4%), transport & communication (-0.2% vs -5.2%), and education (-7.7% vs -11.0%). In contrast, spending grew for medical care (2.9% vs -3.2%).

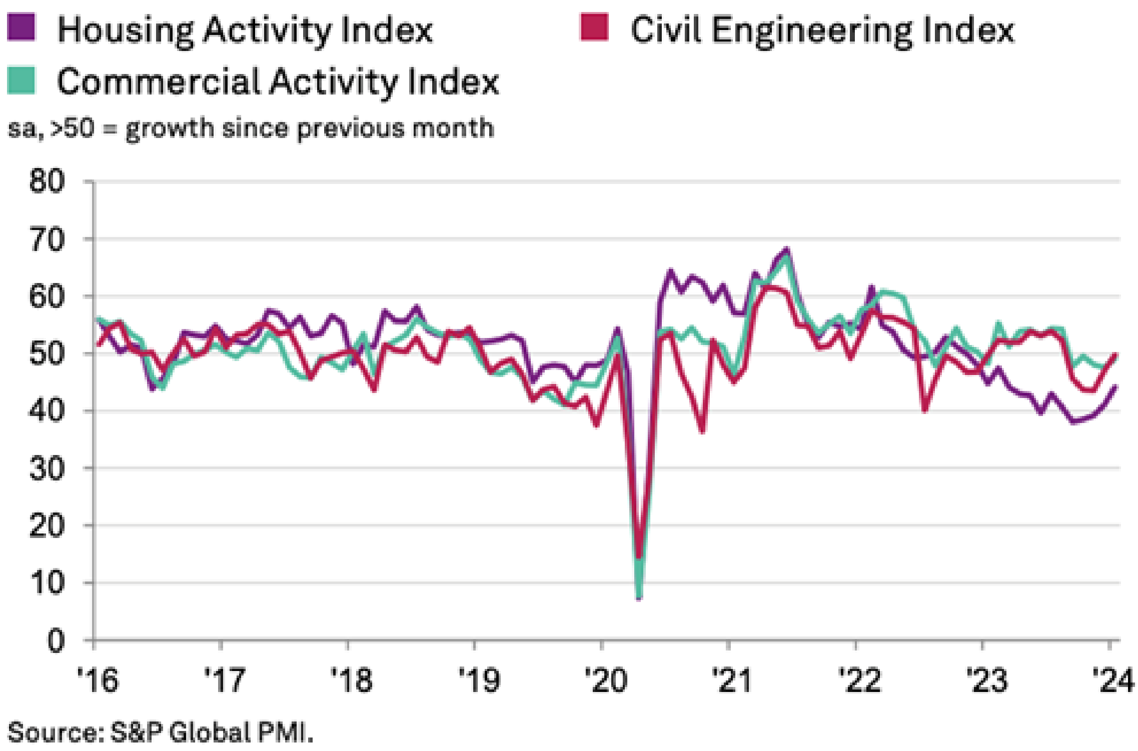
3. Australia December retail sales drop -2.&% m/m after +1.6% m/m - worse than the 0.1% m/m gain expected - weakest since August 2020, s consumers brought some of their December spending to November to take advantage of Black Friday events. Sales shrank for most retail industries, namely household goods retailing (-8.5% vs 6.5% in November), department stores (-8.1% vs 4.1%), clothing, footwear, and personal accessories (-5.7% vs 2.2%), cafes, restaurants and takeaway food (-1.1% vs -0.2%), and other retailing (-1.1% vs 0.8%). Meanwhile, food retailing stayed muted (0.1% vs flat reading). Retail turnover was lower across the country with large falls in all states and territories, the majority down by over 2.0%. Through the year to December, retail sales grew by 0.8%, the least since August 2021. For Q4 of 2023, retail trade rose by 0.3%, after a 0.1% fall in Q3.

4. German December factory orders surge 8.9% m/m after 0% m/m - sharply better than 0% m/m expected - best since June 2020, boosted by large orders in several industries, in particular vehicle construction (110.9%), namely aircraft, ships, and trains; manufacturing metal products (18.0%), and electrical equipment (38.7%). Incoming orders increased for capital (10.9%) and intermediate goods (8.3%) but dropped for consumer goods (-1.3%). Domestic orders jumped 9.4%. Also, foreign orders jumped 8.5%, with orders from the Eurozone soaring 34.5% while those from outside the Eurozone shrank 7.5%. New orders excluding large-scale orders fell by 2.2% in December. In a less volatile 3-month comparison, incoming orders from October to December 2023 edged up 0.1% from the prior period.

5. Eurozone December retail sales drop -1.1% m/m, -0.8% y/yafter +0.3% m/m, -0.4% y/y - worse than -1% m/m - expected - 15th month of annual declines and lowest in a year in a year as persistent high inflation and elevated borrowing costs continued to weigh on demand. Sales of food, drinks and tobacco fell for a third consecutive time and at a faster pace (-1.6% vs -0.1% in November) and those of non-food products dropped after two months of increases (-1.0% vs 0.3%). In addition, on-line trade tumbled by 3.7%, the largest decrease since July 2021. Fuel sales were also down by 0.5%, following a 1.8% rise in November.

6. Eurozone January HCOM construction PMI drops to 41.3 from 43.6 - worse than 44 expected - back to pandemic lows of May 2020. Housing activity saw the biggest decline in five months, and commercial activity contracted at its strongest pace since May 2020. The rate of decline in inflows of new business was the most pronounced in the current 22-month sequence of decline, and purchasing activity dropped for the 20th consecutive month. Meanwhile, the pace of job cuts slowed down. On the price front, input cost inflation remained solid but cooled from December. Finally, business confidence remained weak in January, with firms generally expecting a further decline in activity over the coming year. Among the largest economies in the Eurozone, Germany and France reported a steeper rate of decline in building activity, while Italy's output growth slowed sharply.

7. UK January construction PMI rises to 48.8 from 46.8 - better than 47.3 expected - best since August, but remaining in the shrinking territory for the fifth month running. New work contracted for the sixth consecutive month, with companies citing delayed decision-making among clients and subdued market conditions. Civil engineering activity was close to stabilization and only declined marginally, while house building dropped at a sharper rate. In the meantime, employment numbers fell marginally, while sub-contractor usage was broadly unchanged from the previous month. Additionally, the latest data pointed to sustained input inflation for constructors, despite the drop in input buying. Still, firms expect a strong improvement in business conditions, with optimism reaching its highest point in two years.



Source: S&P Markit/BNY Mellon

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB