

# 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 3<sup>rd</sup> 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:

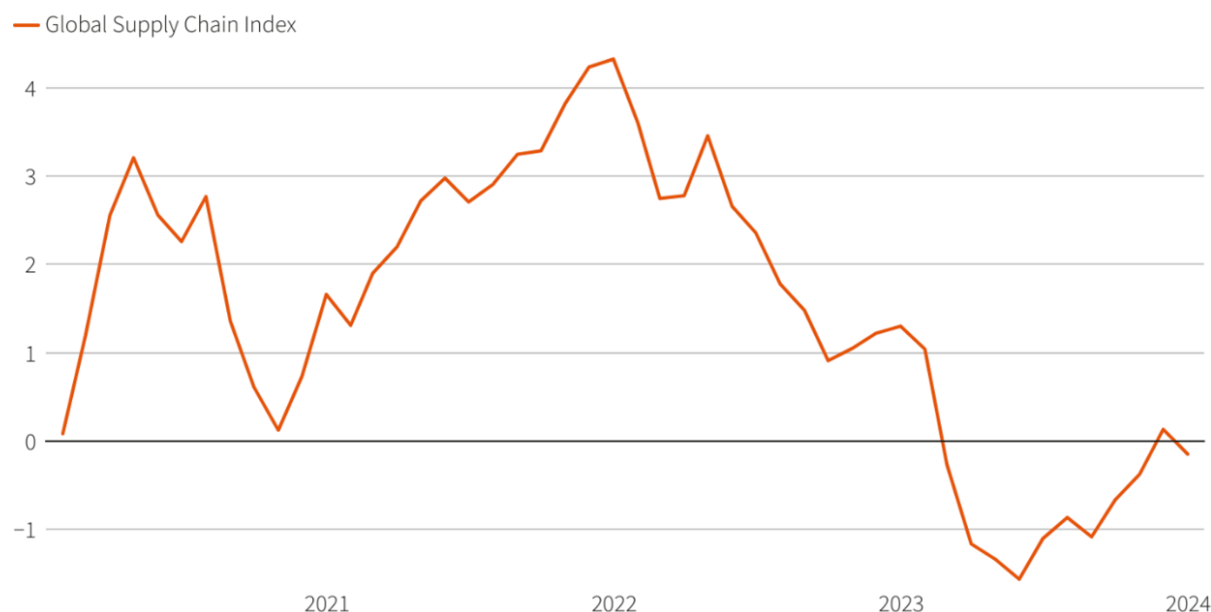
We start the US session with stock futures higher, bonds mixed and the USD flat – not a rejection of the mood from yesterday even with the headlines supportive of

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

## Global supply chain pressures ease in December, NY Fed data show



Note: Negative readings denote below normal pressure  
Source: New York Fed

### 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%).

**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 -2.8% m/m after +1.6% m/m - worse than the 0.1% m/m gain expected** - weakest since August 2020, as 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/y after +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.

■ Housing Activity Index  
■ Commercial Activity Index

■ Civil Engineering Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

Source: S&P Markit/BNY Mellon

Please direct questions or comments to: [iFlow@BNYMellon.com](mailto:iFlow@BNYMellon.com)



**Bob Savage**

HEAD OF MARKETS STRATEGY  
AND INSIGHTS

CONTACT BOB





## bnymellon.com

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2020 The Bank of New York Mellon Corporation. All rights reserved.