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iFlow

MARKET MOVERS

April 1, 2024

No Fools

"He is no fool who gives what he cannot keep to gain what he cannot lose." – Jim Elliot

"It is better to keep your mouth closed and let people think you are a fool than to open it and remove all doubt." – Mark Twain

Summary

Risk on as markets hear what they want to hear from Chair Powell Friday and the three rate cuts and soft-landing consensus continues. Overnight hopes for a June cut rose a smidge but the Easter Holiday's leave this an APAC led market while Europe goes to chapel. The faith in rate cuts to spur growth in 2Q and beyond drives but it didn't show up in the PMI reports – as only China surprises to the upside with NBS over the weekend matched by Caixin today. The Japan Tankan drop and the muddling through of Korea suggest troubles ahead. Indonesia CPI up on food, making easing hopes more dependent on the US Fed. The FX intervention worries remain in play as well with JPY 152, CHY 7.30 and KRW 1350 all on watch. How the US deals with ISM and final PMI will drive today but its about inflation more than growth – there is no fooling money as it goes where its wanted and stays where its well-treated.

What's different today:

- **Gold at new record highs over $2,250** – with US core PCE tame enough to keep FOMC rate cuts expected, lower rates globally also driving, but BTC is off 2.5% to $69.5k with Argentina making BTC registration mandatory.
- **Brent crude oil rises over $87 bbl** – highest in 4-weeks – with OPEC+ expected to review production targets and keep output tight, while demand

from China expected up.

- **iFlow** – zooming out the G10 FX positioning shows short covering in CHF, ongoing CAD and DKK longs adding while short SEK, NZD and JPY are all seeing further selling. In equities only Real Estate was positive last week globally, but EM EMEA and Americas are up and buying recovery hopes. In fixed Income, US bond buying stands out in G10 but selling of corporates counters and spreads look too tight with further selling of MBS, Corporates, ABS, Munis.

What are we watching:

- **US March S&P manufacturing PMI** expected unrevised at 52.5 from 52.2 – this will be 21-month highs.
- **US March ISM manufacturing PMI** expected up to 48.4 from 47.8 – with focus on jobs expected still in contraction at 46, orders expected 49.5 and prices expected higher at 52.6.
- **Bank of Canada 1Q business outlook survey** – key for BOC rate cut risks in 2Q.
- **US Treasury sale** of \$70bn in 3M and \$70bn in 6M bills – this is a heavy bill issuance week but few expect much from IG leaving duration a focus.

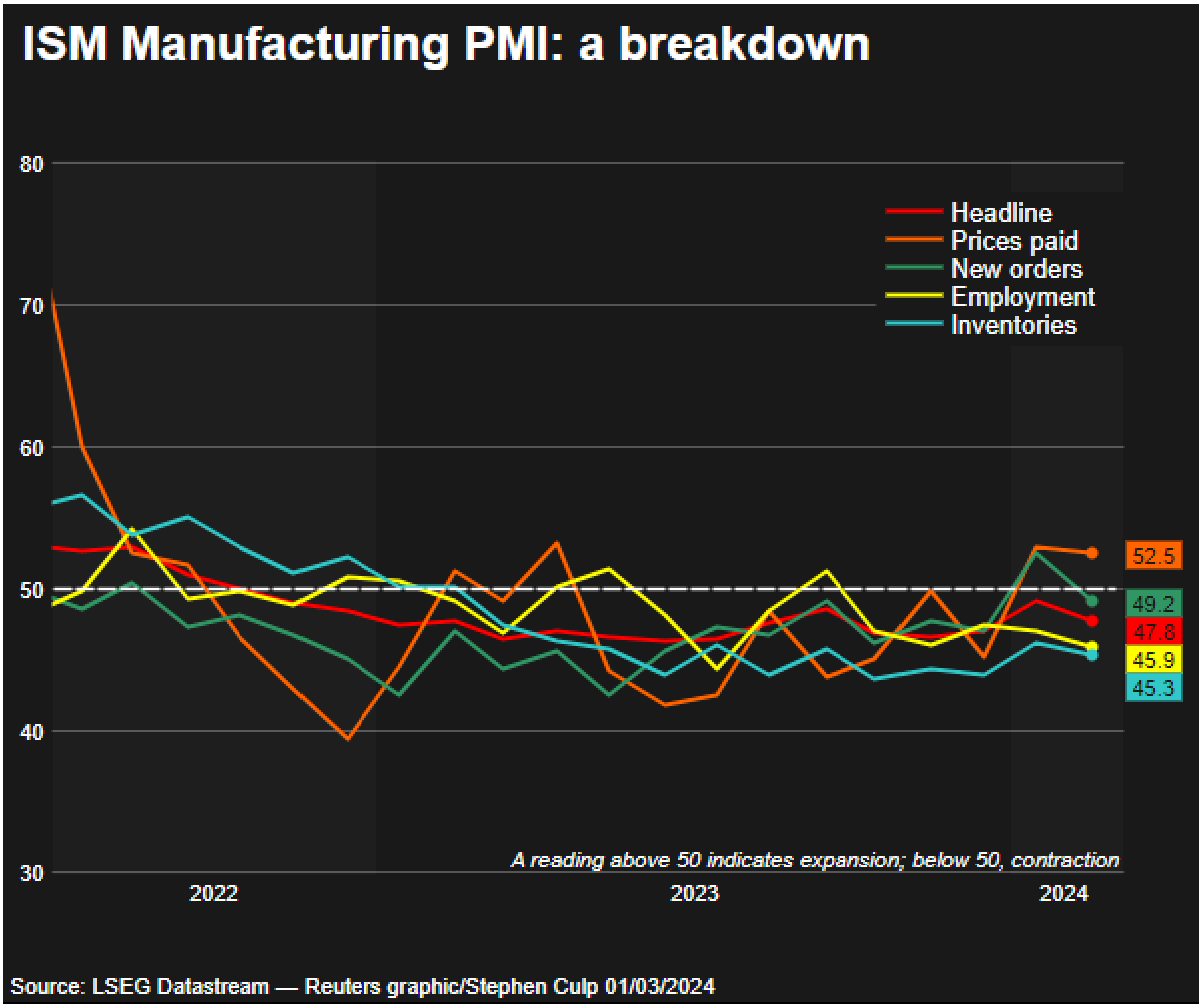
Headlines:

- Japan 1Q Tankan large manufacturing index off 2 to 11 – first drop in a year – while services up 2 to 34; final Mar manufacturing PMI up 1 to 48.2 – same as flash – Nikkei off 1.4%, 10Y JGB +1.1 to 0.728%, JPY flat at 151.40
- China Mar Caixin manufacturing PMI rises 0.2 to 51.1 – 5th month of expansion and best since Feb 2023 – 4Q final C/A surplus narrows -\$4.6bn to \$56.2bn - CSI 300 up 1.64%, CNH up 0.1% to 7.2525
- Korea Mar trade surplus stable at \$4.28bn – with exports up 3.1% y/y but imports -12.3% y/y – while Mar manufacturing PMI fell back 0.9 to 48.8 – first contraction in 3-months – Kospi up 0.045%, KRW off 0.6% to 1349.1
- Indonesia Mar manufacturing off 0.5 to 54.2 but output best since Dec 2021 – while Mar CPI rose 0.3pp to 3.05% - highest since Aug 2023- IDR off 0.2% to 15,885
- Turkey local elections surprise with opposition CHP beating Erdogan AKP in majority of cities – TRY off 0.2% to 32.434

The Takeaways:

The dual mandate of the FOMC is in play this week as investors try to see if its biased toward inflation or growth watching. The US S&P PMI and ISM PMI on manufacturing will dominate today after a slow overnight filled with Easter Monday holidays. The US markets are reopening from their Good Friday break but the economic story of the Powell no hurry to cut rates and the in-line core PCE report make for some excitement. There is a bias to play down the survey data of PMIs as they have not mattered as much as CPI in driving the focus for policy shifts. However, the jobs and prices components today maybe the best we have to game a long week of big jobs reports from JOLTS to Non-Farm Payrolls overlayed by over a dozen Fed speakers, including Powell himself. There is plenty to worry about for investors on April Fools' Day but nothing worse than chasing the economic data. Money flows have been skewed to stocks over bonds in 1Q and the only way that stops is if volatility shows up – starting with the data and continuing to investors changing their views on policy prescriptions ahead.

Does ISM manufacturing matter to the Fed?



Details of Economic Releases:

1. Japan 1Q Tankan large manufacturing index slows to 11 from 13 – better than 10 expected – still the first drop in the index in a year. The outlook rises to 10 from 8 while capex for all industry fell to 4% from 13.5% - weaker than 9.2% expected. The largest falls were seen among manufacturers of motor vehicles (13 in Q1 vs 28 in Q4), nonferrous metals (6 vs 15) and business-oriented machinery (16 vs 22). Meanwhile, sharp improvements were seen among manufacturers of petroleum & coal products (9 vs 0), food & beverages (24 vs 18) and shipbuilding & heavy machinery (18 vs 9). The large service index rose to 34 from 32 – better than 33 expected – with outlook flat at 27.

2. Japan March final Jibun Bank manufacturing PMI rises to 48.2 from 47.2 – as expected same as flash - the tenth straight month of contraction in factory activity, but the softest drop since last November, amid a softer reduction in output and new orders, with new orders shrinking the least in five months. Meanwhile, employment increased for the 1st time in three months and the strongest rate since last July, while backlogs of work fell at the 2nd-fastest in the current 18-month sequences. Buying activity shrank at the softest since last October, while a lengthening in delivery time continued due to disruptions in the Red Sea and Panama Canal. On the price front, input cost inflation eased to the softest since February 2021 while selling prices accelerated to a three-month high. Lastly, business sentiment remained positive amid hopes of a broad domestic and global demand recovery.

3. Indonesia March manufacturing PMI slows to 54.2 from 52.7 – weaker than 52.6 expected – however, the 31st month of growth as output grew the most in 27 months ahead of an Eid al-Fitr festival while new order growth hit a seven-month high. Also, buying levels expanded at a steep rate that was the strongest in more than two years. In the meantime, employment was broadly stable, continuing such a trend since September 2023. At the same time, foreign sales slipped into contraction territory after stagnating in February. Outstanding business increased, with the rate of rise the most pronounced in almost a year. On the cost side, cost burdens rose the most in 1-1/2 years, amid higher prices from suppliers and unfavorable exchange rates. Finally, sentiment weakened to its lowest in over a year, linked to worries about whether the current trend of robust sales growth can be maintained.

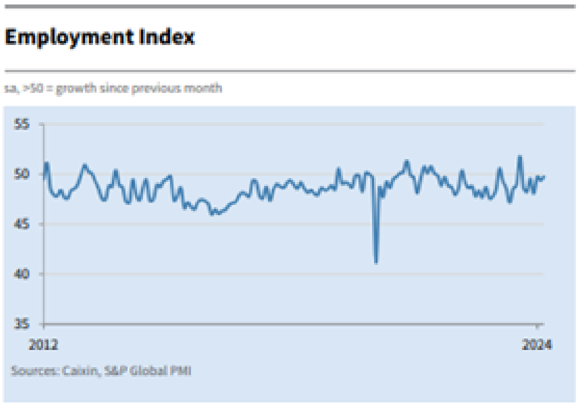
4. Indonesia March CPI rose 0.52% m/m, 3.05% y/y after 0.37% m/m, 2.75% y/y – higher than 0.39% m/m, 2.91% y/y expected - the highest inflation rate since last August, with food prices rising the most in 18 months (7.43% vs 6.36%), amid the fasting month of Ramadan and ahead of the Eid-el-Fitr celebration. Also, prices advanced faster for health (2.17% vs 1.95%), accommodation/restaurants (2.51% vs 2.38%), and education (1.70% vs 1.55%). Meanwhile, prices continued to rise for housing (0.55% vs 0.57%), transport (0.99% vs 1.40%), clothing (0.89% vs 0.90%), furnishings (1.03% vs 1.13%), and recreation & culture (1.62% vs 1.68%). By contrast, prices dropped further for communication & financials (-0.13% vs -0.13%). Core inflation rose to a three-month high of 1.77% in March, from February's over 2-year low of 1.68%, above forecasts of 1.7%.

5. **Korea March trade surplus stable at $4.28bn after $4.29bn – less than the $5.75bn expected** - still the tenth straight month of surplus in the trade balance, as exports grew while imports plunged. Exports advanced 3.1% y/y, softer than expectations of a 5.2% rise, the sixth consecutive month of expansion, and the softest pace in the sequence Meanwhile, imports slumped 12.3%, the 13th straight month of drop, compared to market forecasts of an 8.1% fall due to high energy prices.

6. **Korea March manufacturing PMI slips to 49.8 from 50.7 – weaker than 51 expected** – first drop after two months of expansion. Both output levels and total new orders fell back into contraction territory, albeit the respective rates of decline were only marginal. Meanwhile, new export orders expanded for the third straight month, driven by strong demand in South East Asia and Japan. Despite muted demand and output levels, purchasing activity rose for the seventh successive period, as firms looked to secure safety stocks amid delivery delays and higher prices. Employment also increased for the seventh time, in preparation for mass production of new items and factory relocations. On prices, input costs inflation picked up to a four-month high, leading output charges to increase, though only modestly. Finally, the 12-month outlook on output strengthened, amid hopes of a broad economic recovery.

7. **China March Caixin manufacturing PMI rises to 51.1 from 50.9 – better than 51 expected** - the fifth straight month of growth in factory activity and the fastest pace since February 2023, boosted by higher new orders from domestic and abroad, with foreign sales rising the most in a year while output climbed the most since last May. Meanwhile, employment declined again, indicating firms were cautious about hiring to contain costs. Buying activity continued to rise in line with growth in new work. On inflation, input prices fell for the first time since July, albeit only marginally, due to lower raw material costs. As a result, firms cut their selling prices for the third straight month and the most in eight months due to efforts to stimulate new demand. Finally, sentiment improved to its highest since April 2023, buoyed by hopes of rising manufacturing activity amid better forecasts of the global economic outlook.

Does China deliver 5% GDP in 2024?



Source: S&P Markit PMI/BNY Mellon

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