

iFlow

MARKET MOVERS

April 15, 2024

Taxes

"Our new Constitution is now established, everything seems to promise it will be durable; but, in this world, nothing is certain except death and taxes." - Ben Franklin

"The tax which each individual is bound to pay, ought to be certain and not arbitrary." - Adam Smith

Summary

Risk on as the worst-case fears about Iran and Israel have not materialized and as markets unwind the hedges for such. Today is Tax Day, and focus will be on liquidity in US markets, inflation and the effect on the US consumer in the retail sales report. Bonds are down 4-5bps in the US and in Europe, USD is down, Oil is down, Gold up, while most stocks markets are higher, with the Japan exception notable given weaker JPY still. The global stock markets are watching for escalation but having none yet helps spur some hope that the "worst" is over. Oil and gold remain the main barometers for measuring geopolitical risks while the role of politics is likely better gamed in bonds and the USD with all suggesting the week ahead is going to pivot on the shift of focus from the worst case back to inflation and what it means as a hidden tax on the consumer. Housing data, more bill sales and the debate in Congress about Israel aid, Trump's criminal case in NYC and the ongoing diplomacy in the world remain key.

What's different today:

- **Aluminum surges 10% over \$2700 a ton** - highest since June 2022 - tracking new US and UK sanctions on Russia metals. Tin also rose to \$32,000 a ton -

also most since June 2022. Violence in Congo/Rwanda hurting deliveries also noted.

- **Natural Gas in Europe trades at 3-month highs E30 mwh** - with uncertainty over Israel response blamed despite high storage levels - with reserves at 61.7% of capacity.
- **Nigeria March inflation rose to 33.2% y/y** - most since March 1996 and up from 31.7% y/y - with blame given to FX weakness and removal of government fuel subsidies.
- iFlow Friday data showed turn down in Mood, drop in carry and trend and further USD selling despite fear with G10 buying of SEK, JPY, EUR. EM was about APAC buying except SGD and HIKD while EMEA and LaTAm outflows. Bonds were bought in G10 except in Japan, sold most everywhere in EM.

What are we watching:

- **1Q Earnings** with focus on Goldman Sachs, M&T Bank
- **US March retail sales** expected slower at 0.3% m/m after 0.6% m/m. Watched for control group spending and inflation adjusted which is expected -0.1% m/m.
- **Fed Speakers:** Dallas Federal Reserve President Lorie Logan and San Francisco Fed chief Mary Daly speak

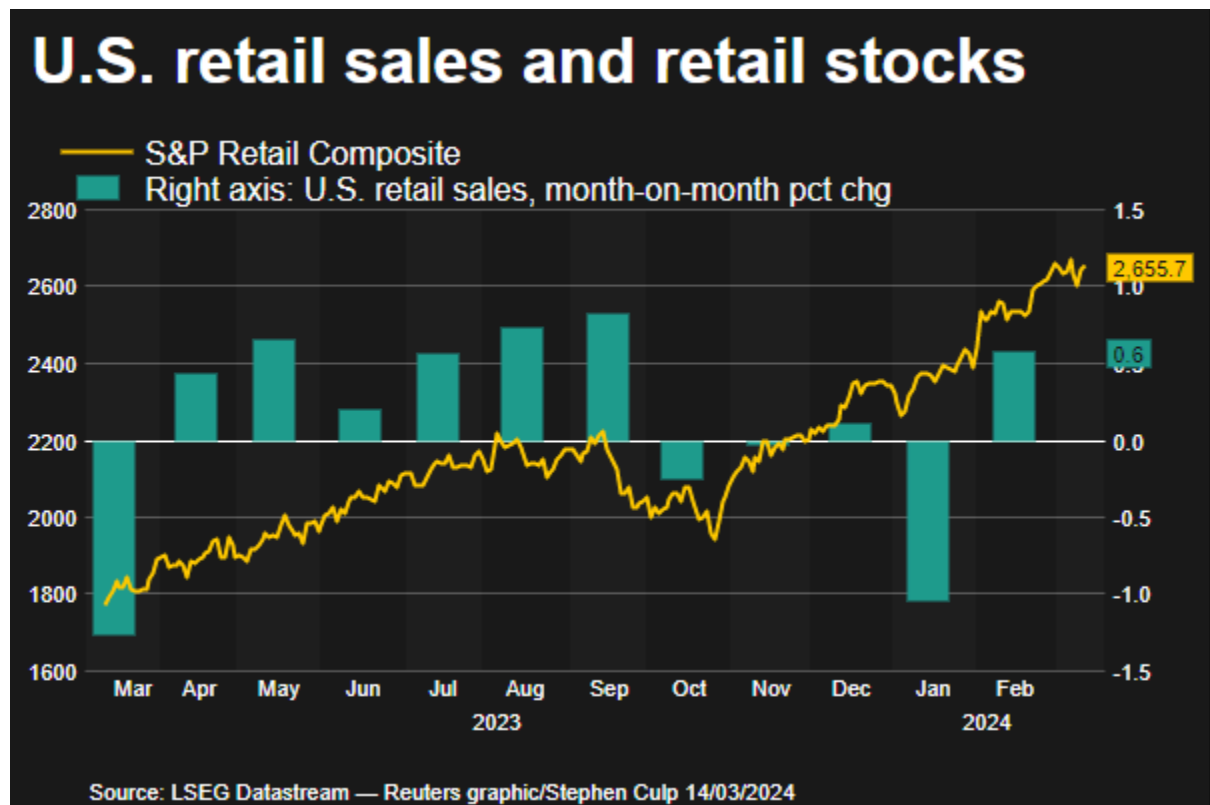
Headlines:

- Israeli war cabinet meets as G7 leaders urge restraint after Iran attack – WTI off 0.85%, ILS up 1.1% to 3.7190
- China PBOC leaves 1-year MLF rate unchanged at 2.5%- net drains CNY70bn - while government plans to promote increasing dividend yields boosts equities - CSI up 2.11%, CNH up 0.1% to 7.2590
- Japan Feb core machinery orders rebound up 7.7% m/m, -1.8% y/y- Nikkei up 0.74%, JPY off 0.45% to 153.85
- IDC Report: Samsung takes Apple in leading smartphone supplier in 1Q - Kospi -0.42%, KRW off 0.5% to 1383.90
- Singapore PM Lee to step down after 20-years in power - 3rd transition in nation's history – up 0.1% to 1.3605
- India Mar WPI up 0.53% y/y - most since Dec 2023 - led by food – Sensex off 1.14%, INR off 0.1% to 83.445
- Turkey Feb unemployment off 0.3pp to 8.7% - best since Oct 2023 – TRY flat at 32.397
- Eurozone Feb industrial production up 0.8% m/m, -6.4% y/y – EuroStoxx 50 up 1%, EUR up 0.15% to 1.0660

The Takeaways:

How markets rebound and consider the risk in Israel matters more than US retail sales or any set of Fed speakers. The idea that the FOMC won't ease rates in June is already priced and markets are moving onto the next set of stories - politics and geopolitics first, 1Q earnings and 2Q outlooks second. How margins at companies hold up with sticky inflation is the focus along with how banks handle the credit risks of an economy running beyond full steam. The view that the consumer is going to dominate the slowdown ahead seems reasonable and the University of Michigan consumer sentiment Friday highlighted higher inflation fears, higher frustration politically with outlooks and the effect of higher gasoline on the general mood. There is one "hidden tax" from inflation as Milton Friedman noted - and that shows up in the political debates at home and abroad.

Will the consumer slowdown?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. Japan February core machinery orders rose 7.7% m/m -1.8% y/y after -1.7% m/m, -10.9% y/y - better than the -0.2% m/m, -8% y/y expected. The increase in capital spending was driven by sharp gains in both the manufacturing (9.4%) and

non-manufacturing (9.1%) sectors to 386.3 billion yen and 505.9 billion yen, respectively. The highly volatile data series is considered as a leading indicator of capital spending in the coming six to nine months.

2. India March WPI rose 0.4% m/m, 0.53% y/y after 0% m/m, +0.2% y/y - more than the 0.5% y/y expected - 5th rise in WPI and fastest pace since Dec 2023 - due to faster rises in food prices and primary articles amid softer falls in manufacturing and fuel prices. Primary articles (4.51% vs 4.49% in February) and food index (4.65% vs 4.09%) climbed faster. Meanwhile, fuel and power fell less (-0.77% vs -1.59%) due to falls in LPG (-10.19% vs -6.37%), HSD (-3.51% vs -6.37%), and Petrol (-0.94% vs -0.69%). At the same time, manufacturing shrank softer (-0.85% vs -1.27%), weighed by basic metals (-5.34% vs -5.72%), chemical and chemical products (-4.64% vs -5.18%), textiles (-1.68% vs -1.90%), paper & paper products (-5.71% vs -6.42%), while those of rubber and plastic products stalled (vs -1.09%).

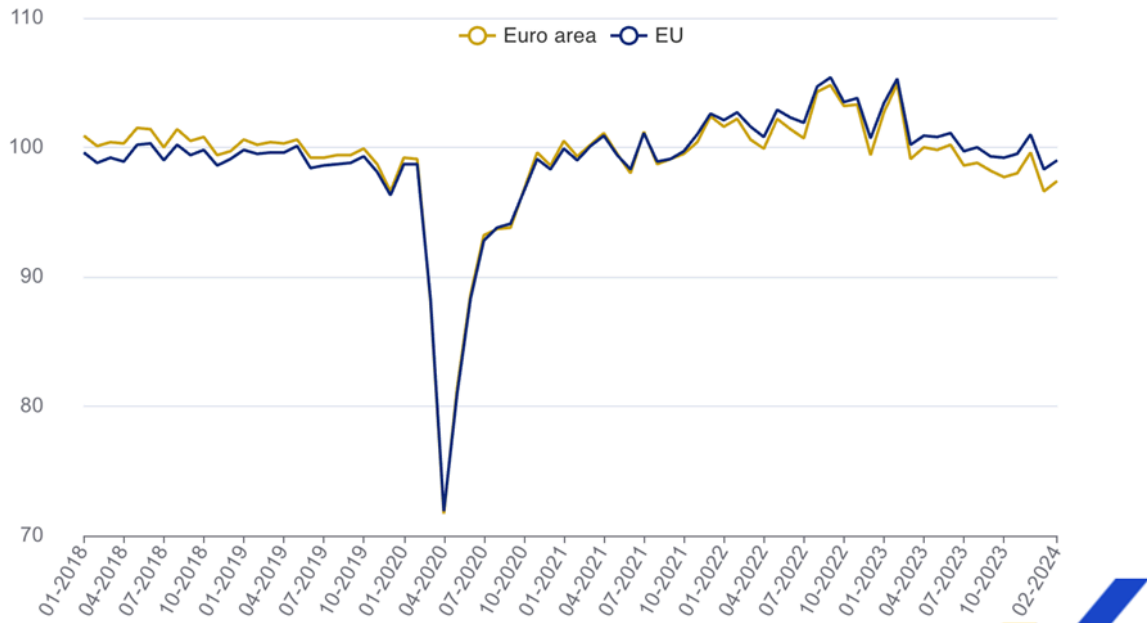
3. Turkey February unemployment drops to 8.7% from 9% - better than the 9.2% expected - lowest reading since October 2023, as the number of unemployed individuals decreased by 109 thousand from a month earlier to 3.078 million, while employment levels went up 147 thousand to 32.423 million. Meanwhile, the activity rate stood at 54%, the same as the revised figure in January, and the employment rate rose to 49.3% from 49.1%. The youth jobless rate for those aged between 15 and 24 years declined 0.8 percentage points to 15.6%.

4. Eurozone February industrial production rose 0.8% m/m, -6.4% y/y after -3% m/m, -6.6% y/y - as expected. The production of capital goods increased by 1.2% (vs -15.5% in January), while durable consumer goods advanced by 1.4% (vs -1.2%). Intermediate goods output also showed growth, rising by 0.5% following a 2.3% increase in the previous month. On the other hand, output decreased for both energy (-3.0% vs 0.4%) and non-durable consumer goods (-0.9% vs -0.2%).

EU industrial production lags recovery?

Industrial production

2021=100, seasonally adjusted series



eurostat 

Source: Eurostat /BNY Mellon

Disclaimer and Disclosures

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