BNY MELLON

iFlow

MARKET MOVERS

April 17, 2024

Lessons

"Markets are designed to transfer money from the active to the patient." – Warren Buffet
"What separates good content from great is a willingness to take risks and push the envelope." – Brian Halligan

Summary

Risk on with markets learning the lessons of high for as long as needed from Chair Powell. There are 40bps priced between now and year end for US rate cuts. That no longer scares investors. Rather the focus is on the rest of the world both geopolitical and political with India election risks one factor for INR, while CNY rallies on funding squeeze and the delisting threats of regulators pulling back. Japan is seeing the power of a weak JPY on trade and the pain of it in mood from Reuters Tankan. The UK drop in CPI was not enough to keep BOE easing hopes intact but enough for Chancellor Hunt to talk about tax cuts, while South Africa CPI drops enough to make the election fears less scary. Markets are waiting for more from the Fed with the Beige Book a lighter shade of grey as Fed speakers have already telegraphed their views and so the anecdotal stories of the report maybe less important. The lesson of surprise mattering most will remain with 1Q earnings and the 20Y bond sale.

What's different today:

- **Brazil 10Y bond yields fell 25bps** as the BRL weakness forces a less ambitious 2025 fiscal plan from Fin Min Haddad
- **UK 10Y bond yields rise 1bps to 4.31% - 5-month highs** – as the drop in CPI missed expectations and the talk of tax cuts worries

- **iFlow trend is in significantly negative territory** – suggesting FX markets are more random – highlighting the break of correlations and the further unwind of carry trades. In G10 FX USD buying yesterday continued along with JPY and EUR and SEK while CHF, AUD and CAD outflows. In EM MXN and COP saw bigger outflows while APAC mixed with CNY outflows vs. THBB, PHP, MYR inflows.

What are we watching:

- **1Q Earnings:** US Bancorp, Citizens Financial, Travelers, Discover Financial, CSX, Equifax, Prologis, Abbott Laboratories, Kinder Morgan, Crown Castle, Las Vegas Sands
- **Federal Reserve issues Beige Book** on economic conditions
- **International Monetary Fund/World Bank Spring meetings start**, IMF releases Global Fiscal Monitor
- **Central Bank Speakers:** Fed Board Governor Michelle Bowman and Cleveland Fed President Loretta Mester speak; European Central Bank board members Isabel Schnabel and Piero Cipollone speak; Bank of England governor Andrew Bailey and BoE policymakers Jonathan Haskel and Megan Greene speak
- **US Treasury sells** $13bn 20-year bonds along with $60bn 17-week bills

Headlines:

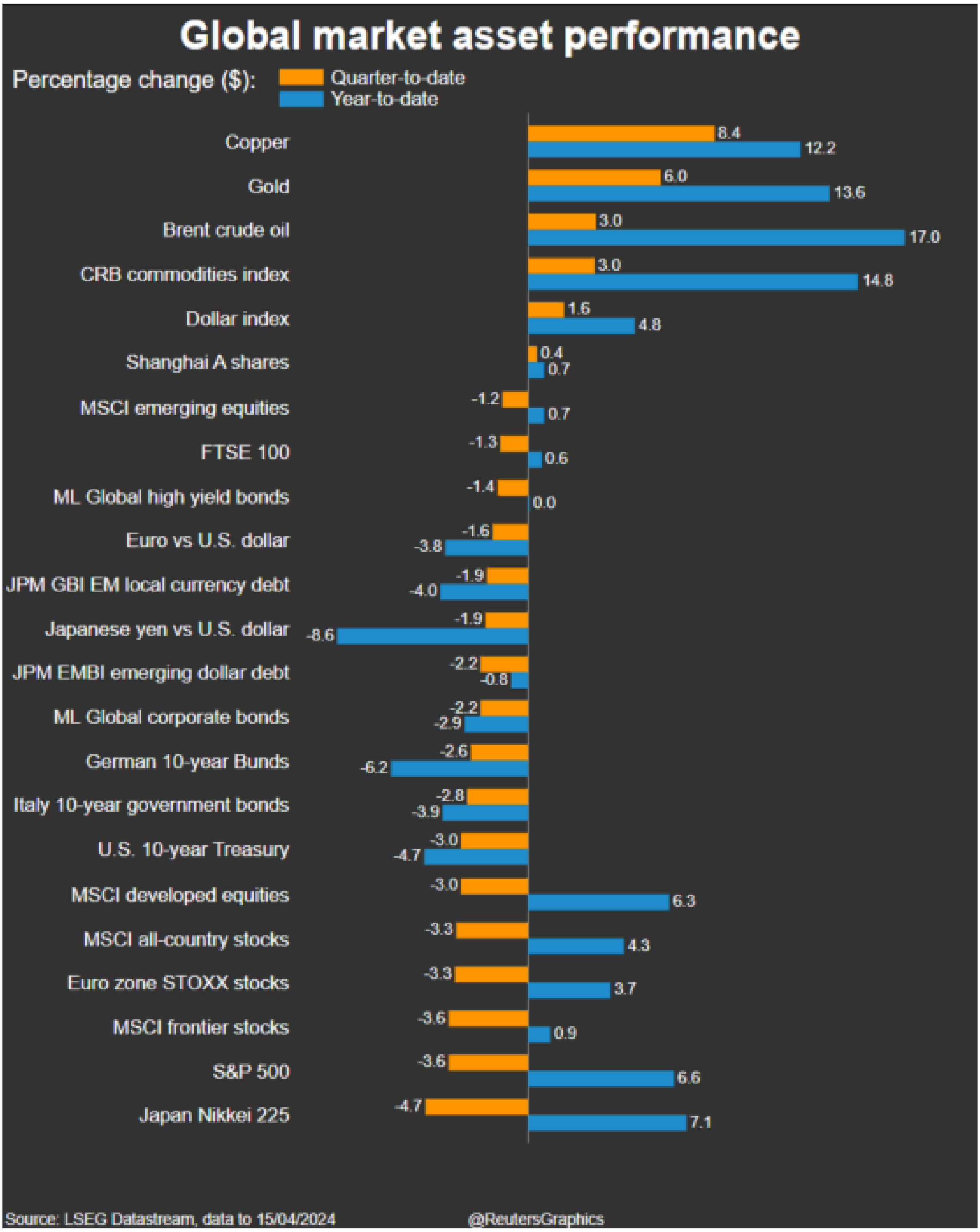
- Japan April Reuters tankan for manufacturing off 1 to 9 while service fell 7 to 25 - while Mar trade turns to surplus Y366.5bn - first in 3-months with exports up 7.3% y/y – Nikkei off 1.32%, JPY up 0.1% to 154.60
- Australian March Westpac MI leading index -0.1% m/m, 6M y/y -0.23% suggest below trend growth for 2024 - cites pullback in commodities – ASX off 0.09%, AUD up 0.4% to .6425
- China regulator plays down delisting risks, US President Biden threatens to triple China Steel tariff – CSI 300 up 1.55%, CNH up 0.15% to 7.2540
- Singapore March NODX -8.4% m/m, -20.7% y/y- worst month in 10 months, steepest annual drop since August – SGD up 0.2% to 1.3620
- Indonesia Feb retail sells rise 1.7% m/m, 6.4% y/y - best since June 2023 – IDR off 0.2% to 16,215
- South Africa March CPI slows 0.3pp to 5.3% - first drop in 2-months - still over SARB target – ZAR up 0.3% to 18.997
- Eurozone March final CPI confirmed off 0.2pp to 2.4% y/y – EuroStoxx 50 up 0.8%, EUR up 0.2% to 1.0645

- UK March CPI off 0.2pp to 3.2% y/y - more than expected but still lowest since Sep 2021 – FTSE up 0.5%, GBP up 0.3% to 1.2460
- US weekly MBA mortgage applications up 3.3% w/w, even as 30Y mortgages up 12bps to 7.13% - 4-month highs – US S&P500 futures up 0.4%, US 10Y rates off 2bps to 4.65%, US dollar index off 0.1% to 106.12
- US weekly API oil inventories report 4.09mb crude build with US SPR at 364.9mb - most since April - but gasoline fell 2.51mb 3% below average while distillate fell 0.427mn 5% below average – WTI off 0.5% to $84.85

The Takeaways:

The start of 2Q isn't following the playbook and that lesson stings for some traders and investors. The rise in oil, gold and copper leave commodities as the key question for global recovery vs. less rate cut hopes from G10 central bankers. Higher goods inflation is the fallout risk of the first 2 weeks of April. However, trends aren't perfect. The USD continued rally stalled today and this is the other lesson for many – trends don't work consistently nor do correlations like carry or value. The reversal hopes of mood rest on being able to look through less monetary policy hopes and think instead about better political and geopolitical outcomes. The problem is in the hedging needs for all remain very much in play until we get the full headlines about Israel and their response to the Iran attack. This issue won't disappear from the risk lexicon and nor will political risks from the US election to the South African or Indian votes ahead. The past performance of markets in 1Q mean less than the present quarter as we have all leaned that we are only measured on our future value not our past ones. The exception will be in 1Q earnings today and whether the focus on banks shifts to the larger economy and how margins and sticky inflation live in a world of uncertainty.

Will 2Q get back on 1Q trend?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. **Japan April Reuters tank for manufacturing 9from 10 - as expected -** due to ongoing cost-of-living pressures and shaky economic conditions in major market China. The latest figure was dragged down mainly by chemicals and food processing. The report said that sharp falls in the yen have pushed up the cost of imports in a blow to household consumption. It also added that while the currency's weakness boosted the value of exports, volume of shipments have not benefited as much. One respondent said: "Our sales appear to be boosted due to the impact of a

weak yen, but there's no sign of recovery in terms of volume." Another manager said: "Demand has not stabilised due to delay in China's economic recovery and uncertainty over the outlook such as decoupling between U.S. and Chinese economies.". The services sector index fell to plus 25 from plus 32 in the previous month, despite some gains by retailers. The survey, conducted April 3-12, found that both sectors' sentiment indexes improving slightly over the coming three months.

2. Japan March trade flips to surplus of Y366.5bn after -Y377.8bn - better than deficit of -Y250bn expected - the first trade surplus in three months, as exports grew while imports fell. Exports rose by 7.3% y/y, the fourth straight month of growth, to the largest amount in three months of JPY 9,469.60 billion, amid robust demand from the US and China. Meanwhile,imports were down 4.9%, the second time of drop this year, to JPY 9,103.13 billion, due to a sharp decline in imports of mineral fuels.

3. Australian March Westpac leading index drops -0.1% m/m after +0.1% m/m - weaker than +0.2% m/m expected. The 6-month annual rate fell to -0.23% in March from -0.03% in February, underlining a sub-trend growth performance that may continue throughout the year. Westpac indicated Australia's GDP growth to remain muted at 1.6% in 2024, in line with a soft 1.5% outcome a year earlier. That is well below Australia's 'trend' growth of around 2.5%. The weak signal from the leading index will provide some comfort for the Reserve Bank that slow growth and the associated rebalancing of supply and demand will continue to work towards a further easing in price pressures, according to Westpac senior economist Matthew Hassan.

4. Singapore March non-oil exports drop -8.4% m/m, -20.7% y/y after -4.9% m/m, -0.2% y/y - the steepest fall since last August, due to drops in electronic and non-electronic sectors. Shipments of non-electronic goods shrank faster (-23.2% vs -1.7% in February), namely pharmaceuticals (-70.3%), structures of ships and boats (-99.8%), and non-monetary gold (-49.1%). Also, sales of electronic products dropped 9.4%, after a 5.2% growth in the prior month due to falls in telecommunication equipment (-38.8%), ICs (-8%), and diode and transistors (-11%). Sales fell to the US (-50.2%), the EU (-45.4%), Japan (-36.5%), Thailand (-12.8%), South Korea (-12.6%), Malaysia (-11.2%), while rising to Hong Kong (16.5%), China (11.9%), and Taiwan (2.0%).

5. Indonesia February retail sales rose +1.7% m/m, +6.4% y/yafter -3.5% m/m, +1.1% y/y - more than the 1.2% y/y expected - the ninth straight month of expansion in retail trade and the fastest pace since last June, as spending accelerated during the general election and ahead of the Ramadan fasting month. There was a strong upturn in food sales (9.1% vs 3.1% in January) while trade stayed solid for fuels (10.7% vs 14.6%) and automotive parts & accessories (10.7% vs 14.6%). At the same time, sales fell at softer paces for cultural & recreational goods (-7.1% vs -8.3%) and information & communication (-21.9% vs -33.3%). Meanwhile, turnover was muted for clothing (0.3% vs 10.7%) and home appliances (0.5% vs 5.8%).

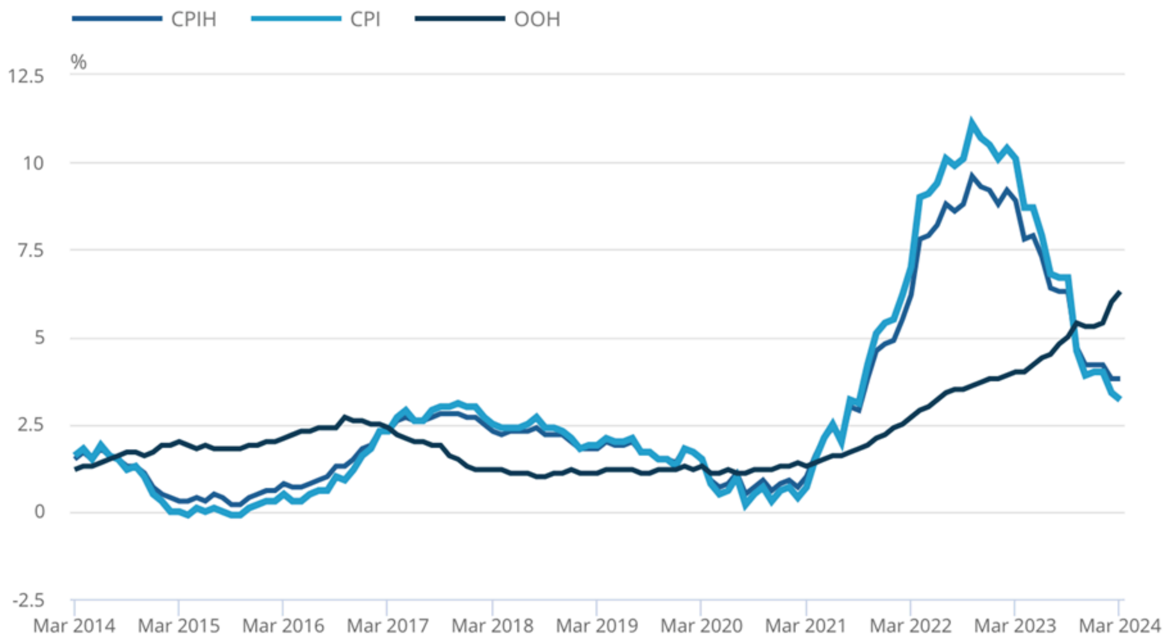
6. South Africa March CPI up 0.8% m/m,5.3% y/y after 1% m/m, 5.6% y/y - lower than the 5.4% y/y expected. Prices softened across several CPI categories, including food & non-alcoholic beverages (5.1% vs 6.1% in February), notably vegetables (6% vs 9.4%) and fruit (3.3% vs 5.9%); alcoholic beverages & tobacco (4.5% vs 4.8%); transportation (5.3% vs 5.4%); and restaurants & hotels (5.7% vs 6.6%). Meanwhile, faster increases were seen for miscellaneous goods & services (8.5% vs 8.4%); education (6.3% vs 5.7%), on higher fees; and housing & utilities (5.9% vs 5.8%), primarily electricity and other fuels (15.3% vs 15.2%). The core inflation, excluding volatile items such as food and non-alcoholic beverages, fuels and energy, eased slightly to 4.9% in March 2024, down from an eight-month high of 5% in February.

7. Eurozone March final CPI up 0.8% m/m, 2.4% y/yafter 0.6% m/m, 2.6% y/y - as expected - matching November's 28-month low but still slightly exceeding the European Central Bank's target of 2%. The pace of price increases moderated for both food, alcohol & tobacco (2.6% vs 3.9% in February) and non-energy industrial goods (1.1% vs 1.6%), while energy prices declined at a softer rate (-1.8% vs -3.7%). Meanwhile, services inflation held steady at 4.0%. The core rate, excluding volatile food and energy prices, also cooled to 2.9%, its lowest point since February 2022.

8. UK March CPI up 0.6% m/m, 3.2% y/y after 0.6% m/m, 3.4% y/y - more than the 3.1% y/y expected but still, the lowest rate since September 2021, primarily driven by a slowdown in food inflation (4.0% vs 5.0% in February). Additionally, prices rose at a slower pace for restaurants and hotels (5.8% vs 6.0%), recreation and culture (5.3% vs 5.4%), while the cost of housing continued to decline (-1.6% vs -1.7%). Transport prices, on the other hand, rebounded by 0.1% after four consecutive months of decrease, partly due to a softer decline in the cost of motor fuels. The annual core inflation rate, which excludes volatile items such as energy and food, dropped to 4.2%, the lowest rate since December 2021 and also slightly beat the market consensus of 4.1%.

UK CPI drives BOE easing hopes lower?

CPIH, OOH component and CPI annual inflation rates for the last 10 years, UK, March 2014 to March 2024



Source: Consumer price inflation from the Office for National Statistics

Source: UK ONS/BNY Mellon

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

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