BNY MELLON

iFlow

MARKET MOVERS

April 19, 2024

Conclusions

"Life is the art of drawing sufficient conclusions from insufficient premises." – Samuel Butler

"If all the economists were laid end to end, they'd never reach a conclusion." – George Bernard Shaw

Summary

Risk mixed as the off and on mood reflects the expected Israel retaliation, reports remain unclear as to what happened in Isfahan with a clearly muted Iranian counter response. That this hasn't led to further escalation pushes oil flat after jumping 4% (Brent briefly over $90bbl), gold flat after being unable to break previous highs, and global equities down albeit well off the lows. The dollar is lower but only 0.1%. BTC rose 8% and now is up just 1.5% into its halving. Peak fear has passed for now, but this doesn't inspire new risk. The overnight economic data was ignored – Japan CPI remains linked to JPY weakness like the rest of APAC, while UK retail sales miss and German PPI higher. The overnight focus on geopolitics makes the lack of US economic releases more painful as the drivers ahead will remain linked to 1Q earnings surprises and IMF speakers. Expect focus on US rates rather than war fears to be key as markets have to price in more supply next week with $235bn in coupon sales starting Tuesday. Intervention in APAC adds to rate watch with many seeing reserve use driving up US yields. The ongoing overvaluation of the USD and what it means for the rest of the world is likely to show up in the post IMF discussions next week.

What's different today:

- **Malaysia GDP rose 3.9% y/y in 1Q** – up from 3.0% y/y – best in over a year led by all sectors, driven most by services, however the quarter saw a -3.4% pullback in growth after 3.1% q/q gain suggesting China recovery remains key. MYR is the only APAC currency with gains overnigh apart from INR.
- **iFlow** – Equity by region had all negative flows for the first time in months, even as materials, industrials and consumer discretionary sectors saw inflows. Bonds were mixed again – China inflows vs. India outflows most notable along with Argentina outflows vs. Brazil inflows. G10 FX was constrained and CHF selling only notable story while in EM MXN selling vs. ZAR buying stands out.

What are we watching:

- **1Q Earnings**: American Express, Procter & Gamble, Schlumberger, Fifth Third Bancorp, Huntington Bancshares, Regions Financial
- **International Monetary Fund's Spring meeting** in Washington continues – with focus on geopolitical risks
- **Central Bank Speakers**: Chicago Federal Reserve President Austan Goolsbee speaks. European Central bank policymaker Joachim Nagel speaks. Bank of England Deputy Governor policymaker David Ramsden and BoE policymaker Catherine Mann speak. Bank of Canada Governor Tiff Macklem speaks.

Headlines:

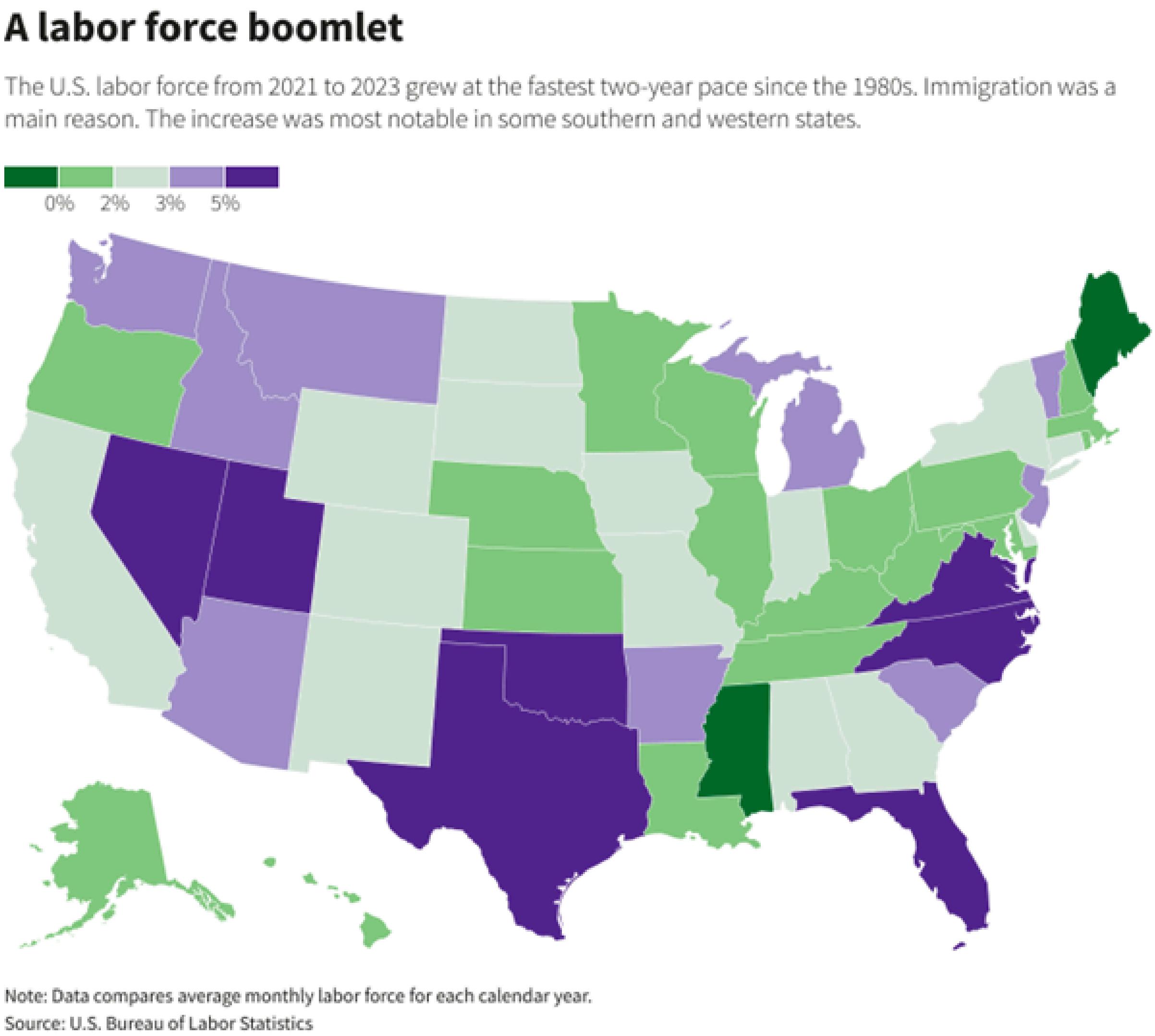
- Iran acknowledges Israeli drone attack near air base in Isfahan, reports of explosion heard, but both nations downplay incident – Oil flat, Gold flat, ILS up 0.3% to 3.7855
- BI increased interventions to support IDR off 2.6% on week - 4-year lows at 16,250, Taiwan off 0.7% on week – near 8-year lows at 35.512 – on equity outflows.
- Japan Mar CPI up 0.2% m/m, 2.7% y/y – near expectations – biggest monthly jump since October but core off 0.2pp to 2.6% y/y – Nikkei off 2.66%, JPY up 0.1% to 154.55
- China Jan-Mar FDI off 26.1% y/y to CNY301.67bn – 3rd monthly drop – CSI 300 off 0.79%, CNH off 0.1% to 7.2515
- Turkey Central Bank Governor Karahan: Vows “whatever it takes” to fight inflation, sees it peaking around 75% - TRY off 0.2% to 32.592
- German Mar PPI up 0.2% m/m, -2.9% y/y – smallest deflation in 9 months – led by energy, DAX off 0.6%, Bund 10Y yields off -4bps to 2.45%, EUR flat at 1.0650

- UK March retail sales up 0% m/m, 0.8% y/y – less than 0.3% m/m expected but up 1% q/q – FTSE off 0.5%, Gilt 10Y yields off -3bps to 4.24%, GBP flat at 1.2445

The Takeaways:

The power of markets to look through present events and focus on the future continues. The question for today is whether calling the war risk over in Israel means the peace prospects are higher. The lack of fallout from the overnight worst fears of an Israeli attack on Iranian soil proves the point. While most are content to call it a weekend and have a sign of relief – the ongoing escalation in the conflict remains clear and the path to peace opaque. The risk and reward of ignoring Ukraine or Israel in the weeks and months ahead seems foolhardy. The markets, however, continue to function and price in the ongoing narrative of US growth, high for longer US rates, divergence with the rest of the world on policy while watching for some peak political fear from the myriad of elections still ahead. The driving force of the US gains in assets in 2024 has been on back of AI and chips but it's expanded to a wider set – with 1Q earnings ongoing the critical proof to support such hopes. The US productivity gain with industrial output up but workers in the sector down is one factor. The other is that demographics matter. The rise in immigration in the US is a political football, but also a driver of growth. Consider the power of more people driving up demand for housing, food, transport and services across the nation. Consider those hard to fill lower paying jobs helping companies grow and expand the number of higher paying white-collar jobs. Markets are watching the US jobs growth – as highlighted by the weekly jobless claims yesterday – with awe. The boomlet in US jobs has left the FOMC confused about their easing plans and it has forced the rest of the world to rethink their US dependence. How the next week plays out for data, rates and the US dollar seems just as important as any geopolitical noises, but that is the comfort of the markets in looking through the present. Remember volatility lives in the unknown and the grey swans of politics lose out to the black swans of war and perhaps peace.

Does the rise in the US labor force matter?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. Japan March CPI moderates +0.2% m/m, +2.7% y/y from 0% m/m, +2.8% y/y – as expected – with monthly increase the most since October, while core CPI drops to 2.6% y/y from 2.8% y/y – lower than 2.7% y/y expected pulling back from 4-month highs. There were slowdowns in prices of transport (2.9% vs 3.0% in February), clothes (2.0% vs 2.6%), furniture & household utensils (3.2% vs 5.1%), healthcare (1.5% vs 1.8%), communication (0.2% vs 1.4%), and culture & recreation (7.2% vs 7.3%). At the same time, inflation was stable for food (at 4.8%), housing (at 0.6%), education (at 1.3%), and miscellaneous (at 1.1%). Meanwhile, prices of fuel, and light dropped the least in a year (-1.7% vs -3.0%), with electricity (-1.0% and -2.5%) and gas (-7.1% vs -9.4%) falling at softer paces as energy subsidies from the government would fully end in May.

2. China year-to-date March FDI drops 26.1% y/y after -19.9% y/y – worse than -25% y/y expected – 3rd monthly decline. The commerce ministry attributed the drop to high-base effects. New actually utilized foreign investment into China was

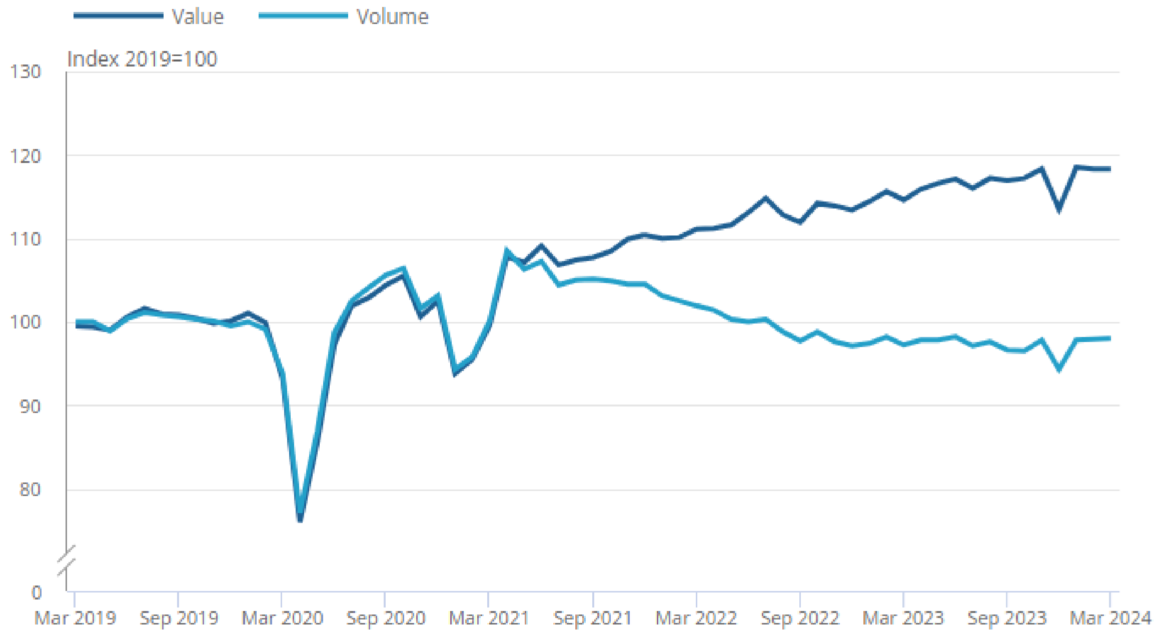
87 billion yuan ($12 billion) last month, according to calculations based on figures provided by the Ministry of Commerce on Friday. That was down 38% compared to the same month in 2023.

3. German March PPI rises 0.2% m/m, -2.9% y/y after -0.4% m/m, -4.1% y/y – more than the 0% m/m expected – still, the ninth consecutive month of producer deflation but the smallest decline since July, driven by a fall in energy costs (-7.0%), influenced by natural gas (-15.4%), electricity (-12.6%), and mineral oil products (-1.0%). Meanwhile, prices of intermediate goods shrank by 3.7%, dragged down by metals (-6.6%) and basic chemicals (-9.0%). Conversely, prices of non-durable consumer goods rose by 0.3%, while those of durable consumer goods increased by 1.0%. Also, prices of capital goods climbed 2.8%, mainly boosted by advances in machinery prices (3.0%) and the prices of motor vehicles, trailers, and semi-trailers (2.2%).

4. UK March retail sales rose 0% m/m, 0.8% y/y after 0.1% m/m, -0.3% y/y – weaker than 0.3% m/m expected. Increases in sales of automotive fuel by 3.2% and non-food stores by 0.5% were offset by declines in food stores and non-store retailers, which experienced decreases of 0.7% and 1.5%respectively. Looking at the quarter, trade increased by 1.9% in the three months to March when compared with the previous three months.

Does the UK consumer start to pullback?

Volume and value sales, seasonally adjusted, Great Britain, March 2019 to March 2024



Source: Monthly Business Survey, Retail Sales Inquiry from the Office for National Statistics

Source: UK ONS/BNY Mellon

Disclaimer and Disclosures

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

Can't see the email? View online

We take our data protection and privacy responsibilities seriously and our privacy notice explains how we collect, use, and share personal information in the course of our business activities. It can be accessed here.

This email was sent to alexandra.mannerheim@gmail.com, and was sent by The Bank of New York Mellon 240 Greenwich Street, New York NY 10286.

Your privacy is important to us. You can opt out from receiving future Newsletters by unsubscribing via this link at any time. You can also select the topics that you want to receive by managing your preferences.

This message was sent from an unmonitored email box. Please do not reply to this message.

Contact Us | iflow@bnymellon.com

This message was sent from an unmonitored email box. Please do not reply to this message.

.