

April 2, 2024

Contradictions

"Do what you will, this world is fiction and is made of up of contradiction." - William Blake

"Doublethink means the power of holding two contradictory beliefs in one's mind simultaneously and accepting both of them." – George Orwell

Summary

Risk mixed as the biggest sell-off in US bonds yesterday since mid-February drove the USD higher and left the rest of the world worried about FOMC plans and what that means for their own central bank policies and growth outlooks. The final PMI reports globally were mostly better - but not great - and there-in is the problem of the day - as US exceptionalism continues to be the dominate theme despite the hope for 3 cuts and a soft-landing and a better global outlook. The contradictions to this view come from the data itself with higher energy prices and yet lower German CPI with even lower German manufacturing PMI while Italy and Spain expand along with the UK. The divergence of cycles and policy should make for more complicated choices for investors as there are real alternatives to just US stocks but the fear of missing out on this rally even after yesterday's hiccup drives along with the key US data with durable goods and JOLTS both important.

What's different today:

- **Strong 10Y bond sales in Japan despite US curve steepening** - the MOF sold Y2.091trn 10Y #374 JGB 0.8% coupon at 100.43 - or 0.755% - with 3.8 cover up from 3.24 - after the result bonds rallied, with 10Y yields off 1.5bps to 0.725%, but 30Y rose 1.5bps to 1.845% and 2Y flat at 0.19%.
- **UK February consumer credit rose just £1.378bn** - down from £1.77bn - with drops in car loans, personal loans and credit cards even as mortgages rose and M4 higher. This contradiction will matter to BOE MPC.
- **iFlow watching the new-found USD selling** for where and depth with CAD, CHF and DKK in G10 vs. mixed EM where CZK selling and HUF buying TRY buying and PLN selling stand out in EMA, while only TWD sees inflows in APAC while Latam was all USD buying.

What are we watching:

- **FOMC Speakers:** Bowman on M&A, Williams on economy at NY economic club, Mester on outlook, Daly at fireside chat.
- **US February JOLTS openings** expected down from 8.73mn from 8.863mn – key will be quits and the Beveridge curve.
- **US February factory orders** expected up 1% after -3.6% with ex defense, ex aircraft capital good key last up 0.5%.

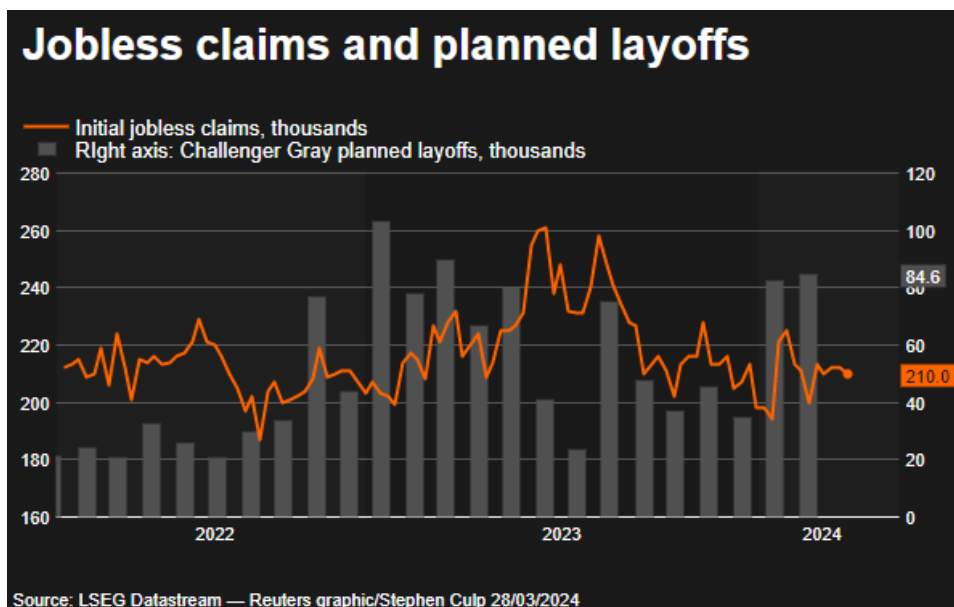
Headlines:

- Australian Mar final manufacturing PMI off -0.5 to 47.3- worst 2-month drop since May 2020 -RBA Kent explains shift to ample reserve system over floor, no shift to QT, RBA Minutes didn't discuss hike – ASX off 0.11%, AUD up 0.3% to .6505
- Japan FinMin Suzuki: “Speculative” moves impacting JPY - watching market closely – Nikkei up 0.09%, JPY flat at 151.65
- Chinese state banks seen buying CNY; New Indonesia leader Prabowo visits China, promises close ties - CSI 300 off 0.42%, CNH off 0.1% to 7.2625
- Korea Mar CPI up 0.1% m/m, 3.1% y/y - highest since December 2023 – Kospi up 0.19%, KRW off 0.2% to 1352
- India Mar final manufacturing PMI up 2.2 to 59.1 - best since Feb 2008 – Sensex off 0.15%, INR flat at 83.38
- Spanish Mar jobless drops -34,400 best March since 2008 while manufacturing PMI -0.1 to 51.4 - 2nd month of expansion – IBEX off 0.35%, SPGB up 8.5bps to 3.24%
- Eurozone Mar final manufacturing off 0.4 to 46.1 - 3-month lows - with lower order and shorter delivery times but 11-month highs in output while 1Y consumer inflation outlook off 0.2pp to 3.1% - lowest since Ukraine war start – EuroStoxx 50 up 0.2%, EUR flat at 1.0750
- UK Feb mortgage approvals rises to 60.4k - most since September; while Mar final manufacturing PMI jumps 2.8 to 50.3 - first expansion since July 2022 – FTSE up 0.2%, GBP up 0.15% to 1.2575

The Takeaways:

Will Fed Speakers talk to jobs or inflation? The dual mandate is the driver for uncertainty today with JOLTS and durable goods the data but the focus on how bonds can stop going down. The move in US rates stands out without a bigger driver and this repricing matters to how the rest of the world moves. The most likely surprise generator today is the US job openings component, a measure of demand for labor, fell to 8.863 million in February, but this level was seen at the time to be consistent with an employment market that is gently easing, as opposed to sharply contracting. A lot of the tightness that resulted from the shifts in the job market from COVID has evaporated since job openings peaked at a record 12.182 million in March 2022. Whether we can return to a Beveridge curve matching the FOMC easing cycle of 2019 is the key.

Does growth matter more than jobs?



Details of Economic Releases:

1. Australian March final Judo Bank manufacturing PMI slips to 47.3 from 47.8

- better than 46.8 flash - still the second successive monthly deterioration in the manufacturing sector, shrinking at the fastest pace since May 2020 as new work inflows declined due to high interest rates and weak economic conditions. Export orders also decreased, but at a slower rate. This led to lower output and a reduction in employment levels, with job shedding at its fastest pace since June 2020. Manufacturers reduced purchasing activity, resulting in a decline in stocks. Despite this, post-production inventories eased as manufacturers were cautious about holding excess stock. Vendor performance deteriorated due to external disruptions. Input costs continued to rise, driven by higher raw material and transport costs, although the rate of inflation slowed. Selling prices increased at a slower pace, with both input and output price inflation below their averages.

2. Korea March CPI up 0.1% m/m, 3.1% y/y after 0.5% m/m, +3.1% y/y - as

expected - the highest reading since December driven by higher cost of fresh food and energy but the lowest monthly; increase since Dec 2023. Core CPI rose 0.1% m/m, 2.4% y/y.

3. India March final HSBC Bank manufacturing PMI rises to 59.1 from 56.9 -

weaker than 59.4 flash. Still, the latest reading was the fastest growth in factory activity since February 2008, as output and new orders grew the most in nearly three-and-a-half years, with new export orders rising the most since May 2022. Buying levels rose significantly to the fastest rate since mid-2023 and one that was among the strongest in nearly 13 years while vendor performance improved. Employment climbed to the strongest since September 2023. On the price front, input price inflation accelerated to a five-month high due to higher raw material costs, while output cost inflation eased to the weakest in over a year. Finally, business sentiment slipped to a four-month low as concerns about inflation.

4. UK February mortgage approvals rise to 60,383 from 56,087 - more than

56,500 expected - the highest level since September 2022, as interest rates on newly drawn mortgages fell sharply. The 'effective' interest rate dropped by 29 basis points to 4.90% in February. Meanwhile, the rate on the outstanding stock of mortgages increased by 7 basis points to a new record high of 3.48%. Net approvals for remortgaging, which only capture remortgaging with a different lender, also

increased sharply to 37.7k from 30.9k. Overall M4 rose to 0.5% from 0% while net lending to individual rose GBP2.88bn from GBP0.697bn.

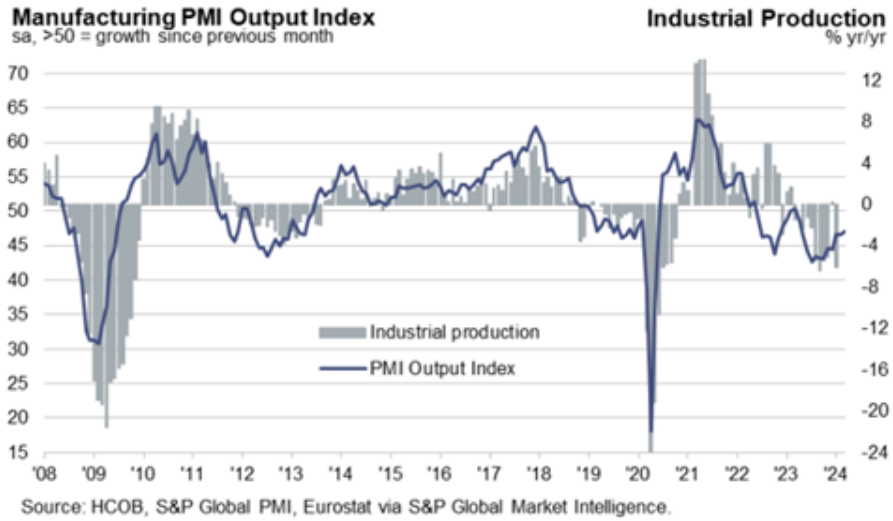
5. UK March final manufacturing PMI rises to 50.3 from 47.5 - better than 49.9 flash - the first expansion in manufacturing activity since July 2022, as output and new orders increased following year-long downturns. Factory production increased for the first time since February 2023, as output growth in the consumer goods sector more than offset downturns in the intermediate and investment goods categories. Where an expansion of production volumes was registered, this was linked to client restocking supporting a rise in new order intake. There were also other signs of stabilisation, with rates of contraction in employment and purchasing activity slowing sharply and business optimism about the year-ahead outlook hitting an 11-month high. On the price front, manufacturers saw upward pressure on both input costs and output charges.

6. Spanish March unemployment drops -33,400 after -7,452 - better than +10,000 expected - the lowest March figure since 2008. The number has also defied market expectations that pointed to a 10,000 increase. By sector, jobless numbers were down primarily in the services sector, with a decrease of 31,294 people, followed by industry (-2,055), agriculture (-1,502), and construction (-333). In terms of regions, the most significant decreases were reported in Andalusia (-11,374), the Canary Islands (-4,686), and the Valencian Community (-3,998). Simultaneously, a separate report from the Social Security Ministry revealed that Spain added 77,876 net formal jobs in March, bringing the total to 21.0 million jobs.

7. German March flash CPI by States suggest national -0.4pp y/y drop to 2.1% y.y - BW up 0.5% m/m 2.3% y/y from 2.7% y/y; Bavaria up 0.4% m/m, 2.3% y/y from 2.65 y/y; Brandenburg up 0.4% m/m, 2.8% y/y from 3.5% y/y; Hesse up 0.3% m/m, 1.6% y/y from 2.1% y/y; NRW up 0.3% m/m, 2.3% y/y from 2.6% y/y; Saxony up 0.4% m/m, 2.5% y/y from 3.0% y/y -

8. Eurozone March final HCOB manufacturing PMI drops to 46.1 from 46.5 - better than 45.7 flash - still, a three-month low mainly influenced by changes in suppliers' delivery times and stocks of purchases following the relief of disruptions due to the Suez Canal issue. Although manufacturing output declined for the twelfth consecutive month, the rate of contraction slowed, reaching its lowest point since April 2023. New orders also saw a less pronounced decrease for the fifth month in a row. Additionally, export sales, while still falling, demonstrated the least decline in almost two years, lessening the impact of weak international markets on eurozone manufacturing demand. Business confidence also rose to its highest level in nearly a year, but growth expectations remained relatively weak, which weighed further on factory employment.

Does Growth in EU prevent ECB cuts in June?



Source: S&P Markit PMI/BNY Mellon

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