BNY MELLON

iFlow
MARKET MOVERS

**April 3, 2024**

# Edginess

***"If you round out your edges, you lose your edge." – Danielle LaPorte***
***"People in love often become edgy, dangerous. They lose their sense of perspective." – Charles Bukowski***

## Summary

Risk on after EU inflation drops more than expected and adds to ECB rate cut hopes. The APAC session was the opposite as higher US rates and Taiwan quake rattled markets. The fear of inflation shows up most clearly in the reality of Turkey with core CPI over 75% y/y while the Eurozone drop of core to 2.9% y/y suggests some relief even with 4% service inflation. The tie-breaker on the day will be US Services ISM, ADP jobs and what Fed Chair Powell says differently.  Many expect the Fed speakers to keep June cut expectations in play - priced at 64% right now - but clearly not a given and with that uncertainty many worry about the US stock markets facing further downside risks in the first week of 2Q with "good news" on the economy seen as bad for momentum as high for longer risks clash with the rest of the world. The edginess of equities today makes clear that something has to give - either to story or the data or both.

**What's different today:**

- **Gold rallies to new record high at $2,283 oz** led by safe-haven demand post stock and bond selling in US session, but now down 0.35% with rate cut by FOMC in June focus and Chair Powell comments today key.
- **Brent Crude oil price near $90bbl** - as US weekly API oil inventories drop -2.286mb after surprise 9.34mb build - as expected - but gasoline off 1.4mb

and distillates off 2.5mb leave oil bid along with geopolitical concerns driving prices higher.
- **iFlow** – all the factors in FX neutral and have been for a month – that is unique and subject to risk rising, in Bonds the buying in G10 stands out only tiny Australia outflow, while Latam buying was uniform and significant but EMEA all selling and in APAC Thai inflow notable. Equities remain mixed with 3 regions still seeing inflows APAC, EM EMEA and EM Americas.

**What are we watching:**

- **Fed Chair Powell on the economy** at Stanford business school forum, Bowman speaks in Washington, Goolsbee interview, Barr in Washington and Kugler due to speak on outlook in Missouri.
- **US Treasury Yellen** departs for China - trade practices key issue - ie Tik-Tok and other issues
- **US March ADP employment change** expected up 148k after 140k - with this noisy indicator still likely to matter to NFP predictions and add to June cut outlook shifts
- **Canada March services PMI** expected 47.2 from 46.6 - upside surprises matter along with prices and jobs for BOC cut hopes
- **US March service ISM e**xpected 52.7 from 52.6 - with focus on jobs, prices and orders. Also S&P PMI services expected down to 51.7 from 52.3

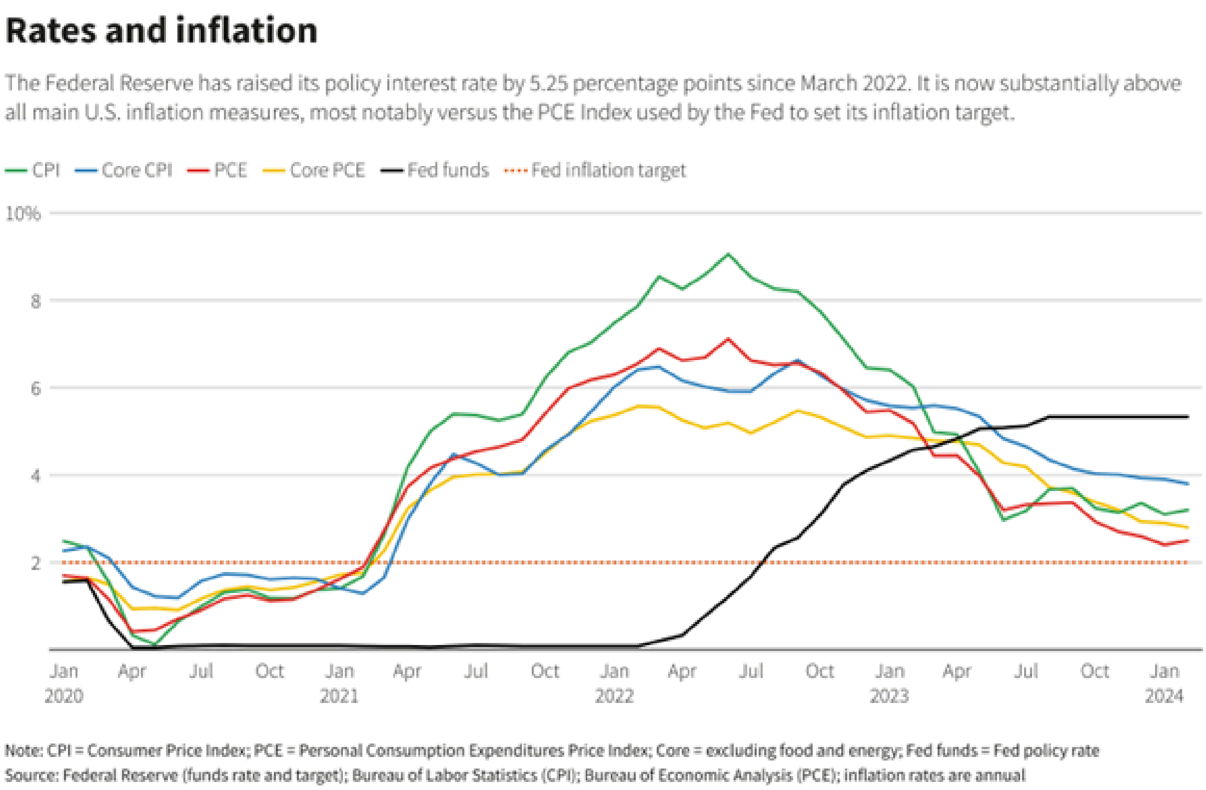
**Headlines:**

- Taiwan suffers 7.4 earthquake killing 9 people- worst in 25-years - disrupting computer chip production – TWD up 0.1% to 32.057
- Australian Mar AiGroup all industry index up 9.6 to -5.3 - still 23rd month of contraction but signals bottoming out – ASX off 1.34%, AUD flat at .6515
- Japan Mar final services PMI up 1.2 to 54.1 - 19th month of expansion - with input prices at Oct 2023 highs – Nikkei off 0.97%, JPY off 0.1% to 151.70
- China Mar Caixin services PMI up 0.2 to 54.7 - 15th month of expansion - with outlook up first time in 3-months – CSI 300 off 0.36%, CNH off 0.1% to 7.2595
- Singapore Mar global PMI off 1.1 to 55.7 - 13th month of expansions - 8-month lows for outlook,10 month high for orders – SGD flat at 1.3515
- Turkey Mar CPI rises 1.4pp to 68.5% y/y- highest since Nov 2022 - with core up 2.3pp to 75.2% - TRY up 0.1% to 31.95
- Eurozone Mar flash CPI drops 0.2pp to 2.4% y/y- lowest since Nov 2022 - while core drops 0.2pp to 2.9% y/y - NATO meets with plans of E100bn 5Y support for Ukraine – EuroStoxx 50 up 0.3%, EUR up 0.1% to 1.0780

**The Takeaways:**

The question for today is whether the ECB can be out of synch with the Fed and cut in June. The data drop from the US in the last 2 weeks has put GDP for 1Q in the US back higher over 2.5% and that alone has helped shove down expectations for a June cut. The July cut remains and the risk of a noisy start to 3Q and summer is the challenge as we have barely started Spring. The ECB Holzmann comments overnight merit close attention to all those that expect a weaker USD to be part of the story for helping keep equities on board through the next 3 months. April can be the cruelest month as we are discovering as seasonality proves insufficient to offset rate cut diverge.  The Holzman comments make clear he is ready to support a cut in June but cutting without the FOMC doing so as well will diminish the policy impact – mainly the EUR and the shape of the yield curve. How inflation compares in the US to EU seems to be the mainstay of focus today but as we can see from the US chart, the direction of US CPI is clear – we have peaked in prices and in rates – so the issue is high for longer and its usefulness. While few expect the ISM or ADP data to make any big difference to this debate, the FOMC Powell comments today may have to touch on the rest of the world and in that edginess of policy being global and not purely domestic, lies the volatility of FX and Bonds as they play against the hopes for 2Q bliss in equities.

**<u>Does CPI really matter to the FOMC June cut risk?</u>**




**Details of Economic Releases:**

1. **Australian March Ai Group industry index rises to -5.3 from -14.9 - better than -17 expected - still the 23rd month of contraction.** Sales improved by 8.4 points to -8.8, but new orders declined by 0.4 points to -16.8, reflecting ongoing weak performance. However, the employment indicator rose by 14.3 points to +4.2, moving out of contraction territory. In March, all price indicators increased, with input prices reaching their highest level since July 2023, while sales and average wages showed similar results to February. The construction index up to -12.9 from -18.4 - worse than -10 expected - while the manufacturing index -7 from -12.6 - better than -14 expected.

2. **Japan March final Jibun Bank services PMI rises to 54.1 from 52.9 - weaker than 54.9 flash -** the 19th straight month of expansion in the service sector, buoyed by improving demand and growing customer numbers. Employment increased despite the rate of job creation easing slightly from February, and it remained well above the long-run series average. On the price front, input cost inflation accelerated to a five-month high, mainly due to higher fuel, labor, and utilities prices. As a result, selling prices increased, though the rate of charge inflation was little changed from February. Finally, business sentiment remained robust amid hopes of a broad-based economic upswing to lift customer demand.

3. **China March Caixin services PMI rises to 52.7 from 52.5 - as expected** - the 15th straight month of growth in services activity, with new business rising at the fastest pace in the year-to-date. New order growth accelerated amid improvements in demand conditions and business development efforts, with export orders rising the most in nine months. Employment fell for the 2nd straight month, though the rate of job shedding eased from February and was only marginal while the backlog of work declined. On the cost side, input prices rose due to higher raw material, labor, and transport costs despite the inflation easing further below the series average. Meanwhile, output price inflation slowed but remained slightly above their long-term trend. Lastly, sentiment improved for the first time in three months amid hopes of launching new products, expansion plans, and rises in client budgets.

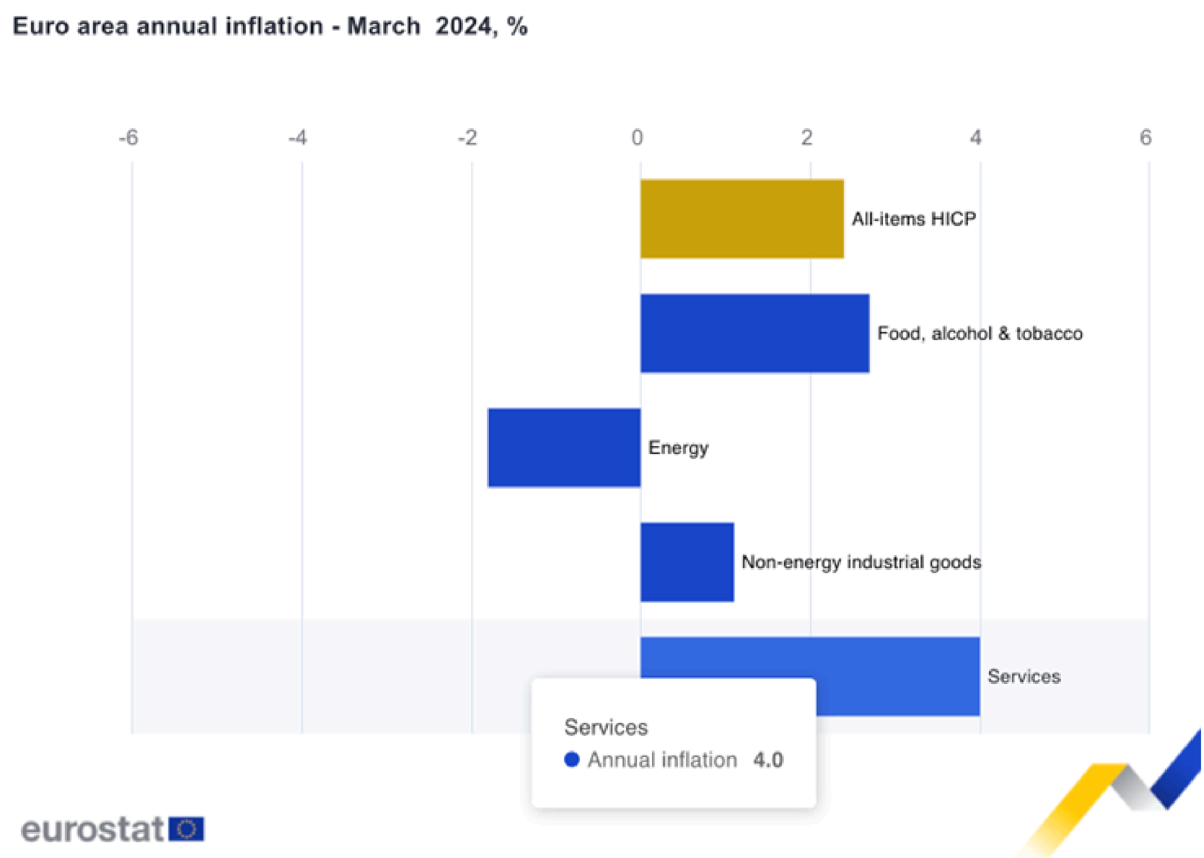
4. **Singapore March global PMI drops to 55.7 from 56.8 - better than 55 expected -** and the 13th straight month of expansion as new orders rose to the fastest since May 2023, while output expanded to the strongest since October 2022. Meanwhile, employment levels continued to rise while buying activity expanded for the second time in nine months, with the growth being the fastest since July 2022 despite being modest overall. Meanwhile, vendor performance deteriorated for the eighth straight month. However, the lengthening in lead times was the least pronounced in four months and only modest. On the price front, input cost inflation eased to the softest since August 2021, while output cost inflation slowed to a three-

month low. Finally, business sentiment weakened to an eight-month low amid concerns about elevated prices.

**5. Turkey March CPI rises 3.16% m/m, 68.5% y/y after 4.53% m/m, 67.07% y/y - better than 3.5% m/m, 69.1% y/y expected -** highest since November 2022 as prices rose faster for most subgroups, particularly transport (79.92% vs 77.98% in February), and housing & utilities (51.17% vs 49.07%). In addition, inflation increased for furnishings, household equipment, & routine maintenance (63.72% vs 62.92%), clothing & footwear (50.10% vs 43.44%), and hotels, cafes & restaurants (94.97% vs 94.78%). On the other hand, food inflation moderated to 70.41% in March compared to 71.12% in the prior period. Meanwhile, the core inflation picked up to 75.21% from 72.89% previously.

**6. Eurozone March flash CPI drops to 0.8% m/m, 2.4% y/y after 0.6% m/m, 2.6% y/y - lower than the 2.6% y/y expected** - while core CPI fell to 2.9% from 3.1% y/y - better than 3.0% y/y expected. - lowest since February 2022 while the headline 2.4% y/y matches November's 28-month low. Energy prices saw a decline of 1.8% (vs -3.7% in February), while the pace of price rises moderated for food, alcohol & tobacco (2.7% vs 3.9%), and non-energy industrial goods (1.1% vs 1.6%). On the other hand, services inflation held steady at 4.0%.

**Does this CPI mean the ECB cuts in June?**



Source: S&P Markit PMI/BNY Mellon

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