BNY MELLON

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MARKET MOVERS

April 4, 2024

Molding

"Life is a quarry, out of which we are to mold and chisel and complete a character." – Samuel Butler
"Nature alone is antique, and the oldest art a mushroom." – Thomas Carlyle

Summary

Risk on after days of rain equities up globally with China, Hong Kong and Taiwan out, and more earthquakes rattling the ring of fire, but green shoots following the torrential April showers. Mold grows on many trends – USD up has stalled in the water of doubts about US growth with dollar index off 0.2% to 104.07 from 105 last week. The US bonds are near the lows of the year with 10Y yields back up to 4.37% but the curve isn't steepening further. The oil market stalled at $85.50 WTI and Brent holds under $90. These matter as much as the service PMI reports suggesting global growth is back even in Germany while Swiss CPI at 2 ½ year lows drives rate cut fever in Europe and stocks respond. This leaves the US markets waiting for Friday and jobs and listening to more Fed speakers along with watching jobless claims.

What's different today:

- **Copper rises to 14-month highs of $4.2 lbs** - with USD weakness, China recovery hopes driving.
- **CHF trades at 0.9050** - weakest in 5-months with SNB further easing expected after Swiss March inflation drops to 1% y/y - lowest in 2 1/2-years

- **Japan MOF sold Y725bn of 30Y #82 1.80% coupon JGB at 1.815% with 3.47 cover** seen as firm demand leaves - 10Y yields stable at 0.75% while 2Y holds 0.183% - with focus on BOJ potential pullback on bond buying

What are we watching:

- **US February trade deficit expected $67.3bn** holding near the 9-month record high of $67.4bn from January with exports key and expected near flat while imports expected up 1%.
- **US weekly jobless claims** expected up 4k to 214k - with continuing claims up 8k to 1.82mn - focus is on all jobs into Friday with layoffs expected to raise from Challengers March report as well.
- **Fed speakers**: Harker fireside chat, Barkin on economy, Goolsbee in moderated Q/A, Kashkari on outlook, Mester on economic outlook, Musalem introductory remarkets and Kugler on enriching data.

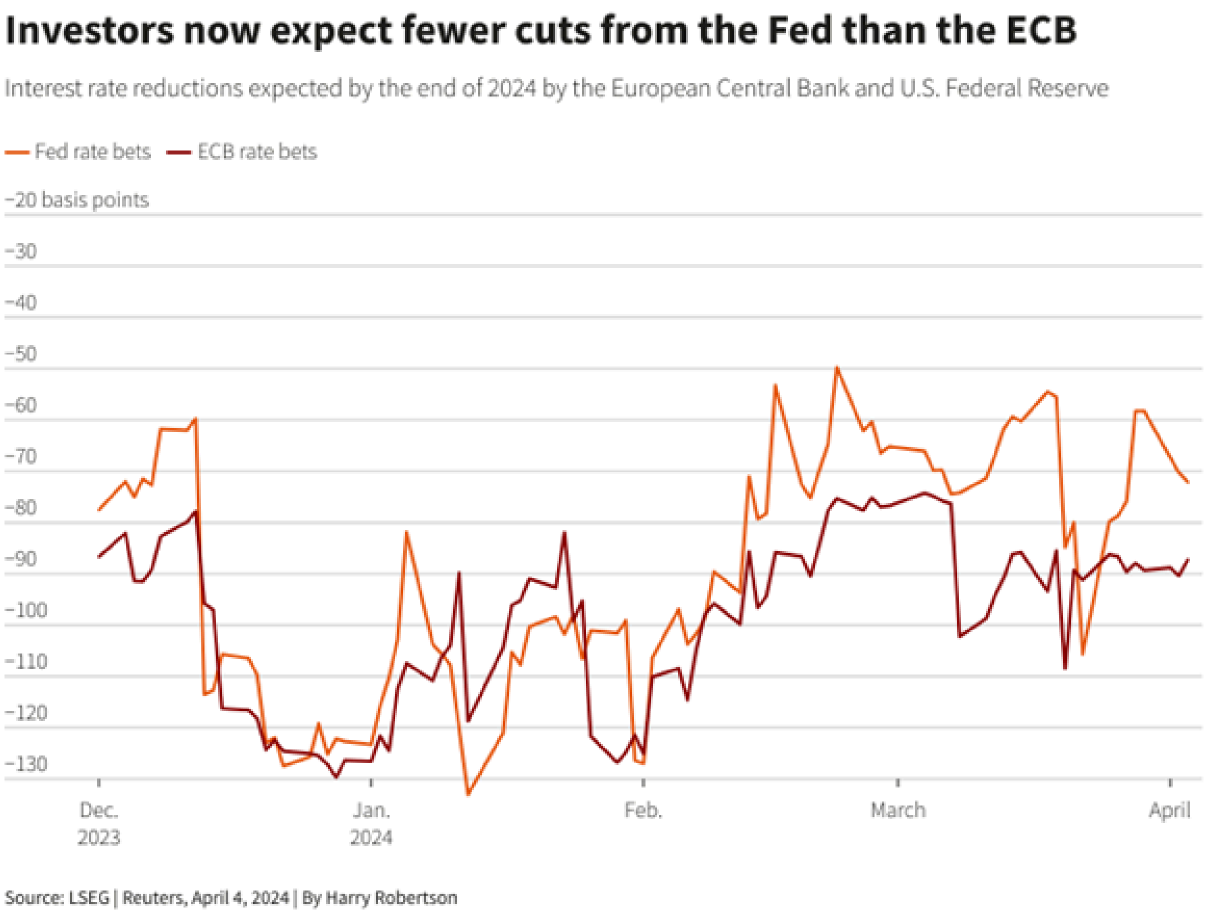
Headlines:

- Australian Mar final services up 1.3 to 54.4 - best since April 2022 - while Feb building permits drop -1.9% m/m -4th monthly contraction – ASX up 0.45%, 10Y SCGB up 4bps to 4.175%, AUD up 0.6% to .6610
- BOJ regional survey - 7 of 9 cut outlook but all see wage hikes – Nikkei up 0.81%, JGB 10Y up 0.6bps to 0.75%, JPY off 0.1% to 151.70
- India Mar services PMI up 0.6 to 61.2 - service exports set record while output prices at 7-year highs - Sensex up 0.6%, INR off 0.15% to 83.44
- Turkey March trade deficit $7.52bn with exports -4.1% y/y while imports -5.7% y/y – TRY up 0.3% to 31.88
- Eurozone Mar final services PMI up 1.3 to 51.5 - best in 9-months - with growth expectations above Feb 2022 levels - while PPI fell 1% m/m, -8.3% y/y - biggest drop since May 2023 – EuroStoxx 50 up 0.2%, Bund 10Y off 1.5bps to 2.38%, EUR up 0.2% to 1.0860
- UK Mar final services PMI fell -0.7 to 53.1 - weakest in 4-months, inflation at 6-month lows – FTSE up 0.4%, Gilt 10Y off 2.5bps to 4.025%, GBP up 0.1% to 1.2660

The Takeaways:

Mushroom trading rules not sculpting today. As markets are in the dark about the data and policy but feed on the noise of mixed economic data and grow more than chipping away at rocks to create art. Fungus are the grand recyclers of the planet and vanguard of restoration or so says Paul Stamets. So markets lead economies or so goes the theory of efficient markets. The constant rain has broken today and in that there is some hope. In FX markets, where volatility has cratered, the focus remains on whether Japan will step in to prop up the yen, which is trading around its lowest in 34 years. 152 beckons as the economy is mixed at best there while in the US rates are higher despite the economic surprise index dropping and the data pointing to a slowing economy from 3.4% to 2.4% or lower in 1Q. A divergence is finally starting to show in investors' rate cut expectations, as Europe's economy lags behind the US. This is both about CPI drops and GDP expectations. Traders now see fewer than 70 basis points of cuts from the Fed by December but expect nearly 90 from the European Central Bank. The surprise is that the EUR is higher despite the higher US rates. For that we have to go back to the Fed and the host of speakers led by the Chair who remains somewhere in the least hawkish camp. "Given the strength of the economy and progress on inflation so far, we have time to let the incoming data guide our decisions on policy," FOMC Chair Powell said in a speech at Stanford University. While many will see today as a write-off for noise and mushroom production, others will watch the shifting correlation and wonder if there is a message between rates, FX and stocks that lead to some flowers after the showers.

Does ECB cutting more than the FOMC matter?



Details of Economic Releases:

1. Australia March final Judo Bank services PMI rises to 54.4 from 53.1 - better than 53.5 flash - best growth since April 2022 driven by increased new business, with higher client demand and inquiries leading to greater inflows of new work. However, new export business declined due to reduced overseas demand, marking the fifth decline in the last six months. Despite this, overall new orders led to a slight increase in backlogged work, the first since May 2022. To manage this workload, Australian service providers hired additional staff, particularly in the transport & storage and consumer services sectors. Input prices continued to rise due to higher material, fuel, and wage costs, although the rate of inflation decreased to its lowest since October 2021. Output prices also increased, but at a slightly softer pace, indicating ongoing price pressures.

2. Australian February building permits drop -1.9% m/m to 12,520 after -2.5% m/m - worse than +3% m/m expected. It marked the fourth straight month of decline due to a sharp downturn in private sector dwellings excluding houses, which slumped 24.9% to 3,771 units. Meanwhile, private sector houses rose 10.7% to 8,404 units. On a geographical basis, total dwellings fell in Queensland (-28.5%), while increasing in Tasmania (39.3%), New South Wales (23.4%), South Australia (15.4%), Victoria (2.1%) and Western Australia (0.9%).

3. India March HSBC services PMI rose to 61.2 from 60.6 - better than 60.6 expected - the 32nd straight month of growth in the services sector amid a sharp increase in business activity and was one the strongest rates since mid-2010, with new export orders rising the most since September 2014. Meantime, employment increased sharply and was the strongest since November 2022. On the price front, input price inflation accelerated and above its long-run average due to higher labor and material costs. Meanwhile, output cost inflation rose to its highest since July 2017. Lastly, business sentiment weakened to a four-month low amid concerns surrounding competitive pressures.

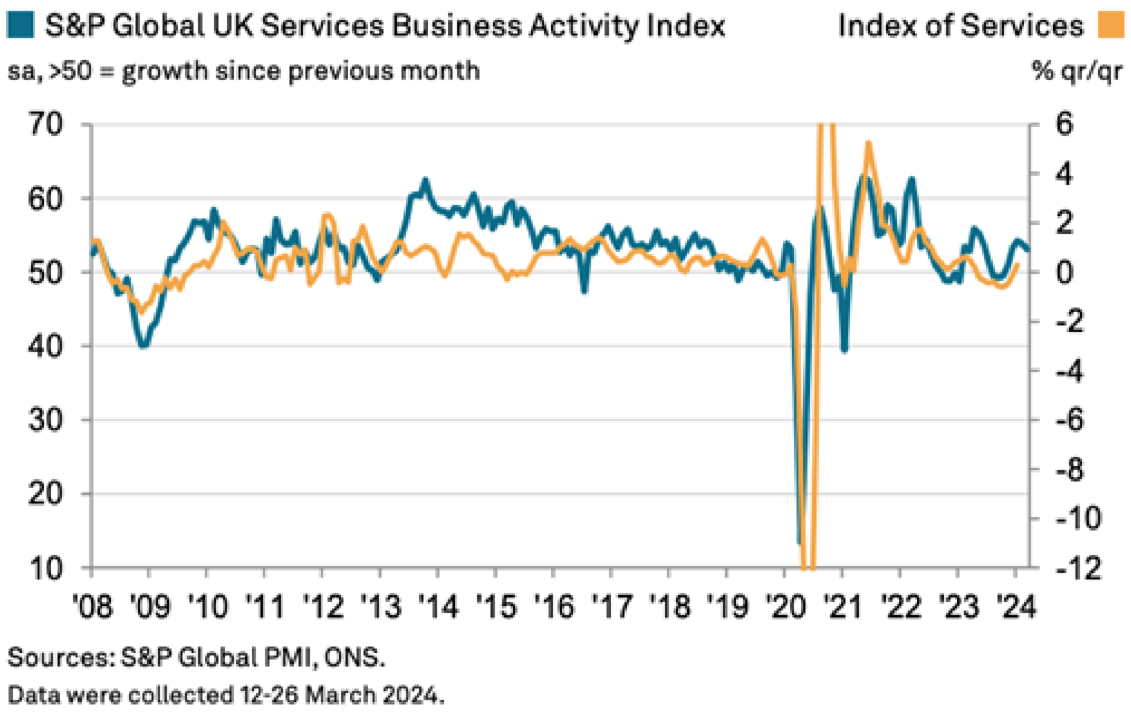
4. Turkey March trade deficit widens to $7.52bn after $7.0bn - worse than the $7.4bn expected but narrowing from $8.5bn in 2023 Feburary. Exports fell 4.1% y/y to $22.6 billion. Among main destinations, Germany was the largest export market, followed by Italy and the US. Meanwhile, imports dropped at a faster 5.7% to $31.0 billion, with China, Russia and Germany accounting for the highest shares in imports. Considering the first three months of the year, the trade deficit was lower by 41.2% to $20.7 billion compared to the corresponding period last year, with exports rising 3.6% and imports declining 12.6%.

5. **Eurozone March final HCOB services PMI rose to 51.5 from 50.2 - better than 51.1 flash -** 9-month highs. Sales for service providers expanded for the first time in nine months, with surveyees noting that the improvement in new orders was confined to domestic markets instead of export markets. The higher demand for capacity drove firms to increase their headcounts for the eighth consecutive month, at a slower pace than that observed in February, but ahead of the long-term average. On the price front, input cost inflation slowed to an eight-month low, while output charges eased to the softest since November. Looking ahead, business activity outlooks improved for a fourth consecutive month.

6. **Eurozone February PPI drops -1% m/m, -8.3% y/y- after -0.9% m/m, -8% y/y - higher than -8.6% y/y expected** - still the largest decline in producer prices since May 2023, as energy costs plunged by 3.5% (vs -3.0% in January) and prices for intermediate goods remained unchanged for a second consecutive period. Meanwhile, upward pressure came from durables (0.3% vs -0.1% in January), non-durables (0.2% vs 0.2%), and capital goods (0.2% vs 0.6%). Excluding energy, producer prices edged up 0.1%, following a 0.3% increase in January.

7. **UK March final services PMI fell to 53.1 f rom 53.8- weaker than 53.4 flash** - and worst in 4-months. Despite the moderation, growth remained at a relatively high pace with new work registering another period of expansion. Companies reported resilient business and consumer spending despite elevated borrowing costs, especially for those with higher links to US and major European markets. Consequently, service providers continued to take in more jobs at an aggregate level, carried by the firms that saw reasons to be optimistic ahead due to expectations of rate cuts by the Bank of England. On the price front, input cost inflation remained broadly stable from the higher levels in the past six months, mostly due to rising salary payments, alongside increased fuel and transportation costs.

Does EURGBP trade on growth expectations?



Source: S&P Markit PMI/BNY Mellon

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