BNY MELLON

iFlow
MARKET MOVERS

April 8, 2024

Totality

"The world is the totality of facts, not things." – Ludwig Wittgenstein
"A nation is a totality of people united through community of fate into a community of character." – Otto Bauer

Summary

Risk on as markets gear up for another week of economic data, central bank decisions and a total eclipse in the US. The temperature will drop 5 degrees, travel to the path of the eclipse will boost April spending, and power grid strains 4000 MW will show up as solar generation stalls. Those facts don't matter to the superstitious that see earthquakes and eclipses portending volatility and risk for assets bubbling up with FOMO – fear of missing out – on the next rally. The focus on the Fed cutting just 2 times in 2024 and what that means to the USD and Equities remains the key story as overnight news on Israel peace talks proved insufficient to push Brent below $90bbl, leaves rates higher globally but stocks holding the bounce back on nascent growth hopes with German industrial production a pleasant surprise. The USD/JPY dances near 152 and begs the question of MOF/BOJ intervention while the US 10Y yield moves to 4.45% and awaits more supply. On the day, beyond the eclipse, US Fed speakers, US bill sales and consumer inflation expectations seem unlikely to change the totality of money chasing returns.

What's different today:

- **Japan EcoWatchers current index is 49.8 – lowest since January 2023** – leaving some worried that the Japan economy is stuck in recession, even as 10-year bond yields rose 0.6bps to 0.755%

- **Mexico not the US will have the most extended darkness from today's Solar Eclipse** – 4 minutes and 28 seconds. Whether that matters to MXN is to be determined. The next total eclipse in the U.S. won't happen until March 30, 2033 and then only in parts of Alaska.
- **Iflow** – Trend is back up for FX factors while Mood hold positive and yet the USD selling was minor on Friday with only JPY and CAD buying standing out. The LatAm bond buying ex – Brazil stands out while equities continues to be choppy.

What are we watching:

- **Fed speakers:** Chicago Fed Goolsbee on WBEZ-FM, Minn Fed Kashkari in Town Hall Meeting
- **US New York Fed 1-year consumer inflation expectations** expected steady at 3%
- **US Treasury sells bills** $70bn in 3M and $70bn in 6M starting long week of supply

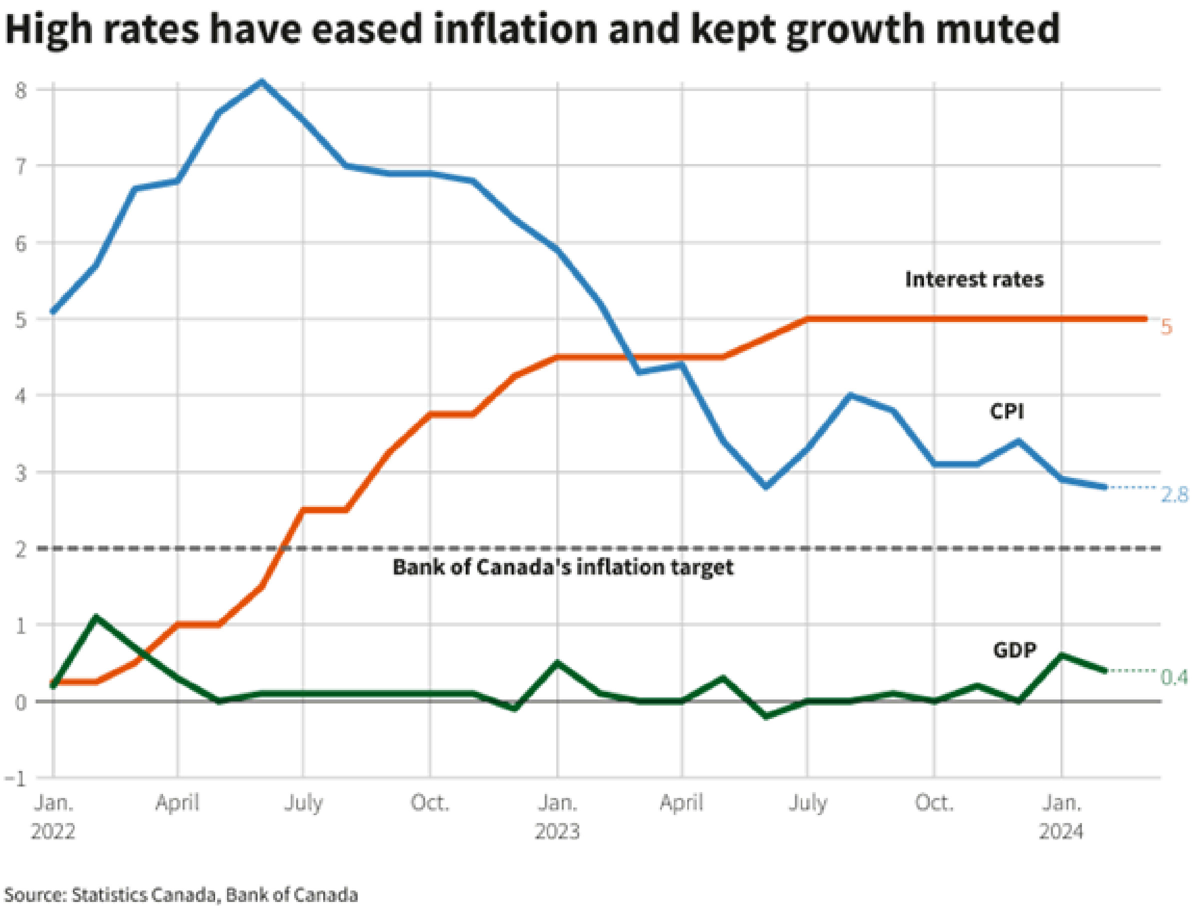
Headlines:

- Hope in talks between Hamas and Israel for ceasefire dashed - oil volatility – WTI off 0.9%
- China Mar FX reserves up $19.8bn to $3.246trn – most since Dec 2021 – helped by gold; Yellen in China won't accept imports hurting new US industries – CSI 300 off 0.88%, CNH up 0.1% to 7.2450
- Japan Feb average cash earnings slow 0.2pp to 1.8% y/y – 23rd month of negative real wages – while EcoWatchers Mar fell 1.8 to 51.2 - Nikkei up 0.91%, JPY off 0.1% to 151.85
- Australian home loans rose 1.6% m/m, 9.1% y/y – ASX up 0.2%, AUD up 0.2% to .6590
- German Feb industrial production rose 2.1% m/m, -4.9% y/y – 2nd monthly gain and best expansion since Jan 2023 – Feb trade surplus narrows E6.1bn to E21.4bn with exports off 2% m/m - DAX up 0.6%, Bund 10Y yields up 5bps to 2.443%, EUR flat at 1.0835

The Takeaways:

Is the Bank of Canada more important than the ECB decision this week? Many investors see the Canada economy as the escape valve for US capacity constraints with its energy and manufacturing both benefiting when the US needs it and suffering when it doesn't. The poor jobs report from Canada for March, released Friday, puts the contrast to the US relationship more clearly and leaves the BOC with some tough decisions. How the CAD trades today with risks beyond 1.3630 will be a focus today. The weaker currency and lagging jobs market leaves worry about the debt risks for consumers in Canada as they face a housing risk. What happens up North usually comes South and that adds to the US exceptionalism worry and doubts for the week ahead.

Will the BOC point to a June cut?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. China March FX Reserves rose $19.8bn to $3.246trn from $3.226trn – more than the $3.21trn expected – largest holdings since December 2021, even as the US dollar strengthened against other major currencies. Last month, the yuan depreciated by 0.47% against the dollar, while the dollar strengthened by 0.31% against a basket of other major currencies. By the end of March, China held 72.74 million fine troy ounces of gold, up from 72.58 million ounces at the end of February, the 17th straight month of increase, resulting in the value of China's gold reserves rising to $161.07 billion from $148.64 billion.

2. **Japan February average cash earnings rise 1.8% y/y after 2.0% y/y – more than the 1.4% y/y expected**. The overtime pay fell 1% y/y after +0.4% y/y – adding to nominal wages being behind core inflation for 23rd month. The following industries contributed the most to the wage rise: information & communications (3.9%), scientific research, professional & technical (3.8%) and education & learning support (3.5%). Meanwhile, wages declined in mining & quarrying of stone & gravel (-8.9%), electricity, gas, heat supply & water (-1.4%) and real estate & good rental & leasing (-0.9%).

3. **Japan March EcoWatchers outlook drops to 51.2 from 53 – weaker than 52.9 expected**. The current conditions fell to 49.8 from 51.3 – also weaker than 51.5 expected - with the measure for household budget trends declining due to a fall in housing-related items. At the same time, the gauge for corporate trends retreated in the face of decreases in manufacturing and other industries. By contrast, the measures for employment were higher. Meanwhile, the economic outlook index was down to 51.2 from 53,2, marking the first drop in five months as concerns about fragile economic recovery and persistently high inflation grew.

4. **Australian February new home loans rose 1.6% m/m to A$16.87bn after -0.9% m/m – weaker than +2.25% m/m expected**. Purchase of newly erected dwellings climbed (4.9% vs 2.1% in January) amid a rebound in the purchase of existing dwellings (1.7% vs -0.7%). However, construction of dwellings fell further (-2.1% vs -2.1%). Among states and territories, new home loans increased in Australia's Capital Territory (10.6%), Tasmania (9.4%), Queensland (7.4%), Northern Territory (4.1), and New South Wales (3.4%). Concurrently, new home loans were almost flat in Victoria while they fell in West Australia (-3.3%) and South Australia (-1.0%). On an annual basis, the value of new home loans jumped by 9.1%

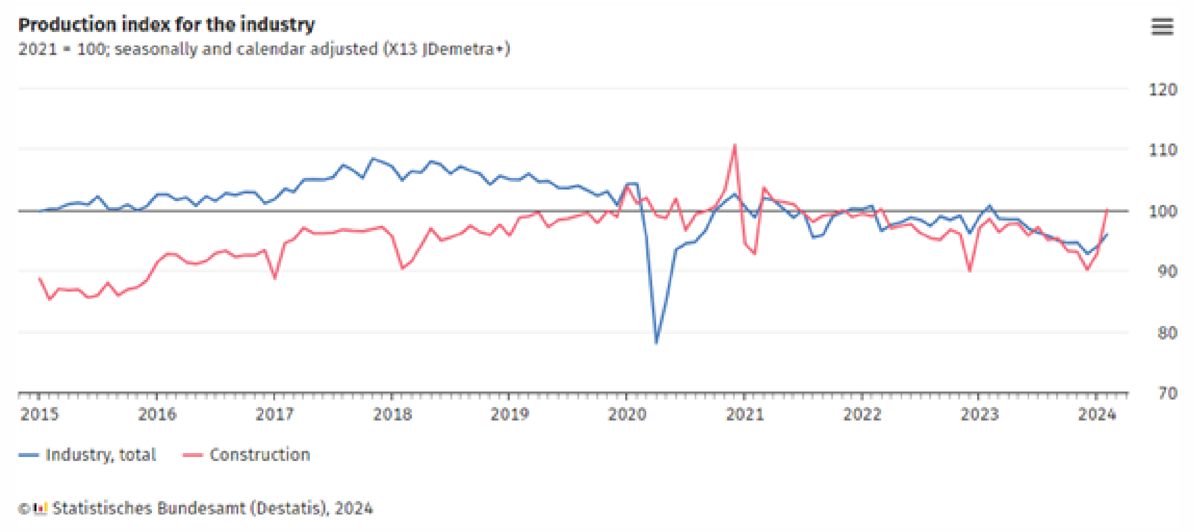
5. **Swiss March unemployment steady at 2.4% - as expected**. The number of unemployed persons fell by 3,286 to 108,593. Meanwhile, the youth unemployment rate, measuring job-seekers between 15 to 24 years old, edged down to 2.1% in March from 2.3% in the prior month, with the number of young unemployed decreasing by 608 month-over-month to 9,505.

6. **German February trade surplus narrows to E21.4bn after E27.5bn – less than the E25.5bn expected** - the smallest trade surplus since last October, as exports fell while imports grew. Exports dropped 2% m/m, -4.4% y/y to EUR 132.9 billion, worse than expectations of a 0.5% fall. Shipments to the EU shrank by 3.9%, while those to third countries went up by 0.4%, with exports to the US rising by 10.2% and Russia by 1.5%. By contrast, exports decreased to China (-0.6%) and the UK (-2.0%). Meanwhile, imports unexpectedly rose 3.2% m/m, -8.7% y/y to a three-month high of EUR 111.5 billion, over forecasts of a 1% drop. Imports from the

non-EU surged 14.7%, particularly from China (16.0%) and Russia (23.5%). By contrast, imports fell from the US (-5.2%) and the UK (-4.6%). Meantime, purchases from non-EU shrank by 5.7%.

7. German February industrial production rose +2.1% m/m, -4.9% y/y after +1.3% m/m, -5.3% y/y – more than the +0.3% m/m expected - the second straight month of increase in industrial output, marking the fastest expansion since January 2023, boosted by construction activity (7.9%) while the output in the automotive (5.7%) and chemicals industry (4.6%) also soared. At the same time, production grew for all components: intermediate goods (2.5%), consumer (1.9%), and capital ones (1.5%). The less volatile three-month on three-month comparison showed that production was 0.5% lower in the period from December 2023 to February 2024 than in the previous three months.

Does the German industrial production suggest a bottoming out?



Source: German Destatis /BNY Mellon

Disclaimer and Disclosures

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB