

iFlow

MARKET MOVERS

February 12, 2024

Lackluster

“I’d like to live as a poor man with lots of money.” – Pablo Picasso

“It’s a poor sort of memory that only works backwards.” – Lewis Carroll

Summary

Risk on after a quiet session in APAC thanks to Lunar New Year holidays and a light start to data and news in Europe after another long weekend. The underdog victory of Kansas City in the Superbowl is likely leaving many tired in watching screens at the US open. The Israel Hamas war is in focus with a daring hostage release operation, and ongoing shuttle diplomacy ahead of a Rafah escalation. The weekend also delivered a NATO comment from Trump that spooked allies, elicited derision from most of Europe, US President Biden and a few Republicans. The US Senate passed a foreign aid bill without border provisions in defiance of Trump’s advice. Markets are waiting for US CPI but have all but given up on March cuts with 17% priced and with May at 80% chance, still 121bps of easing is priced for the US. Focus on the US session is going to be on Yellen/Lagarde lunch, BOE Bailey, ECB speakers and two Fed speakers. How policy pivots progress remains key for risk mood. 4Q earnings continue with 12% of S&P500 reporting this week, but the burden is now on the bears as the index trades over 5000 in new record high territory. USD sags ahead of a week where many see the rest of the world offering growth and yield alternatives.

What’s different today:

- **EU natural gas prices extend losses to over 6-month lows** at E26 mwh – this follows a 7.5% drop last week.
- **iFlow** – iFlow Mood climbing steadily back in positive zone, FX trend index still lower as is value with FX focus on USD buying vs. AUD, SEK selling, ongoing

CNY selling while equities see 4 regions higher and fixed income seeing EM inflows except in Turkey, Brazil, China and Mexico – while US and Norway inflows stand out.

What are we watching:

- **US New York Fed 1-year consumer inflation expectations** forecast 3% y/y – flat to December.
- **Central Bank Speakers:** US Treasury Yellen and ECB Lagarde working lunch; ECB Lane, Cipollone, Buch; BOE Bailey; Fed Bowman and Kashkari
- **4Q Earnings:** Arista, Cadence, Waste Management, Principal Financial, James Hardie Industries

Headlines:

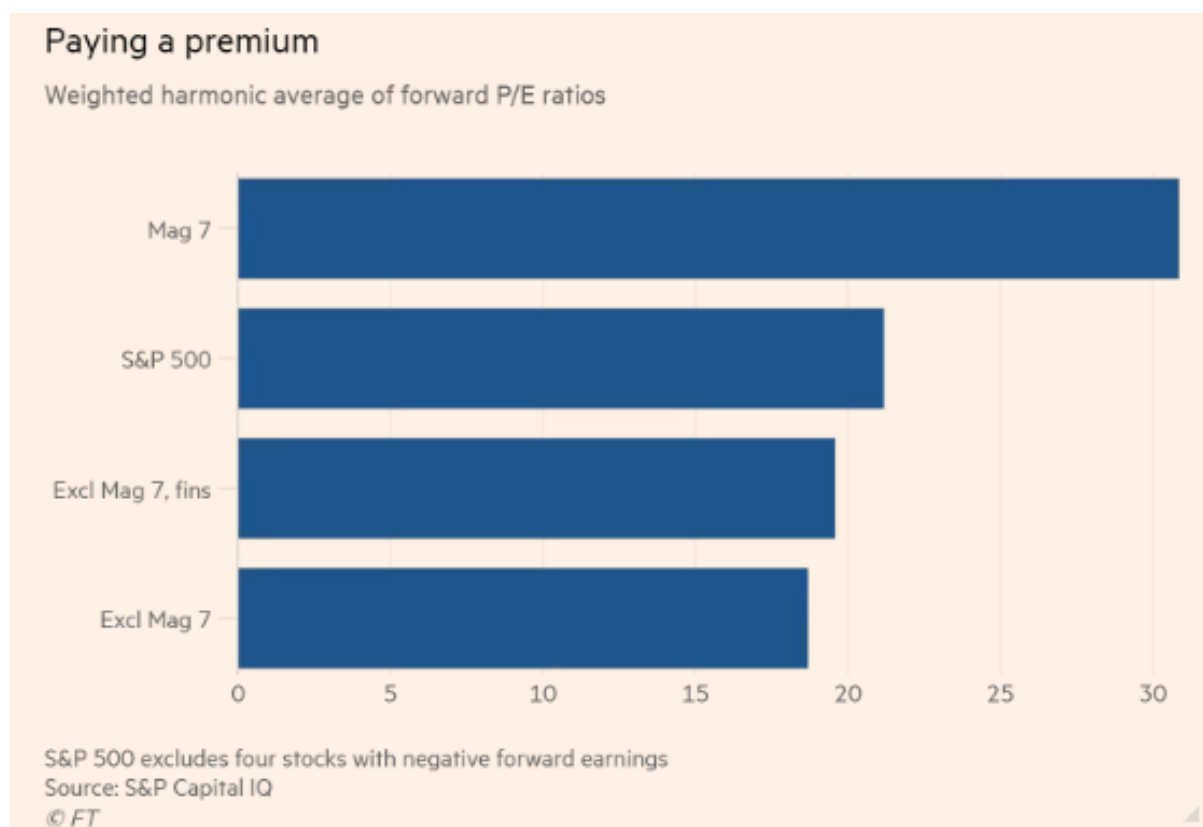
- New Zealand RBNZ Orr: Inflation still too high – NZX off 0.89% - 3-week lows, NZD off 0.35% to .6125
- Philippine Nov FDI rises \$1.05bn – 2-year highs – death toll from landslide rises to 68 - PHP off 0.2% to 56.02
- India Dec industrial production jumps 1.4pp to 3.8% y/y while CPI drops -0.6pp to 5.1%/y/y – Sensex off 0.73%, INR off 0.05% to 82.9975
- Turkey Dec unemployment drops 0.1pp to 8.8% - TRY off 0.1% to 30.70
- German coalition suffers losses in Berlin partial repeat of 2021 election – DAX up 0.4%, Bund 10Y yields off 4.5bps to 2.335%, EUR off 0.1% to 1.0770
- Israel frees two hostages in Rafa; Moody's cut bond rating one notch to A2 – cites war cost; Dutch court orders halt to F-35 jet part exports to Israel - ILS flat at 3.6850
- US Senate passes \$97bn foreign aid spending bill without border provisions in 67-27 vote; Trump Nato comments dismissed by Biden and some Republicans, rile allies – Wheat off 0.8%
- Houthis target another cargo ship in Red Sea, largest attack yet; US coalition strikes Yemen and Syrian targets – WTI off 0.9%

The Takeaways:

The urgency of action is lacking today but that doesn't mean that regret isn't in play as the "train as left the station" in equities again. The logic of past performance beckons and double digit S&P500 returns dance in investor dreams – as the history since 1950 of the index shows once you break to record highs average returns are 14%. So the burden of proof for fading the US exceptionalism is going to rest on fear – that valuations are stretched, that the concentration of the market is high in just 7-tech companies, and that the current spate of layoffs in tech accelerates beyond that

sector to the broader economy. As the FT unhedged column says: “Valuation, it is always worth noting, has no correlation with short term returns; current valuation implies nothing whatsoever about next year’s performance.” Markets can remain irrational far longer than any investor can remain solvent. Which gets to the other point of the markets today – cash holdings and the squeeze of putting money to work vs. waiting out for a better time. The implications for other asset classes seem clear, the stock market role in wealth mood for consumers is important in the US but so too is the cost of money and bond yields with the focus in the balancing of 10-year at 4.20% breakout risks against the S&P500 5000. The role of the USD reflects the lack of alternatives to the US exceptionalism story, all of which is likely to be tested in the days and weeks ahead. US CPI, Retail Sales, jobless claims and 4Q earnings beckon a longer more grinding week of work ahead.

Value matters but just when is unclear



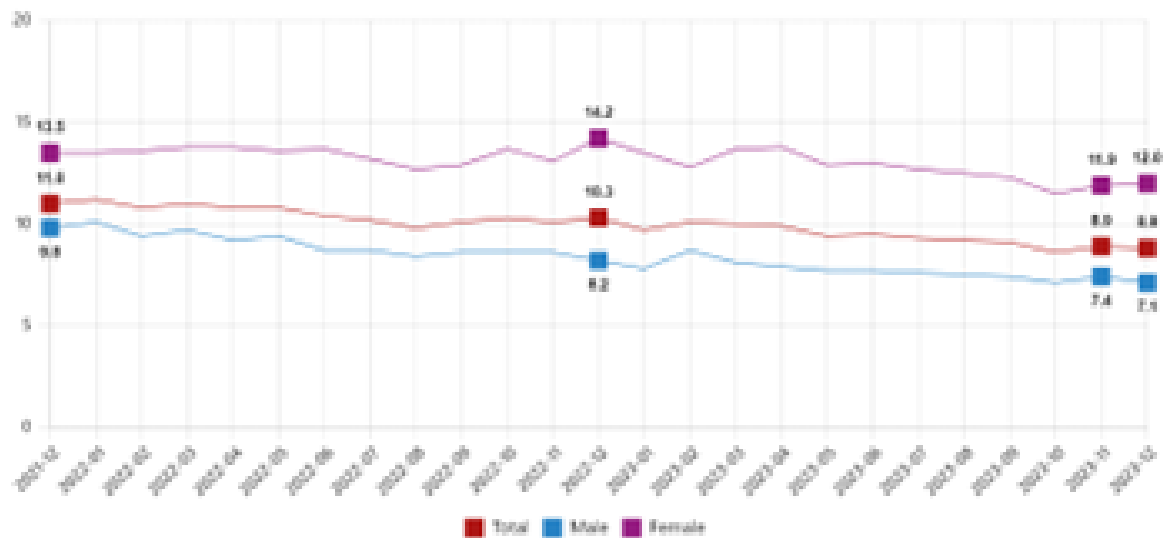
Details of Economic Releases:

1. Philippine November FDI rises to \$1.05bn after \$0.66bn – more than the \$0.8bn expected. The increase was mainly due to the expansion of net inflows for net debt instruments (57.8% to USD 0.90 billion). Meanwhile, net inflows decreased for equity capital (-52.5% to USD 0.09 billion), and reinvestment of earnings (-8.1% to USD 0.07 billion). Equity capital placements for the month largely came from Japan and the United States, which was channeled primarily to manufacturing, real

estate, and construction industries. Considering January to November, FDI net inflows were 13.3% lower compared to the corresponding period last year.

2. Turkey December unemployment rate fell to 8.8% from 8.9% - better than the 9.2% expected. The number of unemployed individuals decreased by 12,000 m/m to 3.098 million, while employment levels increased by 399,000 to 32.056 million. Meanwhile, the activity rate grew to 53.5% from November's 53.0%, and the employment rate rose to 48.8% from 48.2%. The youth jobless rate for those aged between 15 and 24 years went down 0.8 percentage points to 15.5%.

Seasonally adjusted unemployment rate, December 2021 - December 2022 (%)



Source: Stats Turkey/BNY Mellon

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