

iFlow

MARKET MOVERS

February 13, 2024

Waning

“Perhaps the crescent moon smiles in doubt at being told that it is a fragment awaiting perfection.” – Rabindranath Tagore

“...like that star of the waning summer who beyond all stars rises bathed in the ocean stream to glitter in brilliance.” - Homer

Summary

Risk mixed as the ongoing LNY holidays leave Asia thin with Nikkei surging on JPY holding near 150 while Europe worries about rate cuts and inflation along with two wars. The US inflation report today is front stage but the gaming of positions into the event is waning not waxing, like the moon. Expectations are for US CPI at 2.9% y/y – 3-year lows. But other stories drove a light overnight trading world, the UK unemployment report was the best of both worlds with more jobs and lower wages – BOE rate cut for June now priced at 60% odds. The German ZEW economic sentiment bounced sharply – best in a year – on back of ECB and FOMC easing expectations – while the current conditions are as bad as the pandemic. The focus on rates and policy has left little room for other concerns making what happens after the CPI that much more important.

What's different today:

- **US January NFIB small business optimism fell 2 to 89.9** – lowest in 8-months with labor quality and inflation top worries. 39% report job openings that they can't fill down 1% from December.
- **NATO holds “biggest exercise” since cold war** with 90,000 troops from 31 nations testing responses to simulate conflicts.

What are we watching:

- **US January CPI** expected down 2.9% y/y from 3.4% y/y with core 3.8% y/y – market set up for a weaker CPI.
- **4Q Earnings:** Coca-Cola, Molson Coors, Shopify, Marriott, Hasbro, Biogen and Restaurant Brands will post earnings before the market opens. Lyft, Airbnb, Zillow and Robinhood will do so after the closing bell.
- **US Congress special election** for Long Island seat vacated by George Santos

Headlines:

- RBA Kohler: Sees service inflation cooling only gradually, sees substantial uncertainty – Westpac Feb consumer confidence jumps 6.2% to 86 – best in 20-months - while business confidence rises +1 – still below average – ASX off 0.15%, AUD off 0.15% for .6520
- New Zealand 1Q 2024 inflation expectations drop 0.26pp to 2.5% - lowest in 2 ½ years – NZD off 0.2% to .6115
- Japan Jan PPI rises 0% m/m, 0.2% y/y – stuck at Nov 2021 lows – Nikkei up 2.89%, JPY flat at 149.35
- Indonesia election starts with 200 million heading to polls – flat at 15,595 (election holiday)
- Turkey Dec retail sales rose 11.4% y/y – slowest since Sep 2022 – flat at 30.724
- Swiss Jan CPI drops 0.4pp to 1.3% y/y – lowest since Oct 2021 – Swiss Mkt up 0.1%, CHF flat at .88
- German Feb ZEW economic sentiment up 4.7 to 19.9 – best in a year – but current conditions - 4.4 to -81.7 lowest since June 2020 – DAX off 0.6%, EUR flat at 1.0780
- UK Nov-Jan unemployment drops 0.2pp to 3.8% - below pre-pandemic levels – best since Jan 2023 – even while wages drop 0.5pp to 6.2% y/y – FTSE off 0.3%, GBP up 0.4% to 1.2670
- Russia puts Estonian PM Kallas on most wanted list – plans to double military presence on NATO border – WTI up 0.8% to \$77.50

The Takeaways:

The markets are waiting for an event to turn back on the engines of risk but the focus on AI and the push for investment to gain a productivity edge has made many wonder if 2024 is more like 1999 and the hype of a Y2K moment. There is plenty beyond the current obsession with US CPI and its claim to confirm an FOMC easing ahead. The data is noisy and the risk of a higher than expected outcome led by goods maybe discounted if it leaves services in disinflation and workers wages waning. The UK data today is an example of the FOMC push for order. What seems

most interesting on the day is the contrast of this US and UK hope against that of the EU data where an ECB cut is seen sparking demand more than inflation. The German ZEW survey makes this point clearly. For many the risk ahead is in the gaming of who eases first and then the most. – ECB or FOMC. For the money its more about why they ease and for what end towards their goals with the US dual mandate nearly met while that of the ECB 2% target seems many moons yet to come. The difference maybe more important to EUR and FX than anything else.

ECB or FOMC first to ease?

Investors reduce bets on central bank rate cuts

Basis points of rate cuts expected from the Federal Reserve and European Central Bank by Dec. 2024



Source: LSEG | Reuters, Feb. 13

Details of Economic Releases:

1. Australia February Westpac consumer confidence jumps 6.2% to 86 from -1.3% at 81 – better than 80.5 expected – highest in 20-months, amid easing inflation and optimism that the Reserve Bank of Australia has concluded its tightening campaign. Still, the index held below the neutral 100 mark since February 2022, the longest streak since the early 1990s recession. Matthew Hassan, a senior economist at Westpac said: “While sentiment is still firmly pessimistic there finally looks to be some light at the end of the tunnel for Australian consumers. Moderating inflation and shifting expectations for interest rates appear to be the main factors behind the lift.” Australia’s inflation rate slowed to 4.1% in the fourth quarter of last year, while the RBA held rates steady at 4.35% at its February meeting.

2. Australian January NAB business confidence rises to 1 from 0 – as expected – still below long-term average. Manufacturing and construction mainly supported the improvement while wholesale and retail sentiment fell. Meantime, business conditions eased, falling below their average due to declines in sales (8 vs 11 in December), profits (5 vs 7), and employment (5 vs 7). Forward orders stayed soft (-1 vs -3) but capacity utilization picked up (83.6% vs 82.8%). Further, labor cost growth was unchanged at 2% in quarterly equivalent terms, while purchase cost growth edged up to 1.8%. Output price growth rebounded slightly, with retail price growth rising to 0.9% in quarterly terms, from 0.5%, and product price growth rose to 1.2%. "We will keep a close watch on how confidence evolves through early 2024 as price pressures ease further and the focus on the easing phase of the rates cycle grows," said NAB's chief economist Alan Oster.

3. Japan January PPI rises 0% m/m, 0.2% y/y after 0.3% m/m, 0.2% y/y – more than the 0.1% m/m, 0.1% y/y expected – still the lowest level since February 2021, amid falls in the cost of iron & steel (-3.3% vs -3.4% in December), chemicals (-1.1% vs -1.5%), and plastics (-0.2% vs flat reading). At the same time, prices eased for beverages & food (4.4% vs 4.5%), metal products (4.1% vs 4.9%), other manufacturing industries (5.9% vs 6.2%), non-ferrous metals (3.2% vs 4.4%), and general-purpose machinery (3.6% vs 3.7%). Concurrently, inflation was unchanged for business-oriented machinery (at 3.8%) and information (at 1.2%) while prices accelerated for transport equipment (2.2% vs 2.0%), petroleum & coal (6.6% vs 4.6%), electrical machinery (4.4% vs 4.0%), and production machinery (5.3% vs 4.9%). Monthly, prices were flat after growing 0.3% in December.

4. Turkey December retail sales rose 1.7% m/m, 11.4% y/y after 0.4% m/m, 12.6% y/y – more than the 9% y/y expected – still the softest pace since September 2022, as sales slowed for food, drinks & tobacco (8.7% vs 10.3% in November) and audio & video equipment, hardware, paints & glass (7.6% vs 11.9%). Moreover, sales continued to fall for pharmaceutical goods, medical & orthopedic goods, cosmetic & toilet articles (-4% vs -0.2%) and automotive fuel (-5.1% vs -0.5%). Meanwhile, sales grew more for computers, peripherals units & software, books, telecommunication (31.9% vs 31.4%), textiles, clothing & footwear (5.3% vs 4.7%), and sales via mail orders & internet (37% vs 31.7%).

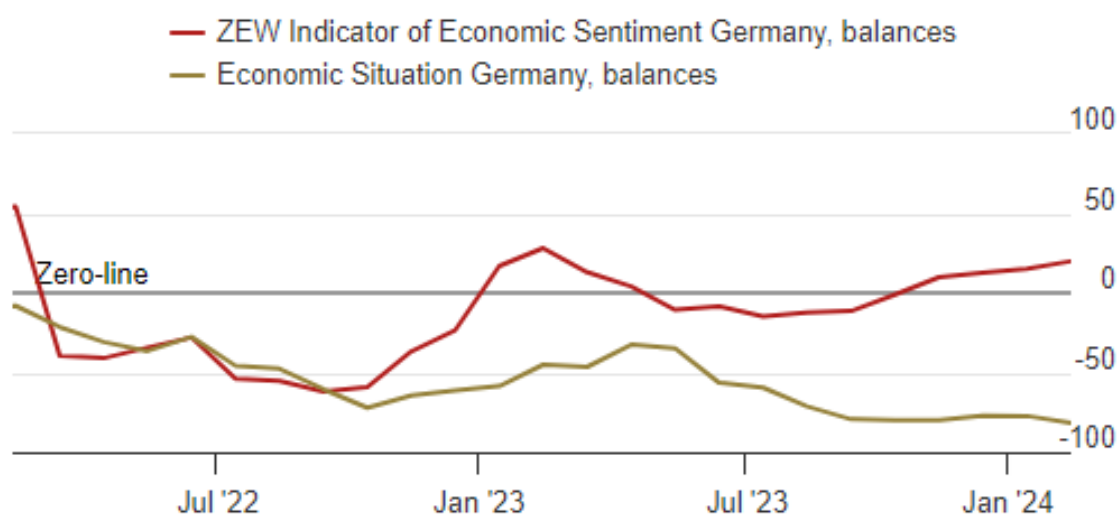
5. Swiss January inflation moderates 0.2% m/m, 1.3% y/y after 0% m/m, 1.7% y/y – less than the 0.6% m/m, 1.7% y/y expected. lowest reading since October 2021, as inflation for housing and utilities slowed to 2.5% from 3.3% in December, while those for food and non-alcoholic beverages eased to 2.3% compared to 3.3%. Additional downward pressures came from the slowdown in prices for restaurants and hotels (2.3% vs 2.8%), and the decreases in costs for transport (-0.8% vs

-0.4%), household goods and services (-0.1% vs 0.5%), and health care (unchanged at -0.3%). Meanwhile, the core rate, which excludes volatiles items such as unprocessed food and energy, moderated to 1.2% from a prior 1.5%

6. UK January jobs up 72,000 from 108,000 - unemployment drops to 3.8% from 3.9% - better than 4% expected with wages ex-bonus 6.2% from 6.7% y/y – more than 6% y/y expected. This was the lowest unemployment since Jan 2023 as the number of unemployed individuals decreased by 87,000 to a total of 1.32 million, driven by those unemployed for up to 12 months. Meanwhile, the number of employed individuals rose by 72,000 to 33.17 million, as full-time employees increased, largely recovering from a slump observed throughout 2023. Meanwhile, numbers of part-time employees and part-time self-employed workers fell. The employment rate was up 0.2 pp on quarter to 75.0% and the activity rate was unchanged at 78.1%.

7. German February ZEW economic sentiment rises to 19.9 from 15.2 – better than 17.5 expected – 7th consecutive gain and best in a year. More than two-thirds of the survey's respondents anticipate the ECB to implement interest rate cuts over the next six months due to declining inflation rates, while almost three-quarters of respondents foresee imminent interest rate reductions by the US central bank. The current conditions drop to -81.7 from -77.3 – worse than the -79 expected – lowest since June 2020.

from 13 Feb 2022 till 13 Feb 2024



Source: German ZEW/BNY Mellon

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