BNY MELLON

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MARKET MOVERS

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Talking

"Courage is what it takes to stand up and speak; courage is also what it takes to sit down and listen." – Winston Churchill

"I have noticed that nothing I never said ever did me any harm." – Calvin Coolidge

Summary

Risk on as markets calm down post the US CPI upside surprise. US rates off 2bps to 4.30% in 10Y hardly a comfort to those that were thinking 3.8% for most of the year, but the rally back in EU and UK leading as the data mix helps – lower than feared UK CPI and flatlining growth in EU with markets geared up for the ECB to cut first. The JPY move over 150 elicited the usual verbal intervention – but weaker JPY didn't help the Nikkei nor JGBs as markets see a limit and a BOJ / MOF response beyond talking. The risk of the US day isn't in wilted flowers from angry Valentines but from ongoing repricing of Fed cuts in 2024. More earnings, more Fed speakers will matter again.

What's different today:

- **Italian 10-year BTP yields slip below 3.9%** as German Bund yields ease from 2-month highs with 10Y there 2.35% -linked to UK tame inflation, weaker growth in Europe driving rally.
- **Japan 10-Year JGBs rise 2bps to 0.75%** - most in 2-months – linked to US rate move post CPI but also weaker JPY.

What are we watching:

- **Fed Speakers:** Vice Chair Barr on banking in Washington, Chicago Fed Goolsbee in Q/A at Council on Foreign Relations.
- **4Q Earnings**: Kraft Heinz, Sunoco will post its results after the market opens. Cisco and Occidental Petroleum share their last quarter's earnings after the closing bell.

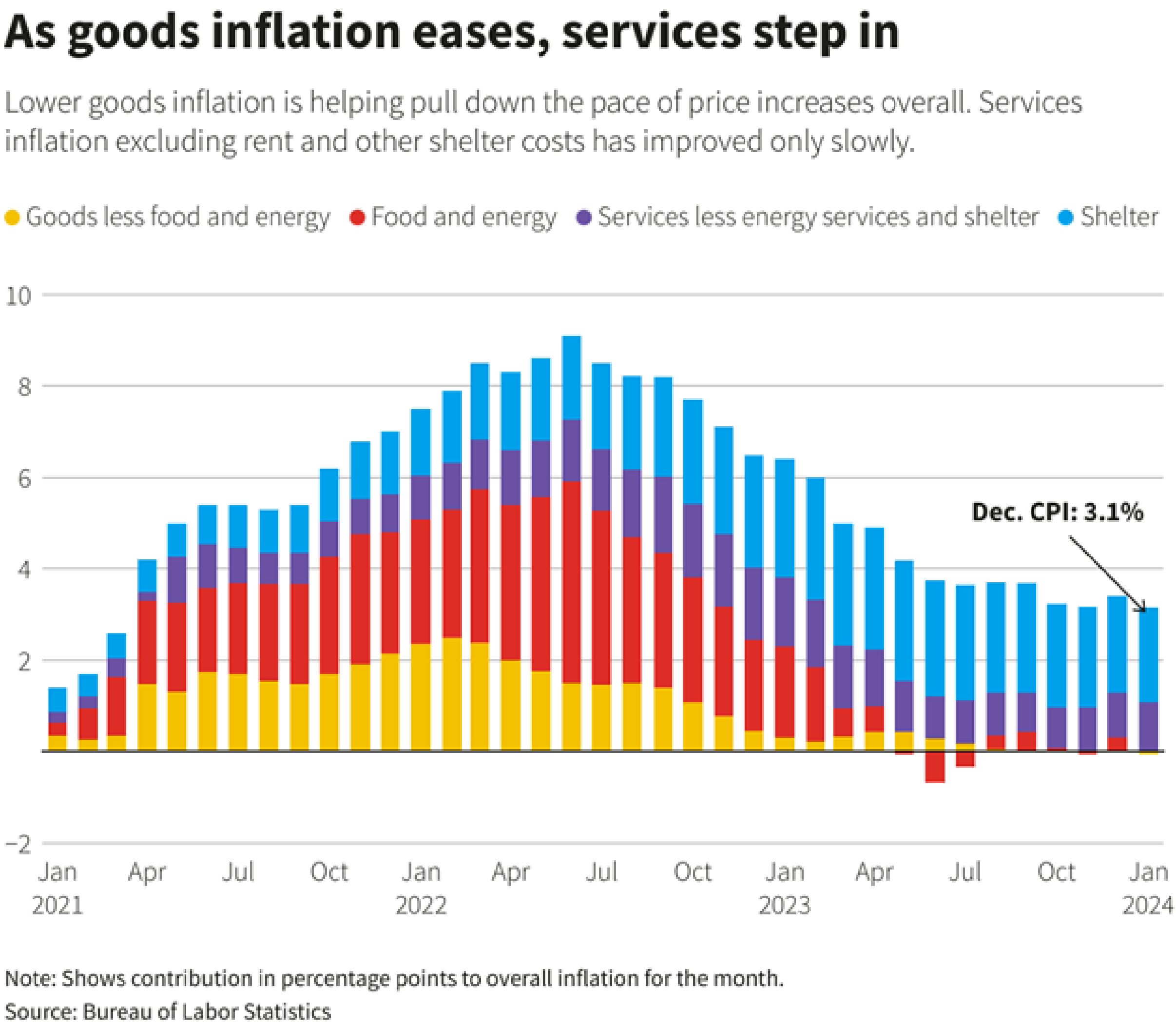
Headlines:

- Japan MOF Kanada: verbal intervention – will take appropriate steps on FX as needed – Nikkei off 0.69%, JPY off 0.1% to 150.65
- Indonesia election has defense minister Subianto in early lead – likely wins without another run-off – IDR flat 15,595
- Norway 4Q mainland GDP -0.1% y/y confirms technical recession – NOK up 0.7% to 10.603
- Eurozone Dec industrial production jumps 2.6% m/m – best gain since Aug 2022 – while 4Q GDP unrevised and employment up 0.3% q/q – EuroStoxx 50 up 0.4%, EUR flat at 1.07
- Poland 4Q GDP flash 0% q/q, 1% y/y – near expectations – off 0.2% to 4.06
- UK Jan CPI -0.6% m/m flat at 4% y/y – CPIH flat at 4.2% y/y – housing and services still driving – FTSE up 0.9%, GBP off 0.3% to 1.2555
- US weekly API oil inventories reported up 8.52mb when 2.6mb expected, but with draws in gas -7.23mb and distillate -4.016mb – WTI up 0.2%

The Takeaways:

Happy Valentine's Day – usually a time for expressing love and doing rather than talking. The markets have a long and sordid history around Valentines with many volatility massacres. Consider the 2022 version on the UK – and then find some solace in the relative calm today. Markets are watching Fed speakers again post the CPI and hoping that talk leads to action on rates eventually. The break out of US bonds from 4.20% 10-year yields matters and sets the tone for the cost of money everywhere. What is notable is that the knock on effect hasn't worked its way through the rest of G10 with EUR holding, GBP lower thanks to CPI and EM waiting for some other data points on growth. The lack of bigger stories today makes how talking plays out key – whether the Fed talks up or down the inflation fears is central to how the USD and risk play out. The markets are now into the "no landing" zone where the US economy needs nothing to stop it. The problem is in the wages and services where there is a risk of flying high too long leading to a burn out moment. But that is in another set of data with tomorrow's jobless claims likely more important now than yesterday.

US CPI sharp contrast to UK?



Details of Economic Releases:

1. **India January WPI up 0.27% y/y after 0.73% y/y – less than the 0.53% y/y expected**. The slowdown was attributed to a lower wholesale inflation for food (3.79% vs 5.39% in December); and primary articles (3.84% vs 5.78%), mainly driven by a further decrease in costs of non-food articles (-6.56% vs -4.73%). At the same time, costs continued to fall for fuel and power (-0.51% vs -2.41%), linked to lower prices of mineral oils (-1.12% vs -2.68%) and electricity (-0.13% vs -3.93%); and manufacturing (-1.13% vs -0.71%), weighed by chemical and chemical products (-5.51% vs -5.69%), textiles (-2.26% vs -2.91%), and rubber and plastic products (-0.78% vs -0.55%)

2. **Norway 4Q GDP up 1.5% q/q, 0.5% y/y after -0.4% q/q, -1.9% y/y – better than -1.2% y/y expected**. Net external demand also contributed positively to the GDP, as exports increased (3.3% vs -1.3%) while imports dropped (-0.7% vs -4%). Additionally, fixed investment went up (1.8% vs 0.1%), and household consumption rebounded (0.7% vs -0.1%). However, government spending slowed (1% vs 1.2%).

The mainland GDP rose 0.2% q/q, -0.1% y/y after -0.1% y/y – as expected - due to a sharp drop in gross fixed capital formation (-5.2% vs -0.1% in November). Moreover, household consumption (0.1% vs 0.4%) and government spending (0.4% vs 0.5%) slowed. On the other hand, exports grew (1.5% vs 0.4%) more than imports (0.6% vs 0.2%).

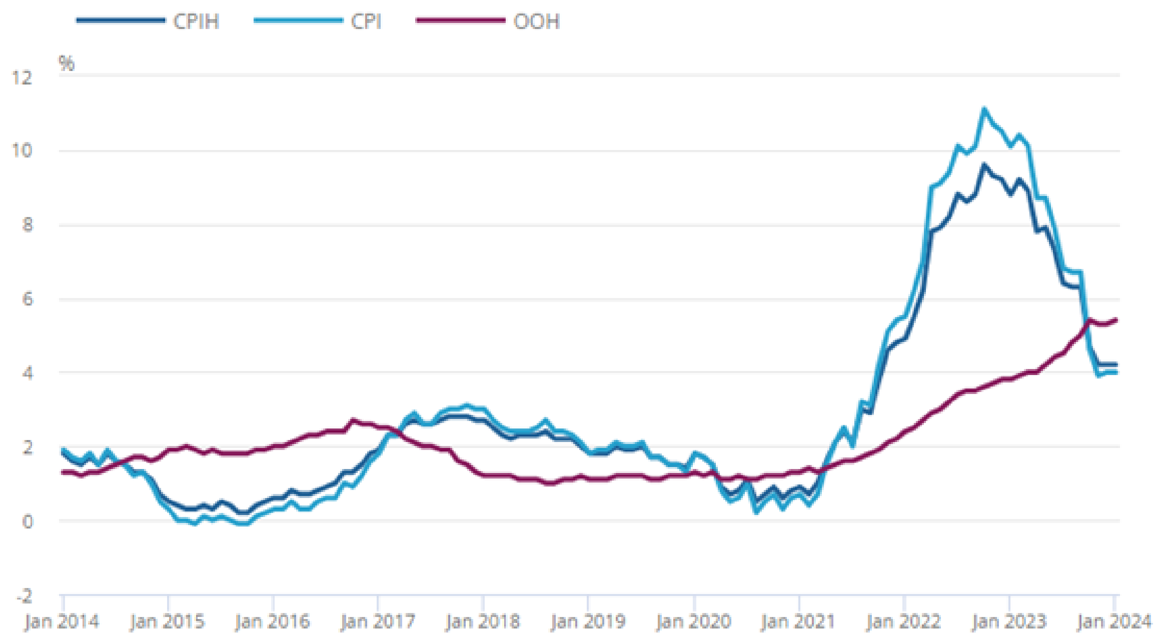
3. Poland 4Q GDP 0% q/q, 1% y/y after 1.1% q/q, 0.5% y/y – better than -1% q/q expected. The flash reading likely had a deceleration in household consumption near 0% y/y but with fixed investment growth up 7.6% y/y and with some export support offset by negative inventories.

4. Eurozone 4Q GDP unrevised at 0% q/q, 0.1% y/y – as expected – with employment up 0.3% q/q, 1.3% y/y – more than the 0.2% q/q, 1.1% y/y expected. Germany contracted by 0.3%, primarily due to weakness in the industrial sector, while France's GDP stalled. In contrast, economic growth in Spain and Italy accelerated to 0.6% and 0.2%, respectively. Additionally, the Dutch GDP expanded by 0.3%, marking the end of a three-quarter period of contraction. Compared with the same quarter of the previous year, the Eurozone economy advanced by a meager 0.1% after showing no growth in the third quarter. Looking at the full year of 2023, the GDP grew by 0.5%, marking a sharp decline from expansions of 3.4% and 5.9% in 2022 and 2021, respectively.

5. Eurozone December industrial production rose 2.6% m/m, 1.2% y/y after 0.4% m/m, -5.4% y/y – better than the -0.2% m/m, -4.1% y/y expected - the biggest gain since August 2022. Output rebounded for durable consumer goods (0.5 percent vs -2 percent in November) and rose faster for capital goods (20.5 percent vs 0.8 percent). Meanwhile, production eased for energy (0.3 percent vs 1.7 percent) and non-durable consumer goods (0.2 percent vs 1.6 percent) while output fell further for intermediate goods (-1.2 percent vs -0.7 percent).

6. UK January CPI drops -0.6% m/m, +4% y/y after +0.4% m/m, 4% y/y – less than the 4.2% y/y expected. There was a slowdown in the pace of price declines for both housing and utilities (-2.1% vs -3.4% in December), mainly due to gas and electricity charges, and transport (-0.3% vs -1.1%). On the other hand, inflation slowed sharply for both furniture and household goods (0.4% vs 2.5%) and food and non-alcoholic beverages (6.9% vs 8.0%). The sole category experiencing an acceleration in inflation was miscellaneous goods and services (4.5% vs 4.3%). Meanwhile, the annual core inflation rate, which excludes volatile items such as energy and food, held steady at 5.1%, slightly below the market consensus of 5.2%.

CPIH, OOH component and CPI annual inflation rates for the last 10 years, UK, January 2014 to January 2024



Source: Consumer price inflation from the Office for National Statistics

Source: UK ONS/BNY Mellon

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

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