BNY MELLON

iFlow
MARKET MOVERS

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Growth

"Great works are performed not by strength but by perseverance." – Samuel Johnson

"Between stimulus and response there is a space. In that space is our power to choose our response. In our responses lies our growth and our freedom." – Viktor E. Frankl

Summary

Risk on with markets rethinking the FOMC rate cut risks with US 10-year bond yields back to 4.22% while Japan surprises with 4Q GDP signaling a recession there while the UK confirms its own 4Q weakness and recession – both keep hopes for policy pivots for easing in play – although in Japan the BOJ move off zero rates is still expected and MOF intervention threats hang. The move up in shares is also driven by AI and chips with Japan tech tracking US – and Europe 4Q earnings surprises also added to the mix for higher equities, helped by lower bond yields. For FX this isn't much to trade on and the calm post the storm of CPI holds until today's data – with retail sales, more Fed speakers, weekly jobless claims, industrial production all important and expected to keep US exceptionalism in play as the dominant theme for the dollar.

What's different today:

- **German shares** – DAX 40 trade at new record highs – over the last 1M index is up 3% and of the last 12 up almost 10%.
- **UK 4Q productivity** drops 1% q/q after up 0.7% q/q – output per hour fell 0.3% in 4Q – still the labor productivity in the nation is 2% over the pre-pandemic levels even as it's

the softest since 1Q 2023.

- **iFlow** – USD buying stands out against AUD, SEK selling while in EM CZK and CNY selling notable. Equities mixed still with Israel, Japan and Sweden inflows while bonds see mostly buying yesterday except in Turkey and Indonesia.

What are we watching:

- **US January retail sales** expected off -0.2% m/m after +0.6% with ex-autos up 0.2% m/m after 0.4% m/m – key for consumer demand post holidays
- **US weekly jobless claims** expected up 2k to 220k with continuing claims 1.88m up from 1.871mn – watching for layoff lag effects
- **US February Philadelphia Fed business outlook** expected -8.1 after -10.6 – with NY Empire Fed expected to also bounce back from -43.7 to -12.5 – both key for industrial production bottoming
- **US January industrial production** expected up 0.2% m/m after 0.1% m/m
- **Central Bank Speakers**: Fed Governor Christopher Waller and Atlanta Fed President Raphael Bostic speak; European Central Bank chief economist Philip Lane speaks; Bank of England policymakers Catherine Mann and Megan Greene both speak.
- **4Q earnings**: Consolidated Edison, Applied Materials, Alliant Energy, Deere, Southern, Ingersoll Rand, Zebra Tech, Roku, Doordash, Dropbox, CBRE, Mercer, Liberty Global, Cohu, Digital Realty, West Pharmaceuticals, Bio Rad Labs, Epam, Targa, Wendy's, Crocs, Genuine Parts, Laboratory Corp of America

Headlines:

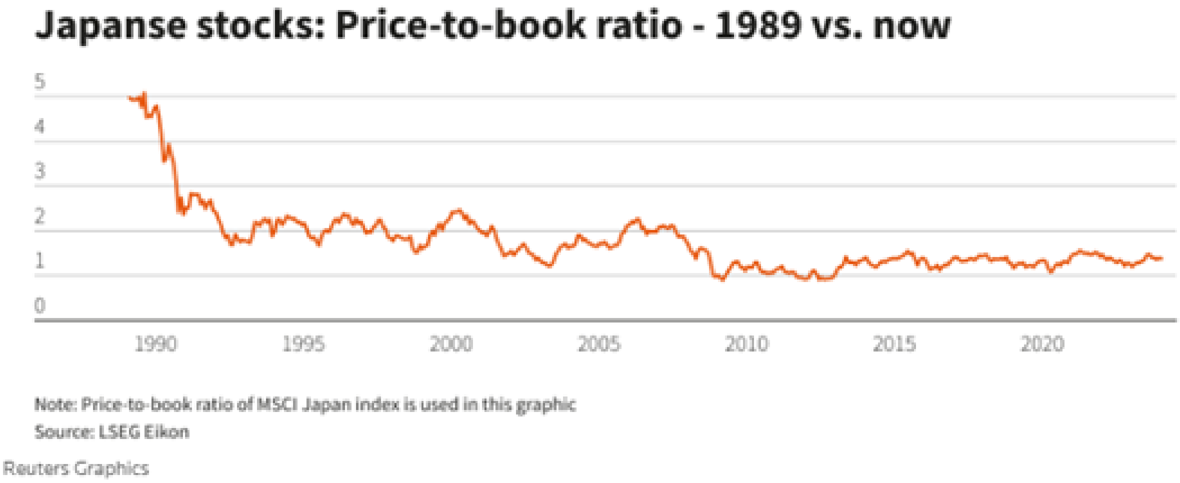
- Philippine BSP leaves rates unchanged at 6.5% - as expected – cuts CPI outlook to 3.9% from 4.2% in 2024, 3.4% from 3.5% in 20205 – still worried about transport, electricity and food costs – PHP up 0.1% to 56.035
- Japan 4Q flash GDP confirms technical recession -0.1% q/q, -0.4% y/y – private consumption fell along with capex – Nikkei up 1.21%, JPY up 0.3% to 150.05
- Singapore 4Q GDP revised lower to 1.2% q/q, 2.2% y/y – still best growth since 3Q 2022 – SGD up 0.1% to 1.3475
- Australian Jan jobs up just 500 with unemployment up 0.2pp to 4.1%- ASX up 0.77%, AUD up 0.2% to .6500
- Spanish Jan CPI confirmed up 3.4% y/y – 3-months highs – IBEX off 0.1%, SPGB 10Y off 3bps to 3.22%
- Italian Dec trade surplus jumps E2bn to E5.61bn – with imports -17.6% on lower NatGas prices and exports -7.8% with textiles, metals – MIB up 0.9%, BTP 10Y off 3.7bps to 3.807%

- EU Commission revises 2024 growth and inflation forecasts lower – with CPI 2.7% from 3.2% and with growth 0.4% from 0.8% - EuroStoxx 50 up 0.7%, EUR up 0.1% to 1.0735
- UK 4Q GDP confirms technical recession -0.3% q/q, -0.2% y/y – led by construction and production drops – even as Dec industrial production up 0.6% m/m – FTSE flat, GBP off 0.1% to 1.2545

The Takeaways:

The growth and inflation balance act are in full play globally. The shock of a Japan recession put the the JPY 150 level into perspective for many as the surge in shares there surprised as much as the economic data. The UK recession confirmation had a different result on GBP and the FTSE. Markets are setting up for another day of US exceptionalism with the S&P500 over 5000 as the FOMC comments post the CPI warn that one data point is not sufficient to derail their path to easing in 2024. However, this maybe the first concern from investors as they listen to Fed Governor Waller. The second is likely tht US weekly jobless claims with many focused on the recent headlines about layoffs and wanting to see if that shows up in the data. The third data release is retail sales and for that get some aspirin as there is a hangover from the holiday spending spree expected mostly due to autos but the credit stretched consumer is the worry and rates and growth play against each other in the data. If you want to understand the macro set up today understand that the USD strength that holds post CPI is a problem and it will matter to value in the rush of money searching for a home. The US vs. Japan price to book ratio is a good place to set the compare and contrast and to put into perspective the 4th story of the day ahead – 4Q earnings where AI investments in the US are likely to drive other companies outside the US just as it helps the S&P500 at home.

US S&P500 price to book back to decade highs?



Details of Economic Releases:

1. **Japan 4Q GDP drops -0.1% q/q, -0.4% y/y after -0.8% q/q, -3.3% y/y – worse than the +0.3% q/q, 1.4% y/y expected** – and the first recession in five years, amid sticky inflation and an uncertain global economic outlook. Private consumption continued to fall while a decline in business spending accelerated, and government spending was weak. Still, net trade contributed positively to the GDP, as exports increased faster than imports.

2. **Japan December final industrial production up 1.4% m/m, -1% y/y after -0.9% m/m, -1.4% y/y – weaker than +1.8% m/m flash**. Still, it was the strongest pace of expansion in industrial output since June, mainly contributed by a rebound in production of general-purpose and business-oriented machinery (9.2% vs -3.9% in November) and chemicals excluding medicine (1.1% vs -1.7%). In addition, the output of production machinery strongly accelerated (4.4% vs 1.6%).

3. **Singapore 4Q GDP up 1.2% q/q, 2.2% y/y after 1% q/q, 1% y/y – revised from 1.4% q/q, 2.8% y/y -** the 12th consecutive quarter of economic expansion, which was the strongest since the third quarter of 2022. Growth accelerated in the manufacturing (1.4%), construction (5.2%), transportation & storage (2.8%), finance & insurance (5.4%) and other services industries (3.9%) sectors, while either slowed or contracted in the wholesale trade (0.2%), retail trade (-0.3%), accommodation (1.5%), food & beverage (-1.5%), real estate (0.1%), professional services (-0.7%) and administrative & support services (-1.7%) sectors.

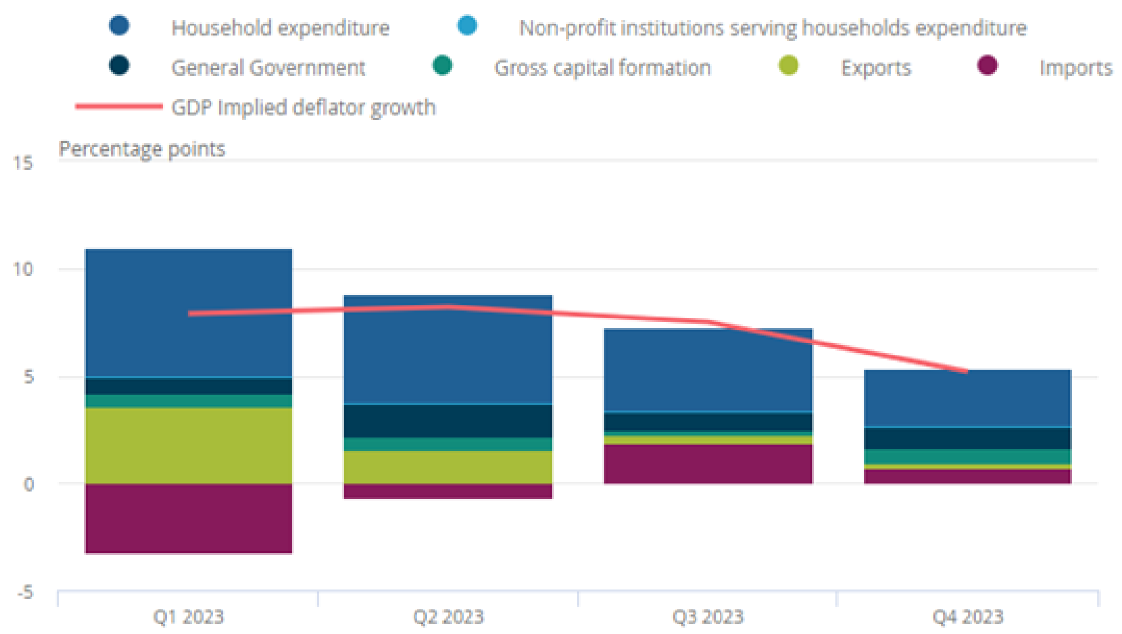
4. **Australian January jobs up 500 after -62,800 pushing unemployment up 4.1% from 3.9% - worse than the 30,000 and 4% expected.** The number of unemployed individuals climbed by 22,300 to 600,600, with those seeking full-time jobs rising by 24,800 to 404,300 while falling for part-time by 2,500 to 193,000.

Meanwhile, employment rose to 14.20 million, with full-time employment up by 11,100 to 9.80 million, while part-time employment declined by 10,600 to 4.40 million. The participation rate was unchanged at 66.8%, compared to expectations of 66.9%, and after a record high of 67.3% last November. Meanwhile, the underemployment rate edged up to 6.6% but was 2.1 points lower than in March 2020. Additionally, monthly hours in all jobs shrank by 49 million, or 2.5%, to 1,871 million.

5. UK December industrial production up 0.6% m/m, +0.6% y/y after 0.5% m/m, 0.1% y/y – better than the -0.1% m/m, -0.4% y/y expected - the second consecutive period of rising industrial activity, as manufacturing output continued to expand, with the rate of growth unchanged from November’s 0.8%; and production rebounded for electricity and gas (1.1% vs -0.2). On the other hand, output decreased for mining and quarrying (-1.8% vs 0.5%), and water supply and sewerage(-0.4% vs -1%).

6. UK 4Q GDP drops -0.3% q/q, -0.2% y/y after -0.1% q/q, +0.2% y/y – worse than the -0.1% q/q, +0.1% y/y expected. The economy entered recession amid a broad-based decline in output, namely in services (-0.2%, the same as in Q3), particularly wholesale and retail trade (-0.6%); industrial production (-1% vs 0.1%), mostly manufacture of machinery and equipment (-7%) and construction (-1.3% vs 0.1%). On the expenditure side, there was a fall in exports (-2.9% vs -0.8%), imports (-0.8% vs -1.8%); household spending (-0.1% vs -0.9%), particularly lower spending on recreation and culture, miscellaneous goods and services, and transport; and government consumption (-0.3% vs 1.1%), namely lower activity in education and health. Those falls were partially offset by an increase in gross capital formation.

UK, contributions to quarter on quarter a year ago growth in the implied price deflator, Quarter 1 (Jan to Mar) to Quarter 4 (Oct to Dec) 2023



Source: GDP first quarterly estimate from the Office for National Statistics

Source: UK ONS/BNY Mellon

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

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