BNY MELLON

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MARKET MOVERS

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Security

"Security is mostly a superstition; it does not exist in nature." – Helen Keller
"They who can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety." – Benjamin Franklin

Summary

Risk on as markets focus on earnings and tame rate views even as US bond yields rise further and as markets await another heavy data release with PPI and housing starts and consumer sentiment all important. The Presidents' Monday Holiday calls many to be on half-day alert and liquidity has that weekend anxiety fell already. The overnight news was mixed from BOJ Ueda sounding hawkish to ECB Villeroy sounding dovish. UK retail sales surged back from their grim December and that puts the BOE back into wait and see mode. The role of rates in driving risk was ditched this week leaving the mood swings to earnings, and a unstoppable view that the EM world can match the US growth story eventually, except for perhaps China. The more troubling problem for Europe and the US equity bulls is in security with the "space nukes" worry of Russia playing out today in the Global Security Summit in Munich – watch that for scary headlines. Rest assured that most investors are content to wait and see like central bankers and that new positions are unlikely on a day where temporary calm has been bought by the risk-up trend.

What's different today:

- **Oil prices are up for the second week** even with Brent off 1% today – weaker USD yesterday helped spur a rally in commodities, even as IEA warned of weaker global oil demand, with China focus.

- **Corn prices drop to 3-year lows** – back to December 2020 levels – with less demand and bigger supply - USDA predicted that US corn stocks would surge to 2.532 billion bushels by the end of 2024/25, up 17% from 2023/24 and marking the highest level since the 1987/88 season. Additionally, the USDA stated that US farmers would plant less corn and more soybeans in 2024

What are we watching:

- **US January housing starts** expected 0% m/m holding at 1.46mn rate after a -4.3% drop with permits expected up 1.3% m/m to 1.512mn – after the jump in NAHB index some optimism in sector.
- **US January PPI** expected up 0.1% m/m,, 0.6% y/y after -0.2% m/m (revised benchmark from Wednesday) with ex-food/energy expected up 0.1% after -0.1%
- **US February preliminary University of Michigan consumer sentiment** expected up 80 from 79, with expectations flat at 77 and current conditions 82.5 from 81.9 and with inflation 1Y steady at 2.9% y/y.
- **Central Bank Speakers**: Richmond Federal Reserve President Thomas Barkin, San Francisco Fed chief Mary Daly and Fed Vice Chair for Supervision Michael Barr all speak. Bank of England Chief Economist Huw Pill speaks.
- **4Q Earnings**: Coinbase, Liberty Broadband, PPL, Vulcan Materials, Balchem, Trade Desk

Headlines:

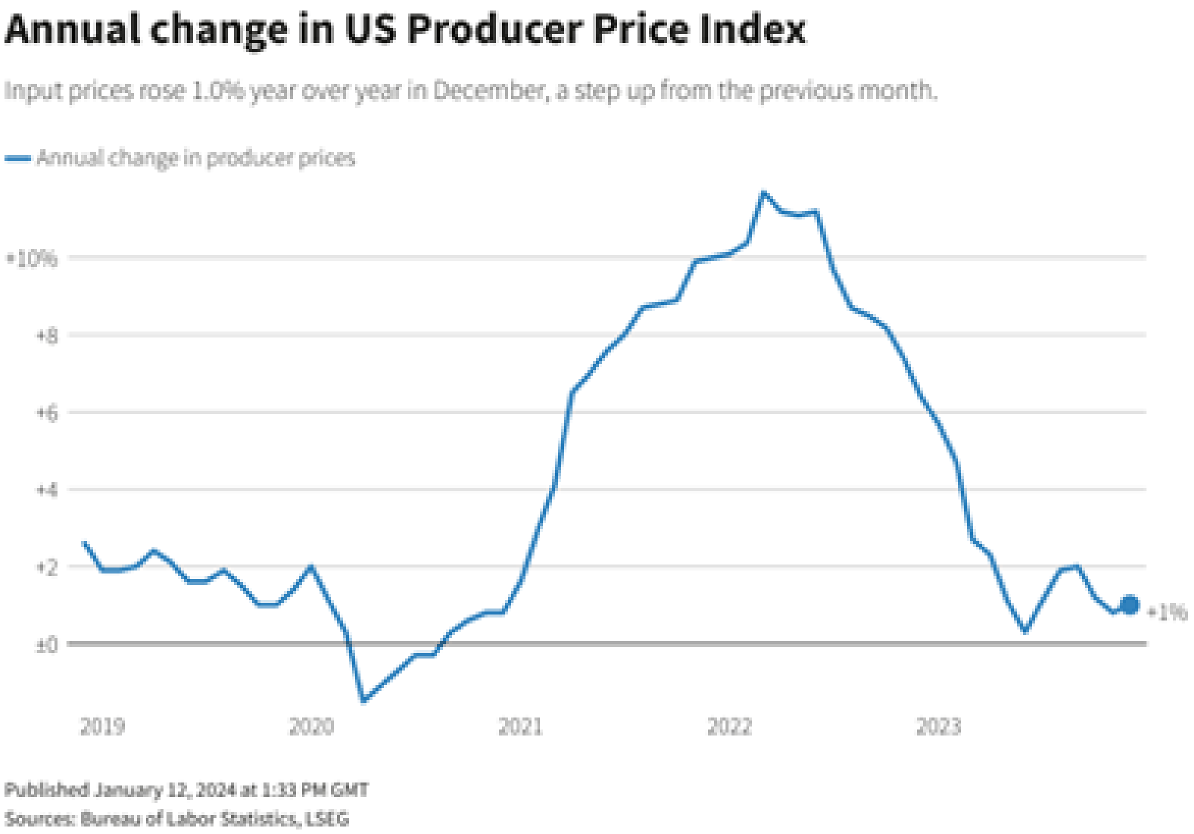
- BOJ Governor Ueda: Monetary conditions to remain accommodative even after NIRP, thinks real wages will gradually turn positive; Nikkei up 0.86%, JPY off 0.2% to 150.25
- China banks step up "whitelist" for residential real estate development loans – Hang Seng up 2.4%, CNH flat at 7.2170
- RBNZ Orr: "We've got more work to do" – doesn't signal a pivot on rate cuts anytime soon – NZ Jan BusinessNZ PMI up 4.2 to 47.3 – best since June 2023; NZD up 0.1% to .6115
- Korea Jan unemployment off 0.3pp to 3.0% - Kospi up 1.34%, KRW off 0.1% to 1,335.40
- Singapore Jan Non-Oil exports (NODX) up 2.3% m/m, 16.8% y/y – best since Jan 2022 – led by electronic products – STI up 1.42%, SGD flat at 1.3460
- Malaysia 4Q GDP revised -2.1% q/q, +3% y/y – worse than 3.4% y/y flash – led by weaker consumptions and exports – MYR up 0.1% to 4.7765
- German Jan WPI rose 0.1% m/m, -2.7% y/y – first monthly rise since September – DAX up 0.7%, Bund 10Y yields up 3bps to 2.387%

- ECB Villeroy: Rate cut a given, but question of timing, risks balanced – EuroStoxx 50 up 0.6%, EUR up 0.1% to 1.0780
- Swiss 4Q industrial production fell -0.4% y/y – weaker manufacturing key – Swiss Mkt up 0.4%, CHF off 0.1% to .8805
- Sweden Jan unemployment up 0.9pp to 8.5% with higher participation but lowest employment since Mar 2022 – OMX up 1.15%, SEK up 0.15% to 10.435
- UK Jan retail sales up 3.4% m/m, 0.7% y/y – biggest gain since April 2021 - UK by-elections – Labour wins 2 seats in Kingswood and Wellingborough overturning previously large Tory majorities; UK Chancellor Hunt scraps plans for 2% cut in income tax – FTSE up 1.1%, GBP flat at 1.26

The Takeaways:

The security that 4Q earnings are better than feared frames the bigger picture of risk today and this week. Markets are content if not outright joyful in the results where AI investments, ongoing profits despite rates higher and outlooks for growth that remain over long-term averages all support buying risky assets. There is a bar-bell approach to the US exceptionalism trade that follows this logic as emerging markets, ex China, enjoy some of the hope that returns there will follow and accelerate when the USD turns. The FX markets have been deadly dull, secure in the view that the FOMC will ease eventually, and that this is a relative game of who eases first. The urgency to act hasn't been the problem as the US data has been better except for yesterday's retail sales. That result took out 0.5% of growth for 1Q and its likely to leave many rethinking the path forward should other data drag. The weak flank of risk-on moods lives in any US economic data surprises with the consumer sentiment today and the housing starts unlikely to be big enough to matter. Rather the focus on today may best be put into the simmering story of goods inflation and the pipeline for disinflation turning. The PPI report today maybe just enough to keep US bonds nervous and the USD bid enough to cast doubt on the rest of the world and the security that doing nothing into a long weekend is safe.

US PPI could mean the end of goods disinflation



Details of Economic Releases:

1. **Korea January unemployment drops to 3% from 3.3% - better than 3.1% expected** – still second highest in a year. The economically inactive population totaled 16.699 million people, falling by 267,000 persons or 1.6% y/y. Meanwhile, The economically active population marked 28.815 million persons, which grew 428,000 or 1.5% y/y. The labor force participation rate stood at 63.3%.

2. **New Zealand January BusinessNZ PMI rose to 47.3 from 43.1 – better than 45.3 expected** - best since June 2023, but still the 11th month of contraction. Employment (51.3 vs 46.7 in December) slightly expanded for the first time since February 2023, while New orders (47.7 vs 44) improved to its highest level since May 2023. Still, new orders remained in contraction for eight consecutive months. Production (42.1 vs 40.5) and Finished Stocks (47.3 vs 45.9) also improved but were still someway off returning to expansion.

3. **German January Wholesale Prices up 0.1% m/m, -2.7% y/y after -0.6% m/m, -2.6% y/y - lower than the +0.3% m/m, -2.5% y/y expected** – still, the first increase since September 2023. The downturn was attributed mainly to lower prices of mineral oil products (-7.2%), grain, unmanufactured tobacco, seeds and animal feeds (-20.3%), chemical products (-16.3%), metals and metal ores (-12.7%), and waste and scrap (-6.4%). Conversely, price growth was observed in fruit, vegetables and potatoes (11.8%), sugar, confectionery and baked goods (7.0%), beverages (6.5%), and tobacco products (5.1%).

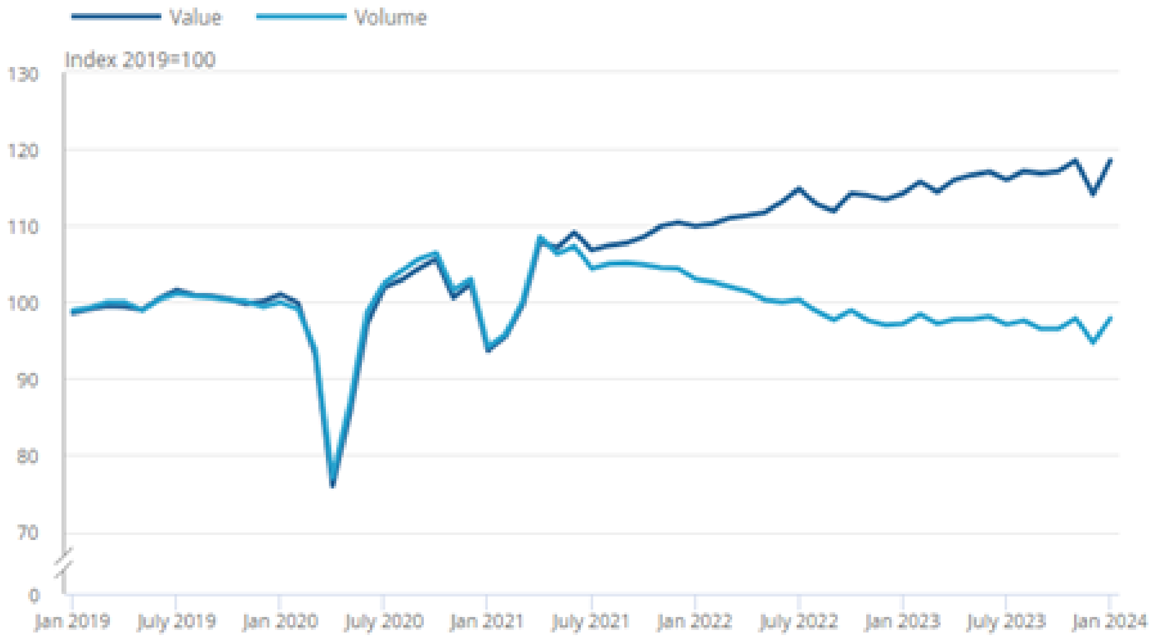
4. **Sweden January unemployment jumps to 8.5% from 7.7% - worse than 8.2% expected**. The seasonally adjusted unemployment was flat at 8.2%. The number of unemployed people increased by 55,000 from the previous year to 479,000 and the number of employed persons declined to 5.136 million, the lowest level since March 2022 from 5.156 million in January 2023. Meanwhile, the employment rate fell by 0.5% to 67.6% and the labor force participation rate went up by 0.3% to 73.9%.

5. **Swiss 4Q industrial production fell -0.8% q/q, -0.4% y/y after +2.5% q/q, +1.8% y/y – weaker than +1.5% y/y expected** as output tumbled for manufacturing (-1.6% vs 1.1% in Q3). Meanwhile, output grew more for mining & quarrying (3.5% vs 0.5%) and electricity supply (15.7% vs 13.2%).

6. **UK January retail sales jump up 3.4% m/m, 0.7% y/y after -3.3% m/m, -2.4% y/y – better than the 1.5% m/m, -1.4% y/y expected** – biggest rise on a monthly basis since April 2021 and largest yearly rise since March 2022, as sales increased in all subsectors except clothing stores. Sales at food stores surged by 3.4% (vs -3.1% in December), led by receipts at supermarkets, and those at non-food stores advanced by 3.0% (vs -3.9% in December). Within non-food, trade at department stores and other non-food stores, such as sports equipment stores, rose over the month by 5.4% and 6.2%, respectively, with some retailers reporting the positive impact of January sales. Household goods stores rose by 1.8%, mainly due to sales in hardware stores, while clothing stores fell by 1.4%. Automotive fuel sales jumped by 5.4%, helped by falling fuel costs.

Largest monthly rise in sales since April 2021 marks a recovery from December's record fall

Volume and value sales, seasonally adjusted, Great Britain, January 2019 to January 2024



Source: Monthly Business Survey, Retail Sales Inquiry from the Office for National Statistics

Source: UK ONS/BNY Mellon

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

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