BNY MELLON

iFlow MARKET MOVERS

February 20, 2024

Ponies

“Better to ride a pony than a horse which throws you.” – Navjot Singh Sidhu
“A pony is a childhood dream. A horse an adult treasure.” – Rebecca Carroll

Summary

Risk mixed as markets digest a China 5Y LPR cut but doubt its sufficient to stoke animal spirits. Markets are riding ponies with fear of rates, growth and politics. The overnight messages were not positive for calming anyone with RBA minutes threatening another hike, with BOE Bailey pointing towards easing but Gilts don’t like it, with US CRE concerns back into play with FT front page warning on loan losses. The US session will focus on bills, issuance, and the ongoing 4Q earnings drama with Tech and AI the focus of the week.

What’s different today:

- **Eurozone collective wage growth slows for first time in 18-months** - the 4Q ECB survey showed wage growth fell to 4.46% from 4.69% - which was the highest since 2005.
- **BOE Bailey – market pricing on rate cuts “not unreasonable.”** – UK Gilts sold off initially on the BOE comments now up 6.5bps.
- **iFlow** – USD buying, SEK, EUR, GBP selling with EM selling in CZK, HUF, PLN standing out – equities mostly lower but for EM, while Fixed Income notable US bonds inflows continue.

What are we watching:

- **Canada January CPI** expected up 0.4% m/m, 3.3% y/y after -0.3% m/m, 3.4% y/y – with core median expected 3.6% y/y flat – BOC rate cuts possible but this data matters.
- **US January leading economic index** expected -0.3% after -0.1% - LEI has been negative pointing to lower than expected growth for over a year.
- **4Q Earnings**: Walmart, Home Depot, Palo Alto Networks, Allegion, Medtronic, Public Storage, Caesars Entertainment, Celanese, International Flavors and Fragrances, Realty Income, CoStar, Keysight Tech, Chesapeake Energy, Diamondback Energy, CentrePoint Energy, Evonix
- **US Treasury Bill auctions** of $79bn 3-month, $70bn 6-month, $46bn 12 month bills – and $80bn 42-day CMB.

Headlines:

- China PBOC cuts 5Y loan prime rate 15bps to 3.95% but leaves 1Y unchanged at 3.45% - surprising market, first cut since June 2023, largest cut since 2019 – CSI 300 rose 0.21%, CNH up 0.15% to 7.2030
- Korea Feb consumer confidence rises 0.3 to 101.9 - highest since Aug 2023 - Kospi off 0.84%, KRW off 0.2% to 1337.40
- RBA Minutes from February 5-6- considers 25bps hike, "take some time" before confident on inflation, further hikes possible – ASX off 0.08%, AUD up 0.35% to .6565
- Malaysia Jan trade surplus narrows to MYR10.1bn - smallest since May 2020 – MYR off 0.2% to 4.7975
- Swiss Jan trade surplus rises go CHF2.8bn - bouncing higher from 13-month lows even as exports fell 1.6% y/y – Swiss Mkt up 0.6%, CHF up 0.1`% to .8820
- South Africa 4Q unemployment up 0.2pp to 32.1%- as job growth stalls after gaining for 8 quarters – ZAR up 0.1% to 19.95
- Eurozone Dec construction output rebounds to 0.8% m/m, 1.9% y/y - best since Feb 2023 - while Dec C/A jumps to E31.95bn s.a. – EuroStoxx flat, EUR up 0.2% to 1.0805
- BOE Governor Bailey: Sees "encouraging signs" on inflation - still wants more progress on services CPI – FTSE up 0.2%, GBP up 0.1% to 1.26
- Bad property debt exceeds reserves at largest US banks - loan loss provisions hit by higher rates, NPLs – US S&P500 futures off 0.3%, 10Y Bond yields off 1bps to 4.27%, USD index off 0.2%

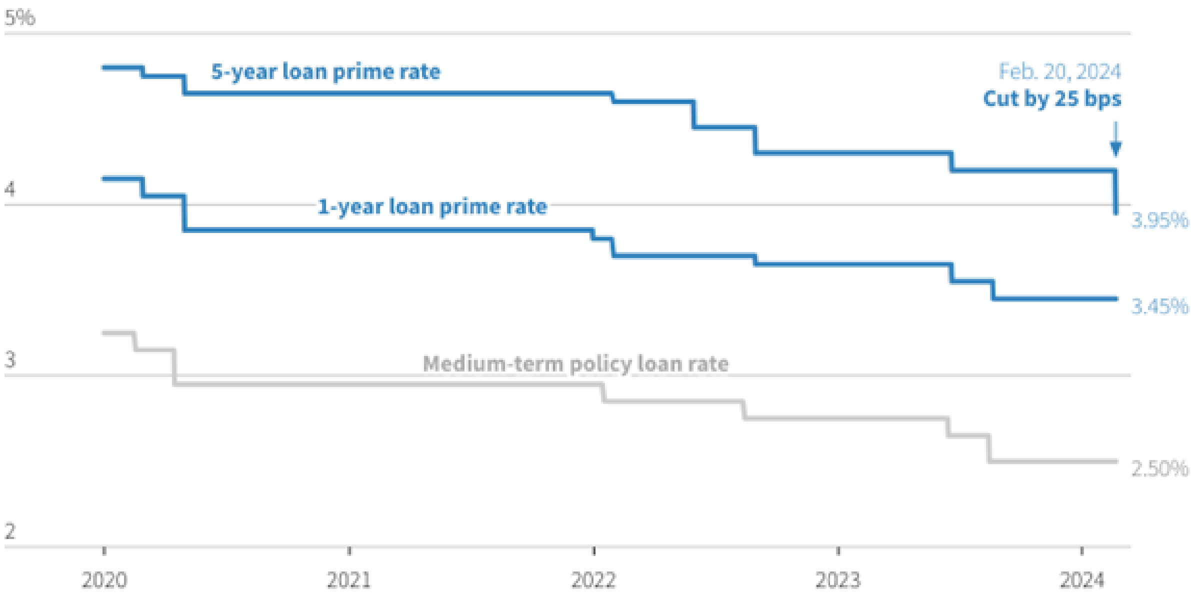
The Takeaways:

The differences between horses and ponies might be the best analogy for the present market mood where there is lack of purpose for many as they wait for the expected pivot in policy in developed markets and only tenderly play in developing ones. There is a sense that we aren’t ready for an adult market full of fears to upend the current modest rally in risk. The lack of bigger US news today might help continue to ongoing focus on micro rather than macro interests. The FX markets are clearly trying to respond to equities up with dollar down dreams, but US rates remain the problem. Overnight the PBOC cut the 5Y loan prime rate used by many banks for mortgage rates but the cut seems to have failed to drive up demand. Bringing forward housing finance needs requires something more than rate cuts in China. The confidence around growth and taxes, around the focus of what wealth is stable in a nation swinging from Chinese capitalism to a renewed communism leaves most worried about investments there. The inability for the worlds second largest economy to convince markets to run with horses not ponies.

China 5Y LPR cut flattens the curve but isn't enough

China cuts rate to revive property market

China cut the five-year loan prime rate (LPR) by 25 bps to 3.95%, more than expected, as authorities ramped up efforts to stimulate credit demand and revive the property market. One-year LPR was left unchanged.



Source: LSEG Datastream | Reuters, Feb. 20, 2024 | By Pasit Kongkunakornkul

Details of Economic Releases:

1. Korea February consumer confidence rose to 101.9 from 101.6 - better than the 101.7 expected - the highest reading since August 2023 due to moderating inflation, a recovery in exports and hopes for an end to rate hikes. Consumer sentiment regarding current living standards rose to 90 (vs 89 points in January), and that concerning the future outlook was unchanged at 94. Consumer sentiment related to future household income remained stable at 100, and that concerning future household spending was unchanged at 111. Consumer sentiment concerning current domestic economic conditions went up to 70 (vs 69 points), and that concerning future domestic economic conditions fell to 80 (vs 81 points). Meanwhile, the expected inflation rate for the upcoming year remained at 3.0%.

2. Malaysia January trade surplus drops to MYR10.1bn from MYR11.7bn - less than the MYR13.7bn expected - the smallest figure since May 2020, as imports surged 18.8% to MYR 112.3 billion, due to higher purchases from all sectors: manufacturing (19%), largely iron & steel (74.5%), and wood products (49.7%); and agriculture (19.1%), mainly sawn timber & molding (59.7%). Imports also went up for mining (10%), namely liquefied natural gas (85%), crude fertilizers & minerals (67.5%), and crude petroleum (20.9%). Meanwhile, exports rose at a softer 8.7% to MYR 122.4 billion, driven by increased sales from manufacturing (9.3%), particularly iron & steel (70.4%), and paper & pulp products (47.3%); and agriculture (17.5%), notably sawlog (88.3%), and other agricultures (25.9%).

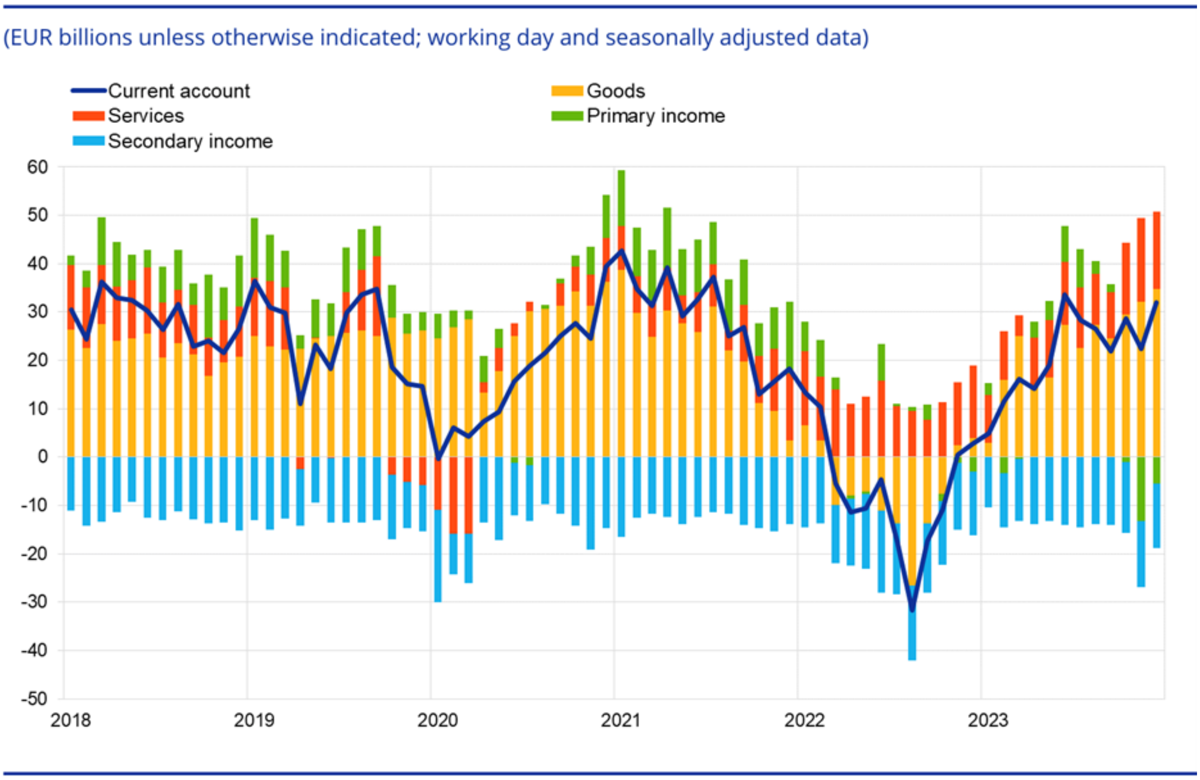
3. Swiss January trade surplus rises to CHF2.8bn from CHF1.3bn - more than CHF1.9bn expected - bouncing from 13-month lows, as exports fell 1.6% to CHF 21.2 billion, weighed by lower sales of vehicles (-7%), precision instruments (-5.6%), and metals (-5.3%). Among countries, shipments mainly drop to Russia (-39.6%), Mexico (-25.1%), Austria (-22.5%), Poland (-22.1%), and Italy (-21.9%). Meanwhile, imports shrank at a faster 9.3% to CHF 18.4 billion, due to a sharp decrease in purchases of chemicals and pharmaceutical products (-19.6%), and vehicles (-16.4%). As for the trading partners, arrivals were primarily down from South Korea (-66%), Ireland (-50.9%), Russia (-49.2%), Japan (-4.5%), and Canada (-43.1%).

4. South Africa 4Q unemployment rises to 32.1% from 31.9% - worse than 31.6% expected - as the number of unemployed persons increased by 46,000 to 7.9 million. Meanwhile, employment fell by 22,000 to 16.7 million, after rising by eight straight quarters, and the labor force rose by 25,000 to 24.6 million. Job losses were recorded primarily in community & social services (-171k), followed by construction (-36k), agriculture (-35k), trade (-28k) and manufacturing (-1k). On the other hand, more jobs were added in finance (+128k), transport (+57k) and mining (+37k). The expanded definition of unemployment, which includes those discouraged from seeking work, was 41.1% in Q4, down marginally from 41.2% in Q3. The youth unemployment rate in South Africa, measuring job-seekers between 15 and 24 years old, picked up to 59.4% in Q4, from an over one-year low of 58% in the third quarter.

5. Eurozone December construction output rises up 0.8% m/m, 1.9% y/y after -1.9% y/y - better than -2.2% y/y expected - best since Feb 2023. Building activity also showed positive growth at 1.3%, compared to a -2.1% decrease in November, while civil engineering activity surged by 4.7%, a stark contrast to the -0.3% decline in the previous month.

6. Eurozone December current account surplus rises to E42.66bn after E31.4bn - more than E28bn expected and up from from €16.62 billion a year earlier.On a seasonally adjusted basis surplus rose to E31.95bn from E22.5bn - also more than the E20.5bn expected. The goods surplus went up to €36 billion from €10 billion and the services surplus rose to €12.1 billion from €10 billion. Meanwhile, the secondary income gap was little changed at €12.3 billion compared to €12.5 billion and the primary income surplus decreased to €6.8 billion from €8.3 billion. Considering full 2023, the current account switched to a €267.4 billion surplus from a €73.6 billion deficit in 2022. Adjusted for seasonality, the current account recorded a surplus of €260 billion or 1.8% of the GDP, compared with a deficit of €82 billion or 0.6% of the GDP in 2022, mainly due to switch from a deficit to a surplus for goods.

Euro area current account balance



Source: ECB.

Source: EuroStat /BNY Mellon

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

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