BNY MELLON

iFlow
MARKET MOVERS

February 21, 2024

Whales

"He piled upon the whale's white hump the sum of all the general rage and hate felt by his whole race from Adam down; and then, as if his chest had been a mortar, he burst his hot heart's shell upon it." – Herman Melville

"Whales who come up and spout off get harpooned." – Henry Kravis

Summary

Risk mixed with China shares up post the LPR cut and more regulatory efforts, Japan exports jumping 11.9% y/y with US and China driving but weaker monthly Tankan leaves Nikkei lower, while European shares are mixed on earnings and the grim outlook for German growth countered by UK better debt and improving industrials. Markets are waiting for the FOMC minutes and Nvidia earnings to clear the air for risk. Until then there are whales that investors are hunting looking for outsized gains in a world filled with geopolitical worries and hopes – with the focus on a hostage deal and cease fire in Israel/Hamas war one thing to watch for, while fears of a US government shutdown rise into March 1. Rates and FX remain the counter ballast in the ship chases safe returns ahead with the USD bid holding with yields moderating in a new range with the 20Y bond sale the other event risk to consider post the EU close.

What's different today:

- **Iron Ore trades lower for 3rd day - to October 2023 lows at $124.29 metric ton** - off 4% on the day in China futures following 5% drop yesterday.
- **South Africa unveils plan to tap reserves for debt** – ZAR up 0.8% to 18.775 as the Treasury plans to use ZAR150bn to reduce short-term borrowing. South

Africa bond yields drop 7bps for 10Y to 11.61%.
- **iFlow** – FX carry back to significant trend, with buying of BRL standout while most of EM particularly CE3 suffer. USD buying still in play in G10 vs. SEK, GBP, EUR selling with JPY buying different. Fixed Income sees US bond buying, but Canada selling with EM Poland the main winner.

What are we watching:

- **FOMC minutes** - with focus on rate cut timing and discussion. Also Fed Governor Bowman speech today on economic outlook.
- **4Q Earnings**: NVIDIA, Marathon Oil, Nordson, Mosaic, Verisk, ETSY, Garmin, Analog Devices, APA, Synopsys, ANSYS, Exelon, NiSource, Host Hotels.
- **US Treasury auctions** - sells $16bn in 20Y bonds and $28bn in 2Y FRN

Headlines:

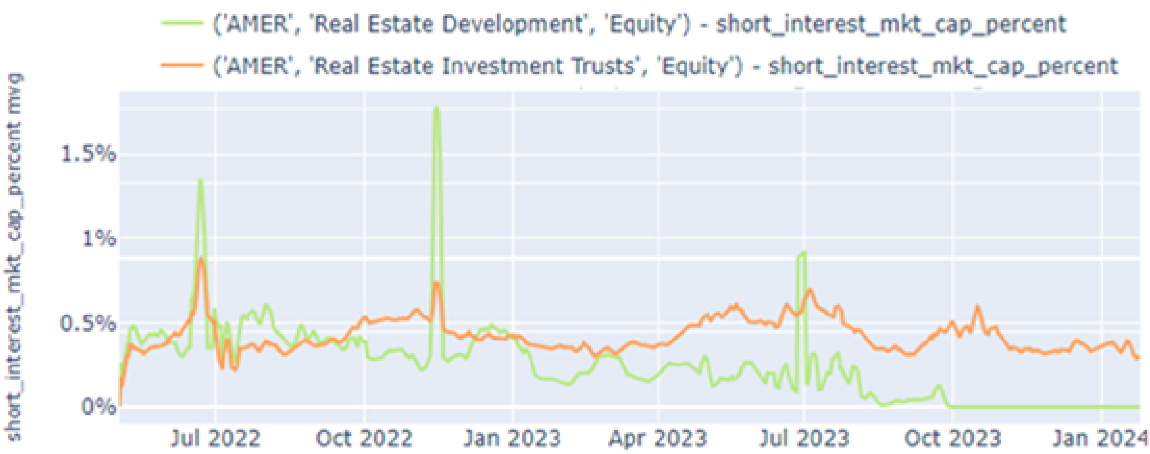
- Japan Feb Reuters Tankan for manufacturing drops 7 to -1 - first negative in 10-months - services -3 to 26 - while Jan trade flips to deficit even with exports up 11.9% y/y – Nikkei off 0.26%, JPY flat at 149.95
- China regulator restricts asset management stock selling at open and close - requires quant fund pre-clearance to trade – CSI 300 up 1.35%, CNH up 0.1% to 7.1950
- Bank of Indonesia leaves rates unchanged at 6% - as expected - lifts GDP outlook – IDR up 0.15% to 15,630
- Korea Jan PPI rises 0.5% m/m, 1.3% y/y - most since Sep 2023 - while business confidence slips 1 to 70 - with lower demand, higher prices – Kospi off 0.17%, KRW up 0.15% to 1334.60
- NZ 4Q input PPI moderates -0.3pp to +0.9% q/q - with construction lower, manufacturing higher – NZD up 0.3% to .6185
- Australian 4Q wage index up 0.9% q/q, 4.2% y/y - higher since 1Q 2009 - while Westpac MI Jan LEI fell -0.1% m/m suggesting 1.3% GDP in 1H24 – ASX off 0.66%, AUD up 0.1% to .6555
- South Africa Jan inflation rises 0.2pp to 5.3% y/y - first rise in 2-months and still over SARB target – ZAR up 0.7% to 18.76
- German cabinet cuts 2024 growth outlook- now 0.2% from 1.3% - DAX up 0.45%, EUR off 0.1% to 1.0800
- UK Jan public sector borrowing ex banks jumps to GBP16.69bn surplus - double 2023 Jan - best on record - while Feb CBI industrial trends up 10 to -20 - best since Sep 2023 – FTSE off 0.7%, GBP off 0.1% to 1.2615

The Takeaways:

The mid-week blues are underway as markets open in the US searching for more good news and the forced wait for the FOMC minutes this afternoon and Nvidia earnings after the close. Many see the whales of investment flows into the information and technology sector as a bubble with the fear of a pop ongoing. The risk of a reversal drives all markets and leaves most things trendless – but for US rates up and the USD bid. They are the barometers on the day as markets hunt for returns elsewhere. The notable data from the BNY security lending in equities shows this is a market prepared for trouble – with short positions in tech notable. What might seem even more surprising is that real estate isn't the story or the position that matters. There is something to the comparison. Note that borrowing equities is a necessary component for funds that usually aim for faster returns in a bear event or rotation. Most clients are buy and hold, while a few borrow to short names. Today maybe one of those days where the set up into the news matters and where whale hunting falls away to other ways of finding energy – like that painful transition to crude oil.

Lending data show market prepared for tech reversal

Real estate:



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Details of Economic Releases:

1. **Korea February business confidence slips to 70 from 71 - worse than 72 expected.** Manufacturers reported a slow down in domestic demands (68 vs 71 in January), raw material purchase prices (116 vs 111 in January), sales prices (97 vs 93 in January) and profitability (79 vs 81 in January). On the other hand, export oriented demands (73 vs 71 in January) and sales (80 vs 78 in January) recorded increases.

2. **Korea January PPI rises 0.5% m/m, 1.3% y/y after 0.1% m/m, 1.2% y/y - less than the 1.5% y/y expected** - still the biggest growth since September, driven by higher cost of agricultural, forestry, and marine products (+9.8 percent vs +6.4 percent in December), while prices were steady for electric power, water, and gas (+0 percent vs -0.4 percent). Meanwhile cost rose at the same pace for services (2.2 percent). On a monthly basis, factory gate prices went up by 0.5% in January after edging up by 0.1% in the previous month.

3. **Japan February Reuters Tankan drops to -1 f rom +6 - worse than +7 expected** - first negative in 10-months. A manager of a chemicals firm said: "Domestic consumption has weakened since last year. Automobiles are selling well, but rising prices put a drag on appetite for consumer demand, particularly for food and daily necessities." Looking ahead, the index is seen rebounding to +6 in May. Services fell 3 to 26. The May service outlook is expected lower by 3 to 23.

4. **Japan January trade flips to deficit of Y1.758trn after Y68.9bn surplus - better than Y1.95trn expected.** Exports rose by 11.9% y/y to JPY 7,332.65 billion, the most in 14 months, supported by robust demand from the US and China. Meanwhile, imports fell by 9.6% to JPY 9,090.97 billion, the tenth consecutive month of drop, weighed down by lower energy prices. In 2023, Japan logged a trade deficit of JPY 9.29 trillion, the third straight year of shortfall

5. **New Zealand 4Q input PPI rises 0.9% q/q after 1.2% q/q - more than the 0.4% q/q expected.** The prices paid by producers rose at a softer pace for Construction (0.5% vs 1.5% in Q3); Agriculture, forestry, and fishing (0.3% vs 0.7%); Retail trade and accommodation (0.2% vs 1.2%); Transport, postal, and warehousing (1.4% vs 3.5%) and Electricity, gas, water, and waste services (4.7% vs 8.2%). Meanwhile, cost paid for Manufacturing (1.5% vs 1.3%) rebounded. The output PPI rose 0.7% q/q after 0.8% q/q - also more than the 0.4% q/q expected.

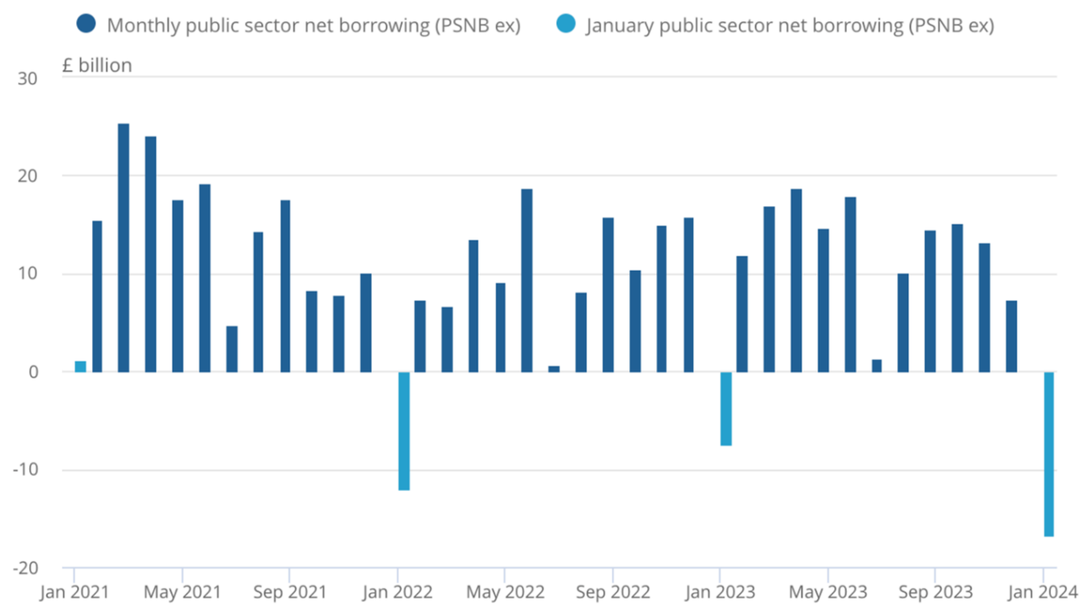
6. **Austrlalian 4Q wage price index rose 0.9% q/q, 4.2% y/y after 1.3% q/q, 4.1% y/y - more than the 4.1% y/y expected -** the highest reading since Q1 of 2009, with wages in the public sector rising by 4.3%, the most since Q1 of 2010; while those in

the private one grew further (4.2% vs 4.3%). In original terms, the main contributors to the growth were healthcare and social assistance (5.5%), education and training (4.8%), administrative and support services (4.5%), retail trade (4.3%), manufacturing (4.2%), mining (4.1%), construction (4.1%), postal & warehousing (4.1%), accommodation and food services (4.0%), arts and recreation services (3.8%), and electricity, gas, water, and waste services (3.7%).

7. South Africa January CPI rises 0.1% m/m, 5.3% y/y after 0% m/m, 5.1% y/y - less than the 5.4% y/y expected - still the increase follows two months of consecutive declines, mainly on account of prices of restaurants & hotels (8% vs 7% in December); food & non-alcoholic beverages (7.2% vs 8.5%); health (6.5%, the same as in December); miscellaneous goods & services (5.4% vs 5.1%) and transportation (4.6% vs 2.6%). The annual core inflation, which excludes food and fuel prices, accelerated to a five-month high of 4.6% in January, from 4.5% in December, slightly above market expectations of 4.5%.

8. UK January public sector borrowing excluding banks rises to £16.7 billion surplus after 7.37bn deficit - less than 18.7bn expected - still he largest surplus since monthly records began in 1993, as total public sector receipts rose by 3.4% to a record £119.5 billion, largely because of growth in receipts from Corporation Tax, Income Tax, and National Insurance Contributions. Meanwhile, total public sector spending declined by 4.8% to £102.8 billion as a substantial reduction in interest payable and the closure of energy support schemes offset increased spending on public services and benefits. Borrowing in the financial year up to January 2024 amounted to £96.6 billion, marking a decrease of £3.1 billion compared to the corresponding ten-month period of the previous year, and the first such annual fall this financial year, helped by an upward revision to earlier tax receipts.

Public sector net borrowing excluding public sector banks, £ billion, UK, January 2021 to January 2024



Source: Public sector finances from the Office for National Statistics

Source: UK ONS /BNY Mellon

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