BNY MELLON

iFlow MARKET MOVERS

February 22, 2024

Tipping Points

"The tipping point is that magic moment when an idea, trend or social behavior crosses a threshold, tips and spreads like wildfire." - Malcolm Gladwell

"A single act of courage is often the tipping point for extraordinary change." - Andy Stanley

Summary

Risk on as the Nvidia earnings and outlook beat with revenues up 265%, pushing the global equity rally with EU and Japan shares at record highs. Rate decisions from BOK and TCMB leave policy on hold but the higher risk in equities hasn't translated into much in bonds with rallies in EU helping the US. Global PMI flash reports are positive but not enough to move down rate cuts expectations everywhere. Risk-parity returns with bonds up, stocks up, industrial metals up and USD down. The day ahead will pivot beyond the 4Q earnings focus with US flash PMI and weekly jobless claims along with existing home sales. Whether this all is a tipping point for portfolios and risk is yet to be determined, and waiting for more data seems to be the key for most investors still, like the central bankers.

What's different today:

- **Japan Nikkei rises to new record high** - breaks 1989 record at 39,099 - up 2.19% on the day.
- **TRY sees new record low over 31 to USD** as TCMB holds rates at 45% - New Governor Karahan warns rates still could be raised.
- **iFlow carry still significant** with focus on AUD, BRL, TRY and ZAR. G10 flows still USD up, SEK, GBP, EUR and CHF down while JPY slightly positive.

Fixed Income mostly positive except for China and India. The risk might be in equities where selling stood out yesterday, setting up for a reversal today.

What are we watching:

- **US weekly jobless claims** expected up 4k to 216k with continuing claims off 11k to 1.884mn – whether job market moves weaker or not matters – stronger job demand = less FOMC cuts
- **US January existing home sales** expected up 4.9% m/m to 3.97mn after 3.78mn – rates and weather matter but consumer mood vs. housing supply also key.
- **4Q Earnings**: Intuit, Booking, Coterra Energy, PG&E, Moderna, Edison, Insulet, Ameren, EOG, Live Nation Entertainment, VICI Properties, Copart, Pioneer Natural Resources, Newmont, Dominion Energy, LKQ, Quanta Services, Builders FirstSource, Iron Mountain, Teleflex, Pool, Keurig Dr Pepper, Entergy
- **US $9bn 30Y TIPS sale** – interesting for the inflation implications – along with 4-week bills $95bn and 8-week bills $90bn – all of which make cash levels interesting.

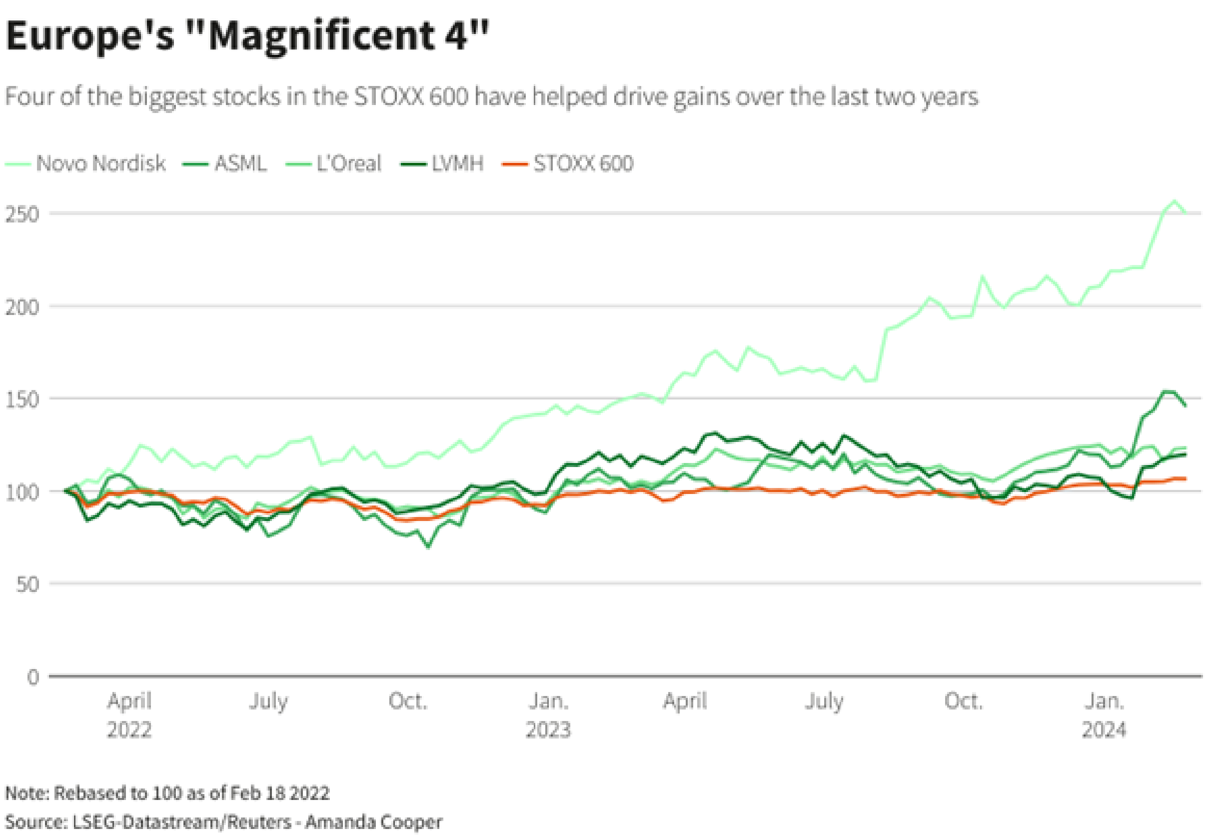
Headlines:

- New Zealand Jan trade deficit widens to NZ$976bn - with exports -7.1% y/y – NZD up 0.5% to .6205
- Australia Feb flash composite PMI up 2.8 to 41.8 - first expansion in 5-months led by services – ASX up 0.04%, up 0.5% at .6580
- Japan Feb flash composite PMI off 1.2 to 50.3- off 4-month highs as manufacturing drops to 3 1/2 year lows – Nikkei up 2.19%, JPY flat at 150.25
- Bank of Korea leaves rates unchanged at 3.5% - as expected - cites rising exports, high household debt – Kospi up 0.41%, KRW up 0.5% to 1328.60
- India Feb flash composite PMI up 0.3 to 61.5 - best since July 2023 led by manufacturing at 5-month highs – Sensex up 0.74%, INR up 0.15% to 82.843
- Turkey TCMB keeps rates unchanged at 45% - sees demand moderating, sticky service inflation – TRY flat at 30.99
- Eurozone Feb flash composite PMI up 1 to 48.9 - 9th month of contraction but best since June 2023 - with services leading – EuroStoxx 50 up 1.35%, EUR up 0.25% to 1.0850
- UK Feb flash composite PMI up 0.4 to 53.3 - 4th month of expansion, best since May 2023 – FTSE up 0.22%, GBP up 0.3% to 1.2670
- US weekly API oil inventories rise 7.168mb after 8.52mb - double expected, gasoline rose 0.415mb while distillates fell 2.908mb - 7% below average – WTI off 0.3%

The Takeaways:

The tipping point for AI adaption is a bold call and one that the CEO of Nvidia made as its revenues rise from $27bn in 2023 to estimates over $100bn in 2024. The demand function for AI is correlated to sticky serve wages and business investment. The narrative goes something like this – you can't hire qualified workers so you build out AI to fill the gaps. Productivity will rise, growth will rise given business investment and the world will be a better place as this new technology fills the gaps into main street business. The problem with the story line is timing and the bumps along the way will be notable – with government regulation, uneven distribution – as very big companies will not get the same boost to productivity as the smallest companies will but won't have the capital available to spend – all of which leaves the middle-sized companies best placed. The focus on this narrative maybe blocking out the logic of the day as Japan breaks 34-year highs to new records for its shares seen universally as cheap, while in Europe the same is true but with a different mix. The EU has the Magnificent 4 compared to the US 7. All of this leaves equities outperforming even as the outlook for recovery and recession is uncertain. The global PMI reports make this point clearly with Germany still lagging along with cracks in the Japan growth bounce. How the US exceptionalism plays out today will be crucial to risk into March and for central bank discussions ahead.

EU shares at the bottom of recession could win on value?



Details of Economic Releases:

1. New Zealand January trade deficit increases to NZ$976bn after NZ368bn — worse than NZ$200bn expected. Exports dropped by 7.1% from a year earlier to $4.9 billion, driven by fall in outbound shipment of crude oil (-69 percent to $34 million); milk powder, butter, and cheese (-3.6 percent to $1.8 billion); meat and edible offal (-7 percent) and wine(-34 percent). Among major trading partners, exports decreased to Japan (-34%); Australia (-17%); the EU (-5.8%); the USA (-5.6%); and China (-2.8%). Meanwhile, imports declined by 20% to $5.9 billion, mainly due to decline in purchases of petroleum and products (-50 percent); vehicles, parts, and accessories (-20 percent); ships, boats, and floating structures (-90 percent) and mechanical machinery and equipment (-12 percent). Imports went down from South Korea (-34%); the EU (-33%); Australia (-9.2%); the USA (-5.6%) and China (-5.4%).

2. Australia February flash Judo Bank composite PMI jumps to 51.8 from 49 - higher than 50.1 expected - first expansions in 5-months and best since April 2023. Still, the flash manufacturing PMI fell to 47.7 from 50.1 while services rose to 52.8 from 49.1. The growth in new business bolstered expansions in both output and employment. At the same time, inflation escalated due to accelerated rates of average input costs and output prices. While overall sentiment remained positive, optimism levels dipped to a three-month low.

3. Japan February flash Jibun Bank composite PMI slips to 50.3 from 51.5 - weaker than 51 expected. Growth in services activity slowed while the manufacturing sector shrank the most in 3-1/2 years. A decline in new export orders quickened amid a slight expansion in new orders. In the meantime, employment increased at the fastest pace in eight months, entirely driven by the service sector as manufacturing firms saw the steepest reduction in workforce numbers in over three years. Meantime, backlogs of work rose after falling in the prior month. Turning on inflation, input cost and selling prices rose at slower rates. Lastly, business confidence weakened to its lowest since January 2023. source:

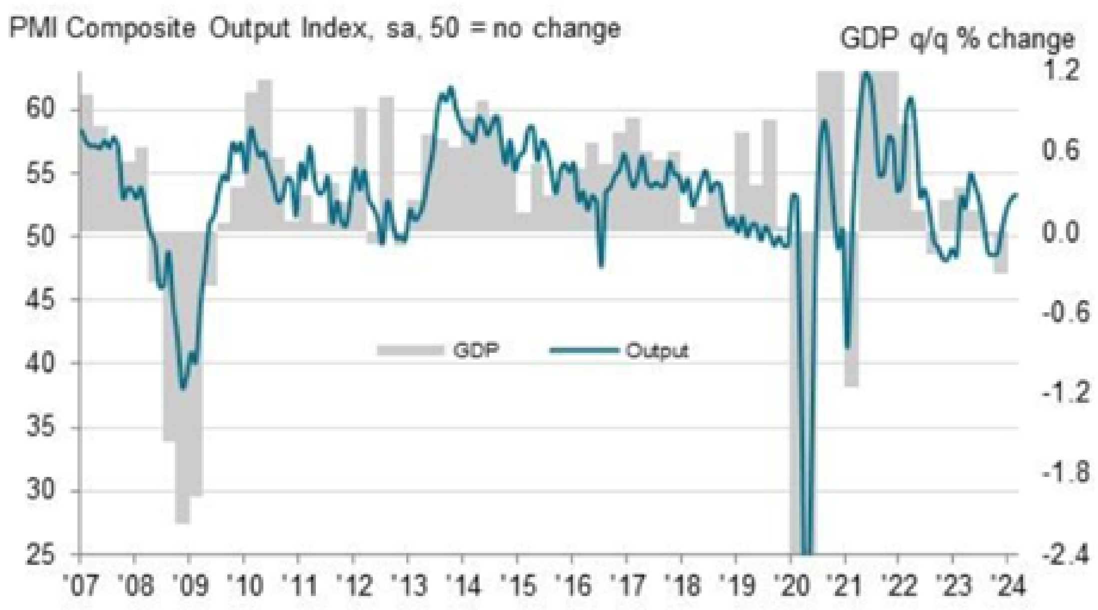
4. India February flash HSBC composite PMI rises to 61.5 from 61.2 - more than 61.3 expected - best since July 2023, with the manufacturing sector growing the most in five months and growth in services activity at a 7-month peak. The rise in total output was the quickest since last July, as was the case for new orders. Further, foreign sales posted the fastest rise since September 2023. Meantime, employment was flat, ending a 20-month sequence of job creation. Outstanding business accumulated slightly, which was softer than that in January, with rates of increase being equal at goods producers and service providers. On prices, input cost went up at the slowest rate in 3-1/2 years while charge inflation rose the least in a year. Finally, sentiment slipped from January's four-month high but remained robust.

5. Eurozone February flash HCOB composite PMI rises to 48.9from 47.9 - better than 48.5 expected - still the ninth consecutive month of falling output, although the contraction was the weakest since last June, as a stabilization of output in the service sector offset a further steep downturn in manufacturing. Inflows of new orders continued to decline, while employment levels increased for a second month running. On the price front, rates of inflation for both input costs and selling prices accelerated to the highest levels since last May. Finally, business confidence improved for a fifth successive month in February, rising to the highest level since last April, amid hopes of reduced cost of living pressures and expectations of lower interest rates in the year ahead.

6. Eurozone January final CPI -0.4% m/m, 2.8% y/y after +0.2% m/m, 2.9% y/y - unrevised as expected. Core CPI cooled for the sixth consecutive month to 3.3%, reaching its lowest point since March 2022. Inflation slowed for food, alcohol & tobacco (5.6% vs 6.1% in December) and non-energy industrial goods (2.0% vs 2.5%), while it remained unchanged for services (at 4.0%). On the other hand, energy prices declined at a slower pace (-6.1% vs -6.7%).

7. UK February flash composite PMI rises to 53.3 from 52.9 - better than 52.9 expected. The UK private sector expanded for the fourth consecutive month, the fastest since May 2023, supported by a strong service sector. Business activity in the service industry steadied at its highest level in eight months (PMI at 54.3) while manufacturing production declined for the twelfth consecutive month (PMI at 47.1). New work saw a sharp increase, boosting customer demand to its highest level in nine months. In terms of prices, inflation pressure remained high, with input price inflation reaching its peak since August 2023, driven by rising salaries in the service industry. Finally, optimism for the future business outlook saw the highest level since February 2022 on hopes of a sustained economic rebound.

S&P Global Flash UK PMI Composite Output Index



Sources: S&P Global PMI, ONS via S&P Global Market Intelligence.

Source: S&P /BNY Mellon

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

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

bnymellon.com