BNY MELLON

iFlow MARKET MOVERS

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Landings

"They say any landing you can walk away from is a good one." – Alan Shepard
"Great ideas need landing gear as well as wings." – Charles Douglas Jackson

Summary

Risk on with equities still bid – as EU shares hold 23-year highs, Singapore CPI drops to 2-year lows, while EU inflation expectations rise even as Natural Gas prices drop to May 2021 lows. The US-based Intuitive Machine's Odysseus spacecraft landed on the moon – first commercial successful lunar landing. There is hope in Paris hostage talks between Israel/Hamas and in the steady confidence in the data from Europe – German IFO ticks up. Markets are trading for growth not inflation – as Fed Waller just wants more data to build confidence before easing albeit just 2-3 cuts in 2024– but the larger concerns for today revolve around balance and how to sustain the valuations and hope for global growth. There are cracks – China home prices with second-hand home prices off 4.9% y/y, USD remains bid particularly against JPY and the ongoing bond volatility – from 20Y and 30Y TIPS sale in US highlight debt concerns. For the day expect 4Q earnings, geopolitics with G20 FinMin meeting and EU meetings ahead of the 2Y Russia war on Ukraine all to drive with a search for balance in risk ahead.

What's different today:

- **JPY trades to 150.77 – lowest in over three months** – nearing 34-year 151.50 touched in November. Japan was closed for Emperor's holiday today.
- **MSCI all-country index breaks 2022 highs – sets new record** - while even China CSI 300 closes up for 9 straight sessions.

- **EU natural gas prices drop 8% on the week** – below E23 mwh – near pre-May 2021 Russia supply constraint levels. EU gas storage facilities at 64.7% capacity.

What are we watching:

- **Earnings:** Warner Bros Discovery, Intuit
- **Eurogroup and ECB Lagarde meeting** in Ghent ahead of Russia 2Y war on Ukraine
- **Argentina President Milei meeting** with US secretary of state Blinken with IMF debt deal key

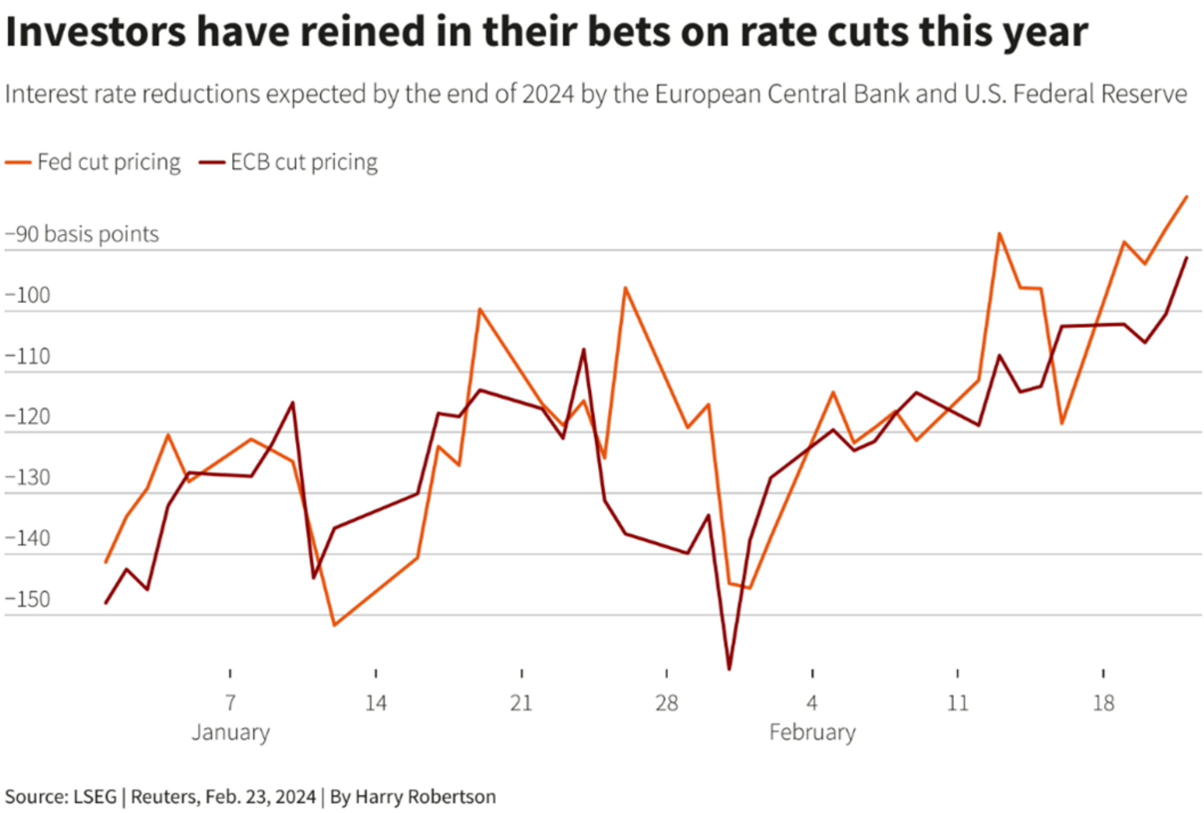
Headlines:

- China Jan new home prices drop -0.3% m/m, -0.7% y/y – 7th consecutive fall and worst since Mar 2023 – CSI 300 up 0.09%, CNH off 0.1% to 7.2075
- New Zealand 4Q retail sales drop -1.9% q/q, -4.1% y/y – 8th consecutive quarterly fall – NZX up 0.25%, NZD off 0.1% to .6190
- Malaysia Jan CPI rises +0.2% m/m, +1.5% y/y, core up 1.8% y/y – lowest since Feb 2022 – MYR flat at 4.7750
- Singapore Jan CPI off -0.7% m/m, 2.9% y/y, core off 0.2pp to 3.3% y/y – lowest in 4-months – SGD off 0.1% to 1.3445
- Turkey Feb business confidence up 0.6 to 101.5 – highest since Oct 2023 – TRY off 0.1% to 31.09
- Swiss 4Q non-farm payrolls rise 1.7% to 5.488mn – new record high – Swiss Mkt up 0.4%, CHF flat at .8805
- German 4Q GDP confirmed -0.3% q/q, -0.2% y/y technical recession, while Feb Ifo business climate up 0.3 to 85.5 near 3 ½ year lows – DAX flat, Bund 10Y up 1bps to 2.445%
- Eurozone Jan inflation expectations 1Y ahead rise 0.1pp to 3.3% - 3Y flat at 2.5% - EuroStoxx 50 up 0.3%, EUR up 0.1% to 1.0830
- Fed Waller: Need a more evidence inflation is cooling – 2 or more data points – US S&P500 futures up 0.1%, 10Y US yields up 1bps to 4.33%, USD flat.

The Takeaways:

Friday with the risk of the blues even in a sea of green dominating a market that feels too good to be true. The retreat of US rate cuts started the week and the success in earnings now up nearly 10% for 4Q added to a market set to own stocks and shun bonds. The volatility in fixed income stands out against the drop in fear in FX and equities. The risk factors many have are now about financial conditions allowing animal spirits everywhere to get ahead of the real economy. Paper money in asset inflation only becomes real when its sold. The tapping of HELOC money in US housing or the borrowing against the 401k has to show up to suggest there is new leverage coming to support the excess mood. Until then, the economy is looking for a soft landing not a no landing scenario. There is a feed back loop for markets today in bonds, the USD and stocks where finding the right price to sustain all three will be key. Globally, the move up in US rate views has yet to be fully recognized, but in Europe, the nascent bottoming out of a 4Q recession in Germany requires more help from the ECB not less. Same is true for China and the UK – leaving a stark contrast still between the Fed ability to ease and find a soft landing against those that are looking at a more bruising harder one.

FOMC vs. ECB rate paths should be different?



Details of Economic Releases:

1. **China January new home price index fell -0.7% y/y after -0.4% y/y – as expected** - the seventh straight month of drop and the steepest pace since March 2023, even as Beijing ramped up efforts to mitigate the impact of a prolonged property downturn and fragile economic recovery. Prices declined at faster rates in Shenzhen (-4.1% vs -3.6% in December) and Guangzhou (-3.6% vs -3.0%) while moderating in Beijing (1.3% vs 1.7%), Chongqing (2.0% vs 2.0%), Shanghai (4.2% vs 4.5%), and Tianjin (2.1% vs 2.3%).

2. China January FDI fell 11.7% y/y after -8% y/y – worse than the -6% y/y expected. Compared with the previous month, however, FDI surged by 20.4%. The Ministry of Commerce also said there were 4,588 newly established foreign-invested enterprises across the country, a year-on-year increase of 74.4%

3. New Zealand 4Q retail sales fell 1.9% q/q, -4.1% y/y after -0.8% q/q, -3.4% y/y – worse than the -0.2% q/q, -3.5% y/y expected - the eighth consecutive quarter of decline in retail spending as 14 of the 15 retail industries had lower sales volumes in the December 2023 quarter compared with the September 2023 quarter. The largest contributors to the fall in retail activity were motor vehicle and parts retailing (-2.5% vs -5.1% in Q3), followed by food and beverage services (-2.4% vs -0.6%) and fuel retailing (-3.6% vs -5.1%). The only industry that saw an increase was pharmaceutical and other store-based retailing (+0.3% vs +3.2%). Core sales ex autos and fuel fell 1.7% q/q.

4. Malaysia January CPI rises up 0.2% m/m, 1.5% y/y after 0.2% m/m, 1.5% y/y – better than 1.6% y/y expected, amid declines in the cost of clothing (-0.2% vs flat reading in December) and communication (-2.4% vs -3.7%). At the same time, prices continued to rise for food (2.0% vs 2.3%), housing (2.0% vs 1.6%), transport (0.7% vs 0.3%), alcoholic beverages and tobacco (0.4% vs 0.6%), furnishing, household maintenance (1.0% vs 1.4%), health (2.4% vs 2.5%), restaurants (3.2% vs 3.7%), education (1.7% vs 2.0%), recreation & culture (0.8% vs 1.9%), and miscellaneous goods & services (2.5% vs 2.7%). Core consumer prices, excluding volatile items of fresh food and administered cost, increased 1.8% y/y, the least since February 2022.

5. Singapore January CPI off -0.7% m/m, 2.9% y/y after +0.4% m/m, 3.7% y/y – less than the 3.8% y/y expected - the lowest inflation since September 2021, due mainly to softer rises in prices of housing & utilities (2.4% vs 3.8%) and transport (2.3% vs 3.9% in November), while food inflation eased to a 22-month low (3.3% vs 3.7%). Also, inflation moderated for recreation & culture (4.4% vs 6.3%) and health care (4.6% vs 5.1%). On the other hand, inflation accelerated for both miscellaneous goods & services (2.6% vs 2.3%) and education (3.2% vs 2.6%). Meanwhile, the annual core inflation declined to a four-month low of 3.1% in January from 3.3% in December.

6. Turkey February business confidence rises to 101.5 from 100.9 – better than 101 expected - the highest reading since October 2023, bolstered by the further improvement in current total amount of orders (89.4 vs 85.1 in January). Moreover, expectations for production over the next three months (109.8 vs 108.6) continued to rise, as well as the total employment (108.4 vs 107.2) and exports orders (112.2 vs 106.3). Meanwhile, the current stocks of finished goods (96.8 vs 99.2) weakened.

Lastly, the gauge for fixed investment expenditure (117.1 vs 116.5) and general business situation (89.5 vs 90.4) grew more slowly.

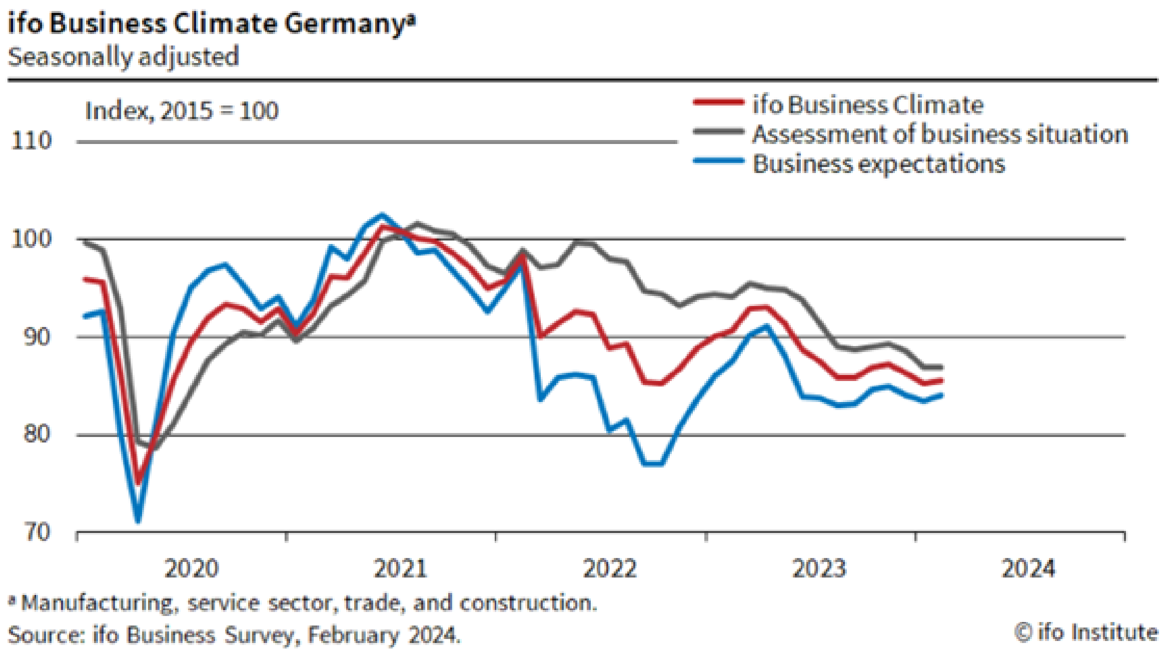
7. Swiss 4Q non-farm payrolls rise 1.7% to 5.488mn after 1.9% q/q – near expectations – and new record high. Employment in the industrial sector went up 0.7 percent to 1.130 million, supported by the continued growth from most sectors, namely mining & quarrying (0.4 percent), manufacturing (1.2 percent), electricity, gas, steam & air conditioning supply (3.6 percent), and water supply & waste management (1.2 percent). Additionally, payrolls in services grew 1.9 percent to 4.358 million, mainly driven by the rise in water & air transport (11.4 percent), accommodation (6.1 percent), social work activities without accommodation (5.9 percent), and residential care activities (3.8 percent).

8. Eurozone January consumer inflation expectations up 3.3% y/y from 3.2% y/y – more than 2.9% y/y - in contrast, inflation expectations for the three years ahead were unchanged at 2.5% and uncertainty about inflation was steady. At the same time, consumers expected the price of their home to increase by 2.2% over the next 12 months, the same as in December and expectations for mortgage interest rates 12 months ahead declined further to 5.1% from 5.3%. Meanwhile, expectations for nominal income growth over the next 12 months remained stable at 1.2% while expectations for nominal spending growth increased marginally to 3.7% from 3.6%. Finally, expectations for economic growth over the next 12 months became less negative (-1.1% vs -1.3%) while the expected unemployment rate in 12 months' time decreased to 10.9% from 11.2%.

9. German 4Q final GDP unrevised at -0.3% q/q, -0.2% y/y after 0% q/q, -0.3% y/y – as expected and confirms technical recession, with the impact of rising prices, increased borrowing costs and weak external demand, particularly affecting the manufacturing and construction sectors. Notably, gross fixed capital formation plummeted by 1.9% (vs 0.1% in Q3), primarily due to decreases in investments in construction (-1.7% vs -0.8%) and machinery and equipment (-3.5% vs 1.4%). In addition, inventory changes subtracted 0.1 percentage points from growth. Meanwhile, private consumption rose by 0.2% (vs 0.0% in Q3), and public spending increased by 0.3% (vs 1.1% in Q3). The contribution from net trade remained neutral as both exports and imports declined by 1.6% and 1.7%, respectively. On a year-on-year basis, the economy contracted by 0.2% in the fourth quarter, entering a technical recession for the first time since 2020-21.

10. German February Ifo business climate rises to 85.5 from 85.2 – as expected. Companies became less negative about their expectations for the coming months (84.1 vs 83.5 in January), while their current business situation remained at the weakest level since July 2020 (with the index unchanged at 86.9).

Breaking down the data by industry, sentiment improved among service providers (-4.1 vs -4.8 in January) and constructors (-35.4 vs -35.8), but deteriorated among manufacturers (-17.4 vs -15.8) and traders (-30.8 vs -29.7).



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