BNY MELLON

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MARKET MOVERS

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Wood

"Chop your own wood and it will warm you twice." – Henry Ford
"Give me six hours to chop down a tree and I will spend the first four sharpening the axe." – Abraham Lincoln

Summary

Risk mixed as markets have wood to chop into a heavy week of bill and note supply along with month end and key economic data on inflation. Over the weekend, hope for peace deals rose but markets are cautious on the policy pivots from central bankers with risks for global growth recovery following. The focus in the US session is on sales of 2Y and 5Y notes along with US new home sales. ECB Lagarde speech and more from Congress on risks for a government shutdown. The barometer for much of the risk mood reverts back to the USD where the rest of the world growth ups matter, and dollar weakness is a reprieve on FOMC rate cut stalling. How this plays out today sets up the markets for the end of the week data dump with GDP, core PCE, ISM all key.

What's different today:

- **Copper drops -0.9% to $8,493 ton – linked to China inventories rising** – other industrial metals also weaker – Nickel -1.4% after a 7% bounce last week. US new sanctions didn't cover Russian industrial metals last week adding to selling pressures.
- **12M CNY forward points lower** – 1Y swap off 0.5bps today, off 165pips in last week – highlighting weaker foreign demand for China bonds. Foreign investors were net buyers of China bonds over the last 5 months.
- **Japan Nikkei marks new record high** up 0.35% to 39,234 – while 10Y bond yields fell 3.5bps to 0.674% lowest in 3-weeks – as focus turns to BOJ and CPI

tomorrow

What are we watching:

- **Bank of Israel rate decision –** toss up for rate cut of 25bps to 4.5% as economic weakness from war against inflation risks, weaker ILS and local elections tomorrow matter.
- **Central Bank speakers:** Kansas City Fed Schmid speaks; European Central Bank President Christine Lagarde speaks in Strasbourg.
- **US January new home sales** expected up 3% to 684k after 8% surprise gains – with existing home sales last week higher, this is seen as an extension.
- **US February Dallas Fed manufacturing index** expected -14 from -27.4 – with this seen as a "oil patch" indicator – some modest improvement with production up.
- **US Treasury auctions** – notable supply with $70bn in 6M bills, $79bn in 3M bills, $63bn in 2Y notes and $64bn in 5Y notes – how much concession needed for smooth sales key.
- **4Q Earnings**: Zoom, Domino's Pizza, iRobot, AES, ONEOK, SBA Communications, Progressive, Fidelity National Information Services, Skywater, Everbridge, EverQuote, Freshpet, Kaspi, Itron, Playtika Li Auto.

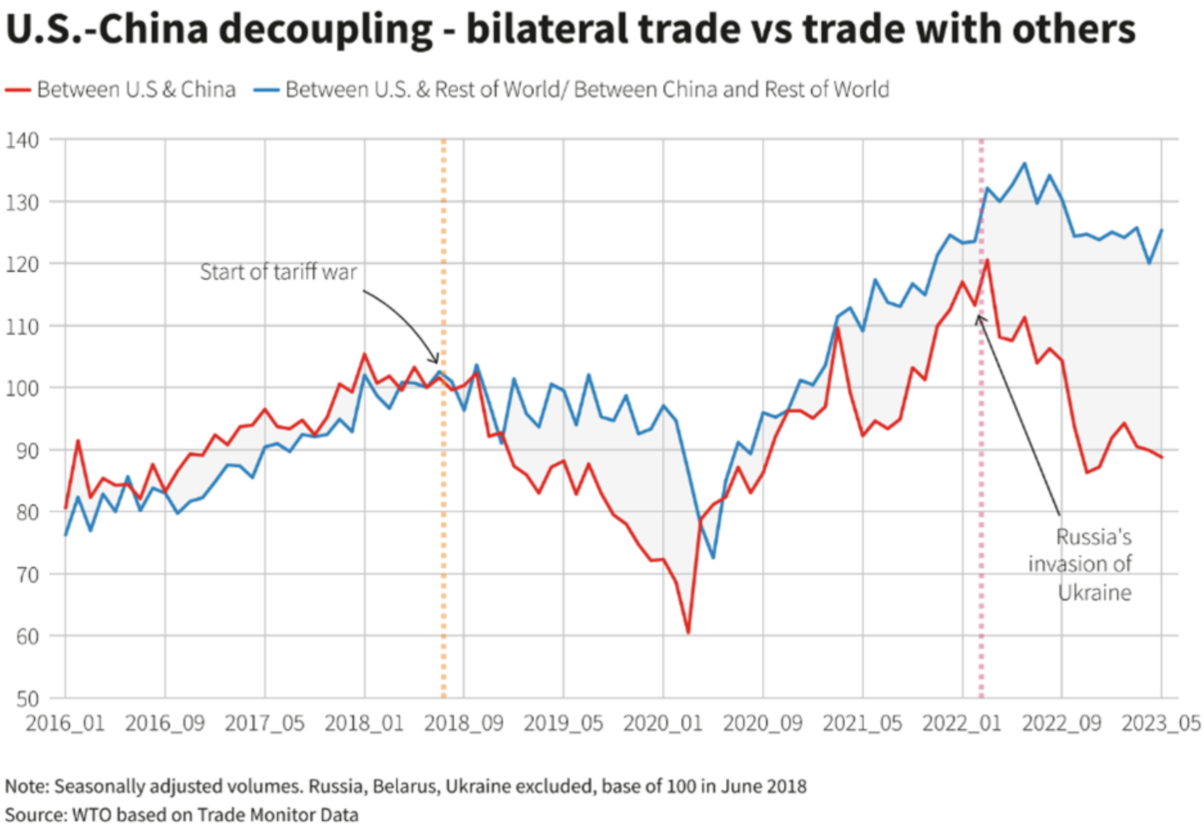
Headlines:

- Singapore Jan industrial production drops -5.7% m/m, +1.1% y/y – weaker electronics noted – SGD off 0.1% to 1.3440
- China PBOC adds net CNY192bn for month-end – Premier Li vows to clear policies hindering fair market competition – CSI 300 off 1.04%, CNH off 0.1% to 7.2095
- South Korea announces stock market reform plan to reduce "Korea Discount" with 66% of firms under book value – Kospi off 0.77%, KRW up 0.3% to 1331
- Spanish Jan PPI up 0.2% m/m, -3.8% y/y – 11^{th} month of deflation led by energy – IBEX up 0.1%, SPGB up 1.5bps to 3.263%,
- EU banks set to return E120bn via buybacks and dividends after 2023 earnings – EuroStoxx 50 off 0.15%, EUR up 0.25% to 1.0850
- Norway Jan unemployment up 1pp to 4.5% - worst since July 2021 – NOK up 0.15% to 10.52
- UK Feb CBI retail trade slump eases to -7 from -50 – best in 10-months; BOE Breeden calls for more research on non-bank lenders – FTSE off 0.3%, GBP up 0.2% to 1.2690
- Israel/Hamas talks for ceasefire continue after Paris progress; US/UK force launch new airstrikes on Houthi site on Yemen – WTI off 0.3%

The Takeaways:

Chopping wood becomes the analogy for a market worried about inflation risks, central bank pivots and hits to a market priced to perfection for growth ahead. The amount of time preparing for the stories ahead should be used in sharpening the tools to deal with any surprises. The instant gratification hopes for the present low volatility and high carry markets mean trends aren't your friend. The biggest event for the Monday isn't in US note auctions or tracking the US magnificent 7 shares, nor even in the USD surprise weakness today – rather its in global trade and the set up for the WTO meetings this week that start in Abu Dhabi. There is a clear risk of less global trade, less clear market pricing for goods and services, higher tariffs and protectionism diving down growth and raising worries about productivity and inflation. The biggest geopolitical risk remains in the rising split of interests between US and China. Over the weekend satellite images reveals a floating barrier at the mouth of a disputed atoll in the South China Sea. The ability to ship goods freely around the world is clearly the worry and the conflict with the neighbors backed by US and others will be a focus for months if not years. The long game is in play for geopolitical risks clashing with domestic politics and economics. The reason this matters today is that the relative calm of the news agenda allows investors to take the time to consider the month-end portfolio adjustments and the bigger picture on global growth hopes. The USD down requires that the rest of the world to rise in relative growth hopes with the lessons overnight being problematic given the weakness of the China shares and the lack of momentum in Europe.

US China trade is a barometer of world growth?



Details of Economic Releases:

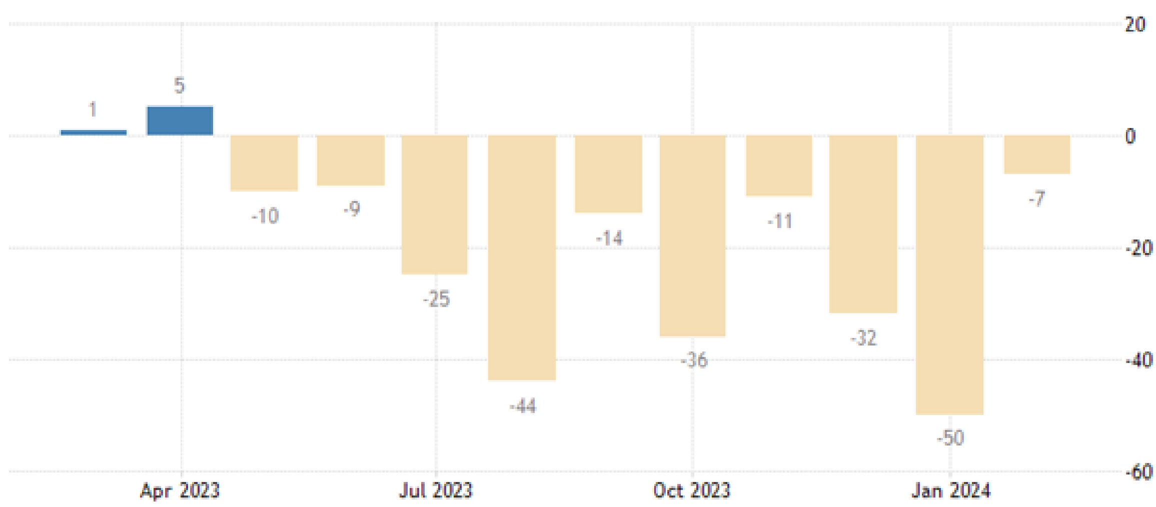
1. **Singapore January industrial production drops -5.7% m/m, +1.1% y/y after -1.3% m/m, -2.4% y/y – weaker than 3% m/m, 4.5% y/y expecte**d. The annual rate upturn was mainly due to a strong rebound in output for precision engineering (27.7% vs -5.9% in December), and an acceleration in activity for transport engineering (43.5% vs 0.2%), and chemicals (3.8% vs 3%). Meanwhile, output declined for electronics (-3.4% vs 6.2%), biomedical manufacturing (-25.9% vs -24.1%), and general manufacturing (-3.4% vs -17.1%).

2. **Spanish January PPI up 0.2% m/m, -3.8% y/y after -0.3% m/m, -6.3% y/y – higher than -5% y/y expected –** still the 11th month of deflation. Downward pressure came from prices of energy (-12.6% vs -20.6% in December) and intermediate goods (-5.7% vs -4.9%). On the other hand, increases were seen for consumer goods (5.4% vs 6.7%) and capital goods (2.7%, the same as in December). Excluding energy, the PPI rose 0.2% in January, following a 1.1% increase in December.

3. **Norway January unemployment rises to 4.5% from 3.5% - worse than 3.6% expected** and highest since July 2021 – as unemployed rose 29,000 to 134,000. Meanwhile, the number of employed persons declined by 2,000 to 2.871 million. The labor force participation rate rose to 72.9% in January, compared to December's 72.3%. Meantime, the youth unemployment rate edged higher to 11.5% from 11.3%.

4. UK February CBI distributive trends improves to -7 from -50 – better than -47 expected. Companies expressed plans to reduce investment, albeit at the least negative rate seen in two years. Employment continued to decline for the sixth consecutive quarter. However, there is a slightly brighter outlook for the sector as firms showed increased optimism. Selling price inflation for the year up to February was at +54, the lowest since May 2021 and a sharp decrease from +73 in November. Looking ahead, retailers anticipate a slight uptick in the decline of sales in March to -15.

UK CBI retail trade recovery?



Source: CBI /BNY Mellon

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

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