BNY MELLON

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MARKET MOVERS

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Timidity

“Timid men prefer the calm of despotism to the tempestuous sea of liberty.” - Thomas Jefferson
“Timidity does not inspire bold acts.” – Mae Jenison

Summary

Risk mixed as APAC rally fizzles with Japan CPI higher than expected, 2Y rates there at 16bps (highest in a decade) reflect more from BOJ normalization, while China rallies but doesn’t inspire rest of region. The EU session is about the mood of the consumer and the lack of lending while the US session has a heavy agenda from durable goods orders, to house prices to more politics on the budget and Ukraine, to consumer confidence, Fed Speakers, more 4Q earnings and a pesky 7-year note sale. The role of rates in offsetting risk in equities isn’t yet fully embraced and that leaves the USD watching global growth differentials and yields with the timidity of the moment notable.

What’s different today:

- **Bitcoin tops $57k** - **back to November 2021 highs** - adding to 5.5% gains from Monday with Bitcoin ETFs inflows driving with record high volumes into April halving event.
- **Iron Ore in China futures fell below $120 ton** - **lowest since October** - with inventories at April 2023 highs, gloom in property market continuing.
- **China equities hit 3-month highs** - Shanghai Composite up 1.29% - led by AI firms - focus is on March 5 National People’s Congress for further policy support.

What are we watching:

- **US President Biden hosts Congressional summit on Ukraine and US government shutdown -** focus in continuing resolution and war aid - with Michigan Democrat primary also in focus with rising Arab American pushback against Biden's Israel support.
- **US February Conference Board consumer confidence** expected up to 115 from 114.8
- **US January durable goods orders** expected down -5% after 0% with capital goods ex defense and air (used for capex) up 0.1% after 0.2%
- **US Treasury sells $42bn in 7-year notes** - with weaker sales in 2Y and 5Y making this auction important again.
- **Central Bank Speakers**: Fed Vice Chair for Supervision Michael Barr speak; Bank of England Deputy Governor Dave Ramsden speaks - also US Treasury Yellen press conference at G20 and G7 finance ministers meetings in Brazil.
- **4Q Earnings**: Workday, Universal Health, eBay, Agilent, Axon, Constellation Energy, Sempra, Lowe's, JM Smucker, American Tower, Republic Services, First Solar, American Electric Power Co, Henry Schein, Pinnacle West, Norwegian Cruise Line

Headlines:

- US President Biden says Israel ready to pause Gaza fighting, Hamas pushes back on deal – S&P500 futures flat, US 10Y yields off 1bps to 4.27%, USD off 0.17%
- French President Macron: Sending troops to Ukraine can not be ruled out; Sweden joins NATO;; Russian bans gasoline exports – WTI off 0.25%
- Kansas City Fed Schmid: No need to "premptively" cut rates – 2Y rates off 1bps to 4.685%
- Chinese coastguard enters restricted waters near Taiwan- CSI 300 up 1.2%, CNH flat at 7.2110
- Taiwan Jan export orders rise 1.9% y/y - better than -3.6% y/y expected - led by electronics – TWD off 0.1% to 31.57
- Hong Kong Jan exports jump 33.6% y/y - best in 3Y - led by electronics – Hang Seng up 0.94%
- Japan Jan core CPI off 0.3pp to 2.0% y/y -- lowest in 22-months - still higher than expected – Nikkei up 0.01%, JPY up 0.3% to 150.25
- Sweden Jan household lending slows to 0.3% y/y - lowest growth since Mar 1996 – OMX flat, SEK flat at 10.29
- German Mar GfK consumer confidence seen improving up 0.6 to -29 - income expectations at 2Y highs – DAX up 0.5%, Bund 10Y yields off 1.5bps to 2.425%

- French Feb consumer confidence off 2 to 89 - with standard of living and income concerns – CAC40 up 0.15%, OAT 10Y yields off 0.5bps to 2.90%
- Eurozone Jan M3 steady at 0.1% y/y while loans to households slow to 0.3% y/y - least since Mar 2015 – EuroStoxx 50 up 0.3%, EUR up 0.1% to 1.0860

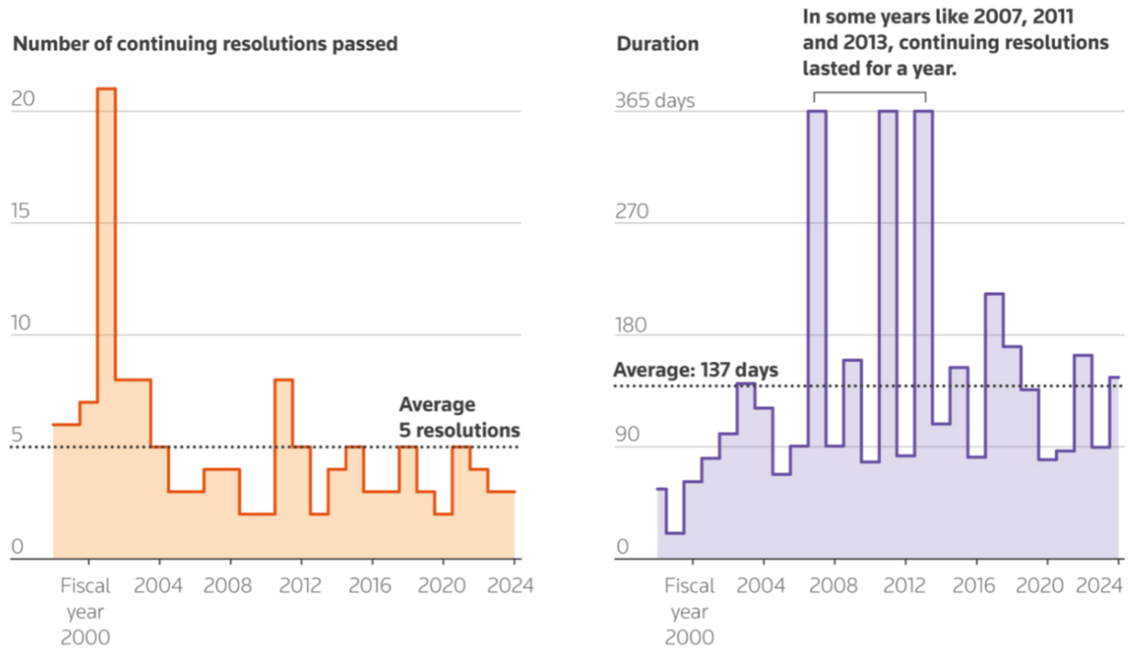
The Takeaways:

The power of the US Congress remains in its ability to control the budget. How the US President's summit today plays out with Senate and House Republicans will matter significantly as the alternatives are ugly. The risk of a US government shutdown has been a tail risk but hardly one that mattered to bond markets. The view that started 2024 was that Congress in an election year would try to push any hard decisions post November magnet he go to solution one of continuing budget resolutions - basically leaving spending unchanged. But there are some quirks to the present situation - as the CR solution has a 1% spending cut in it that starts in April and it will be disproportionate across the government - basically leaving defense and social spending like social security intact but cutting up to 10% in other discretionary spending. This will become a headwind against US growth and could make 2H2024 less robust than the "no landing" theme being priced by markets. The risk of a government shutdown is also about US ratings. Moody's warned in the last go-round that another shutdown would likely trigger a decision to cut the US AAA status. This has other implications, and the unsettling of bonds doesn't need help - as the auctions yesterday highlighted. Markets are worried about the FOMC and its policy of waiting until inflation is gone with the rest of the world dependent on the US direction and growth to recover. The mood swings in Europe, the ongoing war concerns there, the key focus on inflation data this week make the present risk-on timid if not naïve.

US budget worries are going to matter

For US Congress, blowing budget deadlines is routine

Congress is supposed to sign off on government spending by the start of the fiscal year on Oct. 1, but has not met that deadline since 1997. Typically, lawmakers push that deadline back by passing stopgap spending bills known as 'continuing resolutions' to buy more time to finish their work.



Note: Fiscal year runs from Oct. 1-Sep. 30. The current continuing resolution ends some funding by March 1 and the rest by March 8.

Sources: Congressional Research Service, Reuters reporting

Details of Economic Releases:

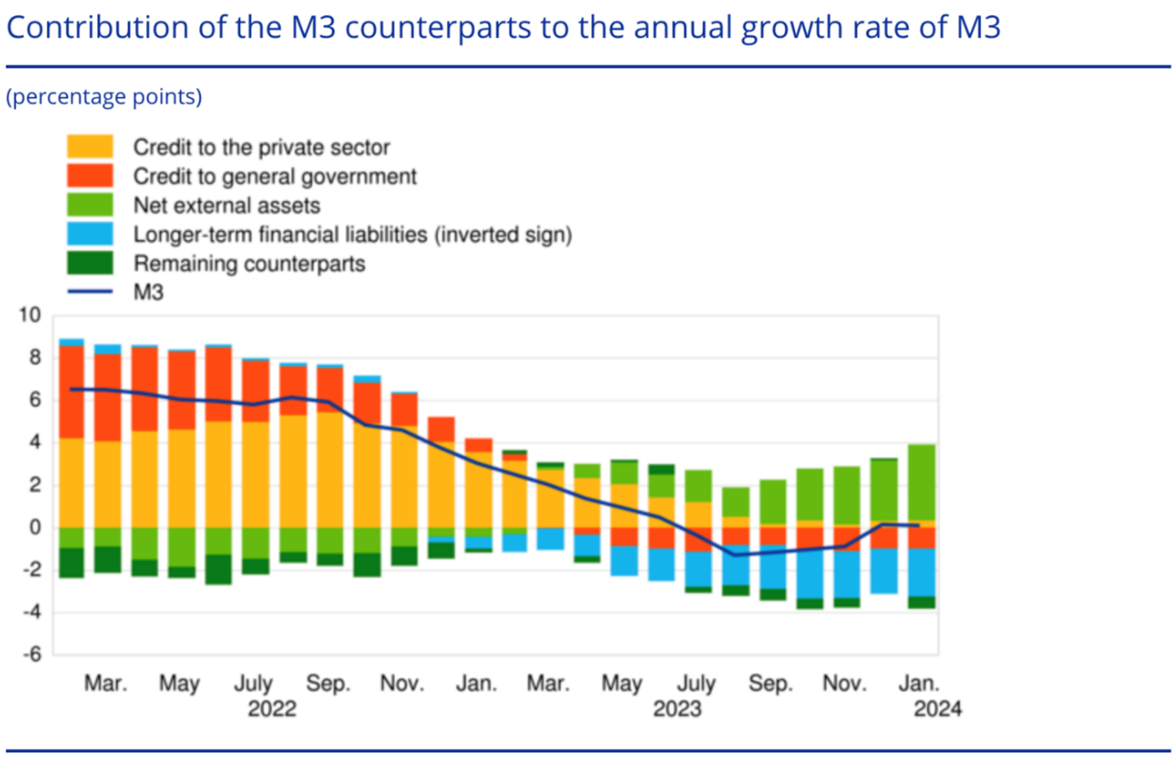
1. Japan January CPI slows to 0.1% m/m, 2.2% y/y from 2.6% y/y - while core CPI drops to 2% y/y from 2.3% y/y - more than the 1.8% y/y expected - still, the lowest reading since March 2022.The ex-food and energy (core-core) fell to 3.5% y/y from 3.7% y/y - more than the 3.2% y/y expected. Food prices rose the least in 16 months (5.7% vs 6.7% in December). Also, cost eased for healthcare (2.3% vs 2.4%), culture & recreation (6.8% vs 7.8%), communication (2.1% vs 4.8%), and miscellaneous (1.2% vs 1.3%). At the same time, prices of fuel, and light fell for the 12th month (-11.9% vs -13.2%), due to electricity (-21.0% vs -20.5%) and gas (-15.3% vs -13.8%). By contrast, inflation was unchanged for housing (at 0.7%), clothes (at 3.0%), and furniture & household utensils (at 6.5%). Meanwhile, prices accelerated for transport (3.0% vs 2.9%) and education (1.4% vs 1.3%).

2. German March GfK consumer confidence improves to -29 from -29.6 - as expected - gaining from 11-month lows.Income expectations hit their highest in over two years (-4.8 vs -20.0 in February) while the propensity to buy (-15.0 vs -14.8) and economic prospects (-6.4 vs -6.6) were little changed. Meantime, the propensity to save climbed to its highest since June 2008 (17.4 vs 14.0). "Recently, the outlook for the German economy has become increasingly pessimistic," said Rolf Bürkl, consumer expert at NIM. He added that a rapid recovery in consumer activity was not to be expected amid higher prices and weaker economic forecasts this year.

3. French February consumer confidence drops to 89 from 91 - worse than the 92 expected. Consumers were more pessimistic regarding the outlook for the standard of living (-42 vs -38 in January) and their financial situation (-11 vs -8). Also, the share of households believing it is a favorable time to make major purchases decreased (-40 vs -35). Moreover, saving intentions dropped (37 vs 40), unemployment prospects went up (26 vs 22), and future inflation is anticipated to increase (-47 vs -54).

4. Eurozone January M3 flat at 0.1% y/y - less than the 0.3% y/y expected. The Loans to houshold fell to 0.3% y/y from 0.4% y/y - least since March 2015 - while the loans to companies fell to 0.2% y/y from 0.5% y/y. The overall private sector credit growth, encompassing both households and non-financial corporations, stood at 0.4%, unchanged from the previous month.

Stall in lending matters to EU growth



Source: ECB /BNY Mellon

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