BNY MELLON

iFlow
MARKET MOVERS

February 28, 2024

Sentimental

"What counts now are the value-less facts, the material and the rational. All else is regarded with condescension as being of only sentimental value." – Jena Gebser
"I'm a romantic; a sentimental person thinks things will last; a romantic person hopes against hope that they won't." – F. Scott Fitzgerald

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:

- **MBA mortgage applications fell 5.6% on the week** after 10.6% last week – third weekly drop – purchases off 4.5% and refi off 7.3% - both indicate the risk of higher mortgage rates.
- **iFlow Carry and Value are in 95% percentile** extremes – indicating peaks for those FX factors in explaining FX movement – but the daily and weekly change is turning suggesting a risk of turning points ahead. The USD saw significant

selling yesterday against NZD, DKK and CAD buying. In EM PLN, COP and ZAR selling vs. significant CNY buying.

What are we watching:

- **US Q4 GDP revision** expected unchanged at 3.3% with focus on core PCE 2.0% and on personal consumption expected 2.7% from 2.8%.
- **US Jan goods trade balance** expected flat at $88.5bn – focus is on exports
- **Central Bank Speakers**: New York Federal Reserve President John Williams, Boston Fed President Susan Collins and Atlanta Fed Bostic all speak; Bank of England policymaker Catherine Mann speaks; also G20 finance ministers and central bank chiefs meet in Sao Paulo to prepare for the annual presidential summit in November; G7 ministers meet on sidelines.
- **US Treasury sells $60bn in 17-week bills**
- **4Q US earnings:** Paramount Global, Salesforce, HP, Monster Beverage, TJX, NRG, Viatris, Liberty Media, Icahn Enterprises

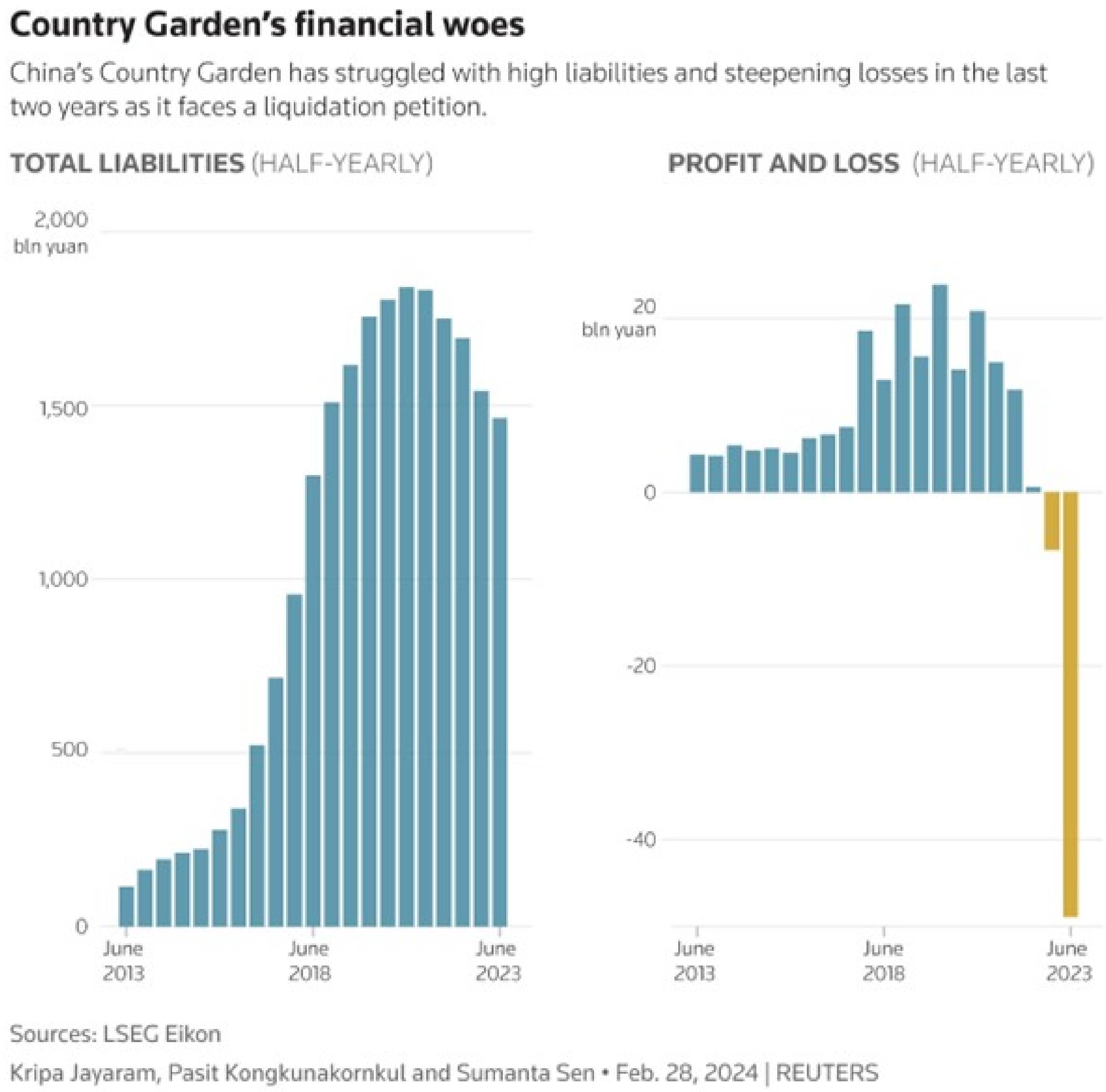
Headlines:

- Russia leaks military files on criteria for nuclear strikes- EU von Der Leyen pushes to use profits from Russian assets to arm Ukraine – EU Nat Gas up 4.75%
- New Zealand RBNZ keeps rates unchanged at 5.5% - as expected - lowers forecasts – NZD off 1.1% to .6095
- Australian Jan CPI flat at 3.4%y/y- holding at low from Nov 2021 – AUD off 0.7% to .6500
- Japan Dec LEI up 2.2 to 110.2 - best since Oct 2022 – Nikkei off 0.08%, JPY off 0.1% to 150.60
- China Country Garden gets petition for non-payment on $205mn loan – CSI 300 off 1.27%, CNH off 0.1% to 7.2170
- Hong Kong 4Q GDP confirmed up 4.3% y/y - 2-year highs – Hang Seng off 1.51%
- Turkey Feb economic confidence off 0.4 to 99 - with both business and consumers lower – TRY off 0.1% to 31.18
- Sweden Feb business confidence up 0.2 to 92 while consumer flat at 82.7 - both weaker than expected – OMX off 0.1%, SEK off 0.3% to 10.345
- EU Feb economic sentiment drop 0.7 to 95.4 - weaker than expected with inflation expectations up 3.5 – EuroStoxx off 0.1%, EUR off 0.2% to 1.0820
- Italian Feb business confidence drops 0.8 to 87.3 while consumer up 0.6 to 97 - both 2 years below 100 -
- US weekly API oil inventories report larger 8.428mb build - 3rd weekly build – WTI off 1%

The Takeaways:

Focus is on the data today and tomorrow and friday with markets looking at 4Q GDP expected to hold around 3.3% while the 1Q Atlanta Fed nowcast for GDP rose to 3.1% yesterday, but the core PCE data tomorrow seems more important than today and that is the key as markets waffle with worries about rates and debt. The overnight focus on China property woes highlights the point. The weaker EU sentiment confirms how rate cuts alone aren't enough, as inflation expectations are still a problem. The sentiment on rates and risks for them being insufficient to finish the job of getting back to 2% CPI globally means that credit is back in focus. The notable story about credit funds is in their slowing of capital raising as the FT notes this morning: US-based private credit funds raised $123.1bn from investors last year, according to data group Preqin, based on fundraisings that were completed, down from $150.8bn in 2022. In the first two months of 2024 funds raised a combined $11.7bn, compared with $30.4bn in the same period last year. The US and other developed markets have a property worry inherent to the rate hikes and the debt roll-over needs. This manifests in US CRE but will spread to consumers if jobs turn. The Swedes, Australians, Canadians, Koreas and some others have a household debt problem while the center of the current storm about debt and asset values wrapped in private credit is in China where the Country Garden story dominated overnight. There are two ways to solve the problem – pushing the debt off the books (to the government or to a bad bank) or by a larger assets liquidation. Neither seem likely and so the third and unproven solution is time – something that Japan has gone through and is coming out of, China is trying and the rest of the world is watching.

China property woes are not unique



Details of Economic Releases:

1. Australian January monthly CPI rises 3.4% y/yafter 3.4% y/y - less than the 3.6% y/y expected - and the lowest since November 2021, amid a slowdown in both transport prices (3.0% vs 3.6%) due to lower automotive fuel and housing (4.6% vs 5.2%), namely new dwelling purchases by owner-occupiers (4.8% vs 5.1%). Also, prices slowed for health (3.9% vs 4.7%) while those of recreation and culture continued to fall (-1.7% vs -2.4%). On the other hand, prices accelerated for food prices (4.4% vs 4.0% in December) while those rebounded for furnishings, household equipment & services (0.3% vs -0.3%), and clothing and footwear (0.4% vs -0.8%). The monthly CPI indicator excluding volatile items and travel climbed by 4.1% in January, down from a 4.2% gain in December.

2. Japan December final LEI rises to 110.2 after 108 - more than 110 flash -the highest reading since October 2022 amid a decline in the unemployment rate and an improvement in consumer confidence. Japan's unemployment rate fell to 2.4% in December 2023, the lowest in 11 months, from 2.5% in the previous two months. Meanwhile, consumer mood in January 2024 strengthened to the highest since

December 2021. The coincident index rose to 115.9 from 114.6 - lower than the 116.2 flash - amid sustained economic recovery and efforts to mitigate elevated inflation.

3. Sweden February business confidence rises to 92.0from 91.8. - weaker than 92.8 expected - still, the highest reading since March 2023, as sentiments strengthened for construction (85.4 vs 83.7 in January), retail trade (96.6 vs 96.1), and services (90.4 vs 90.2). Meanwhile, confidence slightly weakened for manufacturing (98.4 vs 99.2).

4. Sweden February consumer confidence flat at 82.7 - weaker than 84 expected. The consumer inflation expectations eased to 6.8% from 7.1% as the 12-month outlook slightly weakened for household finances (10 vs 11 in January) as well as the economic situation (2 vs 6). Additionally, concerns about future unemployment (52 vs 50) ticked higher. Meanwhile, assessments of saving propensity (45 vs 49) slightly decreased, while consumer's willingness to make major purchases in the upcoming 12 months was slightly less unfavorable (-24 vs -25).

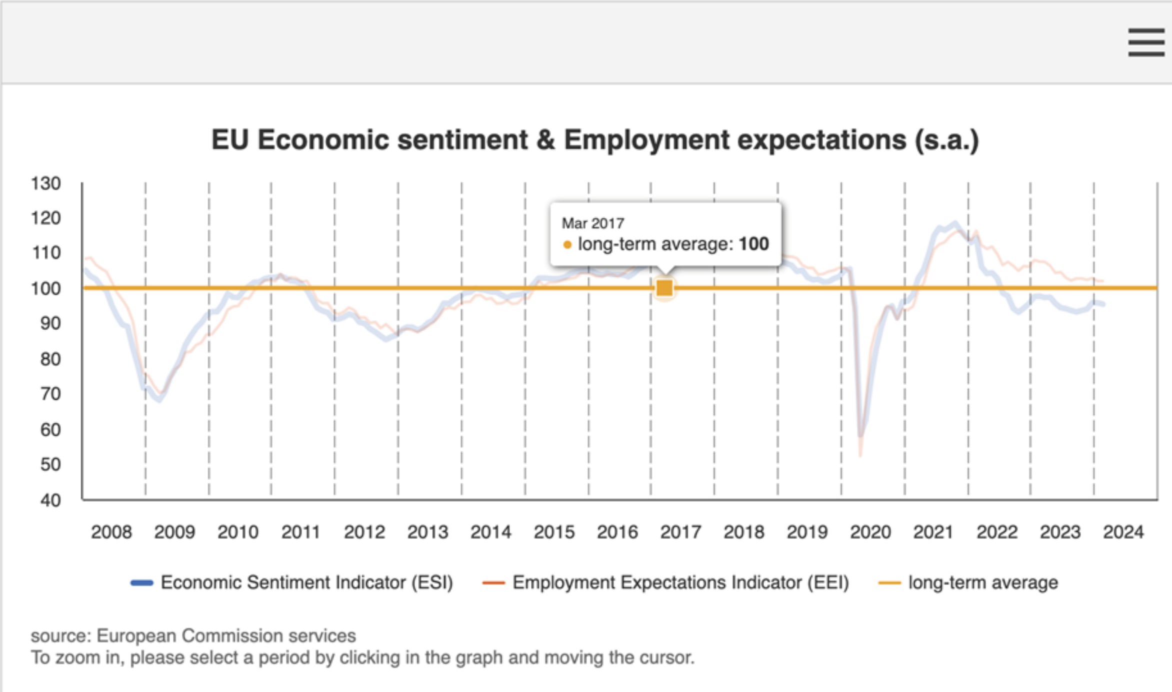
5. Italian February business confidence drops to 87,3 from 88.1 - less than the 87.7 expected - marking two consecutive years of readings under the 100 threshold to underscore continued pessimism in the Italian manufacturing sector. The downturn was attributed to a deterioration in current conditions for new orders (-18.2 vs -17.1 in January) and production (-18.2 vs -16.2), while confidence for finished stocks eased (3.8 vs 4). Pessimism was also seen in future expectations, particularly for orders (0 vs 2.5), production (-0.9 vs 0.7), and prices (4.4 vs 3.2), while the worsening of expectations for the Italian macroeconomic backdrop continued to take place (-15 vs -16.5).

6. Italian February consumer confidence risss to 97 from 96.4 - better than 96.9 expected - making this 2 years below the 100 threshold. Pessimism increased for the future climate (97.1 vs 97.2 in January) and optimism fell for the current economic climate, while perceptions of the personal climate (95.2 vs 93.9) deteriorated at a slower pace.

7. Eurozone February Economic Sentiment drops to 95.4 from 96.1 - worse than the 96.7 expected. Sentiment remained subdued as businesses grappled with still-high inflation, rising borrowing costs, and weak external demand. Confidence deteriorated among manufacturers (-9.5 vs -9.3 in January), service providers (6.0 vs 8.4), retailers (-6.7 vs -5.6), and constructors (-5.4 vs -4.6), but improved slightly among consumers (-15.5 vs -16.1). On the pricing front, the consumer inflation expectations index increased by 3.5 points to 15.5 in February, while the gauge for selling price expectations among manufacturers fell by 0.6 points to 3.8. Among the largest economies in the bloc, the ESI deteriorated in Italy (-1.6), Germany (-0.6), France (-0.3), and Spain (-0.2), while it improved strongly in the Netherlands (+1.7).

EU Sentiment drop a surprise

February 2024: Economic Sentiment slightly down in the EU and the euro area, Employment Expectations broadly stable



Source: EU Commision /BNY Mellon

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

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