

iFlow

MARKET MOVERS

February 29, 2024

Leaps

“Sometimes all you need is a big leap of faith.” – Sean Bean

“Doing is a quantum leap from imagining.” – Barbara Sher

Summary

Risk off into month-end and the US core PCE price index report with inflation data seen as key to understanding Fed rate cut timing and probability. The extra day every four years keeps us aligned to a faulty calendar and clock - both are human constructs. The overnight data is an example of making data fit the narrative as the Japan earthquake hit industrial production but boosted retail sales. BOJ Takata drove JPY stronger, JGBs lower pushing on ending the NIRP and YCC. The Chinese rally up in shares continues with regulator adding to oversight of derivatives while in Europe the inflation drop was less than hoped and keeps the focus on the US story. The German national rate maybe key at 8am there and EUR is at the pivot point for week. Markets have a lot more than PCE to digest as they leap on the day and into next month with weekly claims, more Fed speakers, more home sales and the guts of personal spending and income. Whether we are working for the clock will revolve around the data ahead.

What's different today:

- **India 4Q GDP rose 8.4%** after 8.1% y/y – much better than 6.6% y/y expected – best since 2Q 2022 led by manufacturing up 11.6% while agriculture fell 0.8%. The outlook for 2024 FY now 7.6% from 7.3%.
- **BOJ Takata signals end to negative rates and YCC policy** – sees need for BOJ flexibility at the exit from stimulus. 2Y JGB auction comes at 0.18%, 10Y yields up 1bps to 0.70%

- **China regulator CRSC to tighten oversight of derivatives** and high-frequency trading - "Steadily reducing leverage in the DMA business helps prevent and control market risks, and is good for stable and healthy operations of the market," the CSRC said in a statement.

What are we watching:

- **US January personal income** expected up 0.4% while spending up 0.2% follows 0.3% m/m and 0.7% respectively – matters as to consumer balance sheet
- **US January PCE deflator** expected up 0.3% m/m, 2.4% y/y after 0.2% m/m, 2.6% y/y – with more important focus on core PCE expected up 0.4% m/m, 2.8% y/y from 2.9% y/y
- **US weekly jobless claims** expected up 9k to 210k – with continuing claims expected up 12k to 1.874mn
- **US January pending home sales** expected up 1.5% m/m, -4.4% y/y after +8.3% m/m, -1% y/y – how mortgage rates being up matter to sales key factor for FCI focus shift.
- **Central Bank Speakers:** New York Federal Reserve President John Williams, Atlanta Fed President Raphael Bostic, Cleveland Fed chief Loretta Mester, Chicago Fed chief Austan Goolsbee Bank of England
- **4Q Earnings:** Best Buy, Hewlett Packard, Hormel Foods, Autodesk, Evergy, NetApp, Zscaler, NetEase, Cooper, Celcius, Bath & Body Works

Headlines:

- Japan Jan retail sales rise 0.8% m/m, 2.3% y/y- 23rd month of y/y gains - while industrial production drops 7.5% m/m, -1.5% y/y - 3rd y/y drop and worst monthly since May 2020 - linked to earthquake – BOJ Takata signals end to YCC and NIRP soon - Nikkei off 0.11%, JPY up 0.5% to 150.
- Taiwan Jan industrial production jumps 1.3% m/m, 15.98% y/y - recovering from December declines led by mining and manufacturing - while retail sales rose 0.3% m/m and 4Q GDP confirmed up 4.93% y/y – TWD off 0.1% to 31.58
- Australian Jan retail sales rise 1.1% m/m, +1.1% y/y - recovering from worst sales since pandemic - while 4Q Capex rises 0.8% q/q - while Jan private credit steady at 0.4% m/m – ASX up 0.5%, AUD flat at .6495
- German Jan retail sales drop -0.4% m/m, -1.4% y/y- 3rd straight month of contraction - while Feb jobless rose 11k, unemployment steady at 5.9%, with Feb states CPI pointing to 2.6% y/y national– DAX up 0.5%, Bund 10Y yields up 4bps to 2.497%, EUR off 0.1% to 1.0825
- French Feb flash CPI off 0.2pp to 2.9% y/y- still more than 2.7% y/y expected - while 4Q GDP confirmed up 0.1% q/q, 0.7% y/y – CAC 40 flat, OAT 10Y up

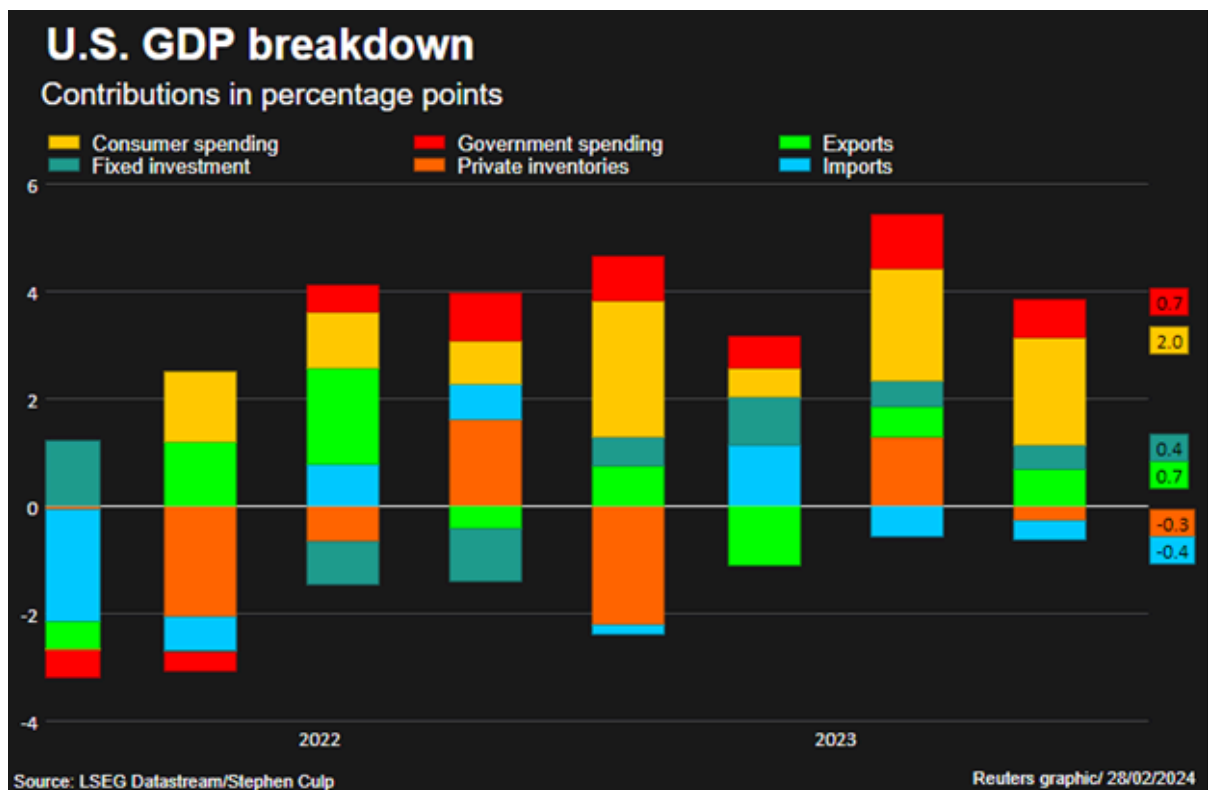
5bps to 2.973%

- Spanish Feb flash CPI off 0.6pp to 2.8% y/y - more than 2.7% y/y expected – IBEX off 0.15%, SPGB 10Y up 4.2bps to 3.377%
- Swiss Feb KoF leading indicator slips 0.9 to 101.6 - while 4Q GDP rises 0.3% q/q, 0.6% y/y better than 0.1% q/q expected -
- UK Jan mortgage approval jump to 55k -highest since Oct 2022 – while consumer credit up GBP1.877bn – led by credit cards – FTSE up 0.3%, GBP flat at 1.2640

The Takeaways:

Why is this leap day if we are just catching up to the time lost on the clock for the last 4-years? Is this a productivity boost or a lame catch-up move? Perhaps today is not a leap but a limp? The point of all this to the economic calendar is about housing and its importance in driving up the January CPI and whether that gets reflected in the same way in PCE. All that matters because markets price in a Fed cut but only a 50% chance of such in June. Lower growth and lower inflation will shift this story and it maybe a relief to equities. Against that we have the pressures of month-end where the extra day buys more time to be paid on interest and rates still matter. The shift of overnight news to higher yields and lower equities hasn't helped the USD – something to pay attention to as the day evolves as correlations break and mend back – perhaps with a limp rather than a leap. The shift of focus in the month ahead is going to be from inflation to growth in the US with the revisions yesterday in US GDP important to consider and the focus on how the rest of the world grows or not and what it means for US exports, US inventories and the spirit of the consumer – particularly those working for international companies.

4Q GDP tells us something about 1Q potential



Details of Economic Releases:

1. Japan January industrial production fell 7.5% m/m, 1.5% y/y after +1.4% m/m, -0.7% y/y - weaker than the -7.3% m/m, -1.1% y/y expected - third consecutive annual drop and the steepest monthly decrease in industrial output since May 2020, mainly dragged down by motor vehicles (-17.8% vs 1.1% in December), general-purpose and business-oriented machinery (-12.6% vs 9.2%), and electrical machinery, and information and communication electronics equipment (-8.3% vs 3.9%).

2. Japan January retail sales rose 0.8% m/m, 2.3% y/y after -2.9% m/m, +2.4% y/y - better than the 0.7% m/m, 2.3% y/y expected - the 23rd consecutive month of y/y expansion in retail sales as consumption continued to recover from the pandemic-induced slump. Looking at the retail sector by industry, sales for non-store retail industries (7.1%) and pharmaceutical & cosmetics (7.1%) advanced the most, followed by food & beverage (4%), other retail industries (3.8%) and department stores (3.5%).

3. Taiwan January industrial production rose +1.3% m/m, 15.98% y/y after -1.94% m/m, -3.83% y/y - sharply better than -1% y/y expected - the first growth in industrial activity since May 2022, as production strongly rebounded for mining & quarrying (24.03% vs -7.09% in December 2023), manufacturing (16.63% vs -3.93%), and electricity & gas supply (3.65% vs -1.43%). At the same time, output fell at a softer pace for water supply (-0.38% vs -3.93%).

4. Australian January retail sales rose 1.1% m/m, +1.1% y/y after -2.1% m/m, +0.8% y/y - weaker than +1.5% m/m expected - recovering from slowest annual gain since August 2021 - Sales of clothing, footwear and personal accessory retailing bounced back (2.4% vs -5.4% in December), along with those of household goods retailing (2.3% vs -8.2%), department stores (1.7% vs -6.5%), other retailing (1.7% vs -0.5%), and cafes, restaurants and takeaway food (1.3% vs -0.7%). Sales rose in most states and territories, up by 1.0% or more following many large falls in December. Tasmania was the only exception, rising 1.3% after a flat reading in December.

5. Australian 4Q private capital spending up 0.8% q/q after +0.3% q/q - better than 0.5% q/q expected. The increase came amid faster rises in spending on buildings and structures investment (1.5% vs 0.1%). Meanwhile, expenditure on equipment, plant & machinery edged down 0.1% after an upwardly revised 0.6% growth in the previous quarter. " Business investment grew in the mining and non-mining industries in the December quarter. Mining rose 1.1%, and non-mining was up 0.6%, " said Robert Ewing, ABS head of business statistics. Through the year to December, private capital expenditure expanded 7.9 percent, easing from a downwardly revised 10.3% previously.

6. Australian January private sector credit rises 0.4% m/m 4.9% y/y after 0.4% m/m , 4.8% y/y - as expected. Meantime, business credit grew slightly faster (0.7% vs 0.6%) while personal use credit recovered (0.2% vs -0.1%). On an annual basis, private sector credit increased by 4.9% in January after rising at the softest pace since August 2021 of 4.8% in the prior three months.

7. French February flash CPI rise 0.8% m/m, 2.9% y/y after -0.2% m/m, 3.1% y/y - higher than the 0.7% m/m, 2.7% y/y expected. The slowdown is mainly due to base effects from last year when inflation accelerated and prices jumped over the month. In February 2024, a slowdown was seen in prices for food (3.6% vs 5.7%), mostly fresh products (0.5% vs 7.9%), manufactured products (0.3% vs 0.7%) and services (3.1% vs 3.2%) while energy (4.4% vs 1.9%) and tobacco (18.7% vs 16.8%) prices rose faster.

8. Spanish February flash CPI rises 0.3% m/m, 2.8% y/y after 0.1% m/m, 3.4% y/y - slightly more than 2.7% y/y expected -largely largely attributed to the decrease in electricity prices, in contrast to the rise observed in February 2023, and to the stability of non-alcoholic food and beverage prices, which had increased in the same month of the previous year. The core rate, excluding volatile items like food and energy, eased for the 7th straight month to 3.4% in February, the lowest since March 2022, compared to 3.6% in January. Spain's European Union-harmonised 12-

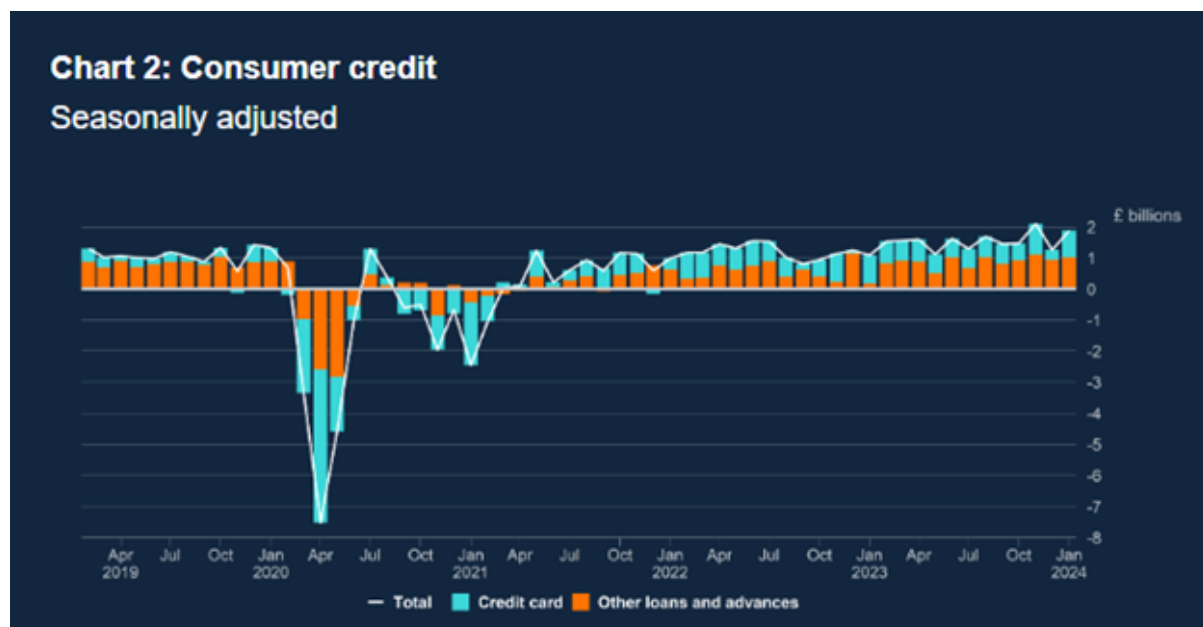
month inflation dropped to a six-month low of 2.9% in February, from 3.5% in the prior month, matching market forecasts.

9. German January retail sales fell -0.4% m/m, -1.4% y/y after -1.6% m/m, -1.7% y/y - weaker than the +0.5% m/m, -1.5% y/y expected. the third straight month of fall in retail turnover, as elevated inflation and high borrowing costs continued to rattle demand. Sales of non-food stagnated while those of food rose by 1.1%. Last year, retail trade shrank 3.3%, much steeper than a 0.7% contraction in 2022.

10. German February unemployment rises 11,000 after 1,000 - more than 7,000 expected - ant the 14th consecutive period of increasing unemployment The rate held 5.9%. Additionally, there was a notable year-on-year surge of 190,000 in the count of unemployed individuals.

11. UK January consumer credit rose £1.877 billion in January 2024, following a £1.257 billion – more than the £1.6 billion expected - mainly driven by higher borrowing through credit cards, which rose from £0.3 billion in December to £0.9 billion in January. Net borrowing through other forms of consumer credit, such as car dealership finance and personal loans, also increased slightly, from £0.9 billion in December to £1.0 billion in January. The annual growth rate for all consumer credit increased and is now at 8.9% in January. This reflects a rise in the annual growth rate for other forms of consumer credit, from 6.8% in December to 7.4% in January.

UK consumer credit is an issue for BOE



Source: EU Commision /BNY Mellon

bnymellon.com

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2020 The Bank of New York Mellon Corporation. All rights reserved.