BNY MELLON

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MARKET MOVERS

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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

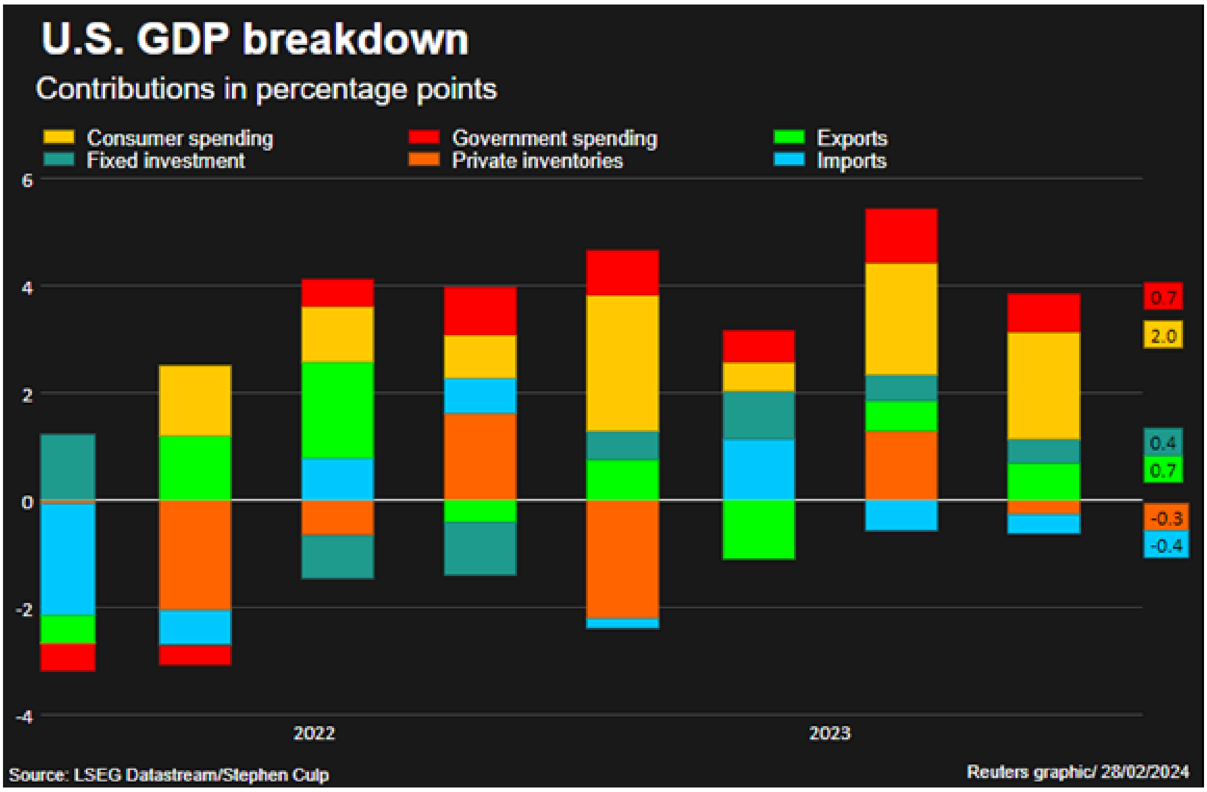
5bps to 2.973%

- 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 consective 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 retails 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 then -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. Spaniish 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-

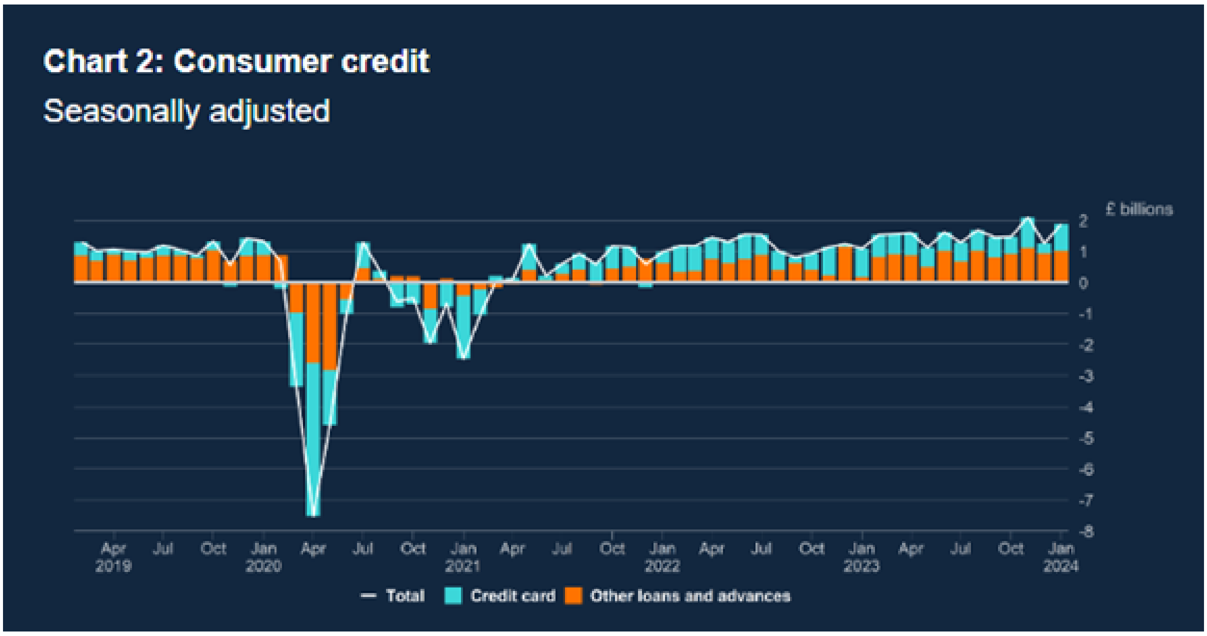
month inflation dropped to a six-month low of 2.9% in February, from 3.5% in the prior month, matching market forecasts.

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/**ye 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