BNY MELLON

iFlow
MARKET MOVERS

February 8, 2024

Holding Pattern

"The real risk is doing nothing." – Denis Waitley
"A life spent making mistakes is not only more honorable, but more useful than a life spent doing nothing." – George Bernard Shaw

Summary

Risk on as markets focus on 4Q earnings and the BOJ Uchida comments suggesting the rate normalization in Japan will be slow, JPY is back to November lows and the 150 JPY barrier is back in focus for MOF intervention risks. The China CPI fell to 14-year lows and President Xi pushed for more economic vitality after he fired the stock regulator yesterday. APAC saw bounces again in Nikkei, Kospi, Taiex and Shanghai Composite. The TRY trades a new historic low as the new central banker suggests rate hikes are not needed now. Europe waits for more ECB talk as it absorbs 4Q earnings while the US session awaits jobless claims to help prove out NFP along with more earnings and Fed speakers and the 30Y bond to assess further duration appetites. Markets are in a holding pattern where the urge to change or chase a position requires added information or some surprise.

What's different today:

- **EuroStoxx 50 gains 0.3% to fresh 23-year highs** with corporate earnings driving albeit divergent.
- **Cocoa futures rise 3.6% to $5,392 ton** – new record highs – after EU climate group call January hottest on record and production in Africa misses.
- **iFlow**: Value as loses steam along with trend in FX, USD selling continue with EUR, GBP, CHF buying, EM FX still Latam selling vs. CE3 buying, CNY outflows continue. Equities mixed with APAC buying along in G10 with

Eurozone, Sweden, and UK. Bonds mixed – notable CAD outflows, Norway inflows and China outflows.

What are we watching:

- **US weekly jobless claims** expected off 4k to 220k with continuing claims off 21k to 1.876mn – how the job market plays out against the surprise NFP matters.
- **US 30Y $25bn bond auction** – given the success of 3Y and 10Y most see little issue.
- **Central Bank of Mexico** – expected on hold at 11.25% but to shift bias to 2024 easing.
- **Central Bank Speakers**: ECB Lane, Wunsch and Elderson, BOE Mann and Dhingra along with Richmond Fed Barkin
- **US 4Q Earnings**: Expedia, Motorola Solutions, Conocophilips, Duke Energy, T Rowe Price, Intercontinental Exchange, Mohawk, Tapestry, Hershey, Ralph Lauren, Zimmer Biomet, Verisign, S&P Global, Borgwarner, Philip Morris, DTE Energy, First Energy, Interpublic, Regency Centers, Dexcom, Mettler-Toledo, Healthpeak Properties, Illumina, Baxter, Kimco Realty, Kenvue, Kellanova, TransDigm, Masco

Headlines:

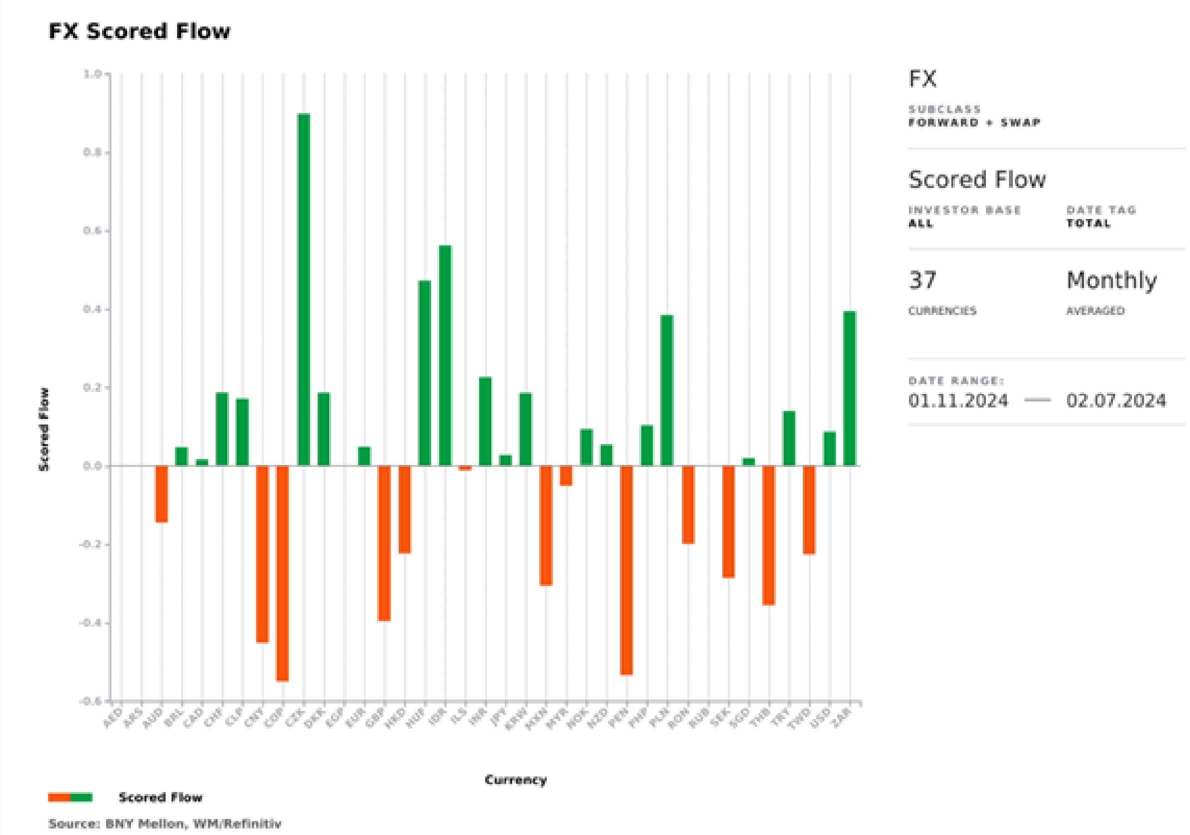
- China Jan CPI drops 0.5pp to -0.8% y/y – lowest in 14-years – President Xi vows to enhance economic vitality - CSI 300 up 0.64%, CNH flat at 7.2135
- BOJ Uchida: Rules out rapid rate hikes, signals end to ETF/REIT buying, sees easy policy remaining even with end to negative rates; Jan EcoWatchers outlook up 2.1 to 52.5 - best since July – Nikkei up 2.06%, JPY off 0.65% to 149.20
- RBI keeps policy unchanged at 6.5% - as expected – sixth consecutive hold but see high for longer policy – Sensex off 1%, INR up 0.1% to 82.947.
- Australian Dec building permits fell 9.5% m/m – same as flash – led by apartments: ASX up 0.31%, AUD off 0.25% to .6505
- ECB Jan economic bulletin: policy expectation errors, corporate vulnerabilities, post pandemic global trade – EuroStoxx 50 up 0.3%, EUR flat at 1.0770.
- UK Jan RICS house prices up eleven to -18 – best since July 2022 – FTSE off 0.1%, GBP off 0.1% to 1.2610
- South African Dec industrial production drops -1.7% m/m, +0.7% y/y – lowest in 3 months, , led by auto parts – ZAR off 0.3% to 18.976
- Turkey's new central banker Karahan no more hikes needed now, warns rates could tighten further on new government spending, shift in inflation

expectations, keeps 2024 CPI forecast at 36% – TRY off 0.1% to 30.6 – new record lows.
- Chile Jan CPI up 0.7% m/m, 3.8% y/y – more than 0.4% m/m expected temper rate cut expectations – CLP fell 0.5% to 954.15 yesterday.

The Takeaways:

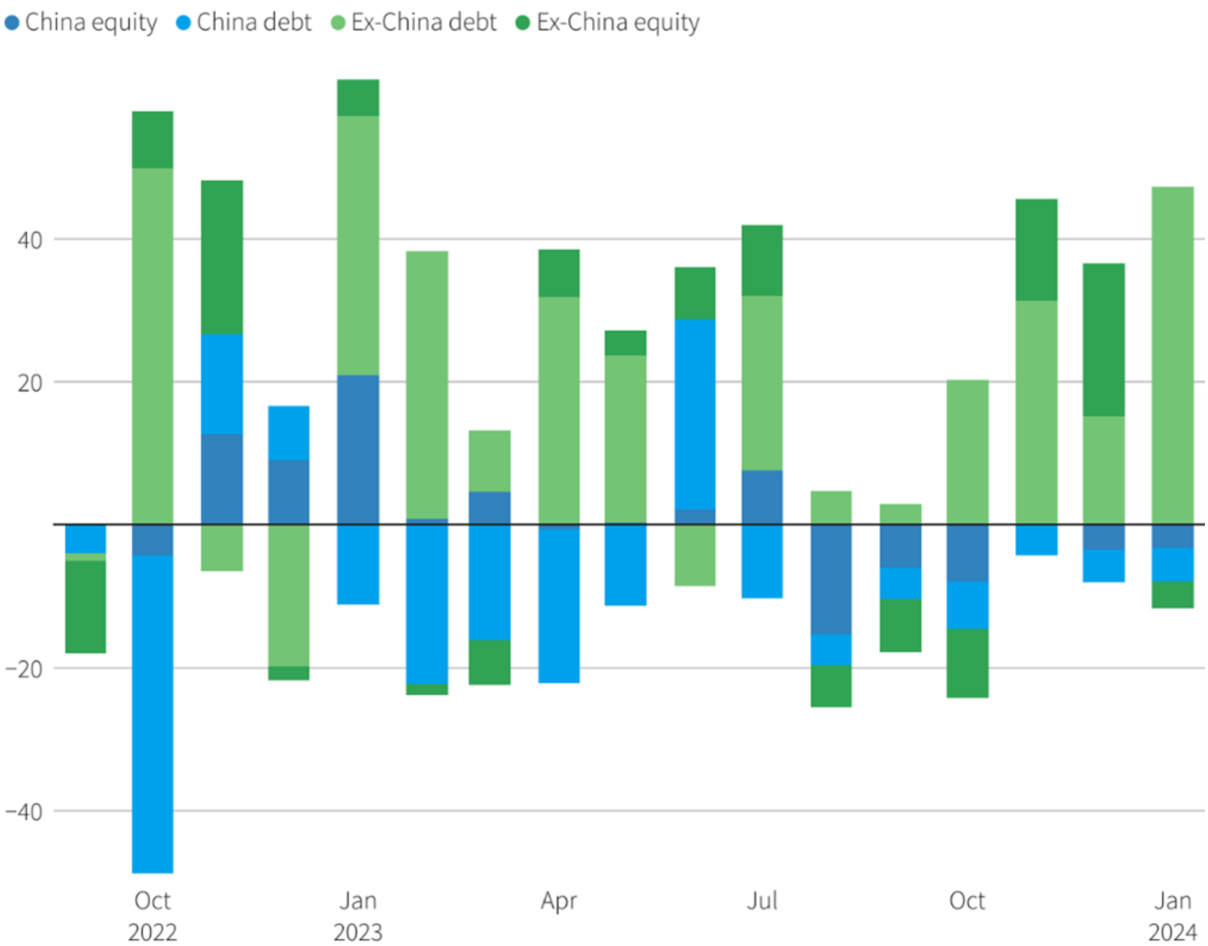
Is TINA back? There is no alternative to US investments is rising as a theme for many as we are set to break S&P500 5000 line and the hats are already printed for the party. The US growth and drop in inflation along with a Fed that is willing to cut rates in 2024 all make for a soft-landing expectation. What is surprising is that markets also are trying to diversify from the TINA story. But with China deflation, two wars in the world, ongoing economic troubles in Europe, a difficult set of elections ahead – with two frontier markets Pakistan today and Azerbaijan yesterday, markets are already watching voters more than economic data. The flows into and out of emerging markets over the last 3 years have been painful for global growth and the hope for January 2024 was that a foothold was put in place for a bottoming out and bounce back when the FOMC cuts rates. For today we are in a holding pattern but the initial jobless claims more central bank speakers and the risk of a surprise in the data should give some pause along with the Mexico and Peru central bank decisions. There is an alternative to TINA – a barbell approach where some money returns to emerging markets, albeit with the problem of China recovery doubts being a index nightmare. The two charts below make clear, like stocks or bonds, markets everywhere are divergent and waiting for a trend or TINA might not be the best strategy.

EM flows suggest TINA is not the only strategy



EM portfolios see $35.7 billion inflows in January

Non-resident emerging market flows by destination and asset class



Note: IIF estimates subject to revision; values in billions of U.S. dollars

Source: IIF | Graphic: Rodrigo Campos | Updated February 7, 2024

Details of Economic Releases:

1. Australian December building permits drop 9.5% m/m after +0.3% m/m – same as flash. The decline was driven by a sharp downturn in private sector dwelling excluding houses (-25.3%), as well as a 0.5% fall in private sector houses. On a geographical basis, total dwellings fell in Victoria (-18.4%), South Australia (-11.8%) and Tasmania (-2.7%), but increased in Queensland (8.2%), Western Australia (7.9%) and New South Wales (2%).

2. Japan January EcoWatchers outlook rises to 52.5 from 50.4 – better than fifty expected – best since July. The current index fell back to 50.2 from 51.8 – first drop since August linked to household budgets and inflation. Also, the gauge for corporate trends decreased amid to a fall in non-manufacturing industries, while that for employment was higher.

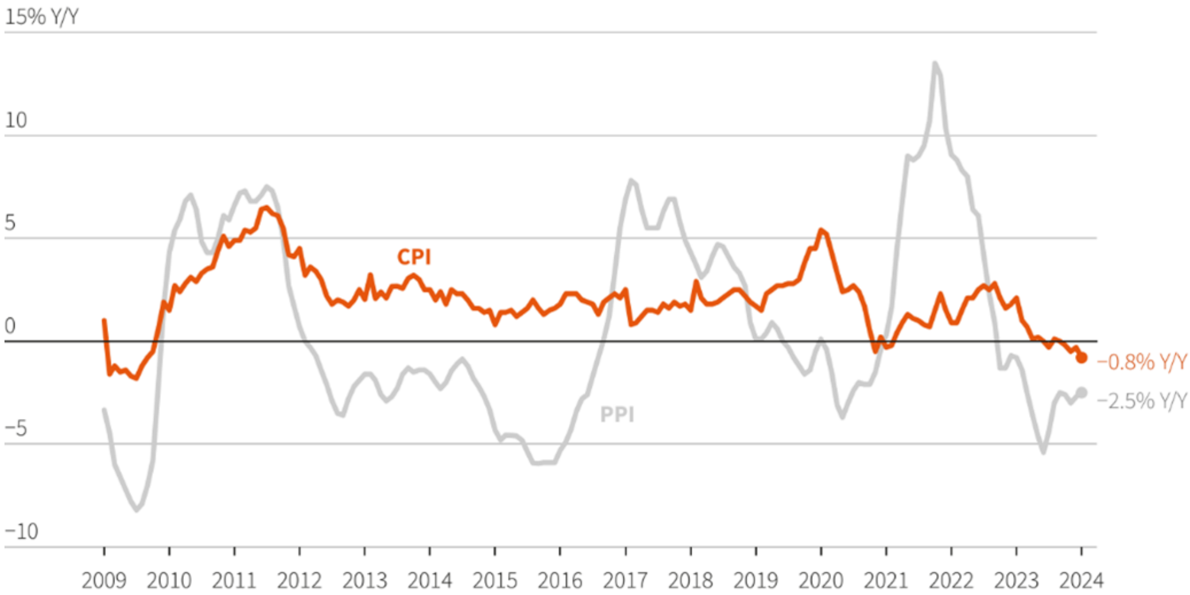
3. South African December industrial production drops -1.7% m/m, +0.7% y/y after +1.2% m/m, +2.5% y/y – weaker than 0.5% m/m, 2.5% y/y expected. The largest downward contributions came from manufacture of motor vehicles parts and accessories (-7.1%), other chemical products (-10.2%) and textiles, clothing, leather, and footwear (-4%). On the other hand, the biggest contributions came from manufacture of beverages (7%), coke, petroleum products and nuclear fuel (23.1%), and paper and paper products (5%).

4. China PPI fell -0.2% m/m, 2.5% y/y after -0.3% m/m, -2.7% y/y – higher than -2.6% y/y expected – softest decline in 4-months, but 16th month of PPI deflation. Cost of means of production continued to shrink (-3.0% vs -3.3% in December), linked to further drops in mining and quarrying (-6.0% vs -7.0%), raw materials (-2.3% vs -2.8%), and processing prices (-3.1% vs -3.2%). Simultaneously, a decline in consumer goods prices lingered (-1.1% vs -1.2%), with prices falling for food (-1.0% vs -1.4%) and durable goods (-2.3% vs -2.2%), while the cost of daily use goods was flat (vs -0.1%) and that of clothing edged up 0.1%, the same pace as in December.

5. China January CPI up 0.3% m/m, -0.8% y/y after 0.1% m/m, -0.3% y/y – less than the 0.4% m/m, -0.5% y/y expected – fourth monthly deflation, longest streak since Oct 2009, and lowest in 14 years, with food prices declining at a record pace (-5.9% vs -3.7% in December) as prices fell for all components. Meanwhile, non-food inflation edged lower (0.4% vs 0.5%), as a decline in transport prices quickened (-2.4% vs -2.2%) while cost continued to rise for clothing (1.6% vs 1.4%), housing (0.3% vs 0.3%), health (1.3% vs 1.4%) and education (1.3% vs 1.8%). Core consumer prices, which exclude prices of food and energy, increased by 0.4% y/y in January, the softest rise since last June, after a 0.6% gain in the prior three months.

China CPI suffers steepest fall in more than 14 years

China's consumer prices slid further in January while producer prices also dropped, ramping up pressure on policymakers to do more to revive an economy low on confidence and facing deflationary risks.



Source: LSEG Datastream | Reuters, Feb. 8, 2024 | By Kripa Jayaram

Source: Reuters/BNY Mellon

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

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