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iFlow

MARKET MOVERS

February 9, 2024

Prosperity

"Prosperity is no just scale; adversity is the only balance to weigh friends." – Plutarch

"Neither prosperity nor empire nor heaven can be worth winning at the price of a virulent temper, bloody hands, an anguished spirit, and a vain hatred of the rest of the world." – John Milton

Summary

Risk on with APAC celebrating the new lunar year - xīn nián kuài lè – and with Nikkei at 34-year highs as BOJ Ueda confirms even after raising rates from negative, policy will be accommodative and slow to hike faster. The JPY remains weak, USD strong, with rates still key driver after a week of great bond sales for the US Treasury. The China markets were shut but the M2-M1 divergence is narrowing suggesting some progress in housing pain, while the inflation reports in Europe today were in line while industrial production mixed. Energy is a key focus still and the drop in US natural gas notable story. For the US session, all eyes are on the CPI revisions with the level mattering to the gaming around FOMC easing, while Dallas Fed Logan speaks as well with QT tapering a key topic, and more 4Q earnings. The US will be watching US President Biden and German Chancellor Scholz on Ukraine and the onslaught of US politics in play from the race for President to Congress and its budgeting, but mostly markets will be watching themselves as the prosperity of S&P500 at 5000 and more momentum hopes play against the usual pressures of weekend risk reductions and Super Bowl preparations.

What's different today:

- **Oil is up 6% on the week** – Brent futures holding above $81bbl – with geopolitics the key driver as Israel/Hamas war rages.
- **India Government 10-year bonds sold off from 8-month highs**. The yields rose above 7.10% today from 7.05% touched February 2 – with US rates part of the story, RBI hawkish guidance and the India fiscal deficit for 2024-25 seen at 5.1% from 5.8%
- **iFlow:** Trend still negative and now back to 2021 lows – while in equities more buying notable across regions with Europe inflows, while in fixed income its about Norway buying and China selling while in FX USD is seeing further outflows vs. EUR.

What are we watching:

- **US revisions to CPI** – benchmarking exercise but the level obviously matters to FOMC easing timing ahead.
- **Canada January unemployment** expected up 0.1pp to 5.9% with jobs up 15,000 – key for BOC is wages but also understanding US NFP revision risks part of story.
- **Fed Speakers**: Dallas Fed Logan – more on QT tapering possible
- **4Q Earnings**: Pepsico, Catalent

Headlines:

- Peru BCRP central bank cut rates 25bps to 6.25% - as expected – sixth consecutive easing, PEN fell 0.5% yesterday to 3.8605
- IMF on BOJ: should exit YCC and asset purchases then gradually raise rates; BOJ Ueda: Even when NIRP ends, conditions will be accommodative; Japan MOF Suzuki: Watching FX closely, expect BOJ to be in close touch – Nikkei up 0.09%, JPY off 0.1% to 149.40
- RBA Bullock: Recent CPI trend encouraging, still way to go to get to target, longer it takes more risk to expectations shifting – ASX up 0.07%, AUD up 0.25% to .6510
- China Jan new CNY loans rise 4.92trn – new record – but M2 slip 1pp to 8.7% y/y – lowest since Nov 2021 while TSF rose CNY6.5trn also a record – CSI closed for LNY holidays, CNH flat at 7.2130
- German Jan final CPI unrevised at 0.2% m/m, 2.9% y/y – lowest since June 2021 – led by energy – DAX flat, Bunds 10Y yields off 1bps to 2.345%, EUR off 0.1% to 1.0765
- Italy Dec industrial production rose 1.1% m/m, -2.1% y/y – 11th consecutive annual drop – MIB up 0.3%, BTP 10Y off 0.5bps to 3.917%
- Norway Jan CPI off 0.1pp to 4.7% y/y – lowest since October – CPI-ATE off 0.2pp to 5.3% y/y – NOK up 0.3% to 10.582

- Sweden Dec household consumption up 0.1% m/m, 0.1% y/y – as utilities higher hit retail lower – industrial production rose 1.4% m/m, 0.1% y/y – but manufacturing lower – OMX up 0.1%, SEK flat at 10.475

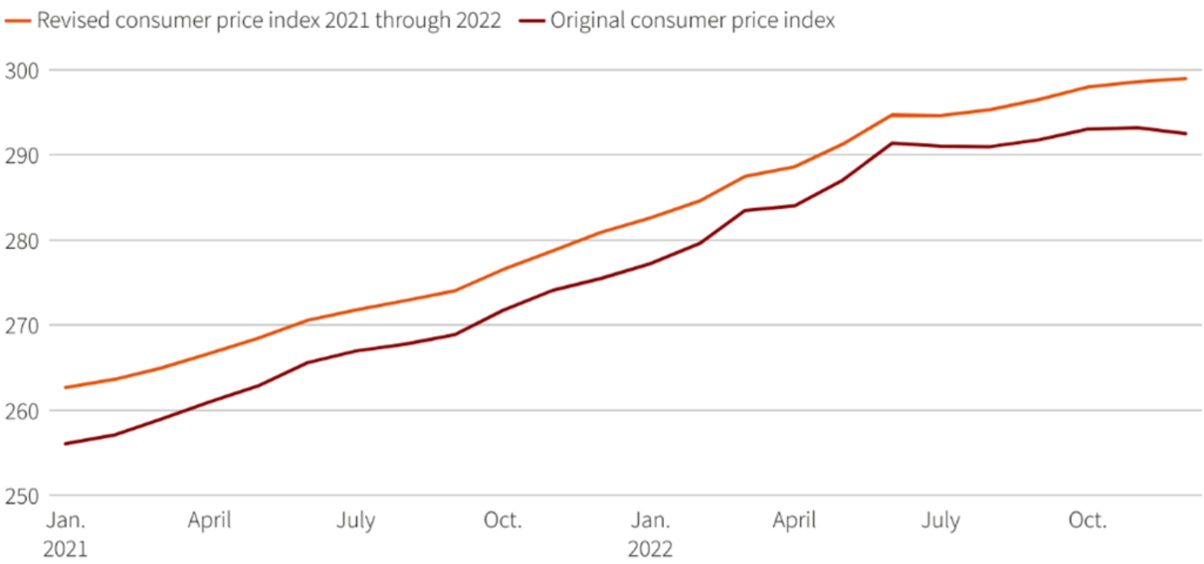
The Takeaways:

Prosperity in play with record levels in stocks, strong US and higher US yields, how much your money buys is dependent on inflation and today we are watching just one story for economics. The release of CPI revisions for 2023 as a key market driver seems hard to believe. The adjustment factors for monthly inflation data go into hedonistic quality adjustments – when quality changes value – as in the case of phones or computers or TVs and onto seasonal adjustments themselves like changing patterns of holiday spending and harvests on food costs. This component-by-component analysis gets deep into the weeds of economics and statistics. The revisions from 2022 mattered and the hope is that this continues in 2023 but the risks is otherwise. The Fed Governor Waller comments from January 16 make today important. "Recall that a year ago, when it looked like inflation was coming down quickly, the annual update to the seasonal factors erased those gains," Waller said in the speech. "My hope is that the revisions confirm the progress we have seen, but good policy is based on data and not hope." When you look at the history of the US CPI revisions over the last 10-years you will get monthly revisions of about 2.6bps – when last year this was 3bps in 4Q 2022– so an anomaly that many expect to be repeated. That seems unrealistic and the level of US rates right now is at an important edge with 10Y watching 4.20% again. Implications for all asset classes follow with the timing for US FOMC easing in tow.

CPI Revisions do matter

CPI revisions

The government measures changes in the price level through the construction of a price index that can be analyzed for its rate of change. Once a year in February prior estimates of the index are revised. Revisions last year turned an apparent easing trend into stronger inflation.



Source: Bureau of Labor Statistics

Details of Economic Releases:

1. China January new CNY loans jump 4.92trn after 1.17trn – more than the 4.5trn expected – and a new record, but M2 slows to 8.7% from 9.7% - weaker than 9.3% y/y expected and lowest since November 2021 – while outstanding loan growth slips to 10.4% from 10.6%. The total social financing rose CNY6.5trn after 1.94trn – more than the 5.5trn expected. Household loans, mostly mortgages, rose to CNY 980.1 billion and corporate loans jumped to CNY 3.86 trillion.

2. German January final CPI unrevised at 0.2% m/m, 2.9% y/y after 3.7% y/y – as expected – lowest since June 2021, driven by a sharp slowdown in goods inflation (2.3% vs 4.1% in December). Within goods, energy costs fell by 2.8%, following a 4.1% surge in December, despite the discontinuation of the brake on energy prices and the introduction of a higher carbon price. Household energy prices fell by 3.4%, and fuel prices were down by 2.0%. In addition, food inflation cooled to 3.8% from 4.6%. Meanwhile, services prices rose at a faster pace (3.4% vs 3.2%), boosted by prices for maintenance and repair of housing (+7.8%), services of social institutions (+7.4%), and restaurants (+6.6%). Core inflation, which excludes volatile items such as food and energy, declined to 3.4%, reaching the lowest rate since June 2022.

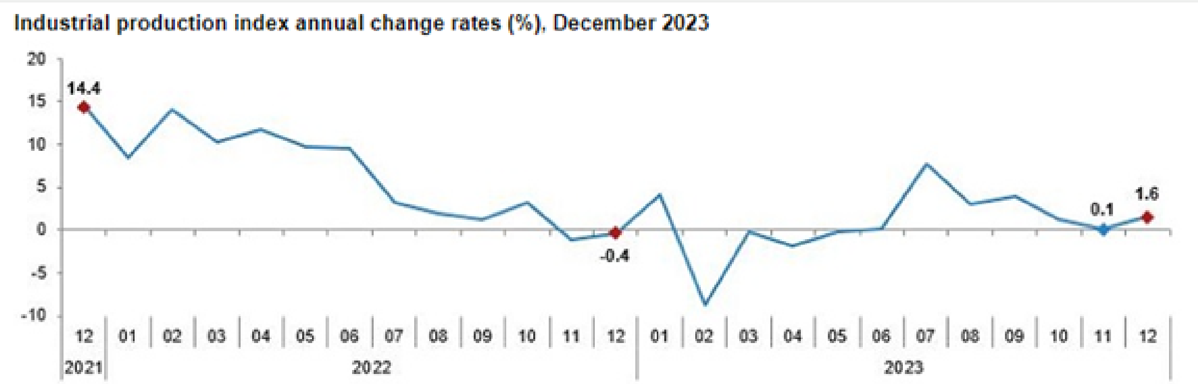
3. Italian December industrial production rose 1.1% m/m, -2.1% y/y after -1.3% m/m – better than 0.9% m/m expected – still the 11th annual production drop. The rebound was driven by consumer goods (3% vs -1.6%), capital goods (1.6% vs 0%), and intermediate goods (0.8% vs -1.8%). Also, softer fall was recorded in energy goods (-2% vs -4.1%). For the whole of 2023, the output dropped by 2.5% compared to 0.4% increase in 2022. Cyclical declines were recorded in all quarters, with the exception of the third one, when there was slight recovery

4. Norway January CPI up 0.1% m/m, 4.7% y/y after 0.1% m/m, 4.8% y/y – more than the 4.6% y/y expected – still lowest since October. Core CPI (CPI-ATE) up 0% m/m, 5.3% y/y after 5.5% y/y – also more than 5.2% y/y expected. prices slowed for food & non-alcoholic beverages (8.7% vs 8.9% in December), furnishings, household equipment & routine maintenance (7% vs 8.4%), transport (1.6% vs 5.8%), and recreation & culture (7.2% vs 7.4%). Meanwhile, prices increased at a faster pace for alcoholic beverages & tobacco (4.7% vs 4.6%), clothing & footwear (4.1% vs 3.4%), housing & utilities (3.1% vs 1.3%), health (3.8% vs 3.7%), communications (2.8% vs 2.4%), restaurants & hotels (6.3% vs 6.1%), and miscellaneous goods & services (3.8% vs 1.4%).

5. Sweden December industrial production rose 1.4% m/m, 0.1% y/y after -1.3% m/m, -0.8% y/y – more than the 0.7% m/m expected. Production decreased at a softer pace for manufacturing (-0.7% vs -1.4% in November), while output slowed for mining & quarrying (9.9% vs 11.5%). In a separate report construction output fell -6.1% y/y after -6.6% y/y.

6. Sweden December household consumption rose 0.1% m/m, 0.1% y/y after -0.5% m/m, +0.1% y/y – weaker than 0.2% m/m, 0.6% y/y expected. Increase in consumption was seen for housing, electricity, and gas & heating (2.5%), but was almost offset by the falling consumption for transport, retail trade and service of motor vehicles (-10.7%).

7. Turkey December industrial production rose 2.4% m/m, 1.6% y/y after -1.4% m/m, +0.1% y/y – better than 0.6% m/m, -0.7% y/y expected – first monthly gain since June, best annual in 3-months, driven by a faster increase in output for manufacturing (2.1% vs 0% in November). Meanwhile, production declined for the first time in six months for mining and quarrying (-1.2% vs 3.6%), while output growth was unchanged for electricity, gas, steam and air conditioning supply (4.5%).



Source: Stats Turkey/BNY Mellon

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

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