BNY MELLON

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MARKET MOVERS

March 1, 2024

March On

“Springtime is the land awakening. The March winds are the morning yawn.” – Lewis Grizzard

“March is a month of expectation.” – Emily Dickenson

Summary

Risk mixed as the rally from month-end extends but unevenly with Asia focused on BOJ Ueda pushing back rate hikes to April, with PMI reports mixed, while EU manufacturing PMI is upbeat in that the sector isn’t getting worse faster. This supports a grinding bottoming out for the economy ahead, but seems reliant on ECB cuts to support the view and the drop in CPI wasn’t as fast as hoped even with core at 3.1% y/y.   Italy overshoots its budget target again – adding to debt focus and worry so EU bonds are suffering, even as US bonds are holding bid into more data with manufacturing ISM, the consumer sentiment and more Fed speakers all key. What remains at stake is the data supporting the narrative of progress on inflation against sustaining growth overlayed with hopes for stable politics.

What’s different today:

- **Italy budget deficit rises to E149.5bn or 7.2% of GDP** – that is better than 8.6% in 2022 – but higher than the 5.3% target and puts the 4.3% goal of 2024 into doubt.
- **Swiss Central Banker Jordan to leave the SNB at end of September**. The speculation over who will replace him has Schlegel and Martin leading.

What are we watching:

- **US February ISM manufacturing** expected up to 49.5 from 49.1, while final manufacturing PMI expected unchanged at 51.5 from 50.7.
- **US February University of Michigan consumer sentiment** expected 79.6 up from 77.1 with 1Y inflation 3% up from 2.9%

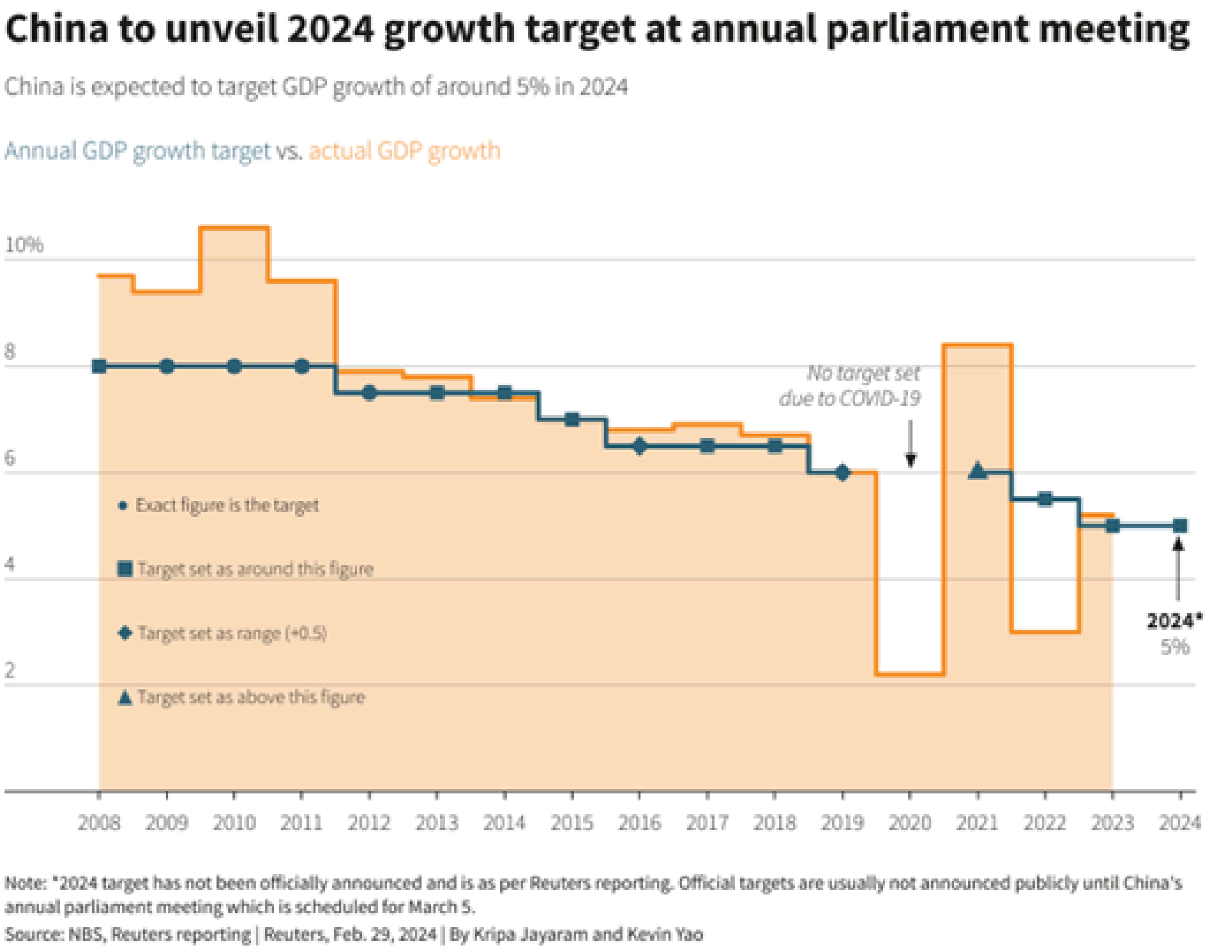
Headlines:

- BOJ Ueda at G20: Price goal not yet in sight, watching wage data; Jan unemployment holding at 2.4% - lowest since Jan 2023, while Feb final manufacturing fell 0.8 to 47.2 – jobs off to 3Y lows – consumer confidence up 1.1 to 39.1 – best since Dec 2021– Nikkei up 1.9%, 10Y JGB up 1bps to 0.705%, JPY off 0.3% to 150.35
- China Feb NBS manufacturing PMI off 0.1 to 49.1 while services up 0.7 to 51.4 – CSI 300 up 0.62%, CNH off 0.1% to 7.2135
- Korea Feb trade surplus rises to $4.3bn with exports up 4.8%, imports off 13.1% y/y – Kospi closed for holiday, KRW off 0.15% to 1331
- Indonesia Feb CPI rises +0.37% m/m, 2.75% y/y – highest since Nov 2023 – but core holding at 1.68% 2-year lows – IDR up 0.1% to 15,695
- Australia Feb final manufacturing PMI off 2.3 to 47.8 – better than flash – ASX up 0.61%, AUD up 0.15% to .6505
- RBNZ Orr: Policy needs to be high for longer, inflation still too high – NZD up 0.15% to .6095
- Eurozone Feb final manufacturing PMI off 0.1 to 46.5 – better than flash and near 10-month highs; flash CPI off 0.2pp to 2.6% - 3-month lows while Core 3.1% lowest since Mar 2022 – EuroStoxx 50 up 0.2%, EUR up 0.1% to 1.0820
- UK Feb final manufacturing PMI up 0.5 to 47.5 – better than flash, best in 10-months but 19th consecutive contraction – FTSE up 0.7%, GBP up 0.15% to 1.2645
- US Fed Williams: "I do expect to cut rates later this year… we're going to move rates to more normal levels." – S&P500 off 0.2%, 10Y US yields off 1.2bps to 4.24%, USD index off 0.1%

The Takeaways:

The end of February delivered new record highs for the S&P500. March has continued with the Japan Nikkei and German DAX at new record highs. Central to sustaining this rally is progress on inflation and sustaining growth. The PMI reports globally were mixed at best with China NBS off a smidge in manufacturing while services rose, but the rest of the world is less robust and only Spain in growing its manufacturing amongst the big four economies of the EU. The flip of equities over bonds everywhere is a continuation of the 2023 storyline and seems at risk of rebalancing but this may have to wait for the end of March not the beginning. The focus on US growth has dominated much of the narrative but the resurgence of Chinese shares this week and the stability in their PMI reports puts the next week Meetings in Beijing into key focus. The ability for the world to growth on just the US demand is unstable. China matters and with it the risk of a larger rebalancing of risks from commodities to FX to bonds.

China growth target for 2024 matters



Details of Economic Releases:

1. Australian February final Judo Bank manufacturing PMI 47.8 from 50.1 – better than 47.7 flash – still indicating a continued slowdown in the sector following a one-off rebound in January. Output, new orders, and employment reached cyclical lows, signifying a soft phase in the manufacturing industry at the outset of 2024. Increased input prices, driven by elevated shipping and logistics costs, are sustaining upward pressure on business expenses. While output prices rose, posing challenges to the disinflation trend, they remained below historically high levels. Despite a subdued year, optimism persists for increased production in 2024, supported by strengthened expectations for future work. Although Australia's manufacturing sector is not currently expanding, it is well-positioned to ramp up production in response to heightened demand.

2. **Japan January unemployment rate steady at 2.4% - as expected** - the lowest jobless rate since January last year as the number of employed persons increased by 250,000 to 67.14 million, while the unemployed declined by 10,000 to 1.63 million. Meanwhile, the jobs-to-applications ratio stood at 1.27 in January, indicating there were 127 job openings for every 100 job seekers.

3. **Japan February final Jibun Bank manufacturing PMI slips to 47.2 from 48 – same as flash** – still, the ninth straight month of deterioration in factory activity, pointing to the steepest decline since August 2020 as both output and new orders contracted the most in a year while foreign demand shrank the most in 11 months. Buying levels also decreased sharply amid the fastest drop in employment since January 2021, with a sharp decline in backlogs of work. Delivery time, meantime, strongly lengthened to the greatest extent for a year due to shipping delays amid disruption in the Red Sea and the impacts of the Noto earthquake. On the price front, input cost inflation eased to a seven-month low, contributing to the softest rise in output charges since June 2021. Finally, business sentiment remained positive amid hopes of a broad-based manufacturing and economic recovery.

4. **Japan February consumer confidence rises to 39.1 from 38 – better than 38.5 expected** - the highest reading since December 2021, as households' sentiments strengthened towards all components, namely overall livelihood (37.6 vs 36.5 in January), income growth (40.8 vs 39.7), employment (44.3 vs 42.9), and willingness to buy durable goods (33.5 vs 32.8).

5. **China February NBS manufacturing PMI slips to 49.1 from 49.2 – as expected** - the fifth straight month of contraction in factory activity, amid an impact of the week-long Lunar New Year break as most factories were closed or slowed their operations. New orders remained weak (49.0 vs 49.0 in January), amid further declines in foreign sales (46.3 vs 47.2), employment (47.5 vs 47.6), and buying levels (48.0 vs 49.2). Also, output fell following rises in the prior eight months (49.8 vs 51.3). In the meantime, delivery time lengthened following a sequence of shortening at least in the past twelve months (48.8 vs 50.8). On prices, input cost inflation eased to an eight-month low (50.1 vs 50.4), with output prices falling at a softer pace (48.1 vs 47.0). Finally, sentiment improved after hitting its lowest in seven months in January (54.2 vs 54.0).

6. **Indonesia February CPI rises to 0.37% m/m, 2.75% y/y after 0.04% m/m, 2.57% y/y – more than the 2.6% y/y expected** - highest inflation rate since last November, with food prices rising the most in three months (6.36% vs 5.84%) but the latest reading remains the central bank's target range of 1.5 to 3.5% for 2024. Also, prices increased faster for transport (1.40% vs 1.11% in January), health (1.95% vs 1.88%), accommodation/restaurant (2.38% vs 2.37%), while inflation was

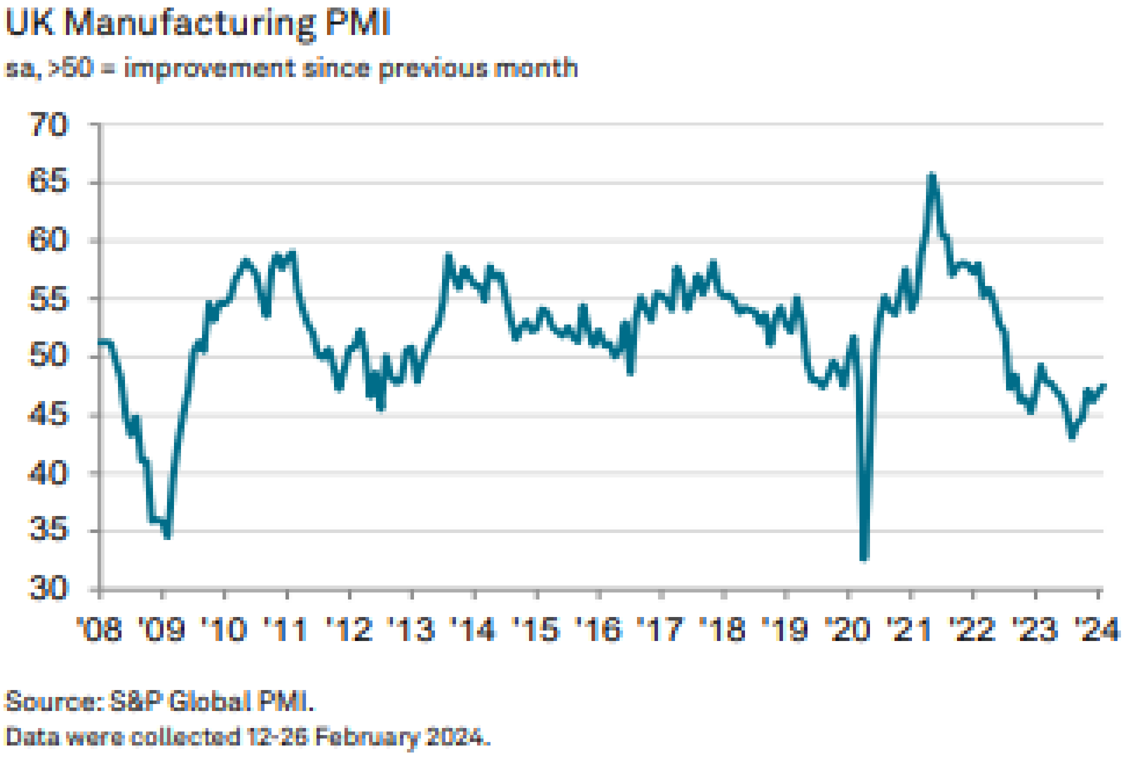
steady for recreation & culture (at 1.68%). Meanwhile, prices continued to rise for housing (0.57% vs 0.58%), clothing (0.90% vs 1.02%), furnishings (1.13% vs 1.20%), and education (1.55% vs 1.57%). Conversely, prices fell further for communication & financials (-0.13% vs -0.11%). Core inflation was unchanged at an over 2-year low of 1.68% in February.

7. Eurozone February final HCOB manufacturing PMI 46.5 from 46.6 – better than 46.1 flash – still off from January 10-month highs with as the latest reading signals the second-slowest deterioration in manufacturing sector conditions since March 2023, with Germany driving the overall deterioration and contracting the most in four months. On the other hand, softer contractions were seen in the Netherlands, Italy, and France, while Spain returned to growth and Greece and Ireland recorded their best expansions for 24 and 20 months, respectively. The overall pace of output contraction was the joint-weakest in ten months, with inflows of new orders declining the least since March 2023. Meanwhile, employment fell for a ninth consecutive month, and supplier delivery times shortened. On the price front, both input costs and output charges continued to drop. Finally, business confidence was little-changed from January's nine-month high.

8. Eurozone February flash inflation up 0.6% m/m, 2.6% y/y after -0.4% m/m, 2.8% y/y – higher than 2.5% y/y expected – lowest in 3-months with core up off to 3.1% y/y from 3.3% - more than 2.9% y/y expected but lowest since Mar 2022. Energy prices saw a decline of 3.7% (vs -6.1% in January), while the pace of price rises moderated for services (3.9% vs 4.0%), food, alcohol & tobacco (4.0% vs 5.6%), and non-energy industrial goods (1.6% vs 2.0%).

9. UK February final manufacturing PMI 47.5 from 47.0 – better than 47.1 flash – best in 10-months but the 19th consecutive month of contraction due to the ongoing crisis in the Red Sea leading to disruptions in production and vendor delivery schedules. Manufacturers have been facing challenges in finding alternative suppliers, often at higher costs from closer markets. Weak demand is evident with new order intakes declining at the sharpest rate since October. The majority of PMI subcomponents, including new orders, output, employment, and stocks of purchases, showed contraction. The only positive impact on the PMI came from suppliers' delivery times, which saw the most significant lengthening since July 2022. However, this increase in lead times is more indicative of supply disruptions rather than increased demand, highlighting the challenging situation faced by manufacturers.

UK manufacturing is still in contraction



Source: S&P /BNY Mellon

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

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