BNY MELLON

iFlow
MARKET MOVERS

**March 12, 2024**

# Inflated

***"Inflation is taxation without legislation." – Milton Friedman***
***"Inflation is the parent of unemployment and the unseen robber of those who have saved." – Margaret Thatcher***

## Summary

Risk mixed into the US CPI after another quiet session dominated by Japan weaker BSI and softer sounding BOJ Ueda outlook on economy with March hike back in doubt, while China rallies further with Xiaomi EV the rage as its starts deliveries, and after Trump's TikTok flip suggests he may soften in China if elected. Markets in Europe were focused on the UK and the jobs report there missed with wages lower leaving the MPC Mann speech today as key with the hawk expected to soften. GBP lower, stocks higher is a foreshadowing of the US markets with CPI expected at or slightly higher than the consensus up 0.4% m/m with core up 0.3% m/m. There is little room for calm with more bond supply and further focus on the way stocks handle the shifting leadership from technology to something else. Inflated hopes for a soft or no landing narrative are shifting and with it the calm of post events like CPI or jobs.

**What's different today:**

- **Iron Ore drops 6% in China futures to $110 per to**n - lowest in 7-months - steel stocks higher than last year, lack of new property stimulus from NPC blamed.
- **US February NFIB small business optimism fell 1.3 to 89.4** - the lowest in 9-months - Inflation concern up 3pp to 23% as main concern replacing labor quality.

- **iFlow** – Carry factor off significantly into slightly negative correlation– with G10 showing JPY, CHF, CAD and USD buying against AUD, GBP, NZD and SEK selling. In EM BRL, COP, CZK, HUF and TRY outflows against TWD and CNY and KRW inflows.

**What are we watching:**

- **US February CPI -** Headline annual CPI inflation is expected to be steady at 3.1% - with the "core" rate ebbing to 3.7% from 3.9% the prior month.
- **US Treasury auctions $39 billion of 10-year notes** - expected to be closely watch post CPI
- **US 4Q earnings:** Archer-Daniels-Midland
- **UK Bank of England speech** from policymaker Catherine Mann speaks

**Headlines:**

- Japan BOJ Gov Ueda: Moderates optimism on economy, still links rate hike to wages, 1Q BSI large manufacturing -6.7% worst in a year while PPI rises 0.6% y/y - most since Oct 2023- Nikkei off 0.06%, JPY off 0.3% to 147.40
- China Xiaomi starts EV sales with first deliveries this month – CSI up 0.23%, CNH flat at 7.1805
- RBA Hunter: Households are "clearly struggling" at the moment - NAB Feb business confidence off 1 to 0 – ASX up 0.11%, AUD flat at .6615
- German Feb final CPI confirmed up 0.4% m/m, 2.5% y/y- lowest since June 2021 – DAX up 0.35%, Bund 10Y off 1bps to 2.292%, EUR up 0.1% to 1.0935
- Turkey Jan industrial production off 1.2pp to 1.1% y/y- lowest since June 2023 – TRY off 0.1% to 32.045
- UK Jan 3M unemployment up 0.1pp to 3.9% with jobs off -21kwhile wages fell 0.2pp to 5.6% - lowest since July 2022 – FTSE up 1.1%, Gilt 10Y off 5.5bps to 3.915%, GBP off 0.2% to 1.2790
- Boeing 787 run by LATAM Airlines involved in abrupt drop in Sydney to Auckland flight, 50 injured – US S&P500 futures off 0.1%, US 10Y yields flat at 4.096%, USD index off 0.05%

**The Takeaways:**

Inflated hopes around the US lifting the rest of the world back to a stronger recovery without further tightening remain key. The focus on the day is CPI and the inflation number drives expectations about a June FOMC rate cut. The odds of such rose to 80% but that will change and the details in the report will be used to game the PCE core inflation that will set the tone for the Fed in the weeks ahead. What happens after the 8.30 am release is less clear and the role of government spending and debt is clearly something to consider. We are in full US Presidential election mode and the Biden budget release call for $7.3 spending with tax hikes on corporates and the rich that should give some pause to those thinking that US bonds are only going to rally in an election year.  Traditionally, the US stock and bond markets have a great year but is this time different remains to be seen. The plan which likely has no chance of consideration until after the November election and is dependent on a Biden victory is still important as it spells out the troubles of the US budget regardless of party politics. The risk of US debt staying above 125% of GDP is the problem as it puts the US in line with the worst of the Eurozone nations that have struggled to reign in debt even in good times.

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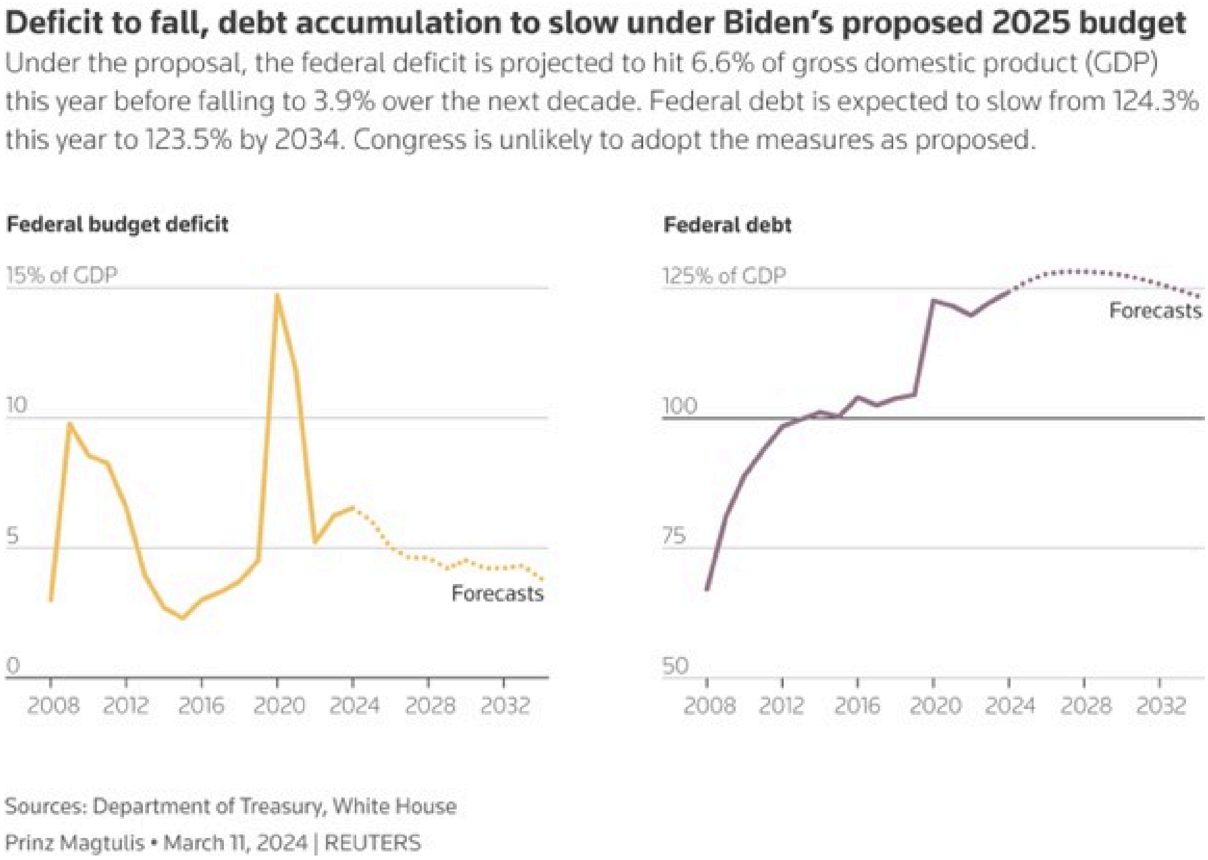
**<u>US debt to GDP will be a problem regardless of the election</u>**




**Details of Economic Releases:**

**1.** **Australia February NAB business confidence 0** **from 1 - better than -1 expected** - still below the long-run average, with the retail sector being a major drag amid high borrowing costs and elevated inflation. Meanwhile, business conditions rose, back above their average (10 vs 7 in January), as sales (14 vs 9) and profitability (9 vs 6) picked up while employment grew further (6 vs 5). Forward orders continued to ease (-3 vs -2), as did capacity utilization (83.4% vs 83.7%). Labor cost growth stayed at 2.0% in quarterly equivalent terms, while purchase cost growth was steady at 1.8%. Product price growth quickened to 1.3% from 1.1%, retail price growth rose to 1.4% from 0.9%, and recreation & personal services prices increased more (1.3% vs 1.1%). "These results are a good reminder that the progress on inflation to date has been driven by an improvement in global supply and from here, the improvement is unlikely to be linear," said NAB's chief economist Alan Oster.

**2. Japan 1Q BSI large manufacturing drops to -6.7% from +5.7% - weaker than +6.2% expected -** the lowest reading in a year. The survey was conducted as official data showed that Japan's economy fell into a technical recession in the fourth quarter of last year but was later on revised to show a return to growth. Respondents also grappled with global economic uncertainties and concerns that the Bank of Japan could start raising interest rates soon. The business survey index measures the percentage of firms that expect the business environment to improve from the previous quarter minus the percentage that expect it to worsen. Looking ahead, large Japanese manufacturing firms expect business conditions to improve in the coming months, with an outlook of 1.34% in the second quarter and 7.5% in the third quarter.

**3. Japan February PPI rises 0.2% m/m, 0.6% y/y after 0% m/m, 0.2% y/y - more than the 0.5% y/y expected** - the highest producer inflation since last October, as cost rose further for most components: beverages & food (4.0% vs 4.5% in January), metal products (3.6% vs 3.6%), other manufacturing industries (5.2% vs 5.6%), non-ferrous metals (3.6% vs 3.2%), general-purpose machinery (3.8% vs 3.8%), business-oriented machinery (4.2% vs 3.9%), information (1.1% vs 1.2%), transport equipment (2.2% vs 2.3%), petroleum & coal (7.9% vs 6,8%), electrical machinery (3.6% vs 4.4%), and production machinery (4.6% vs 5.1%). By contrast, cost continued to fall for iron & steel (-3.3% vs -3.4%), chemicals (-0.4% vs -0.8%), and plastics (-0.1% vs -0.3%). Monthly, producer prices gained 0.2% after showing no growth in January, above estimates of a 0.1% increase.

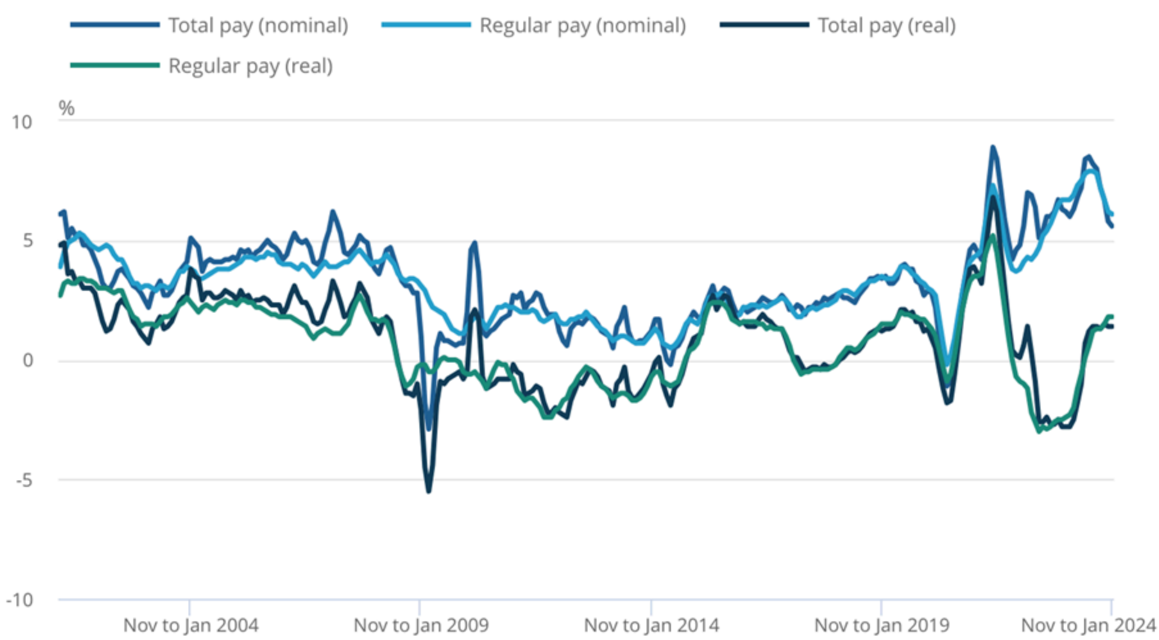
**4. German February final CPI up 0.4% m/m, 2.5% y/yafter 0.2% m/m, 2.9% y/y - unrevised as expected** - lowest since June 2021. he primary downward pressure came from a sharp slowdown in food inflation (0.9% vs 3.8% in January), due to lower prices of fresh vegetables (-10.6%), and dairy products (-5.1%). Additionally, costs continued to decline for energy (-2.4% vs -2.8%), despite the discontinuation of the brake on energy prices and the introduction of higher carbon costs. Meanwhile, the services inflation held steady at 3.4%. Core inflation, which excludes volatile items such as food and energy, was unchanged at 3.4%, remaining at its lowest level since July 2022.

5. **Turkey January industrial production slows to 0% m/m, 1.1% y/y after 2.8% m/m, 2.3% y/y - near expectations** - still the softest growth since June 2023, as output slowed for manufacturing (0.4% vs 2.8% in December 2023). Conversely, production increased at a faster pace for mining and quarrying (4.9% vs 0.4%) and electricity, gas, steam and air conditioning supply (8.4% vs 3.5%).

6. **UK January unemployment rises to 3.9% from 3.8% with jobs off -21,000 after +72,000 - worse than the +10,000 expected,** The number of unemployed individuals decreased by 8,000 to a total of 1.36 million, driven by those unemployed for up to 12 months. Meanwhile, the number of individuals unemployed for over 12 months increased in the latest quarter, following declines over the past year. The number of employed individuals fell by 21,000 to 33.18 million, with a decrease in part-time employees. Conversely, the number of full-time workers increased during the quarter. Additionally, the number of people in employment with second jobs continued to decline in the latest quarter, accounting for 3.5% of all employed individuals. Finally, the economic inactivity rate rose by 0.1 pps to 21.8%.The February claimant count rose to 16,800 after 3,100 - still better then the 20,000 expected - while the average weekly earnings including bonuses rose 5.6% y/y - down from 5.8% y/y - and the least since July 2022. Wage growth slowed in both the public sector (5.8% vs 6%) and the private sector (5.7% vs 5.9%). Meanwhile, regular pay which excludes bonus payment, went up 6.1% to GBP 627/week, the lowest growth since October 2022.

**UK labor market turning?**

**Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to November 2023 to January 2024**




**Source: Monthly Wages and Salaries Survey from the Office for National Statistics**

Source: UK ONS/BNY Mellon

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

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Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB