BNY MELLON

iFlow
MARKET MOVERS

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Bubbles

“Look within. Within is the fountain of good, and it will ever bubble up, if thou wilt ever dig.” - Marcus Aurlieus
“I wonder how much it would take to buy a soap bubble, if there were only one in the world.” - Mark Twain

Summary

Risk mixed with China lower, EU and US mixed as the Japan Shinto wage deals over 30Y highs adding to BOJ hike expectations leaving Nikkei off for 3rd session. UK recovers from a technical recession but BOE cuts remain intact for 2024 pricing and the EU without much good news - lower WPI in Germany and worse industrial production in the Eurozone - leans on ECB dovish comments. The USD rallies despite or because of the correlation to shares ignoring any hangover from CPI or Powell. The rise in oil prices drives on split views on 2024 demand and API surprise draw in crude - suggesting global recovery intact and with it sticky inflation and high for longer risks. The bubble fears in equities remain with AI replacing Tech as the main focus. S&P500 is up 25% in the last 5-months - something that has only happened 10 times in the last 90 years.

What’s different today:

- **Copper surges to 7-month highs over $3.96 lbs -** top Chinese copper smelters agreed to reduce production at unprofitable facilities due to raw material shortages.
- **US MBA weekly mortgage applications** up 7.1% after 9.7% as mortgage 30Y rates fell 18bps to 6.84%, jumbo loans fell 17bps to 7.04%.

What are we watching:

- **Copper surges to 7-month highs over $3.96 lbs -** top Chinese copper smelters agreed to reduce production at unprofitable facilities due to raw material shortages.
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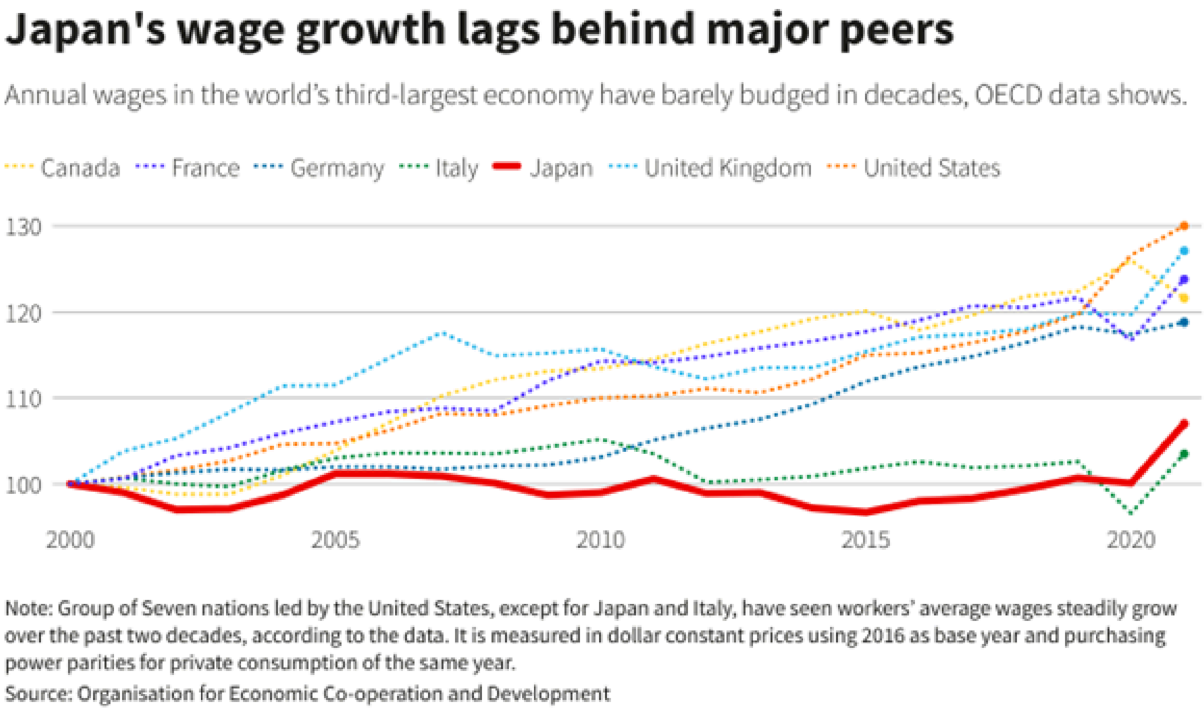
Headlines:

- Russia's Putin warns US and Nato ready for nuclear war - Ukraine drone attack hits Russia refinery - while IEA/OPEC oil demand forecasts widest divergence in 16 years, US weekly API stats show surprise 5.52mb draw - WTI up 1.4%
- China stops infrastructure projects in indebted provinces- Yunnan and Gansu examples – CSI off 0.7%, CNH off 0.15% to 7.1980
- Japan Honda, Nippon Steel and ANA grant largest pay rise since 1992 - average increase over 4% up from 3.6% last year – Nikkei off 0.26%, JPY off 0.15% to 147.95
- Korea Feb unemployment improves down 0.4pp to 2.6% - adding over 300k jobs for second month - Kospi up 0.4%, KRW off 0.2% to 1314.20
- Indonesia consumer confidence drops 1.9 to 123.1 - lowest since Sep 2023 – IDR up 0.15% to 15,575
- German Feb WPI fell -3% y/y - 11th month of deflation - led by oil products – DAX up 0.1%, Bund 10Y off 0.5bps to 2.323%
- Eurozone Jan industrial production fell -3.2% m/m, -6.7% y/y - worst drop since March 2023 - led by capital goods – EuroStoxx 50 up 0.6%, EUR up 0.1% to 1.0940
- UK Jan GDP up 0.2% m/m- recovering from technical recession led by services, while Jan industrial production -0.2% m/m, +0.5% y/y - led by oil – FTSE flat, GBP up 0.1% to 1.28
- Argentina refinances $50.3bn in record bond swap- extending debt maturities of titles from 2024 to 2028 - Blue Rate ARS steady at 1000
- US President Biden and former President Trump secure delegates for their respective party nominations - as expected – US S&P500 futures up 0.15%, 10Y US yields up 1.5hbps to 4.165%, USD off 0.08% to 102.88 on index

The Takeaways:

The BOJ will be normalizing rates soon and that will end the decade of the bizarre negative rate policy which engulfed Europe and Asia and almost the US post the Great Recession of 2008. There is a sense of relief and doubt that the BOJ will matter and this will be key to how markets handle the transition from central banks owning all market risk to investors being on then hook. The fear of bubbles in tech has shifted to AI and yet its a broader market story that drives today with no credit fears and the nagging doubt that after nearly 2 years of inverted rates the US won't suffer from a recession. The last time the 2/10Y curve was inverted over 450 days was 1978-1980 - when the markets were worried about stagflation. Of course, there are plenty of reasons to be hopeful - as the US CPI yesterday did drop marginally core CPI from 3.9% y/y to 3.8% suggesting some progress en route to 2% for the FOMC. The result of CPI confirms US real income growth up 0.5% y/y - something that bolsters hopes for consumers and growth. But the best and perhaps most important story for the US exceptionalism story - where growth here and inflation winning drives global recovery - comes from productivity which looks like it's breaking out higher. Whether Japan wages sustain and the BOJ becomes an inflation fighter, whether US AI delivers further gains on US productivity, whether the rest of the world can find deals to peace in Israel or Ukraine - all that matters and makes the bubbles that seem to terrify less scary on a day with little news on the agenda. There is always room for more bubbles and higher wages globally but the bar to shock investors to chase prices in equities higher and sell the USD and forgo bonds seems harder to believe right now. Trees don't grow to the sky and bubbles will pop, but others replace them.

Japan wages beg BOJ action



Details of Economic Releases:

1. Korea February unemployment drops to 2.6% from 3% - better than the 3% expected. On an unadjusted basis unemployment was 3.2% up 0.1% y/y. Nevertheless, the economy added more than 300,000 jobs for the second consecutive month as the number of employed people came to 28.04 million, up 1.2% or 329,000 from a year earlier. The participation rate was 63.6% up 0.5% y/y.

2. Indonesia February consumer confidence fell to 123.1 from 125.0 - weaker than 125 expected - lowest since September 2023 but off from 5-month highs, as three out of six sub-indices deteriorated, namely expectations about the country's current economic conditions (down by 4.7 points to 110.9), income expectations for current income (down 4.4 points to 112.1), and job availability compared to six months ago (down 8.3 to 110.1). Conversely, sub-indices strengthened for economic outlook (up 0.8 to 135.3), job availability (up 3.3 points to 137), and income expectations for the next six months (up 3.8 to 138.6).

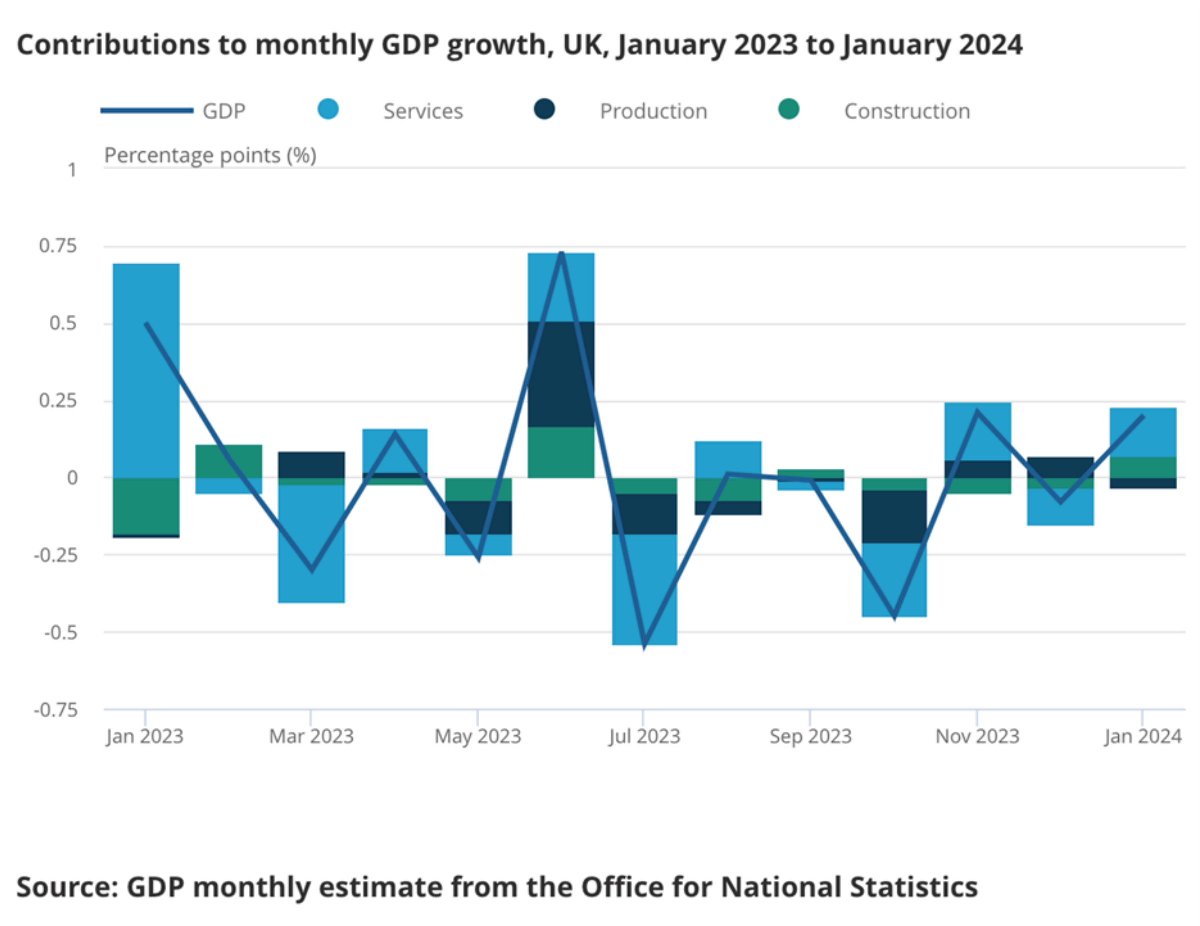
3. German February WPI fell -0.1% m/m, -3% y/y after +0.1% m/m -2.7% y/y - lower than the +0.3% m/m, -2.5% y/y expected - the eleventh consecutive month of decline, primarily due to lower prices of mineral oil products (-3.5%). Additional downward pressure came from prices of grain, unmanufactured tobacco, seeds and animal feeds (-20.8%), chemical products (-15.0%), metals and metal ores (-14.4%), and milk, milk products, eggs, edible fats and oils (-6.1%). On the other hand, costs increased for fruit, vegetables and potatoes (7.3%), beverages (5.1%), and tobacco products (5.0%).

4. Eurozone January industrial production fell -3.2% m/m, -6.7% y/y after +1.6% m/m, +0.2% y/y - worse than the -1.5% m/m, -2.9% y/y expected - the sharpest contraction in activity since March of the previous year, and the second-largest decline since the aftermath of the COVID-19 outbreak in April 2020, primarily driven by a staggering 14.5% drop in the production of capital goods. Furthermore, output also declined for both durable goods (-1.2% vs 1.0% in December) and non-durable consumer goods (-0.3% vs -2.2%). However, the production of intermediate goods saw a notable increase of 2.6%, rebounding from five consecutive months of contraction or stagnation, while energy output grew by 0.5%, marking the fourth consecutive period of expansion.

5. UK January industrial production fell -0.2% m/m, +0.5% y/y' after +0.8% m/m, +0.6% y/y - worse than the 0% m/m, +0.7% y/y expected. The decline was driven by a continued contraction in output for mining and quarrying (-1.3% vs -1.8% in December) and water supply and sewerage (-2.2% vs -0.4%). At the same time, production stalled for manufacturing (0% m/m vs 0.8%), while activity slowed for electricity and gas (0.5% vs 1.1%).

6. UK January GDP up 0.2% m/m after -0.1% m/m - as expected. The growth rebound follows a technical recession experienced in the second half of 2023. The largest upward contribution came from the services sector (0.2% vs -0.1% in December), namely retail trade, except of motor vehicles and motorcycles (3.4%), human health amid growth in the market sector (0.9%) and education (0.7%). Meanwhile, construction grew 1.1% (vs -0.5%). On the other hand, industrial output fell 0.2% (vs +0.6%), driven by a 2.2% drop in water supply; sewerage, waste management and remediation activities. Considering the three months to January, the British economy shrank 0.1%

UK Growth not going to stop BOE easing



Source: UK ONS/BNY Mellon

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