BNY MELLON

iFlow

MARKET MOVERS

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Exuberance

"Old age and treachery will always beat youth and exuberance." – David Mamet
"Saints have no moderation, nor do poets, just exuberance." – Anne Sexton

Summary

Risk on ahead of more US data with PPI and retail sales seen as important to adding to FOMC June rate cut hopes. The overnight news was upbeat for AI with Taiwan and South Korea leading in shares while China stalls on geopolitical stories, Europe bid with ongoing ECB easing hopes, as Sweden and Spain CPI lower, UK housing bottoming and EGB rebound continues – set for its best week in 7 years. The larger picture is that bonds and stocks are both bid and the USD is holding – suggesting a modest return to "Goldilocks" risks for today with the data needing to be just right to keep rate cuts intact. Lack of fear seems to be the largest driver of concern with investors begging for some excuse to cut back on rising optimism.

What's different today:

- **Japan 10-year bond yields rise to 0.77%** - highest in 3-months ahead of BOJ decision next week, after higher wage deals spark higher inflation expectations.
- **Oil trades over $80 bbl WTI -** 4-month highs after IEA reports oil supply lower, US EIA crude inventories dropped 1.53mb - first decline in 7-weeks, also linked to Ukraine drone strikes on Russian refineries.
- **iFlow shows 5 equity sectors with inflows** fighting the negative monthly and quarterly story – while our broad mood index is neutral. The FX flows remain

USD positive in G10 with GBP, NOK, AUD and SEK selling. LaTAm beats EMEA in EM FX flows. While in Fixed Income Canada and US bond flows up, China and Philippines down along with Israel, Turkey, South Africa and Chile

What are we watching:

- **US February PPI** expected up 0.3% m/m, 1.1% y/y up from 0.9% y/y - key for PCE and ongoing FOMC June cut debate.
- **US February retail sales** expected up 0.8% m/m after -0.8% m/m with ex autos up 0.5% m/m after -0.6%. Autos were one factor of noise, gasoline costs another - underlying health of consumer key for 1Q growth, FOMC.
- **US weekly jobless claims** expected up 1k to 218k with continuing claims of 6k to 1.9mn - anything sharply higher matters.

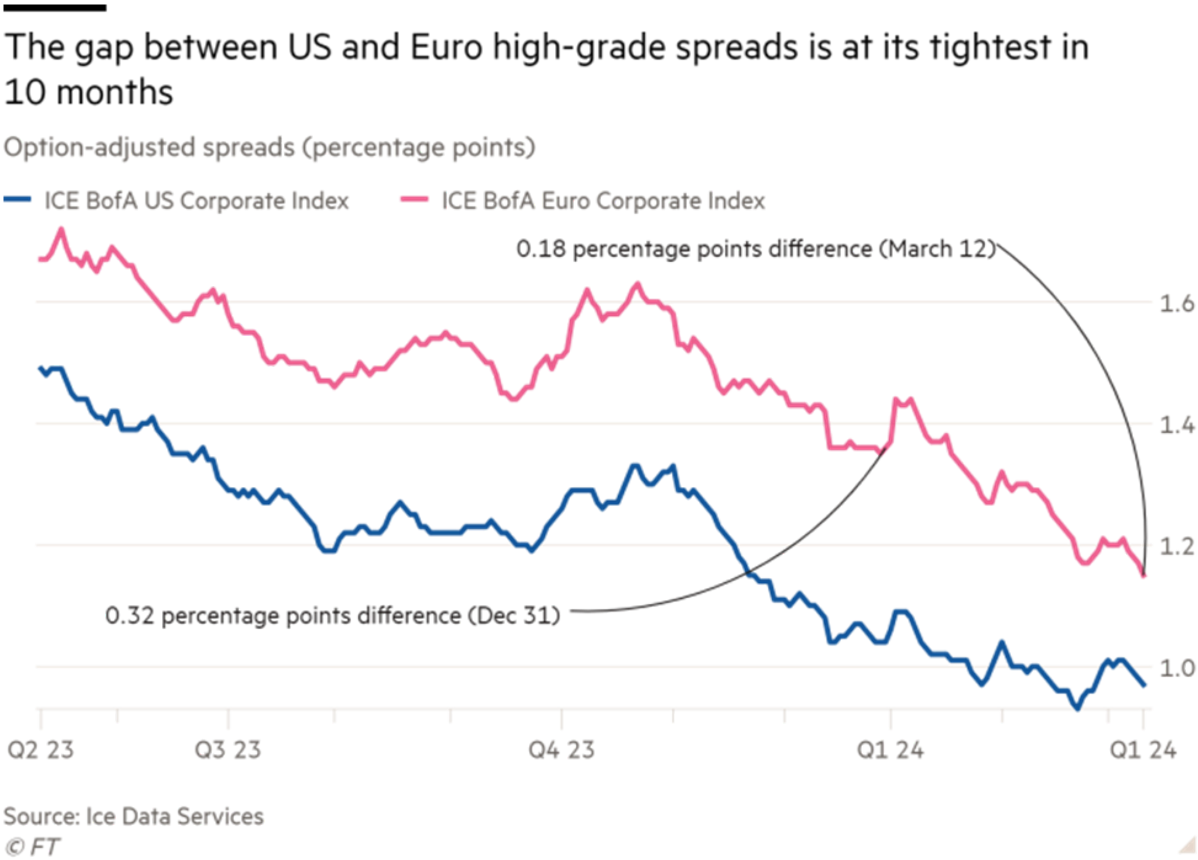
Headlines:

- China warns proposed TikTok forced sale "will come back to bite" US – CSI 300 off 0.2%, CNH flat at 7.1945
- Indonesia Jan retail sales - 3.5% m/m, +1.1% y/y- worst month since July 2023, but 8th y/y expansion – IDR flat at 15,578
- Hong Kong 4Q industrial production up 4.1% y/y- near 2-year highs – Hang Sang off 0.71%
- India Feb WPI up 0.2% y/y- 4th month of inflation but least since October 2023 – Sensex up 0.46%, INR up 0.2% to 82.82
- Sweden Feb CPI off 0.9pp to 4.5% y/y -led by lower electricity costs – OMX up 0.5%, SEK off 0.1% to 10.24
- Spanish Feb final CPI up 0.4% m/m, 2.8% y/y - lowest in 6-months – IBEX up 0.2%, SGB10Y yields up 1bps to 3.136%, EUR flat at 1.0940
- UK Feb RICS housing price rises 8 to -10 - best since Oct 2022 – FTSE flat, GBP up 0.1% to 1.2810

The Takeaways:

The US data matters again with retail sales key for 1Q growth and with the PPI crucial for gaming the FOMC thinking into June. Modest growth and lower inflation is part of the soft-landing and "Goldilocks" thinking. The problem for investors is in the balance of good news being too good or bad something to scare the world on growth. The lack of trend in bonds stands out and yet the "carry trade" where lower volatility allows investors time and space to hunt for higher yields despite higher risks has narrowed risk premia to levels where experience suggests trouble more than reward ahead. There is a notable decline in FX carry trades and that might be a lesson for fixed income and the current stock market exuberance. Against this bearish thought, there is also a clear fear that too much money remains in cash and that fighting the current trend up is running in front of a train. The clear and most pressing problem for the US investor is in the exuberance at home narrowing the universe of opportunities abroad. The surge in EU thinking stands out not just in equities but also in their own bond markets where credit fears are bottoming. All this leaves the bears in hibernation mode, even as the bulls frolic in the spring warmth of flows and hope with a newfound exuberance. The risk on the day is that this proves irrational according to the data.

Not only stocks show risk on fervor



Details of Economic Releases:

1. Hong Kong 4Q industrial production rose 4.1% y/y after 4.3% y/y - less than 5.3% y/y expected - still the second strongest manufacturing activity growth in two years, driven by continued increase in output for food beverages & tobacco (5.5% vs 4% in Q3), paper products, printing & reproduction of recorded media (1.4% vs 0.9%), and metal, computer, electronic & optical products, machinery & equipment (2.5% vs 0.6%). Meanwhile, production slowed for textiles & wearing apparel (0.5% vs 1%), and miscellaneous manufacturing activities (4.2% vs 5.6%). On a seasonally adjusted quarterly basis, manufacturing activity declined 0.5%, moderating from a revised 1% contraction in the prior quarter.

2. **Indonesia January retail sales drop -3.5% m/m, +1.1% y/y after +4.9% m/m, 0.2% y/y - better than 0.8% y/y expected** - the first monthly drop in four months and the worst since July, still it was also the eighth straight month of annual expansion in retail trade, amid further rises in sales of clothing (10.7% vs 11.0% in December 2023), fuels (14.6% vs 17.2%), foods (3.1% vs 3.4%), home appliances (5.8% vs 3.4%), and automotive parts & accessories (14.6% vs 17.2%). By contrast, sales continued to drop for cultural & recreational goods (-8.4% vs -5.2%) and information & communication (-33.3% vs -39.0%).

3. **India February WPI moderates to +0.07% m/m, 0.2% y/y after -0.46% m/m, 0.27% y/y - less than the 0.25% y/y expected**. marked the fourth consecutive period of wholesale inflation but the softest increase in the sequence, amid a faster fall in prices of fuel and manufactured products. Primary articles (4.49% vs 3.84%) and food index (4.09% vs 3.79%) rose faster. Meanwhile, fuel and power dropped more (-1.59% vs -0.51%) due to falls in HSD (-6.37% vs -5.29%) and Petrol (-0.69% vs 0.26%). At the same time, manufacturing shrank faster (-1.27% vs -1.13%), weighed by basic metals (-5.72% vs -4.47%), chemical and chemical products (-5.18% vs -5.51%), textiles (-1.90% vs -2.26%), rubber and plastic products (-1.09% vs -0.78%), paper & paper products (-6.42% vs -6.41%), and fabricated metal products, except machinery and equipment (-86% vs 0.36%).

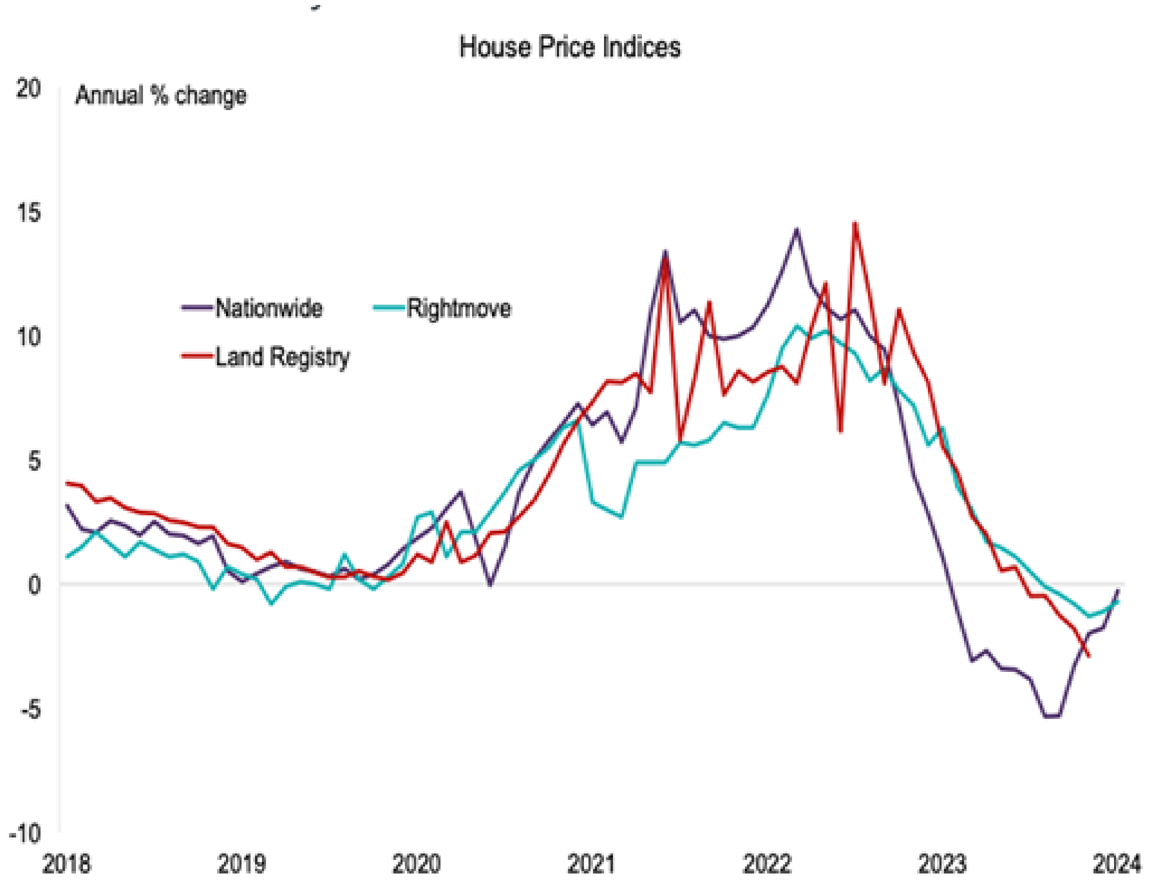
4. **Sweden February CPI up 0.2% m/m, 4.5% y/y after -0.1% m/m, 5.4% y/y - lower than 4.7% y/y expected**. Prices eased for housing & utilities (9.4% vs 10.1% in January), mainly driven by a strong decline in electricity costs. Main downward pressure also came from food & non-alcoholic beverages (1.2% vs 3.8%), clothing & footwear (5.1% vs 6%), furnishings & household goods (1.2% vs 3.1%), recreation & culture (3.3% vs 4.5%), restaurants & hotels (4.2% vs 4.9%), and miscellaneous goods & services (4.4% vs 4.8%). Conversely, prices increased at a faster pace for transport (1.5% vs 0.9%), health (5.6% vs 5%), and education (4% vs 3.2%). The CPIF also fell +0.2% m/m, 2.5% y/y after -0.3% m/m, +3.3% y/y.

5. **Spanish February final CPI up 0.4% m/m, 2.8% y/y after +0.1% m/m, 3.4% y/y - unrevised as expected** - lowest in 6-months. Prices eased for food & non-alcoholic beverages (5.3 percent vs 7.4 percent in January), recreation & culture (2.8 percent vs 3.1 percent), miscellaneous goods & services (3.3 percent vs 3.4 percent), clothing & footwear (1.9 percent vs 2.5percent), furniture & household equipment (1.4 percent vs 1.7 percent), and communication (0.4 percent vs 0.5 percent). Additionally. prices fell for housing & utilities (-2.7 percent vs 1.5 percent) while inflation was steady for education (at 2.8 percent) and health (at 2.2 percent). On the other hand, cost rebounded for transport (2.4 percent vs -0.1 percent) and

prices accelerated for restaurants & hotels (5.5 percent vs 5.4 percent) and alcoholic beverages & tobacco (4.7 percent vs 4.2 percent).

6. UK February RICS residential market house price balance rises to -10 from -18 - better than -11 expected - least negative since October 2022. The latest figure also improved for the sixth month in a row In London, the turnaround in the price indicator is slightly more pronounced with this measure across the capital rising from -68% in September 2023 to stand at +5% in February. Looking ahead, a net balance of +36% of respondents across England and Wales now envisage house prices returning to growth at the twelve-month time horizon (up from a reading of +18% last month.

UK house prices bottoming?



Source: UK ONS/BNY Mellon

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


Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

bnymellon.com