BNY MELLON

iFlow
MARKET MOVERS

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New Era

"In a progressive country change is constant: change is inevitable." – Benjamin Disraeli
"A new eara doesn't come from nothing. New thoughts, values and methods will be established after overcoming various hurdles on the way." - Park Won-Soon

Summary

Risk Mixed as the BOJ expected shift in policy ends negative rate era and yield curve control while the RBA holds dovishly waiting for better data on inflation. The surge in German ZEW to 2Y highs wasn't the same in the Swiss SECO forecasts and the drop in EU labor costs today highlight that the ECB has a different issue in policy- made clear by multiple speakers - than the FOMC. The lower Asian bourses and flat European ones leave the US markets to figure out the real risks from the Fed ahead with dot plots the focal point for 2 or 3 cut consensus along with where they see CPI and GDP. For FX markets the JPY weakness confirms the adage of buying JPY on the rumor and selling it on the fact, but it highlights the week still ahead for other FX pairs and central bankers as currency weakness drives import inflation and hits confidence. The rotational story of iFlow maybe worth considering today with bonds lower, stocks higher in most of the world while USD flows matter less than regional pairings linked to growth hopes.

What's different today:

- **Hong Kong HK10Y government bond yields rise 3.7bps to 3.89%** - 15-week highs - signaling less PBOC expectations for easing in China, more FOMC watching ahead.

- **Wheat futures back up to $5.4 bushe**l - bouncing from 3 1/2 year lows at $5.20 - still down 14% y/y with strong harvests and supplies last year - Australia leading and Ukraine exports beating.
- **iFlow** – FX flows more rotational than about USD – with NOK and SEK sold agains CAD, CHF while in EM ZAR beat APAC while Latam mixed with CLP and PEN against COP and MXN. Equities mixed with Latam leading while Fixed Income is still mostly selling bonds except Argentina, Canada and US.

What are we watching:

- **Canada February CP**I expected up 0.6% m/m, 3.1% y/y from 0% m/m, 2.9% y.y - with trimmed mean expected down to 3.3% y/y from 3.4% - how this number prints will set April BOC cut risks, matter to CAD
- **US February housing starts** expected up 7% to 1.425m from 1.331mn - with permits up to 1.495mn - another signal of housing recovery key for rate view from Fed
- **US Treasury sells $13bn in 20Y bonds –** also selling $46bn in 1Y bills, $75bn in 42-day CMB

Headlines:

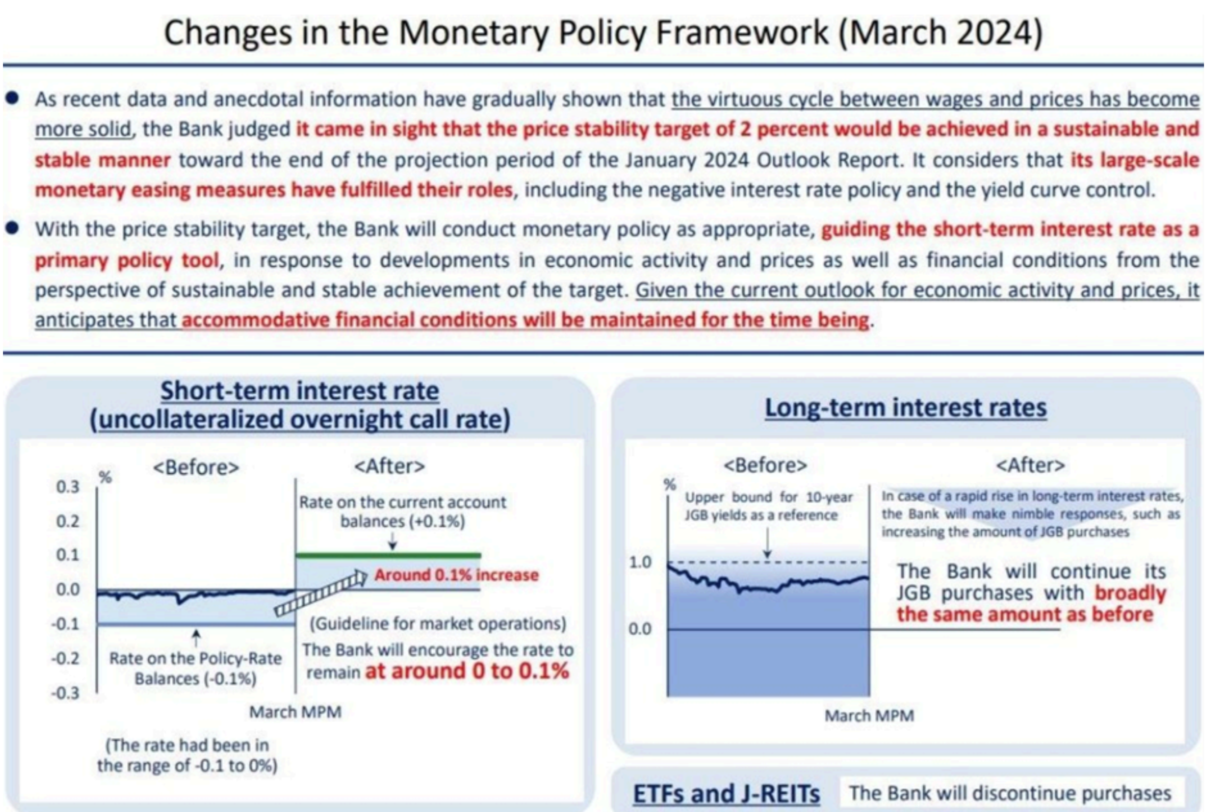
- Bank of Japan ends negative rates (7-2 vote) and YCC and ETF buying - first hike in 17-years - but will continue to buy JGB near Y6trn next month - Jan industrial production -6.7% m/m revised up 0.8pp from flash – Nikkei up 0.66%, JGB 10Y off -2.8bps to 0.728%, JPY off 0.9% to 150.45
- RBA keeps rates on hold at 4.35% - as expected - Gov. Bullock warns war on inflation "isn't yet won." – ASX up 0.36%, 10Y ACGB off -2.9bps to 4.078%, AUD off 0.75% to .6515
- China Regulator accuses Evergrande of fraud – CSI 300 off 0.72%, CNH off 0.1% to 7.2115
- Hong Kong legislature unanimously passes new national security law – Hang Seng off 1.24%
- German March ZEW economic sentiment jumps 11.8 to 31.7- best since Feb 2022 - linked to lower rate outlook- DAX up 0.1%, Bund 10Y off 1.1bps to 2.446%
- Swiss Government SECO 2024 economic forecasts - GDP 1.1% improving to 1.7% in 2025, CPI 1.5% then 1.1% in 2025; while Feb trade surplus narrows CHF 0.5bn to 2.2bn with imports up 2.9% y/y and exports up 0.1% y/y – Swiss Mkt off 0.6%, CHF flat at .8880
- Eurozone 4Q labor cost index drops 1.8 pp to 3.4% y/y - back to 3Q 2022 levels - wages fell to 3.1% even as non-wage costs hold 4.6% y/y - ECB De

Guindos: ready in June for easing – EuroStoxx 50 up 0.1%, EUR off 0.25% to 1.0850

The Takeaways:

The era of negative interest rates is over, but the buying of bonds isn't in Japan, but without a formal target or yield curve. There is less excitement over this shift in policy from the BOJ today than many hoped but change – even radical shifts – are usually slower and less powerful than the fear of the action. The move up in JPY now matters to the policy of both the BOJ and the government and a shift beyond 151 will bring out the MOF and the willingness of the BOJ to halt JPY – but there is a waiting game for the FOMC – as the ability for any nation to beat the dollar requires the FOMC to disappoint on rate talk. The simple view on the Fed is that they do nothing, talk dovishly and play that as long as needed to get to their inflation target. The US data make clear they haven't won the inflation trend beyond a shadow of a doubt. For the BOJ, consider their decision to end extraordinary policy requiring 5% plus wage inflation and years of being beyond their 2% target to feel comfortable in just the slightest move. New eras of policy are in play where global divergence and doubts about central bankers being credible in their forward guidance are at play. The next trend will be a rise in volatility as markets begin to realize that central bankers like investors are playing with less than a full deck of information.

Did the BOJ change global views on policy?



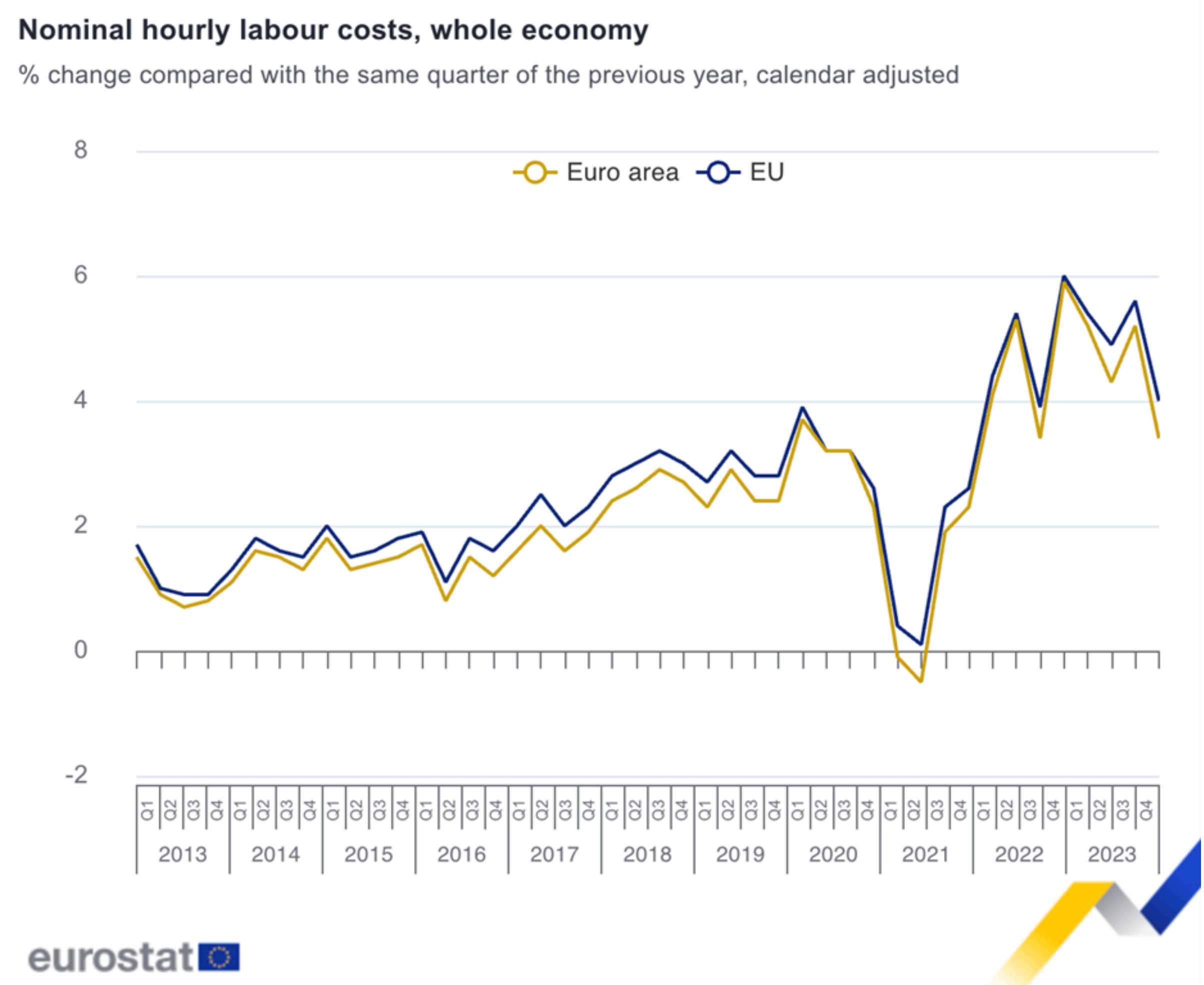
Details of Economic Releases:

1. **Japan January final industrial production down -6.7% m/m, -1.5% y/y after +1.2% m/m, -1.0% y/y - better than -7.5% m/m flash** - still the the steepest decrease in industrial output since May 2020, mainly dragged down by motor vehicles (-15.9% vs 0.3% in December), general-purpose and business-oriented machinery (-10.8% vs 6.4%), and electrical machinery, and information and communication electronics equipment (-7.6% vs 2.1%).

2. **German March ZEW economic sentiment jumps to 31.7 from 19.9 - better than 20.5 expected -** its highest level since February 2022 and surpassing market expectations of +20.5. Economic expectations for Europe's largest economy improved significantly, driven by investor anticipation of potential interest rate cuts by the European Central Bank in the coming six months. The German export sector exhibited robust optimism, propelled by heightened economic expectations for China and the anticipated depreciation of the dollar against the euro The current conditions improve to -80.5 from -81.7 - also better than -82 expected.

3. **Eurozone 4Q Labor cost index rises to 3.4% y/y from 5.2% y/y - better than 4.6% y/y expected**. Wages and salaries per hour worked were up 3.1% while the non-wage component advanced by 4.2%. Within the bloc's economic activities, the largest labor cost increases were observed in construction (4.4%), industry (4.2%) and services (4.1%).

Wages in Europe are different than US?



Source: Norway Stats /BNY Mellon

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

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