BNY MELLON

iFlow
MARKET MOVERS

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Birds

“Hold fast to dreams, for if dreams die, life is a broken-winged bird that cannot fly.” – Langston Hughes
“No bird soars too high, if he soars with his own wings.” – William Blake

Summary

Risk mixed as better APAC bourses with Japan on holiday and JPY racing to 152 along mixed data in Europe can’t offset raw nerves from FOMC decision today with a triptych of worries from the statement tone- expected hawkish, to the Powell press conference - expected dovish, to the “dot plot” expected noisy with little change. Beyond the US, the China PBOC kept its rates for 1Y and 5Y unchanged as expected, while BI also kept rates unchanged but talked about easing later in year. The focus on AI and chips helped Korea despite more North Korea missile tests and a loss in opening day baseball. The biggest overnight story is from the UK where lower CPI opens BOE rate cut hopes for June rising from 55% to 70% chance in futures. Disinflation elsewhere is welcome and drives but too much of it hurts as shown by German PPI. The inflation problem in South Africa also hurts making clear that the tone of the central bankers and their feathers of forward guidance matter.

What’s different today:

- **US Mortgages rates rise for the first time in 4-weeks** – up 13bps to 6.97% - while applications for mortgages drop 1.6% after 7.1% previous week, with refinancing index leading drop.
- **Taiwan export orders fell 10.4% y/y in February** - when 1.3% y/y expected - blamed on Lunar New Year hitting productivity.

- **iFlow** – Factors neutral, mood flat – market stuck but in FX on going selling of NOK and SEK against CAD, CHF and slight GBP buying, in EM its LATAM vs. APAC with only TWD buying vs. MXN selling. Bond flows mostly selling except US.

What are we watching:

- **Eurozone March consumer confidence flash** expected off -15.5 after -15 with recent data more upbeat this could matter for EUR into the FOMC.
- **US FOMC rate decision** expected unchanged but with some tweaks to language and with the quarterly economic projections showing wider forecasts on inflation and growth ahead.

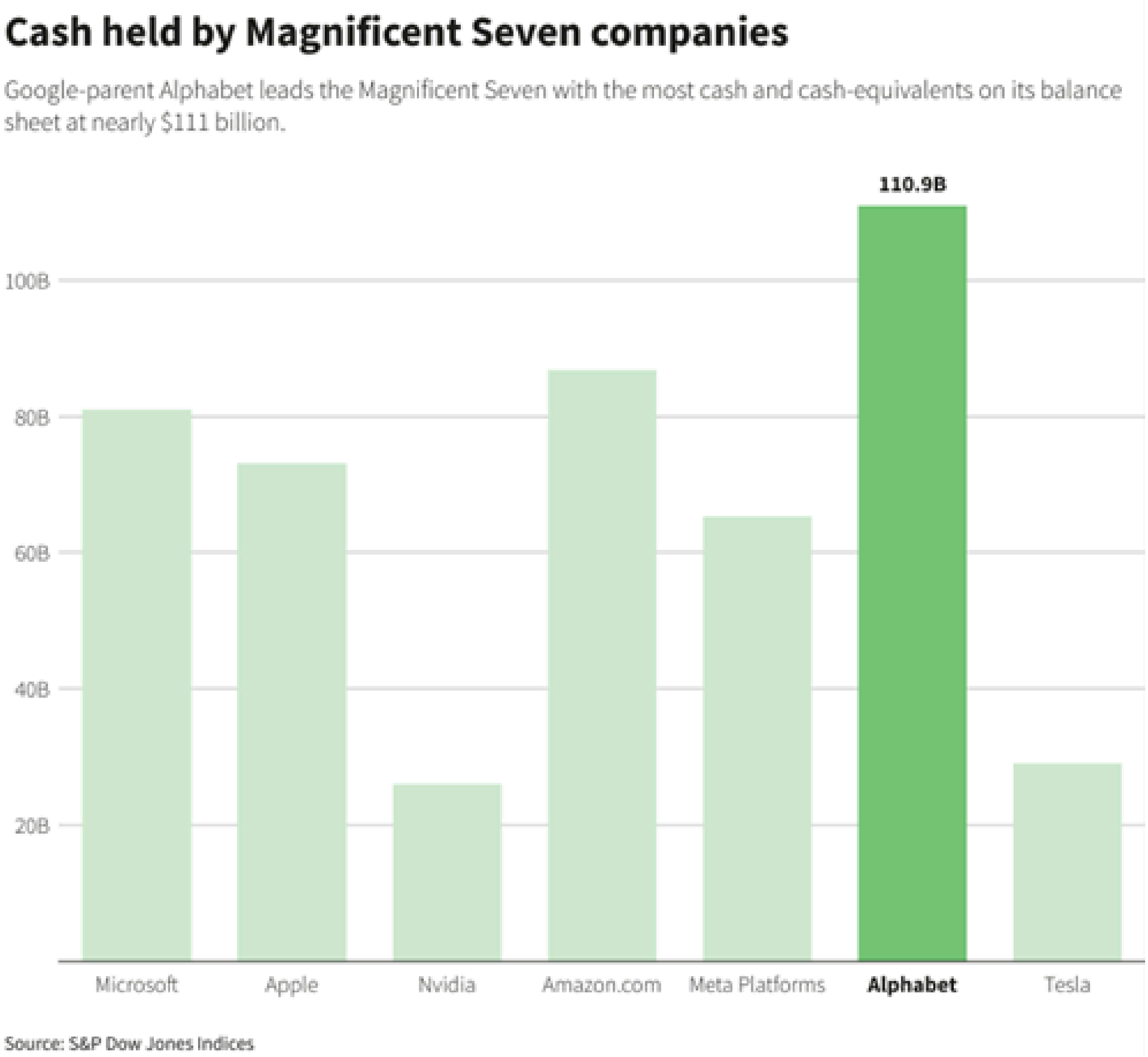
Headlines:

- China PBOC keeps 1Y and 5Y LPR unchangedat 3.45% and 3.95% - as expected – CSI 300 up 0.22%, CNH flat at 7.2135
- Bank Indonesia leaves rates unchanged at 6%- as expected – sees room to cut in 2H2024- IDR flat at 15,710
- China Foreign Minister Wang and Australia mend ties- end some tariffs – ASX off -0.1%, AUD off 0.2% to .6520
- North Korea tests new hypersonic missile designed for US strikes, Samsung benefits from Nvidia testing its chips – LA Dodgers beat S.Korea Kiwoom Heroes – Kospi up 1.3%, KRW flat at 1339.40
- Turkey Mar consumer confidence up 0.1 to 79.4 – better outlook offsets weaker household finances – TRY off 0.1% to 32.39
- South Africa Feb CPI rises 0.3pp to 5.6% y/y- highest in 4-months – ZAR up 0.1% to 18.88
- German Feb PPI fell -0.4% m/m, -4.1% y/y – 8th month of deflation – led by energy – DAX up 0.2%, Bund 10Y off 3bps to 2.418%
- Eurozone Jan construction output up 0.8% y/y – slowed by housing, while ECB Lagarde says ECB won't commit to rate cut path – EuroStoxx 50 off 0.1%, EUR off 0.2% to 1.0845
- UK Feb CPI drops 0.6pp to 3.4% y/y – with Core CPI off 0.6pp to 4.5% - Lowes since Jan 2022 – FTSE off 0.15%, GBP off 0.2% to 1.2695
- US weekly API crude oil inventories drop -1.519mb with gasoline inventory also down -1.574mb – WTI off 1.3%

The Takeaways:

What will Powell say? What markets want is certainty, what we will get is likely something else - he will be neither hawk nor dove but some other kind of bird. The debate about whether the FOMC is hawkish in its hold or dovish in its talk drives. Much will be made today by the dot plot (summary of economic projections) with the market set up for less cuts and high for longer. The focus on the statement will remain on hints about future rate cut possibilities. The spectrum of “no landing” to “hard landing” has a consensus in the middle of “soft landing.” We remain in the soft-landing zone and the meeting today is unlikely to matter to shifting anyone’s views. The markets want clarity and we live in a world of grey with data dependence. We have many feathers some hawks and doves on the FOMC board making the dispersion of views likely to come out in the width of dot-plot spreads across 2024 and 2025. Risks today revolve around what happens if the FOMC isn’t clear on QT tapering or on the path to cuts. The role of the FOMC as the cheerleader of risk isn’t lost on the Chair either, with financial conditions the feedback loop for the central bank here and everywhere. How stocks trade up post the meeting will add to concerns that the Fed can’t cut while bonds going down would be the opposite. Markets are finding a balancing act and in that expect volatility. Against this is the outlook for the economy where jobs and prices matter more and that puts the pressure on the market to rethink where cash vs. investments find the best use. The huge pools of cash matter significantly and maybe the best way to determine if the FOMC is successful – not to mention getting to full employment and stables (2% CPI) prices.

What happens to cash?



Details of Economic Releases:

1. **German February PPI drops -0.4% m/m, -4.1% y/y after +0.2% m/m -4.4% y/y - lower than the -3.8% y/y expected** - the eighth consecutive month of producer deflation, driven by a slump in energy costs (-10.1%), influenced by natural gas (-17.7%), electricity (-16.8%), and mineral oil products (-4.5%). Meanwhile, prices of intermediate goods declined by 3.8%, weighed down by metals (-7.8%) and basic chemicals (-11.4%). By contrast, prices of non-durable consumer goods climbed by 0.2%, while those of durable consumer goods advanced by 1.5%. Also, prices of capital goods rose 2.8%, mainly boosted by rises in machinery prices (3.3%) and the prices of motor vehicles, trailers, and semi-trailers (2.4%). Excluding energy, producer prices were 0.8% lower.

2. **Turkey March consumer confidence steady at 79.4 from 79.3 - weaker than 79.6 expected** - as the 12-month outlook slightly improved for the general economic situation (74.9 vs 74.6 in February) and financial situation of households (78.9 vs 78.2). Moreover, sentiment was higher for both saving propensity (74.8 vs 73) and householders are likely to spend on durable goods in the coming 12 months (97 vs 97.5). Meanwhile, the sentiment weakened for current financial situation of households (66.6 vs

67.1), as well as current general economic situation (49.9 vs 52.2). Lastly, views on future inflation ticked down (53.5 vs 54.6) and concerns continued to heighten for unemployment over the next 12 months (77.2 vs 76.5).

3. South Africa February CPI rises 1% m/m 5.6% y/y after 0.1% m/m, 5.3% y/y - more than the 5.5% y/y expected - the highest reading in four months, mainly due to accelerated prices for transport (5.4% vs 3.6% in January), housing & utilities (5.8% vs 5.7%), and miscellaneous goods & services (8.4% vs 5.4%). Conversely, inflation primarily slowed for food, reaching a near two-year low of 6.1%, down from 7.2% in the previous month. Meanwhile, the annual core inflation, which excludes food and fuel prices, picked up to an eight-month high of 5%, from a prior 4.6%, and coming more than market estimates of 4.8%

4. Eurozone January construction output rose 0.5% m/m, 0.8% y/y after 2.8% y/y - less than the 2% y/y expected. The EU as a whole fell 1% m/m, +0.1% y/y. For the Eurozone, building construction fell 2.1% m/m, while civil engineering rose 1% m/m and special activities roe 0.5% m/m. Biggest drops in construction were in Romania -34.3% m/m, Poland -16.5% and Netherlands -9.9%.

5. UK February CPI up 0.6% m/m, 3.4% y/y after -0.6% m/m, 4% y/y - less than the 0.7% m/m, 3.5% y/y expected -the lowest rate since September 2021, driven by a slowdown in price increases for food and non-alcoholic beverages (5.0% vs 6.9% in January), restaurants and hotels (6.0% vs 7.0%), recreation and culture (5.4% vs 5.7%), and miscellaneous goods and services (3.6% vs 4.5%). On the other hand, costs fell at a slower pace for both housing and utilities (-1.7% vs -2.1%) and transport (-0.1% vs -0.3%). The annual core inflation rate, which excludes volatile items such as energy and food, fell to 4.5%, the lowest rate since January 2022.

CPI low enough for BOE June Cut?

CPIH, OOH component and CPI annual inflation rates for the last 10 years, UK, February 2014 to February 2024

Source: Consumer price inflation from the Office for National Statistics

Source: Norway Stats /BNY Mellon

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

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