BNY MELLON

iFlow

MARKET MOVERS

March 21, 2024

Surprises

"A pessimist gets nothing but pleasant surprise, an optimist nothing but unpleasant." – Rex Stout

"Never ruin the surprises. Take 'em as they come." – Katie Delahanty

Summary

Risk on as investors chase equities higher globally with the FOMC carefully waiting for lower inflation, while the Swiss National Bank surprises with a rate cut – the first of the G10 central bankers – adding to the key question of where to put money to work. The certainty that rate cuts are in play drives and so risk parity rules with bonds bid, commodities higher and the USD mixed with CHF leading against the AUD which reflects an RBA stuck like the Fed, waiting as jobs there proved better than expected. The Taiwan central bank surprises as well today with a rate hike reflecting higher inflation, the push of money into Chips showing up and the regional recovery with Japan and South Korea leading. The UK is on hold too but next up with the BOE and the wait for when they join the fray of cutters – Autum like the Norges Bank or Summer like the ECB and FOMC. Also today is the Mexico Banxico decision where a cut should not be discounted given that Spring is proving the season up surprise. There is plenty to worry about in the surprises leading to less good than bad but for that markets have data and today is about weekly jobless claims, the flash PMI, Philly Fed outlook and the existing home sales. Data matters and dominates any other surprises ahead.

What's different today:

- **Central bank surprises** – Taiwan, SNB and TCMB – first time markets have been surprised by central bank actions in months.
- **Gold rises over $2,200** up 1% on the day – new records as investors doubt fiat currencies and the central bankers battle in taming inflation.

- **iFlow –** notable that USD flows were almost flat but CAD, CHF, buying vs. SEK NOK, JPY selling stood out. In Fixed Income, US and Japan inflows vs. Turkey, South Africa outflows – which saw unwinding of hedges in FX with TRY and ZAR inflows. Investors are setting up for month end, quarter end next.

What are we watching:

- **US March Philadelphia Fed Business Outlook** expected -2.5 after +5.2 – will it track NY Empire one question, focus on jobs, wages and expectations.
- **US weekly jobless claims** expected up 4k to 213k with the bigger focus on continuing claims expected up 9k to 1.82mn
- **US March flash composite PMI** expected down 0.3 to 52.2 with manufacturing off 0.4 to 51.8 and services down 0.3 to 52.0.
- **US February existing home sales** expected down 1.3% to 3.95mn rate from 4.00m – markets will watch this for prices and wealth effect on consumers.
- **Central Bank of Mexico rate decision** expected close call for 25bps easing to 11% - key will be outlook for how much easing they plan.

.Headlines:

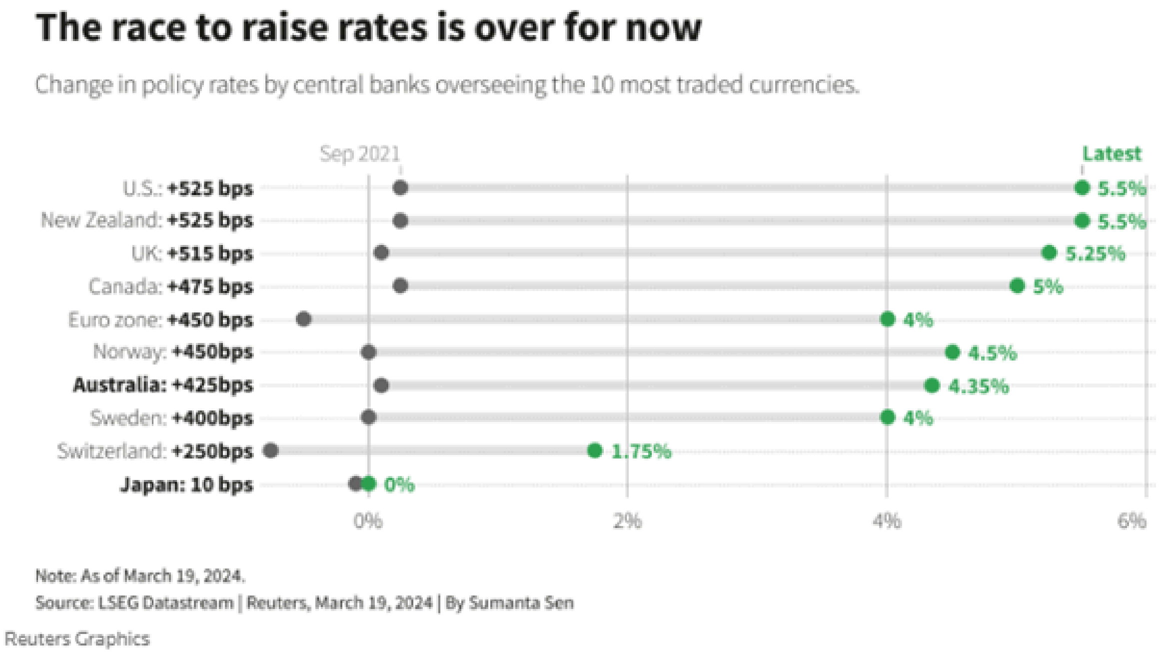
- Brazil Copom cuts rates 50bps to 10.75% - as expected – warn of slowing pace in May – BRL was up 1.1% yesterday at 4.97
- Taiwan central bank surprises with 12.5bps rate hike to 2%- with concern about electric power price hikes – TWD up 0.1% to 31.831
- Swiss National Bank surprise with 25bps rate cut to 1.5% - first G10 central bank to cut – Swiss Mkt up 0.7%, CHF off 0.7% to .8930
- Norges Bank leaves policy unchanged at 4.5%- as expected – Autum cut possible – NOK flat 10.58
- Turkey TCMB surprises with 5% rate hike to 50% - will hike further if inflation continues higher – TRY up 0.7% to 32.135
- Bank of England keeps rates on hold at 5.25% - as expected – but vote 8-1 with 2 hawks joining consensus – 10Y Gilts off9bps to 3.92%
- New Zealand 4Q GDP -0.1% q/q, -0.3% y/y - technical recession confirmed – NZD flat at .6080
- Australia Mar flash composite PMI up 0.3 to 52.4 - best since Apr 2023 - led by services; Feb jobs rose 116.5k pushing unemployment down to 3.7% - ASX up 1.12%, AUD up 0.2% to .6600
- Japan Mar Reuters Tankan jumps 11 to +10 - while Mar flash composite PMI rises 1.7 to 52.3 - best in 7-months and Feb trade deficit narrows to Y397.4bn with US exports up - Fin Min Suzuki monitoring FX rate with high sense of urgency – Nikkei up 2.03%, JGB 10Y up 0.2bps to 73bps, JPY up 0.1% to 151.15

- India Mar flash composite PMI rises 0.7 to 61.3 - best since July 2023 - led by manufacturing with best orders and output in 3 1/2 years – Sensex up 0.75%, INR up 0.1% to 83.147
- Eurozone Mar flash composite PMI up 0.6 to 49.9 - best in 9-months led by services – EuroStoxx 50 up 0.5%, EUR off 0.1% to 1.0910
- UK Mar flash composite PMI fell 0.1 to 52.9 - still 5th month of expansion - manufacturing output 13-month highs – FTSE up 1%, GBP off 0.3% to 1.2750

The Takeaways:

The surprise of rate hikes and rate cuts from central banks matters today and it stands out in the divergence of regions and markets as AI spurs one set of nations to growth and inflation while goods deflation dominates another. The Taiwan vs. Swiss contrast is overlayed by the geopolitics of the world as China recovery doubts dominate but leaves markets vulnerable to a bounce back while US growth and no-landing talk will be tested on the other – with today's data likely more important than the FOMC careful patience. The growth dynamic matters for the world and the green shoots of the flash PMI reports stands out. What this means in simple terms is that the turning point of the uniform rate hike cycle is over in G10 but not in some emerging markets. The keys for the day ahead will focus on the role of emerging markets and carry trades as they battle the fears about surprises having unintended consequences. Investors like certainty and on the day and week and perhaps months ahead easing rather than tightening is the path to asset price inflation. The biggest test won't be in CHF but in JPY as the BOJ at 0-10bps remains far behind the others in the G10 in real rates.

The hike cycle in G10 is over



Details of Economic Releases:

1. New Zealand 4Q GDP drops -0.1% q/q, -0.3% y/y after -0.3% q/q, -0.6% y/y - weaker than +0.1% q/q, +0.1% y/y expected - this marks the fourth quarter of contraction in the last five quarters, driven by declines in wholesale trade (-1.8% compared to -2.2% in Q3) and retail trade activity (-0.9% compared to -0.4% in Q3). Results at industry level were mixed – 8 out of 16 industries increased, driven by rental, hiring, and real estate services; and public administration, safety, and defense.

2. Australian March flash Judo Bank composite PMI rises to 52.4 from 52.1 - better than 51.5 expected. The services flash rose to 53.5 from 53.1 while the manufacturing fell to 46.8 from 47.8. Overall, private sector activity expanded for a second consecutive month and at the quickest pace since April 2023 due to expansion in the service sector. New business in the service sector grew due to increased queries and improved demand conditions, while new orders for goods remained subdued due to high interest rates and soft economic conditions. Australian private sector firms expanded their workforce capacity to support ongoing operations, although the rate of growth slowed to the softest since last July, with manufacturing headcounts declining again and at a quicker pace. Cost pressures eased in both manufacturing and services, leading to lower selling price inflation in March. The rate of input cost inflation was the lowest since August 2021 but remained above the series average.

3. Australian February jobs jump 116,500 after 15,200 - better than 40,000 expected - pushing unemployment down to 3.7% from 4.1% - also better than 4% expected. The participation rate rose to 66.7% from 66.6% - while Full-time employment climbed by 78,200 to 9,824,900 and part-time employment increased

38,300 to 4,444,700. Over the year to February, employment added 437,100 or 3.2 percent. The underemployment rate inched down to 6.6%, which was 2.2 points lower than that in March 2020. Additio nally, monthly hours in all jobs rose by 53 million, or 2.8%, to 1,933 million.

4. Japan March flash Jibun Bank composite PMI rises to 52.3 from 50.6 - better than 50.9 expected - highest reading since August 2023, pointing to the third consecutive month of growth in private sector activity, as service providers expanded the most in ten months 54.9 from 52.9, while the manufacturing sector contracted at the softest pace in four months at 48.2 from 47.2.. Demand conditions improved further, with orders from the service economy rising at the steepest pace since last June while those from factory activity fell the least in five months. Also, employment grew for the sixth month running, amid a renewed increase in staffing levels among manufacturers. However, a decline in foreign sales quickened. On the cost front, input price inflation hit a five-month high, due to an acceleration at service providers and persistently high input cost in manufacturing. Meanwhile, output charges rose the most in seven months. Finally, sentiment strengthened.

5. Japan March Reuters Tankan rises to +10 from -1 - better than +3 expected - three-month highs. in a sign businesses are growing more optimistic on the country's economic recovery. The latest figure reflected gains in the auto industry, oil refining and chemicals. The monthly report, which closely tracks the Bank of Japan's quarterly tankan survey, came days after the central bank took a first step toward normalizing monetary policy amid rising wages and high inflation

6. Japan February trade deficit narrows to Y379.4bn after Y1760.3bn - better than Y810bn expected. Exports rose by 7.8% yoy, the third straight month of growth, to JPY 8,249.21 billion, amid robust demand from the US and China. Meanwhile, imports increased at a softer 0.5%, the first rise in 11 months, to JPY 8,628.57 billion, as domestic demand started to recover. In 2023, Japan logged a trade shortfall of JPY 9.29 trillion, the third successive year of gap.

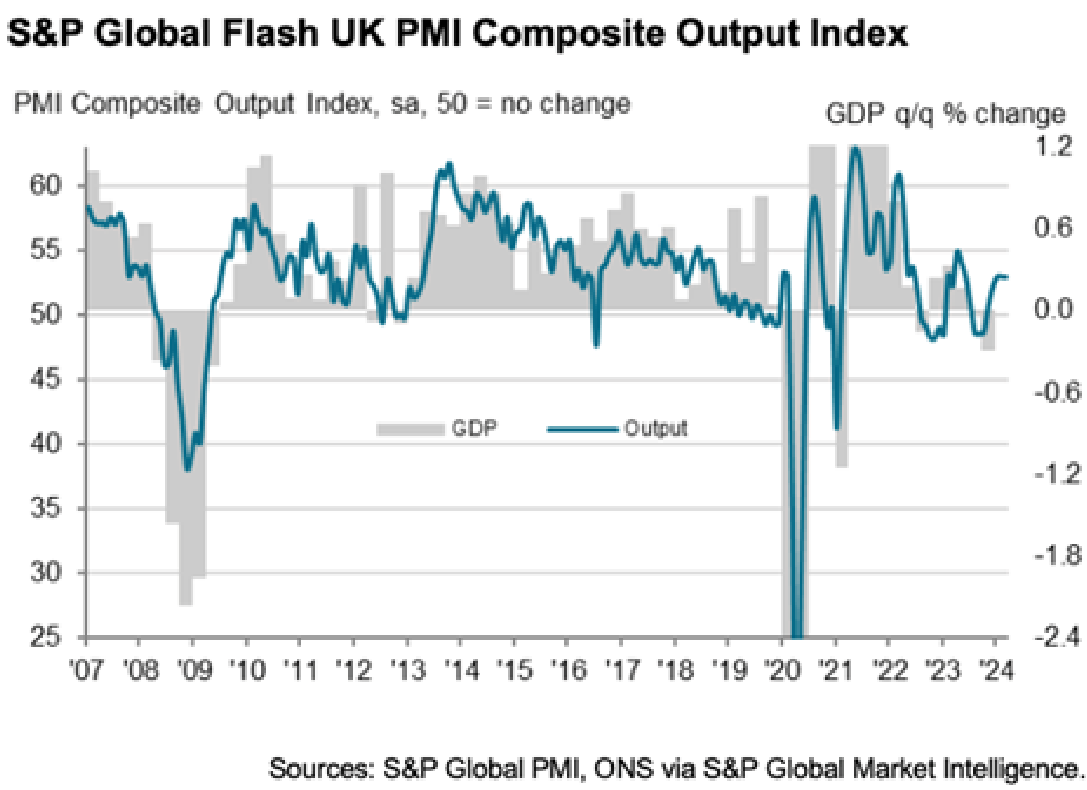
7. India March flash HSBC bank composite PMI rises to 61.3 from 60.6 - better than 58 expected - the highest figure since July 2023 amid a pick-up in the manufacturing sector (59.2 from 56.9) while the service slowed to 60.3 from 60.6. Composite new orders grew for the 32nd straight month, notably in manufacturing where demand and production increased the most in almost 3-1/2 years. Also, new export orders rose at the fastest pace in seven months on the back of robust demand from all sectors. Further, employment grew the most in six months, with buying levels seeing the strongest increase since last July. On the cost front, input price inflation hit a seven-month peak, indicating higher labor and transportation costs. Rates of increase at manufacturers and service providers were at five- and seven-month highs, respectively. Meantime, selling prices went up at the steepest rate in five months. Finally, confidence strengthened, supported by marketing efforts, new client inquiries, and projects in the pipeline.

8. Eurozone March flash HCOB composite PMI rises to 49.9 from 49.2 - better than 49.7 expected - the highest for nine months, and indicated a near-stabilization of business activity, with service sector output rising for the second consecutive month in March after six months of decline up 51.1 from 50.2. However, manufacturing output continued to decline for the twelfth consecutive month, albeit at a slightly slower pace, resulting in another month of steep contraction 45.7 from 46.5. Overall, new orders declined at the slowest rate in ten months, and backlogs of work were depleted at the weakest rate in nine months, while employment saw modest growth. On the price front, input cost inflation slowed to a three-month low, and selling price inflation cooled for the first time in five months after reaching a nine-month high in February. Finally, business confidence improved to its strongest level since February 2023.

9. UK February public sector net borrowing excluding public sector banks decreased to £8.4 billion compared to £11.8 billion in Feb 2023 - more than the £5.95 billion expected. Total public sector receipts rose by 8.5% to £94.8 billion, primarily fueled by a remarkable surge of over 10% in central government tax receipts, marking the highest year-on-year increase in seven months. Meanwhile, expenditure advanced by 4.0% to £103.2 billion, attributed in part to the central government's disbursement of the final cost-of-living payment for the current fiscal year, amounting to around £2 billion for eligible recipients. Combined with inflation driven spending, this offset the reduced cost of the largely closed energy support schemes. Borrowing in the financial year-to-February 2024 was £106.8 billion, £4.6 billion less than in the same eleven-month period a year ago, and the lowest in nominal terms for four years.

10. UK March flash composite PMI steady at 52.9 from 53 - weaker than 53.1 expected - still, the fifth month of expansion in the country's private sector thanks to a solid rate of output increase. Service sector growth was quicker than that seen in the manufacturing sector, despite losing momentum in March. New business rose for the fourth consecutive period, while export sales went up for the first time since May 2023. Despite a sustained rebound in business activity and incoming new work, employment stagnated, with the firms citing cost pressures, natural difficulties retaining existing staff and finding suitable candidates to fill vacancies. On prices, input inflation stayed elevated due to higher salaries, freight costs and tight supply after Red Sea shipping disruptions. Meanwhile, output inflation came its highest since July 2023. Overall, business expectations for the year ahead remained reassuringly lofty by recent standards.

BOE turning dovish?



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