

iFlow

MARKET MOVERS

March 22, 2024

Changing

“Progress is impossible without change, and those who cannot change their minds cannot change anything.” – George Bernard Shaw

“To improve is to change; to be perfect is to change often.” – Winston Churchill

Summary

Markets mixed with lower APAC and EMEA equities linked to rethink of US rate cut path, less certainty on growth recovery in China, more hike risk from Japan, ongoing geopolitical worries with US warning Ukraine on Russia refinery attack and pushing for UN resolution for Israel/Hamas ceasefire. The data overnight was mixed as well with Japan CPI higher, German Ifo higher, UK retail sale flat but better than feared. Good news is bad for now. In the US session ahead, there is little on the agenda and that may mean further profit taking for a week of big equity gains and modest bond gains. The world is watching the March madness and hoping for less upsets than the overnight session – with the next week looking just as important as this one for markets given the Easter Holidays and quarter end pressures to close the month with a bang. What matters is how investors change their game plans into 2Q and whether the mood for global recovery means a rotation out of the US exceptionalism trade.

What's different today:

- **CNH trades at 4-month lows** – off 0.65% to 7.2670 – even with State Bank USD selling, blame for move linked to expectations for further stimulus, RRR cuts, and JPY weakness

- **ARS bonds hit new record highs** – 2030 bonds trade over 51 cents up from 18.12 cents in July 2022. Argentina bonds are up 60% since Milei was elected on November 19.

What are we watching:

- **Canadian January retail sales** expected -0.4%, +2.5% y/y after up +0.9% m/m, +2.9% y/y with ex autos -0.4% m/m after 0.6% m/m – BOC April cut risk higher post lower CPI and SNB cut.
- **Mexico January economic activity** expected up 0.3% m/m, 2.6% y/y from 1.1% - Banxico cut will be viewed against their growth/inflation mix; **also mid-month March CPI** expected up 0.26% m/m, 4.62% y/y after 4.63% y/y.

Headlines:

- Russia CBR leaves policy unchanged at 16% - as expected – WTI up 0.2%
- Korea Feb PPI up 1.5% y/y – most since April – Kospi off 0.23%, KRW off 1.2% to 1338.3
- Japan BOJ Ueda sees end of bond buying in future, continued steady easy policy exit; Feb CPI rises 0.6pp to 2.8% y/y – most since Nov 2023 – Nikkei up 0.18%, 10Y JGB up 0.2 to 0.73%, JPY flat at 151.55
- China Feb FDI drops faster to -19.9% y/y to \$30bn – with high tech and construction leading – CSI 300 off 1.01%, CNH off 0.7% to 7.2760
- RBA Financial Stability Review – 5% of mortgage holders spending more than they earn, still sees banks safe – ASX off 0.15%, AUD off 0.85% to .6515
- Turkey Mar business confidence jumps 2.9 to 104.4 – best since Sep 2023 -
- Norway Mar registered unemployment off 0.1pp to 2.0% - NOK off 0.9% to 10.76
- German Mar Ifo business climate up 2.1 to 87.8 – best since June 2023 – led by ECB cut hopes, lower inflation – DAX up 0.1%, Bund 10Y yields off 3.5bps to 2.37%
- ECB Nagel: May cut rates before June, but won't be automatic from start – Market prices 90bps easing 2024 – EuroStoxx 50 off 0.35%, EUR off 0.35% to 1.0820
- UK Feb retail sales 0% m/m, -0.4% y/y – still down -0.4% in 3M to Feb; CBI Mar manufacturing orders up 2 to -18 – as expected, exports lower – FTSE up 0.8%, GBP off 0.6% to 1.2580

The Takeaways:

Divergence of policy and economic cycles are in play for the second quarter, along with a changing of leadership for assets as bonds balance out against bigger equity gains and as recovery hopes linked to central bank easing temper with politics. The overnight session was a compare and contrast of CNH to JPY with the PBOC not yet delivering the critical policy confidence to hold up stock market gains there while the BOJ rate hike seems far from achieving any cap to inflation. JPY weakness and a stable JGB market maybe a relief to some that feared a BOJ shift from negative rates, but it's a concern for those that expect Japan to fight inflation like other G10 banks did over the last 2 years. The comfortable markets of 1Q are changing into a more difficult 2Q with more opportunities in tow for chasing yield in some emerging markets but also finding less joy in the FX linked volatility in others. The surprise of the week from the SNB easing rates means that the hope for a USD smile and change stalled and that in turn causes global rethinking on whether good news is bad in the US with rate policy still uncertain despite the best efforts of FOMC Chair Powell to inspire confidence in the soft-landing and rate cuts to find neutral policy rather than a recession. The June rate cut fever is breaking and with it the narrative that dominated winners and losers for 1Q. The JPY weakness has a limit and its effect on China and the US mood is about to be tested.

CNHJPY in FX and S&P500 correlate?



Details of Economic Releases:

- 1. Korea February PPI up 0.3% m/m, 1.5% y/y after 0.5% m/m, 1.3% y/y – as expected** – still, the biggest increase in factory gate prices since April, as costs rose for agricultural, forestry, and marine products (+10.9 percent vs +9.8 percent in January) and electric power, water, and gas (+0.3 percent vs 0.0 percent). Meanwhile prices increased at a softer pace for services (0.9 percent vs 2.2 percent).
- 2. Japan February core CPI rises to 2.8% y/y from 2% y/y – as expected** – first gain in 4-months, highest since November 2023 and 23rd month over 2% BOJ

target. The headline rate also up to 2.8% y/y from 2.2% while the core-core (food/energy) fell to 3.2% y/y from 3.5% y/y. The rise is mainly due to base effects, as energy subsidies introduced by the government in February 2023 are losing their effect. Prices of fuel, and light fell the least in 11 months (-3.0% vs -13.9%), due to electricity (-2.5% vs -21.0%) and gas (-9.4% vs -15.3%). Also, prices accelerated for culture & recreation (7.3% vs 6.8% in January) but inflation slowed for food (4.8% vs 5.7%), housing (0.6% vs 0.7%), transport (2.9% vs 3.0%), healthcare (1.8% vs 2.3%), clothes (2.6% vs 3.0%), furniture & household utensils (5.1% vs 6.5%), education (1.3% vs 1.4%), communication (1.4% vs 2.1%) and miscellaneous (1.1% vs 1.2%).

3. Norway March registered unemployment 71,560 to 2.0% rate after 71,000 and 2.1% rate – better than 2.2% expected. The seasonally adjusted February report from Stats Norway also showed 3.6% rate from 4.5% (which was 2 ½ year highs).

4. Turkey March business confidence jumps to 104.4 from 101.5 – better than 102 expected - the highest reading since September 2023, as expectations for production over the next three months increased significantly (121.6 vs 109.8 in February). Additionally, anticipations for the next three months showed improvement in total employment (108.8 vs 108.4) and exports orders (121.3 vs 112.2). Meanwhile, decreases were recorded in the current amount of orders (86.10 vs 89.4) and stocks of finished goods (95.6 vs 96.8). Furthermore, the gauge for fixed investment expenditure (114.20 vs 114.4) edged down, while there was an upturn in the general business situation (91.1 vs 89.5).

5. German March Ifo business climate rises to 87.8 from 85.7 – better than 86 expected – best since June 2023, fueled by anticipations of potential interest rate cuts by the European Central Bank and a gradual easing of inflationary pressures. Companies exhibited a less pessimistic outlook regarding the forthcoming months (87.5 vs 84.1 in February), while their assessment of the current business situation also showed a less gloomy stance (88.1 vs 86.9). Breaking down the data by industry, sentiment improved among manufacturers (-10.0 vs -17.1), service providers (+0.3 vs -4.0), traders (-22.9 vs -30.8), and constructors (-33.5 vs -35.4).

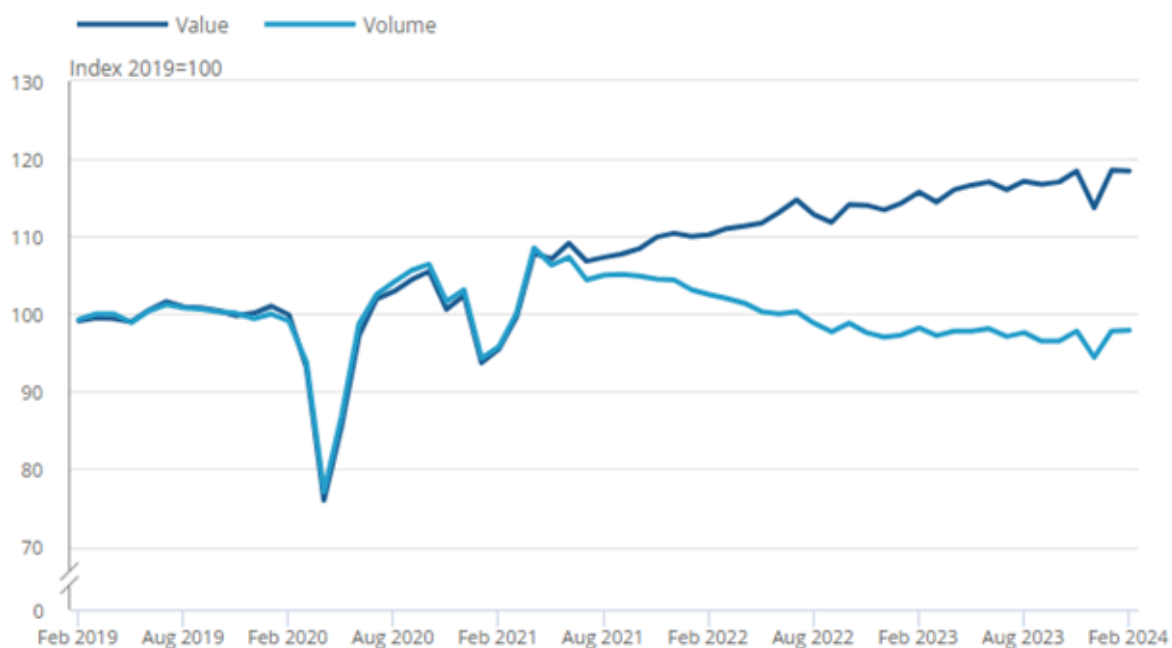
6. UK February retail sales 0% m/m, -0.4% y/y after 3.6% m/m, +0.5% y/y – better than -0.3% m/m, -0.7% y/y expected. While clothing (1.7%) and department stores (1.6%) experienced boosts in sales due to new collections, this was counteracted by notable declines in trade at food stores (-0.3%) and fuel retailers (-1.3%). Additionally, online sales surged by 2.1%, marking the highest increase since July 2023, particularly for clothing retailers, as wet weather affected footfall. More broadly, sales volumes fell by 0.4% in the three months to February

2024 when compared with the previous three months, and by 1.0% when compared with the three months to February 2023.

Retail Sales better than feared but still weak

Sales volumes and values broadly unchanged in February 2024

Volume and value sales, seasonally adjusted, Great Britain, February 2019 to February 2024



Source: Monthly Business Survey, Retail Sales Inquiry from the Office for National Statistics

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

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2020 The Bank of New York Mellon Corporation. All rights reserved.