BNY MELLON

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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).

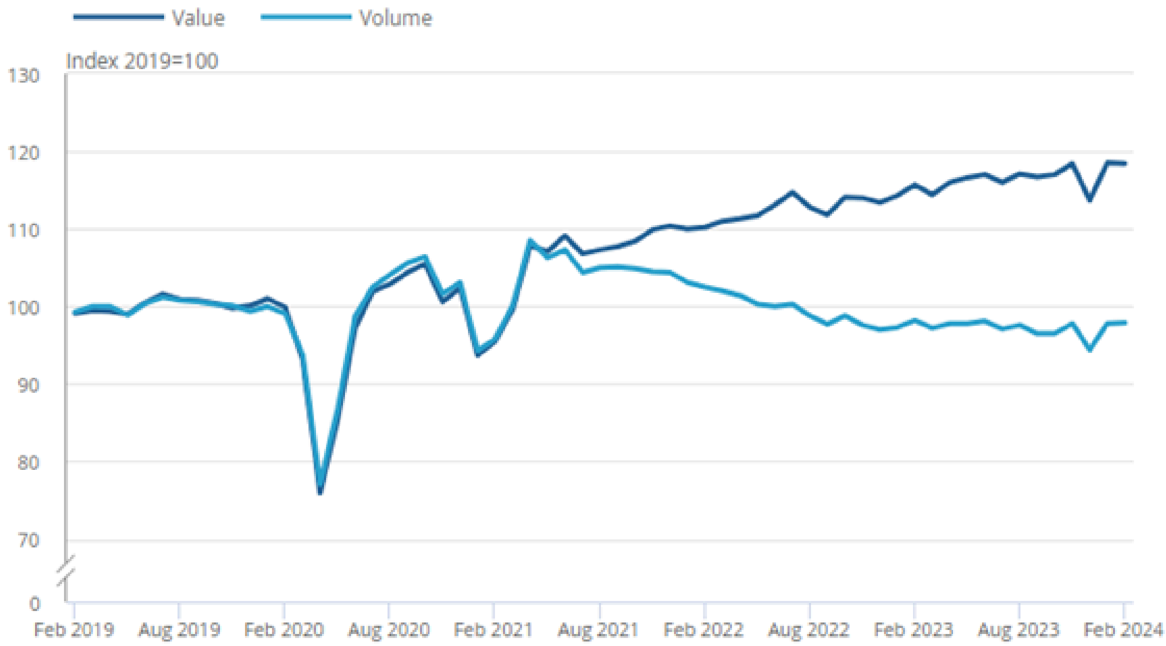
6. UK February retail sales 0% m/m, -0.4% y/y after 3.6% m/m, +0.5% y/y – better than -0.3% m/m, -0.7% y/y expected.   While clothing (1.7%) and department stores (1.6%) experienced boosts in sales due to new collections, this was counteracted by notable declines in trade at food stores (-0.3%) and fuel 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

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