BNY MELLON

iFlow
MARKET MOVERS

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In the Middle

"If you find yourself stuck in the middle there is only one way to go, forward." – Richard Branson
"Clowns to the left of me, jokers to the right, here I am…." – Stealers Wheel

Summary

Risk off as markets wait for more data and the holidays, USD lower, bonds lower and no big stories to shift the view that we are stuck in the middle of big ranges with stocks yet to see their best day or bonds their worst. The FX markets were locked into CNY and PBOC fixing lower helped, while JPY is stuck with MOF talk not action a problem. The BOJ minutes make clear their bias to go slow on any hikes ahead, while in Europe the focus is on Riksbank telegraphing the ECB easing bias. The Fed speakers today matter as does the front-end supply. But with nothing likely to shift markets forward. Focus likely on politics and geopolitics with Oil higher a problem.

What's different today:

- **Brent oil trades near $86bbl – up 0.5% - unwinding losses from last week** – focus is on Russia oil refining post drone attacks, UN inability to pass Gaza ceasefire resolution.
- **US and Japan plan security pact upgrade** – biggest shift in 60-years – plan puts higher ranking US military in Japan rather than Hawaii.
- **iFlow** – stuck in the middle on mood and factors driving markets – leaves rotational risks in play with FX Friday data showing in FX - SEK, NOK, NZD selling vs. CAD, CHF and GBP. In EM, selling of PHP, INR, IDR vs. TWD, COP,

ZAR. Equities still mixed, Fixed Income notable Turkey selling along with Norway and China.

What are we watching:

- **Fed Speakers: Atlanta Fed Bostic Speech** – on Friday he suggested 1 rate cut not 2 – focus is on his dot and views about waiting vs. recession risks. Also Speaking – Chicago Fed Goolsbee with Yahoo Finance and Fed Governor Cook on the dual mandate.
- **Chicago Fed February national activity index** expected -0.34 after -0.30 – this is a broad economic indicator and flies in face of bullish growth stories.
- **US February new home sales** expected up 2.1% m/m to 675,000 from 661,000 – following the surprise gains in existing home sales, focus is on weather/supply/prices vs. mortgages.
- **US Treasury sells** $73bn in 3M and $70bn in 6M bills, then $66bn in 2Y notes.
- **US Presidential candidate Trump deadline for $464mn guarantee** on NY Fraud case appeal – some fire sale of assets a focus.

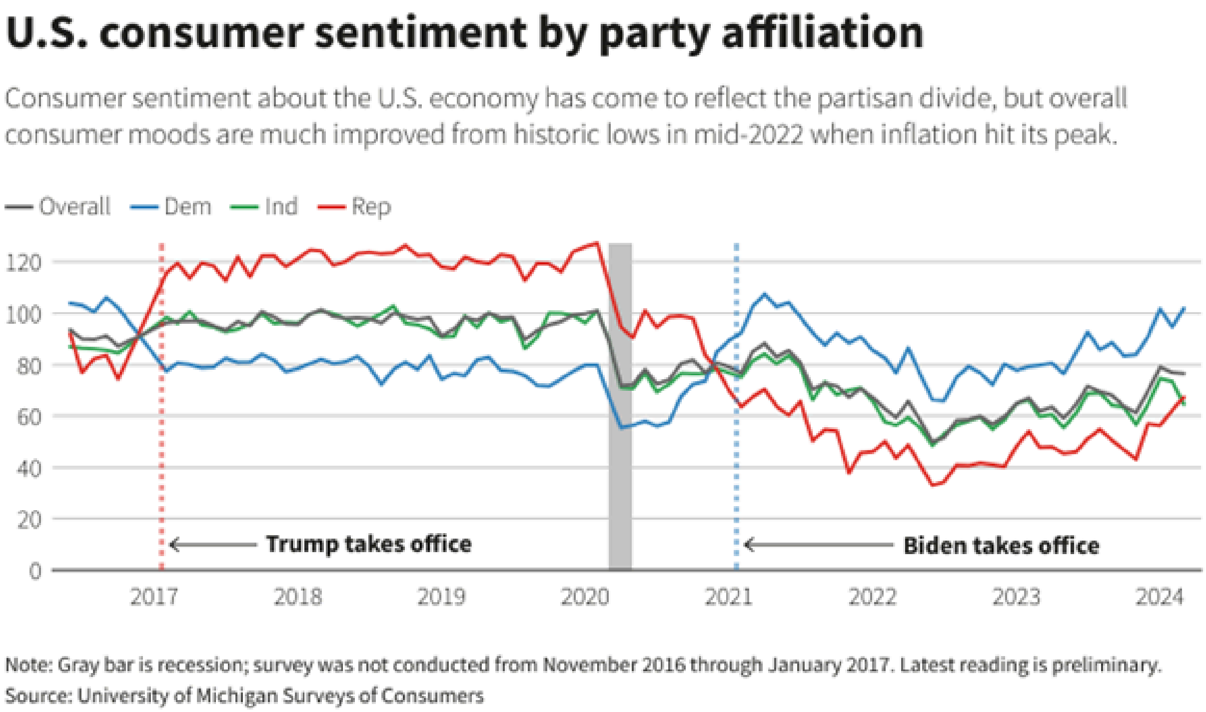
Headlines:

- BOJ January Minutes: Agreed to wait for wage data, no pressure to match hikes of other G10 nations, Japan Jan LEI revised off 0.4 to 109.5, coincident up 1.9 to 112.1 – still lowest since May 2022 – MOF Kanda closely watching JPY doesn't reflect fundamentals – Nikkei off -1.16%, JGBP 10Y off 0.5bps to 0.726%, JPY up 0.1% to 151.30
- IMF Georgieva: China at fork in road while Premier Li downplays economic risks– PBOC fixes CNY stronger, signals fight against currency rapid deprecation; New guidelines block Intel and AMD chips – CSI 300 off 0.54%, CNH up 0.3% to 7.2525
- Singapore Feb CPI up 1% m/m, 3.4% y/y – biggest monthly gain in 15-months, core 3.6% y/y at 7-month highs – SGD rose 0.2% to 1.3460
- South Africa 1Q consumer confidence improves 2 to -15 – highlights income and inflation issues – ZAR up 0.35% to 18.953
- Spanish Feb PPI -8.1% y/y – biggest drop since Sep 2023 – led by energy, while consumer confidence fell 0.1 to 78.5 from 5-month highs, outlook weaker – IBEX flat, SPGB up 2bps to 3.17%, EUR up 0.1% to 1.0820.
- UK Mar CBI retail sales up 9 to +2 – spending linked to Easter cited – FTSE off 0.4%, GBP up 0.25% to 1.2630

The Takeaways:

FX markets are locked into 152 JPY and the MOF warnings having little impact today. Japan MOF Kanda said today the yen's current weakness did not reflect fundamentals, seemed somewhat speculative and nothing would be ruled out if moves got out of hand. "I feel something strange about it," he said. The US bond markets are locked into 4.75% 2Y yields and the risk that the FOMC is mixed on the 3 cut talk. The weekend signing of a $1.2trn budget pushing government shutdown risks to September adds to the drama of government spending and debt dynamics ahead. US shares are watching the month-end and quarter-end rotational risks along with the growth dynamics. Fears about bubbles are prolific but insufficient to pop any one driver. The data on the week ahead is back loaded leaving many expected easy trading, while others see noise until core PCE and Powell. Consumer confidence and the notable drop in US retail sales merits some worry and could matter as the politics of November become larger issues for mood swings. Gasoline prices, home prices, debt and finances and taxes all matter and make today exciting in the sense that small moves out of the middle suggest change.

Consumer and politics matter in 2024



Details of Economic Releases:

1. Japan January final leading economic index revised lower to 109.5 from 109.9 – weaker than flat 109.9 expected – but December was the highest reading in 13-months, as recovery in the Japanese economy remained fragile. The economy grew 0.1% q/q in Q4 of 2023, amid uncertainties in global conditions. Meanwhile, the coincident economic index revised higher to 112.1 from 115.9 – better than the 110.2 flash – still the lowest reading since May 2022.

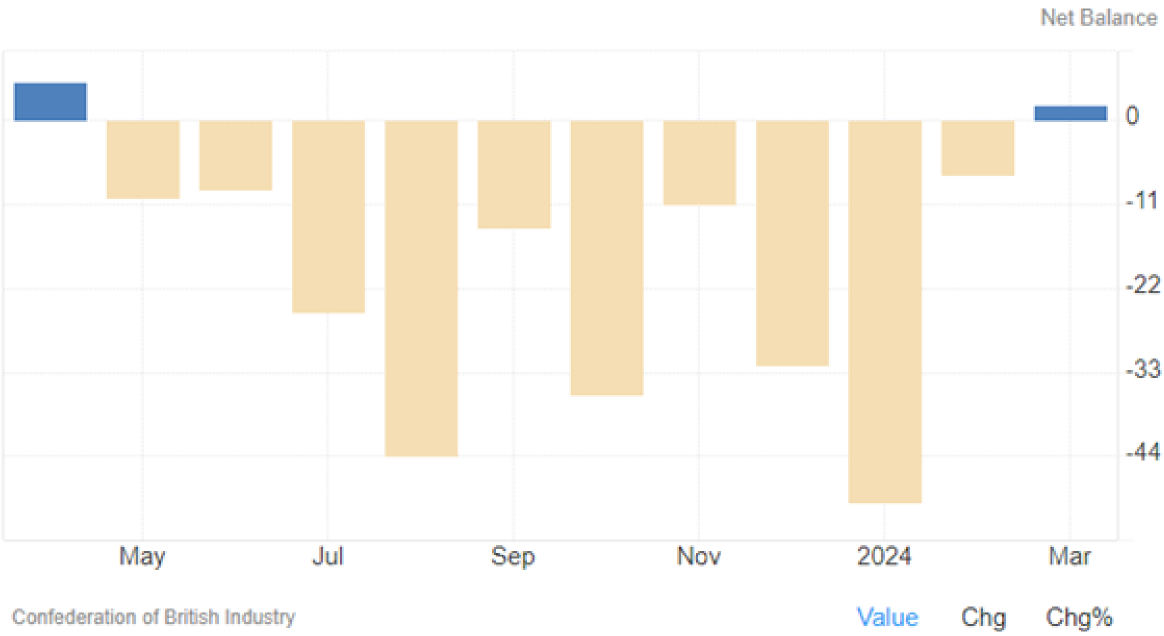
2. **Singapore February CPI up 1% m/m, 3.4% y/y after -0.7% m/m, 2.9% y/y – more than 3.4% y/y expected** - mainly to a faster rise in housing and food prices. Inflation accelerated for housing (3.9% vs 2.4% in January), recreation & culture (5.5% vs 4.4%), education (3.4% vs 3.2%), and food inflation rose to a three-month high of 3.8% from a 22-month low of 3.3% in January. Meanwhile, inflation was steady for transport (at 2.3%), health care (at 4.6%), and miscellaneous goods & services (at 2.6%). On the other hand, the annual core inflation advanced to a seven-month high of 3.6% in February from January's 23-month low of 3.1%

3. **South Africa 1Q consumer confidence -15 from -17 – as expected** - boosted by an uptick in the confidence levels of high-income households. "Significantly lower levels of load-shedding and a deceleration in inflation - particularly on the food price front - likely supported consumer confidence during the first quarter. However, job losses in the fourth quarter and renewed fuel price hikes in February and March probably countered some of these positive developments, particularly for low-income households. The tightening in fiscal policy announced in the February Budget Review probably also clipped consumer confidence", FNB Chief Economist Mamello Matikinca-Ngwenya said. Consumers are still under pressure, but coupled with a deceleration in inflation, improved consumer sentiment should bolster retail sales volumes somewhat in the coming months.

4. **Spanish February PPI drops -2.3% m/m, -8.2% y/y after +0.2% m/m, -3.9% y/y – more than the -2% y/y expected** and the biggest drop since September 2023, driven by a 24.2% plunge in energy prices (compared to -12.8% in January). The cost of intermediate goods also decreased (-5.2% compared to -5.6%), alongside a slowdown in inflation rates for both non-durable consumer goods (4.7% compared to 5.6%) and capital goods (2.5% compared to 2.7%). On the other hand, durable consumer goods inflation picked up slightly to 0.9% from 0.8% y/y.

5. **UK March CBI retail sales rose to +2 from -7 – better than -3 expected**. The latest reading signaled a slight rebound in British retail sales after a decline over the past 10 months, largely bolstered by increased spending attributed to the earlier timing of Easter. However, retailers anticipate a decline in sales volumes once again in April, despite the prospect of easing inflation supporting retail spending in the future. The CBI survey also revealed that retailers reduced orders to suppliers this month and anticipate doing so again in April.

Retail Sales better than feared but still weak



Source: UK CBI /BNY Mellon

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