BNY MELLON

iFlow
MARKET MOVERS

March 26, 2024

Flat

“Sometimes God has put us flat on our back before we are looking up to Him.” – Jack Graham
“A bad attitude is like a flat tire, if you don’t change it, you’ll never go anywhere.” - Anonymous

Summary

Risk mixed with market focused on divergent themes across assets with stocks focused on AI and Chip wars, bonds locked in on the inflation vs. growth and policy debates, FX chasing EM returns and month-end hedging. Flat has become the new up for moods and the politics of the moment are the bumps. The French budget deficit at 5.5%, China Merchant Bank dividend surprise, the Boao Forum start all that seems to balance out against better growth stories across APAC and EMEA. This puts the US open into perspective as lackluster trading into quarter end is expected but for the risks of surprise and with those durable goods, home prices, consumer confidence and another large note sale all matter. There is a difference between flat markets and flat position, and no one feels happy about either.

What’s different today:

- **Steel trades near 4-year lows** - CNY 3,500 – as China iron ore shipments continue at normal levels, but output growth stalls with smelted iron ore -7% year to date.
- **MOF Suzuki: won’t rule out any measures to stop JPY** weakness - with JPY steady at 151.30 verbal intervention continues but seems to be holding JPY below 152 to USD.

- **iFlow** – Equities globally sold across sectors but four regions are positive – all emerging markets with APAC and EMEA leading. The FX markets remain negative APAC, mixed in G10 with USD neutral while bonds are also mixed with Turkey outflows vs. Polish gains along with Indonesia.

What are we watching:

- **Brazil BCB Copom meeting minutes** - key for determining slowing of easing ahead and support for BRL
- **Brazil March mid-month CPI** expected up 0.3% m/m, 4.1% y/y after 4.5% y/y - also key for rate path ahead.
- **US February durable goods orders** expected up 1.1% m/m after -6.1% m/m, with the durable goods non-defense, ex air key for capital orders expected up 0.1% mm after 0.1% m/m
- **US January Case-Shill home prices** expected -0.1% m/m, +6.7% y/y after -0.3% m/m,, 6.1% y/y - home prices and CPI linked for home-owner shelter equivalence. FHA home prices also out and expected up 0.1% m/m same as December.
- **US March conference board consumer confidence** expected up 107 from 106.7 - with focus on jobs, inflation.
- **US March Richmond Fed Manufacturing Index** expected -13 from -15 - any rebound matters - with ISM forecasting at play.
- **US Treasury** sells $70bn 42-day CMB bill and $67bn 5Y notes

Headlines:

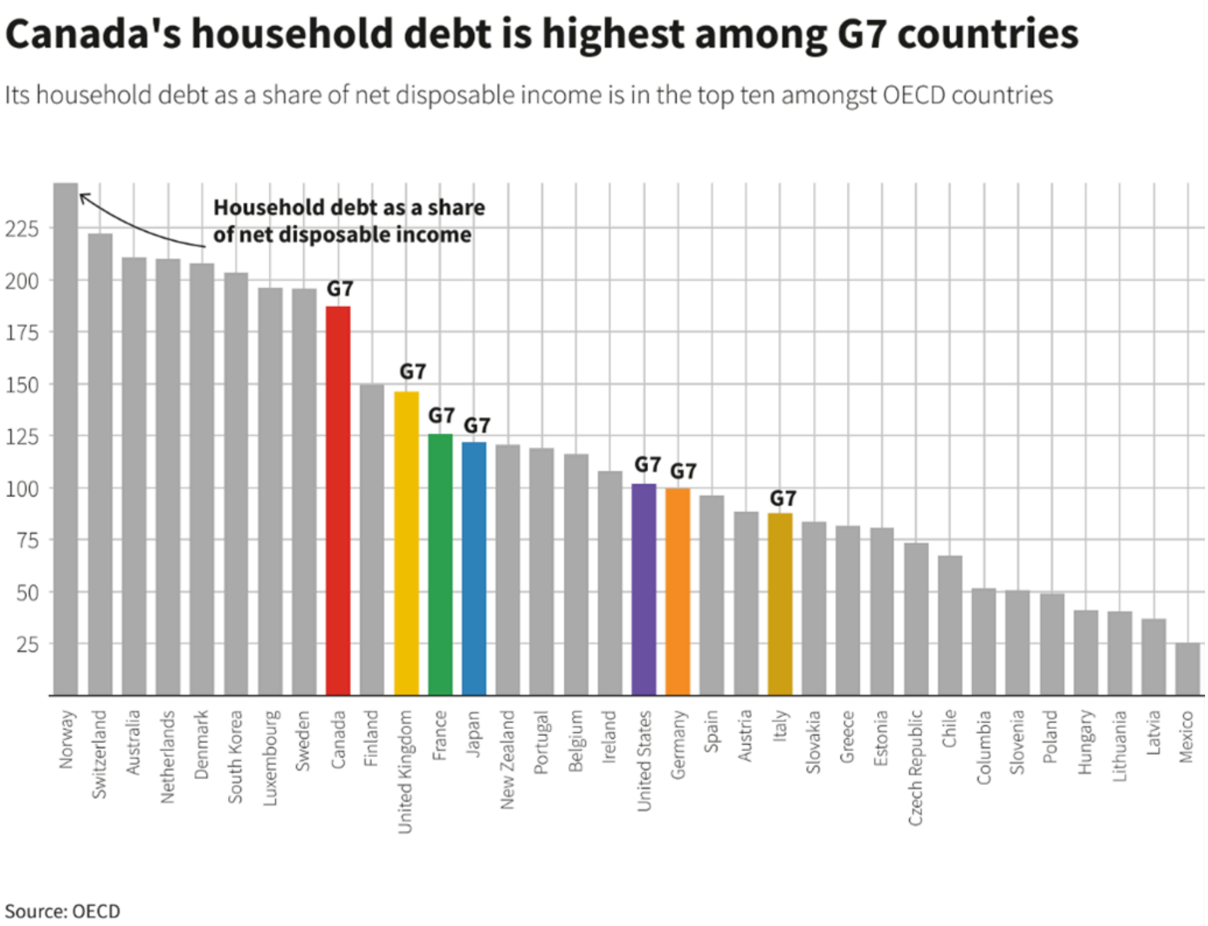
- US Baltimore bridge collapses after ship collision- multiple dead - key transportation link disrupted – US S&P500 futures up 0.2%, 10Y yields off 1bps to 4.24%, USD index off 0.15%
- US and UK accuse China of cyber espionage; US CEOs extend visit in China meeting President Xi – CSI 300 up 0.51%, CNY up 0.15% to 7.2445
- Korea Mar consumer confidence fell 1.2 to 100.7 - biggest decline since Aug 2023 – Kospi up 0.71%, KRW up 0.15% to 1339.50
- Australian Mar Westpac MI consumer confidence off 1.8% to 84.4 - dropping from 20-month highs – ASX off 0.41%, AUD up 0.25% to .6555
- Singapore Feb industrial production jumps 14.2% m/m, 3.8% y/y - rebounds on biomedical – SGD up 0.15% to 1.3435
- German Apr GfK consumer confidence seen up 1.4 to -27.4 - best since January – DAX up 0.5%, Bund 10Y yields off 2bps to 2.35%, EUR up 0.15% to 1.0855
- Spanish 4Q GDP final up 0.6% q/q, 2% y/y - as expected - led by household demand – IBEX up 0.3%, SPGB off 3.5bps to 3.17%

- Sweden Feb PPI 0% m/m -1.3% y/y - 10th month of deflation - led by electricity, while Mar business confidence rises 2.3 to 94.4 - best since Sep 2022 – OMX up 0.6%, SEK up 0.2% to 10.55

The Takeaways:

The end of forward guidance as a key policy tool may be the biggest part of the current policy shift as markets price in easing of policy but the data dependence and the lack of faith in models for growth and inflation ahead make for larger risks, higher uncertainty despite the boisterous tape with asset inflation dominant from 1Q even after the weaker Monday. Flat is the new up for many, with headlines focused on the balance of policy to provoke the hard to get soft-landing scenarios. The biggest risk for markets maybe in the divergence of policy mixes globally from Japan to Canada. The BOJ hike was seen as a non-event but it ended 8-years of negative rates and unorthodox policy and with it also their forward guidance. The risk of a more hawkish BOJ and more JPY focus from the BOJ and MOF remain in play. Similarly today the Bank of Canada speech Rogers will be scrutinized for any guidance on the risk of an early BOC cut – April is seen as too soon June perhaps too late. Markets are worried about the level of debt everywhere and the linkages of that debt to growth. The Canada story and the housing risks are one example. The US government and the budget debates are another. How the markets meld together divergent themes today maybe a function of the heavy data calendar with durable goods, home prices, consumer confidence likely to beat back some of the hope that flat is up, or that not having a position is safe.

Consumer Debt Matters



Details of Economic Releases:

1. Korea March consumer confidence slows to 100.7 from 101.9 - weaker than 102 expected - the biggest monthly decline since August 2023, driven by soaring prices of farm goods and a slump in private spending. Consumer sentiment regarding current living standards came at 89 (vs 90 points in February), and that concerning the future outlook was recorded at 93 (vs 94 points). Consumer sentiment related to future household income fell to 99 (vs 100 points), and that concerning future household spending was unchanged at 111. Consumer sentiment concerning current domestic economic conditions decreased to 68 (vs 70 points), and that concerning future domestic economic conditions was unchanged at 80.

2. Australian March Westpac consumer confidence fell 1.8% to 84.4 from +6.2% at 86 - weaker than 84.7 expected - dropping from 20-month highs, amid renewed concerns about the economic outlook and family finances. The 12-month outlook for the economy slid 4.5% in March, while the 5-year outlook rose 1.1%. The measure for family finances also fell 1.4%, and the 12-month outlook for family finances dropped 1.5%. The index also held below the neutral 100 mark since February 2022, the longest streak since the early 1990s recession. Matthew Hassan, a senior economist at Westpac said: "Last month we saw some promising signs that the consumer gloom that has dominated over the last two years might finally be starting to lift . The March survey update shows that progress continues to be slow at best.”

3. Singapore February industrial production jumps 14.2% m/m, 3.8% y/y after -6.7% m/m, 0.6% y/y - better than the 3.1% m/m, 0.5% y/y expected. The upturn was mainly boosted by a sharp rebound in the production of biomedical manufacturing (27.4% vs -25.9% in January) and electronics (2.6% vs -4.7%), amid faster rises in chemicals (11.2% vs 3.9%). Meanwhile, output growth moderated for transport engineering (19.6% vs 42.5%). Conversely, output shrank for general manufacturing (-3.4% vs -1.4%) and precision engineering (-19.9% vs 27.8%).

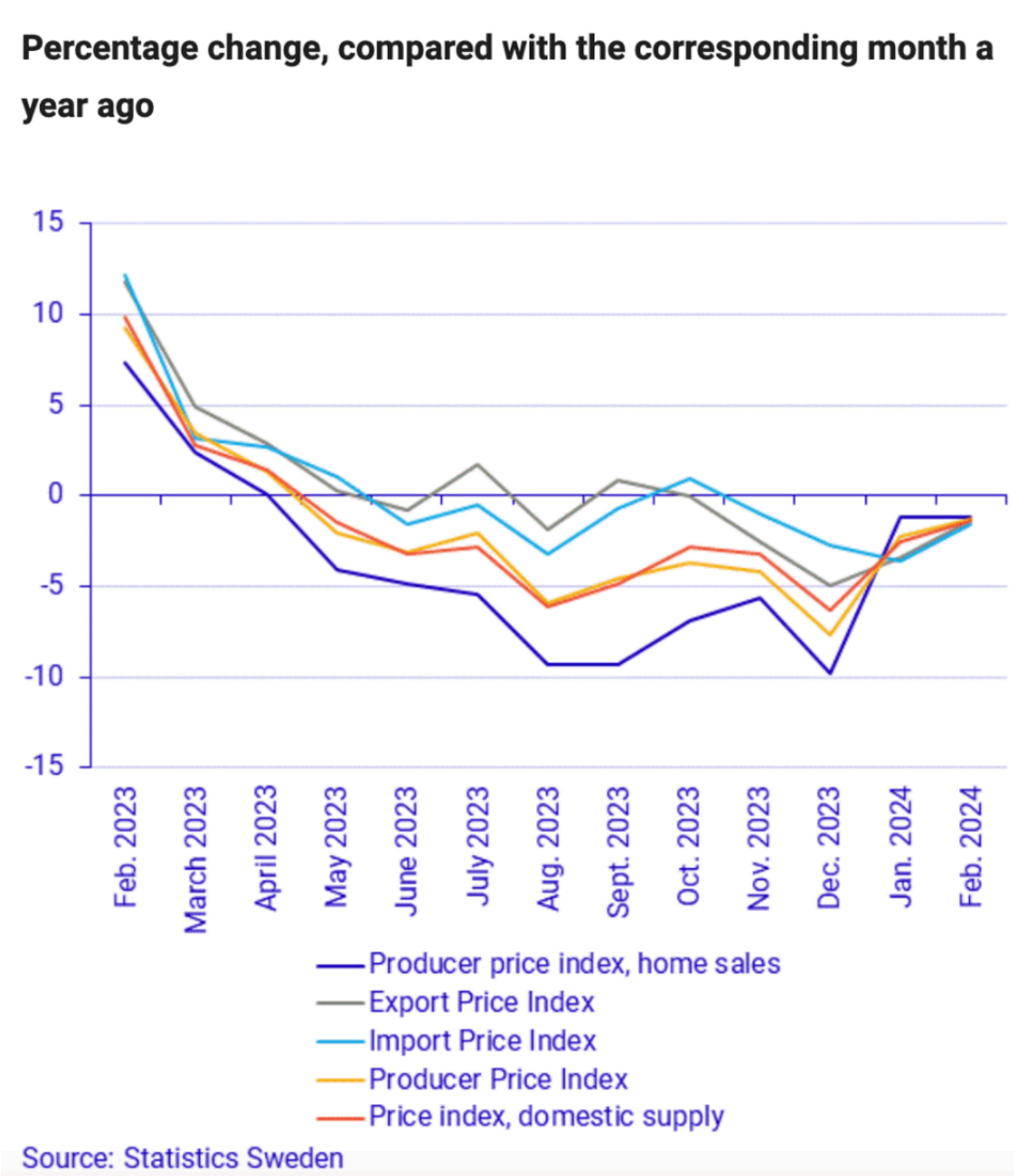
4. German April GfK consumer confidence improves to -27.4 from -28.8 - better than -27.9 expected -the highest reading since the start of the year, reflecting modest rises in income expectations (-1.5 vs -4.8 in March) and economic prospects (-3.1 vs -6.4). In the meantime, the propensity to buy was little changed (-15.3 vs -15.0), lingering at a very low level in almost two years. Concurrently, the propensity to save eased but remained extremely high (12.4 vs 17.4). “The recovery of the consumer climate is progressing slowly and very sluggishly,” said Rolf Bürkl, consumer expert at NIM. He highlighted that consumers still lack planning security and optimism for the future and that a sustained recovery of the German economy will remain a long time coming. For this to happen, a further decline in inflation was needed, along with a clear political strategy from the government.

5. Spanish 4Q final GDP unrevised at 0.6% q/q, 2% y/y after 0.4% q/q, 1.9% y/y - as expected - primarily propelled by resilient domestic demand, despite enduring high inflationary pressures and record borrowing costs. Household consumption advanced by 0.2% during the fourth quarter (compared to 1.2% in Q3), and government spending increased by 1.0% (compared to 1.6% in Q3). Meanwhile, fixed investment fell sharply by 1.6%, the largest drop in one year, driven by decreases in investment in fixed assets, such as building activity and machinery, capital goods, weapons systems, and cultivated biological resources. Investment in intellectual property products also saw a decrease. Meanwhile, net external demand contributed positively to GDP, with exports outpacing imports. By sector, industrial production led the expansion, rising by 2.3% after two periods of contraction.

6. Sweden March business confidence rises to 94.4 from 92.1 - better than 92 expected - highest reading since September 2022, as sentiments strengthened among retailers (97.8 vs 96.2 in February), service providers (93.8 vs 90.7), and manufacturers (98.7 vs 98.4). Meanwhile, confidence weakened for constructors (92.6 vs 94.7). while consumer confidence jumps to 87.5 from 83 - also better than the 83 expected and the highest reading since February 2022, buoyed by a more optimistic 12-month outlook for household finances (18 vs 11 in February) and the general economic situation (14 vs 2). Concurrently, concerns about future unemployment decreased (48 vs 52), and assessments of saving propensity rose (47 vs 45). Moreover, consumers' willingness to make major purchases in the upcoming 12 months was less unfavorable (-20 vs -23).

7. Sweden February PPI 0% m/m, -1.3% y/yafter +0.3% m/m, -2.3% y/y - lower than the +0.3% m/m, -1% y/y expected - the 10th consecutive period of producer deflation, although the smallest decrease in the current sequence. Prices continued to decline for energy-related products (-11.5% vs -10.9% in January), while producer inflation rose faster for consumer goods (2.4% vs 1.5%), and capital goods (4.3% vs 4%). Excluding energy-related products, producer prices rose 0.7%, after a 0.5% drop in the prior period.

PPI suggests Riksbank has room to be dovish



Source: Stats Sweden /BNY Mellon

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