BNY MELLON

iFlow MARKET MOVERS

March 28, 2024

Maundy

"You can't throw stones when you are washing feet." - Unknown Preacher
"A new commandment I give to you, that you love one another; just as I have loved you, you are to love one another." – John 13:34

Summary

Risk mixed into month-end with Fed Waller sounding hawkish, RBNZ Orr dovish, BOJ confused in messaging, BOE Haskell warning on too early to think about rate cuts while Australia retail sales better, German much worse but Sweden better – the picture from economic data remains pointing to recovery in 1Q but much of that leans on monetary policy hopes. The Maundy Thursday holiday and the Good Friday holiday ahead leaves liquidity less than some would like as they wrestle to rebalance asset mixes. The bonds down and stocks up and USD up today look unsustainable into April. US agenda ahead is heavy on data with 4Q final GDP, pending home sales, University of Michigan consumer sentiment and weekly jobless claims.

What's different today:

- **Iron Ore prices down to $106 ton** in Tianjin China futures approaching 9-month lows. Price reflects worries about China steel demand and ample Brazil supply.
- **EUR is at 1-month lows below 1.08** – weakest since Feb 19th – off 2% on the month – as FOMC hawkish talk contrasts to ECB dovish.
- **iFlow** with FX showing month end flows in G10 of more SEK, NZD selling vs NOK, GBP and CAD buying with USD slight selling. EM had only TRY and TWD inflows as stand outs. The equity space is more upbeat with APAC

leading inflows both developed and emerging. The bonds flows are mixed at best with Peru, Indonesia and Poland inflows against China Mexico and Hungary outflows

What are we watching:

- **US 4Q GDP revision** expected unchanged at 3.2% - mostly non-event but for inventories and trade numbers.
- **US weekly jobless claims** expected up 2k to 212k – with continuing claims expected up 8k to 1.815mn – both matter to how market looks at NFP report next week.
- **US February pending home sales** expected up 1.5% m/m after -4.9% - housing data has been mixed to negative so this will matter
- **US March University of Michigan** final consumer sentiment expected 76.5 with focus on 1Y inflation 3.1% from 3.0%.

Headlines:

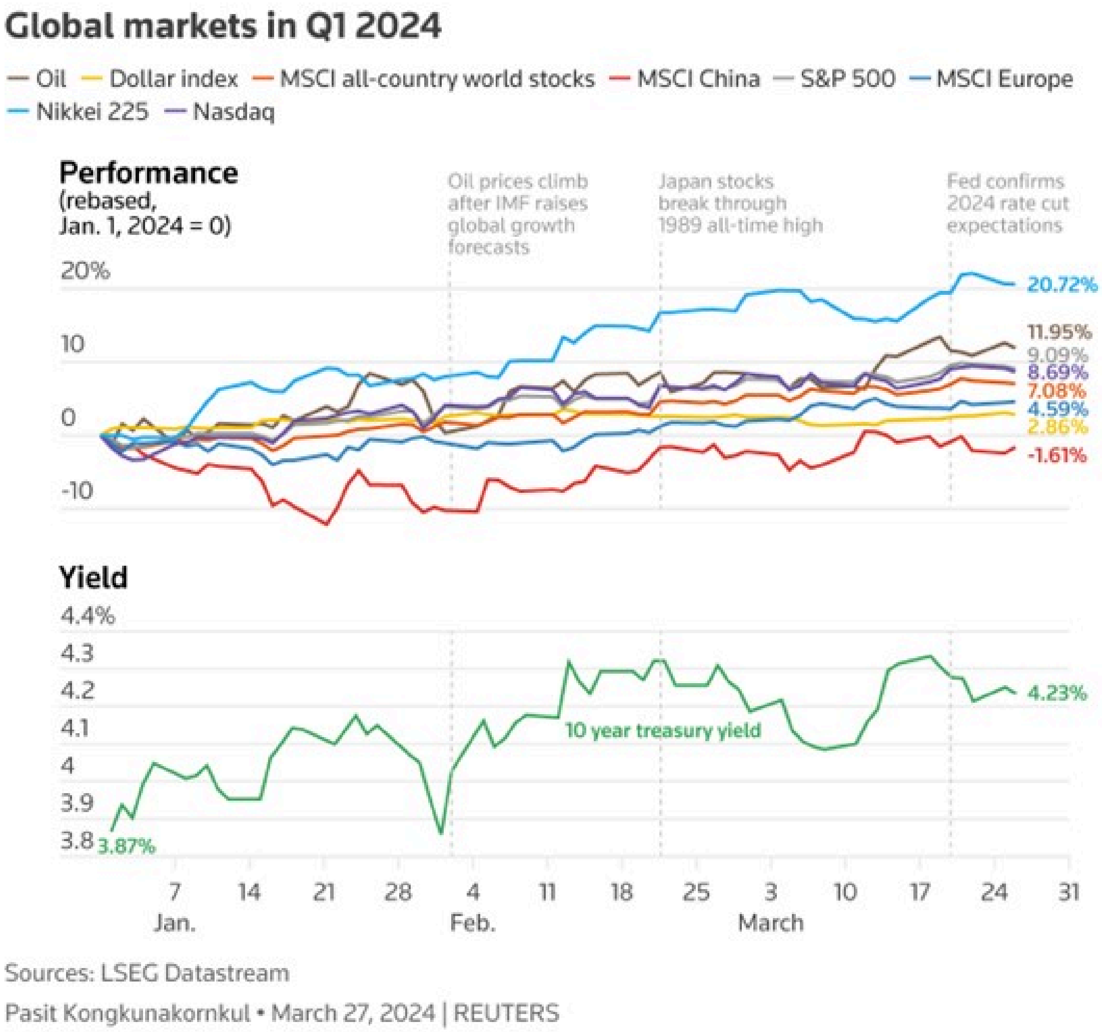
- BOJ Summary of March opinions: Need to go slow on future hikes, must communicate not shifting to tight policy – Nikkei off 1.46%, JGB 10Y off 1.3bps to 0.7%, JPY flat at 151.40
- China Zhao: Nation will be strong driving force for global economic recovery; China March Beige Book sees “strong” March, better jobs, better sales, production – CSI 300 up 0.52%, CNH off 0.15% to 7.2625
- RBNZ Gov Orr: Conditions to allow easing becoming apparent – NZD off 0.55% to .5965
- Australia Feb retail sales up 0.3% m/m, 1.6% y/y – led by clothing –- Mar consumer CPI outlook down -0.2pp to 4.3% - lowest since Oct 2021 - ASX up 0.99%, AUD off 0.6% to 0.6495
- German Feb retail sales -1.9% m/m, -2.7% y/y – worst monthly drop since Oct 2022 – while unemployment up 4k holding 5.9% DAX up 0.1%, Bund 10Y up 2.5bps to 2.315%, EUR off 0.3% to 1.0790.
- Swiss Mar KoF leading indicator off 0.5 to 101.5 – still above long-term average – Swiss Mkt up 0.15%, CHF off 0.15% to .9055
- Sweden Feb retail sales rose 0.5% m/m, 0.3% y/y – best since April 2022 – OMX off 0.35%, SEK off 0.6% to 10.675
- Eurozone Feb M3 jumps to 0.4% y/y with loans to companies up to 0.4% y/y – EuroStoxx 50 up 0.3%, EUR off 0.25% to 1.0790
- BOE Haskel: Warns against tracking headline CPI, rates cuts should be long way off – while 4Q UK GDP confirmed -0.3% q/q in technical recession – FTSE up 0.3%, GBP off 0.2% to 1.2615

- Fed Gov Waller: no rush to cut rates, need at least 2 months more data - S&P500 futures flat, US 10Y yields up 3bps to 4.22%, USD index up 0.3%

The Takeaways:

Feet washing day – Maundy comes from the Latin for mandate and so the holiday of Maundy Thursday drives back home the reality of markets looking for the lowest common denominator. The risk on and off of this week in markets has left many confused about whether the narratives of the first quarter can carry over to the second. There is good reason to fear that they won't. The economic data in the US is dropping faster than the mood in equities and bonds as growth is clearly slower than the roaring 4Q rate – which will be a reminder of why today's data matters – as investors look to where they go next in the rear-view mirror of where they came from. The biggest story on the day is about how central bankers are at odds with the paths of policy ahead and in that divergence, we drive volatility. The relative calm of markets cracks a bit today into the Good Friday PCE core price index and Chair Powell comments – leaving many ready to shed the auction surplus of the week and leaving the US curve bear flattening. This drives up the USD but hasn't yet ruined the mood for stocks. The correlation breaks are notable and unsustainable. The 1Q returns are unlikely be repeated in 2Q.

1Q returns may flip in 2Q?



Details of Economic Releases:

1. Australian February retail sales rose 0.3% m/m after 1.1% m/m – weaker than 0.4% m/m expected. Sales in cafes, restaurants and takeaway food moderated (0.5% vs 1.4% in January) amid declines in trade of food (-0.1% vs flat reading), household goods retailing (-0.8% vs 2.1%), and other retailing (-0.4% vs 1.8%). By contrast, sales accelerated in department stores (2.3% vs 1.8%), and clothing, footwear and personal accessory retailing (4.2% vs 2.5%). Among states and territories, sales slowed in New South Wales (0.6% vs 1.0%), Victoria (0.7% vs 1.5%), South Australia (0.2% vs 1.7%), Western Australia (0.3% vs 0.8%), Northern Territory (0.7% vs 1.0%), and Australian Capital Territory (0.2% vs 1.3%). At the same time, retail turnover fell in Queensland (-0.5% vs 0.9%), and Tasmania (-0.4% vs 1.2%).

2. Australian March consumer inflation expectations slow to 4.3% from 4.5% - less than 4.4% expected - the lowest level since October 2021 amid signs that cost pressure in the country continued to ease thanks to moderation in goods prices following a total of 425bps rate hike over the past two years from the central bank. Meanwhile, services inflation took a more gradual pace of slowing. RBA's governor Michele Bullock recently indicated that she won't rule anything in or out as she tries to curb inflation in the face of a slowdown in economic growth, highlighting that the interest rate path remained uncertain and will rely upon the data and the assessment of risks. The country's headline inflation stood at 4.1% in Q4 of 2023, down from 5.4% in Q3 and more than a 30-year peak of 7.8% in Q4 of 2022. Monthly, the annual inflation was at 3.4% in February, staying at its lowest in two years. Meantime, the economy grew by 0.2% qoq in Q4, the softest pace in five quarters.

3. German February retail sales drop -1.9% m/m, -2.7% y/y after -0.3% m/m, -1.2% y/y – worse than the +0.3% m/m, -0.8% y/y expected - the fourth straight month of decline in retail trade and the steepest pace since October 2022, reflecting the impact of elevated inflation and high borrowing costs. Sales of food fell by 1.7% while those of non-food shrank by 1.0%.

4. German March unemployment rises 4,000 after 12,000 – less than the 10,000 forecast – leaves rate unchanged at 5.9% as expected but remaining at its highest level since May 2021. Additionally, there was a notable year-on-year surge of 176 thousand in the count of unemployed individuals. Regional disparities persisted, with Bremen (11.0%) and Berlin (9.6%) registering the highest unemployment rates, while Bayern (3.5%) and Baden-Württemberg (4.1%) maintain the lowest rates.

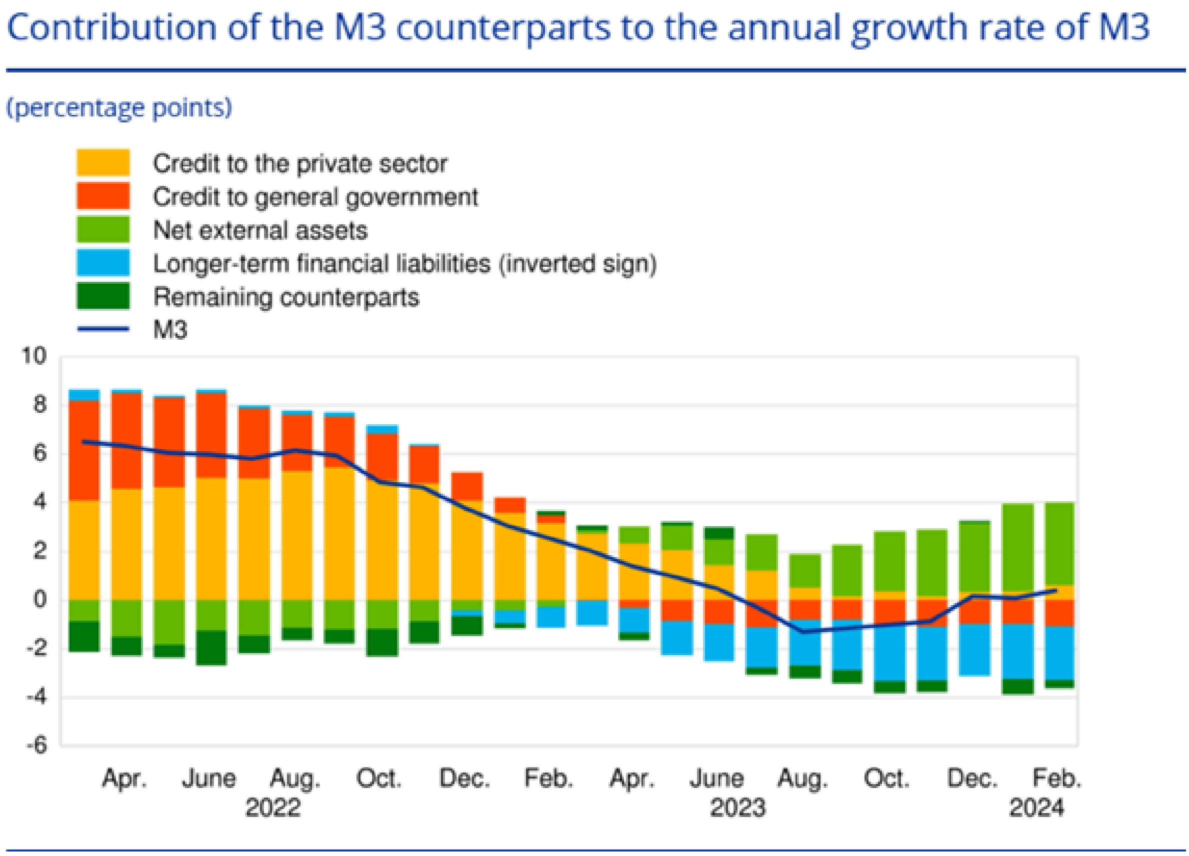
5. Swiss March KoF leading indicator slows to 101.5 from 102 – weaker than 102 expected. Still, the figure remained above the long-term average, thus pointing positive prospects for the Swiss economy. The outlook for the construction industry and private consumption in general worsened, but the indicators from the financial and insurance sectors and bundles of indicators that record the situation with the preliminary products sent optimistic signals. Within the manufacturing sector, indicators for the textile industry, the metal industry, and the wood, glass, stone, and earth sectors were mainly responsible for the upward development, while indicators from the vehicle and mechanical engineering sectors contributed negatively.

6. UK 4Q final GDP confirmed -0.3% q/q, -0.2% y/y after -0.1% q/q, +0.2% y/y – as expected. Household consumption declined by 0.1% (vs -0.9% in Q3) due to lower spending on recreation and culture, household goods and services, transport, and clothing and footwear. Additionally, net trade contributed negatively to GDP as exports fell more than imports, along with inventory changes. On the other hand, fixed investment rose by 0.9%, rebounding from two periods of declines, boosted by increases in other buildings and transport. Finally, government consumption edged up 0.1%, marking a third period of growth, driven by higher spending on public administration and defense, which offset lower activity in education and health.

7. **Sweden February retail sales rose 0.5% m/m, 0.3% y/y after 0.2% m/m, -1.9% y/y – better than -0.1% m/m, -1.4% y/y expected** - the first increase in retail sales since April 2022, as sales consumables rebounded (2.5% vs -0.4% in January) amid softer falls in durables (-1.4% vs -2.8%)

8. **Eurozone February M3 rises to 0.4% y/y after 0.1% y/y – more than 0.3% y/y expected**. However, bank lending to households in the Eurozone increased by 0.3% year-on-year to €6.87 trillion in February 2024, maintaining the same pace as the previous month and remaining at the slowest rate since March 2015. Additionally, lending to companies rose by 0.4% to €5.13 trillion, following a 0.2% advance in January. Overall private sector credit growth, encompassing both households and non-financial corporations, picked up to 0.7% from 0.4%.

Does more lending matter?



Source: ECB /BNY Mellon

Please direct questions or comments to: iFlow@BNYMellon.com

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