BNY MELLON

iFlow
MARKET MOVERS

March 29, 2024

Good vs. Bad

"No one knows how bad they are until they try very hard to be good." – C.S. Lewis

"The battleline between good and evil runs through the heart of every man." – Aleksandr Solzhenitsyn

Summary

Quietly risk on with holidays in US and EU and some of APAC making market reactions to data and other news less important. It's the end of the 1st quarter and the start of Easter with Good Friday driving most away from the screens today. The standout stories are that Tokyo CPI was lower as expected but the core drop and headline rise suggest its about weaker JPY and goods not wages and services which is a problem for BOJ given the weakness of industrial production and higher unemployment. The ECB got good news from the Italian and French flash CPI both are lower than feared and open rate cuts ahead. EUR is flat, but that really isn't the indicator, with bonds closed its anyone's guess how the June rate cut expectations trade today leaving it to fester until Monday and create real volatility over the weekend.

What's different today:

- **Steel prices fell to 4-year lows** at CNY3,664 a ton - output totaled 2.21 million tons for the last three weeks, trailing normal averages for the usual levels in the peak season amid the lack of steel bidding. On top of that, earlier estimates showed that output of pig iron, which is smelted iron ore in blast furnaces, dropped by nearly 7% this year.

- **Gold holds at record highs above $2,230 oz** – led by bets on central bank easing in G10 nations. The metal is also on track to advance more than 9% for March.

What are we watching:

- **US February personal income** expected up 0.4% m/m after 1.0% m/m while spending expected up 0.5% m/m after 0.2% m/m.
- **US February core PCE deflator** expected up 0.3% m/m, 2.8% y/y after 0.4% m/m, 2.8% y/y – flat is not the new up and matters to markets for Monday.
- **US February advance goods trade deficit** expected $90bn from $90.2bn – how trade drags on growth matters for 1Q GDP outlook.
- **FOMC Chair Powell moderated talk** and Fed Daly opening remarks 11.15 am – key is the reaction to the data this week.

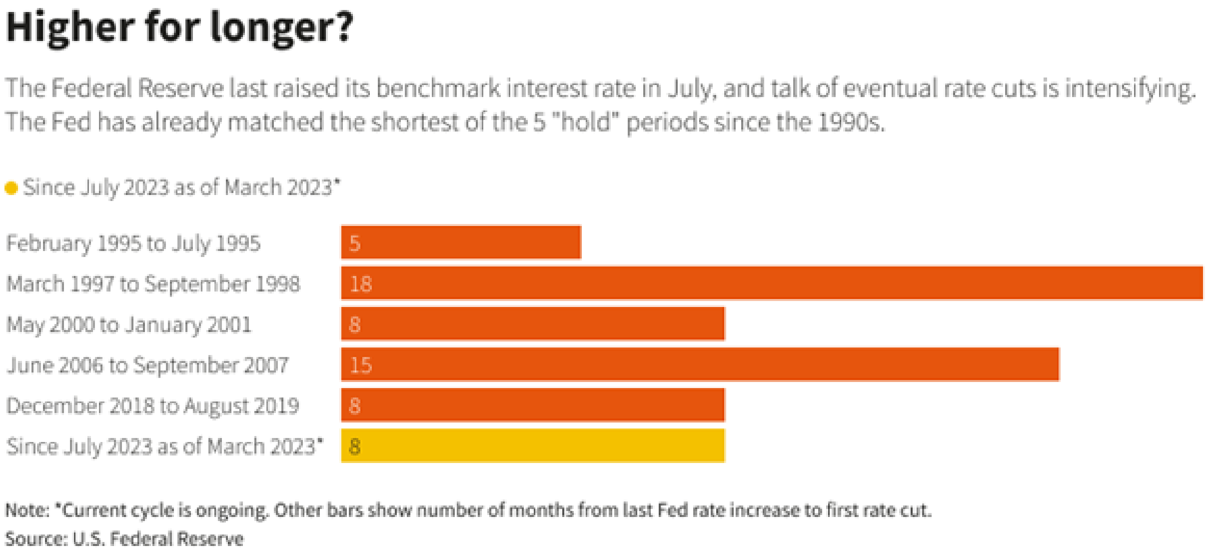
Headlines:

- Korea Feb industrial production rose 3.1% m/m, 4.8% y/y – best monthly gain since Oct – while retail sales fell -3.1% m/m, -0.9% y/y – Kospi up 0.029%, KRW off 0.1% to 1347.20
- Japan Tokyo Mar core CPI off 0.1pp to 2.4% y/y but headline up 0.1%pp to 2.6% - while Feb unemployment rose 0.2pp to 2.6% - highest since Sep 2023 – and industrial production -3.4% y/y – 4th month of declines – Nikkei up 0.5%, JGB up 1.7bps to 0.717%, JPY flat at 151.30
- Turkey Feb trade deficit $6.7bn – with exports up 13.6% y/y, imports -9.2% y/y – TRY off 0.1% to 32.35
- Italian Mar flash CPI rises 0.5pp to 1.3% y/y – while French Mar flash CPI fell 0.7pp to 2.3% y/y – EuroStoxx 50 closed, EUR flat at 1.0790

The Takeaways:

Does the inflation report today matter is the key question and the reaction of FOMC Powell to it seems certain and the moment when markets are likely to realize that the Chair wants to ease regardless of the data unless its too out of bounds for him to get his way. The FOMC board isn't likely in full agreement, and we saw that with Fed Waller comments already. The problem is that this is still weeks away from the June decision and the biggest reason for the FOMC to act apart from the success of their hikes and their ability to take rates down just a notch to prove that they can act without spurring a recession is in the politics of the nation as any action into September after the US parties conferences and conventions is going to be seen as supporting the President rather than the challenger. Markets are convinced now of the outcome of the election but not sure of the FOMC in June. This is likely the opposite of the actual political problems we have ahead and the risk of a hung election in the US isn’t zero, while there will be no hung Federal Reserve decision.

Does core PCE drive the June decision?



Details of Economic Releases:

1. Korea February industrial production rose 3.1% m/m, 4.8% y/y after -1.5% m/m, +12.9% y/y – better than the 0.5% m/m, but worse than 5.8% y/y expected – still, the biggest monthly increase since October, beating market expectations for a 0.5% rise. The all-industry index rose 1.3% m/m, and 2% y/y. Manufacturing shipments rose 2.6% m/m, -0.8% y/y. Retail sales fell -3.1% m/m, -0.9% y/y after 1% m/m – worst drop since July 2023.

2. Japan Tokyo March core CPI slows to 2.4% y/y after 2.5% y/y – as expected. The core-core (ex food/energy) fell to 2.9% y/y from 3.1% y/y while headline CPI rose to 2.6% y/y from revised 2.5% y/y. While core inflation is still above the central bank's 2% target, the slowdown underscores how price pressures in Japan are still predominantly coming from raw material costs rather than robust domestic demand.

3. Japan February unemployment rose to 2.6% from 2.4% - worse than 2.4% expected - the highest level since last September, as the number of unemployed increased by 120,000 to 1.82 million and employment gained 220,000 to 67.83 million. The labor force rose by 310,000 to 69.66 million while those detached from the labor force fell by 240,000 to 40.28 million. The non-seasonally adjusted labor force participation rate was up to 62.8% in February from 62.1% in the same month a year earlier. Meanwhile, the jobs-to-applications edged down to 1.26 in February, the lowest level since May 2022.

4. Japan February industrial production fell -0.1% m/m, -3.4% y/y after -6.7% m/m, -1.5% y/y – weaker than +1.4% m/m, -2% y/y expected - mainly weighed by weak output related to motor vehicles (-7.9% vs -15.9% in January), production machinery (-3.2% vs -6.1%), and transport equipment, excluding motor vehicles (-8.3% vs -1.6%).

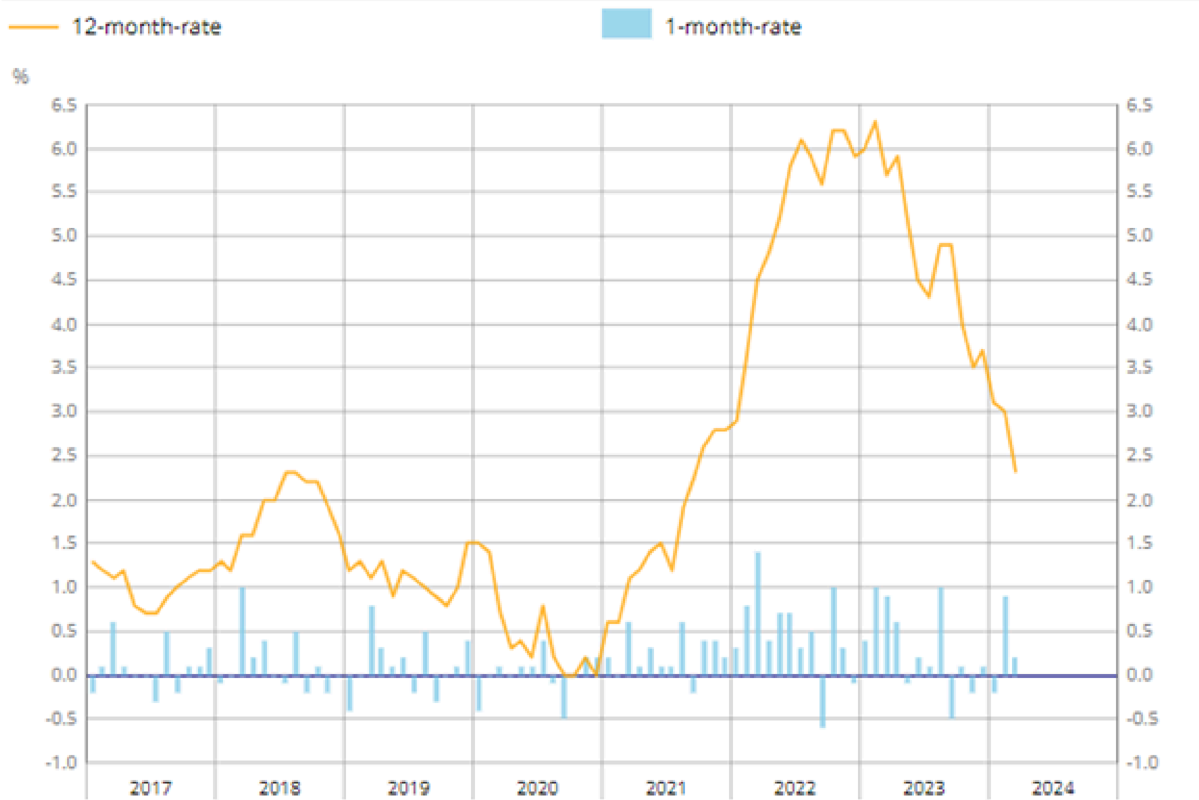
5. Turkey February trade deficit widens to $6.77bn after $6.18bn – better than $7bn expected - as exports rose while imports fell. Exports climbed by 13.6% y/y to $21.08 billion, with sales for all categories increasing, led by agriculture, forestry & fishing (30.4%). On the other hand, imports decreased by 9.2% to $27.85 billion, primarily due to a drop in purchases for intermediate goods (-19.1%). Among main destinations, Germany was the largest export market (8.2%), followed by the US (6.3%), Italy (5.5%), Iraq (5.1%) and the UK (5.1%). Meanwhile, the main import partners were Russia (14.5%), China (12.3%), Germany (8%), Italy (5.5%), and the US (4.8%). Considering the January-February period, the trade deficit narrowed sharply to $13 billion from $26.4 billion in the same period of a year ago, with exports rising by 8.5% while imports falling by 16%.

6. Italian March flash CPI rose 0.1% m/m, 1.3% y/y after 0.1% m/m, 0.8% y/y – less than the 0.2% m/m, 1.4% y/y expected. The HICP rose 1.2% m/m, 1.3% y/y from 0% m/m, 0.8% y/y – better than the 1.5% y/y expected – but still higher as the high base effects for utility bills continued to fade, according to preliminary estimates. Still, the result was less than market expectations of a 1.4% inflation rate in the period, aligned with softer-than-expected inflation in other large European economies. Deflation softened for non-regulated energy (-10.7% vs -10.3% in February) and regulated energy (-13.8% vs -18.4%), while consumer prices accelerated for transportation services (4.4% vs 3.8%). On the other hand, inflation slowed for unprocessed foods (2.6% vs 4.4%) and tobacco (1.9% vs 2.6%). The domestic core inflation rate, which excludes energy and unprocessed food, rose to 2.4% from 2.3% in February.

7. French March flash CPI rose 0.2% m/m, 2.3% y/y after 0.9% m/m, 3% y/y – less than the 0.5% m/m, 2.6% y/y expected – as a broad based slowdown in consumer prices, namely food (1.7% vs 3.6% in February), with cost of fresh food falling 3.9%; services (3% vs 3.2%); tobacco (10.7% vs 18.7%); energy (3.4% vs 4.3%); and manufactured products (0.1% vs 0.4%). Compared to the previous month, the CPI rose 0.2%, well below 0.9% in February, due to a slight drop in energy prices, mostly gas and petroleum products while prices of manufactured goods are expected to have accelerated due to the seasonal rise in clothing prices after the winter sales. Considering the EU-harmonized index, prices rose 0.2% m/m, 2.4% y/y easing from 0.9% m/m, 3.2% y/y in February.

Does flash CPI confirm ECB easing?

Variations in the consumer price index



Geographical coverage: France

Source: INSEE - Consumer Price Indices

Source: Insee /BNY Mellon

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

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