

iFlow

MARKET MOVERS

March 4, 2024

Divides

“A compromise is a way of dividing a cake so that everyone gets a bigger piece.” - Ludwig Erhard

“What divides us pales in comparison to what unites us.” - Edward Kennedy

Summary

Risk mixed as the record highs for Nikkei and MSCI all-country world index overnight fizzles with little overnight data to challenge nascent trends leaving focus on the heavy central bank agenda ahead with FOMC Powell testimony, Bank of Canada rate decision and ECB. Throw in the global PMI reports for services and US Service ISM, mix that with the all-consuming US labor market reports from weekly claims to JOLTS to Friday's Non-Farm payrolls and you see why today is a slower march to even newer highs. There is a sense of foreboding that markets are priced to perfection and that divide of bulls and bears matters as the battleground is in the data ahead. Politics are the central worry as well from China Xi and the stimulus pushback into the National Congress this week, to the US Biden state of the Union and the unofficial start of the November election as super Tuesdays primaries are expected to lock in the 2020 race redux with Biden and Trump. The Congress is debating spending while peace hopes float in both Israel and Ukraine. The hope for keeping the rally going rests on cooperation between parties, states and companies to make the pie bigger while the fears of war, inflation and more xenophobia hang like a cloud over the day.

What's different today:

- **Japan Nikkei 225 index breaks 40k** - new record levels led by technology shares. Solid earnings, AI hype and BOJ talking about hiking but remaining accommodative along with weaker JPY driving rally.
- **Brent Oil holding over \$83 bbl - near November highs** - after 3.4% rally last week - with OPEC plus extending voluntary production cuts until end of June - led by Saudi continuing 1mbd cut.

What are we watching:

- **US Treasury sells \$79bn 3M and \$70bn 6M Bills**
- **Fed Speaker:** Philadelphia Fed Harker
- **4Q Earnings:** Archer-Daniels-Midland, GitLab, Viant Technology, Eos Energy

Headlines:

- Korea Jan industrial production -1% m/m +12.9% y/y - monthly drop in semis key while manufacturing PMI for Feb fell 0.5 to 10.7 - second month of expansion; government to start legal action on doctors walk-out - Kospi up 1.21%, KRW up 0.3% to 1331
- China Xi expected to pushback on greater economic stimulus in National Congress meetings – CSI 300 up 0.09%, CNH flat at 7.21
- Japan 4Q Capex jumps to 16.4% y/y from 3.4% /y - led by information and communications electronics – Nikkei up 0.5%, JPY off 0.15% to 150.35
- New Zealand 4Q terms of trade drops 7.8% q/q - led by export price plummet – NZD off 0.1% at .6100
- Australian 4Q corporate profits rise 7.4% q/q but still down -5.4% y/y - led by mining - while building permits still drop -1% m/m in January as private sector homes -9.9% - ASX off 0.13%, AUD off 0.1% to .6525
- Turkey Feb CPI jumps 2.2pp to 67.07% y/y - highest since Nov 2022 – TRY off 0.1% to 31.52
- Swiss Feb CPI up 0.6% mm, 1.2% y/y - lowest since Oct 2021 – Swiss Mkt off 0.2%, CHF off 0.1% to .8845
- Spanish Feb jobless drops 0.3% to 2.76mn - lowest since 2008 – IBEX off 0.15%, SPGB 10Y yields off 3.5bps to 3.27%, EUR up 0.1% to 1.0855

The Takeaways:

The week ahead matters more than the day ahead but both are likely going to pale into the spring ahead. There is a sense of optimism on world growth that isn't going away and with it the seeds for a weaker USD, more cross border flows in investment and trade and some focus more on trends and profits than on cash and defensive investments. The world starts Monday with some mixed messages as the hope for

Israel/Hamas ceasefire balances against the fighting on the ground. The same is true in Ukraine and in Congress as budgets matter. The role of politics in markets has been in creating random volatility which seems to have run the course but for the event protection required for the jobs report Friday. The FOMC meeting this month will be compared against the ECB and BOC decisions this week as well.

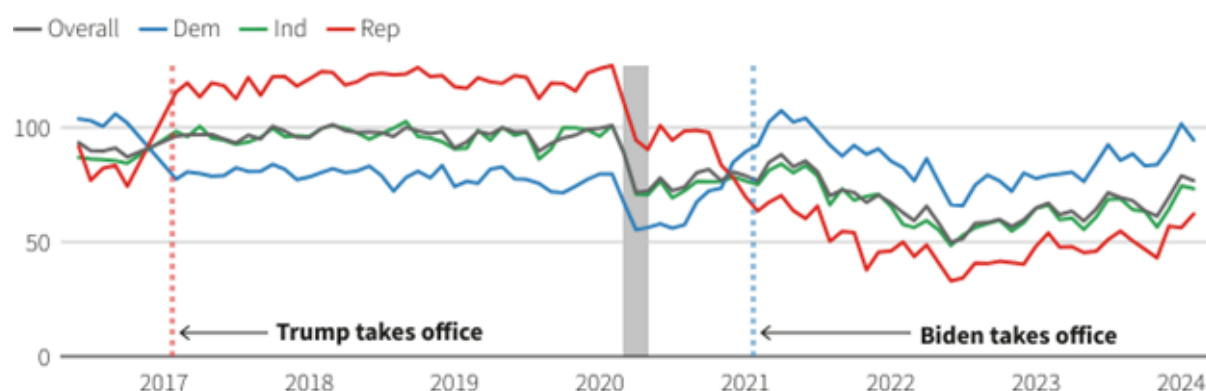
The Fed and the US rate curve are clearly in play as Fed Governor Waller wants the US Treasury holdings to be more in the front-end, Logan wants the Fed to taper QT as the FRRP fell to \$442bn on Friday after note auctions and month end cash demands - while markets await the US Congress partial budget deal ahead of March 8 deadline and then the bigger threat from March 22. In between we have FOMC Chair Powell testimony in Congress Wednesday and Thursday this week where his high for longer talk is widely expected.

Against the technocratic worries of the central bank you have the political concerns of Congress as the nation divides across party line in how they see the world and the economy. Whether markets will divide or unite in similar fashion globally voting with their dollars will be central for the year ahead, not just the week or the month or the quarter.

Party views vs consumer in play to November

U.S. consumer sentiment by party affiliation

Consumer sentiment about the U.S. economy has come to reflect the partisan divide, but overall consumer moods are much improved from historic lows in mid-2022 when inflation hit its peak. In February, only Republicans' sentiment improved - to the highest since July 2021.



Note: Gray bar is recession; survey was not conducted from November 2016 through January 2017.

Source: University of Michigan Surveys of Consumers

Details of Economic Releases:

1. Korea January industrial production -1.3% m/m, +12.9% y/y after -0.5% m/m, +6.1% y/y - worse than the +1% m/m bounce expected - activity decreased in the semiconductor, mechanical equipment and other industries, while activity increased

in information & communication and real estate industries. The retail sales rose 0.8% m/m after +0.6% m/m - driven by increased sales in communication devices, computers, cosmetics and others.

2. Korea February manufacturing PMI slips to 50.7 from 51.2 - weaker than 51.4 expected - but second month of expansion. Both output and new orders signaled a 2nd successive monthly increase, albeit at a softer rate from that seen in January. Concurrently, the rise in export orders slowed from the prior month and was only fractional overall. Despite smaller advances in activity and demand, backlogs of work rose for the first time since October 2022. In response to increased capacity pressures, firms raised their staffing levels for the 6th consecutive period and at the sharpest rate since October 2023. On prices, input costs went up markedly amid higher raw materials and currency weakness, leading output charges to grow at its fastest pace in 3 months. Looking ahead, South Korean manufacturers remained optimistic about the 12-month outlook on production.

3. New Zealand 4Q terms of trade -7.8% q/q after -0.6% q/q - worse than -0.2% q/q expected. Export prices fell 4.2% in the fourth quarter, following a 1.4% drop in the previous quarter. Meanwhile, import prices rose 3.8%, after a 0.9% drop in the prior period

4. Australian 4Q corporate profits rose +7.4% q/q, -5.4% y/y after -1.6% q/q, -1.7% y/y - better than +1.8% q/q expected - best since 1Q 2022, with profits rebounding for miners (17.3% vs -7.5% in Q3), and transport and warehousing providers (5.1% vs -0.4%). Also, profits strongly picked up at utility providers (7.8% vs 3.6%) and financial and insurance (37.5% vs 1.7%). Further, administrative and support services profits rose 0.2%, shifting from a 0.4% drop in Q3. Simultaneously, manufacturers saw their profits flat after the 2.8% growth in Q3. Meanwhile, profits fell among wholesale traders (-1.5% vs -0.8%), accommodation (-2.2% vs 11.0%), builders (-1.7% vs 7.8%), retail traders (-10.9% vs 9.8%), information (-0.6% vs -1.6%), arts and recreation (-2.6% vs 7.0%), and other services (-5.1% vs 2.5%).

5. Australian January building permits -1% m/m after -10.1% m/m - worse than the +4% m/m expected. The decline was driven by a sharp downturn in private sector houses which fell -9.9% to 7,461 units, while private sector dwellings excluding houses increased 19.5% to 5,238 units. On a geographical basis, total dwellings fell in New South Wales (-14.9%), Victoria (-9.8%) and South Australia (-7.2%), but increased in Queensland (31.8%), Western Australia (11.4%) and Tasmania (5.1%).

6. Swiss February CPI rises 0.6% m/m, 1.2% y/y after 0.2% m/m, 1.3% y/y - more than the 1.1% y/y expected - still least since Oct 2021, mainly due to a

slowdown in prices of food & non-alcoholic beverages (0.8% vs 2.3% in January). Slower price increases were also observed in restaurants & hotels (2.1% vs 2.3%), recreation & culture (1.7% vs 1.9%), other goods & services (1% vs 1.6%), and alcoholic beverages & tobacco (0.6% vs 0.9%). Moreover, costs declined for transport (-0.5% vs -0.8%), healthcare (-0.4% vs -0.3%), and household goods & services (-0.9% vs -0.1%). Conversely, inflation picked up for housing & energy (3.1% vs 2.5%) and clothing & footwear (0.3% vs 0.2%), while remained steady for education (at 1.8%). The core rate, which excludes volatile items such as unprocessed food and energy, fell slightly to 1.1% from a prior 1.2%.

7. Turkey February CPI rises 4.53% m/m, 67.07% y/y after 6.7% m/m, 64.86% y/y - more than the 65.8% y/y expected - the highest reading since November 2022, driven by a solid rise in minimum wage and adjustments in government taxes. Prices increased faster for all subgroups, particularly food & non-alcoholic beverages (71.2% vs 69.71% in January), transport (77.98% vs 77.54%), and housing & utilities (49.07% vs 45.99%). Additionally, inflation went up for furnishings, household equipment, & routine maintenance (62.92% vs 61.10%), hotels, cafes & restaurants (94.78% vs 92.27%), clothing & footwear (43.44% vs 40.62%), and miscellaneous goods & services (61.86% vs 58.95%). Meanwhile, the core inflation quickened to 72.89% in February from 70.48% in the prior period.

Turkey CPI matters as a warning to policy shifts

Annual rate of changes in CPI (%), February 2024



Source: Turkey Statistics /BNY Mellon

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

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