BNY MELLON

iFlow
MARKET MOVERS

**March 5, 2024**

# Superlatives

***"People talk fundamentals and superlatives and then make some changes of detail." – Oliver Wendell Holmes***
***"Progress is a comparative of which we have not settled on the superlative" – Gilbert K. Chesterton***

## Summary

Risk off as Apple iPhone sales in China fall, doubts about China property sector and their 2024 5% GDP target, fears about higher prices but weaker central bankers in APAC leave the better global Service PMI reports lost in equity retracements. Markets are caught in better vs. best where many fear we have priced the US to the best and the catch-up for the rest of the world looks dependent on policy with the BOC and ECB this week seen as key. The FX markets remain calm, even with JPY stronger on CPI higher and BOJ hike talk in play. Fixed Income is bid with equities lower but there are limits. The US day ahead will test the comparisons to the rest of the world with US ISM, factory orders and the Super Tuesday polling expected to lock up the nominees for the 2024 November vote.

**What's different today:**

- **China sales for first 6 weeks of Apple iPhones fell 24% y/y** – with China increased competition and soft regulation from government pushing Huawei. Apple shares off over 2% into US open.
- **BTC stumbles ahead of $69k** – the 2021 highs – and retreats. Notable that MSTR fell 9% after announcing a private offering for $600mn in convertible notes, with money planned to buy BTC.
- **iFlow** in FX G10 seeing further USD selling along with AUD and NOK against GBP, JPY and CAD. The EM markets remains happy buying BRL, MXN

against selling PLN and TRY. In fixed income, bonds in Australia, Europe and Mexico sold along with China, Turkey and South Africa while US and Canada buying holds. Equity flows were all G10 negative with only Argentina, Korea notable with inflows.

**What are we watching:**

- **US February service sector surveys** from ISM expected 53 from 53.4 and S&P Global expected 51.4 from 51.3
- **US January factory goods orders** expected -3% m/m after 0.2% m/m – key for capital goods
- **Federal Reserve** Vice Chair for Supervision Michael Barr speaks
- **4Q earnings**: Target, Crowdstrike, Greenlight Capital, Ross Stores

**Headlines:**

- China sets 2024 GDP target at 5%, defense up 7.2% - and plans CNY1trn long bond issue to help stimulus - while Feb Caixin services PMI off 0.2 to 52.5 - lowest since Nov 2023; 10Y Yields drop to record lows of 2.35% - CSI 300 up 0.7%, CNY off 0.1% to 7.2125
- Japan Feb Tokyo CPI rises 0.7pp to 2.6% - food inflation notable driver - while final service PMI fell 0.2 to 52.9 - output prices at 6M highs - Japan Econ Minister Shindo denies reports calling end of deflation – Nikkei off 0.03%, JPY up 0.1% to 150.40
- Australian Feb final services PMI up 4 to 53.1 - first expansion in 5 months – ASX off 0.15%, AUD off 0.3% to .6490
- Korea 4Q final GDP up 0.6% q/q, 2.2% y/y - despite hit from construction – Kopsi off 0.93%, KRW off 0.2% to 1334.40
- Philippines Feb inflation up 0.6% m/m, 3.4% y/y - worse than 3.1% y/.y expected - led by food – flat at 55.955
- South Africa 4Q GDP up 0.1% q/q, 1.2% y/y - better than expected still muted growth – ZAR up 0.3% to 18.977
- Eurozone Jan PPI off 0.9% m/m, -8.6% y/y- led by energy - while Feb final service PMI up 1.8 to 50.2 - first expansion in 7-months – EuroStoxx 50 off 0.15%, EUR off 0.1% to 1.0845
- UK Feb final service PMI drops 0.5 to 53.8- weaker than flash but best new work since may, higher wages noted – FTSE flat, GBP off 0.15% to 1.2675
- Israel/Hamas ceasefire talks break in Cairo – Ramadan deadline at risk – WTI off 0.7%

**The Takeaways:**

The difference between good and great or better and best are in play on the day as markets look priced to perfection in bonds and stocks but the balancing act between the two is out of quilter. Many expect the focus on lending and banks to remain a sore spot and head wind to growth this month as the commercial real estate and small bank lending to business stalls. The ability for the private credit markets to take up this slack has sustained much of the story but there are cracks – the required reading today is in the FT Alphaville on the question of "Is private equity actually worth it?"    The key point being leverage which separates public vs. private equities. Markets have a self-reflexive risk in believing their own stories and chasing trends with the stall of the winners of technology in the last 5 years shifting and with that leadership change comes risk. Today is about that story changing and what it means for all markets.  For the US economy, the hype of hope about being better than the best in all things – inflation, growth and carry – seems to have a limit.

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**Bank lending and real estate remain key to US growth**


**Details of Economic Releases:**

**1. Australian February final services PMI rises to 53.1 from 49.1 - better than 52.8 flash** - the first expansion in services activity in five months and the quickest since April 2023, as a renewed rise in new orders led to business activity returning to growth. Improvement in demand conditions rose services activity, suggesting better economic conditions and increased enquiries supported the latest rise in new work. New export business also returned to growth for the first time since September

2023, supported by new client wins and increased interest from clients in Asia. As such, service providers hired more staff at an accelerated pace to cope with new workloads and enabled firms to clear their outstanding business for a twentieth straight month. On the price front, input costs continued to increase, attributed to rising shipping, fuel and labour costs.

**2. Korea 4Q final GDP up 0.6% q/q, 2.2% y/y after 0.6% q/q, 1.4% y/y - unrevised as expected.** On the expenditure side, private consumption rose by 0.2% (vs +0.3% in Q3), as final consumption expenditure of resident households abroad increased, while expenditures on goods decreased. Government consumption grew 0.5% (vs +0.2% in Q3), attributed to increased expenditures on goods. Construction investment contracted by 4.5% (vs to +2.1% in Q3), with declines in both building construction and civil engineering. Facilities investment rose 3.3% (vs to +0.2% in Q3), driven by an increase in transportation equipment. Exports expanded by 3.5% (vs to +3.4% in Q3), driven by higher exports of semiconductors. Imports increased by 1.4% (vs to +2.3% in Q3), primarily due to higher imports of petroleum products.

**3. Japan February Tokyo CPI rises 2.6% y/y after 1.8% y/y - more than the 2.5% y/y expected.**The gains were linked to base effects and ongoing food inflation, hoowever, the core (ex-food/energy) CPI rose 2.5% after 1.8% y/y - as expected while the core-core ex fresh food/energy was steady at 2.5% y/y..

**4. Japan February final Jibun Bank services PMI 52.9 from 53.1 - better than 52.5 flash** - the 18th straight month of expansion in the service sector, supported by the steepest rise in new business since last August amid tourism demand and new product launches. However, growth was mainly driven by domestic demand, as foreign demand stagnated. Rises in new business and indications of capacity pressures led to a solid increase in employment that was the most marked for nine months, with backlogs of work rising solidly and to the greatest extent in nine months. On prices, input cost inflation eased to the second-weakest since October 2021, while output cost inflation accelerated to the strongest in six months. Finally, business sentiment weakened to a four-month low. It remained above the series average amid hopes of increases in business investment over the coming year and business expansion plans.

**5. China February Caixin services PMI slips to 52.5 from 52.7 - weaker than 53.4 expected** - still, the 14th straight month of expansion in services activity but the softest pace since last November amid a subdued increase in overall new work. New order growth was little changed and remained slower than the average seen in 2023. However, export orders rose the most in eight months amid reports of firmer customer demand across external markets. Employment fell for the 1st time in three months, with the rate of job shedding being the quickest seen in over a year due to subdued demand conditions. Meantime, outstanding business dropped for the 1st time since July 2022. On the cost side, input prices rose due to higher raw material and fuel costs. Meanwhile, output prices climbed to the fastest since May 2023 as firms looked to pass on additional expenses to customers. Lastly, sentiment weakened to a four-month low amid remaining subdued market conditions.

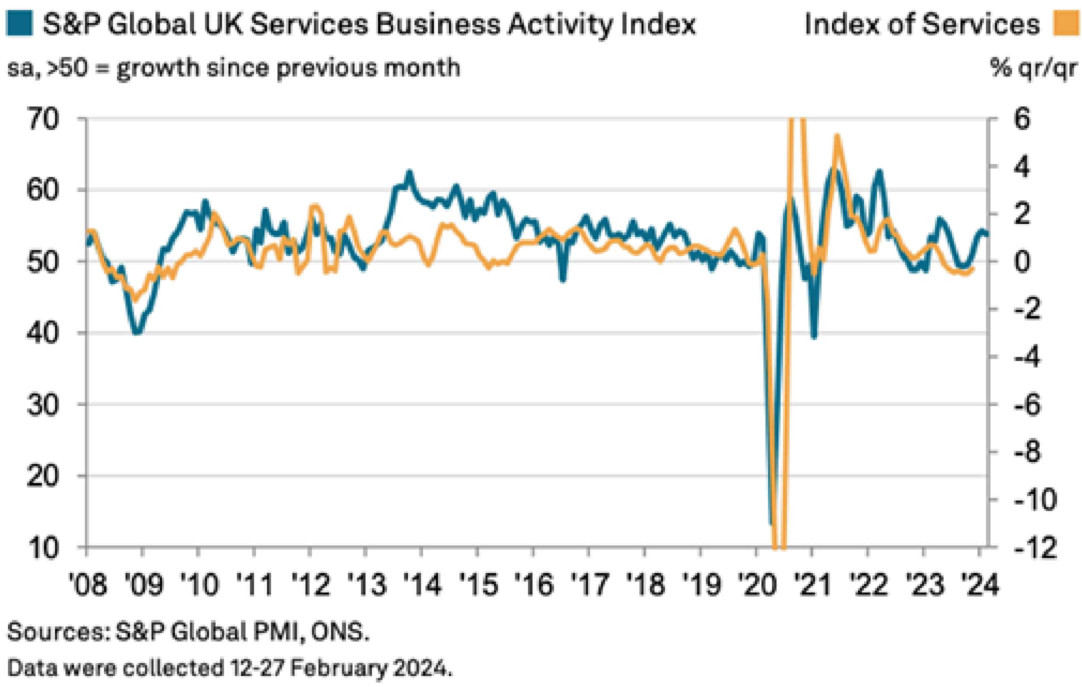
**6. South Africa 4Q GDP up 0.1% q/q, 1.2% y/y after -0.2% q/q, -0.7% y/y - better than 0.9% y/y expected.** Six out of ten industries contributed to this growth, with the transport sector contributing the most and expanding by 2.9%. Moreover, mining activity rebounded by 2.4% (vs -1% in Q3), while manufacturing saw a slight uptick of 0.2% (vs -1.1%), amidst fewer rotational power cuts. However, agriculture (-9.7%) and trade (-2.9%) experienced steep declines. On the expenditure side, household consumption rose by 0.2%, and changes in inventories contributed 1 percentage point. However, government spending fell 0.3% and fixed investment shrank 0.2%. Net exports contributed negatively by 1pp, following increases of 0,6% and 4,0% in exports and imports, respectively.

**7. Eurozone January PPI -0.9% m/m, -8.6% y/y after -0.9% m/m, -10.7% y/y - less than the -0.1% m/m, -8.1% y/y expected** - led by energy - off 2.9% m/m, while capital goods up 0.6% m/m, consumer goods up 0.3% m/m but intermediate goods -0.2% m/m, The ex-energy PPI rose 0.2% m/m. Biggest deflation in PPI was seen in Slovakia -14.3%, Poland -3% and Austria off 2.2%

**8. Eurozone February final HCOB services PMI rose to 50.2 from 48.4 - better than 50 flash** - the first, albeit small expansion in the services sector in seven months. Activity levels rose for the first time since July last year, demand stabilised and new business contracted at a slower pace. Steadier sales performances were accompanied by a stronger uplift in service sector employment, with the rate of job creation quickening to an eight-month high. Also, inflationary pressures increased and services companies continued to make inroads into their backlogs of work. Meanwhile, service providers were optimistic regarding business activity prospects over the coming 12 months, with the level of positive sentiment rising to a one-year high

**9. UK February final services PMI fell to 53.8 from 54.3 - weaker than 54.3 flash.** Despite this revision, UK service providers saw a steady rise in business activity, driven by an uptick in new orders and a modest increase in employment levels. Output growth remained strong, only marginally lower than January's eight-month high. Input prices rose in February, reaching a five-month high, primarily due to increased wage pressures and rising shipping costs. To offset shrinking margins, service providers raised prices at the second-fastest pace in seven months, second only to December. Finally, optimism for future growth was at its highest since February 2022.

**Service ISM still expanding prices worry**

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