BNY MELLON

iFlow
MARKET MOVERS

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Overload

"We cling nervously to the melody, but we don't handle it freely, we don't really make anything new out of it, we merely overload it." – Johannes Brahms
"A wealth of information creates a poverty of attention." – Herbert A. Simon

Summary

Risk on as markets await a host of decisions and data with US FOMC Chair Powell testimony, Bank of Canada rate decision, and UK Chancellor Hunt Budget key to moods. The overnight news delivered the expected Biden/Trump Super Tuesday voting leaving the November election a likely repeat of 2020. The Australian GDP and Korea CPI were both higher while China 10Y yields fell further below 2.3% with PBOC hinting on more easing but the real story was in German trade surplus at a record even with that nation in a technical recession. Growth hopes outside the US are rising and that drives the USD lower and helps shares everywhere. Bonds are waiting for some direction but there is a sense that the overload of events ahead might be less scary than just sticking to the stocks up, bonds flat and USD down narrative.

What's different today:

- **Egypt hikes 6% in unscheduled meeting** pushing rates to 27.25% deposit rate – this follows 2% hike in February – EGP devalued 35% trading over 50 to USD in an action expected to set up IMF loan deal.
- **US mortgage applications rose 9.7% w/w** – ending 4 weeks down – with applications to buy up 10.6% and refinance 8.1% and with 30Y rate mortgages

off 2bps to 7.02%.

- **iFLow** – G10 continues to see USD outflows with AUD, NOK and SEK joining against CAD, GBP, JPY buying. The EM world is all about TWD and MXN inflows while equites are still seeing outflows in G10, inflows into LaTAm and mixed APAC with China out of favor.

What are we watching:

- **Federal Reserve Chair Jerome Powell delivers semiannual monetary policy testimony** before the House Financial Services Committee -watching for easing path confirmation
- **Fed Beige Book on economic conditions –** watching for signs of weaker growth, jobs
- **Fed Speakers:** San Francisco Fed President Mary Daly and Minneapolis Fed chief Neel Kashkari speak – both likely to push back on faster cuts and might be at odds with Powell.
- **US February ADP private sector jobs report** expected 150k after 107k
- **US January JOLTS job openings data** – expected 8.85m down from 9.026mn
- Bank of Canada policy decision – no change from 5% expected – but dovish tilt
- **British finance minister Jeremy Hunt delivers annual budget to parliament –** with tax cuts pre-election expected
- **4Q earnings**: Campbell Soup, Brown-Forman, JD.com

Headlines:

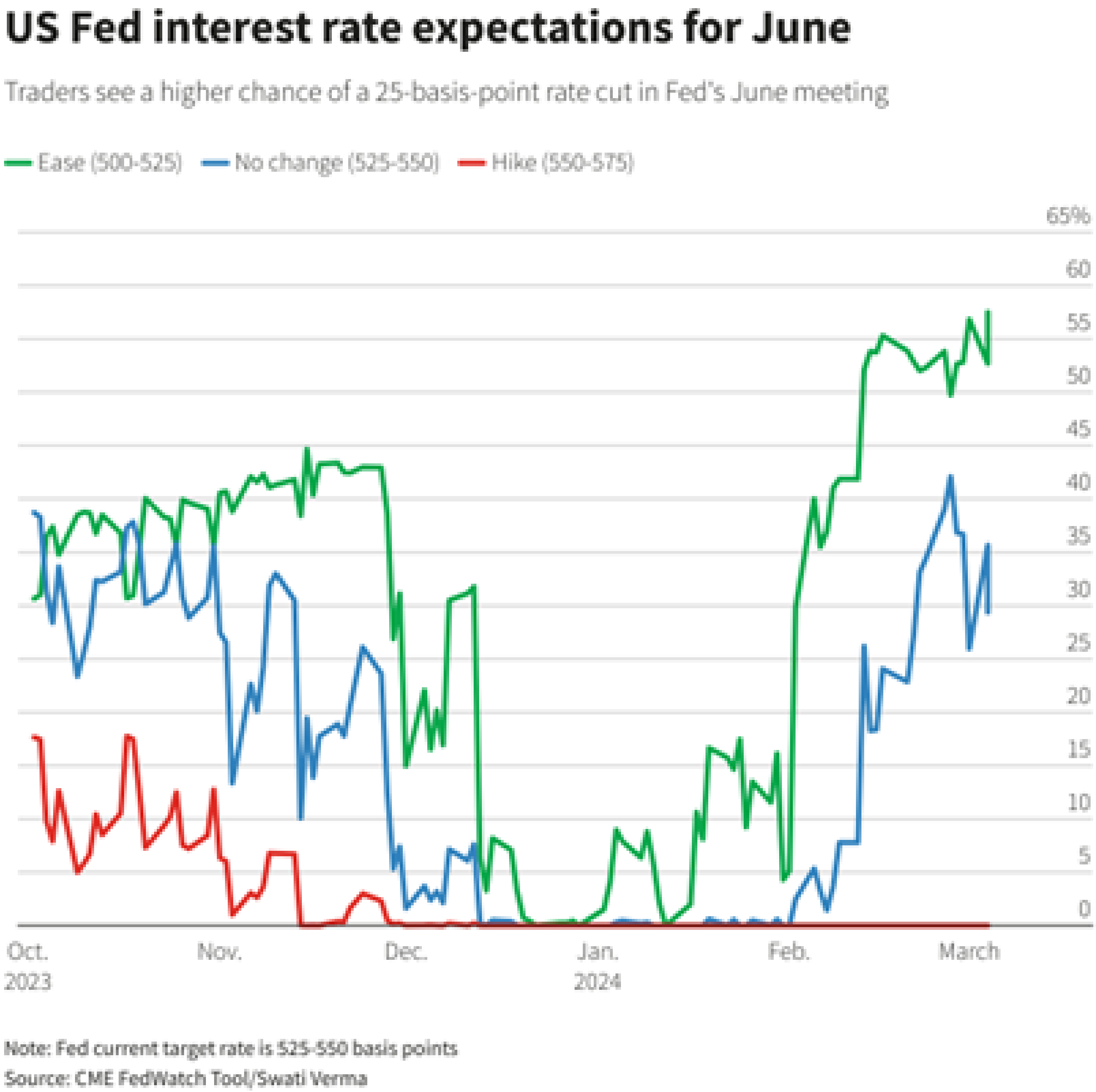
- Australia Feb AiGroup industry index ups 13.4 to -14.8- with orders up - while 4Q GDP up 0.2% q/q, 1.5% y/y - softest in 5 quarters – ASX up 0.12%, AUD up 0.35% to .6530
- Korea Feb CPI rises 0.3pp to 3.1% y/y - highest since Dec 2023 - led by food - Kospi off 0.3%, KRW up 0.15% to 1334.10
- BOJ expected to revise down consumption and output forecasts but still raise rates from negative and end YCC – Nikkei off 0.02%, JPY up 0.2% to 149.65
- German January trade surplus rises to E27.5bn - new record highs - with exports up 6.3% m/m – DAX up 0.1%, Bund 10Y up 2bps to 2.34%
- Eurozone Feb construction PMI up 1.6 to 42.9 extending contraction from Sep 2022 - while Jan retail sales up 0.1% m/m, -1% y/y -16th y/y drop – EuroStoxx 50 up 0.3%, EUR up 0.15% to 1.0875
- UK Feb construction PMI up 0.9 to 49.7- best new orders since May 2023 – FTSE up 0.4%, GBP up 0.1% to 1.2725

- US Presidential race - Trump and Biden win Super Tuesday - as expected - Haley pulls out of Republican race - focus is on economy and immigration in polling – S&P500 futures up 0.20%, 10Y yields flat at 4.16%, USD index off 0.2% to 103.60
- US weekly API oil inventories report 0.423mb build - less than 2.6mb expected - gasoline fell 2.8mb - leaving inventories 2% below average, distillates fell 1.8mb - Saudi Arabia lifts oil prices to Asia by $0.20 for April – WTI up 0.95%

The Takeaways:

Will Fed Powell change the markets? This is the central question for today and it seems boring to many investors which have pushed stocks and pulled bonds to a bell curve around 5k S&P500 and 4.20% US 10Y rates. The net result is that if the FOMC does 50bps or 100bps of cuts this year no one will be hurt. The surprise is in the economic data painting a more dramatic story of either sharply better growth 3% GDP 1H2024 or weaker 1% - with inflation 2.5% or 3.5% less scary as well. What is more unknown is the rest of the world – all of which puts the Bank of Canada decision and the ECB decision on rates as more important to surprising markets as both those economies need stimulus more than restriction. The neutral rate isn't where they have rates and the restriction is showing up even with green shoots of global hope in stocks. The risk reward on a day like today is in understanding that the economy in the US is now in full political mode where the Biden vs. Trump vote in November will divide more than voters but also consumers – where views about spending and investing will wait. The risk, of course, is in less growth and less flows from the US leaving the story line to places like the UK which may have an election after the US but is already in full on budgeting for such. GBP up, CAD down, EUR down, MXN up are political and monetary risks for markets in the days ahead. This is likely to matter more than the Fed rate expectations for June.

US June cut matters but less than ECB, BOC and others



Details of Economic Releases:

1. Australia February AI Group industry index improves to -14.9 from -27.3 - better than -22 expected - still the twenty-two straight months of contraction for the Australian Industry. The new orders (up 28.8 points to -16.4) and activity/sales (up 19.9 points to -17.2) improved significantly, while both remain in negative territory, their decline over the new year period has been reversed. The input volumes dropped by 9.2 points to -14. The employment indicator fell 4.9 points deeper into a contraction (-10.1 points). Upstream manufacturing and business services showed a modest improvement, while consumer-facing industries like food and construction experienced slight declines. The minor but ongoing increases in price indicators suggest that inflation in industrial products remains widespread.

2. Australian 4Q GDP up 0.2% q/q, 1.5% y/y after 0.3% q/q, 2.1% y/y - more than the 1.4% y/y expected - and the ninth straight period of quarterly growth but the softest pace in 5 quarters, as household spending was subdued (0.1% vs -0.2% in Q3), reflecting efforts to maintain spending just on essential items like electricity, rent, food, and health. Meanwhile, government expenditure notably slowed (0.6% vs 1.5%), amid a fall in defense spending and continued government benefits for households. Fixed investment fell after growing in the prior 3 quarters (-0.2% vs 1.5%), with public investment dipping for the first time since Q3 of 2022 while a fall in private one was due to dwellings and machinery and equipment. Net trade contributed positively as exports of goods and services fell 0.3% while imports plunged 3.4%. The household savings ratio rose 3.2%, the first rise in 9 quarters. Through the year, the GDP grew by 1.5%, slightly above forecasts of 1.4%.

3. **Korea February CPI rises to 0.3% m/m, 3.1% y/y from 0.4% m/m, 2.8% y/y - more than the 2.9% y/y expected** - the highest figure since December due to higher cost of fresh food and energy.

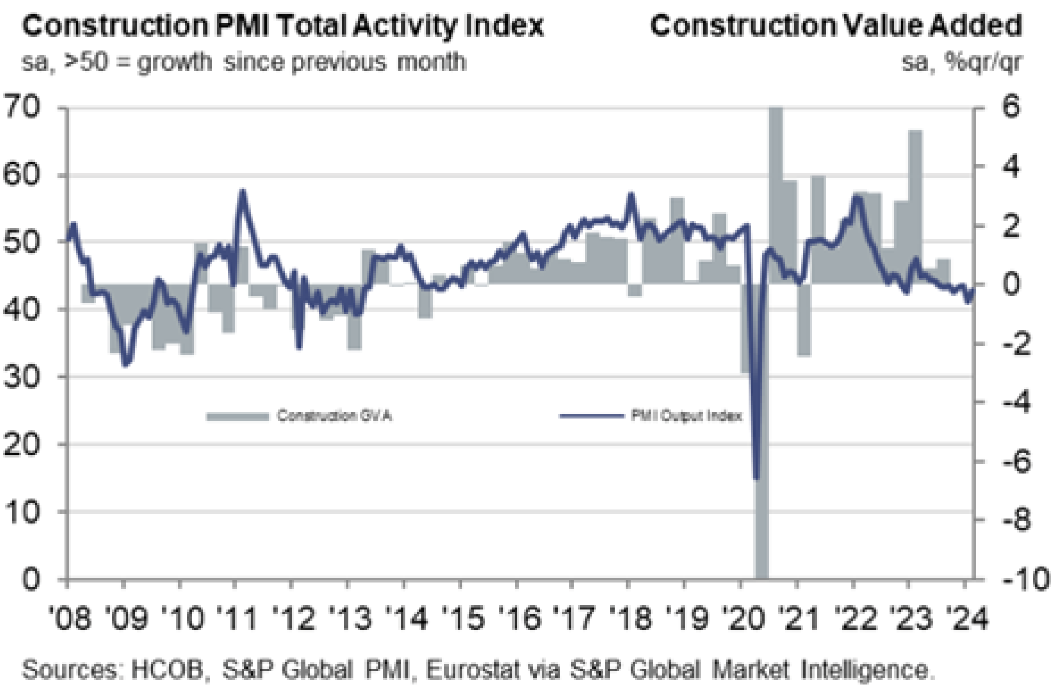
4. German January trade surplus rises to E27.5bn after E23.3bn - more than the E22bn expected - the largest trade surplus on record, as exports grew more than imports. Exports rose 6.3% to an 11-month high of EUR 135.6 billion, faster than expectations of a 1.5% gain. Exports to the EU surged by 8.9%, while those to third countries advanced by 3.1%, with exports to China rising by 7.8% and Russia by 1.6%. By contrast, exports fell to the US (-1.7%) and the UK (-8.1%). Meanwhile, imports climbed 3.6% to EUR 108.0 billion, beating market forecasts of a 1.8% growth. Imports from the EU soared by 10.8%, while those from non-EU shrank by 4.5%, particularly from China (-11.1%), the US (-5.2%), and Russia (-8.2%). However, imports from the UK jumped by 18.4%

5. Eurozone February HCOB construction PMI rises to 42.9 from 41.3 - as expected - but continues decline from Sep 2022 - with the housing sector remained a particular point of weakness. Driving the downturn was a robust decline in new orders, as demand conditions remained subdued. The rate of decline was the strongest since last October and contributed to a further sharp fall in purchasing activity. More positively, employment levels fell at a modest rate that was the softest for nine months, while businesses reported a softer degree of pessimism regarding the year-ahead outlook for activity. On the price front, input costs continued to rise solidly, though at the slowest rate in four months. Moreover, the rate of inflation was muted in the context of the series history.

6. Eurozone January retail sales up 0.1% m/m, -1% y/y after -0.8% m/m -0.3% y/y - better than -1.3% y/.y expected.- still 16th month of y/y contraction. Sales of food, drinks, and tobacco increased by 1.0%, ending a three-month period of declines, while those of automotive fuel advanced by 1.7%, the most since August 2022. However, sales of non-food products dropped by 0.2%, following a 0.9% decline the month before.

7. **UK February construction PMI rises to. 49.7 from 48.8 - better than 49 expected.** Although only marginal, the rate of new business growth was the fastest since May 2023. A turnaround in construction order books contributed to a near-stabilisation of overall output levels in the latest survey period. Business optimism improved for the third time in the past four months and was the highest since January 2022. Construction companies often cited hopes of a sustained upturn in customer demand as well as more favourable economic and financial conditions over the course of 2024.

Construction orders bounce



Source: S&P Markit /BNY Mellon

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