

iFlow

MARKET MOVERS

March 7, 2024

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“Follow your bliss and the universe will open doors where there were only walls.” – Joseph Campbell

“I’m sick of following my dreams, I’m just going to ask them where they’re going and hook up with them later.” – Mitch Hedberg

Summary

Risk on as market waits for a dovish ECB and the USD drops on the Japan wage deals driving up expectations for a BOJ rate hike next week. The APAC session saw Nikkei weakness on JPY gains, while China beat on trade, but CSI 300 fell on stimulus doubts. For Europe the slump in German factory orders stands out and makes clear the need for ECB to do something, but the problems are more than something2. rates can fix. The other key question is whether the ECB can act without the US moving first or at all – all of which makes the US day ahead look important to the mood swings clinging to the bull market from February and extending despite the cracks in the US data. How trade and jobless claims and Chair Powell sounds all will matter just as much as the ECB.

What’s different today:

- **US Challenger Gray February layoffs rose to 84,638 – most in 11-months –** up from 77,000 last year and 82,307 in January. This was led by transportation and tech sectors.
- **Mexico February CPI fell to 4.4% y/y down from 4.88% y/y –** which was 7-month highs – the drop was led by food – adding to Banxico rate cut expectations.

What are we watching:

- **US President Biden State of the Union** -expected to start his re-election campaign and set out new tax and spending plans.
- **Fed Chair Powell continues testimony to Congress** - this time to Senate banking committee - key is not if but when FOMC cuts
- **US January Trade Deficit** expected to widen to \$63.5bn from \$62.2bn - key part of 1Q GDP
- **US weekly jobless claims** expected to rise 215k - this data has been divorced from layoffs and other surveys.
- **4Q earnings:** Broadcom, Costco, Kroger

Headlines:

- Japan Jan wages rise 2% y/y - most in 7-months - while largest industrial union UA Jensen gets 6.7% deal, while Rengo sees 5.85% deals both drive BOJ hike speculation - JPY up 1% go 147.85
- Australian Jan trade surplus rises to A\$11.027bn - with exports up 1.6% m/m and imports 1.3% m/m - AUD up 0.6% to .6606
- China Jan-Feb trade surplus \$125.16bn- with exports up 7.1% y/y and imports up 3.5% y/y - CNH flat at 7.2095
- German January factory orders drop 11.3% m/m, -6% y/y - EUR flat at 1.0895

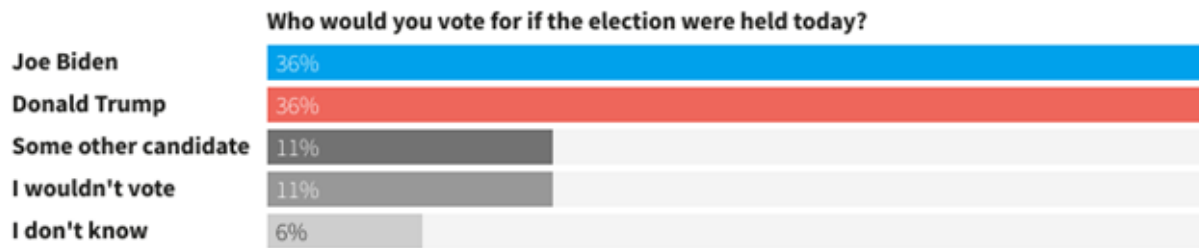
The Takeaways:

While the ECB is key on the day, the State of the Union address will dominate the evening and early Asia trading. Markets are seeing the clash of economics and politics in play. The US bond market rally back on weaker ISM and on the troubles in the NYCB are telling for the risks on the day with Lagarde unlikely to lock in a rate cut table and the Powell testimony redux unlikely to make the path to rate cuts anything but about the data - all of which puts the US claims data today as important but not sufficient to changing the storyline for markets. The risk of today is in the mood swings around rates and the USD with the US politics rising as a dollar driver as the US November election starts now. The other risk is in how the world deals with the US budget and monetary policy – with Congress about to do its first budget in a year – and with the US FOMC not in a hurry to cut rates, the question for all is whether the BOJ can catch up to other G10 rate moving central banks, along with whether the ECB can act before the FOMC. The divergence of global policy both monetary and political stands out as a key driver for more volatility ahead. Whether this can show in in asset class diversity will also be a question as the JPY gains were offset by the Nikkei losses overnight, will the USD have a similar fate today?

US politics are a key driver - and its too close to call

US presidential race is up in the air

Democrat Joe Biden and Republican Donald Trump are running neck-and-neck ahead of the Nov. 5 presidential election.



A Reuters/Ipsos poll collected responses on this question from 1,185 U.S. adults in a nationwide survey conducted online Feb. 26-28. It had a margin of error of 3 percentage points.

Details of Economic Releases:

1. Japan January average earnings jump 2% y/y after 1% y/y - more than the 0.5% y/y expected - the highest reading in seven months. The country's nominal wage growth also matched the 2% core consumer inflation rate in January, resulting in the slowest pace of decline in inflation-adjusted real wages in 13 months which was reported at -0.6%. The following industries contributed the most to the wage rise: electricity, gas, heat supply & water (9.6%), information & communication (4.8%) and finance & insurance (4.7%). Meanwhile, wages declined in mining & quarrying of stone & gravel (-2.3%) and accommodations, eating & drinking services (-0.2%).

2. Australian January trade surplus widens to A\$11.027bn after A\$10.743bn - as expected - with exports rising faster than imports. Shipments grew by 1.6% from a month earlier to AUD a 10-month high of 47.51 billion, mainly boosted by non-monetary gold. On the original basis, outbound shipments soared to the US (11.3%) and Indonesia (6.6%), while those to the country's largest trading partner, China, plunged 9.2% after a downwardly revised 4.6% rise in December. Meanwhile, imports climbed 1.3% to a three-month high of AUD 36.43 billion, mainly driven by non-industrial transport equipment.

3. China January-February trade surplus widens to \$125.16bn after \$75.34bn - more than the \$104bn expected - as exports rose more than imports. Exports grew by 7.1%, beating expectations of a 1.9% growth, while imports climbed by 3.5%, compared to market expectations of a 1.5% rise. The trade surplus with the United States was at USD 47.29 billion, with exports rising 5% while imports declined by 9.7%. In 2023, the country posted a surplus of USD 823 billion, with exports falling 4.6% to USD 3.38 trillion while imports dropped 5.5% to USD 2.56 trillion. China combined trade data for January and February to smooth out the impact of the Lunar Year holiday, which falls at different times each year.

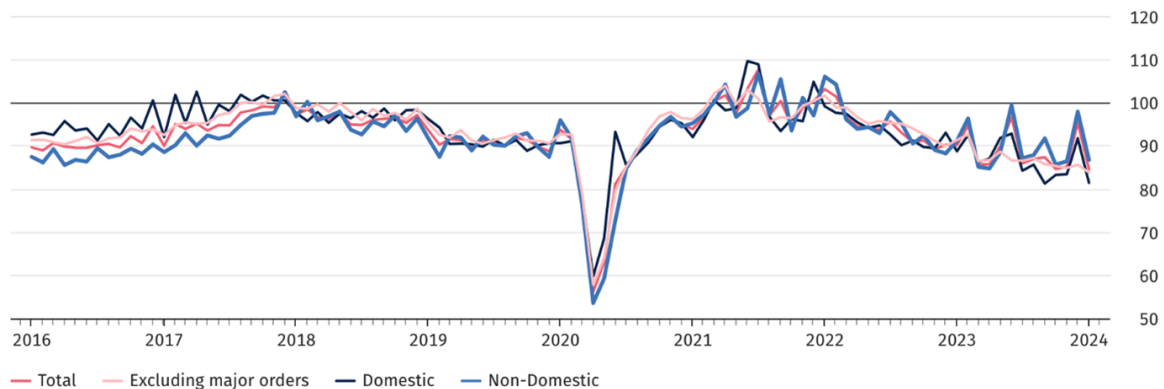
4. German January factory orders drop 11.3% m/m, -6% y/y after 12% m/m, +6.6% y/y - worse than the -6% m/m expected - the steepest drop in six months because of

a high volume of large orders in December 2023, particularly in manufacturing electrical equipment (-33.2%); vehicle construction, namely aircraft, ships, and trains (-27.3%); manufacturing metal products (-14.5%), and mechanical engineering (-4.7%). Incoming orders fell for all components: capital goods (-13.1%), intermediate (-9.3%), and consumer ones (-5.7%). Domestic orders tumbled 11.2%. Also, foreign orders sank 11.4%, with orders from the Eurozone plunging 25.7% while those from outside the Eurozone rose 1.6%. In a less volatile 3-month comparison, incoming orders from November 2023 to January 2024 were 2.3% higher than in the previous three months.

ECB can not fix German factory orders

Index of new orders in manufacturing

Volume index 2021 = 100; seasonally and calendar adjusted (X13 JDemetra+)



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Source: Destatis /BNY Mellon

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