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MARKET MOVERS

March 8, 2024

Half The Sky

"Women hold up half the sky." – Mao Zedong

"The most effective way to do it, is to do it." – Amelia Earhart

Summary

Risk mixed into the US jobs report after a heavy week of data and decisions. The US election season starts with Biden delivering a fiery SOTU address pushing higher taxes and higher spending. The Chinese quietly had another strong stock market week while they push to win the "chip" race in technology with another fund, and the EU absorbs confirmation of a flat economy while the ECB sound dovish and suggest an early rate cut ahead. This will contrast with the BOJ and leave the markets watching EM and carry and risk – along with the too much all-important US non-farm payrolls today expected up 200k but with risks to downside.

What's different today:

- **ECB speakers confirm rate cut possible ahead of FOMC -** Banque de France head Francois Villeroy de Galhau said a rate cut should happen in the spring, which he added was "from April until June 21". While "The probability is increasing that we could possibly see a rate cut before the summer break," the hardline Bundesbank Governor Joachim Nagel said in an interview today.
- **UN FAO food price index fell to 117.3 from 118.2 - 7th month of declines** - and now 3-year lows. Prices were down for cereals (-5%), namely maize and wheat and declined 1.3% for vegetable oils as a fall in world prices of soy, sunflower and rapeseed oils, more than offset marginally higher palm oil quotations. On the other hand, dairy cost went up 1.1% to a nine-month high.

What are we watching:

- **US February Non-Farm Payrolls** expected up 200k after 353k - with unemployment flat at 3.7% and wages up 0.3% m/m, 4.4% y/y from 4.5% y/y.
- **Canada February jobs** expected up 20k after 37.3k - with unemployment rate expected up 5.8% from 5.7%.

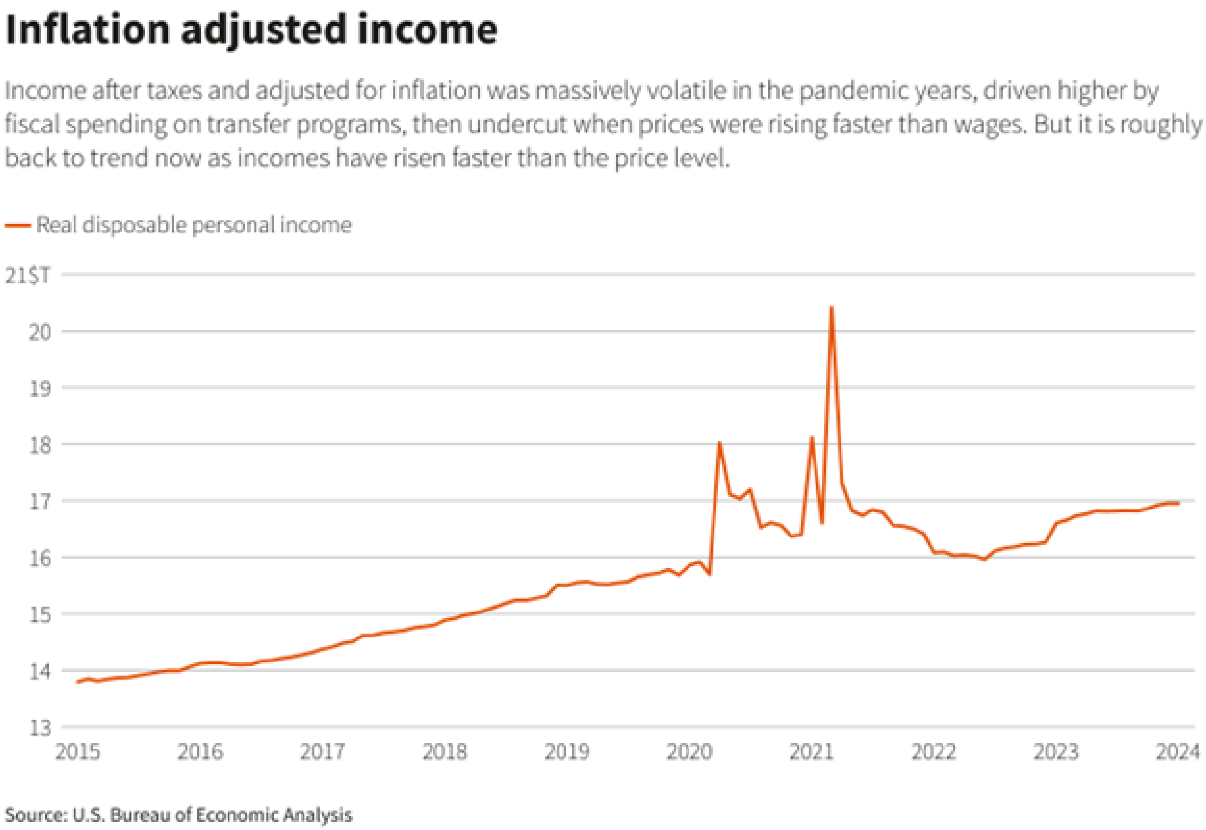
Headlines:

- Japan Jan household spending fell 2.1% m/m, -6.3% y/y - 10th month of contraction led by food and fuel - while the LEI coincident index fell 5.8 to 110.2 - lowest since Oct 2021- but EcoWatchers Index for Feb rises 0.5 to 53 - Nikkei off 0.53%, JPY up 0.6% to 147.10
- China in process of raising $27bn for new chip fund - CSI 300 up 0.1%, CNH up 0.1% to 7.1985
- Korea Jan C/A halves to $3.05bn - still 8th month of surplus - Kospi up 1.24%, 1M KRW up 0.2% to 1314.7
- Taiwan Feb exports rise 1.3% y/y — slowing for 2 1/2 year highs - still led by information & communication products to US – TWD flat
- Philippine Jan unemployment rate jumps 1.4pp to 4.5%- correcting from 1-year lows – PHP flat
- German Jan industrial production up 1% m/m - best growth since Feb 2023 - while Feb PPI up 0.2% m/m, -4.4% y/y - first monthly rise in 3-months - DAX off 0.2%, EUR up 0.1% to 1.0930
- Sweden Jan industrial production up 2.3% m/m, 1.2% y/y - while household consumption fell 0.7% m/m,-0.7% y/y - puts Jan GDP up 0.9% m/m - led by government spending - OMX up 0.15%, SEK
- Eurozone 4Q GDP unrevised at 0% q/q, 0.1% y/y - as expected - with employment up 0.3% q/q, 1.2% y/y - ECB Villeroy sees rate cuts happening in Spring - EuroStoxx flat,
- US President Biden State of Union: US “envy of the world” in fiery speech pushes taxes on business and billionaires, attacks Trump policies – S&P500 futures flat, US 10Y yield up 0.1bps to 4.075%, USD off 0.1%

The Takeaways:

Welcome to international women’s day and to the jobs report where the role of working women matter to the fate of the US economy more clearly post the pandemic. There is plenty on the plate of investors to digest after a long week of decisions and political outcomes. The US race for the next President – being a repeat of 2020 – drives some moves in rates and FX but more the data which this week missed more than it beat leaving the USD notably weaker and the stock market higher despite it all. Rates are key and the 4.00%-4.35% new trading range is being tested today for 10-year US as the jobs report will be scrutinized for more than just jobs creation. The role of the NFP as a lagging indicator still matter to markets as it confirms the excess pressure on the labor market – anything over 150,000 is seen as a tighter market unless there is a pocket of new job market participants, which gets us back to women in the work force being important to the puzzle of job creation beating expectations for 2 years and yet wages while up, have not been robust. The best you can say about the US wages is that in real terms they are back on trend. The other part of the report to watch today is in the areas where jobs are needed – broader sector participation is needed to justify the feel-good recovery hopes that dominated February. Weather factors and the survey moods are in contrast to the hype and the risk according to my own back of the napkin calculation is for a sharply lower job report – 150,000 or lower – with lots of noise in the revisions and risk of lower participation – making the unemployment report key for ending the week and whether the FOMC can lead or lag the ECB and others.

US income is back on trend not exceeding it



Details of Economic Releases:

1. Japan January household spending fell 2.1% m/m, -6.3% y/y after -0.9% m/m, -2.5% y/y - worse than the +0.4% m/m, -4.3% y/y - the 10th straight month of decrease in personal expenditure and the steepest pace since February 2021, mainly due to faster drops in spending on food (-2.7% vs -1.3% in December), fuel, light & water charges (-9.4% vs -1.3%), housing (-19.8% vs -3.4%), culture & recreation (-9.0% vs -1.1%), and transport & communication (-13.1% vs -0.2%).

Meanwhile, furniture & household utensils expenditure fell much softer (-1.8% vs -10.8%). At the same time, spending grew for clothing & footwear (1.8% vs -7.1%), medical care (8.2% vs 2.9%), and education (29.6% vs -7.7%).

2. Japan January LEI drops to 109.9 from 110.5 - weaker than 110.1 expected - as recovery in the Japanese economy remained fragile. The economy shrank 0.4% qoq in Q4 of 2023, the second straight quarter of contraction in a year, amid uncertainties in global conditions. Meanwhile, factory activity continued to shrink in January. The coincident index fell to 110.2 from 116 - lowest since Oct 2021.

3. Japan February EcoWatchers outlook rose to 53 from 52.5 - better than 52.4 expected. The service sector current index rose to 51.3 from 50.2 - while the measure for household budgets rose to 50.9 from 49.5 - mainly due to a rise in services and housing related goods. Additionally, the gauge for corporate trends went up to 52.0 from 50.9 in January, driven by an increase in non-manufacturing industries. At the same time, the economic outlook index grew to a seven-month high of 53.0 from a prior 52.5, reflecting optimism about the ongoing economic recovery despite the impact of inflationary pressures and the strong earthquake earlier in the year.

4. Korea January current account shrinks to $3.05bn from $7.41bn - 8th month of surplus on the back of higher exports. The country's goods account recorded a 4.24 billion dollar surplus as exports increased annually by 14.7% to 55.22 billion dollars and as imports decreased by 8.1% to 50.98 billion dollars, compared to one year earlier. Meanwhile, the primary income account reported a $1.62 billion surplus (vs $2.46 billion surplus in December) due to an increase in the income on equity.. The services account posted a $2.54 billion deficit (vs $2.21 billion gap in December) owing to deficits in the manufacturing services and travel accounts.

5. German January industrial production rose 1% m/m after -2% m/m - better than the +0.6% m/m expected - the fastest growth in industrial output since February 2023, mainly boosted by rises in the chemical industry (4.7%), food (5.9%), and machine maintenance and assembly (11.1%). By contrast, the automotive industry fell by 7.6%. Output rose for intermediate goods (4.4%) and consumer goods (4.0%) while declining for capital goods (-2.1%) and energy (-3.7%). In 2023, production shrank by 1.5%.

6. German January PPI rose 0.2% m/m, -4.4% y/y after -0.8% m/m, -5.1% y/y - higher than then -6% y/y expected - still the seventh consecutive month of producer deflation, despite a annual rebasing, driven by a plunge in energy costs (-11.7%), influenced by natural gas (-19.8%), electricity (-16.3%), and mineral oil products (-7.4%). Additionally, prices of intermediate goods decreased by 3.7%, weighed down by metals (-8.1%) and basic chemicals (-12.7%). Conversely, prices of non-durable consumer goods rose by 1.1%, while those of durable consumer goods increased by 1.6%. Moreover, prices of capital goods gained 3.0%, primarily driven by increases in machinery prices (4.0%) and the prices of motor vehicles, trailers, and semi-trailers (2.4%). Excluding energy, producer prices were 0.5% lower.

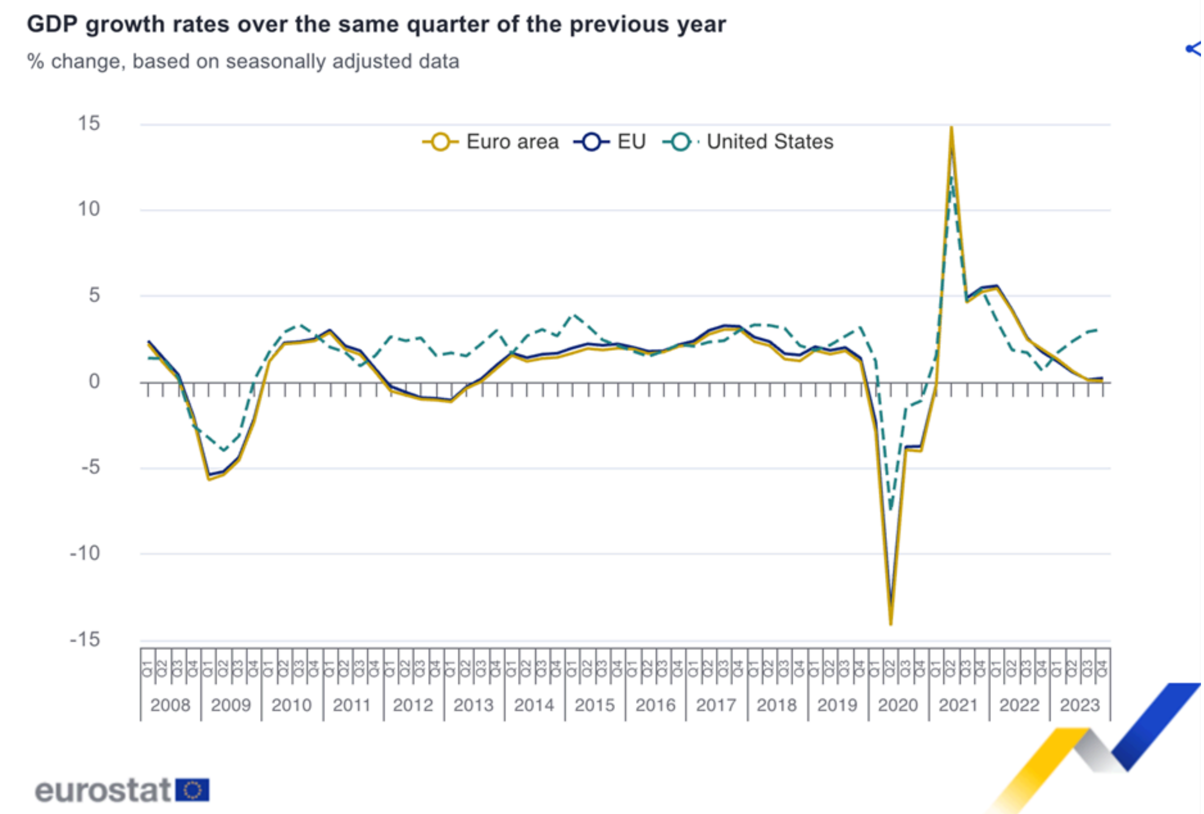
7. Swedish January GDP jumps 0.9% m/m after -0.3% m/m - better than 0.4% m/m expected. Positive contributions came from consumption expenditure where stronger figures for the general government offset a downturn among households. Net exports on goods also contributed to growth, mainly due to falling imports.

8. Swedish January industrial production rose +2.3% m/m, +1.2% y/y after +1.2% m/m, -0.1% y/y - better than the 0.5% m/m, -0.6% y/y expected. The total private sector ex finance and insurance - fell 1.6% y/y. Manufacturing output rebounded (2.8% vs -0.7% in December 2023), driven by the chemical and pharmaceutical industry. Conversely, production declined sharply for mining and quarrying (-20.4% vs 9.6%).

9. Sweden January household consumption fell 0.7% m/m, -0.7% y/yafter +0.4% m/m,+0.9% y/y - weaker than 0.5% y/y expected. Main downward contributions came from decreased consumption of food and beverages (-0.3% vs 0.5% in December), housing, electricity, gas and heating (-0.7% vs -0.4%), and recreation and culture, goods and services (-3.6% vs 0.5%)

10. Eurozone final 4Q GDP unrevised at 0% q/q, 0.1% y/y after -0.1% q/q, 0.1% y/y - as expected - with employment 4Q rising 0.3% q/q, 1.2% y/y after 0.2% q/q, 1.3% y/y. Among the largest economies, France expanded 0.7%, Italy grew 0.6% and Spain soared 2% while the GDP in Germany shrank 0.2%. Net exports subtracted 0.3 percentage points from the GDP, with exports remaining flat (vs -1.2% in Q3) and imports increasing by 0.6% (vs -1.4%), while changes in inventories subtracted 0.1 percentage point. On the other hand, household consumption rose by a meager 0.1%, following a 0.3% increase in the previous quarter. On a brighter note, fixed investment advanced by 1.0% (vs 0.0% in Q3), and public spending expanded by 0.6% (vs 0.6% in Q3). Compared with the same quarter of the previous year, the Eurozone economy advanced by 0.1%, matching the pace of the previous period. Looking at the full year of 2023, the GDP grew by 0.4%, marking a sharp decline from a 3.4% expansion in 2022.

Growth is stagnant in Europe



Source: Eurostat /BNY Mellon

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