

iFlow

WEEK AHEAD

February 11, 2024

Redux

“The sober devil can hide his cloven hoof; but when the devil drinks he loses his cunning and grows honest.” – Anthony Trollope, Phineas Redux

“Starting at a certain point, the future is only a need to live in the past. To immediately redo the grammatical tenses.” – Elena Ferrante

Summary:

Replaying a championship with two teams from two years ago and expecting different outcomes to some smacks of insanity, like raising rates to restrictive territory and not expecting a recession. The test of markets ahead isn't in the outcome but in the faith – the confidence game – where we all wish for some different future. The wars in Ukraine and Israel are part of this puzzle, just as monetary policy pivots and new fiscal policies collide in this year of the voter. The week ahead will be defined by the economic data between the US CPI and retail sales as the New Lunar Year holiday leave focus on the policy pivots of the US, UK and EU and whether the timing of such can match the market aspirations for profits. The new US consensus is for 1.25% easing starting in May while the ECB and might be later but with more cuts. The economic data this week from the US and UK will redefine the ranges and if we see lower than expected CPI and weaker US retail sales, the difference between FOMC and other easing choices will narrow -as growth more than inflation becomes the dominate driver for risk. The fear of elections everywhere is on the rise with the redux risks of Trump filtering into markets along with the uncertainty elsewhere. The Indonesia election could be a win for democracy and stability, keeping money in Emerging Markets and returning demographics as destiny arguments. The focus on US exceptionalism could fray accordingly and the ability for rates and the USD not to matter to global growth will likely be tested sharply in the days ahead.

Key Themes:

- **US bond supply meets demand** – The \$42bn record sized 10-year note sales last week went very well and that auction calmed fears that the government's record borrowing levels would push borrowing costs higher. The fact that US 10Y rates remain 3.80-4.20% range bound matters and helps drive financial conditions even higher, removing some of the Federal Reserve's appetite to cut interest rates as the current state drives the "what is neutral rate" debate as most see FOMC policy as only modestly restrictive. The debate about supply squeezes just hasn't mattered in the US yet but stays top of mind for many in fixed income as they watch new IG issuance, ongoing CRE wobbles and the woes of NY Community Bancorp.
- **S&P500 5000 chasing value and growth** – According to FactSet, 4Q earnings with 67% of the index reported have a blended earnings rate of +2.9% - another week of positive surprises lifting the growth from 1.6% last week and 1.5% at the start. However, the forward 12-month P/E ratio is 20.3, which is above the 5-year average (18.9) and above the 10-year average (17.7). This is the first time the P/E ratio is over 20 in 2-years.
- **Politics at home and abroad** – Indonesia election is seen important for IDR and bonds but also democracy as the third largest democratic nation votes with youth being the swing vote. Meanwhile Pakistan's election result from Thursday is stuck in controversy with coalition building and vote tapering fears, while in the US Trump spooks NATO, Biden fights a bad memory, voters don't give him any economic credit. Challenges to both are in play head of the summer conventions. Key theme from politics remains uncertainty which only leaves investors nervous and waiting for clarity and inclined to hold more cash.
- **Shadow Banking, FCI and Regulation** – The Fed reported Friday that loans to non-deposit taking financial companies at the end of January exceeded \$1trn. The contrast of this lending to the ongoing tight credit standards and lending to C&I loans stands out from the last week Fed Senior Loan Officer Survey. The bank lending to hedge funds, private equity firms, direct lenders and others – all that use the money to leverage investments and increasingly lend it out to a range of risky borrowers that regulators have discouraged banks from lending to directly. Last month, EU regulators said they would dig deeper into the ties between traditional lenders and shadow banks. Acting head of the Office of the Comptroller of the Currency Michael Hsu, one of the top US bank regulators, recently told the Financial Times that he thought the lightly regulated lenders were pushing banks into lower-quality and higher-risk loans.

What are we watching:

- **Economic data will be focused on inflation** – with US CPI, PPI, also Retail Sales and Industrial Production. Also the Indonesia Presidential Election Tuesday.
- **No major central bank rate decisions** in the week ahead but plenty of speakers with ECB Lagarde and Fed Waller main focus..
- **During the upcoming week, 12% or 62 S&P500 companies (including two Dow 30 components) are scheduled to report** results for the fourth quarter.
- **In the US, there are no coupon auctions** for the Treasury by plenty of bill supply, while IG supply and CRE focus remains
- **In EU, the bond markets have E42.3bn of redemptions**, half from Germany, leaving net flows negative by E9bn vs a positive E33.6bn last week

- **Monday, February 12 -**

- Economic Data: India CPI, industrial production
- 4Q Earnings: Arista, Cadence, Waste Management, Principal Financial, James Hardie Industries
- Central Banks: BOE Bailey, ECB Lane and De Cos and Cipollone, Fed Bowman, Barkin and Kashkari
- US Issuance: Treasury sells \$79bn 3M bills and \$70bn 6M

- **Tuesday, February 13 –**

- Economic Data: Japan PPI, Indonesia Election, German ZEW, EU commission winter forecasts, UK jobs, Swiss CPI, US CPI
- 4Q Earnings: Coca-Cola, Shopify, Airbnb, Marriott, Moody's, Ecolab
- Central Banks: RBA Kohler, Riksbank Jansson, Romania rate decision expected on hold at 7%
- US Issuance: Treasury sells \$80bn 42-day CMB
- EU Issuance: Italy auctions 50Y BTP and 3Y, 6-7Y BTPs and 20Y for E 7.5-8bn; Germany sells E4bn of 5Y BOBLs

- **Wednesday, February 14 –**

- Economic Data: Japan 4Q GDP, Australia Jobs, India WPI, Norway 4Q GDP, UK CPI, Eurozone Industrial production, US PPI final Dec.
- 4Q Earnings: Cisco, Sony, Equinix, CME, Occidental, Kraft-Heinz
- Central Banks: ECB Vujcic, Guindos, Cipollone and Nagel, , Fed Goolsbee and Barr at NABE
- US Issuance: Treasury sells 1M and 2M bills
- EU Issuance: Greece to hold GCB auction (details released Tuesday), German sells 30Y reopening for E2bn and Portugal will sell OT 5Y, 10Y and 30Y for E1.5bn

- **Thursday, February 15 –**

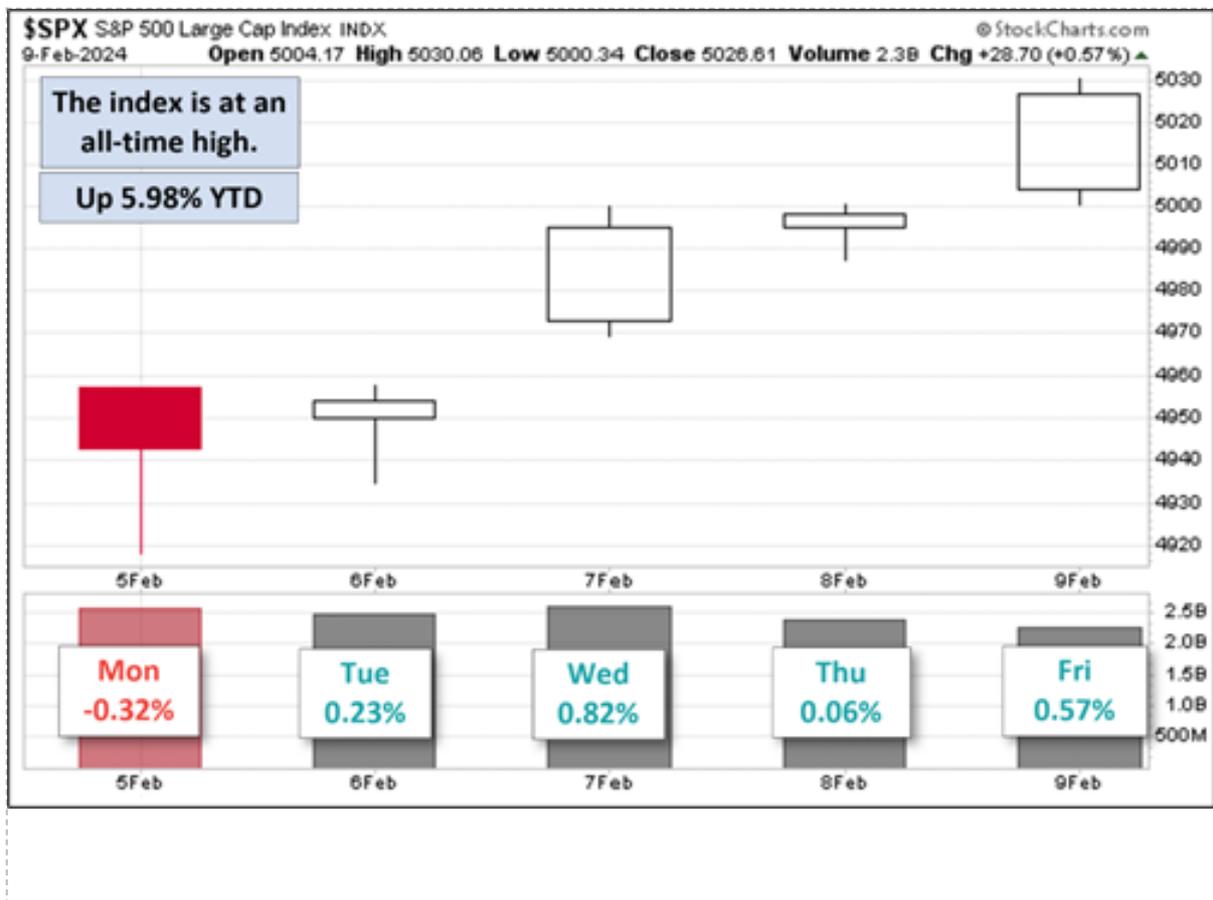
- Economic Data: UK 4Q GDP, industrial production US Retail Sales, Weekly Jobless Claims, Industrial Production
- 4Q Earnings: AMAT, Deere, RELX, Stellantis, Southern Company, DoorDash, Constellation Energy
- Central Banks: ECB Lagarde, Lane and Nagel, Riksbank Thedeen and Bremanm Fed Waller on USD international role, Bostic on policy outlook
- EU Issuance: Spain will sell E6bn of 3Y, 5Y Bonos and 9Y Obli while France will sell E12bn of 3Y, 5Y and 8Y OATs – also IL OAT and OATei for 7-10Y for E2bn.
- **Friday, February 9 –**
 - Economic Data:; UK Retail Sales, US PPI January, Preliminary Consumer Sentiment
 - 4Q Earnings: TC Energy, Vulcan Materials, NatWest, PPL, Liberty Broadband, Cinemark
 - Central Banks: ECB Schnabel, Czech CNB minutes, Fed Barr on supervision and Fed Daly at NABE

What changed last week:

Fed Powell 60 Minutes interview confirmed bias to wait beyond March for rate cuts. RBA on hawkish hold, China January deflation -0.8% y/y most since 2009, US Service ISM beat expectations at 4M highs 55.8 but with higher prices paid; US CPI revisions were non-event but December revised from 0.3% to 0.2% m/m, US regional banks focused on CRE again.

- **In Equities, The US S&P500 broke to another record high Friday – 10th** of the year to date – up 5.98% on the year – gains in NASDAQ led with big tech and earnings the key driver. In other markets China CSI 300 closed a 4-day week up 4.58% while Japan Nikkei rose 2.04% and Italy's MIB rose 1.43%. Biggest losers were Swiss Mkt off 1.32%, Spain's IBEX off 1.65% and Australia post RBA hawkish on hold off 0.71%.

US equity markets set new record highs again

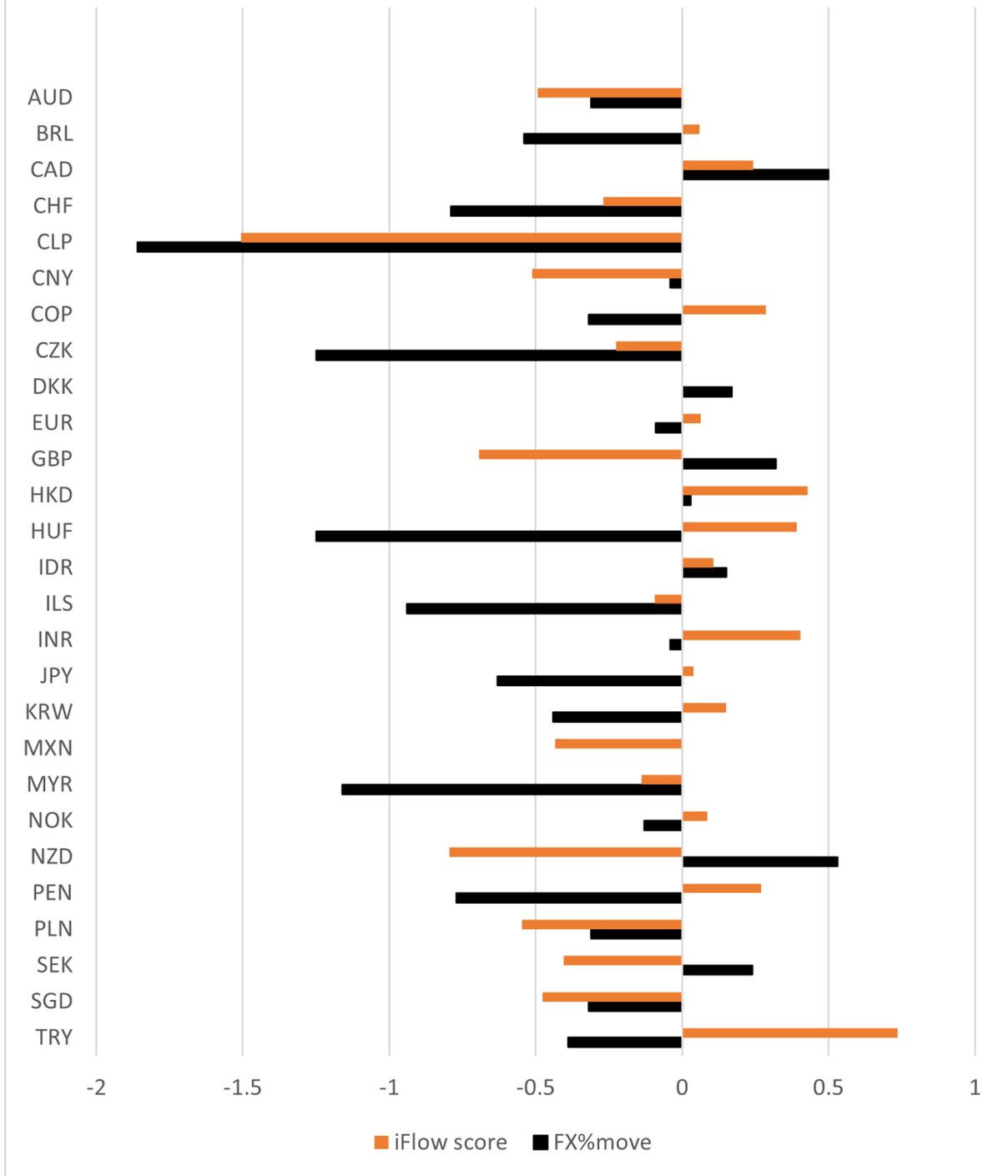


Source: Bloomberg, BNY Mellon

- **In FX**, the USD gained modestly 0.15% on the week, with focus on EM and JPY weakness. NZD, SEK and IDR lead with better data helping against weakness in CLP, HUF and CZK led by rate cuts and commodity weakness. EM divergence between market and our flows stood out in the last week.

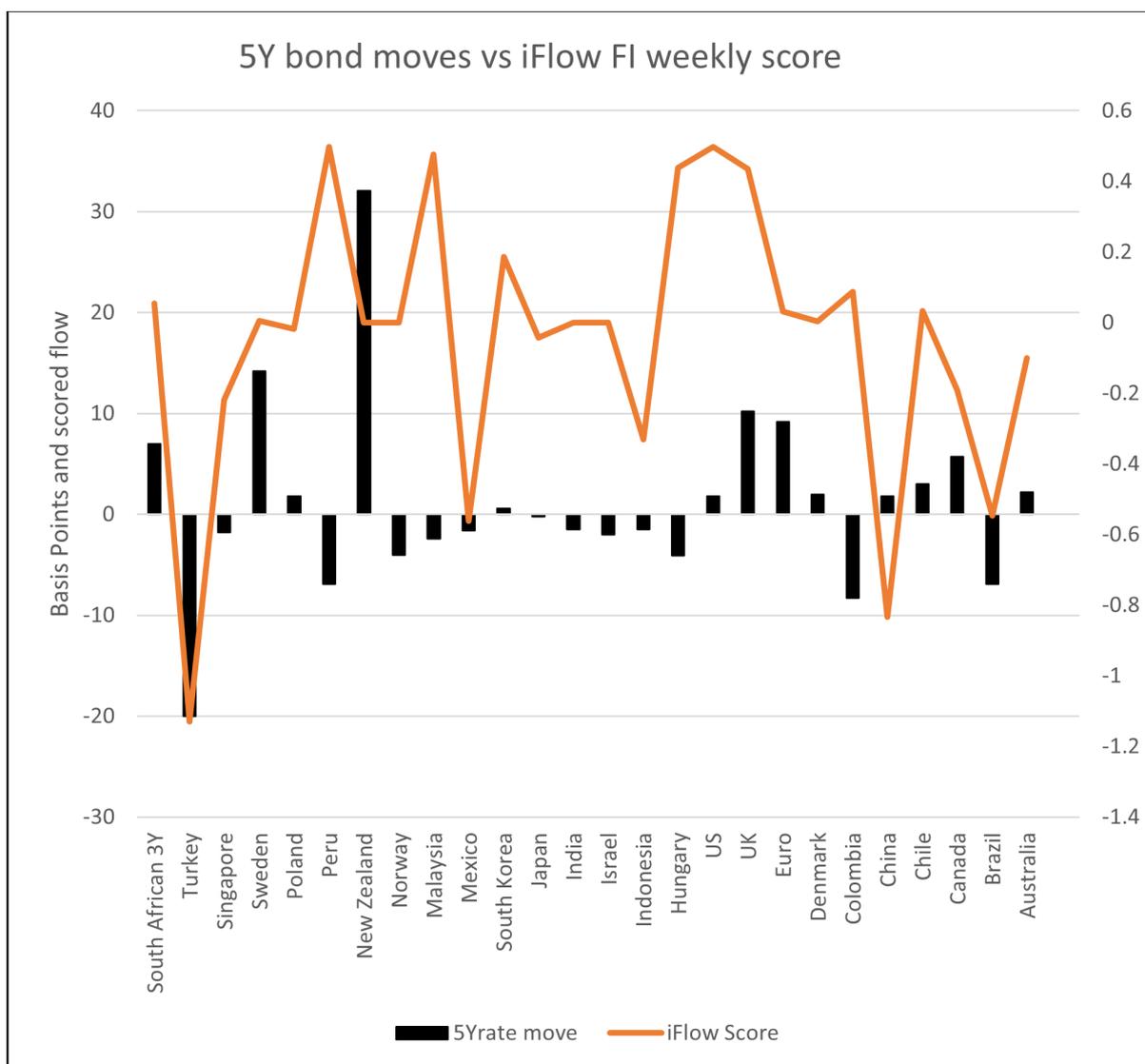
FX markets and iFlow battle in EM

FX weekly moves and iFlow Score Feb 2-Feb 8



Source: Bloomberg, iFlow, BNY Mellon

- In Fixed Income**, A successful week for US note sales and a rethinking of Fed rate hikes with May now 80%, March less than 10% and 5 cuts for the year still in play. Most markets suffered with central bankers pushing back on timing and size of rate cuts ahead – New Zealand, and Spain suffered the most while Brazil and Mexico rallied.



Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – US CPI, Retail Sales, 4Q earnings, Fed Speakers, UK jobs, CPI, German ZEW

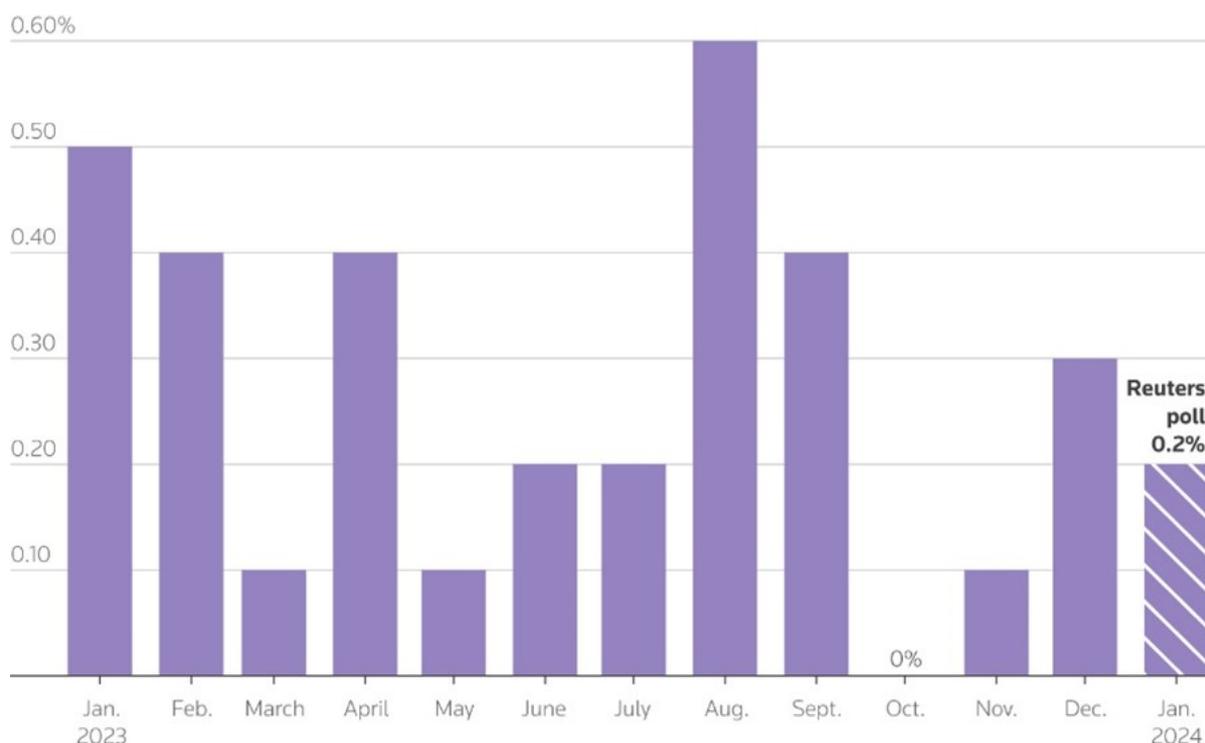
In the US, investors will focus on the inflation report, followed by retail sales figures, producer inflation data, and the Michigan consumer confidence index. Additionally, speeches by several Federal Reserve officials will be monitored albeit with few expecting any shift in outlook for a mid-year easing. Meanwhile, the earnings season is set to continue into its fourth week with major companies such as Coca Cola, Airbnb, Zoetis, Cisco, Applied Materials, and Deere & Company poised to report their financial results. Internationally, highlights include the UK's Q4 GDP, inflation, and unemployment data, as well as Q4 flash GDP growth rates for Japan, the Netherlands, and Poland. Inflation rates for the UK, India, Switzerland, and Russia will be also followed, along with unemployment rates for Turkey, France, Australia, the Netherlands, and South Korea. Finally, Germany's ZEW economic sentiment and Australia's NAB business confidence are set to be released.

1. US CPI and risks to repricing – Any signs that price pressures are gaining momentum again could push rate cut bets further into the future. The CPI 2023 revisions last week were a non-event and leave the data this week as key - Consumer prices excluding food and energy items rose at a 3.3% annualized rate in the final three months of 2023, matching the previous reading, the revised Bureau of Labor Statistics data showed. Revisions to the headline figure were also minimal. The January headline CPI is expected to fall 2.9% and Core at 3.7%. Last January has a larger 0.5% falling out so the base effects are positive this time around.

CPI and FOMC rate cut pricing key

US CPI inflation expected to have slightly eased in January

Economists polled by Reuters expect U.S. consumer prices to have risen 0.2% in January from the previous month, following a 0.3% increase in December.



Sources: LSEG Datastream, Reuters polling

Prinz Magtulis • Feb. 7, 2024 | REUTERS

Source: Bloomberg, BNY Mellon

2. USD strength and the risk to the world – We are not quite back to 1985 and the "our dollar, your problem" days but many worry that the lack of USD alternatives is going to lead to a larger risk reversal for global growth and trade. Not a single G10 currency is in positive territory against the dollar so far this year. Investors are still not holding a net bullish position in the dollar either, suggesting that, if the gap between the U.S. economy and the rest of the world keeps widening, the greenback could get a fresh tailwind. There is a concern that the USD strength is taking all the excess savings of the world into US bonds and stocks rather than in EM and G10

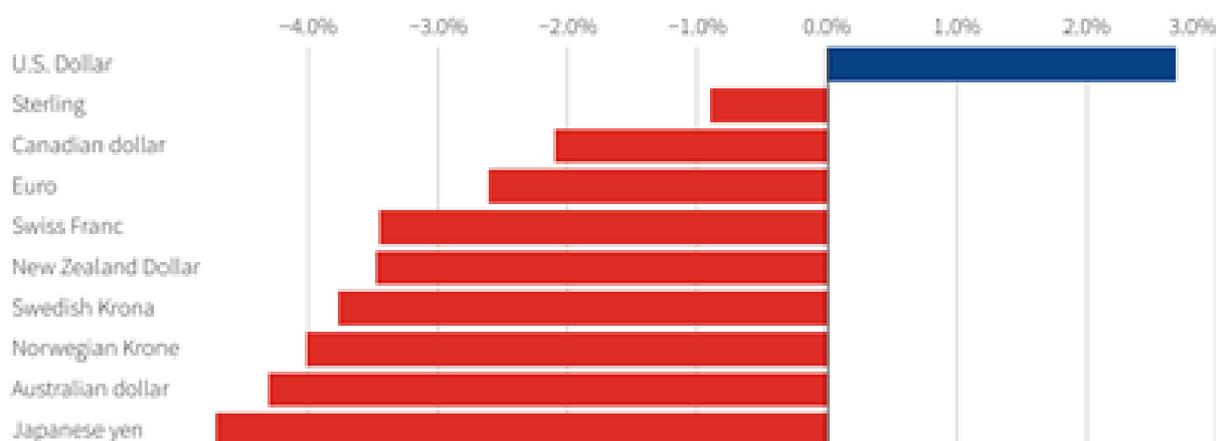
recoveries. The growth differential maybe more important than rate spreads in driving the USD in the week ahead.

USD exceptionalism

Dollar reigns

Not a single G10 currency is in positive territory against the dollar this year.

Percentage change year-to-date as on Feb. 7, 2024



Source: LSEG Datastream | Reuters, Feb. 8, 2024 | By Kripa Jayaram
Source: Reuters, BNY Mellon

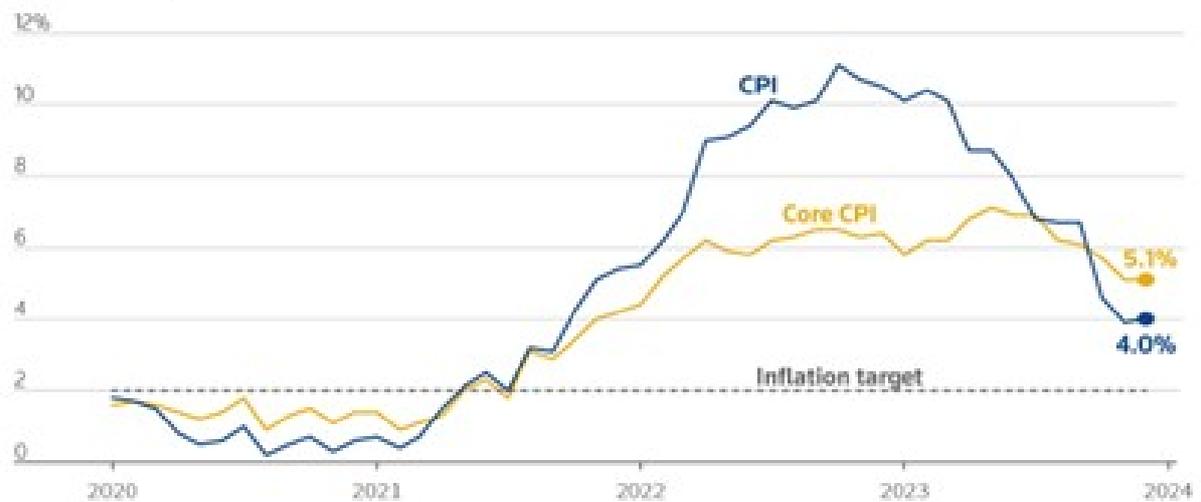
3. UK Economic Data and BOE policy shifts – The BOE Governor Bailey speech will be a key anchor to how markets react to the heavy data week ahead and whether GBP remains underheld. Recent revisions to labor data from November showed that the UK's unemployment rate was running lower than previously thought, this means that UK jobless figures out Feb. 13 could undershoot the BoE's 4.3% estimate and push back on faster easing plans. Wages are expected lower as well falling from 6.5% to 5.7% leaving some room. UK inflation figures on Feb. 14 could further complicate the monetary policy outlook as the CPI consensus is for a modest uptick from 4.0% to 4.2% y/y. The BoE reckons inflation will return to its 2% target this year but has warned it could rise again in the third quarter. Money markets have pushed out the timing of a first BoE rate cut to June from May. Given the split of the BOE last week 6-2-1 many see the hawks as holding the keys against a mixed data set expectation.

BOE and the data key for GBP

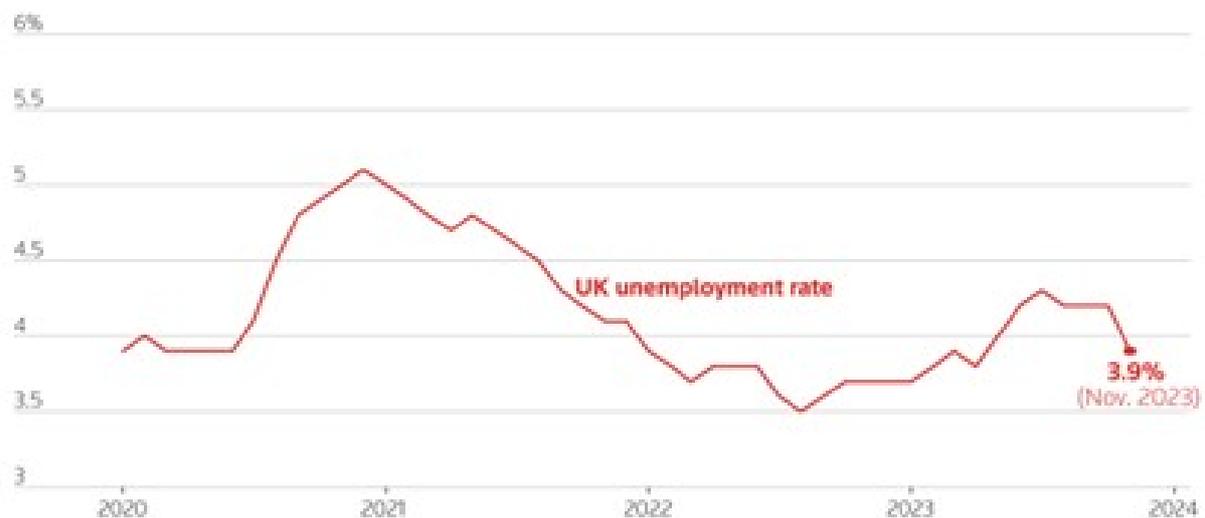
A big week for UK economic data

Latest inflation and jobs numbers will provide clues on when the Bank of England could start easing interest rates.

UK inflation



Falling unemployment



Source: LSEG Datsream | Reuters, Feb. 7, 2023 | By Vineet Sachdev

Source: Reuters, BNY Mellon

Economic Data and Events Calendar:

Central Bank Decisions

- **Philippines BSP (Thursday, Feb 15)** – We expect BSP to be on hold to 6.5% rates for as long as possible, depending on global policy rate moves. Despite the low domestic inflation print, BSP remains vigilant, warning that CPI may temporarily quicken above 3% in Q2 and is necessary to keep monetary settings sufficiently tight. We will be closely monitoring the BSP's latest inflation baseline and risk-adjusted forecast, which was revised lower to 4.2% for 2024

and unchanged at 3.4% in 2025. Steady inflation and strong economic growth do not warrant policy easing in the near-term.

Key data/releases

Date	GMT	EST	Country	Event	Period	Cons.	Prior
02/12/24	23:50	18:50	JN	PPI YoY	Jan	0.10%	0.00%
02/13/24	07:00	02:00	UK	ILO Unemployment Rate 3Mths	Dec	4.00%	--
02/13/24	07:00	02:00	TU	Current Account Balance	Dec	-3.20b	-2.72b
02/13/24	07:00	02:00	UK	Jobless Claims Change	Jan	--	11.7k
02/13/24	07:30	02:30	SZ	CPI YoY	Jan	1.70%	1.70%
02/13/24	07:30	02:30	SZ	CPI MoM	Jan	0.80%	0.00%
02/13/24	10:00	05:00	GE	ZEW Survey Expectations	Feb	18.1	15.2
02/13/24	10:00	05:00	GE	ZEW Survey Current Situation	Feb	-79.5	-77.3
02/13/24	13:30	08:30	US	CPI MoM	Jan	0.20%	0.30%
02/13/24	13:30	08:30	US	CPI YoY	Jan	2.90%	3.40%
02/13/24	21:45	16:45	NZ	Food Prices MoM	Jan	--	-0.10%
02/14/24	07:00	02:00	UK	CPI MoM	Jan	-0.30%	0.40%
02/14/24	07:00	02:00	UK	CPI YoY	Jan	4.20%	4.00%
02/14/24	07:00	02:00	UK	CPI Core YoY	Jan	5.00%	5.10%
02/14/24	10:00	05:00	EC	GDP SA QoQ	4Q P	0.00%	0.00%
02/14/24	10:00	05:00	EC	GDP SA YoY	4Q P	0.10%	0.10%
02/14/24	11:00	06:00	SA	Retail Sales Constant YoY	Dec	-0.10%	-0.90%
02/14/24	12:00	07:00	US	MBA Mortgage Applications	Feb-09	--	3.70%
02/14/24	23:50	18:50	JN	GDP SA QoQ	4Q P	0.30%	-0.70%
02/14/24	23:50	18:50	JN	GDP Annualized SA QoQ	4Q P	1.20%	-2.90%
02/14/24	23:50	18:50	JN	GDP Deflator YoY	4Q P	3.90%	5.30%
02/15/24	00:30*	19:30	AU	Employment Change	Jan	30.0k	-65.1k
02/15/24	00:30*	19:30	AU	Unemployment Rate	Jan	4.00%	3.90%
02/15/24	04:30*	23:30	JN	Industrial Production MoM	Dec F	--	1.80%
02/15/24	07:00	02:00	UK	Industrial Production MoM	Dec	--	0.30%
02/15/24	07:00	02:00	UK	Manufacturing Production MoM	Dec	--	0.40%
02/15/24	07:00	02:00	UK	GDP QoQ	4Q P	0.00%	-0.10%
02/15/24	07:00	02:00	UK	GDP YoY	4Q P	0.20%	0.30%
02/15/24	07:00	02:00	PH	BSP Overnight Borrowing Rate	Feb-15	6.50%	6.50%
02/15/24	08:00	03:00	CZ	CPI MoM	Jan	2.00%	-0.40%
02/15/24	08:00	03:00	CZ	CPI YoY	Jan	3.00%	6.90%
02/15/24	09:00	04:00	PD	CPI YoY	Jan	4.20%	6.20%
02/15/24	13:30	08:30	US	Retail Sales Advance MoM	Jan	-0.20%	0.60%
02/15/24	13:30	08:30	US	Initial Jobless Claims	Feb-10	--	218k
02/15/24	14:15	09:15	US	Industrial Production MoM	Jan	0.40%	0.10%
02/15/24	21:30	16:30	NZ	BusinessNZ Manufacturing PMI	Jan	--	43.1

02/16/24	04:30*	23:30	JN	Tertiary Industry Index MoM	Dec	0.20%	-0.70%
02/16/24	10:30	05:30	RU	Key Rate	Feb-16	16.00%	16.00%
02/16/24	13:30	08:30	US	Housing Starts	Jan	1460k	1460k
02/16/24	13:30	08:30	US	PPI Final Demand MoM	Jan	0.10%	-0.10%
02/16/24	15:00	10:00	US	U. of Mich. Sentiment	Feb P	79	79

Key Speeches/Events

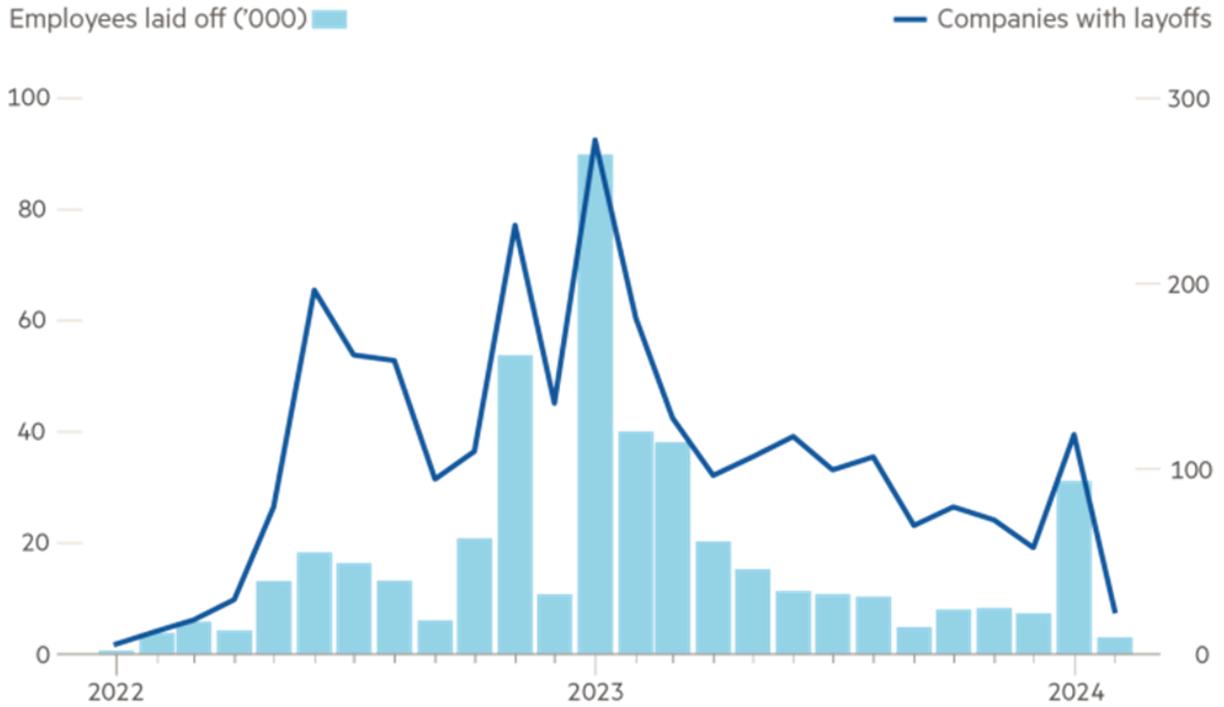
Date	GMT	EST	Country	Event
02/10/24	10:30	05:30	IT	ECB's Panetta Speaks in Genoa
02/12/24	08:00	03:00	EC	ECB's De Cos Speaks in Madrid
02/12/24	09:45	04:45	EC	ECB's Lane Speaks
02/12/24	13:15	08:15	EC	ECB's Lane Speaks
02/12/24	15:50	10:50	EC	ECB's Cipollone Speaks
02/12/24	17:00	12:00	US	Fed's Barkin Speaks at Atlanta Economics Club Event
02/12/24	18:00	13:00	US	Fed's Kashkari Moderates Economic Club of Minnesota Discussion
02/12/24	18:00	13:00	UK	BOE Governor Andrew Bailey speaks
02/12/24	21:55	16:55	AU	RBA's Kohler-Remarks
02/13/24	08:10	03:10	SW	Riksbank's Jansson speech at SvD bank summit
02/14/24	08:00	03:00	EC	ECB's Vujcic Speaks
02/14/24	08:30	03:30	EC	ECB's Guindos Speaks
02/14/24	14:30	09:30	US	Fed's Goolsbee Speaks in Q&A
02/14/24	21:00	16:00	US	Fed's Barr Speaks at NABE Conference
02/15/24	08:00	03:00	SW	Riksbank's Thedeen speech in Skelleftea
02/15/24	12:00	07:00	EC	ECB's Lane Speaks
02/15/24	13:00	08:00	UK	BOE's Megan Greene speaks
02/15/24	13:50	08:50	UK	BOE's Catherine Mann speaks
02/15/24	15:20	10:20	SW	Riksbank's Breman speech in Stockholm
02/15/24	17:00	12:00	NO	Norges Bank Governor's Annual Address
02/15/24	18:40	13:40	NZ	RBNZ's Orr to Speak on Monetary Policy Remit, 2% Inflation
02/16/24	00:00	19:00*	US	Fed's Bostic Speaks on Outlook, Policy
02/16/24	08:45	03:45	EC	ECB's Schnabel Speaks
02/16/24	09:30	04:30	SW	Riksbank FX Sales
02/16/24	10:00	05:00	CZ	CNB minutes
02/16/24	17:10	12:10	US	Fed's Daly Speaks at NABE Conference

Conclusions: Layoffs vs. NFP vs. Confidence?

The US CPI and retail sales reports are expected to set the tone for a patient FOMC as it waits for more confidence built on the data to cut rates. There is one other key part of confidence at play and that is of the markets as stocks break to record highs again and as the consumer seems content if not exuberant. The counterpoint to all of this remains layoffs. Tech companies have laid off 34,000 workers this year as MSF, SNAP, eBay and PayPal have each cut hundreds of jobs – with 138 tech companies involved in the shedding of staff. This is a redux of 2023 and Big Tech. Many are openly tying their firings to investment in generative AI. The fact that the headlines about layoffs continue should worry and counter some of the enthusiasm about the US growth in 1Q as many see the moves by modest tech more strategic than the seasonal. The laying off of workers in January as companies start a new year is a commonplace action – which is one of the problems with the seasonal adjustments for the January NFP report. Markets are going to have to have more confidence in the US data to get to the right answer. Many see the weekly jobless claims rather than CPI or retail sales as key for the week ahead as this will be the most up-to-date snapshot of the US labor market.

Rates and Layoffs interrelated but with a lag

January was the worst month for job cuts since March 2023



Source: layoffs.fyi
© FT

Source: FT, layoff.fyi, BNY Mellon

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



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