BNY MELLON

iFlow
WEEK AHEAD

March 10, 2024

Crescents

"Each that we lose takes a part of us; a crescent still abides, which like the moon, some turbid night is summoned by the tides." - Emily Dickinson
"Whatever it's symbol - cross or crescent or whatever - that symbol is man's reminder of his duty inside the human race." - William Faulkner

Summary:
As the Muslim world celebrates Ramadan and as the astrological await the Penumbral Lunar Eclipse, then the full solar eclipse, the macro markets wait for more economic data to regain the faith in soft landings. The balancing act revolves around growth in the US driving sticky inflation versus the need for stimulus and easier policy in China and Germany.

- The divergence of world economics leaves a sliver of light in the data and events in the week ahead. We live in the 15th month of 2023 as investors cling to the 15th month of high carry, low volatility, overlayed with a confidence that global growth can return with pivots from the US FOMC rate cuts sometime in the year ahead.
- In the last week, we heard from Fed Chair Powell that such cuts were "not far" but require the week ahead to confirm lower inflation and continue to build confidence everywhere. This led to a rise in June rate cut expectations.
- The hope for stability across markets also links to the rise of artificial intelligence during productivity and business investment. The risks of the moment revolve around ongoing distrust of the China stimulus, the sticky global inflation in wages, goods inflation risks going up and the ongoing wars in Israel and Ukraine.
- The role of geopolitics has taken a back seat to national politics as the US November election seems set for a repeat of 2020 with Trump/Biden battling high negative ratings for win while over the weekend, at the same time, Congress passed $460bn funding through September adding to US growth tailwinds,

Portugal redoes its recent election with the center right leading but far-right gaining ground, and the weekend China CPI reveals that deflation is dead there but so too is any threat to Xi leadership after the NPC.
- The week ahead will challenge investors patience as there is far more than US CPI to worry about from the US debt issuance, to retail sales to UK GDP and China industrial production to the host of unknown and unexpected risks that drive into the ides of March.

Key Themes:

- **FOMC Powell and the rate cut path -** in the last week, the market repriced a June cut from just under 50% to over 70%. Powell stated that policymakers were "not far" from having the confidence that inflation's downtrend will be sustained, enabling them to begin cutting rates. Against this we have stocks markets globally near or setting records and bonds rallying sharply – making FCI a key part of any rate decision.
- **Egypt devaluation and IMF deal** - push of new world vs. old world order. The orbit of Eqypt in relation to the US and EU vs. Russia and China is important and the surprise timing of their 6% rate hike, 35% EGP devaluation and the $8bn new IMF deal show the EM world is dividing across geopolitical constraints. The Egypt inflation out this Sunday adds to the costs of letting EGP free float – with February CPI up 11.4% m/m, 35.7% y/y after 29.8% y/y.
- **Changing leadership in equities** - Notably, Danish pharmaceuticals company Novo Nordisk, which has seen robust demand for its diabetes and weight loss drugs, displaced Tesla on Thursday as the 12th biggest public company by market capitalization. The risk for 2024 maybe in the shifting of concentration in stock markets globally – with the US moving from tech to AI and health care.
- **Liquidity** - BTC new record highs, $6trn in money market funds, new high volumes in penny shares. Analysts point to those facts as evidence that the market reflects too much money looking for a home. The support of liquidity in dropping volatility and pushing carry trades shows up in tight corporate spreads, surging EM markets and views on global growth holding rather than folding.

What are we watching: **US CPI and retail sales, coupon auctions, Japan GDP and Shunto, China MLF and industrial production.**

- **Economic releases**: Focus in on US CPI and retail sales, while UK GDP and jobs, China MLF and new loans, industrial production and retail sales will be watched. In Japan focus will be on wage round conclusion and BOJ comments.

- **Central Banks:** No major central bank decisions this week. BOE bulletin, RBA, ECB, Riksbank speeches but US FOMC on blackout.
- **US Issuance**: US issuance will be key with $79bn in 13-week, $70bn in 26-week, followed by $56bn in 3Y, $80bn in 42-day CMB, $39bn in 10Y and $22bn in 30-year bonds.

Monday, March 11:

- Economic Releases: Japan GDP, Norway CPI
- Central Bankers: BOE quarterly bulletin
- US Issuance: Treasury sells $56bn in 3Y notes

Tuesday, March 12:

- Economic Releases: German CPI, US CPI
- Central Bankers: RBA Hunter on panel, ECB Holzmann in Vienna, Riksbank Board at Parliament
- US Issuance: Treasury sells $39bn 10Y notes

Wednesday, March 13:

- Economic Releases: UK industrial production, Japan Shunto wage negotiations
- Central Bankers: BOE Mann, Riksbank Floden and Breman
- US Issuance: Treasury sells $22bn 30Y bonds

Thursday, March 14:

- Economic Releases: Sweden CPI, US retail sales
- Central Bankers: RBNZ Conway, Riksbank Breman and payments report, ECB Stournaras

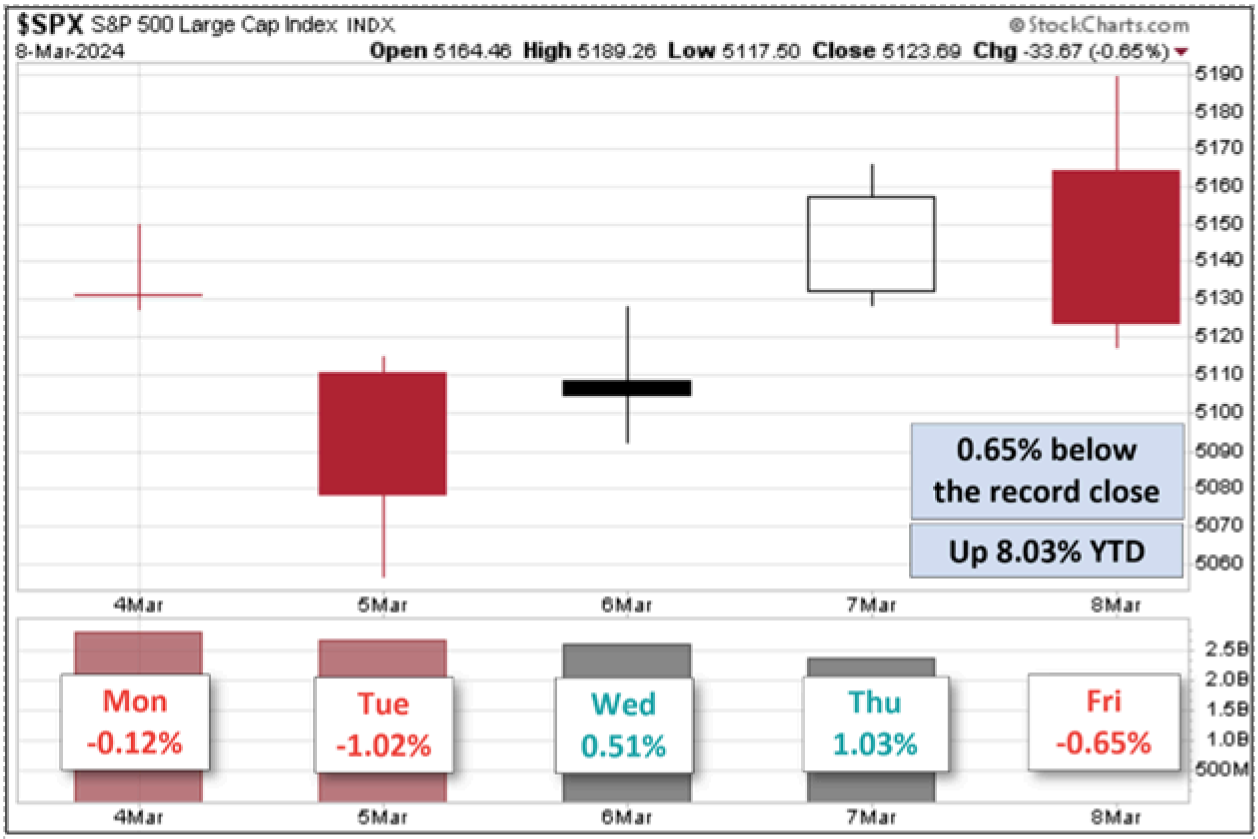
Friday, March 15:

- Economic Releases: US industrial production and University of Michigan preliminary March consumer sentiment
- Central Bankers: ECB Vujcic speech

What changed last week:

- **In Equities, more record highs.** US shares - The S&P 500 fell 0.65% on Friday following the release of February's jobs report. Friday's loss to the index finishing down 0.26% for the week. With that said, the index is currently up 8.03% year to date and has set a new record closing high 16 times so far this year. The DJIA fell 0.93% on the week, NASDAQ off 1.17%. The only other 2 big bourses down were Hong Kong Hang Seng off 1.42% and the UK FTSE off 0.30% on the week. The best performers were the Spanish IBEX up 2.39%, The Italian MIB up 1.43%, the broad EuroStoxx 600 rose for the 7th week at new record highs up 1.35%. and the Australian ASX up 1.31%.

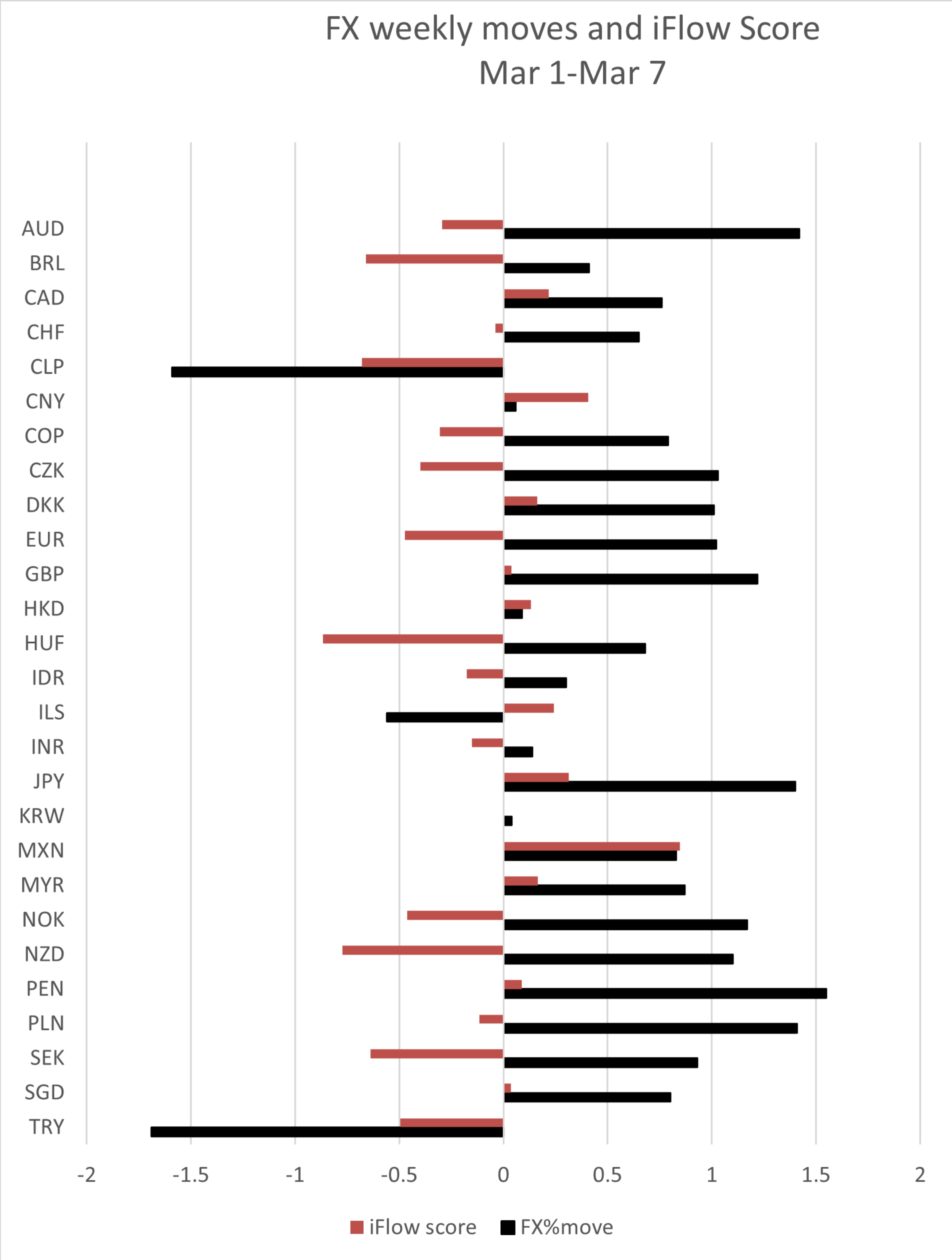
US equity markets set new record high but fell on week



Source: Bloomberg, BNY Mellon

- **In FX, the US dollar fell 1.10%,** marking its worst weekly performance since early December with only TRY and CLP and ILS showing losses while ZAR, PEN and AUD led the gains. The moves lower in the USD were notable in JPY and GBP as well. The iflow saw EM diverge with HUF and COP notable while in G10 NZD and NOK and AUD stand out.

FX markets see worst week for USD since early December

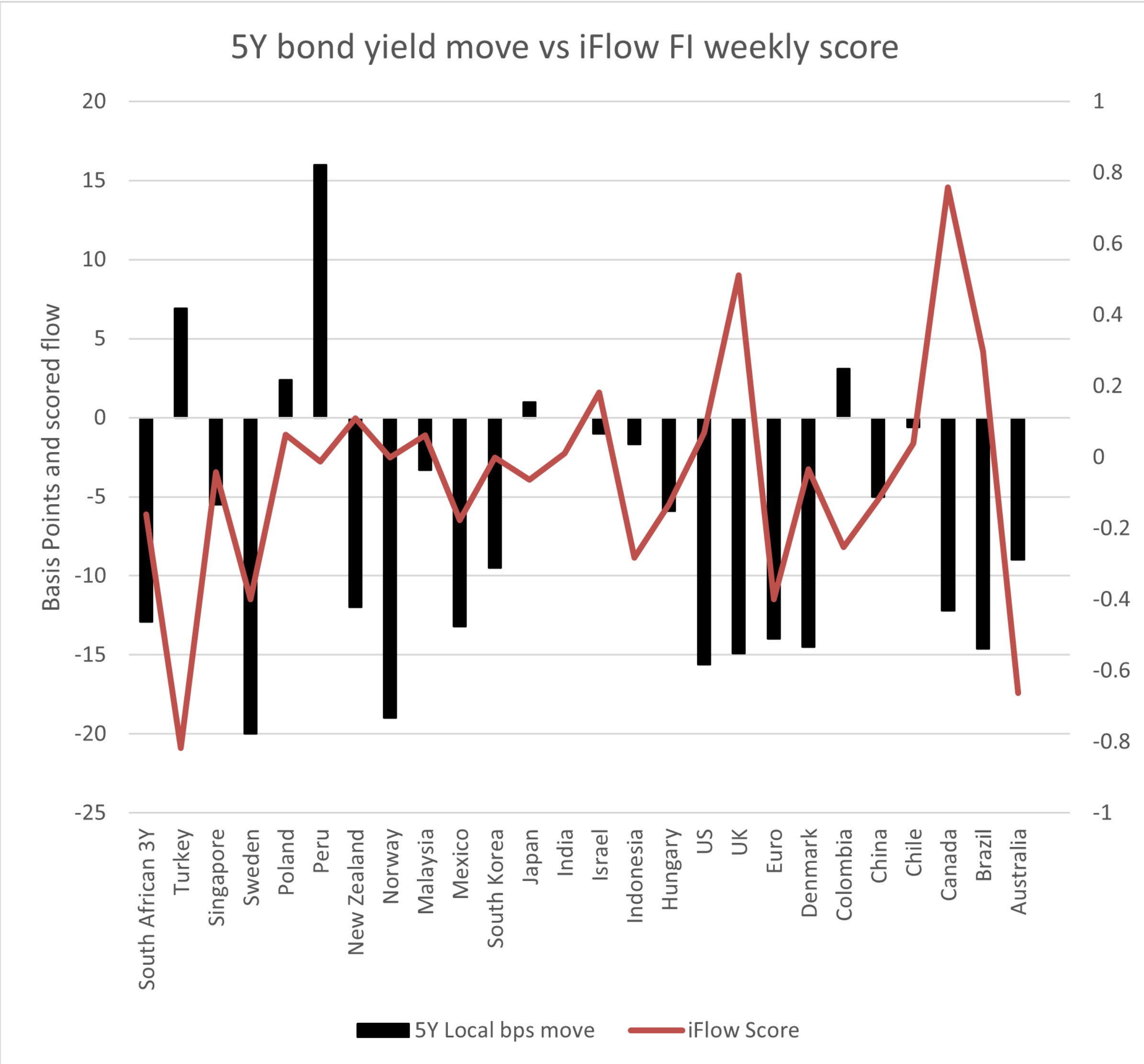


Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income,**

  US bonds saw a bull yield curve flattening as the data proved weaker (from Service ISM, to parts of US Jobs) while FOMC Chair Powell sounded more dovish. Offsetting some of this move was the US IG issuance which surprised with $51bn well over the $30bn expected. Global bond markets were bid with EMEA locked in on ECB talk for cuts ahead – we see April as a “live” meeting and the EU cutting rates before the US. Italian 10Y rates moved 22bps lower. The biggest inflows were in Canada and UK while Australia and Turkey saw the largest outflows

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.25	3.26	-0.08
20Y	5.44	0.87	4.35	3.48	-0.10
10Y	5.26	0.52	4.07	3.55	-0.11
5Y	5.18	0.19	4.05	3.86	-0.11
2Y	5.22	0.09	4.47	4.38	-0.06
3M	5.63	0	5.3	5.3	-0.02
FFR	5.41	0.04	5.33	5.29	-0.03
The Yields and Fed Funds Rate data from January 2007					



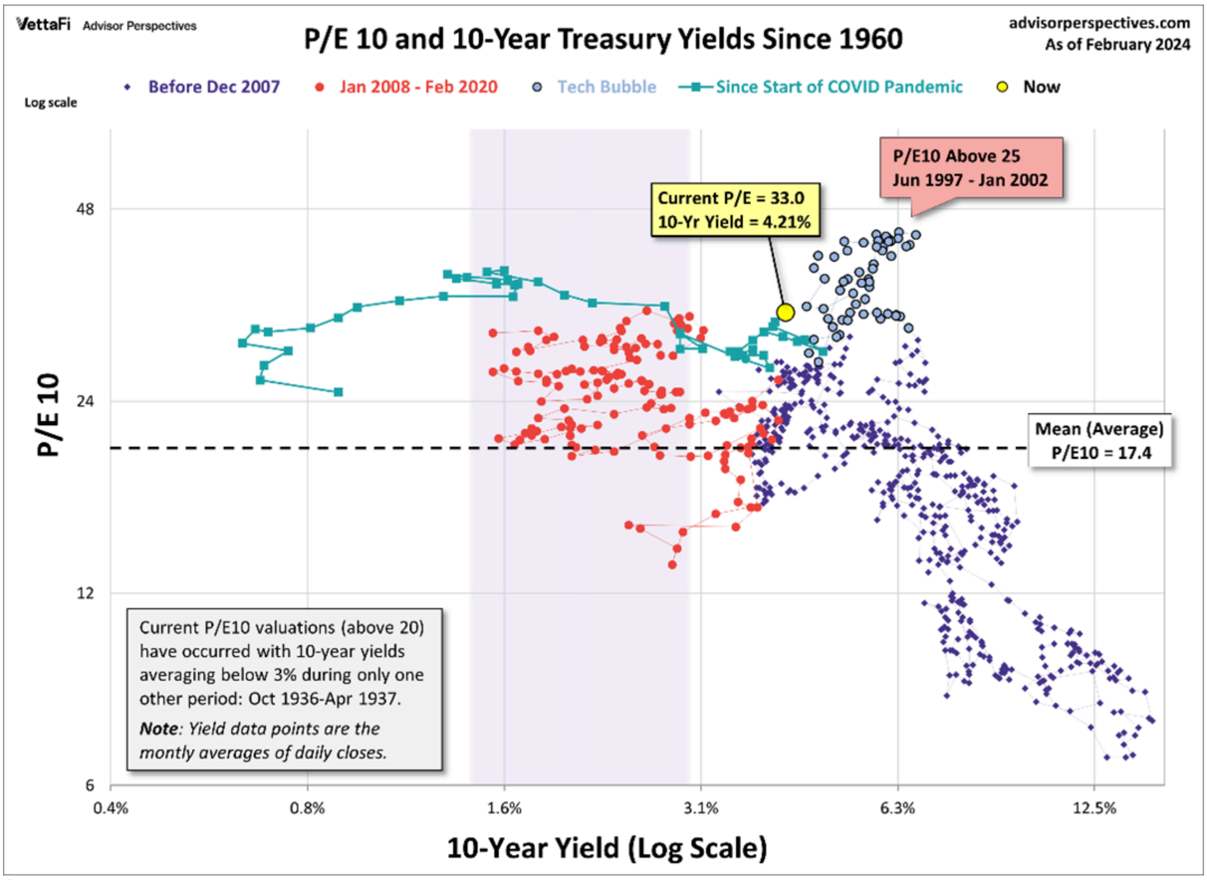
Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – US CPI, China PBOC MLF, Japan Shinto, UK GDP and jobs

In the United States, financial markets will have their eyes on the US inflation rate alongside retail sales, producer inflation, the Michigan consumer sentiment index, and industrial production. In the UK, attention will turn to the unemployment rate, industrial production, GDP growth figures for January, and foreign trade statistics. From China, the focus will be on PBOC MLF, monetary indicators including new yuan loans, car sales, and the house price index. Also, inflation rates in Brazil, India, and Russia will be closely watched. Finally, industrial production figures for the Euro Area and India, along with the NAB business confidence index from Australia, will provide further indicators of global economic conditions.

1. US CPI – Putting May in Play? The consumer price index for February is expected to rise 0.4%, after January's CPI rose at a faster-than-expected 0.3%. The annual rate is expected flat at 3.1%. The key for markets will be in core expected to cool to 3.7% from 3.9% y/y. Investors have cut back expectations for the number of interest rate cuts in 2024 amid lingering concerns about strength in the economy reigniting inflation we moved from six to three to now four last week. This left 10Y yields lower again bouncing off 4.0% but remaining below the 4.12% pivot. Fed Chair Powell testimony led to a return to Fed easing in markets and added to the focus on the report this week. The effect of rates in the last week was also key for stocks as they finish 4Q earnings and shift to 1Q outlooks. The forward 12-month P/E ratio for the S&P 500 is 20.7. This P/E ratio is above the 5-year average (19.0) and above the 10-year average (17.7).

US CPI will set the balanc for stocks and bonds ahead of Fed



Source: Advisor Perspectives, BNY Mellon

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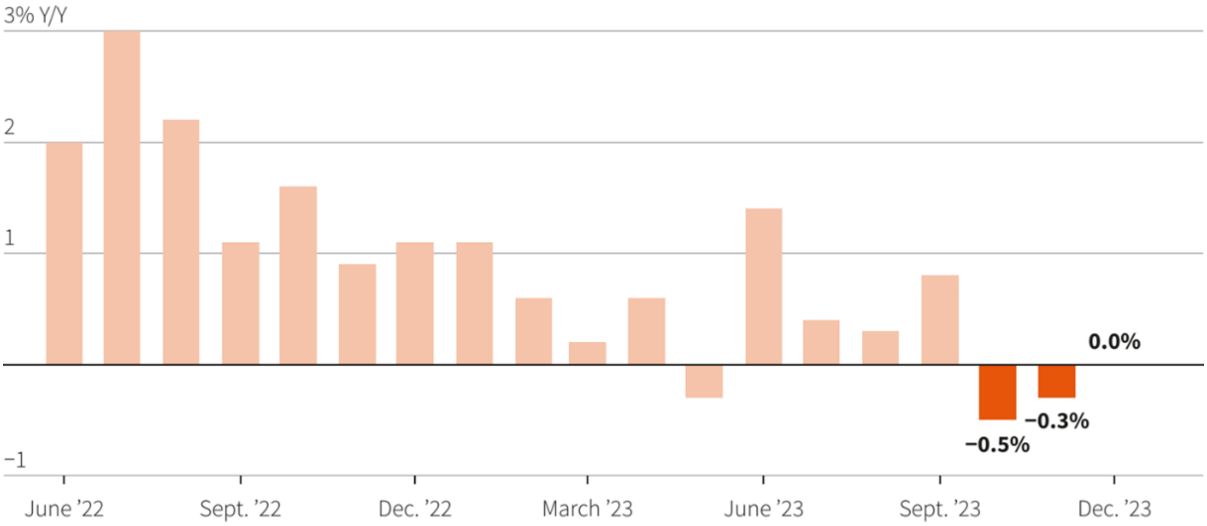
2. UK Growth and the BOE – Last week, UK Chancellor of the Exchequer Jeremy Hunt, in his last Spring Budget before a general election, unveiled a reduction in national insurance rates that would amount to a GBP 10 billion payroll tax cut. The budget also included changes to child benefit rules that would make them more generous. Hunt partly funded these measures by making the tax status of foreign residents whose permanent homes are outside the UK less favorable and extending the windfall tax on oil and gas companies for another year. Whether this is a reason for the BOE to wait longer on cuts will be one key factor, decided in part by the data in the week ahead. The hawkish BOE MPC Mann speech will be watched as a key factor in judging any shift in thinking. Key economic updates include monthly GDP figures, industrial production, trade balance, and the jobs report. The Bank of England is less concerned about growth and far more focused on inflation. The jobs market is showing signs of moderating. Vacancies fell for the 19th time in a row in the three months to January. But businesses are still struggling to find and retain staff. High levels of long-term sickness are also hampering employers. Average regular pay - key for the BoE - decelerated to a rate of 6.2% in December, the slowest pace of growth in over a year, but not slow enough to convince policymakers rates will need to fall sooner rather than later. Data on March 12 might shift that thinking.

A modest UK recovery

Britain's economy narrowly avoided recession in 2023 and is slowly returning to growth.

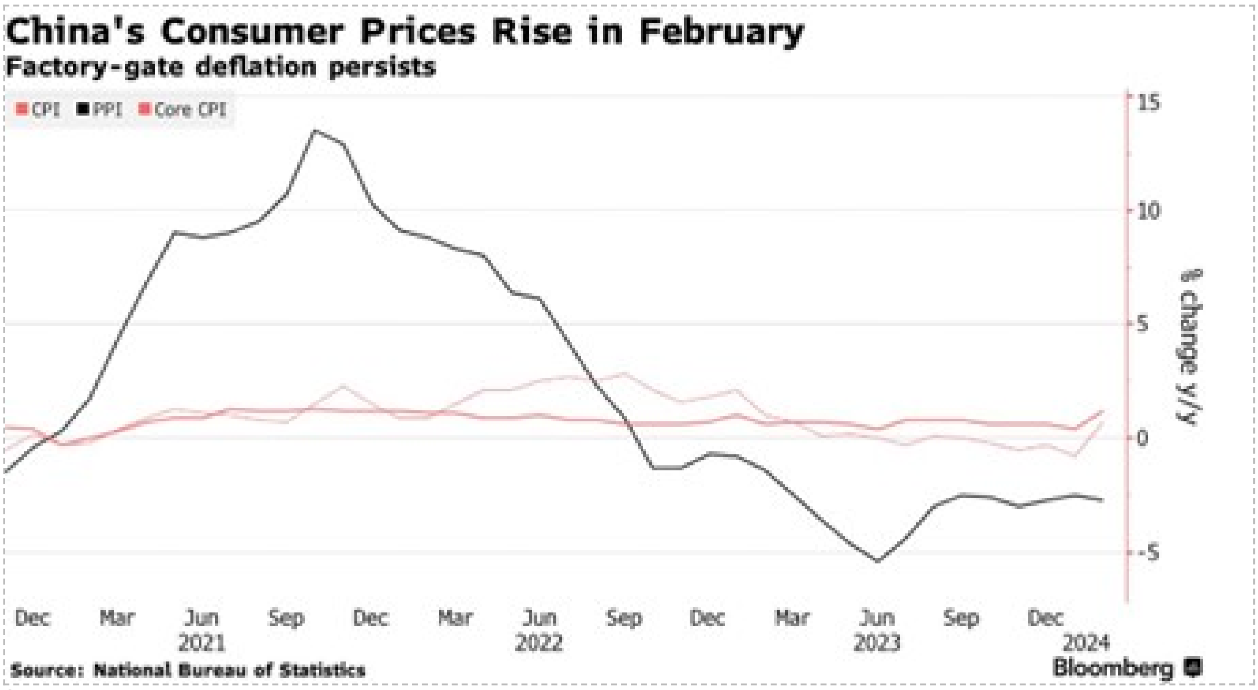
Yearly change in GDP



Note: GDP at basic price
Source: LSEG Datastream | Reuters, Mar. 7, 2024 | By Vineet Sachdev
Source: Reuters, BNY Mellon

3. China CPI – No longer exporting deflation? - The PBOC is expected to keep the 1Y MLF unchanged at 2.5% on Monday. The relenting of commercial banks to start to pass on rate cuts has helped growth and has clearly halted the deflation risks. This maybe one factor in how the PBOC watches further stimulus. The weekend release revealed that China's consumer prices rose by 0.7% y/y in February 2024, above market forecasts of 0.3% and a turnaround from the sharpest drop in over 14 years of 0.8% in January. The latest result was the first consumer inflation since last August, hitting its highest level in 11 months due to robust spending during the Lunar New Year holiday. Food prices declined the least in eight months (-0.9% vs -5.9% in January), reflecting upturns in costs of pork and fresh vegetables. Meantime, non-food inflation sharply accelerated to 1.1% from the prior 0.4%, with prices rising further for clothing (1.6% vs 1.6%), housing (0.2% vs 0.3%), health (1.5% vs 1.3%), and education (3.9% vs 1.3%); while a fall in transport prices strongly moderated (-0.4% vs -2.4%). The core CPI, deducting food and energy prices, increased by 1.2% y/y in February, the most since January 2022.

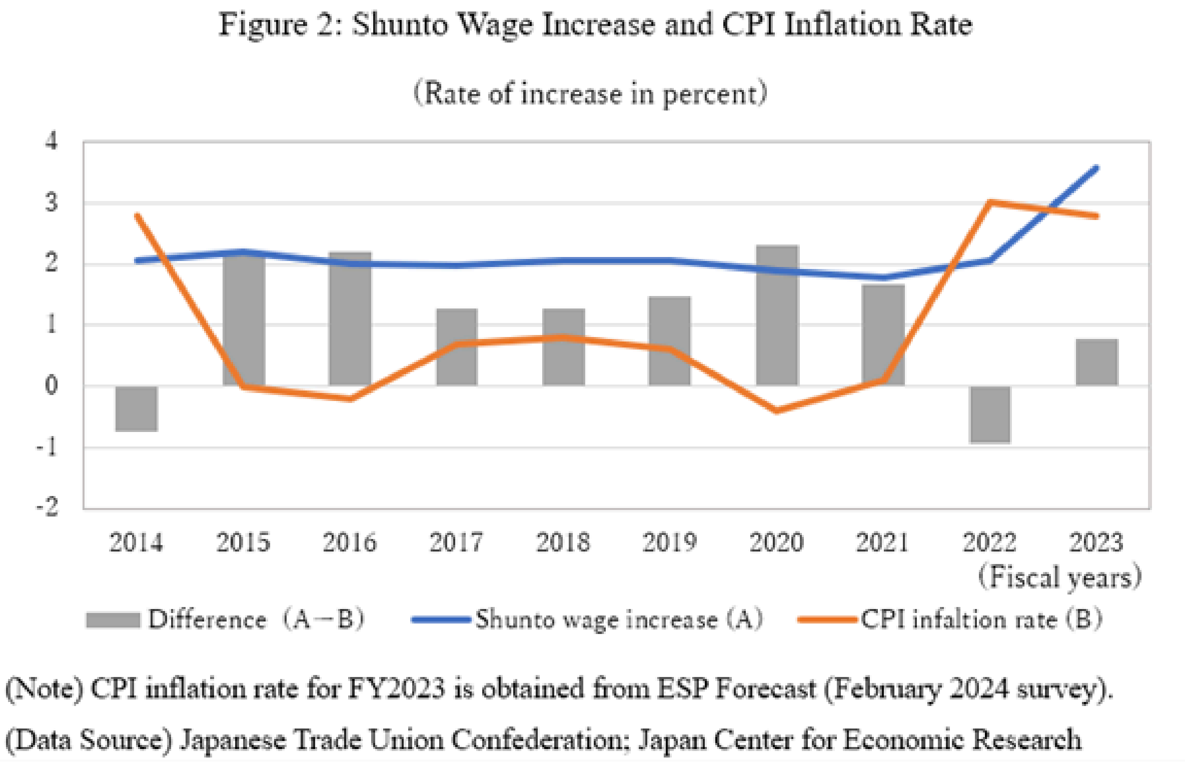
China CPI may change PBOC easing path



Source: Bloomberg, BNY Mellon

4. Japan Shunto and the BOJ– The Shunto wage negotiation ends on March 13th and will be the key for BOJ rate decisions ahead on the March 18-19th meeting. The BOJ March meeting has OIS pricing currently sitting at 5.5bp or a 55% chance for a 10bp rate rise by the BoJ. Japanese corporate profits reached a record high of ¥31.6 trillion in the second quarter of 2023. However, Japan's January measure of 'real cash earnings' still remains negative at -0.6% y/y, despite lifting from -1.9% the month before, boosted by a 16% lift in bonuses. Also key for the market is how the JPY moves and US rate links play out on the Nikkei. The negative correlation of FX to stocks matters. The yield on the 10-year Japanese government bond rose to 0.73% from 0.71% at the end of the previous week. The yen appreciated sharply to around JPY 147.4 against the U.S. dollar from about 150.1 the prior week In contrast the Nikkei 225 fell 0.56% while the broader TOPX rose 0.64%. Exuberance around artificial intelligence and solid corporate earnings boosted sentiment.

Wage deals key for BOJ March risk



Source: JCER and JTUC, BNY Mellon

Economic Data and Events Calendar March 11-15:

Central Bank Decisions

- **No major central bank decisions**

Key data/releases

Date	GMT	EDT	Country	Event	Period	Cons.	Prior
03/09-03/15			CH	Money Supply M2 YoY	Feb	8.80%	8.70%
03/10/24	23:50	19:50	JN	GDP SA QoQ	4Q F	0.30%	-0.10%
03/10/24	23:50	19:50	JN	GDP Annualized SA QoQ	4Q F	1.10%	-0.40%
03/10/24	23:50	19:50	JN	GDP Deflator YoY	4Q F	3.80%	3.80%
03/11/24	07:00	03:00	NO	CPI MoM	Feb	--	0.10%
03/11/24	07:00	03:00	NO	CPI YoY	Feb	--	4.70%
03/11/24	08:00	04:00	CZ	CPI MoM	Feb	--	1.50%
03/11/24	08:00	04:00	CZ	CPI YoY	Feb	--	2.30%
03/11/24	23:50	19:50	JN	PPI YoY	Feb	0.60%	0.20%
03/12/24	07:00	03:00	UK	ILO Unemployment Rate 3Mths	Jan	--	3.80%
03/12/24	07:00	03:00	GE	CPI YoY	Feb F	2.50%	2.50%
03/12/24	07:00	03:00	GE	CPI MoM	Feb F	0.40%	0.40%
03/12/24	07:00	03:00	TU	Current Account Balance	Jan	--	-2.09b
03/12/24	07:00	03:00	UK	Jobless Claims Change	Feb	--	14.1k
03/12/24	12:00	08:00	BZ	IBGE Inflation IPCA YoY	Feb	4.42%	4.51%
03/12/24	12:00	08:00	BZ	IBGE Inflation IPCA MoM	Feb	0.78%	0.42%
03/12/24	12:30	08:30	US	CPI MoM	Feb	0.40%	0.30%
03/12/24	12:30	08:30	US	CPI YoY	Feb	3.10%	3.10%
03/12/24	21:45	17:45	NZ	Food Prices MoM	Feb	--	0.90%
03/13/24	07:00	03:00	UK	Industrial Production MoM	Jan	--	0.60%
03/13/24	07:00	03:00	UK	Manufacturing Production MoM	Jan	--	0.80%
03/13/24	11:00	07:00	US	MBA Mortgage Applications	Mar-08	--	9.70%
03/14/24	07:00	03:00	SW	CPI MoM	Feb	--	-0.10%
03/14/24	07:00	03:00	SW	CPI YoY	Feb	--	5.40%
03/14/24	07:00	03:00	SW	CPI Level	Feb	--	412.74
03/14/24	11:00	07:00	SA	Manufacturing Prod NSA YoY	Jan	--	0.70%
03/14/24	12:00	08:00	BZ	Retail Sales YoY	Jan	--	1.30%
03/14/24	12:30	08:30	US	Retail Sales Advance MoM	Feb	0.80%	-0.80%
03/14/24	12:30	08:30	US	PPI Final Demand MoM	Feb	0.30%	0.30%
03/14/24	12:30	08:30	US	Initial Jobless Claims	Mar-09	--	217k
03/15/24	04:30	00:30	JN	Tertiary Industry Index MoM	Jan	-0.10%	0.70%
03/15/24	09:00	05:00	PD	CPI YoY	Feb	3.20%	3.90%
03/15/24	13:15	09:15	US	Industrial Production MoM	Feb	0.00%	-0.10%
03/15/24	14:00	10:00	US	U. of Mich. Sentiment	Mar P	77	76.9

Key speeches/events

Date	GMT	EDT	Country	Event
03/11/24	12:00	08:00	UK	BOE Quartely Bulletin article on investment
03/11/24	22:30	18:30	AU	RBA's Hunter-Panel Participation
03/12/24	08:00	04:00	EC	ECB's Holzmann Speaks in Vienna
03/12/24	08:00	04:00	SW	Riksbank Executive Board in Parliamentary Hearing
03/12/24	11:00	07:00	UK	BOE's Catherine Mann speaks
03/13/24	07:50	03:50	SW	Riksbank's Floden speaks
03/13/24	08:00	04:00	SW	Riksbank's Breman speaks
03/13/24	14:00	10:00	EC	ECB's Stournaras Speaks in London
03/13/24	18:00	14:00	NZ	RBNZ's Conway Speaks About February MPS
03/14/24	08:00	04:00	SW	Riksbank's Breman speaks at sustainable finance conference
03/14/24	08:30	04:30	SW	Riksbank Payments Report
03/14/24	18:30	14:30	EC	ECB's Stournaras Speaks
03/15/24	09:30	05:30	UK	BOE Inflation Attitudes Survey
03/15/24	09:35	05:35	EC	ECB's Vujcic Speaks

Conclusions: Does supply of debt matter?

The week ahead is far less eventful than the last 2 weeks and this has left many content to wait it out until after the FOMC March meeting with their summary of economic projections and more details on the expected data needed to justify a rate cut in June. The problem for thinking that next week doesn't matter rests on debt markets. The move up and down in rates in the last 2 weeks has pushed the USD lower, but stocks haven't been buoyed. This highlights one of the key problems for bonds in a portfolio – lack of trust that bonds are a hedge to economic problems and the stock market bubble risks.

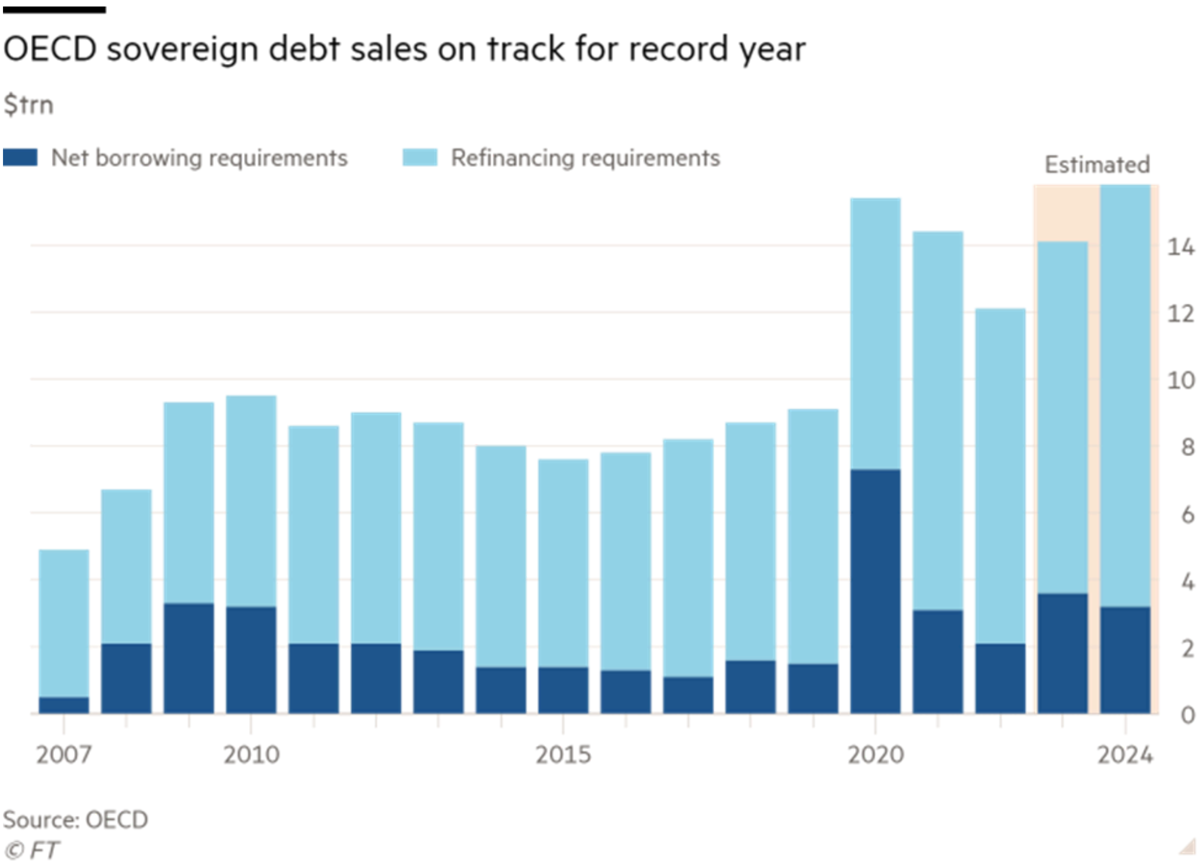
Put another way, does owning US 10-year bonds at 4.07% protect investors from an S&P500 5-10% correction? The USD hasn't really hurt US growth either even as it has shot higher in the last quarter. All this leaves many wondering if portfolio constructions are missing some other risk factors ahead. The largest worry for 2024 maybe in the government issuance of debt rather than in the central banks level of rates.

Debt issuance across the OECD 38 industrialized countries will rise 12% to $15.8tn this year. This will bring the total OECD sovereign debt up 4 % this year to $56tn, according to the report. The ratio of sovereign debt to GDP is expected to rise 1 percentage point to 84 per cent, having fallen or flatlined in the three years following a pandemic-induced peak in 2020. The United States will represent roughly half of this debt, twice its share in 2008, while the European Union will account for 20%, Japan for 16% and Britain for 6%, the OECD said.

The role of CPI and the size of the balance sheet of the FOMC and other central banks will be tested in the week ahead. The largest four central banks that engage in so-called quantitative tightening — the Fed, ECB, Bank of England and Bank of Canada — reduced their government security holdings from $11.5tn in 2021 to $10tn in 2023. The OECD said a further $1tn decrease was projected for 2024. How the FOMC handles the drop in the Fed RRP below $500bn now and the squeeze of money expected into 1Q end and into April tax payments will be key.

The other fear about debt issuance from the US government and others is about this will squeeze out other borrowing – particularly the smaller US ones facing real estate issues. Markets have been kind to those looking for money as the US IG debt issuance shows and the last week's NYCB equity deal – both highlight that capital markets are working to deliver money where its wanted. The question to ask is if it all stays – will it be well treated?

US debt needs will matter to world growth



Source: FT, OECD, BNY Mellon

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