BNY MELLON

iFlow WEEK AHEAD

March 17, 2024

Lucky

"May your pockets be heavy, and your heart be light. May good luck pursue you each morning and night." - Irish Blessing

"It's smarter to be lucky than it's lucky to be smart." – Laura Lippman

Summary:

Central Bankers rule the week ahead, and yet, the markets aren't worried. There is a clear optimism about 1Q growth, about the rest of the world showing green shoots into the week and Spring ahead. Even in China, despite the lack of new stimulus, flows suggest investors are moving back to neutral rather than bearish. The willingness of investors to bet against the USD and buy other assets beyond the S&P500 stands out even as rates rose last week.

The higher inflation data from the US and the ongoing talk of possible cuts elsewhere makes FX interesting again. China deflation ending and the rise in copper prices stands out as well making retail sales and industrial production reports key in the week ahead even as M2 and loans disappoint. The BOJ rate hike risk is also in play but will less worries about JGB's sinking markets even with talk of yield curve control ending. The emerging markets look fragile and yet stocks and bonds still saw some flows. The hope for EM rate cuts stands out despite the Fed slowness and markets seem sanguine if not exuberant about growth despite weaker US data. The ability for the next week to not matter and to continue to allow equity rallies requires more than St. Patrick to make it so.

Key Themes:

- **High for Longer vs. Slower for Lower** – the market has matched and surpassed the Fed talk about the need for rate cuts in 2024. How the FOMC statement, SEP "dot plot" and the Chair Powell news conference discuss lay out forward guidance for 2024 now matters. There is a political concern about cuts into the election peak campaigning – so September easing becomes difficult – making June more important. The difference between high for longer and slower to lower is about this guidance gaming with the doubt about restrictive rates being linked to better growth and ongoing labor market tightness.

- **Bubbles, Concentration risk and fragility** – Worries about the global stock markets start with concentration risks in the gains driving on just a few names, continues to the need for easing to justify value and extend to other markets in credit fears being too low. There is a comparison between current P/E for the high-tech names and the previous bubble in 2000 that suggests we aren't yet at peak overvaluation. However, the current episode of demand has less fiscal room than before and these companies have more cash – making the comparison skewed. The key argument for bubbles rests on the fragility of the rest of the world and growth linked to too little fiscal and monetary easing.
- **Rest of World and independent policy** – the ability for 13 other central banks to cut rates next week will be questioned by their links to US policy. For many emerging market nations – particularly LaTam their ongoing easing is limited by FX markets and import inflation risks. For others like the Bank of England, the undervalued GBP does matter as well but the independence for hikes or cuts is clear. The markets are worried about the links for global rates to US ones but are not so concerned as to buy any protection into this week. The implied volatility from option markets in FX remain near decade lows suggesting a lack of fear about this correlation mattering. How the week ahead plays out will be key to this theme.

What are we watching: Central Banks and Global PMI flashes

- **Economic Data:** China retail sales and industrial production (March 18), German ZEW (March 19), Canada Feb CPI (March 19), China LPR 1Y - some talk of rate shift (March 20), UK Feb CPI (March 21), New Zealand GDP 4Q, Australian Feb Jobs (March 21), Global Flash PMI - Australia, Japan, India, Germany, France, EU, UK and US (March 21), US Philly Fed March (March 21), UK Feb retail sales (March 22), German Mar Ifo Business Climate (March 22)
- **Central Bank Decisions:** While most of the 14 central banks are going to be on hold what they say about their rate cutting plans matters. The RBA, BOE and Norges Bank are all being watched closely, while the FOMC dot plot is an event in itself. The BOJ is expected to hike and remove YCC, while Mexico Banxico may cut while Brazil and Colombia surely will. In Europe, the Czech's

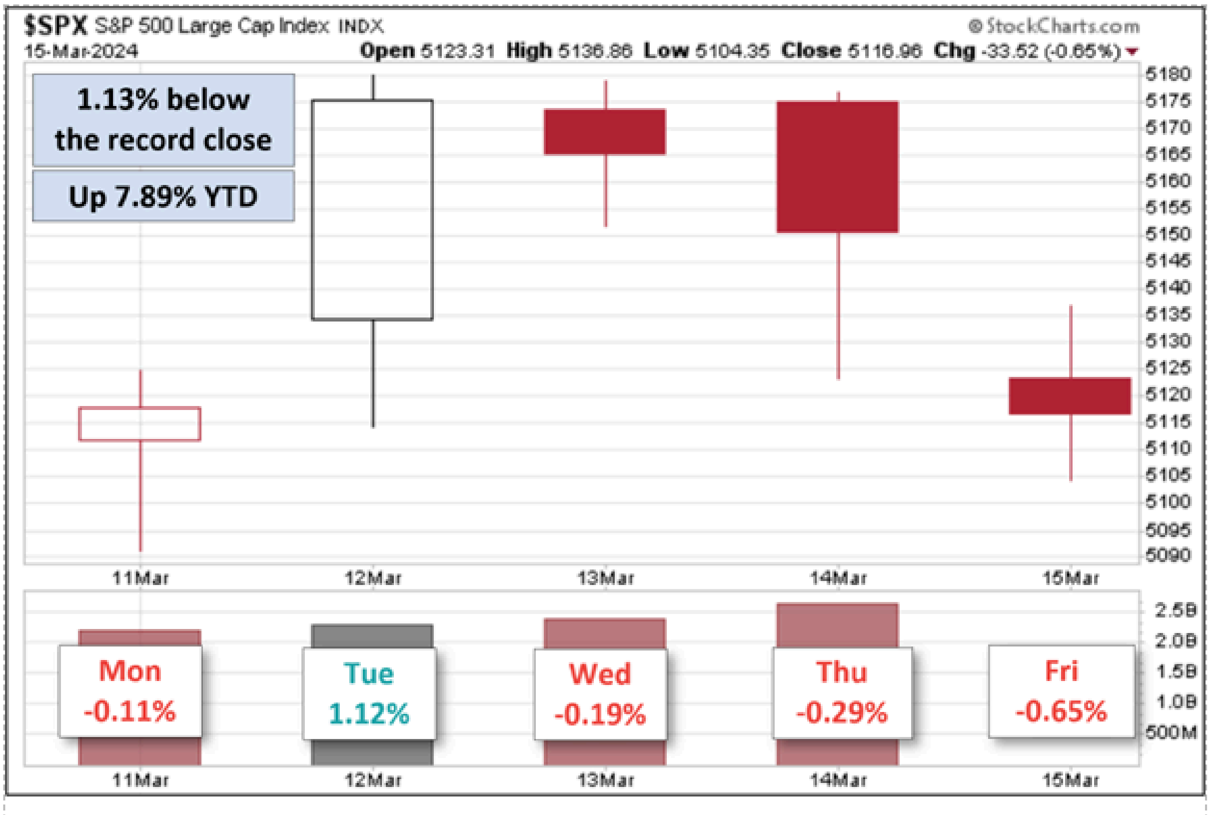
will ease while we doubt the market bets will work for the Swiss SNB easing to start. Markets have a lot to watch in Turkey with TRY weakness a risk for a hike while Indonesia could surprise with a cut given lower inflation and steady IDR.

- **US Treasury issuance**: Mostly bills next week with 3M $76bn, 6M $70bn, 1Y $46bn, 42-day CMB $75bn – then $13bn in 20Y and some TBD 4M bills followed by $16bn in 10Y TIPS.

What changed last week:

- **In Equities, the US market fell back again for the second week –** with DJIA off 0.02% on the week, NASDAQ off 0.7% and S&P500 off 0.65%. The S&P500 index has declined for two straight weeks for the first time since October. With that said, the index is currently up 7.89% year to date and has set a new record closing high 17 times so far this year. Elsewhere, Japan Nikkei fell 2.47% on the week led by BOJ hike fears while Australia also fell 2.25% with RBA data mixed while the biggest winner was Spain IBEX up 2.84% then Mexico IPC up 2.35% with Banxico rate cut hopes, and Hong Kong Hang Seng up 2.25% even with property lagging.

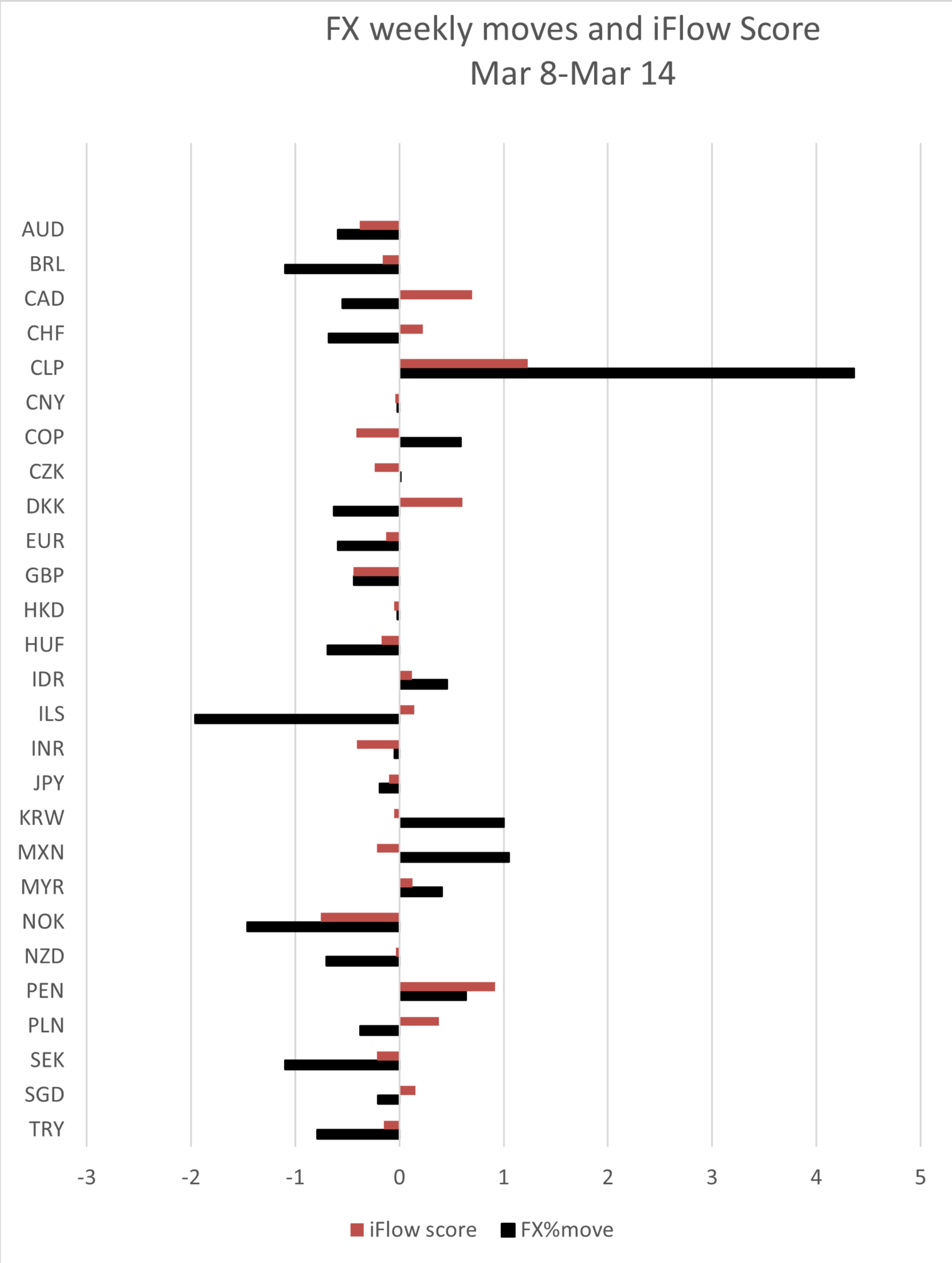
US equity markets off for 2nd week



Source: Bloomberg, BNY Mellon

- **In FX, the USD rallied back up 0.7% on the index**, led by weakness in ILS, NOK, SEK and BRL while CLP, MXN, KRW and PEN all gained. The outsized move in Chile reflected copper gains while the ongoing war hit Israel. The biggest contrast of iFlow to FX moves is in CAD, COP and DKK.

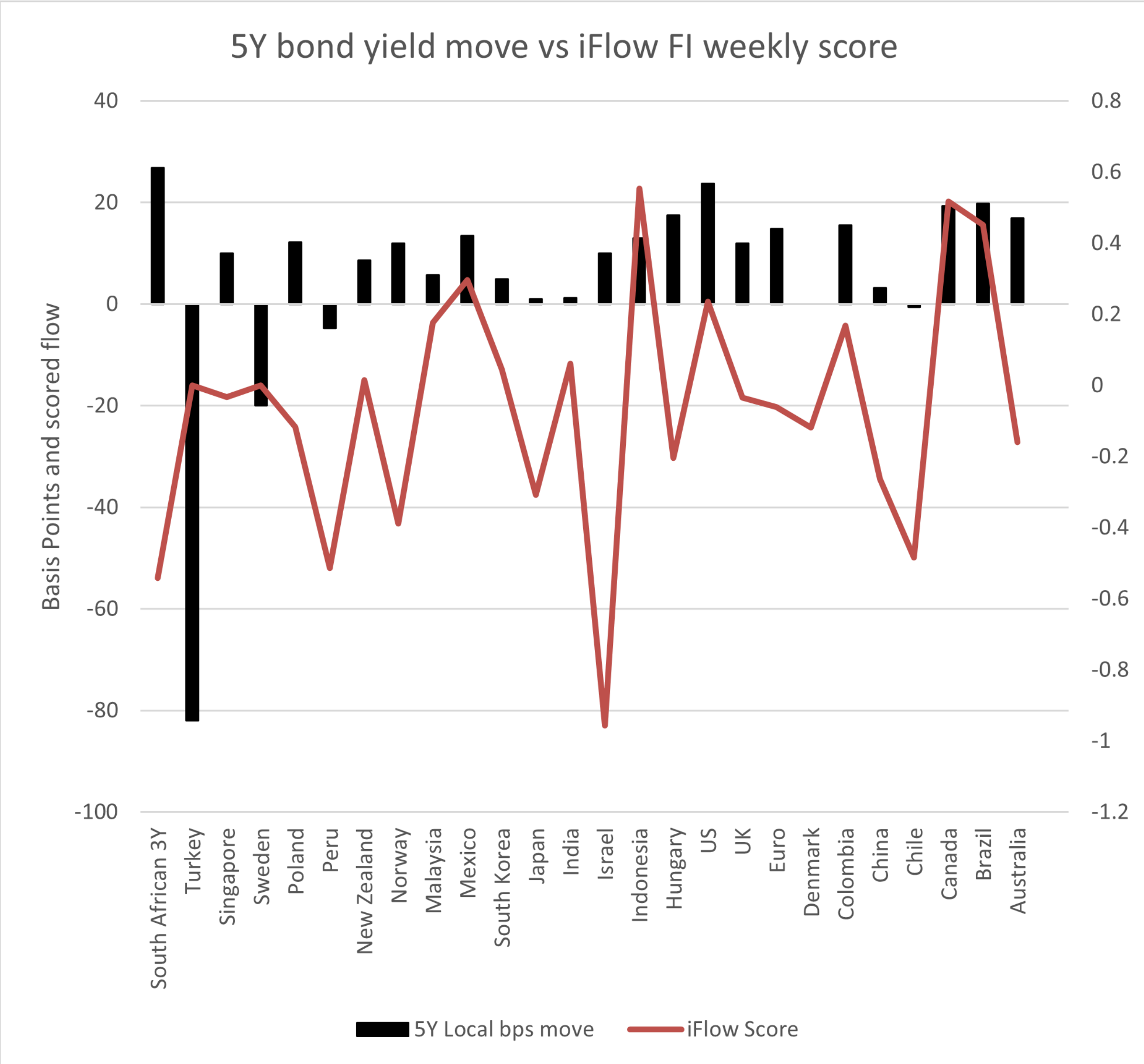
FX markets see mixed USD gains



Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income**, **big rate moves across the world**, with most markets selling bond as inflation and rate cut hopes shifted. US curve saw bear flattening with another rate cut taken out of FOMC. Most of the flows were negative and matched the selling of bonds but some standouts with Turkey, Peru seeing lower yields but outflows, while Canada and Indonesia saw inflows and higher yields.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.43	3.44	0.18
20Y	5.44	0.87	4.55	3.68	0.20
10Y	5.26	0.52	4.31	3.79	0.24
5Y	5.18	0.19	4.33	4.14	0.28
2Y	5.22	0.09	4.73	4.64	0.26
3M	5.63	0	5.36	5.36	0.06
FFR	5.41	0.04	5.32	5.28	-0.01
The Yields and Fed Funds Rate data from January 2007					



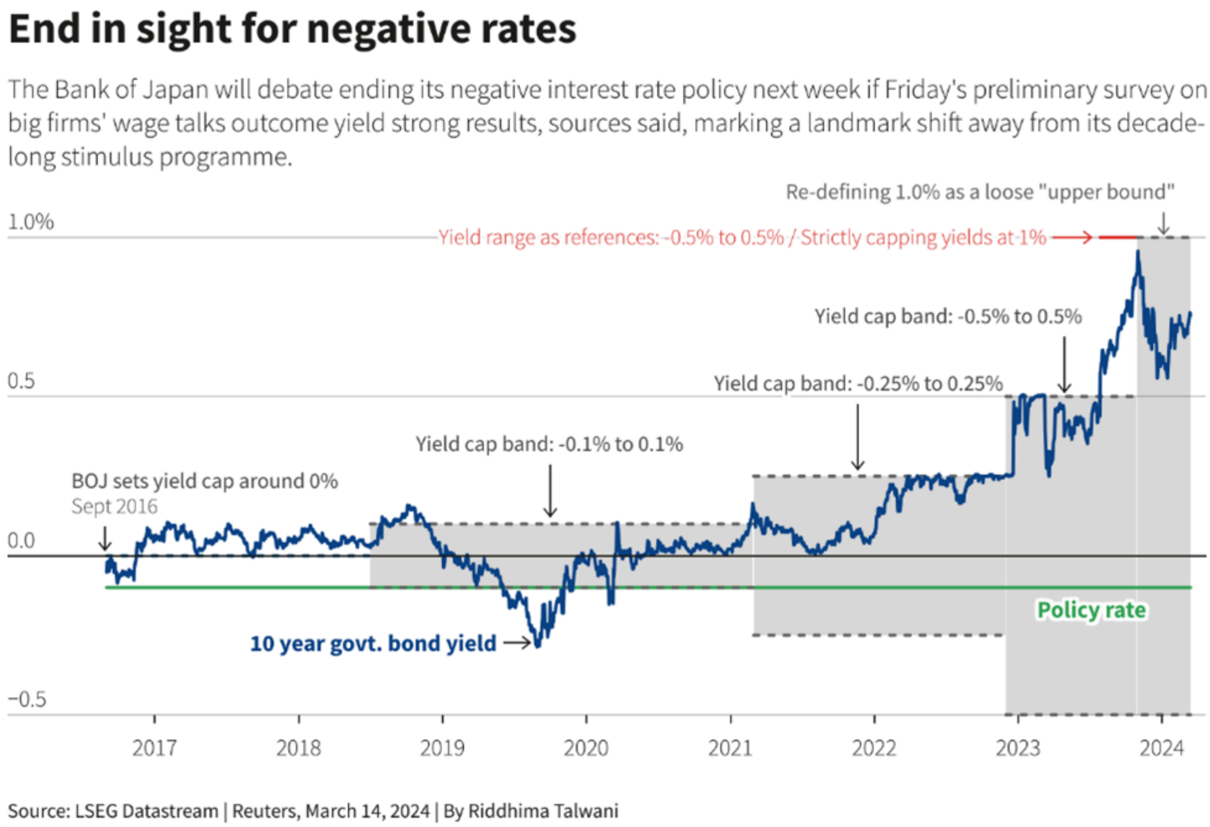
Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – Rate decisions from US, Japan, UK, Australia, Brazil, Norway and many others – China industrial production, retail sales

The main event of the week will be the Federal Reserve meeting, which includes the FOMC's economic forecasts and the so-called 'dot plot' interest rate projections. Focus will be on how the dots compare to the market now. Also, in the US key flash data as Manufacturing and Services PMIs, along with building permits, housing starts, and sales of existing homes will matter to setting up 1Q GDP forecasts. Internationally, attention will be directed towards interest rate decisions from Japan, the United Kingdom, Australia, Brazil, Turkey, Switzerland, and Norway. Additionally, inflation data from Canada, the UK, South Africa, and Japan will be in the spotlight. Markets will also analyze flash Manufacturing and Services PMIs from Australia, Japan, India, the Euro Area, France, Germany, and the United Kingdom. In China, updates on industrial production, retail sales, unemployment rate, fixed asset investment, and loan prime rates will be crucial.

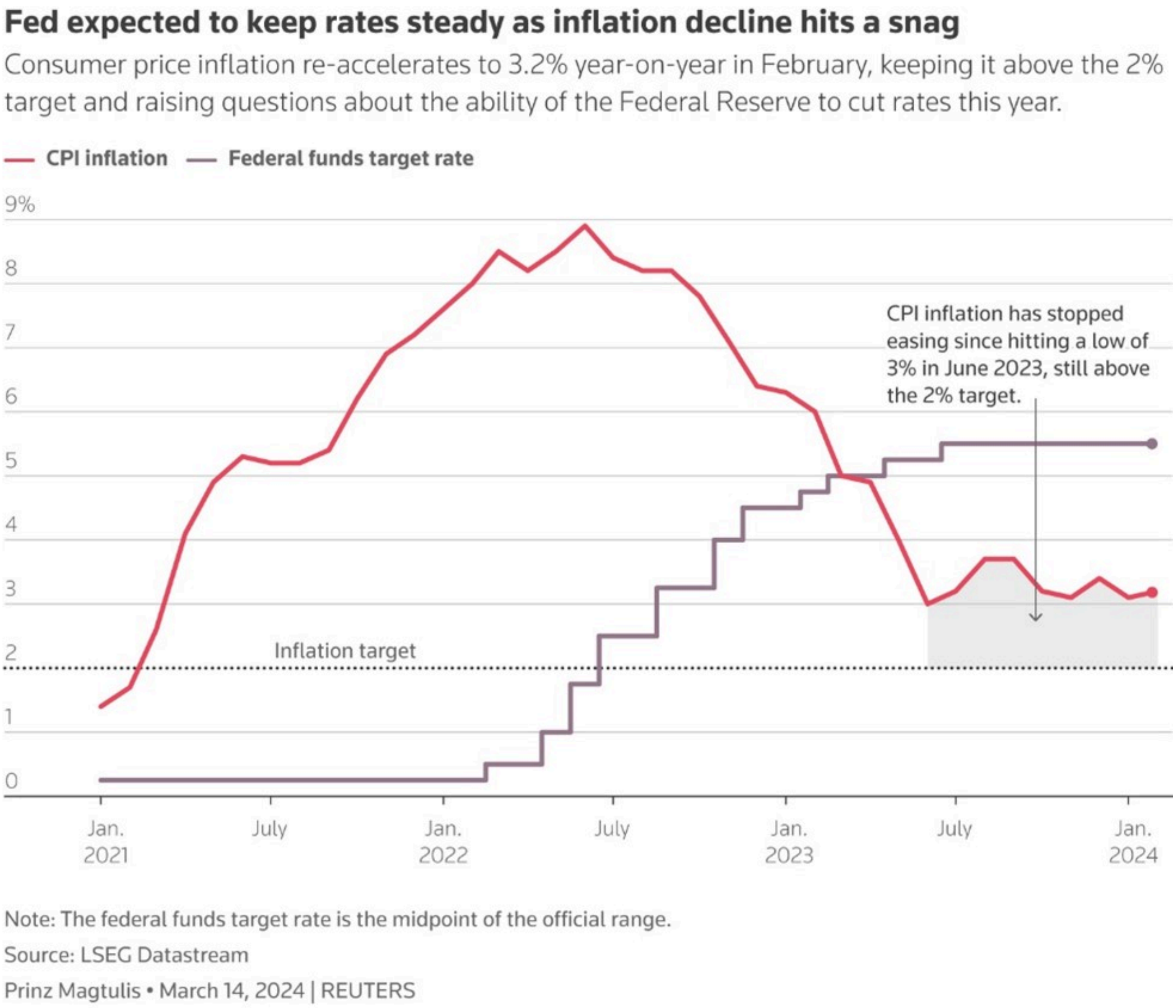
1. BOJ and the end of negative rates, yield curve control. The wage agreements from Shunto show that deflation is dead as wages rise more than inflation driving further speculation of a March 18-19 change from ultra-easy policy to something just accommodative. Recent comments from BOJ officials, including Governor Kazuo Ueda, also seem to signal an imminent end to years of ultra-loose monetary policy, even if it doesn't happen in March. The March meeting is 50% priced. The reaction of JPY, JGBs and Nikkei to the reality will matter beyond Tokyo as the yield curve steepening in the US this week is notable and linked to news reports about BOJ likely acting in March over April.

BOJ will set tone for bonds and FX this week



Source: Reuters, BNY Mellon

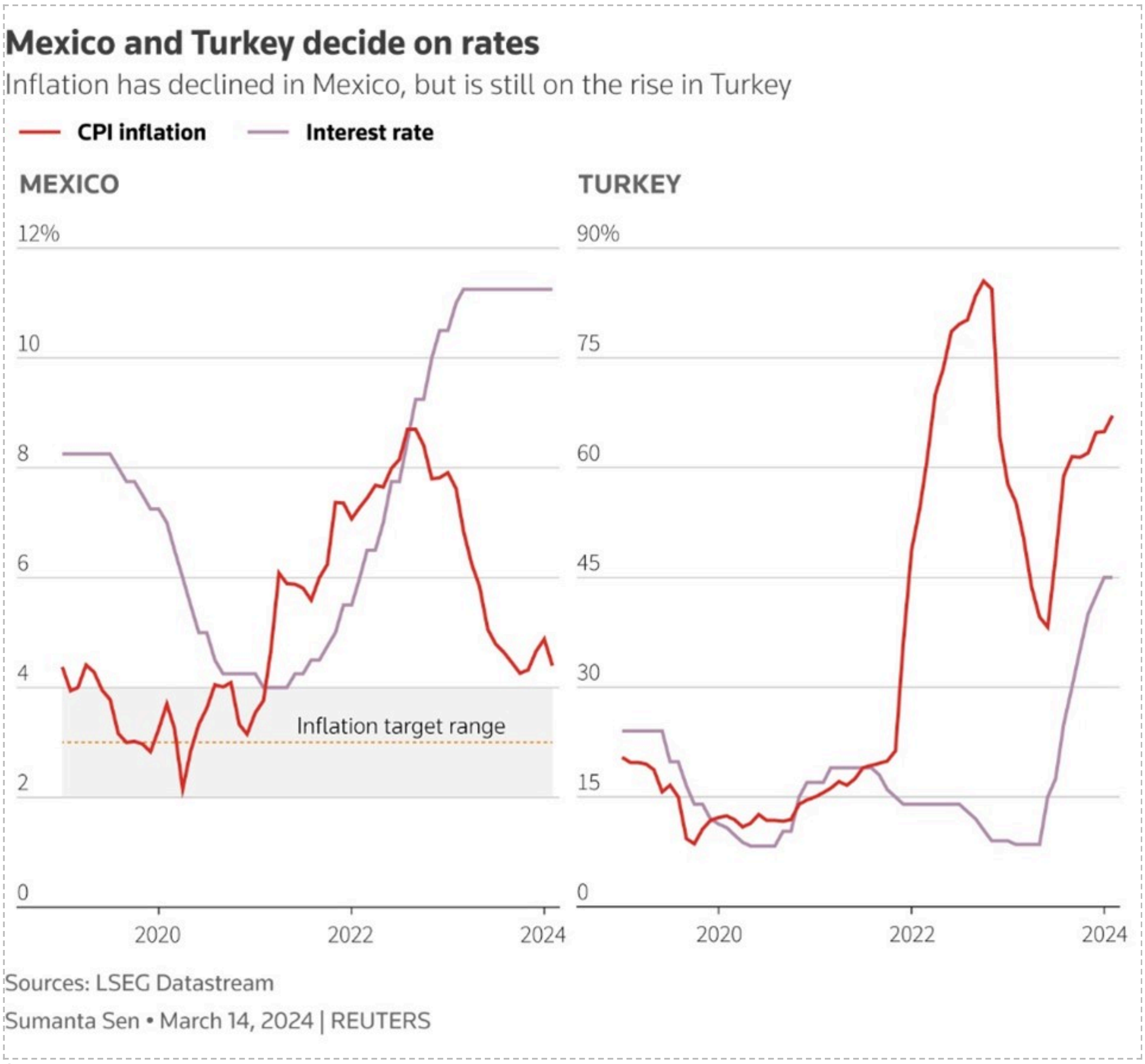
2. FOMC and the path to easing. The rise in non-farm payrolls and the sticky inflation reports this week have left many expecting less from the Fed this year. The market flips back to 3 rate cuts from 4 last week. The FOMC Powell testimony made clear he is more dovish than some of his board so the March SEP or “dot plot” and the shift in verbiage from the statement will be key. The risks of stagflation or lower growth have been pushed aside even with the nowcasts suggesting 2% rather than 3% growth in 1Q. Key for the markets is if financial conditions are mentioned and matter as stocks have led to easier money, even as bonds have lost on the year. How Chair Powell handles the press conference and his description of the path to a June cut will be critical to the USD, bonds and stocks in the quarter ahead.



Source: Reuters, BNY Mellon

3. Emerging Markets, FX and rate cuts. The most interesting contrast in the week ahead is between Mexico and Turkey. Mexico's central bank has been a rare - and sizeable - holdout among Latin America's central banks, which have been at the forefront of the emerging market rate-cutting trend. But that might well change on Thursday. Easing inflation and a strong economy thanks to higher-than-expected domestic spending in an election year have given Banxico some room for maneuver to pull away from record high 11.25% rates.

In Turkey, a fresh inflation spurt has dashed policymakers' hopes that the recent severe tightening cycle aimed at shoring up the ever-sliding lira and combating sticky price pressures had come to an end. Expectations are high that the central bank needs to deliver another rate hike, maybe as much as 500 basis points. That would come at a sensitive time, with the country gearing up for local elections on March 31.



Source: Reuters, BNY Mellon

Economic Data and Events Calendar March 18-22:

Central Bank Decisions

- **Australia RBA (Tuesday, March 19) –** The RBA is expected to keep rates on hold but the market will now be looking for guidance regarding RBA's ability to ease in the coming quarters. Downside data surprises have become more prevalent, especially for employment (almost no jobs growth for January) and inflation, which combined points to some degree of easing in wages and further cooling in the labour market. Domestic demand appears to be holding for now and the RBA may prefer to wait for headline inflation to soften further, but it is possible that Q2 meetings will be come 'live'.
- **Japan BoJ (Tuesday, March 19) –** There has been enough reporting over the past two weeks to suggest that there is a strong chance that the Bank of Japan will exit negative interest rates at the March meeting. The results from the Spring wage rounds are clear enough to show a structural change in earnings and the BoJ should be comfortable to let monetary policy reflect the new reality. Nonetheless, Governor Ueda has been heavily

- **Indonesia BI (Wednesday, March 20) –** We see Bank Indonesia maintaining the status quo at 6.0% and continuing to focus on FX stabilisation and triple intervention strategy. We don't see Bank Indonesia to rush into changes considering the highly uncertain inflation profile. A strong IDR environment is needed, in our opinion, to persuade a shift from current neutral stance. Bank Indonesia turned dovish in January 24 with explicit comment on timing of policy reversal "room to cut in H2 2024", but there has been little incremental information since the last meeting
- **Czech CNB (Wednesday, March 20) –** The only uncertainty surrounding the CNB decision is whether policy board members will continue with aggressive 50bp moves or revert to 25bp moves. The former is favoured for now given February inflation surprised to the downside but activity numbers have rebounded strongly, which suggests that confirming full price stability will require some more time. The CNB will also need to take note of the ECB's current trajectory, whereby significant policy space may not open up for CEE economies until after the first ECB cut, which is most likely in June.
- **US FOMC (Wednesday, March 20) –** No change in interest rates is expected, but that doesn't mean this FOMC meeting will be a non-event. A new Summary of Economic Projections will be released, and we expect higher growth and inflation expectations to be reflected. The real question from the dots will be whether the year-end federal funds rate target will be raised from three cuts In December. We don't expect too much clarity on quantitative tightening, but there will be some discussion of the program at this meeting.
- **Brazil COPOM (Wednesday, March 20) –** The Selic rate is expected to fall by another 50bp – a credible move as annualised inflation continues to run below 5% and headline rates will remain in double-digits. Barring a major surprise from the Fed we believe COPOM will have sufficient latitude to act without factoring in external considerations. The outlook for duration remains favourable, especially considering the improved budgetary situation but portfolio flows into Latin America have been disappointing year-to-date. The currency has done well in the most recent carry environment but now that conditions have turned, BRL will need to brace for a choppy period up ahead which requires significant anchoring by COPOM decisions.
- **Czech CBC (Thursday, March 21) –** We expect CBC to maintain a hawkish tone and won't rule out further property curbing measures via macroprudential measures. Against the overall dovish tone in the region and globally, there is no room for CBC to turn yet given the uncertainties surrounding inflation, including the anticipated electricity price hikes, accelerating house prices and the strong recovery in technology exports. Note that Taipei area posted 8% y/y gain as of January 2024. Since the meeting in December, inflation had been volatile but

we would be very cautious in interpreting February data as the beginning of inflation trend so as to trigger a possible reaction by the central bank.

- **Swiss SNB (Thursday, March 21) –** There is a surprisingly high chance of easing priced in at this meeting and CHF has weakened in the run-up to the meeting to reflect such risks. Although the SNB is largely satisfied that price stability has been met, their December meeting still stressed that risks remained in both directions and their conditional inflation forecasts do contain quarters which are pushing against the 2% upper bound. Further downside revisions are likely for the Q1 2024 forecast round and alignment with ECB easing is probably necessary, but we don't see any need to act forcefully at present.
- **Norway Norges (Thursday, March 21) –** There is very little room to cut rates at present in Norway as the latest inflation figures, while surprising to the downside in both headline and underlying terms, remain at very elevated levels. The breakdown of inflation also points to strong wage pressures as services with a strong wage component saw prices increase by 0.7%m/m, which is yet another indication of tight underlying labour markets. We would not rule out Norges easing this year but it will likely be one of the laggards in Europe.
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- **Turkey TCMB (Thursday, March 21) –** The key repo rate is expected remain unchanged at 45% but given the recent pressure on TRY and the surprise hike and float in Egypt, TCMB would be fully aware that the market will retain a very high bar for currencies facing balance of payments and inflation stress. There have been ongoing concerns that TCMB's guidance on ending hikes was premature and all options need to be retained, especially with real rates still materially negative. The TCMB may also need to wait longer before Fed moves provides additional room for manoeuvre so sending a vigilant message is necessary.
- **UK BoE (Thursday, March 21) –** No change is expected in the BoE's rates and we don't expect the MPC to be overly committal on easing commencing in the near future. Additional votes for hikes by the MPC's hawks are still possible as there are possible signs demand is accelerating again. Sequential GDP prints suggest the UK economy is returning to expansion and various housing indicators point to activity growth. It may be too early to discern the impact of the Spring Budget but with household cashflow finding additional support from National Insurance cuts, the BoE will need to remain vigilant.
- **Mexico Banxico (Thursday, March 21) –** On balance Banxico is expected to hold rates at 11.25% but there is a strong chance of a cut and the vote will most likely be split. Even without the Fed moving early on rates, the FOMC

meeting beforehand should give Banxico enough confidence to begin its easing cycle in the near future while retaining a healthy real rate buffer to continue forcing down inflation as high-frequency CPI prints currently rest on the 4%-handle on an annualised basis. Economic activity continues to face headwinds and US election premia will likely become a factor over the coming quarters.

- **Russia CBR (Friday, March 22) –** The CBR is expected to keep the key rate at 16%
- **Colombia BdlR (Friday, March 22) –** The easing cycle in Colombia is expected to continue with another 50bp reduction to 12.25%. Even so, sequential inflation is running at around 1% which means the real rate buffer is very limited and the recent selling in COP as identified in iFlow could represent fears of material outflows if prices pressures rise again. Activity data is expected to show ongoing contraction which points to soft demand, but we expect LatAm economies in general to exercise caution in the next six months and wait for clearer policy guidance from the Fed to assess pass-through risk.

Key data/releases

Date	GMT	EDT	Country	Event	Period	Cons.	Prior
03/17/24	23:50	19:50	JN	Core Machine Orders MoM	Jan	-0.80%	2.70%
03/18/24	10:00	06:00	EC	CPI YoY	Feb F	2.60%	2.60%
03/18/24	10:00	06:00	EC	CPI MoM	Feb F	0.60%	0.60%
03/19/24	***03:30***	***23:30***	***AU***	***RBA Cash Rate Target***	***Mar-19***	***4.35%***	***4.35%***
03/19/24	04:30	00:30	JN	Industrial Production MoM	Jan F	--	-7.50%
03/19/24			***JN***	***Policy Balance Rate***	***Mar-19***	***-0.10%***	***-0.10%***
03/19/24	10:00	06:00	GE	ZEW Survey Expectations	Mar	21	19.9
03/19/24	10:00	06:00	GE	ZEW Survey Current Situation	Mar	--	-81.7
03/19/24	12:30	08:30	CA	CPI NSA MoM	Feb	0.60%	0.00%
03/19/24	12:30	08:30	US	Housing Starts	Feb	1430k	1331k
03/19/24	12:30	08:30	CA	CPI YoY	Feb	3.10%	2.90%
03/20/24	07:00	03:00	UK	CPI MoM	Feb	0.70%	-0.60%
03/20/24	07:00	03:00	UK	CPI YoY	Feb	3.50%	4.00%
03/20/24	07:00	03:00	UK	CPI Core YoY	Feb	--	5.10%
03/20/24	***07:20***	***03:20***	***ID***	***BI-Rate***	***Mar-20***	***6.00%***	***6.00%***
03/20/24	08:00	04:00	SA	CPI YoY	Feb	5.50%	5.30%
03/20/24	09:00	05:00	PD	Sold Industrial Output YoY	Feb	2.60%	1.60%
03/20/24	09:00	05:00	PD	PPI YoY	Feb	-8.70%	-9.00%
03/20/24	11:00	07:00	SA	Retail Sales Constant YoY	Jan	--	2.70%
03/20/24	11:00	07:00	US	MBA Mortgage Applications	Mar-15	--	7.10%
03/20/24	***13:30***	***09:30***	***CZ***	***Repurchase Rate***	***Mar-20***	***5.75%***	***6.25%***
03/20/24	***18:00***	***14:00***	***US***	***FOMC Rate Decision (Upper Bound)***	***Mar-20***	***5.50%***	***5.50%***
03/20/24	***21:30***	***17:30***	***BZ***	***Selic Rate***	***Mar-20***	***10.75%***	***11.25%***
03/20/24	21:45	17:45	NZ	GDP SA QoQ	4Q	0.10%	-0.30%
03/21/24	00:30	20:30*	JN	Jibun Bank Japan PMI Mfg	Mar P	--	47.2
03/21/24	00:30	20:30*	AU	Employment Change	Feb	40.0k	0.5k
03/21/24	00:30	20:30*	AU	Unemployment Rate	Feb	4.00%	4.10%
03/21/24			***TA***	***CBC Benchmark Interest Rate***	***Mar-21***	***--***	***1.88%***
03/21/24	***08:30***	***04:30***	***SZ***	***SNB Policy Rate***	***Mar-21***	***1.75%***	***1.75%***
03/21/24	08:30	04:30	GE	HCOB Germany Manufacturing PMI	Mar P	43.8	42.5
03/21/24	***09:00***	***05:00***	***NO***	***Deposit Rates***	***Mar-21***	***--***	***4.50%***
03/21/24	09:00	05:00	EC	HCOB Eurozone Manufacturing PMI	Mar P	47.2	46.5
03/21/24	09:30	05:30	UK	S&P Global UK Manufacturing PMI	Mar P	--	47.5
03/21/24	***11:00***	***07:00***	***TU***	***One-Week Repo Rate***	***Mar-21***	***45.00%***	***45.00%***
03/21/24	***12:00***	***08:00***	***UK***	***Bank of England Bank Rate***	***Mar-21***	***5.25%***	***5.25%***
03/21/24	12:30	08:30	US	Initial Jobless Claims	Mar-16	--	209k

03/21/24	13:45	09:45	US	S&P Global US Manufacturing PMI	Mar P	51.8	52.2
03/21/24	14:00	10:00	US	Existing Home Sales	Feb	3.92m	4.00m
03/21/24	***19:00***	***15:00***	***MX***	***Overnight Rate***	***Mar-21***	***11.13%***	***11.25%***
03/21/24	21:45	17:45	NZ	Trade Balance NZD	Feb	--	-976m
03/21/24	23:30	19:30	JN	Natl CPI YoY	Feb	2.90%	2.20%
03/22/24	09:00	05:00	GE	IFO Business Climate	Mar	86	85.5
03/22/24	***10:30***	***06:30***	***RU***	***Key Rate***	***Mar-22***	***--***	***16.00%***
03/22/24	***18:00***	***14:00***	***CO***	***Overnight Lending Rate***	***Mar-22***	***12.25%***	***12.75%***

Key Speeches/Events

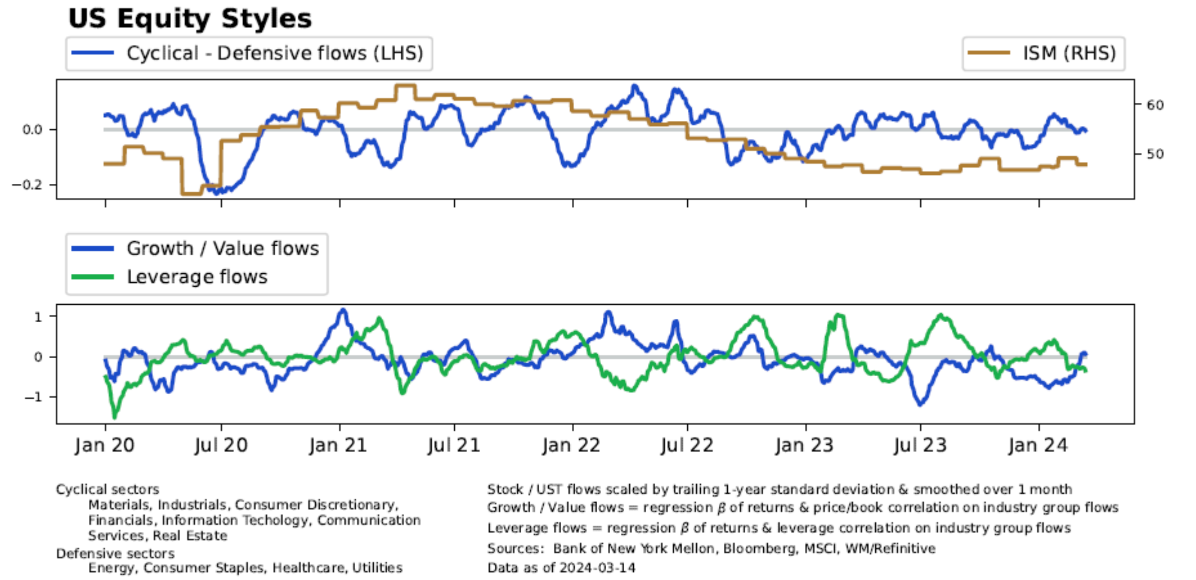
Date	GMT	EDT	Country	Event
03/18/24	16:00	12:00	EC	ECB's Centeno Speaks at Awards Ceremony in Lisbon
03/19/24	06:15	02:15	SZ	SNB Published Annual Report
03/19/24	08:30	04:30	EC	ECB's Guindos Speaks
03/19/24	08:40	04:40	EC	ECB's Hernandez de Cos speaks in Madrid
03/20/24	08:45	04:45	EC	ECB's Lagarde Speaks in Frankfurt
03/20/24	09:30	05:30	EC	ECB's Lane Speaks in Frankfurt
03/20/24	12:00	08:00	EC	ECB's De Cos Speaks in Frankfurt
03/20/24	13:45	09:45	EC	ECB's Schnabel Speaks in Frankfurt
03/20/24	15:30	11:30	AS	ECB's Holzmann Speaks in Vienna
03/20/24	16:45	12:45	EC	ECB's Nagel Speaks
03/20/24	17:30	13:30	CA	Bank of Canada Releases Summary of Deliberations
03/20/24	***18:30***	***14:30***	***US***	***Fed Chair Powell Holds Post-Meeting Press Conference***
03/21/24	00:10	20:10	AU	RBA COO Woods-Panel Participation
03/21/24	***09:00***	***05:00***	***SZ***	***SNB's Jordan Speaks After Rate Decision***
03/21/24	13:50	09:50	CA	Bank of Canada Deputy Governor Gravelle Speaks in Toronto
03/22/24	00:30	20:30*	AU	RBA-Financial Stability Review
03/22/24	09:00	05:00	EC	ECB's Nagel Speaks
03/22/24	10:00	06:00	EC	ECB's Holzmann Speaks in Vienna
03/22/24	11:00	07:00	PO	ECB's Centeno Speaks at Press Conference in Lisbon
03/22/24	13:00	09:00	EC	ECB's Nagel Speaks
03/22/24	17:00	13:00	EC	ECB's Lane Speaks
03/22/24	20:00	16:00	US	Fed's Bostic Participates in Moderated Conversation

Conclusions: Can the Stock Market Rally with Rate Cuts Fading?

We know that that answer is yes but the value question for shares and just how long bonds can go down and stocks go up without some balancing stutter matters. The next week is likely to test this market and yet the fear factors usually present in a larger correction seem distant. What stands out from a macro perspective in the week ahead is the FOMC debate and forward guidance risk of moving from 3 rate cuts in 2024 to 2 or less. The notable lack of fear about growth in the US is at odds with the data and even though much of the data in the week ahead is "second tier" – housing data are key to growth outlooks along with the Fed surveys – all of which could get the 1.5-2.0% 1Q growth shift that happened with the weaker US retail sales last week to matter in the week ahead. The flows we have seen in equities with cyclical vs. defensive show a market stuck at neutral, so this could be a key trigger.

Bottom Line: FX markets could matter again as investors set up for the quarter end after the FOMC decision. The risk of USD up and Stocks up with a correlation break is one possibility. The favorite narrative is of "no landing" where the FOMC has time to wait for sticky inflation to correct with high for longer rates because of stronger US growth. The Summary of Economic Projections from the FOMC becomes critical with this taken as the forward guidance for equities, and so for the USD, while bonds will be watching the number of rate cuts projected.

iFlow shows US equities aren't set up for slowing growth



Source: iFlow, BNY Mellon

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB