

iFlow

WEEK AHEAD

March 3, 2024

Balance

“Balance is not something you find, it’s something you create.” – Jana Kingsford

“My journey has always been the balance between chaos and order.” – Philippe Petit

Summary:

The debate rages about global growth and the US leadership of it – with the G20 meetings optimistically describing a soft-landing for much of the world in 2024 despite technical recessions in Germany and Japan from last year. The hopes for a better Spring after a less than feared Winter drive much of the price action las week as month end delivered less pain and suffering for rebalancing. The mathematics of the present story are intact 3% inflation, GDP at 2.5-3.0% and 5.5% overnight rates make bonds at 4.18% look expensive, leaving room for stocks but only if that growth holds – which is the problem for fixed income. The over \$5 trillion in money markets highlights that 2023 thinking remains in play for 2024 with the uncertainty over growth and rates leaving investors waiting in bills rather than aggressively chasing bonds or stocks – as the lack of clear trends came through in the last week.

- **The focus on the week ahead is on that balancing act of asset allocation** as the US bond market has just the ongoing IG issuance and bills from the US Treasury to digest, leaving politics around the US budget central along with the US Super Tuesday primaries and the US President Biden State of the Union Address. For many, the US November election race starts next week and that means less hope for any new policy enactments in the US for the rest of the year. Then there is the China story with their Congress setting a new GDP target and delivering more stimulus – just what kind and from where will drive markets everywhere.

- **The economic data ahead also matters** with the focus last week on core PCE rising insufficient to drive down US bonds making 4.35% 10Y the new line in the sand for any break higher in rates and leaving 4.00% back as the middle ground for a market waiting to hear **from FOMC Powell and to see what the jobs data show**. Wages, productivity, hours worked and part-time work are all undercurrents for worry that the US 1Q growth story has cracks.
- **The move to rethink the ECB as the first mover and the BOC as the foreshadowing of Fed action is also key** to the week ahead as markets wait to hear from Lagarde as she talks about talking about rate cuts and from BOC Macklem as the data in Canada remain fragile enough for a cut but for the sticky inflation. How FX markets continue to negatively correlate the USD to US shares will be the aftermath and key to traders not to mention other central bankers. Our dollar, their problem thinking pervades – expect in Japan where the Tokyo CPI and further BOJ comments seem likely to lead to either 149 or 152 in the week ahead.

Key Themes:

- **Risk-on and Value**– Are markets priced to perfection in bonds and stocks is a common question today. While US equities continue to print new record highs – 15 so far this year for the S&P500, Fixed Income markets have also seen a shift in risk despite the 40bps move up in US 10-year rates. The party rages with corporate spreads narrowing, HYG vs. IG at 1% or BBB vs. BB yields are at two-year lows – with February IG corporate issuance at a record \$172bn. The current risk mood has provided room for extension as the roll-over of debt matters significantly against the cost of it to margins and to the government budget. Risk and politics maybe in play in the week ahead in a way we haven't seen in many months.
- **US and geopolitics** Over the weekend the US airdropped aid to Gaza and pushed forward with talks on a ceasefire deal between Israel and Hamas. The hopes for a peace there are rising and leave room for oil markets to hold if not go down, while in the Ukraine the headlines push talk of peace as well – with many seeing Ukraine step back from their early bravado of regaining all territories since the Crimea 2014 war to something else. Pricing in peace over war has broad implications for Europe and that makes the EUR moves over the week ahead even more interesting when mixed with the ECB. The role of the US vs. China as the peacemaker is also worth considering and whether the US/China cooperation on any set of deals sustains seems to be paramount to better outlooks everywhere.
- **FOMC and the no-landing debate**. The [Slok vs. El-Erian](#) debate over the fate of the US economy in the next few months is raging and with it the pricing of

US rate cuts. While many of the headwinds highlighted by El-Erian seem unlikely to be resolved this week ahead, some will – such as the US budget. The ability for the FOMC to not cut requires inflation remaining sticky and growth being too high – making the jobs report crucial in the short-term. The US exceptionalism debate also revolves around what other nations are doing for their own growth – making the ECB, BOC and many EM decisions ahead that much more important but even more their own politics. The war and peace debates as highlighted likely come first.

What are we watching: China National People's Congress, FOMC Powell, US jobs reports (claims, JOLTS, NFP), US super Tuesday primaries, Biden SOTU, ECB, Tokyo CPI, UK Budget

- **Economic releases:** Focus is back on US jobs as a key measure for FOMC easing risks, also global trade, Service ISM and PMI reports and inflation reports.
- **Central Banks:** Bank of Canada, ECB, and in EM Poland, Malaysia – all are expected on hold - while Peru is expected to deliver a timid 25bps easing again.
- **US Issuance:** Treasury sells bills, no notes this week after \$169bn last week. US corporate IG expected \$30bn next week – following record February issues of \$172bn.
- **EU Issuance:** EU corporate debt expected at E30bn ahead of ECB
- **4Q Earnings:** 97% of the S&P500 has reported with 73% beating EPS and 64% beating revenue estimates. The 4Q 2023 blended growth in earnings was 4% - second consecutive quarter of gains – while 1Q outlooks are more upbeat – even with 12M forward P/E ratio 20.4 well over 5Y and 10Y averages of 19.0 and 17.7 respectively.

Monday, March 4:

- Economic releases: Japan Tokyo CPI and Capex
- Central Banks: Fed Harker speech
- US Issuance: \$79bn 3M and \$70bn 6M bills

Tuesday, March 5:

- Economic releases: Global Service PMIs, US ISM Services, US durable goods orders
- Central Banks: China National Peoples Congress – finishes Saturday, Feb Barr speech

- US Issuance: \$80bn 42-day CMB

Wednesday, March 6:

- Economic releases: Australia GDP, US ADP jobs, US JOLTS report
- Central Banks: UK Chancellor Hunt Budget, Bank of Canada rate decision, Fed Chair Powell testimony
- US Issuance: 4M bills (size TBA)

Thursday, March 7:

- Economic releases: Australian trade, China trade, US weekly jobless claims, 4Q Productivity revised
- Central Banks: Poland NBP, ECB rate decisions, FOMC Powell testimony continues, Fed Mester speech
- US Issuance: 1M and 2M Bills (size TBA)

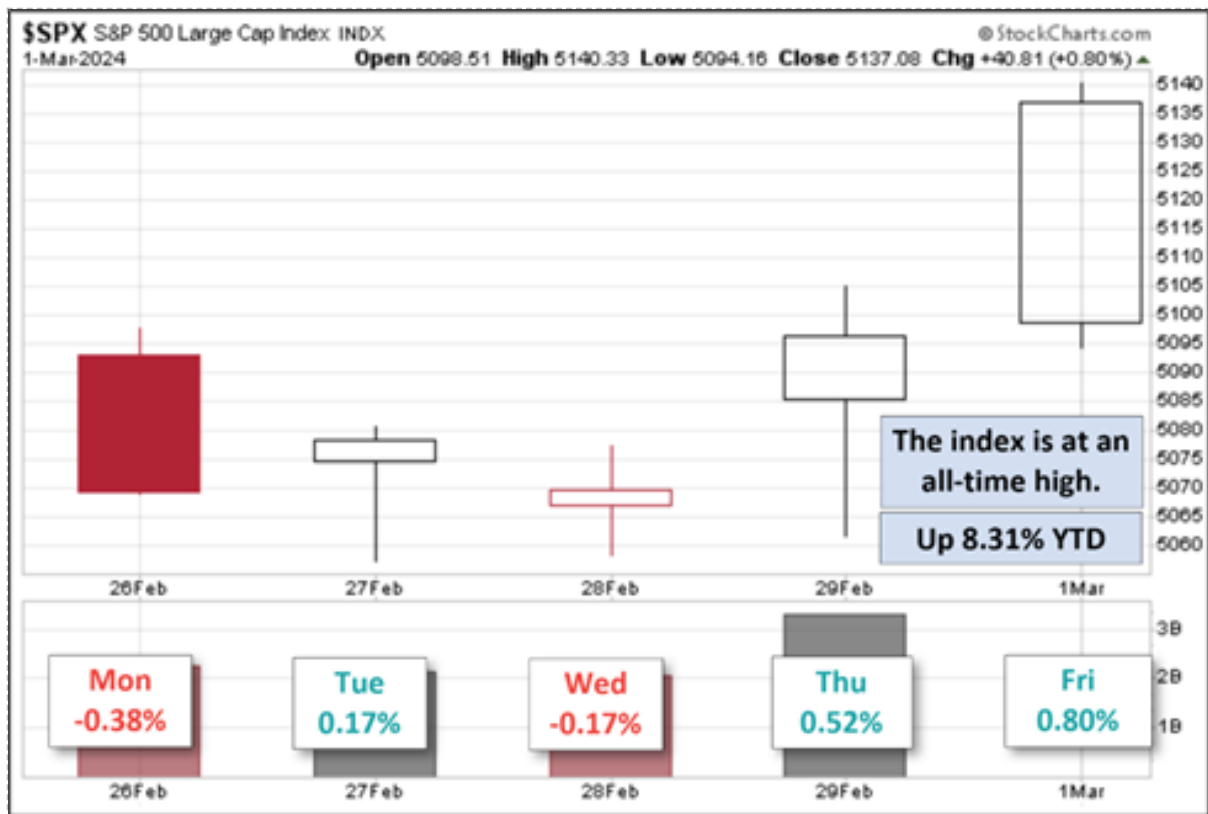
Friday, Mar. 8:

- Economic releases: EU 4Q final GDP and jobs, German industrial production, US NFP, Canada jobs
- Central Banks: Peru BCRP decision

What changed last week:

- **In Equities, more record highs.** The S&P 500 finished the week up 1.0%, notching another new record close. The index is currently up 8.31% year to date and has set a new record closing high 15 times so far this year. The German Dax and Japan Nikkei also made new record highs and China managed its first weekly gain in over a month.

US equity markets set new record highs but cyclical factor unclear

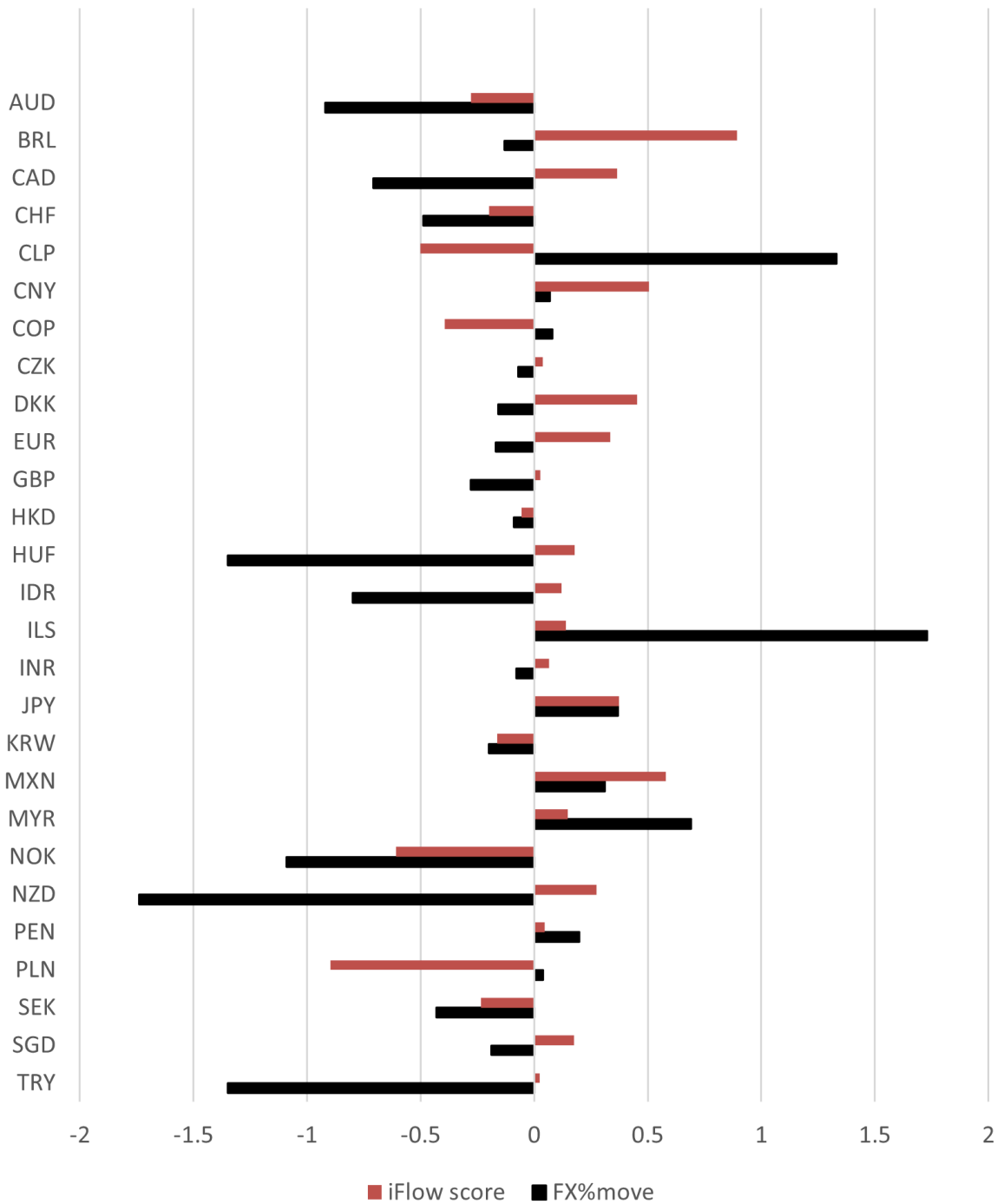


Source: Bloomberg, iFlow, BNY Mellon

- **In FX**, the USD fell 0.1% on the week with month-end seeing modest gains in JPY, ILS – two currencies that were sold on the month. The biggest movers were TRY, NZD, NOK – all down over 1% while LATAM FX enjoyed some gains except ARS and a modest down tick in BRL. Notable also that iFlow moves mostly converged with price this week.

FX markets had the second USD drop of the year

FX weekly moves and iFlow Score Feb 26-Mar 1



Source: Bloomberg, iFlow, BNY Mellon

- In Fixed Income**, the US core PCE came as expected – and that led to a notable rally back in US rates. The US curve bull flattened again. In other markets, the US move was not sufficient. BOJ comments lifted 10Y rates up 3bps there, BOK saw 5.5bps rise while Sweden also saw 1.2bps gains. In contrast, Switzerland rallied 9.6bps, while German Bund yields fell 2.6bps.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.33	3.34	-0.11
20Y	5.44	0.87	4.45	3.58	-0.11
10Y	5.26	0.52	4.18	3.66	-0.10
5Y	5.18	0.19	4.16	3.97	-0.11
2Y	5.22	0.09	4.53	4.44	-0.11
3M	5.63	0	5.32	5.32	-0.05
FFR	5.41	0.04	5.36	5.32	0.04

Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – US jobs and FOMC Powell, US politics, China stimulus and the ECB

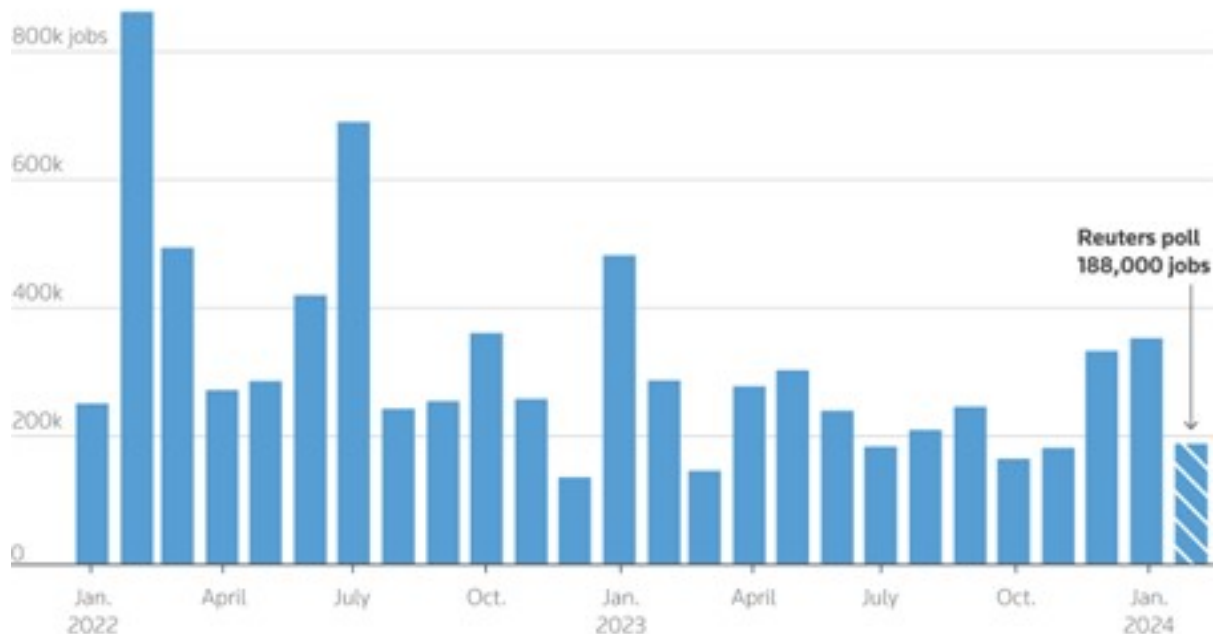
In the upcoming week, investors will closely track the United States' January labor report and speeches by several Federal Reserve officials, including Fed Chair Powell's Semiannual Monetary Policy Reports to Congress. Also, key US indicators like the ISM Services PMI, JOLTS job openings, factory orders, and foreign trade data will be under scrutiny. Internationally, the focus will be on the European Central Bank and Bank of Canada interest rate decisions, alongside inflation rates in Turkey, Switzerland, the Philippines, South Korea, and Mexico. GDP growth rates for Australia and South Africa will also be watched. Finally, trade data for major exporters such as Germany, Brazil, France, Australia, China, and Canada will be monitored, along with services PMIs for China, Spain, Italy, and Brazil.

1. US Jobs and the FOMC - With US shares at record highs driven by AI excitement, with ongoing US economic growth over 1.8% the Fed's long-term estimates and with 10-year US yields up 40bps from their December lows – all that makes the US jobs report again essential to balancing the FOMC patience on keeping rates high for longer against the economy. The forecasts for NFP are 185,000 jobs with whispers higher at 214,000. The report will be watched for what the weekly wages and hours worked show, along with the split between the household survey and the payrolls. There is also focus on full-time vs. part-time jobs, the role of immigration in the report and how this looks against the JOLTS report that comes out the day before with focus there on openings and quit rates. The health of the US job market is seen as key to keeping consumers able to spend and that keeps US growth over the long-term targets. Chair Powell testimony will be critical in how this report is digested as most see him more dovish than his board and willing to ease faster if the data suggests some cracks – that would require higher than 4.0% unemployment and lower than 125,000 jobs.

US jobs will set the tone for FX and rates for March

Poll projects US job creation eased to a three-month low

Economists polled by Reuters expect the U.S. to have added an estimated 188,000 jobs in February, down from over 300,000 jobs generated in previous two months.



Sources: LSEG Datastream, Reuters polling

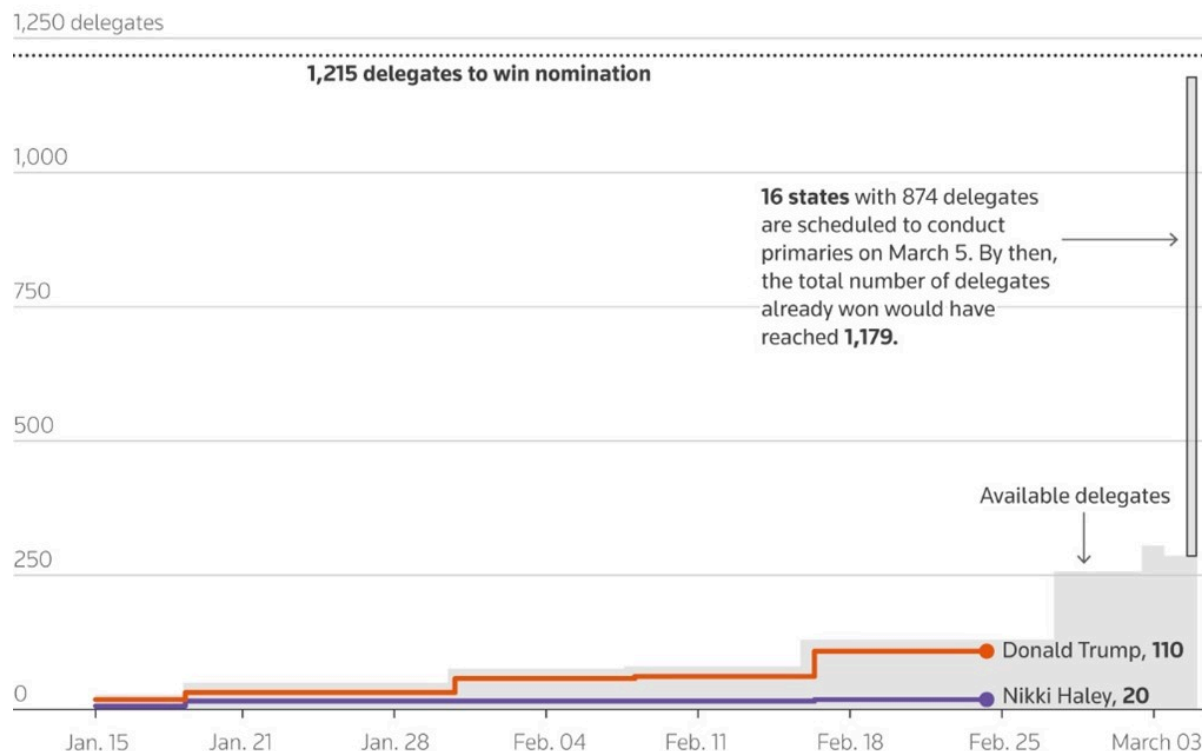
Prinz Magtulis • Feb. 27, 2024 | REUTERS

Source: Reuters, BNY Mellon

2. US Politics and Super Tuesday: The week ahead for US politics looks busy with a Friday, March 8 deadline on the House for a budget deal with risk for some government shutdowns, with a deficit at \$34trn and rising, with President Biden delivering his State of the Union address on Thursday evening, March 7, and with March 5, Super Tuesday primaries expected to secure both Trump and Biden as their parties nominees into November. The Treasury market absorbed \$169 billion of debt issuance this week with relative ease. But polarized politics over the government's finances are a reminder that the national debt is central to whoever wins this election. Markets are watching for more political noise and some US risk premium in bonds because of the week ahead.

'Super Tuesday' could bring Trump close to Republican nomination

Republican delegates, by date of primaries



Note: Delegates data for Trump and Haley as of Feb. 24.

Source: Emerson, Reuters reporting

Prinz Magtulis • Feb. 28, 2024 | REUTERS

Source: Reuters, BNY Mellon

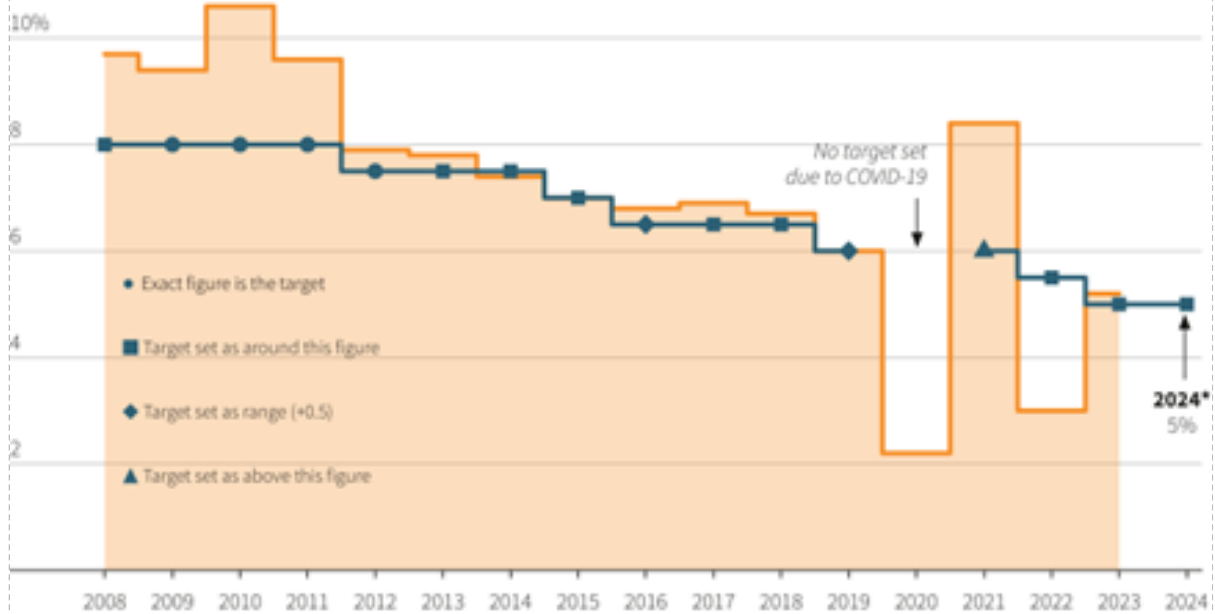
3. China National Congress and the GDP target. The week ahead will deliver China trade data and more focus on the stock market there with its first monthly gain in six months, best performance since late 2022 and bouncing from 5-year lows set in early February. The main drivers have been state-led stock buying and tighter regulations on short selling. The hopes are high for fresh China stimulus when the National People's Congress begins its annual session on Tuesday, aimed at reviving a crumbling property sector, and invigorating moribund consumers given the worst deflation since the global financial crisis. If the result is that GDP is again set at 5%, many investors may worry that nothing more but regulation will be delivered in the next few months to keep up the current momentum. The key fear for many outside of China is ongoing deflation and weakness in demand for all of APAC. Consensus is that meeting will deliver but not enough to sustain – making 5.5% GDP and more targeted spending on technology and health care over property markets likely.

China Congress will set more than GDP targets for 2024

China to unveil 2024 growth target at annual parliament meeting

China is expected to target GDP growth of around 5% in 2024

Annual GDP growth target vs. actual GDP growth



Note: *2024 target has not been officially announced and is as per Reuters reporting. Official targets are usually not announced publicly until China's annual parliament meeting which is scheduled for March 5.

Source: NBS, Reuters reporting | Reuters, Feb. 29, 2024 | By Kripa Jayaram and Kevin Yao

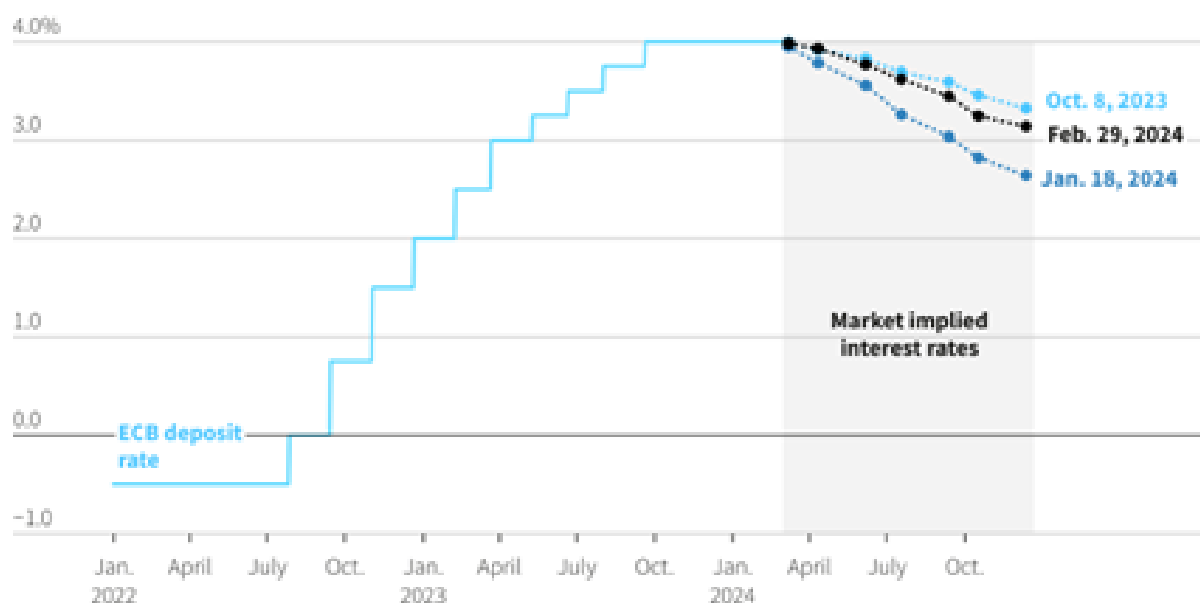
Source: Reuters, BNY Mellon

4. ECB – talking about talking to cut. Markets don't expect the ECB to ease until June but the need to act sooner is clearly in play. The markets have unwound from 150bps of easing to just 90bps – matching the FOMC shift. However, the current environment sees the ECB acting first, something that is different than the start of the year. The effect on the EUR was hard to discern this week as US bonds and US data suggested a slowing in US growth, but the way that ECB statement reads and what President Lagarde says about easing plans ahead is central to FX and bonds globally. The ECB meets on Thursday and the focus is on whether policy makers will repeat that it's too early to discuss rate cuts or open the door to a move. Rates have been on hold since September and the ECB has pushed back on rate cut talk, insisting that even if the next move is a reduction, that will be later than traders anticipate. Wage pressures after all, remain high even if they are easing but that seems to be seen more as a stagflation risk with corporates paying the price first rather than something that the ECB can fix.

ECB rate cut plans need clarity

Traders pare back but hold onto ECB rate cut bets

Traders have pushed rate cut start to June, now expect four cuts in 2024.



Note: Market implied rates for Feb. 29 are as of 9:15 AM GMT.

Source: LSEG Datastream, Eikon | Reuters, Feb. 29, 2024 | By Sumanta Sen

Source: Bloomberg, BNY Mellon

Economic Data and Events Calendar February 26-March 1:

Central Bank Decisions

- **Canada BoC (March 6, Wed)** – The Bank of Canada meets this coming week, although no move in rates is expected. Recent data paint an ambivalent picture of the growth-inflation trade-off, and we think it's likely the Bank is on hold until the summer. Inflation remains stubborn, even as growth is beginning to flag, putting Ottawa in a dilemma. The CAD is currently still the best held G10 currency according to iFlow but much of the positioning is attributable to hedging flow of overseas assets. In contrast, external investors are underheld CAD by historical standards and could limit the extent of weakness.
- **Poland NBP (March 7, Thu)** – We doubt there is significant capacity for additional easing in Poland for now as data since the February decision when rates were left unchanged remains mixed. The outlook for domestic demand remains weak, which is evident in both survey data and realised declines in retail sales on a sequential basis. However, unemployment remains low and inflation figures are expected to show solid near-term gains, consistent with trends across Europe. Government support for households through limiting cashflow loss via mortgages is also limiting current transmission of high real rates.

- **Malaysia BNM (March 7, Thu)** – We expect BNM to maintain the status quo to keep rates at 3.0%, managing a fine balancing act between stimulating growth and maintaining financial market stability. While there might be serious argument for a dovish tilt or even policy easing given the lower headline CPI prints, we expect BNM to be approach this cautiously in light of MYR depreciation. Since the previous meeting at the end of January, domestic data showed further improvement with Feb PMI at 49.5 (49.0 last) and highest since August 2022 (50.3), strong rebound of exports at 8.7% in January while headline CPI steady at 1.5% in Jan with core drifted lower to 1.8%.
- **Eurozone ECB (March 7, Thu)** – Judging by recent comments, there will be Governing Council Members calling for a rate cut at this week’s decision, but it will be an extreme tail risk at best. Inflation figures are still above target and many on the ECB take the approach that a return to or even below target must be confirmed first before action can be justified. This is at odds with policy views elsewhere such as the BoE and may be providing unnecessary support to the EUR even though both domestic and external demand remains extremely weak. President Lagarde will likely re-iterate her preference for a June move at the press conference.
- **Peru BCRP (March 8, Fri)** – Further cuts in Peru are possible though Latin American central banks may wish to express some caution in the near-term as Fed expectations are once again in flux. Although the Fed reverting to rate hikes is very unlikely, the pace and scale of cuts may not be as strong as previously anticipated, which would restrict room for manoeuvre for the region, where pass-through risk is stronger. However, domestic inflation has softened materially, and real rates are comfortably positive, so additional 25bp moves for now should be manageable.

Key data/releases

Date	GMT	EST	Country	Event	Period	Cons.	Prior
03/03/24	23:50	18:50	JN	Capital Spending YoY	4Q	2.80%	3.40%
03/04/24	00:30	19:30*	AU	Building Approvals MoM	Jan	4.00%	-9.50%
03/04/24	07:00	02:00	TU	CPI YoY	Feb	66.15%	64.86%
03/04/24	07:30	02:30	SZ	CPI YoY	Feb	1.10%	1.30%
03/04/24	07:30	02:30	SZ	CPI MoM	Feb	0.60%	0.20%
03/04/24	23:30	18:30	JN	Tokyo CPI Ex-Fresh Food YoY	Feb	2.50%	1.60%
03/05/24	01:00	20:00*	PH	CPI YoY 2018=100	Feb	3.10%	2.80%
03/05/24	15:00	10:00	US	Durable Goods Orders	Jan F	--	-6.10%
03/06/24	00:30	19:30*	AU	GDP SA QoQ	4Q	0.30%	0.20%
03/06/24	00:30	19:30*	AU	GDP YoY	4Q	1.40%	2.10%
03/06/24	12:00	07:00	US	MBA Mortgage Applications	Mar-01	--	-5.60%
03/06/24	12:00	07:00	BZ	Industrial Production YoY	Jan	--	1.00%
03/06/24	13:15	08:15	US	ADP Employment Change	Feb	145k	107k
03/06/24			PD	Poland Base Rate Announcement	Mar-06	5.75%	5.75%
03/06/24	14:45	09:45	CA	Bank of Canada Rate Decision	Mar-06	5.00%	5.00%
03/07/24	07:00	02:00	MA	BNM Overnight Policy Rate	Mar-07	3.00%	3.00%
03/07/24	08:00	03:00	SZ	Foreign Currency Reserves	Feb	--	662.4b
03/07/24	13:15	08:15	EC	ECB Main Refinancing Rate	Mar-07	4.50%	4.50%
03/07/24	13:15	08:15	EC	ECB Deposit Facility Rate	Mar-07	4.00%	4.00%
03/07/24	13:30	08:30	US	Initial Jobless Claims	Mar-02	--	215k
03/07/24	23:00	18:00	PE	Reference Rate	Mar-07	6.00%	6.25%
03/07/24	23:50	18:50	JN	BoP Current Account Balance	Jan	-¥321.6b	¥744.3b
03/08/24	07:00	02:00	GE	Industrial Production SA MoM	Jan	0.60%	-1.60%
03/08/24	07:30	02:30	HU	CPI YoY	Feb	4.00%	3.80%
03/08/24	10:00	05:00	EC	GDP SA QoQ	4Q F	0.00%	0.00%
03/08/24	10:00	05:00	EC	GDP SA YoY	4Q F	0.10%	0.10%
03/08/24	13:30	08:30	CA	Unemployment Rate	Feb	5.80%	5.70%
03/08/24	13:30	08:30	US	Change in Nonfarm Payrolls	Feb	190k	353k
03/08/24	13:30	08:30	US	Unemployment Rate	Feb	3.70%	3.70%

Key speeches/events

Date	GMT	EST	Country	Event
03/04/24	06:25	01:25	SZ	SNB Publishes 2023 Results
03/04/24	11:30	06:30	EC	ECB's Holzmann Speaks
03/04/24	16:00	11:00	US	Fed's Harker Remarks on Economic Impact of Higher Education
03/05/24	04:00	23:00	JN	BOJ Governor Ueda Speech at FIN/SUM 2024
03/05/24	07:00	02:00	SW	Riksbank's Bunge Speaks
03/05/24	17:00	12:00	US	Fed's Barr Speaks on Panel about CRA Modernization
03/06/24	15:00	10:00	US	Fed Chair Powell Testifies Before Congress
03/06/24	15:30	10:30	CA	Press Conference - Bank of Canada
03/06/24	17:00	12:00	US	Fed's Daly to Give Keynote Address
03/06/24	19:00	14:00	US	Federal Reserve Releases Beige Book
03/06/24	21:15	16:15	US	Fed's Kashkari Speaks at WSJ Event
03/07/24	13:45	08:45	EC	ECB President Christine Lagarde Holds Press Conference
03/07/24	15:00	10:00	US	Fed Chair Powell Testifies Before Congress
03/07/24	16:30	11:30	US	Fed's Mester Gives Speech on Economic Outlook
03/08/24	06:30	01:30	SW	Riksbank's Breman Speaks
03/08/24	09:00	04:00	AS	ECB's Holzmann Speaks
03/08/24	11:00	06:00	SW	Riksbank's Floden Speaks
03/08/24	12:00	07:00	US	Fed's Williams Participates in Moderated Discussion
03/08/24	13:00	08:00	PD	National Bank of Poland Publishes Minutes of Rate Meeting

Conclusions: UK Politics foreshadow the risks in the US election

British Chancellor Jeremy Hunt must find a way to cut taxes in Wednesday's budget to help Prime Minister Rishi Sunak's bleak election prospects without causing another upset in the bond markets. The risks are wrapped around the learned pain from the former premier Liz Truss's "mini budget" crisis and the fiscal outlook has shown no improvement since then, leaving Hunt with little room for deliver when he stands up in parliament on Wednesday, March 6. The current media speculation has focused on possible income tax cuts or another reduction in social security rates,

and investors are expecting Hunt to use most if not all of the fiscal "headroom" he has to provide some further bounce back to the UK economy into a "late election" with no firm date yet set – but most expecting a late Autumn move.

There are splits between what the Prime Minister has said about the budget and the Chancellor. PM Sunak has been pushing for personal income tax cuts. In contrast, Chancellor Hunt has said he favors "smart tax cuts" that see further NI (National Income) reductions. The NI cuts are favoured by Hunt because they are also an employee tax, so a cut in NI also boosts labour hiring. But PM Sunak favors income tax cuts, because in a general election year they are seen as being politically more popular. How any tax cuts are funded dominates the press headlines. Other reports hint that the PM wants to get ahead of the Labour Party's thunder by abolishing "Non-dom" tax concessions to fund tax cuts. Her again the UK Treasury has strongly defended the "Non-dom" regime as being key to boosting UK tax competitiveness against peer EU nations that are also introducing similar schemes to attract global high net worth individuals to reside in the UK. Ultimately for the GBP and rates, the impact of such measures may be very small, especially if the scale of any net fiscal boost from taxes is largely offset by fiscal reductions elsewhere.

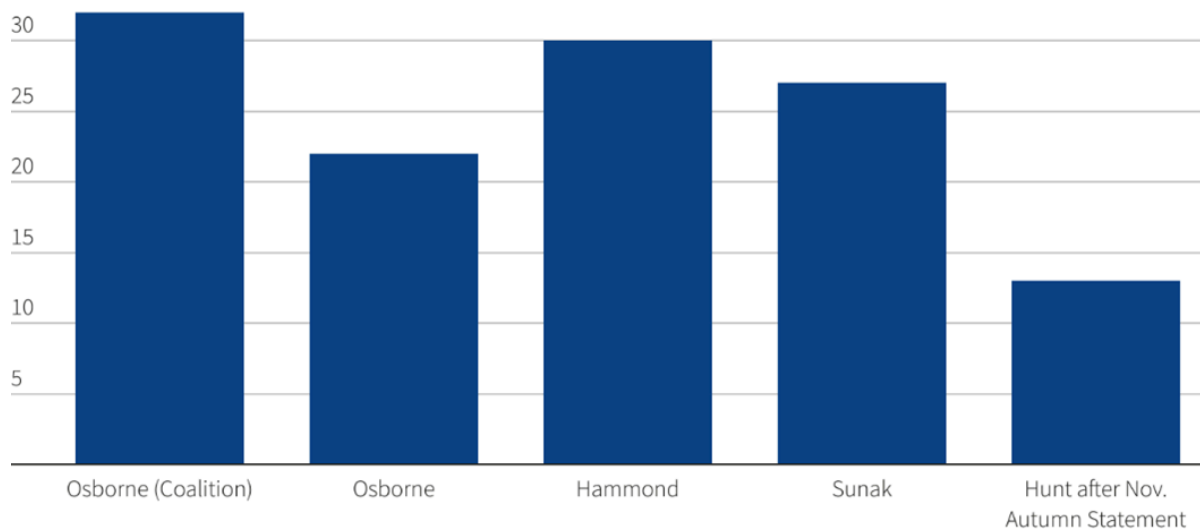
Bottom Line: For the US, what happens in the UK budget matters as it sets the tone for how voters and markets look through tax cuts as an election tool rather than a sustainable policy to win majorities. How many is reallocated is the center of the debate.

UK has little room to cut taxes, US has even less

Low headroom

Average forecast headroom against their respective fiscal rules for past finance ministers and Hunt after his November 2023 forecast headroom.

£35 bln



Source: Resolution Foundation | Reuters, Dec. 5, 2023

Source: Reuters, BNY Mellon

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



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HEAD OF MARKETS STRATEGY
AND INSIGHTS

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