BNY MELLON

iFlow MARKET MOVERS

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Early Anticipation

"Such is the state of life, that none are happy but by the anticipation of change: the change itself is nothing; when we have made it, the next wish is to change again." – Samuel Johnson

"Wisdom consists of the anticipation of consequences." – Norman Cousins

Summary

Risk on ahead of US CPI as investors see lower rates globally. BOC and FOMC minutes today also seen as key for holding equities bid with focus on forward guidance to easing path. Markets overnight got plenty from APAC with China outlook cut, Japan Ueda pushing back on BOJ hikes to fix JPY weakness. But Hong Kong rallied with Tech and EV shares leading. The mood is one of early anticipation about change with ECB likely the next big story as June cuts are fully prices there, while China CPI could be the wrench in the works for further disinflation.

What's different today:

- **Japan 10-year JGB yields rose 1.5bps to 0.77%** while 2Y rose 1.2bps to 0.23% - most since March 2011 – as BOJ Ueda said to parliament he would further scale back stimulus.
- **Copper rises to 15-month highs at $4.3** - with China regulatory shift part of the story where smelters near 10% output reduction. African mine setbacks another factor.

What are we watching:

- **US March core CPI** expected up 0.3% m/m, 3.7% y/y from 3.8% y/y with **headline CPI** expected up 0.3% m/m, 3.4% y/y from 0.4% y/y, 3.2% y/y.
- **Bank of Canada rate decision** – expected on hold – and monetary policy report with BOC press conference. Dovish tilt to both expected with June cut forecast.
- **FOMC Minutes**: The debate about rate cuts and QT tapering will be key to report and could surprise markets. We also get Fed Bowman on Basel capital requirements, Fed Goolsbee and Barkin on an economic panel.
- **US Treasury sells $39bn in 10-year notes** – expected to be fine but linked to CPI and FOMC outlook.

Headlines:

- Fitch affirms China A+ debt rating but moves outlook to negative on growth risks; while China car sales rose 9.9 y/y – CSI 300 off 0.81%, CNH off 0.1% to 7.2425
- BOJ Ueda: Japan economic recovery moderate, won't change policy to fix FX moves – Nikkei off 0.48%, JPY off 0.1% o 151.85
- Bank of Thailand keeps rates at 2.5% - as expected – with 5-2 vote – THB up 0.1% to 36.335
- New Zealand RBNZ keeps cash rate unchanged at 5.5% - as expected – balance of risks little changed since February – NZD up 0.15% to .6070
- South Africa Poll shows ANC support dropping to 37% with MKP 13% - ZAR off 0.7% to 18.556
- Norway CPI fell 0.3pp to 4.2% y/y – while CPI-ATE fell 0.4pp to 4.5% y/y – lowest since July 2022 – NOK up 0.1% to 10.66
- Sweden Feb household consumption drops -0.5% m/m while GDP for month up 0.1% m/m – OMX up 0.9%, SEK up 0.1% to 10.54

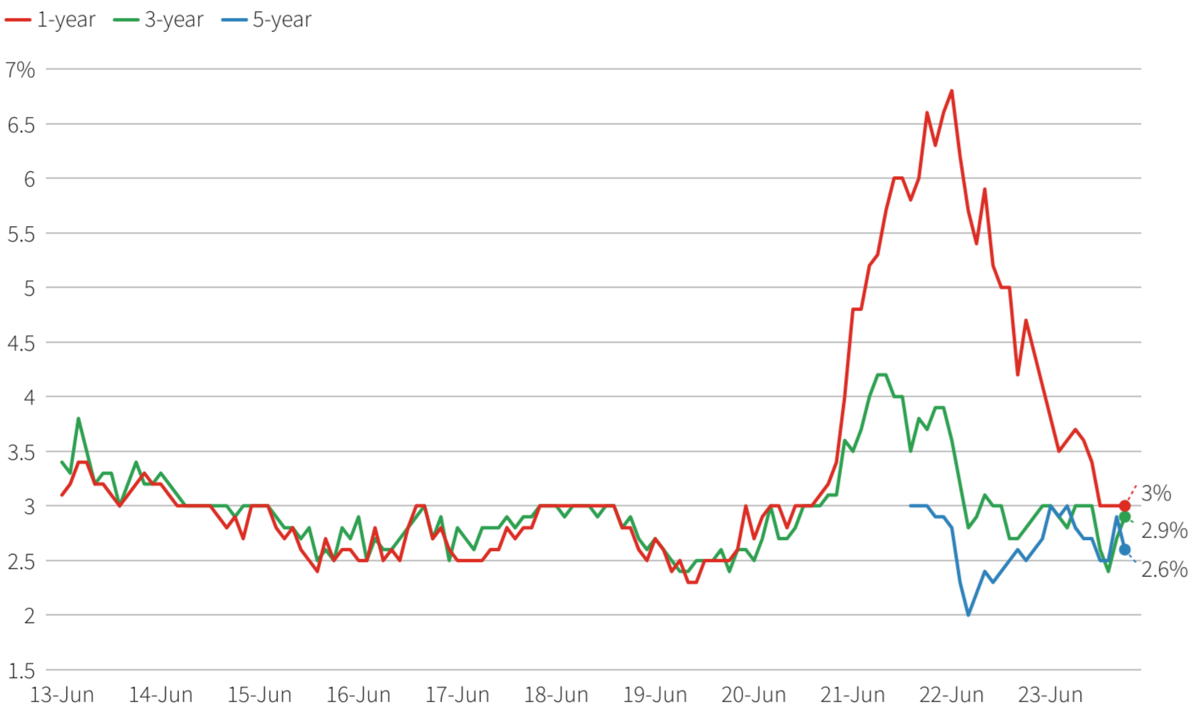
The Takeaways:

US rate cuts for 2024 from the Fed are at October lows with 65bps and with odds for 25bps easing at 60% up from 51% Monday. The headline CPI is expected to rise while the core fall for March and the markets are geared up for another equity rally back and bonds are flat after a modest rally back yesterday. The 10Y bond sale could be an issue today but the Bank of Canada and FOMC will likely dominate risk. The anchoring of inflation expectations was clear from the US New York Fed consumer outlook report but whether that matter is another story. Oil at $85.50 and holding with Brent just under $90bbl maybe more important to traders as they link higher energy prices with higher inflation risks. The moves up and down in risk and rates have a limit and volatility into the ECB maybe better measured by the EUR which has been stuck in tight ranges with 1.07-1.09 more a prison than a platform for ECB Lagarde dovish plans.

Will the consumer view be worse than the data?

U.S. consumer inflation expectations

American consumers' inflation expectations have settled considerably from their high points in 2022 and have not measured above 3% over any horizon for four months in a row as of March.



Note: Five-year expectations began publication in January 2022
Source: Federal Reserve Bank of New York

Source: Reuters / BNY Mellon

Details of Economic Releases:

1. Japan March PPI up 0.2% m/m, 0.8% y/y after 0.2% m/m, 0.7% y/y – as expected. Costs increased at a faster pace for the following components: nonferrous metals (5.7% in March vs 3.6% in February), electrical machinery & equipment (4.4% vs 4%) and information & communications equipment (2% vs 1.7%). Meanwhile, producer prices continued to decline for: lumber & wood products (-6.9%), iron & steel (-3%) and electric power, gas & water (-19.1%), albeit at a softer pace than the previous month.

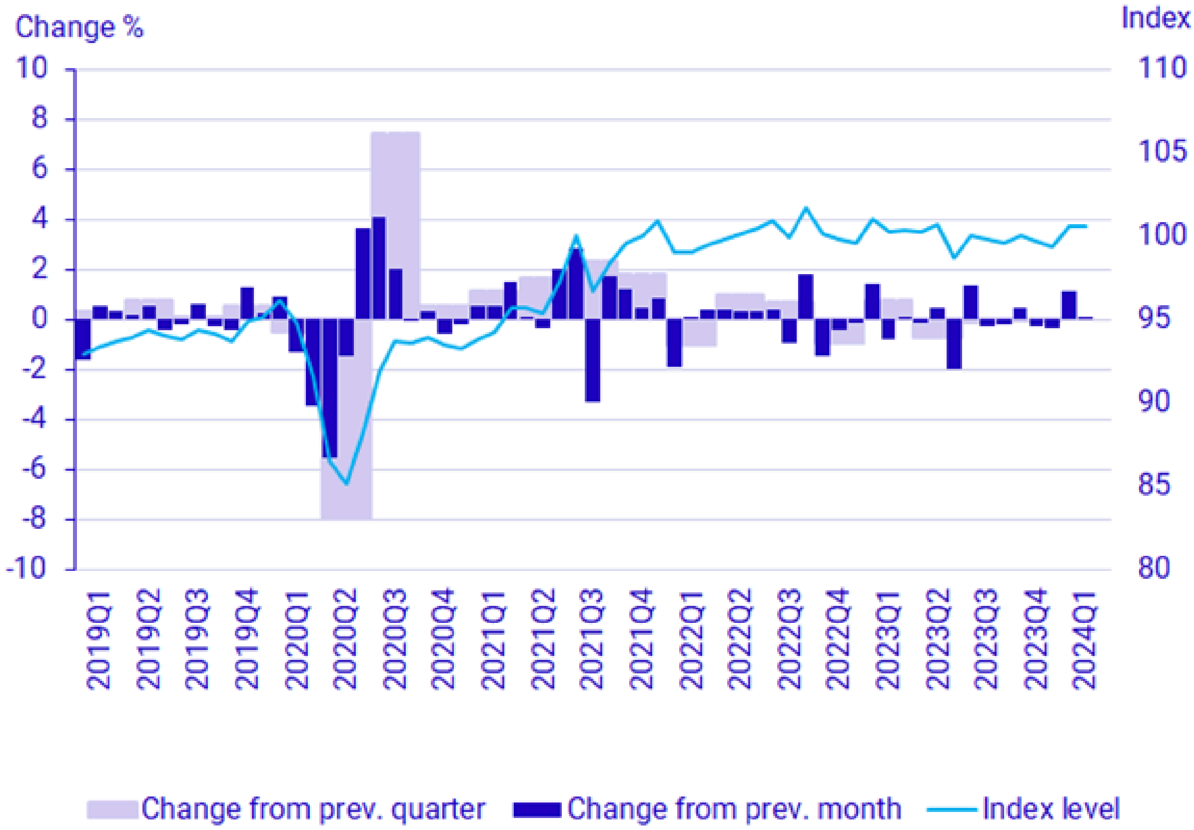
2. Norway March CPI rose 0.2% m/m, 3.9% y/y after 0.2% m/m, 4.5% y/y – less than the 0.5% m/m, 4.2% y/y expected - the lowest reading since September 2023, mainly due to a sharp slowdown in prices for housing & utilities (2.5% vs 3.3% in

February), transport (1.6% vs 2.5%), and food & non-alcoholic beverages (6.1% vs 6.3%). In addition, inflation went down for clothing & footwear (3.8% vs 6.9%), furnishings, household equipment & routine maintenance (2.9% vs 5.1%), and recreation & culture (8% vs 8.5%). Meanwhile, the CPI adjusted for tax changes and excluding energy products (CPI-ATE) rose 4.5% year-on-year, moderating from a prior 4.9% increase and reaching its lowest level since July 2022.

3. Sweden February household consumption drop -0.5% m/m, -0.3% y/y after -0.5% m/m, -0.1% y/y – weaker than 0.3% m/m, -0.1% y/y expected. Main downward pressures came from recreation & culture, goods & services (-2.7% vs -1.1% in January), furniture, furnishings, household equipment & consumables (-2% vs 1.8%), housing, electricity, gas & heating (-1.5% vs 0.2%), transport & retail sales and service of motor vehicles (-0.8% vs 1.9%), and clothing & footwear (-0.8% vs 4.5%).

4. Sweden February GDP rose 0.1% m/m, 0.3% y/y after 1.1% m/m – weaker than 0.3% m/m expected. The growth was mainly driven by service-producing industries, though it was offset by weaker performance from goods producers and government production. Construction output fell -4.7% y/y after -6.6% y/y – also weaker than -3.2% y/y expected.

Sweden and uneven growth give room to Riksbank?



Source: Stats Sweden /BNY Mellon

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