BNY MELLON

iFlow MARKET MOVERS

April 12, 2024

Dodecaphobia

"By working faithfully eight hours a day you may eventually get to be boss and work twelve hours a day." – Robert Frost
"A jury is composed of twelve people of average ignorance." – Herbert Spencer

Summary

Risk mixed as rally in Europe on ECB easing hopes countered by APAC weakness on China exports drop and tensions in Middle East. The tie-break is 1Q earnings and JPM worries some but we are shifting from macro to micro into the weekend as markets also await the US Michigan consumer sentiment with gasoline higher expected to matter. Central banks were mostly on hold, but Peru bravely eased calling recent inflation transitory. Markets are hoping for green shoots to grow into 2Q with UK GDP up. Fed Speakers and their reactions to CPI/PPI and outlook on easing clearly in play as well but US bonds -6bps in 10Y are key for relief and may be the barometer for how we go into the weekend and the ides of April. The fear of 12 showing up today as its clear that divergence of policy responses ahead from the G10 plus are in play in driving investors even as the US exceptionalism story reigns supreme.

What's different today:

- **JPM earnings in 1Q worry markets** - $725mn FDIC special assignment, -4% NII (net interest income) focus with deposits costs higher.
- **Copper rises to 2Y highs at $4.33 lbs** – back to June 2022 level as supply concerns and demand expectations collide. Gold also rose to new record highs

and oil recovers all of yesterday's losses and more.

- **iFlow Daily** - more USD selling along with AUD and NOK while SEK, EUR and CAD all saw inflows despite rate dramas, while bonds were bought in US and sold in Japan, Equities mixed to lower globally – with only utilities sector seeing inflow.

What are we watching:

- **US 1Q earnings –** JPMorgan, Citi, Wells Fargo, State Street, BlackRock
- **US March import prices** expected up 0.3% m/m, while ex oil up 0.1% m/m – key for energy focus on inflation
- **US April preliminary University of Michigan consumer sentiment** expected 79 from 79.4 with current conditions 81.3 from 82.5 and outlook 78 from 77.4 with 1Y inflation 2.9% flat and 5-10Y 2.8%.
- **Fed Speakers:** Boston Collins on Bloomberg TV – likely same as other comments, Fed Schmid on economic outlook, Fed Bostic on housing, Fed Daly fireside chat.

Headlines:

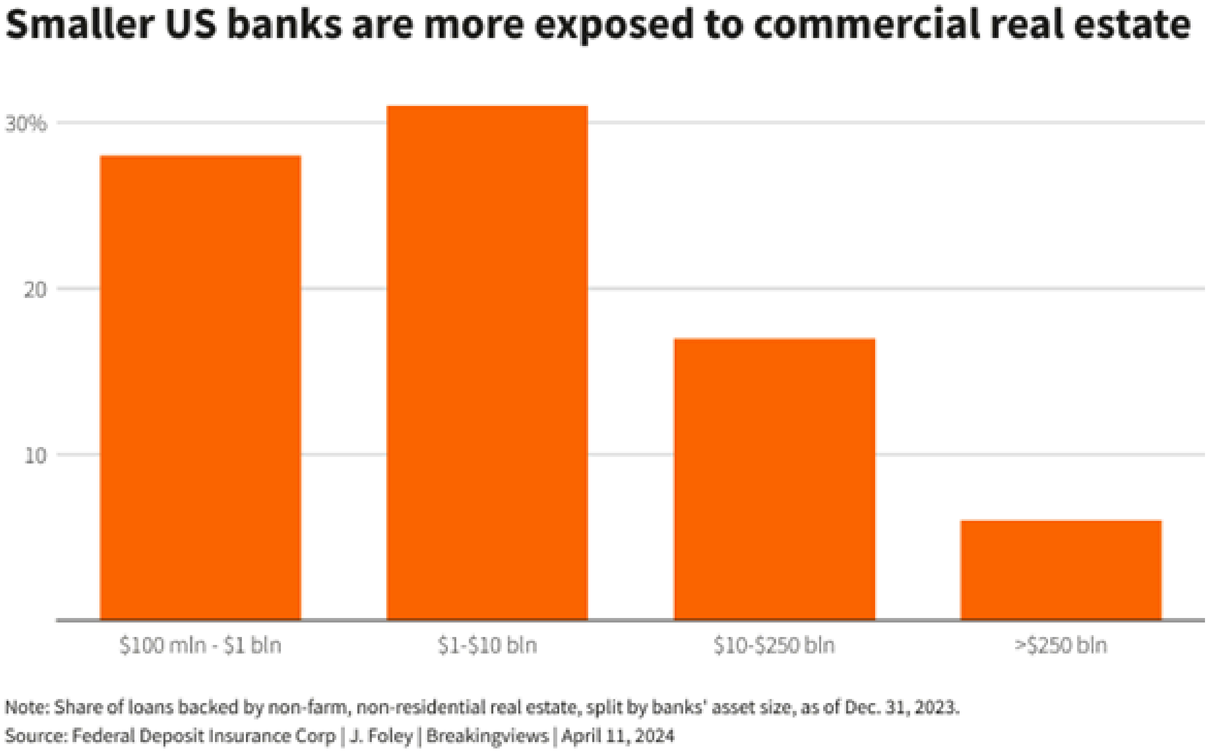
- WSJ: Iran expected to attack Israel in next 24-48 hours – WTI up 1.4% to \$86.20, Brent up 1.2% to \$90.85
- Bank of Korea leaves rates unchanged at 3.5% - as expected – keeps 2.1% GDP forecast, while Feb unemployment rises 0.2pp to 2.8% - Kospi off 0.93%, KRW off 0.8% to 1175.30
- Peru BCRP cuts rates 25bps to 6.0% - surprising market that expected hold, sees inflation as transitory – PEN was up 0.7% yesterday at 3.69
- Argentina central bank cuts 10% to 70% - third cut since December – tracking government actions to fight inflation, notable CPI drop since December but still near 270% y/y – Blue Dollar 885
- Singapore 1Q GDP flash up 0.1% q/q, 2.7% y/y – best since 3Q 2022 – MAS keep policy on pause for 4th meeting with no changes to S$NEER width or center – SGD off 0.5% to 1.3600
- Japan Feb final industrial production -0.6% m/m, -3.9% y/y – 4th decline and worst since Sep 2023 – MOF Suzuki- rapid FX moves not desirable, G20 may discuss USD next week, US, Japan and South Korea hold military drills in South China Sea – Nikkei up 0.21%, JGBP 10Y off 1.5bps to .843%, JPY off 0.1% to 153.35
- China Mar trade surplus narrows to \$58.55bn as exports worse -7.5% y/y, even as imports -1.9% y/y – CSI 300 off 0.81%, CNH off 0.15% to 7.2675

- German final Mar CPI up 2.2% y/y – lowest since May 2021 – DAX up 0.9%, Bund 10Y yields off 9bps to 2.37%; French final Mar CPI up 0.2% m/m, 2.3% y/y – lowest since Sep 2021 – CAC 40 up 0.9%, OAT 10Y yields off 10bps to 2.86%
- ECB 2Q survey of professional forecasters – CPI for 2028 steady at 2%, GDP unchanged, unemployment unchanged – ECB had several pushing for April easing - EuroStoxx 50 up 0.8%, EUR off 0.6% to 1.0645
- UK Feb GDP up 0.1% m/m up 0.2% on 3M average – with industrial production up 1.1% m/m – BOE response to policy review from Bernanke – FTSE up 1.1%, Gilt 10Y off 6.5bps to 4.136%, GBP off 0.7% to 1.2470

The Takeaways:

The focus shift from macro to micro is now – as bank earnings report start the 1Q earning season and 2Q outlook frenzy. The data overnight from China trade to Singapore GDP to UK GDP highlight the divergence of outcomes ahead and the hope for meeting high earnings expectations will be hard. There is also the sharp volatility in bonds to consider as the ECB and BOC this week and Peru last night make clear that the FOMC doesn’t control the easing agenda. There are 12 banks set to ease policy even as the FOMC waits. The markets are betting on USD exceptionalism and see 155 JPY, 105 EUR and 1.2250 GBP in the process. But there are worries to consider in this euphoria – first being the consumer and the effect of gasoline inflation, second being real estate and the CRE holdings at small banks, and third being how the rest of the world deals with the money flows driving to the US vs. places where value and future growth might look cheaper. The micro stories of individual names and their collective outlook for 2Q and beyond returns will be the new key. The jury is still out on how the 2Q start turns around into a bull market again, while many are content to let the weekend roll in without new risks as there are plenty of geopolitical fears ahead.

Will the small banks matter to the Fed?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. **Korea February unemployment rises to 2.8% from 2.6% - higher than 2.7% expected** – ending 2-months of job gains. The number of unemployed totaled 892,000 people in March, which increased 52,000 persons or 6.2% year-on-year. Meanwhile, the number of employed persons stood at 23.396 million in March, up 0.6% or 173,000 from a year ago. The labor force participation rate came in at 64.3% in March, up 0.2% year-on-year.

2. **Singapore 1Q GDP up 0.1% q/q, 2.7% y/y after 1.2% q/q, 2.2% y/y – weaker than 3% y/y expected** – still the strongest rise since Q3 2022, flash data showed. It was the 13th straight quarter of GDP expansion despite falling short of market forecasts of 3.0%. The service sector rose much faster (3.2% vs 2.0% in Q4), amid further increases in wholesale & retail trade; information & communications; and accommodation, real estate, and other services. Meanwhile, construction output slowed (4.3% vs 5.25%), with public sector construction growing while private sector one fell. Also, growth in manufacturing moderated (0.8% vs 1.4

3. **Japan February industrial production final -0.6% m/m, -3.9% y/y after -6.7% m/m, -1.5% y/y – worse than -0.1% m/m** expected – fourth month of annual declines and worst since September 2023. Output of motor vehicles remained weak (-8.1% vs -15.9% in January), as did production machinery (-3.2% vs -6.1%), and transport equipment, excluding motor vehicles (-6.9% vs -1.6%).

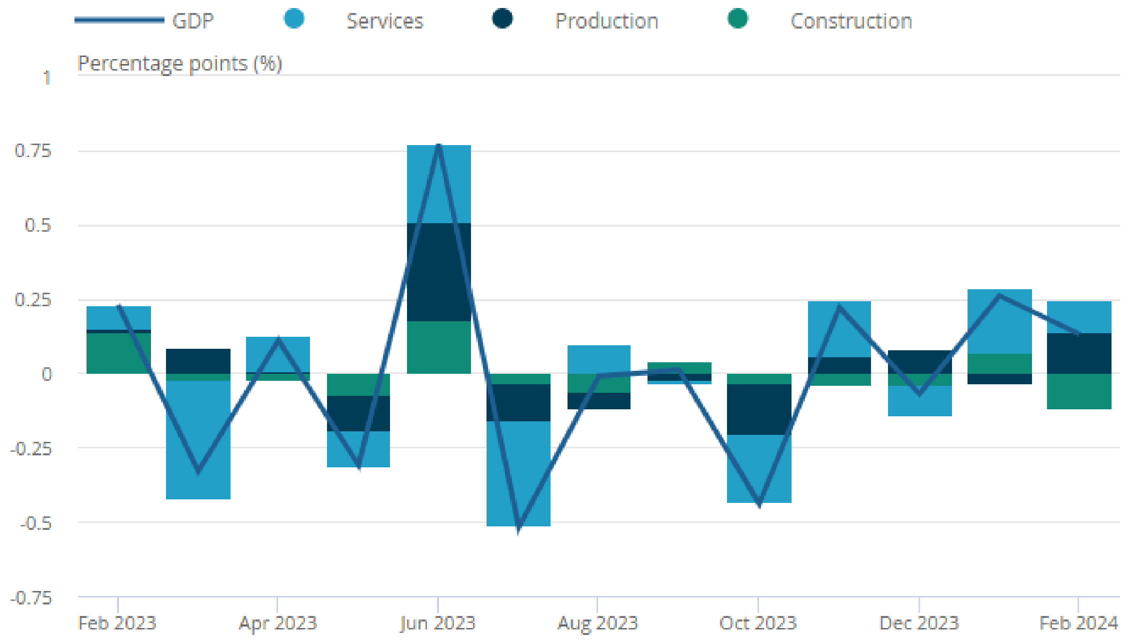
4. **China March trade surplus narrows to $58.55bn from $125.16bn – less than $70.2bn expected**. as exports dropped more than imports. Exports shrank by 7.5%, compared to expectations of a 3% fall, while imports unexpectedly fell by 1.9%, missing market expectations of a 1.2% rise. The trade surplus with the United States was at USD 22.94 billion. For the first three months of the year, the country posted a surplus of USD 183.71 billion, with exports rising 1.5% to USD 807.50 billion while imports grew 1.5% to USD 623.84 billion.

5. **German March final CPI up 0.4% m/m, 2.2% y/y after 0.4% m/m, 2.5% y/y – unrevised as expected** – lowest since May 2021. Food prices declined for the first time since February 2015 (-0.7% vs 0.9% in February), while the ongoing deflation for energy accelerated (-2.7% vs -2.4%). Furthermore, the goods inflation eased sharply to 1.0% compared to 1.8% in February. On the other hand, the services inflation rose faster to 3.7% from 3.4% previously. Core inflation, excluding volatile items like food and energy, edged down to 3.3% in March, its lowest level since June 2022. Meanwhile, the EU-harmonized rate fell to 2.3%, the lowest level in nearly three years and slightly below the market estimates of 2.4%

6. **UK February GDP up 0.1% m/m after 0.3% m/m – as expected**. The largest contribution came from production which soared 1.1%, rebounding from a 0.3% fall in January, led manufacturing (1.2%), mostly manufacture of transport equipment, cars (3.7%); and utilities, mostly manufacture of gas: distribution of gaseous fuels through mains; steam and aircon supply (5.3%). Also, services output grew, after a 0.3% rise, led by professional, scientific and technical activities (1.1%), admin and support service activities (1.6%) and transportation and storage (2.2%). In contrast, construction shrank 1.9%, after a 1.1% increase, dragged down by wet weather, and the mining sector declined 0.8%. Considering the three months to February, the British GDP grew 0.2%. "These figures are a welcome sign that the economy is turning a corner," finance minister Jeremy Hunt said in response to the data.

UK recovery and BOE easing hopes about to clash?

Contributions to monthly GDP growth, UK, February 2023 to February 2024



Source: GDP monthly estimate from the Office for National Statistics

Source: UK ONS /BNY Mellon

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

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