BNY MELLON

iFlow

MARKET MOVERS

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States of Matter

"Nothing mattered except states of mind, chiefly our own." – John Maynard Keynes
"It doesn't matter if a cat is black or white, so long as it catches mice." – Deng Xiaoping

Summary

Risk off as markets worry about geopolitical risk, namely the Israeli response to the April 14 Iran attack. 1Q earnings are one key counter to such fear, but in other regions its not sufficient, the good news of China growth beating in 1Q was countered by weaker March industrial production and retail sales, along with the worst house price decline since 2015. As the China NBS noted the recovery is sound and stable but not yet solid. The JPY holds over 154 as the MOF in Japan meets with G7/IMF/G20 while German confidence bounces even as WPI rises. The UK jobs report misses and wages are flat - leaving BOE policy more important. The underlying fear of an escalation in the war adds to yesterday's US retail sales strength and puts today's industrial production and further Fed speakers into perspective - as USD gains to 5-month highs and the rate markets remain volatile with global bonds lower still. How we make this state of matter change will require new energy and perhaps new money.

What's different today:

- **South Korea KRW slides to 1400 off 3.5% from a month ago** – worst level since October 2022 – tracking JPY and CNY but also linked to BOK policy and election fall out fears.

- **EU Natural Gas rises to 3-month highs over E33 mwh** – blamed on ongoing tensions from Israel war and Norway unplanned processing plant outage.
- **iFlow Monday flows** saw USD inflows along with SEK, JPY and EUR while bonds were bought in US, UK and Europe but equities sold most everywhere except UK, Hungary and some of APAC. Mood neutral, carry neutral, trend negative.

What are we watching:

- **US 1Q earnings:** Bank of America, Morgan Stanley, Bank of New York Mellon, Northern Trust, PNC, Omnicom, Johnson & Johnson, UnitedHealth, United Airlines, JB Hunt
- **US March industrial production** expected up 0.4% m/m after 0.1% m/m – with capacity utilization up to 78.5% from 78.3% - recovery of sector key focus for growth/productivity
- **US March housing starts/permits** expected off -2.4% after +10.7% - separating weather from demand and rates with total starts expected down to 1.485mn from 1.521mn and permits 1.51mn from 1.524m
- **Canada March consumer price inflation** expected up 0.7% m/m after 0.3% with core up 0.2% m/m from 0.1% - key will be how BOC reacts with Gov Macklem speech key. June cut still priced and expected.
- **IMF releases World Economic Outlook –** key for global growth and inflation views along with international cooperation needs on both monetary and fiscal

Headlines:

- Israeli forces vow response to Iran attack despite calls for restraint, 4Q GDP revised down 21% – ILS off 0.75% to 3.7725, WTI off 0.5%
- China 1Q GDP up 1.6% q/q, 5.3% y/y - best growth since 2Q 2023 - but industrial production +4.5% y/y and retail sales +3.1% y/y miss in March - while new home prices -2.2% y/y worst since 2015 - CSI 300 off 1.07%, CNH off 0.15% to 7.2690
- Japan MOF Suzuki refrains from threat of bold steps as officials face IMF/G7 and G20 meetings – Nikkei off 1.94%, JPY off 0.25% to 154.65
- German Mar WPI up 0.2% m/m, -3% y/y - 12-month of deflation - while April ZEW economic sentiment up 11.2 to 42.9 - best since Mar 2022 – DAX off 1.3%, Bund 10Y yields up 3bps to 2.467%
- Eurozone Feb trade surplus jumps to E23.6bn - as imports -8.4% y/y – EuroStoxx 50 off 1.3%, EUR up 0.1% to 1.0635
- UK Feb unemployment up 0.2pp to 4.2% - jobs off 156k - while wages flat at 5.6% y/y – FTSE off 1.4%, GBP flat 1.2450

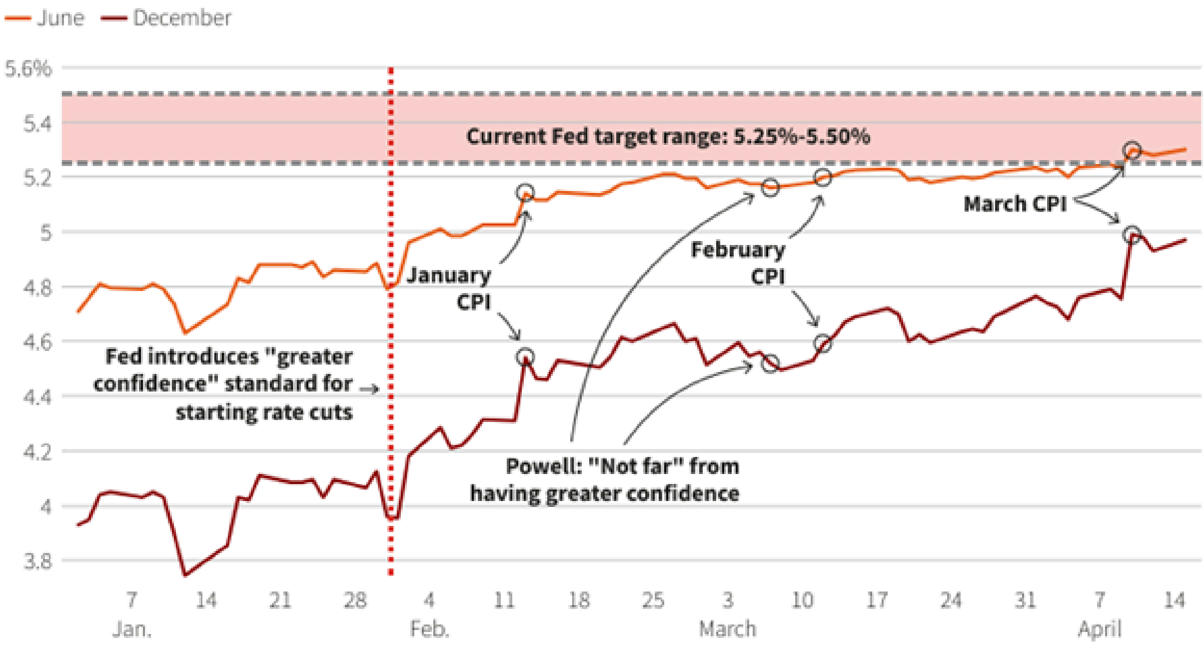
The Takeaways:

The balancing act for markets is about what matters most – politics, geopolitics or policy – the 3 Ps of uncertainty are clashing for dominance with Monday about rates and policy winning out despite the weekend Iran attack on Israel. The fear of a response back is key to much of the overnight price action but the US markets are moving forward and seem constrained by the 1Q earnings, more economic data and the all forward guiding FOMC speakers starting with Chair Powell. US politics play a role today as well as the US Congress debates support for Israel and Ukraine and as markets watch for how this plays out on the US House Speaker. The things that divide us are more in the news than the things that unite us – and that puts markets on edge. The known unknown of economic data and whether the FOMC eases in 2024 September are all wrapped together with today just another example of a market trying to price and reprice monetary policy risks against the larger economic cycle both at home and abroad. The IMF WEO today will put that into perspective and perhaps spell out the costs of high for longer globally. The lack of faith in policy right now whether monetary or fiscal or diplomatic seems essential to understanding how to position and carry risk with the unknown unknows of war looming larger than all of the above and likely changing the state of markets on any risk.

Will the CPI lead or GDP for FOMC?

Fading confidence in rate cuts

Investor confidence in when the Federal Reserve will start rate cuts and how many it will deliver has been shaken by sticky inflation, a strong job market and hawkish commentary from central bank officials.



Note: Figures are implied yields at contract expiration of CME federal funds futures contracts for June and December
Source: LSEG

Source: Reuters / BNY Mellon

Details of Economic Releases:

1. **China 1Q GDP rose 1.6% q/q, 5.3% y/y after 1.2% q/q, 5.2% y/y - more than the 5.0% y/y expected -** the steepest yearly expansion since Q2 of 2023, lifted by continued support measures from Beijing and spending related to the Lunar New Year festival. During the first three months of the year, fixed investment grew by 4.5%, the most around three years and above the consensus of 4.3%. Meanwhile, the statistics agency said the economy had made a good start, delivering a strong foundation for achieving the GDP growth target of around 5% this year. However, March data showed that industrial output and retail sales rose less than estimated, underscoring that more policy easing remains necessary for the economy.

2. **China March industrial production slows to -0.08% m/m, +4.5% y/y from +7% y/y - weaker than 5.5% y/y expected** - the softest expansion in industrial output since last September, due to weaker rises in all activities: manufacturing (5.1% vs 7.7% in Jan-Feb), utilities (4.9% vs 7.9%), and mining (0.2% vs 2.3%). By industries, production moderated for computer and communications (10.6% vs 14.6%), textile (2.5% vs 6.6%), oil and natural gas mining industry (1.5% vs 3.0%), non-ferrous metals (11.2% vs 12.5%), cars (0.9% vs 9.8%), and chemicals (9.1% vs 10.0%). Simultaneously, general equipment production stalled after rising 4.1% in the previous period, while coal, mining, and washing contracted (-1.6% vs 1.4%)

3. **China March retail sales slow to 3.1% y/y after 5.5% y/y - weaker than 4.5% y/y expected** - the softest gain since July 2023, as sales growth eased for gold, silver, and jewelry (3.2% vs 5.0% in Jan-Feb), furniture (0.2% vs 4.6%), communications equipment (7.2% vs 16.2%), and oil products (3.5% vs 5.0%). At the same time, sales of office supplies continued to fall (-6.6% vs -8.8%) while car sales dropped by 3.7% after rising 8.7% in the prior period. On the other hand, sales accelerated for grain and food oil (11.0% vs 9.0%), clothing (3.8% vs 1.9%), home appliances (5.8% vs 5.7%), and building materials (2.8% vs 2.1%). Also, sales of personal care increased by 3.5%, a turnaround from a 0.7% fall previously.

4. **China March year-to-date fixed asset investment rose 4.5% y/y after 4.2% y/y - more than the 4.3% y/y expected** - as investment accelerated in the secondary sector (13.4% vs 11.9% previously), driven by increases from the mining industry (18.5%), and electricity, heat, gas and water (29.1%). Additionally, investment in the primary sector rebounded by 1.0%, after falling by 5.7% in the prior period. Also, the tertiary sector continued to grow but to a lesser extent (0.8% vs 1.2%), prompted by a rise in railway transportation industry (17.6%), air transportation industry (35.4%), and water conservancy management industry (13.9%). Meanwhile, investment in real estate contracted by an annual 9.5% during the first three months of the year, compared with a drop of 9.4% in the previous period.

5. **China March unemployment drops to 5.2% from 5.3% - as expected.** The jobless rate among residents registered locally was 5.3%, while among those with non-local registration, it stood at 5.1%, of which the non-local agricultural registrants had a rate of 5.0%. In 31 major cities, the urban unemployment rate was 5.1%. On average, employees in enterprises worked 48.6 hours per week. By the end of the first quarter, the count of rural migrant workers reached 185.9 million, marking a 2.2% year-on-year increase. Considering the January to March, the urban surveyed jobless rate averaged 5.2%, down by 0.3 percentage points over the same period last year.

6. **China March house prices drops -0.3% m/m, -2.2% y/y after -1.4% y/y - worse than the -0.5% y/y expected -** the ninth straight month of decline and the steepest pace since August 2015, despite multiple support measures from the government to reduce the impact of a protracted property downturn and fragile economic recovery. Prices declined at stronger rates in Shenzhen (-5.5% vs -4.8% in February) and Guangzhou (-5.5% vs -4.6%) while moderating in Beijing (0.8% vs 1.0%), Chongqing (0.5% vs 1.2%), and Tianjin (0.5% vs 1.5%). In Shanghai, prices increased by 4.3%, after gaining 4.2% in February.

7. **Indonesia March consumer confidence rose to 123.8 from 123.1 - better than 123.4 expected** - as confidence bounces from 5-months lows, as four out of six sub-

indices strengthened: expectations about the country's current economic conditions (up by 2.9 points to 113.8), income expectations for current income (up 6.0 points to 118.1), job availability compared to six months ago (up 1.8 to 111.9), and income expectations for the next six months (up 0.8 to 139.4). Meanwhile, sub-indices weakened for economic outlook (down 1.5 to 133.8) and job availability (down 3.0 points to 134.0).

8. German March WPI rose 0.2% m/m, -3% y/y after -0.1% m/m, -3% y/y - more than the 0.1% m/m expected - still, the twelfth consecutive month of y/y declines, mainly attributed to lower prices of petroleum products (-3.3%). Additional downward pressure came from prices of grain, raw tobacco, seeds & animal feed (-19.8%), ores, metals & semi-finished metal products (-13.6%), chemical products (-13.1%) and old material & residues (-6.4%). Conversely, costs increased for tobacco products (5.8%), fruit, vegetables & potatoes (4.4%) and drinks (4.2%).

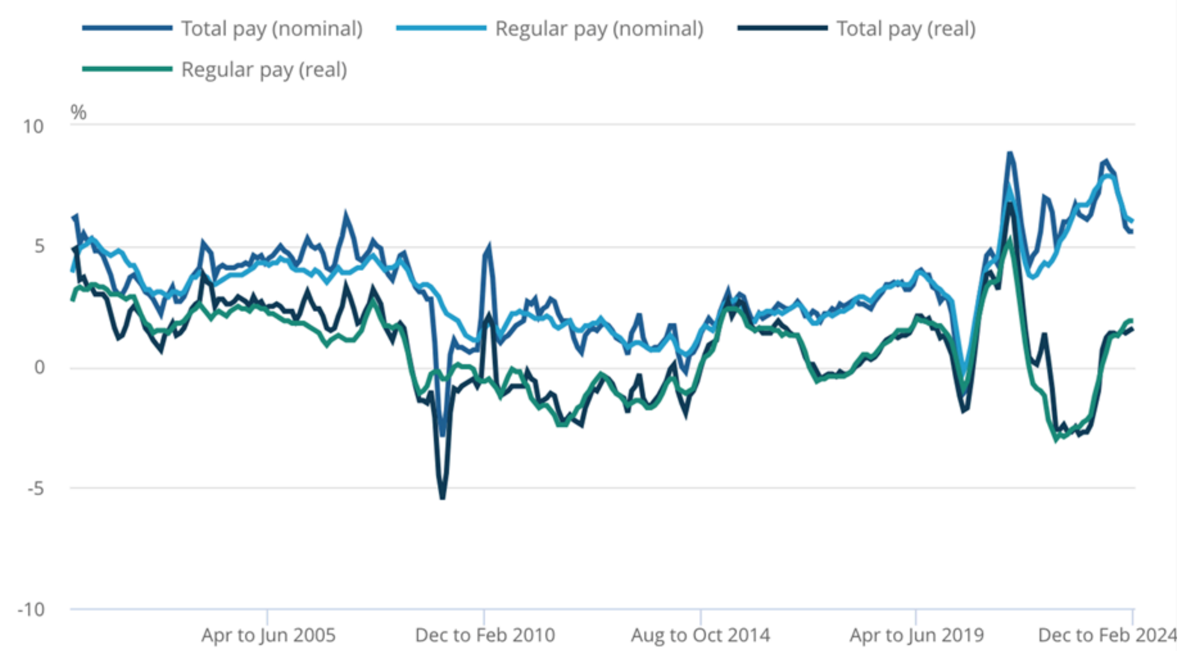
9. German April ZEW economic sentiment index rises to 42.9 from 31.7 - better than 35.9 expected - best since March 2022 as half of the analysts surveyed expect the German economy to improve in the next six months, driven by a more favourable assessment of the economic situation and expectations for top export destinations, as well as the strengthening of the dollar and euro. Meanwhile, the assessment of the economic situation in Germany remained at a very low level, with the corresponding indicator increasing by just 1.3 points to -79.2.

10. Eurozone February trade surplus widens to E23.6bn from E11.6bn and from E3.6bn in Feb 2023 - more than the E17bn expected - as Imports slipped by 8.4% to €211.4 billion, reflecting a decline in acquisitions across a wide range of categories, particularly mineral fuels, lubricants and related (-21.7%); crude materials (-20.4%); raw materials (-18.3%); machinery and transport equipment (-7.9%); and manufactured goods (-7.2%). Imports decreased primarily from China, the UK, Russia and Norway. Meanwhile, exports rose 0.3% year-on-year to €235 billion, driven by shipments of raw materials (+3.4%); food, drinks and tobacco (+3.1%); miscellaneous manufactured articles (+2.6%) and crude materials (+2.4%). Among key trading partners, exports increased mainly to the US, UK and Norway, but dropped to Russia and China.

11. UK February jobs drop -156,00 after -21,000 lifting unemployment rate to 4.2% from 4.0% - worse than 4.0% expected. The number of unemployed individuals increased by 85,000 to a total of 1.44 million, driven by those unemployed for over 6 and up to 12 months and those unemployed for over 12 months. Meanwhile, the number of employed individuals fell by 156,000 to 32.98 million, primarily due to a decrease in part-time employees. Conversely, the number of full-time workers increased during the quarter, as did the number of people in employment with second jobs, accounting for 3.6% of all employed individuals. Finally, the economic inactivity rate rose by 0.3 percentage points to 22.2%. The average earnings excluding bonus fell to 6.0% from 6.1% while with bonus it was steady at 5.6%. Wage growth was steady at the public sector (6% vs 6%) and slowed in the private sector (5.6% vs 5.7%).

UK wages flat, jobs down, BOE easing hopes?

Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to December 2023 to February 2024



Source: Monthly Wages and Salaries Survey from the Office for National Statistics

Source: UK ONS/BNY Mellon

Disclaimer and Disclosures

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