BNY MELLON

iFlow
MARKET MOVERS

April 24, 2024

Inflections

"The inflection points as at which we have arrived is one in which we are increasingly seizing the keys to all creation, as astounding as that might seem." – Joel Garreau
"Always stand on principle, even if you stand alone…" – John Adams

Summary
Risk on as earrings and lower yields drive markets waiting for a soft-landing and monetary easing. The focus overnight was on the surprise hike from the Indonesia BI to defend the IDR which trades at 4-year lows. USD gains remain the focus in FX with divergence of policy expectations part of the problem - but moods are robust in Germany while faltering in Italy and up but below average in the UK for business. The US Blinken China visit could bring markets back to worrying about geopolitics, but most see today still about earnings and any further indications of the US exceptionalism fading. The role of intervention and markets is in play with JPY still and all eyes watch 155 against the dollar. For the day, durable goods, more 1Q earnings and further bond supply seem unlikely to shift the mood as we rally further into a soft-landing chair of comfort ahead of bigger economic and geopolitical storms.

What's different today:

- **US 30-year mortgage rates rose 11bps to 7.24%** for the week according to MBA. What isn't different is that this pushed mortgage applications to fall 2.7% after a +3.3% w/w gain.
- **iFlow from Tuesday data** – Markets remain negative trend, neutral mood for risk with global sectors up in 5 down in 6, but only region with consistently

positive inflows is developed Asia. FX saw USD selling in G10 gains almost everything except NZD. ZAR buying and MXN selling continues in EM. Fixed Income is still mostly G10 bond buying except in Australia and New Zealand.

What are we watching:

- **US March durable goods orders** expected up 2.5% after 1.3% m/m, with capital goods ex defense and aircraft expected up 0.2% m/m after 0.7% - key for demand components of US GDP
- **1Q corporate earning**s: Meta Platforms, IBM, Ford, Boeing, Lam Research, General Dynamics, CME, AT&T, Hasbro, Norfolk Southern, Universal Health, Molina Healthcare, Amphenol, Chipotle, Masco, Bunge, Otis, Hilton, Fortive, Westinghouse, Interpublic, Teradyne, United Rentals, Tyler Technologies, Align Technology, Avery Dennison, TE Connectivity, Rollins, O'Reilly Automotive etc
- **Central Bank Speakers**: European Central Bank board member Isabel Schnabel speaks; Bank of Canada releases minutes of latest policy meeting
- **US Treasury sells $70 billion of 5-year notes -** largest auction for this duration on record

Headlines:

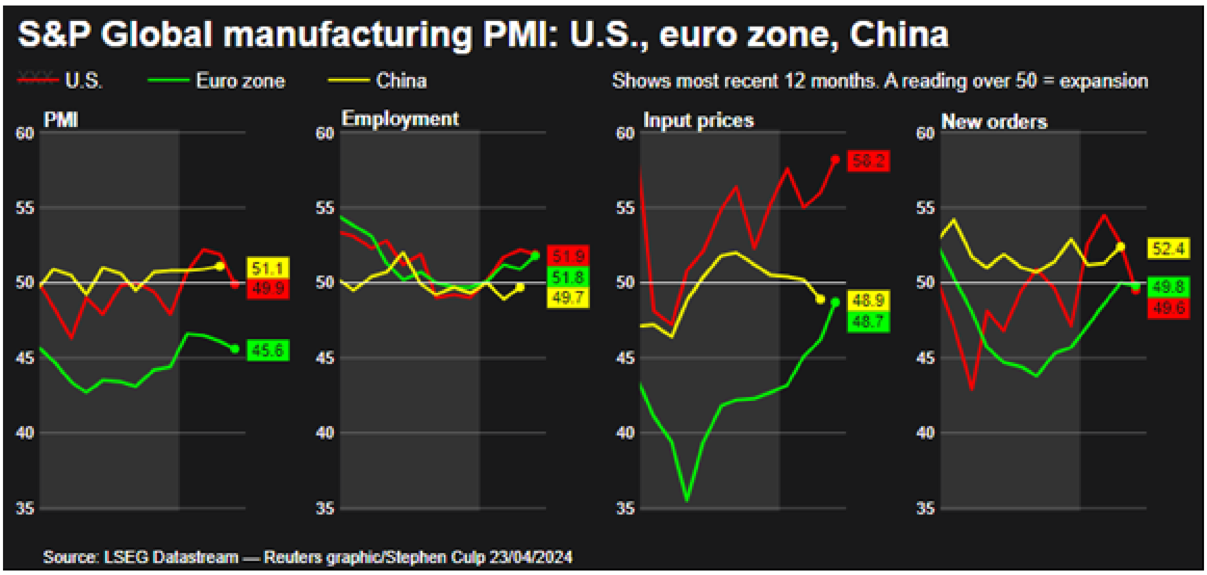
- Indonesia BI raises rates 25bps to 6.25% - surprising market - first hike since Oct 2023, aimed to anchor IDR – IDR up 0.1% to 16,150
- New Zealand Mar trade swings to surplus NZ$588mn - with exports up 3.5% y/y, imports -25% y/y -NZD flat at .5935
- Australian 1Q CPI rises 1% q/q, 3.6% y/y - lowest since 4Q 2021 - 6th quarterly drop; ASX off 0.01%, AUD up 0.25% to .6505
- US Blinken arrives in China expected to warn on Russia support; EU launches probe into China medical devices – CSI 300 up 0.44%, CNY off 0.15% to 7.2695
- Korea Apr consumer confidence steady at 100.7- highest since Aug 2023 – Kospi up 2.01%, KRW up 0.4% to 1369.200
- Sweden Mar unemployment rises 0.2pp to 8.3% - OMX up 0.1%, SWEK off 0.6% to 10.88
- German Apr Ifo business climate rises 1.5 to 89.4 - 3rd monthly gain, best since May 2023 – DAX up 0.3%, Bund 10Y yields up 5bps to 2.555%, EUR off 0.1% to 1.0685
- Italian Apr business expectations drops 1.2 to 97 - while manufacturing and consumer also fell – MIB up 0.1%, BTP 10Y yields up 7bps to 3.915%

- UK 2Q CBI business optimism jumps 12 to +9 while April industrial trends fell -5 to -23 – FTSE up 0.5%, Gilt 10Y up 6.5bps to 4.305%, GBP off 0.1% to 1.2435
- US weekly API oil inventories report -3.23mb crude oil draw with gasoline off -0.596mb 4% below average while distillates rose 0.724mb still 7% below 5-year average – WTI off 0.5% to $82.95

The Takeaways:

The soft data needs to find support from the hard economic data to be believed as the burden of proof for investors is in the actions of central bankers. The rate hike from the Indonesia BI today highlights the problem as the markets sees the dollar smile requiring a root canal. The markets want to believe in a US soft-landing but on the edges see the USD strength as impeding longer term growth and hurting exports, squelching demand. Looking at the effect of a weaker currency in NZD is worth considering for those that see USD devaluation as a good outcome - witness the 25% drop in imports there - consider the US if see an inflection point. The idea that the US economy can slow just right to get inflation to 2%, the FOMC to ease and growth to remain above average while at the same time lifting the rest of the world into a better growth recovery leaving the USD lower is central to the “smile” arguments. The problem remains in rates where just how much the FOMC needs to cut in this cycle looks difficult with the risk of a recession rising more with the longer the Fed waits. The root canal ahead is about how growth, productivity and margins play out in the harder data of 1Q earnings against the 2Q bravado of CEOs. Yesterday the US flash PMI was at odds with the rest of the world, but today’s durable goods orders will matter more to the actual 1Q numbers and 2Q storyline.

<u>Will the hard data move with the soft, suggesting inflatiion in growth?</u>



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. New Zealand March trade surplus NZ$588mnafter deficit -NZ$315mn - better than -NZ$550mn deficit expected - but down sharply from NZ$1.602bn surplus in March 2023. Exports rose by 3.5% from a year earlier to $6.5 billion, as sales went up for fruits (+74 percent to $399 million); crude oil (266 percent to $150 million); log, wood, and wood articles (+19 percent to 482 million) and milk powder, butter, and cheese (+3.6 percent to $1.7 billion). Among major trading partners, exports increased to the USA (+8%) and the EU (+3.6%) while sales fell to China (-1.9%); Australia (-3.7%) and Japan (-15%). On the other hand, imports fell by 25% to $5.9 billion, as purchases declined for aircraft and parts (-91.8 percent to $36 million); petroleum and products (-31.1 percent to $872 million); vehicles, parts, and accessories (-28.4 percent to $713 million). Imports dropped from China (-20%); the EU (-43%) and Australia (-13%).

2. Australian 1Q CPI rose 1% q/q, 3.6% y/y after 0.6% q/q,4.1% y/y - more than the 0.8% m/m, 3.4% y/y expected. - still, the lowest figure since Q4 of 2021, as goods inflation eased for the sixth consecutive quarter (3.1% vs 3.8% in Q4) and services inflation slowed for the third straight quarter (4.3% vs 4.6%). Notably, inflation moderated for most components: food (3.8% vs 4.5%), alcohol and tobacco (6.3% vs 6.6%), housing (4.9% vs 6.1%), health (4.1% vs 5.1%), transport (3.6% vs 3.7%), communication (1.8% vs 2.2%), recreation & culture (0.2% vs 0.5%), and insurance & financial services (8.2% vs 8.1%). In the meantime, the cost of education accelerated (5.2% vs 4.7%) while prices of clothing rebounded (0.4% vs -1.1%) and furnishing and household services (0.2% vs -0.%). In the meantime, the RBA's Trimmed Mean CPI increased by 4.0% yoy, the softest rise in two years while the March monthly CPI rose to 3.5% from 3.4% y/y.

3. Korea April consumer confidence flat at 100.7 - better than 100.5 expected - highest since Aug 2023. Consumer sentiment regarding current living standards was unchanged at 89, and that concerning the future outlook increased by one point to 94. Consumer sentiment related to future household income was steady at 99, while that concerning future household spending edged lower by one point to 111. Consumer sentiment concerning current domestic economic conditions remained at 68, and that concerning future domestic economic conditions rose by one point to 81. The expected inflation rate for the upcoming year was 3.1%

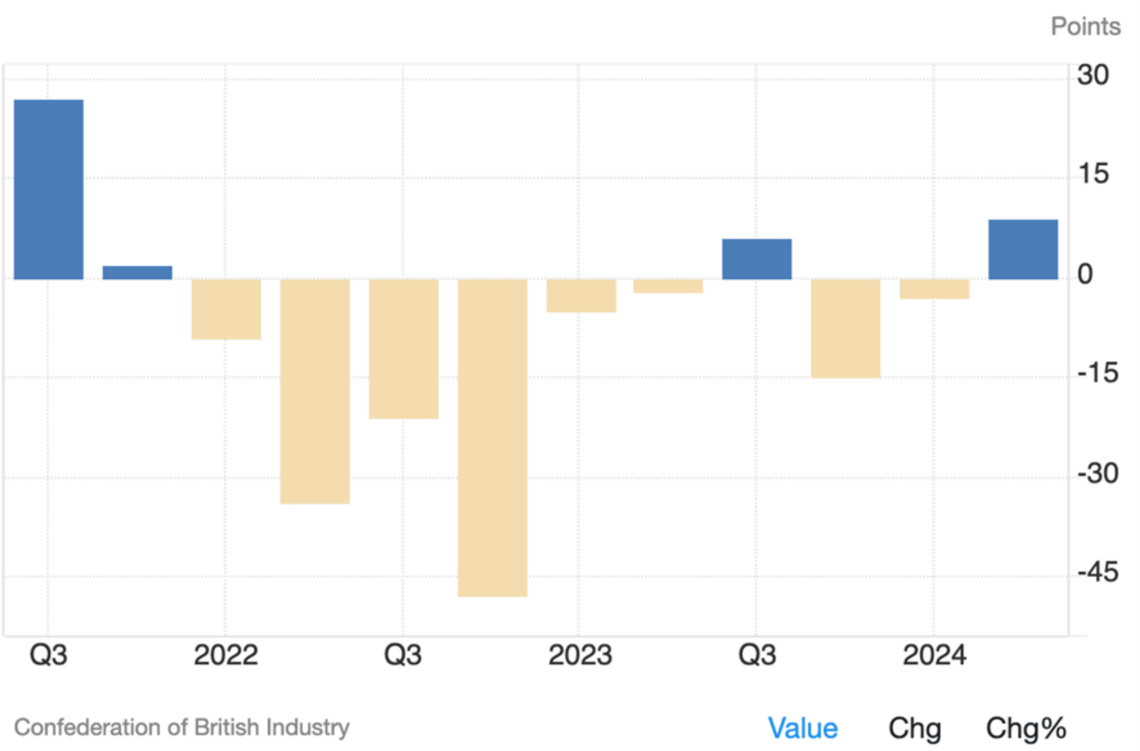
4. German April Ifo business climate rises to 89.4 from 87.9 - better than 88.9 expected - highest level since May 2023, driven by growing anticipation of potential interest rate cuts by the European Central Bank and a gradual alleviation of inflationary pressures. Companies were less pessimistic regarding the forthcoming months (89.9 vs 87.7 in March), while their assessment of the current business situation also showed a less gloomy stance (88.9 vs 88.1). Breaking down the data by industry, sentiment improved among manufacturers (-8.5 vs -9.9), service providers (+3.2 vs +0.4), traders (-22.0 vs -22.9), and constructors (-28.5 vs -33.2).

5. Italian April manufacturing confidence slips to 87.6from 88.4 - weaker than 88.5 expected - while consumer confidence fell to 95.2 from 96.5 - also weaker than 96.9 expected. The manufacturing confidence fell again - remaining below growth for 2-years - as the decline in new orders intensified (-19.7 vs -17.1 in March) with a sharper decrease domestically (-22.5 vs -19.7). Additionally, backlogs rose at a slower pace (2.9 vs 3.2) while the downturn in production picked up (-17.7 vs -17.3). Looking ahead, expectations for new orders softened (1.6 vs 1.9) and pessimism over the economic backdrop increased considerably (-13.1 vs -10). Nevertheless, there was an improvement in inflation expectations (2.9 vs 3.5).

6. Sweden March unemployment rises to 9.2% from 8.5% - more than the 8% expected. On a seasonally adjusted basis unemployment rose 0.2pp to 8.3%. The number of unemployed people rose by 86k from the previous year to 525k, while the number of employed persons decreased by 48k to 5.188 million. Meantime, the employment rate fell by 0.8% to 68.3%, while the labour force participation rate increased by 0.5% to 75.3%. Seasonally adjusted, the unemployment rate ticked up to 8.3% from 8.1% in the prior month.

7. UK 2Q CBI business optimism index rose to 9 from -3 - better than 2 expected - 6-month highs. Output levels remained steady in the three months leading up to April, after significant drops in the first quarter of 2024. Manufacturers anticipate a rise in output over the next three months, with expectations at their highest since October 2023. Despite this positive outlook, average cost growth remains high compared to historical norms, and costs are expected to continue increasing at a strong pace until July. Both domestic and export price inflation are projected to slightly increase in the coming months. The April industrial trends fell to -23 from -18 - worse than the -16 expected and well below -13 average. Manufacturers expect output to rise over the next three months, with expectations being the strongest since October 2023. However, price pressures continued to build, with the corresponding index rising to +27 in April from +21 in March, marking the highest level since February 2023. Finally, the CBI's quarterly business optimism gauge rose to +9, reaching the highest level in nearly three years.

Is the UK recovery going to match expectations?



Source: UK CBI/BNY Mellon

Disclaimer and Disclosures

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

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB

can be accessed here.

This email was sent to alexandra.mannerheim@gmail.com, and was sent by The Bank of New York Mellon 240 Greenwich Street, New York NY 10286.

Your privacy is important to us. You can opt out from receiving future Newsletters by unsubscribing via this link at any time. You can also select the topics that you want to receive by managing your preferences.

Contact Us | iflow@bnymellon.com

This message was sent from an unmonitored email box. Please do not reply to this message.

.