BNY MELLON

iFlow
MARKET MOVERS

April 5, 2024

Tensions

"There is always tension between the possibilities we aspire to and our wounded memories and past mistakes." - Sean Brady
“The greater the tension, the greater the potential." - Carl Jung

Summary

Risk Mixed even with most of world seeing lower equities – notable that RBI on hold with inflation worries and Sensex makes new record highs. Jobs are the key for markets now with US non-farm payrolls not the biggest part of the story as wages and unemployment rates seem more important. The FX market did little even as US bonds remain offered – 10Y yields up 2bps to 4.33% should keep the dollar bid. Many still worried about geopolitical tensions and watching oil which is up just 0.1% like gold – neither suggest escalation and so we are back to economic data watching and Fed reaction functions – with plenty more speakers again today.

What’s different today:

- **UN March FAO food price index rose to 118.3** from 117 – bouncing from 3-year lows – with 8% rise in vegetable oils, highest in a year; Dairy prices up 2.9% to 11-month highs, meat up 1.7%. **Wheat trades up to $5.65 a bushel** – most in a month – with Russia and grain shipments blocked along with less US planting for winter wheat.
- **M&A worth watching** as its an indicator of late cycle pressure – Johnson and Johnson is buying Shockwave device maker for $13bn.
- **iFlow showing Mood index higher** despite a down week for US shares, and while flows were mostly negative by region – but USD selling notable

yesterday as a flip of trend. EM FX saw bigger noise with CZK selling vs HUF buying COP and MXN selling vs. CLP and CNY, TWD buying vs. INR.

What are we watching:

- **US March non-farm payrolls** expected up 215, 000 after 275,000 with **unemployment rate** 3.8% from 3.9% and **wages** up 0.3% m/m after 0.1% m/m but down 4.1% y/y from 4.3% y/y. The **work week hours** are expected steady at 34.3 and the **participation rate** is expected up to 62.6% from 62.5%.
- **Canadian March jobs** expected up 25,000 after 40,700 with unemployment rate up to 5.9% from 5.8%.
- **Fed Speakers**: Collins gives opening remarks, Barkin speaks on economic outlook, Logan at Duke University and Bowman on risks in monetary policy.

Headlines:

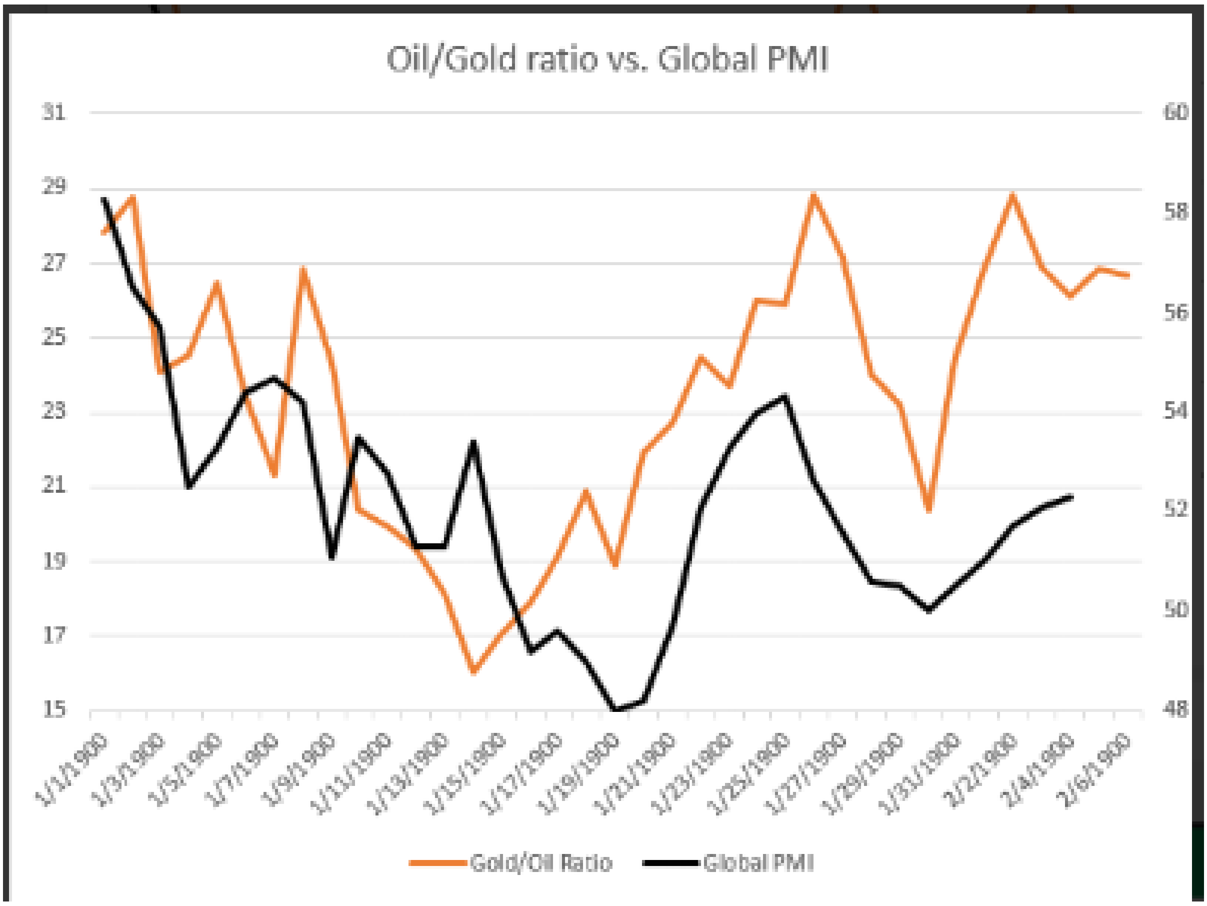
- Australian Feb trade surplus falls A$2.77bn to A$7.28bn – smallest since Sep 2023 – exports -2.2% m/m, imports up 4.8% m/m, while retail sales confirmed up 0.3% m/m – ASX off 0.56%, AUD flat at .6585
- Japan Feb household spending -0.5% y/y – rebounding 23-month lows, best in a year – while LEI jumps 2.3 to 111.8 – best since Aug 2022 – Nikkei off 1.96%, JPY flat at 151.35
- India RBI keeps policy unchanged at 6.5%, sees GDP 7%, Inflation 4.5% in 2024 – will revised liquidity coverage ratio framework – Sensex up 0.03% - new record highs, INR up 0.2% to 83.285
- German Feb factory orders up just 0.2% m/m, -10.6% y/y – after shock -11.4% m/m Jan drop – DAX off 1.4%, Bund 10Y yields up 0.5bps to 2.364%
- French Feb industrial production up 0.2% m/m, manufacturing up 0.9% m/m – while Spanish rose 0.7% m/m, 1.5% y/y – French CAC 40 off 1.3%, IBEX off 1.5% while OAT 10Y 1.4bps to 2.875%, Spanish 10Y up 1.7bps to 3.205%
- Eurozone Mar construction PMI off 0.5 to 42.4 – lower jobs and input costs – while retail sales in Feb fell -0.5% m/m, -0.7% y/y for 17th y/y decline – EuroStoxx 50 off 1.4%, EUR flat at 1.0835
- UK Mar construction PMI up 0.5 to 50.2 – first rise in 6-months – FTSE off 0.95%, GBP off 0.1% to 1.2630

The Takeaways:

Oil and global growth are linked and the fear of escalation in the two wars drives the price action along with economic data. Better US jobs are seen driving up US growth expectations and lifting oil while a weaker report is seen giving room for the

Fed to ease in June and so the soft-landing hope and equity market rally extends. Markets are confused and looking for some leadership as to what matters most jobs or inflation in driving the FX and bonds while the rest of the world seems fixated on growth fears without some more policy supports – either fiscal or monetary – leaving focus on economic data there as well. Overnight data wasn't supportive for global recovery except in Japan and so the risk reversal of JPY might remain key for today. Watching global growth and its connection to gold denominated in oil terms and the global PMI composite is worthy of some thought as we wait for the day's tensions to unfold.

Will higher oil hurt global recovery hopes?



Source: Bloomberg / BNY Mellon

Details of Economic Releases:

1. Australian February trade surplus narrows to A$7.28bn after A$10.058bn – less than the A$10.4bn expected - the smallest trade surplus since last September, as exports fell while imports grew. Exports shrank by 2.2% m/m to a four-month low of A$45.52 billion, mainly dragged by metal ores and minerals. On the original basis, outbound shipments to the country's largest trading partner, China, shrank by 10.1% while those to Japan and Hong Kong fell by 2.1%, and

23.8%, respectively. Meanwhile, imports rose 4.8% m/m to a five-month high of AUD 38.24 billion, mainly boosted by processed industrial supplies.

2. Australian final February retail sales up 0.3% m/m after 1.1% m/m – as expected. Sales in cafes, restaurants and takeaway food eased notably (0.5% vs 1.4% in January) amid declines in trade of food (-0.1% vs flat reading), household goods retailing (-0.8% vs 2.1%), and other retailing (-0.4% vs 1.8%). By contrast, sales accelerated in department stores (2.3% vs 1.8%), and clothing, footwear and personal accessory retailing (4.2% vs 2.5%). Among states and territories, sales slowed in New South Wales (0.6% vs 1.0%), Victoria (0.7% vs 1.5%), South Australia (0.2% vs 1.7%), Western Australia (0.3% vs 0.8%), Northern Territory (0.7% vs 1.0%), and Australian Capital Territory (0.2% vs 1.3%). At the same time, retail turnover fell in Queensland (-0.5% vs 0.9%), and Tasmania (-0.4% vs 1.2%). Through the year to February, retail sales grew by 1.6%, the most in three months.

3. Japan February household spending rose +1.4% m/m, -0.5% y/y after -2.1% m/m, -6.3% y/y – more than the 0.5% m/m, -3% y/y expected. The latest result pointed to the 12th straight month of yearly declines in personal expenditure but the weakest pace in the sequence, with spending falling much slower for transport & communication (-1.1% vs -13.1%) and culture & recreation (-1.5% vs -9.0%). At the same time, expenditure rebounded for food (2.0% vs -2.7%) and housing (9.5% vs -19.8%) while picking up strongly for clothing & footwear (11.6% vs 1.8%). Further, spending accelerated for medical care (9.4% vs 8.2%), with education expenditure surging further (41.5% vs 29.6%). By contrast, spending decreased more for fuel, light & water charges (-18.6% vs -9.4%) and furniture & household utensils (-2.0% vs -1.8%).

4. Japan February preliminary leading economic index rises to 111.8 from 109.5 – better than 111.6 expected - the highest reading since August 2022, as consumer sentiment hit the highest level since December 2021. Meanwhile, the service sector grew the most in seven months while factory activity shrank the least in four months. The coincident index fell to 110.9 from 112.1 - he lowest figure since October 2021, as the country struggled to maintain sustained economic recovery due to elevated inflation, weak consumption, and a persistent decline in manufacturing activity.

5. German February factory orders rose 0.2% m/m after -11.4% m/m – weaker than 0.8% m/m expected. Orders mainly grew for manufacturing electrical equipment (10.7%), pharmaceuticals (6.6%), and the chemical industry (3.1%). In contrast, new orders contracted for automotive (-8.1%) and manufacturing metal products (-5.3%). Incoming orders expanded for consumer goods (2.2%) and intermediate ones (1.0%) but fell for capital goods (-0.6%). Domestic orders gained

1.5%. Meanwhile, foreign orders dropped 0.7%, with demand from the Eurozone sinking 13.1% while those outside the Eurozone went up 7.8%. In a less volatile 3-month comparison, incoming orders from December 2023 to February 2024 were 2.8% higher than in the previous three months.

6. French February industrial production rose 0.2% m/m, 0% y/y after -0.9% m/m, +0.9% y/y – weaker than 0.5% m/m expected. Manufacturing output recovered (0.9% vs -1.5% in January), bolstered by a sharp rebound in manufacture of coke & refined petroleum products (10% vs -11.2%). Meanwhile, output tumbled for mining & quarrying, energy, water supply & waste management (-3.4% vs 2.4%), as well as the output for construction (-2.1% vs 0.2%).

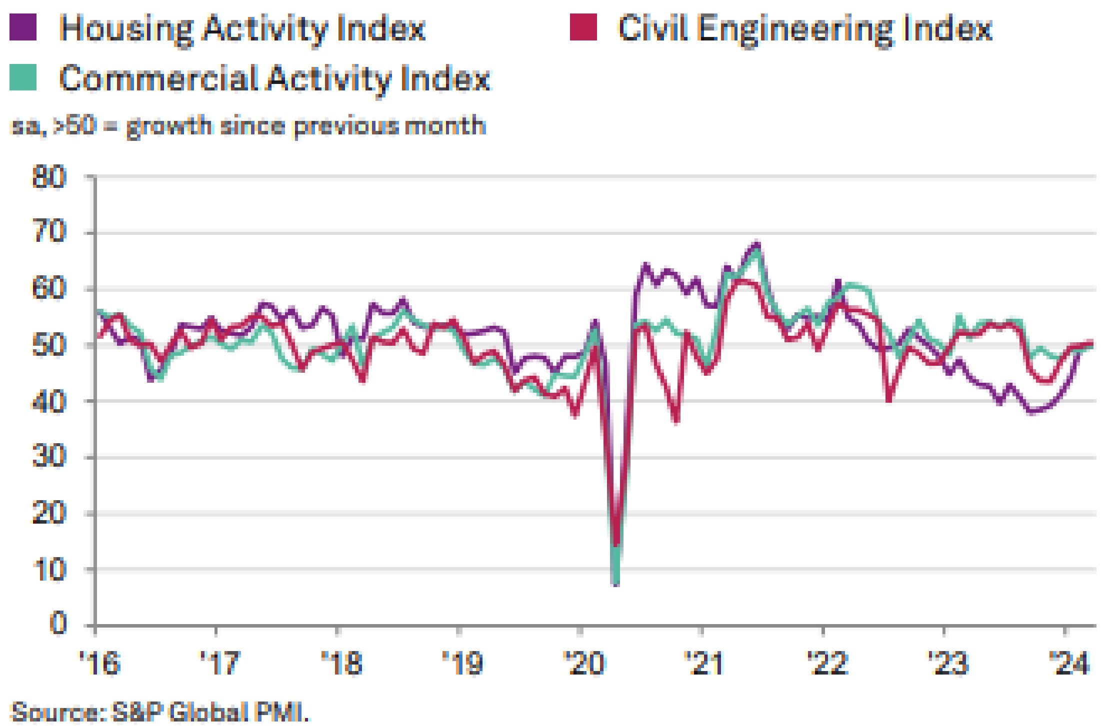
7. Spanish February industrial production rose 0.7% m/m, 1.5% y/y after 0.6% m/m, 0.3% y/y – better than -0.3% y/y expected - the second successive month of growth in industrial activity and the quickest since March last year, mainly boosted by the production of capital goods (+4.3% vs +4.2% in January) and intermediate goods (+2% vs +0.5%). Additionally, output rebounded significantly for consumer goods (+3.3% vs -0.6%), primarily non-durable consumer goods (+3.6% vs -0.6%). On the other hand, activity continued to decrease for energy (-1.3% vs -0.3%).

8. Eurozone March HCOB construction PMI fell to 42.4 from 42.9 – weaker than 45 expected - Output decreased at a slightly quicker pace, with significant drops in housing activity driving the overall contraction. Weak demand and a sharp decline in new business led to job losses and cost-cutting measures, including reduced input buying and subcontractor use. However, cost burdens increased at the slowest rate in five months. The housing sector remained a major drag on total output, posting its largest reduction in seven months. Commercial and civil engineering firms also continued to experience declining activity, with commercial output seeing its slowest downturn since November.

9. Eurozone February retail sales fell 0.5% m/m, -0.7% y/y after 0% m/m, -0.9% y/y – weaker than -0.4% m/m expected – 17th y/y drop – with sales of food, drinks, and tobacco decreased by 0.4% after a 0.3% advance the previous month, while non-food product sales declined by 0.2% after a 0.4% growth. Additionally, sales of automotive fuel contracted by 1.4%, the largest decline since last August.

10. UK March construction PMI rose to 50.2 from 49.7 – better than 50 expected – highest since August 2023, and first increase in total industry activity, after a six-month period of decline. There was a turnaround in sales pipelines and greater new business enquiries linked to the improving economic outlook and more stable financial conditions. Adding to signs of a recovery in construction sector performance, new orders expanded at the fastest pace since May 2023. However, construction companies remained cautious about staff hiring, with employment numbers falling for the third month running in March. Also, input price inflation eases to a three-month low. Meanwhile, civil engineering was the best-performing segment and house building and commercial construction activity were both broadly unchanged.

Does UK construction recovery matter?



Source: S&P Markit PMI/BNY Mellon

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB