BNY MELLON

iFlow
MARKET MOVERS

April 9, 2024

Everything Else

"If all else fails immortality can always be assured by adequate error." – John Kenneth Galbraith

"A man who is a master of patience is a master of everything else." – George Savile

Summary

Risk mixed as investors wait for more data and rate decisions. Asia was mixed with Japan BOJ Ueda easy money comments driving JPY to test 151.94 and Nikkei to rally 1%, China property market worries countered leaving the CSI lower while Europe stutters on doubts about rate cuts and data ahead – particularly US inflation. Markets are caught with the see-saw of bonds to stocks working – but we start the US session with both up and that probably can't sustain with little news other that weaker NFIB small business optimism and no Fed speakers. The 1Q earnings and the risk of pain in consumers remain in play as well as markets look to climb a wall of worry.

What's different today:

- **Steel prices hold near 4-year lows** - China steel futures fell to CNY 3,350 a ton - still tempered by property market woes even as Iron Ore prices rose to 10-month highs on back of recovery hopes and copper prices rise to record highs up 10% Y/Y.
- **iFlow Trend reversed sharply** – suggesting what worked last week is not going to work today. FX markets sold USD and AUD and GBP but bought CAD and JPY in G10 while EM was about COP vs. CLP, CZK vs. HUF and CNY vs.

SGD. The equity moves were negative again only Materials and Utilities up – flashing global slowdown.

What are we watching:

- **Central Banks:** Swiss National Bank vice chair Martin Schlegel speaks
- **US Treasury** sells $58 billion of 3-year notes and $65bn in 42-day CMB

Headlines:

- Australian April Westpac consumer confidence -2.4% to 82.4- second monthly decline blamed on inflation - while NAB business conditions rose 1 to 1 - but still below long-term average – ASX up 0.01%, AUD up 0.3% to .6625
- BOJ Ueda: Scope to reduce stimulus but expects real rates to remain deeply negative, Japan Mar consumer confidence rises 0.5 to 39.5 - highest since April 2019 - while machine tool orders drop 8.5% y/y – Nikkei up 1.08%, JPY flat at 151.80
- Taiwan Mar CPI fell to 2.14% y/y from 3.08% y/y - with food and housing key - while some business groups consider overseas headquarters to hedge against China attack – TWD off 0.2% to 32.105
- Turkey imposes export restrictions on Israel over Gaza - talks with Hamas/Israel still deadlocked – TRY off 0.2% to 32.185, WTI up 0.2%
- French Feb trade deficit narrows E2bn to E5.2bn - smallest deficit since Jan 2021 – CAC 40 off 0.5%, OATs 10Y off 4.5bps to 2.877%
- ECB April bank lending survey: credit standards unchanged, business loan demand drops, balance sheet reduction adds to tightening pressures – EuroStoxx 50 off 0.6%, EUR up 0.1% to 1.0870
- US Mar NFIB small business optimism index drops -0.9 to 88.5 - worst since Dec 2012 – S&P500 futures up 0.3%, 10Y US yields off 2.5bps to 4.395%, US dollar index off -0.15%, to 104.0

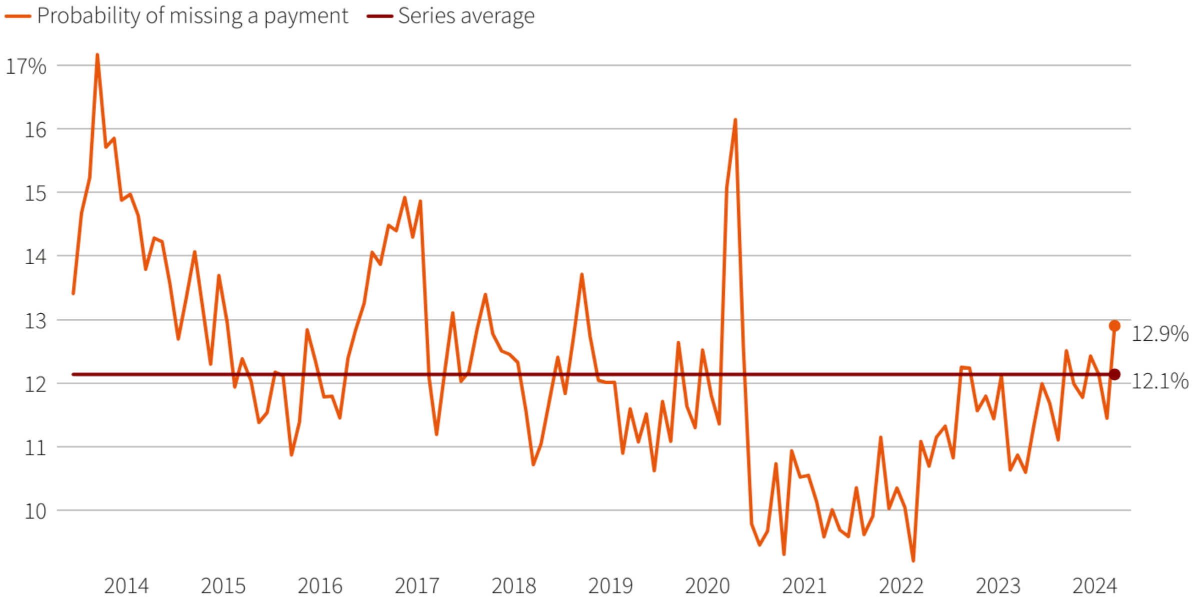
The Takeaways:

The ability for stocks to rule all markets has been tested since the FOMC started to raise rates, leaving open the question of whether bonds are more in control or if something else will dominate the focus of risk. The 1Q earnings season starts Friday with big banks. Annual S&P500 profit growth through the first quarter is penciled in at 5%, with revenue growth of some 3% - cooler than 7% and 4% forecasts respectively seen at the start of the year. However, earnings growth is still expected to accelerate back to as high as 14% by the final quarter of the year. And while the expected annual earnings expansion for the full calendar 2024 has slipped about two points to just under 10%, the 2025 outlook has been revised up by a similar amount to near 14%. At the heart of the optimism about US corporate profits is growth and the view that higher US growth is going to sustain higher earnings expectations. The burden is on the consumer to spend and so far the data on personal spending suggest just that. However, there is an underbelly of risk to this view from credit and why higher rates matter. Debt and rolling over debt are still very much part of the story and the counterbalance to earnings optimism. As Chicago Fed Goolsbee noted on Monday, the FOMC must weigh how much longer it can maintain its current interest rate stance without it damaging the economy. The driver for risk today maybe everything else beyond stocks as markets focus on JPY, Gold, Oil and the hopes for geopolitical solutions as Korea votes and politics roll on.

Will the consumer hold in 2Q?

Delinquency fears tick higher

American consumers see a greater-than-average chance they may miss a credit payment.



Note:
Source: Federal Reserve Bank of New York

Source: Reuters / BNY Mellon

Details of Economic Releases:

1. Australia April Westpac consumer confidence fell 2.4% m/m to 82.4 after -1.8% m/m at 84.4 - worse than the +0.5% m/m, 84.8 expected -sliding for the second consecutive month as persistent inflation and high interest rates continued to weigh on Australian households. The index has also held below 100 for over two years, the longest since the early-1990s recession, indicating pessimists heavily outweigh optimists. The 12-month and the 5-year outlooks for the economy slipped 2.7% and 4.4%, respectively. Meanwhile, markets expect the Reserve Bank of Australia to start lowering rates late this year, but robust jobs data and rising house prices clouded the outlook. Matthew Hassan, a senior economist at Westpac said: “The bank’s latest commentary shows it is becoming a little more comfortable that further rate rises will not be required but it is not yet confident enough about the inflation outlook to consider the case for rate cuts.”

2. Australia March NAB business confidence rises to 1 from 0 - better than -3 expected - however, figures stayed below its long-run average, with sentiment mainly improving in retail, construction, and transport. Meanwhile, business conditions were little changed (9 vs 10 in Feb), as sales (at 14) and employment (at 6) were steady while profitability fell (6 vs 10). Forward orders were less negative (-1 vs -3), and capacity utilization eased slightly (83.2% vs 83.4%). Labour cost growth dipped to 1.6% in quarterly equivalent terms from the prior 2.0%, and purchase cost growth slowed to 1.4% from 1.8%. Retail price growth edged down to 1.3% from 1.4%. “Cost pressures remain elevated but have eased a little more, but retail price growth remains elevated,” said NAB's chief economist Alan Oster. “Fundamentally, this aligns with our expectation that progress on bringing inflation back to target will be gradual, and we expect that to be further reinforced by Q1 CPI result in April.”

3. Japan March consumer confidence rises to 39.5 from 39 - worse than 39.7 expected - still the highest reading since April 2019, as households’ sentiments improved towards most components, namely income growth (41.5 vs 40.8 in February), employment (45.0 vs 44.3), and willingness to buy durable goods (34.0 vs 33.5) while those of overall livelihood was unchanged (at 37.6). Price expectations 1Y ahead were higher with 0.9% rise to 92.4% for “go up” rather than the -0.2% drop to 2.4% for “go down” price outlook.

4. Japan March machine tool orders drop -8.5% y/y after -8.0% y/y - worse than the -5% y/y expected. Domestic demand decreased 14.7% from a year earlier to JPY 49,249 million, while foreign demand declined 5.4% to JPY 86,398 million. On a monthly basis, machine tool orders expanded 18.8%, while it was lower by 14.8% on a year-to-date basis.

5. French February trade deficit narrows to E5.2bn after E7.2bn - better than E7bn expected -the lowest trade deficit since January 2021, as exports rose 4.7% month-over-month to a seven-month high of €51.1 billion, while imports increased at a softer 0.5% to €56.3 billion. At the same time, the energy shortfall decreased to €3.8 billion from €4.5 billion in the prior period. Excluding energy, the trade deficit declined to €2.8 billion compared to €4.0 billion in January. In the manufacturing sector, the trade surplus for consumer goods rose by €0.1 billion, reaching €0.8

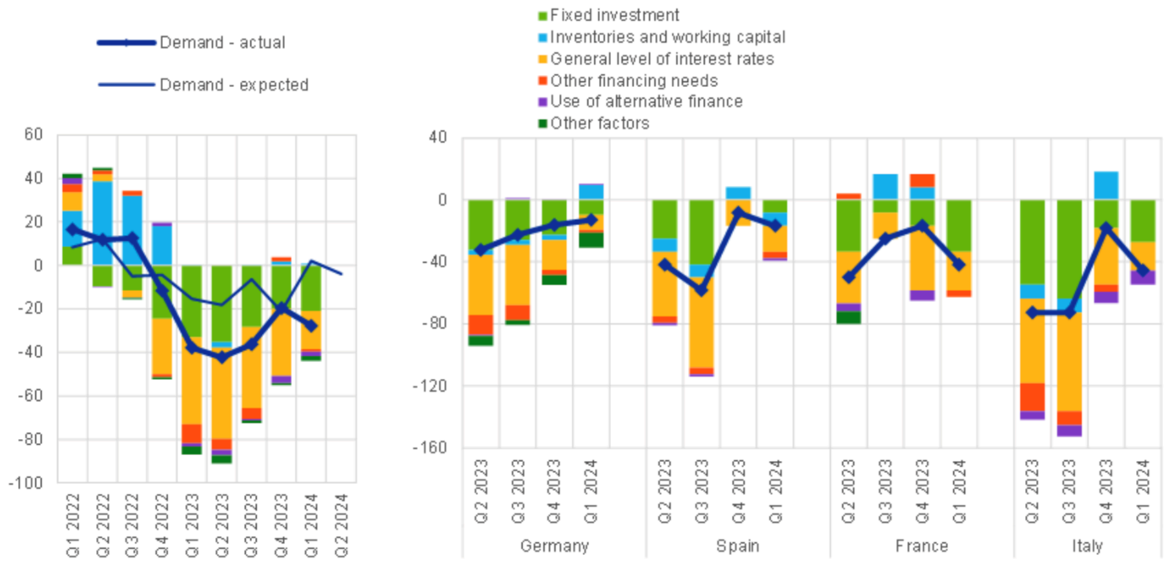
billion. Meanwhile, the shortfall for investment goods went up by €0.3 billion, standing at €3.2 billion, while it dropped for intermediate goods to €0.9 billion from €1.8 billion previously.

6. **Eurozone April ECB bank lending survey - near unchanged credit standards, weaker demand for loans** - banks reported a small net tightening of their credit standards – i.e. banks' internal guidelines or loan approval criteria – for loans or credit lines to enterprises in the first quarter of 2024 (net percentage of banks of 3%), which was less than banks had expected in the previous round (9%). Banks, for the first time since the fourth quarter of 2021, reported a moderate net easing of their credit standards for loans to households for house purchase (net percentage of -6%), whereas credit standards for consumer credit and other lending to households tightened further (net percentage of 9%). Risk perceptions continued to exert tightening pressures across all loan categories, while competition and, for housing loans, also banks' risk tolerance, contributed to an easing of credit standards. For the second quarter of 2024, banks expect moderate net tightening for loans to firms and unchanged credit standards for loans to households.

ECB bank lending survey suggest demand drop?

Changes in demand for loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Source: ECB (BLS).

Source: ECB /BNY Mellon

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