BNY MELLON

iFlow
MARKET MOVERS

May 1, 2024

Worries

"Worry never robs tomorrow of its sorrow, it only saps today of its joy." – Leo Buscaglia
"Worry is a cycle of inefficient thought whirling around a center of fear" – Carrie ten Boom

Summary
Risk of continues into the FOMC decision with markets worried about rates and growth. The May Day holidays leave many markets closed and set the start of the new month lacking in liquidity. The US 2Y rates over 5% set a bar for stocks to beat and the data from overnight make clear recoveries are uneven. The surge in Korea imports notable but PMI reports from Australia and Japan show manufacturing remains in contraction. New Zealand joblessness rose and wages were sticky leaving RBNZ like the Fed high for longer. Bonds in Australia and NZ fell. UK house prices fell but so too did the manufacturing PMI but input prices rise to 14-month highs leaving clear that stagflation risks in UK like that of EU make monetary policy decisions harder. Expect a steady drip of doubt about future growth and rates into FOMC and perhaps a relief reaction after that event finishes. Markets will revert to focus on jobs and the host of other economic data ahead.

What's different today:

- **Bitcoin drops to 2-month lows below $58k -** off 6% on day and off 20% from highs -after losing 15% in April linked to FOMC rate policy being high for longer. Volumes in BTC ETFs fell over the last week matching other risk-off measures in stocks.

- **RBA Commodity Price index fell 11.6% y/y in April** - slowing the decline from -14.9% y/y in March - still the 14th month of deflation - with coal, iron ore, LNG and lithium prices all adding to price drop.
- **iFlow Mood indicator in 3rd day down** in significantly negative zone, Trend in FX negative but bottoming. USD selling in G10 continued with notable AUD, EUR and SEK buying while in EM MXN buying and THB stand out. The negative equity market mood yesterday stands out with only APAC developed markets up led by Japan.

What are we watching:

- **US April ADP private sector payrolls** expected 180k after 184k – sets tone for NFP outlooks
- **US March JOLTS job openings** expected down to 8.69mn after 8.756mn – key for Beveridge curve
- **US ISM April US manufacturing survey** expected 50 from 50.3 with jobs 48.2 from 47.4 – waiting for recovery. While **US final April manufacturing** survey expected 49.9 unchanged from flash.
- **US March construction spending** expected up 0.3% m/m after -0.3% m/m – important to GDP and ongoing construction push for datacenters and warehousing.
- **1Q earnings:** Pfizer, Kraft Heinz, MetLife, eBay, Qualcomm, Mastercard, Automatic Data Processing, Marriott, Dupont De Nemours, Global Payments, CVS, Marathon Oil, Mosaic, Eversource, Yum! Brands, ETSY, Estee Lauder, Albemarle, PPL, Paycom Software, Devon Energy, Generac, Aflac, Cognizant Technology, Ventas, Allstate, MGM Resorts etc
- **US Treasury details quarterly refunding** schedules and auction sizes – bills vs. notes with focus on duration mix
- **FOMC Decision and Chair Powell news conference** – no change in policy expected - with focus on bias to ease and QT tapering
- **Other central bank speakers**: Bank of Canada Governor Tiff Macklem testifies to Senate committee.

Headlines:

- New Zealand 1Q unemployment rises 0.3pp to 4.3%, labor costs off 0.1pp to 3.9% y/y; while RBNZ financial stability report sees risk of persistent inflation, leaving rates restrictive for longer – 10Y NZGB up 2bps to 4.905%, NZD flat at 0.5890

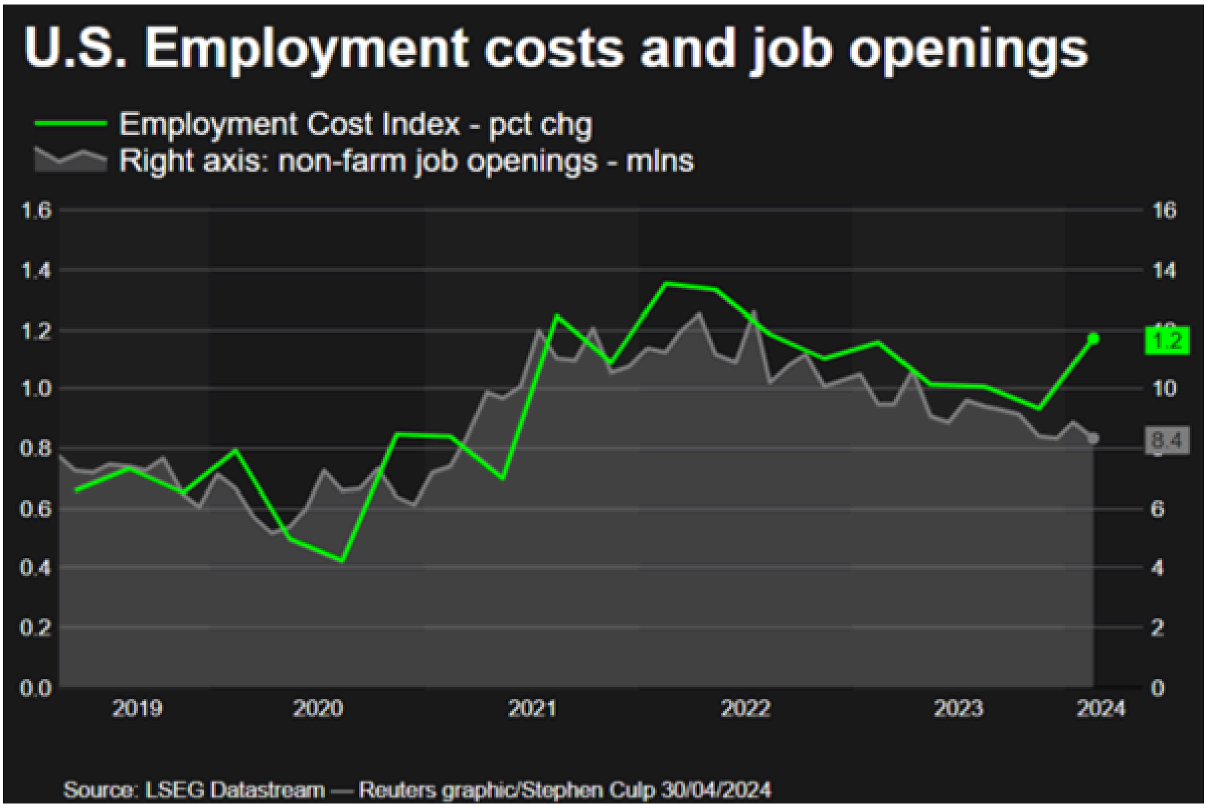
- Australian April industry index -3.6 to -8.9 - 24th month of contraction. - while final April manufacturing PMI rose 2.3 to 49.6 - with higher inflation – ASX off 1.23%, AUD up 0.1% to .6480
- Korea Apr trade surplus drops $2.8bn to $1.53bn - even with exports up 13.8% y/y, imports up 5.4% y/y first gain in 14-months – Korea markets closed
- Japan April final manufacturing PMI rises 1.4 to 49.6- nearly stable with jobs at 19-month highs, inflation above trend – Nikkei off 0.34%, JGB 10Y up 1.5bps to 0.88%, JPY off 0.1% to 157.90
- UK Apr final manufacturing PMI off 1.2 to 49.1- with orders leading decline - with input inflation at 14-month highs - while Nationwide House price index slows 1pp to 0.6% y/y – FTSE flat, Gilt 10Y up 3.5bps to 4.38%, GBP off 0.1% to 1.2480
- Police clash with student protests supporting Hamas at US universities across the nation - hundreds arrested – US S&P500 futures off 0.15%, 10Y US yields up 0.5bps to 4.685%, USD index up 0.1% to 106.35
- US weekly API oil inventories surprise with 4.906mb build when -1.5mb expected, US SPR up 0.6mb to 366.3mb most since April 2023 - but gasoline inventories fell 1.48mb near 4% below 5Y average, distillates fell 2.187mb 7% below average -= WTI off 1.45%

The Takeaways:

The list of worries ahead beats the joys behind as April closes with US stocks down 4% and moods on inflation sticky if not just a mess. Risk of future The FOMC statement and Chair Powell press conference are the key events of the day. Markets expect a hawkish outcome with the spectrum wide from pushing bias to neutral from easing to highlighting tightening financial conditions while at the same time announcing a QT taper which would be a support for fixed income supply, not helping path to 2% CPI, but likely easing the concerns about the Treasury QRA ahead. The market is doing the Fed’s work by tightening expectations with just 27bps of easing priced for 2024. The risk for today is in that too falling away and the USD already bid going even higher. Watching 158 JPY for Japan intervention is one thing, watching the rest of the world recoil with the yield spread is another. The pain in holding US bonds is notable with the longer-term US bond ETF off 10% through April. Duration trades have failed as growth in the US holds with sticky inflation while elsewhere the world suffers with uneven growth and sticky inflation. The common denominator is price pressures. This is where the economic data today kicks in and drives before the FOMC decision - as the ECI report yesterday coupled with the $1.1trn in US Treasury borrowing ahead leaves many worried about yields. The US

ADP will be watched today for the risk of surprises to upside in jobs again, while the JOLTS report is more about the quits and the spread between wages and openings continuing. Markets have so much to consider from ISM to construction spending all feeding into GDP nowcast that there is a risk for overload and the fight or flight response for investors to dominate - with the running away from May power something to fear. The risks of selling in May and going away continue and won't be resolved by a Fed delivering something less scary on the spectrum of hawkishness.

JOLTS meets ECI helps FOMC ease?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. New Zealand 1Q unemployment rises to 4.3% from 4.0% - more than the 4.2% expected. The underutilisation rate, which is a broader measure of spare labor capacity than unemployment alone, rose to 11.2%, up from 10.7%. in the previous quarter. The seasonally adjusted labour force participation rate fell to 71.5%, down from 71.9% last quarter. The number of people who were not in the labour force (NILF) increased to 1,224,000 in the three months to March 2024, up 22,000 over the quarter and 61,000 over the year.

2. Australian April Ai Group all industry index fell -8.9 after -5.3 - worse than -4 expected - the 24th month of contraction. The industrial activity indicator reached a low point around the new year period, and has been recovering through early 2024.

New orders dropped by 3.1 points to -20.0, recovering since a low around the new year period, but the indicator continues to point to significant contraction. The improvement in input volumes continued in April, and in trend terms volumes have returned to neutral. Businesses report continuing supply chain disruptions, alongside lower purchasing demand as new orders and input volumes fall. The employment indicator fell slightly by 2.2 points in April but remained positive at +2, indicating a strengthening trend since the previous winter.

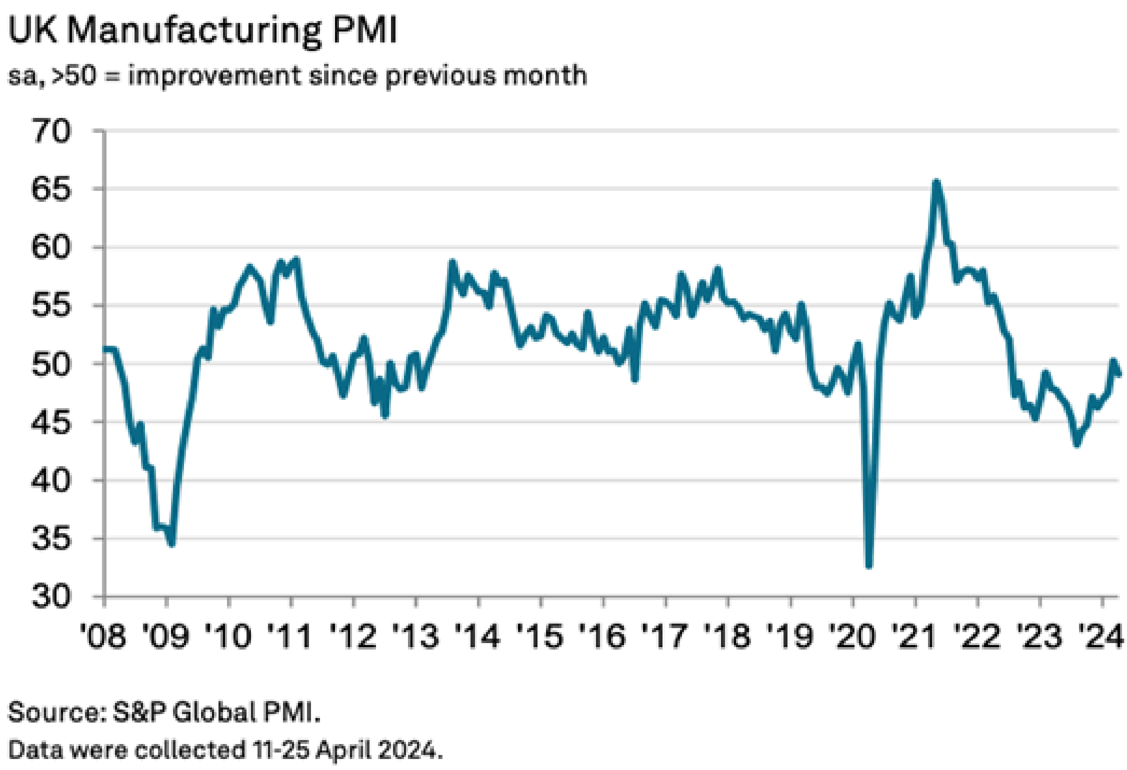
3. Australian April final Judo Bank manufacturing PMI rises to 49.6 from 47.3 - weaker than 49.9 flash - third consecutive monthly deterioration in manufacturing sector conditions, albeit at a marginal pace, the lowest in the current sequence. Incoming new orders for goods continued to contract, attributed to subdued market conditions and the impact of elevated interest rates. External conditions also remained soft, leading to another deterioration in foreign demand. Production levels fell at a slower rate, the softest since September 2023. Average input costs continued to rise due to higher raw material, energy, and transport costs. Supply constraints worsened, resulting in disruptions in the Red Sea and a lack of input material availability. Manufacturers passed on their added cost burdens to clients, leading to another increase in average selling prices.

4. Korea April trade surplus drops to $1.53bnafter $4.298bn - less than the $2.5bn expected - smallest surplus in three months, a preliminary reading showed. It marked the eleventh straight month of surplus in the trade balance, as exports grew more than imports. Exports surged 13.8% yoy, higher than expectations of a 13.7% rise, the seventh consecutive month of expansion, and the fastest pace in three months. Meanwhile, imports rose 5.4%, the first increase in 14 months, compared to market forecasts of a 6.2% growth due to high energy prices. s

5. Japan April final Jibun Bank manufacturing PMI rises to 49.6 from 48.2 - less than 49.9 flash - the eleventh straight month of contraction in factory activity but the softest drop since last August as both output and new orders shrank less. Output fell the least in six months, while new orders dropped eased, with export orders declining mainly to China and the US. As a result, purchasing activity continued to decrease despite the lowest since October 2022. Delivery times improved, marking the first shortening of lengthening lead times in nine months. On the price front, input cost inflation accelerated to the quickest rate of the year due to higher metal cost pressure. Meanwhile, output cost inflation rose to an 11-month high as firms sought to pass on higher input costs to clients. Finally, business sentiment was unchanged from March, remaining relatively high amid improvement in demand

6. UK April final manufacturing PMI slips to 49.1 from 50.3 - better than 48.7 flash - but down from 20-month highs. Both output and new orders slipped back into contraction territory following short-lived upturns in March, amid uncertain market conditions, client destocking, and supply-chain disruption. Additionally, the downturn in new export business extended to 27 successive months, with reports of weaker intakes from Germany, Ireland, Asia, and the US. Employment levels were also down for the 19th consecutive month. On the price front, input price inflation accelerated to the highest since February 2023, and output charge inflation hit an 11-month high. Finally, the outlook for the UK manufacturing sector remained positive in April due to hopes for a revival in demand, new product launches, efficiency gains, and an improvement in market conditions.

Is the UK recovery flatlining?



Source: S&P Global/BNY Mellon

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