BNY MELLON

iFlow

MARKET MOVERS

May 10, 2024

Recovery

"The most common way people give up their power is by thinking they don't have any" – Alice Walker
"Recovery is all about using our power to change our beliefs that are based on faulty data." – Keith McCormick

Summary

Risk on as the feel good about US slowing driving up FOMC rate cut odds continued overnight with Hong Kong property shares surging on the hopes for more from China on real estate and talk of a dividends being exempt from taxes. That was followed by stronger than expected UK GDP driving up shares there and helping offset any earnings doubts everywhere. Markets are ready to call it a week, take the recovery in risk appetite and move on – but the weekend beckons with geopolitical worries, notice oil is up 2.5% on the week, also note that despite the relief in US rates, world isn't selling many USD yet – JPY is weaker, along with CNH. The markets are going to have to wait for US CPI to be sure that the old story of US soft-landing holds. The problem elsewhere maybe soon that good economic news is bad as its pushes back the need for faster easing. The link of risk to monetary policy rather than economic growth is a problem and its not going away in the US with the focus on consumer sentiment, Fed speakers and Canada jobs to confirm if the Bank of Canada has room to ease in June.

What's different today:

- **Steel rebar futures in China fell to CNY3,500 ton – lowest in a month** – off 10% year-to-date – linked to weaker China construction demand, with housing

oversupply one issue highlighted by Politburo, and pressure from Brazil and Turkey on China Steel dumping.
- **Copper trades over 2-year highs at $4.71** – near the $10,000 ton breakout – with China Politburo shift on housing rhetoric one factor, mining setback another.
- **iFlow** – Mood indicator negative for 10th day, Trend in FX recovering sharply, along with carry and value. USD saw modest buying vs. G10 CAD, EUR, JPY selling. EM saw BRL selling, MXN buying, with THB selling and PLN and HUF buying. In Stocks, global sectors were mostly positive for the first time since July – only IT and Consumer Staples negative. Bonds remain mixed with Indonesia, Sweden, Mexico all positive.

What are we watching:

- **Canadian April jobs** expected -2,200 after +18,000 with unemployment off 0.1pp to 6.1% - also the BOC senior loan officers survey – both key to BOC rate cut timing.
- **US April preliminary University of Michigan consumer sentiment survey** expected 76 from 77.2 with current conditions 79.5 from 79.
- **Fed Speakers**: Governor Bowman speaks on financial stability in Texas, Chicago Fed Goolsbee in Q/A in Minnesota. Also Dallas Fed Logan and Vice Chair of supervision Barr speak later.

Headlines:

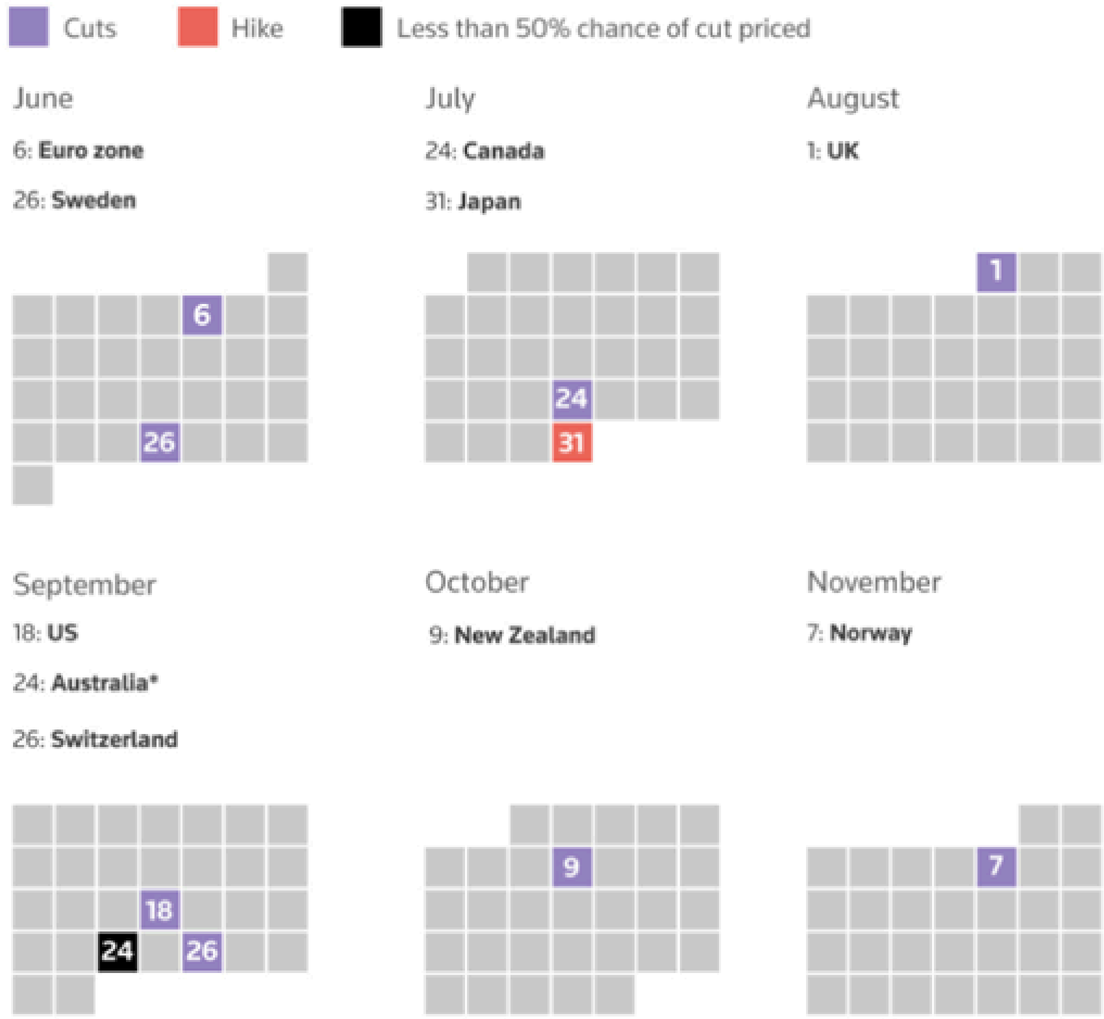
- Japan Mar household spending up 1.2% m/m, -1.2% y/y – 13th month of y/y contraction – led by housing/fuel – April EcoWatchers outlook drops 2.7 to 48.5, second monthly drop - Nikkei up 0.41%, JPY off 0.15% to 155.70
- US President Biden ready to impose tariffs on China EV and strategic sectors; China cities relax home-buying restrictions post April 30th Politburo mention of inventory issues – CSI 300 up 0.05%, CNH off 0.1% to 7.2275
- Turkey Mar industrial production fell 0.3% m/m, +4.3% y/y – led by mining and manufacturing – while unemployment fell 0.1pp to 8.6% -- TRY up 0.1% to 32.217
- Italian Mar industrial production fell -0.5% m/m, -3.5% y/y – 14th straight y/y drop – MIB up 0.9%, BTP 10Y off 4bps to 3.785%, EUR flat at 1.0775
- UK 1Q GDP preliminary up 0.6% q/q, 0.2% y/y – best growth since 4Q2021 – with production up 0.2% m/m in March, trade deficit narrows 0.5m to GBP1.098bn – FTSE up 0.8%, Gilt 10Y off 4bps to 4.10%, GBP flat at 1.2525

- OPEC shifts away from internal forecasts of global oil demand – will use OPEC+ - WTI up 0.6% to $79.70

The Takeaways:

The iFlow factor centrality index for bonds continues to show that markets are stuck on one story – namely that the Fed controls the level of all rates everywhere. The hope for FOMC easing post the Powell press conference and the weaker US non-farm payrolls drove this week's price action. The problem of markets depending on one story is when something breaks that belief. Perhaps that is economic data or worse geopolitical drama. The S&P500 closes at 8-week highs yesterday, defying the gravity of a mixed week for earnings and some signals that the US economy may have troubles underneath even as the Atlanta Fed nowcast for GDP points to 4% in 2Q. The weekly jobless claims erosion back to April highs drove further Fed rate cut hopes. Both the VIX and the MOVE index are at 6-week lows. The FX carry trade returns with MXN the leader after the central bank was hawkish and on hold. The question for the UK is whether the 1Q GDP surprise growth is too much for the BOE to consider a June easing – even after their meeting yesterday opened that door and markets price 50% chance of such. The ECB minutes of their last meeting out early in the US session could matter as well given the better EU data except for the industrial sector with Italian industrial production today highlighting that issue. To sustain this week, investors will need more weak US data but not too weak, more strong EU and APAC data, but not too strong, and supportive comments from all central bankers for the timeline of cuts to follow. The chart of rate cuts in the G10 sets the calendar for those hoping for a long and quiet summer collecting dividends and coupons before trading into the US election and the FOMC September meeting.

The Calendar for Cuts?



Calendar chart showing markets expectation of rate cuts

Source: Reuters/ BNY Mellon

Details of Economic Releases:

1. Japan March household spending rises 1.2% m/m, -1.2% y/y after +1.4% m/m, -0.5% y/y – better than the -0.3% m/m, -2.4% y/y expected - the 13th straight month of declining personal expenditure, dragged by weak spending on housing (-5.8% vs 9.5% in February), fuel, light & water charges (-18.6% vs -12.3%), furniture & household utensils (-0.5% vs -2.0%), medical care (-0.7% vs 9.4%), culture & recreation (-5.7% vs -1.5%), and other consumption expenditure (-2.7% vs -4.8%). By contrast, expenditure grew for food (1.8% vs 2.0%), transport & communication (3.2% vs -1.1%), and education (11.2% vs 41.5%).

2. Japan April EcoWatchers outlook drops to 48.5 from 51.2 – weaker than 51.3 expected. The current outlook fell to 47.4 from 49.8 also worse than the 50.4 expected and the lowest figure since August 2022, withdrawing for the second month running, with the measure for household budget trends declining due to a fall in food and beverage-related items. Also, the gauge for corporate trends retreated as manufacturing and other industries weakened. Further, the measures for employment were lower.

3. **Turkey March industrial production off 0.3% m/m, +4.3% y/y after +2.8% m/m, +11.2% y/y – weaker than that 0.4% m/m expected.** Output growth sharply eased for all main sub-sectors, namely mining & quarrying (7.5% vs 12.3% in February), manufacturing (4.0% vs 11.6%), and electricity, gas, steam & air-conditioning supply (5.1% vs 7.1%).

4. **Turkey March unemployment fell to 8.6% from 8.7% - better than 9.0% expected.** The number of unemployed individuals decreased by 19l from a month earlier to a five-month low of 3.057 million, while employment went up by 139k to an all-time high of 32.588 million. Meanwhile, the activity rate edged up to 54.2% in March from 54% in February, and the employment rate rose to 49.5% from 49.3%. The youth jobless rate for those aged between 15 and 24 years declined 0.4 percentage points to 15.1%, the lowest since August 2012.

5. **Italian March industrial production slows -0.5% m/m, -3.5% y/y after 0% m/m, -3.3% y/y – weaker than +0.3% m/m expected**. The country's economy struggled amid elevated rates, with decreases seen in the production of capital goods (-3.8% vs 3.4% in February) and intermediate goods (-0.1% vs 0.1%). On the other hand, output rebounded for energy goods (1.7% vs -2.5%), while falling at a slower pace for consumer goods (-0.6% vs -1%).

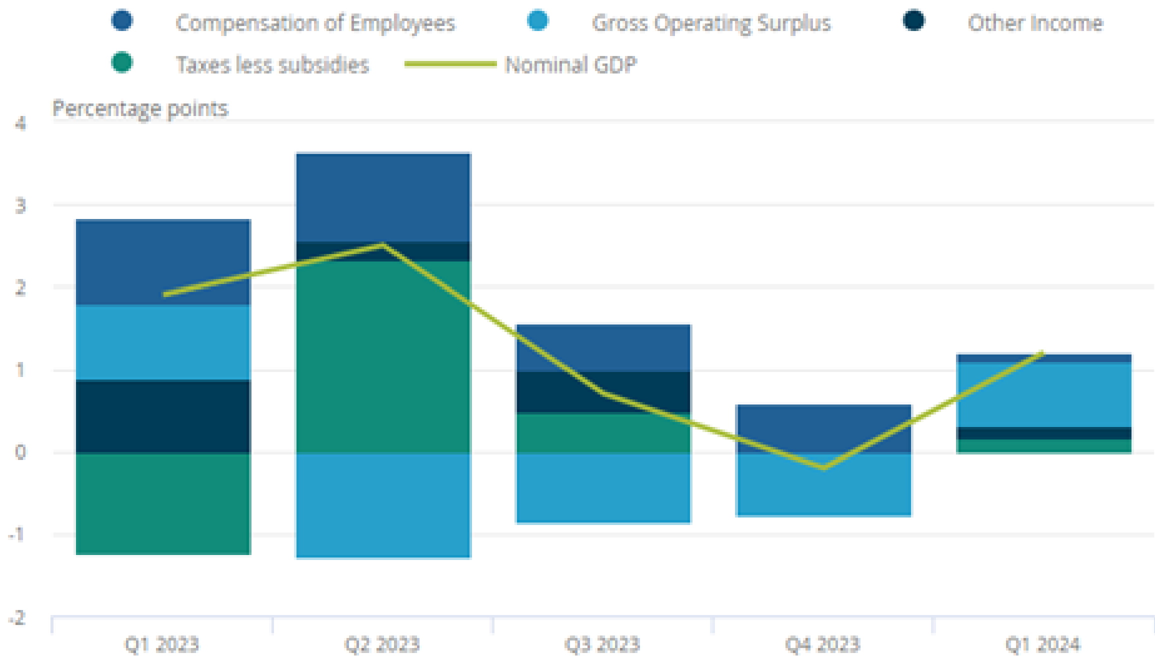
6. **UK March industrial production moderates to 0.2% m/m, +0.5% y/y after 1% m/m, 1% y/y – better than the -0.5% m/m, 0.3% y/y expected**. The slowdown is mainly attributed to a softer rise in manufacturing activity (0.3% vs 1.2% in April), and the declines in output for electricity and gas (-0.9% vs 0.4%), and water supply and sewerage (-0.1% vs 0.9%). In contrast, production rebounded for mining & quarrying (1.0% vs -0.7%).

7. **UK 1Q GDP rose 0.6% q/q, 0.2% y/y after -0.3% q/q, -0.2% y/y – better than the 0.4% q/q, 0% y/y expected** - the strongest expansion in over two years, with services rising 0.7% amid widespread growth across the sector, although land transport services via pipelines (excluding rail transport) soared 6.4%. Also, the production sector grew 0.8%, with manufacturing making the largest contribution, namely transport equipment (5.7%) while the construction sector fell 0.9%. In expenditure terms, household consumption went up 0.2%, led by spending on housing, water and fuels, recreation and culture, restaurants and hotels. Net tourism on the other hand, contributed negatively to growth. Government spending rose 0.3%, reflecting higher activity in health and transport. Gross fixed capital formation increased 1.4%, of which business investment (0.9%). Also, imports (-2.3%) fell more than exports (-1%). The March monthly GDP rose 0.4% m/m after 0.2% m/m – also better than 0.1% m/m expected - the strongest performance in nine months, as

services output grew 0.5% and was the largest contributor to growth. Also, production output rose 0.2% while construction fell 0.4%

Is the UK recovery too much for the BOE to ease in June?

UK, contributions to nominal GDP, Quarter 1 (Jan to Mar) 2023 to Quarter 1 2024



Source: GDP first quarterly estimate from the Office for National Statistics

Source: Reuters /BNY Mellon

Disclaimer and Disclosures

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