

iFlow

MARKET MOVERS

May 13, 2024

Prices

"A work of art that contains theories is like an object on which the price tag has been left." – Alexander Pope

"Price is what you pay, value is what you get." – Warren Buffet

Summary

Risk mixed as markets take comfort in better 1Q earnings, hopes for monetary easing but wait for confirmation of inflation slowing. The overnight stories wrap around hopes for Israel Hamas ceasefire, weaker loan data in China over the weekend spurring further easing talk, Japan BOJ doing less bond buying, and the Eurogroup meetings on banking and capital market union along with easing national budgets. Despite all that bonds are bid, stock futures in the US up, and the USD mixed. The mood today is tentative and more related to hope than facts as focus is on US April CPI with expectations for 3.6% y/y from 3.8% y/y. This would be good but not enough to confirm Fed easing plans in 3Q. The US gets little other than the NY Fed consumer inflation expectations today and so its up to Fed speakers and anything that suggests the "Goldilocks" narrative continuing. The lack of data and news seems likely to test the patience of investors as they wait for prices to cooperate with souring consumer moods. The wage-price spiral is clearly part of the risks everywhere with focus on Thursday US weekly jobless claims and the UK and Australia jobs reports this week.

What's different today:

- **China bond yields – 10Y fell 3bps to 2.32%** - China rate cut hopes drive EM stocks higher to near 2-year highs with China weekend M2 and total social

finance data driving expectations for another round of easing and offsetting CNY1trn in supply set for May 17 with 20Y, 30Y and 50Y bond sales.

- **Bank of Japan cuts 5-10Y JGB bond purchases** to Y425bn off 50bn from previous operation. This was the first cut in size since December. Japan 10Y JGB yields rose 2.5bps to 0.93% to 6M highs. The 30Y rose to 2011 highs at 2.03%
- **iFlow** – Mood indicator still negative but off the lows while equity sectors globally bloom with 7 seeing inflows and only consumer staples seeing outflows. The bounce back in trend and carry notable but not yet in significant zone. FX in G10 seeing cross pressure with JPY and EUR and CAD selling vs. CHF, AUD, GBP. EM is notable in the surge in EM buying for EMEA from PLN, TRY and ZAR. Bonds are mixed with Sweden vs. Norway notable in G10 while APAC seeing Malaysia, Thailand and Indonesia inflows.

What are we watching:

- **US New York Fed consumer inflation expectations** expected flat at 3% - with the sting of the Michigan survey key last week, this will be important to confirm rising inflation fears.
- **Fed Speakers:** Vice Chair Jefferson on communications and Cleveland Fed President Mester speech.

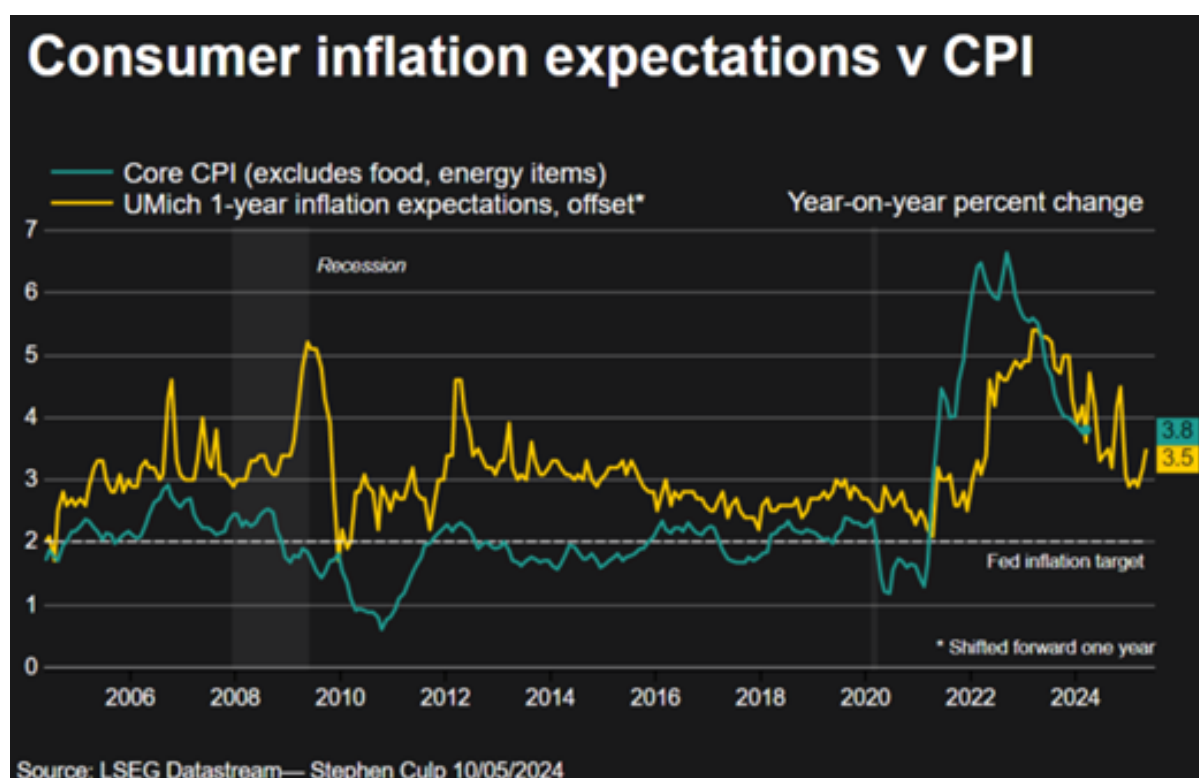
Headlines:

- Australian Apr NAB business confidence flat at +1 – second month below average – signs of slowing – ASX up 0.01%, AUD up 0.1% to .6610
- China plans to stop live feed of foreign stock flows – matching other nations with hopes to boost confidence; M2 and total social finance drop, CPI higher - CSI 300 off -0.04%, CNH off 0.1% to 7.2420
- Japan PM Kishida cabinet support rises 0.4% to 24.2% – still in “danger zone” below 30% - Nikkei off 0.13%, JPY flat at 155.85
- Indonesia Apr consumer confidence rose 3.9 to 127.7 – best since May 2023 – IDR off 0.2% to 16,080
- Turkey Mar C/A deficit narrows \$750m to \$4.54bn with small trade deficit, higher income, while Mar retail sales 0% m/m, 19.4% y/y – slowing from 7-month highs – TRY up 0.3% to 32.21
- Swiss Apr consumer confidence -38.1 – holding near 8-month highs, still below long-term average – Swiss MKT flat, CHF off 0.1 to .9075
- UK PM Sunak: Economy “decisively has momentum” starts general election pitch – FTSE up 0.1%, GBP flat at 1.2530

The Takeaways:

The hope for the week rests on the price data from US CPI and other nations moderating. The “last mile” of getting inflation back to 2% rests on patience rather than more restrictive policy. This is inherently an easing bias for the markets and the financial conditions reflect it. The question for many is in the balancing act of waiting for good things to happen and wishing nothing bad follows. The slowing of the US economy – particularly wages – is essential, but so too is the cost of bigger things like cars and houses. The latest [WSJ Timiraos article](#) highlights the problem of the owner equivalent rents being sticky. The housing issue in the US is different from that of other nations like Sweden, Canada and Australia but the lack of supply remains key. The ability of the US consumer to believe in patience and price declines will be tested over the summer. Adding to the mix is the role of the rest of the world. For the day, the compare and contrast risk rests with consumer inflation expectations with the NY Fed version being stacked against the University of Michigan survey.

Does inflation follow the consumer?



Source: Reuters/ BNY Mellon

Details of Economic Releases:

1. Australian April NAB business confidence flat at +1 – less than the +2 expected. Weak sentiment in retail, wholesale, and mining offset improvements in recreation & personal services, construction, and manufacturing. Meanwhile,

business conditions fell (7 vs 9 in March), due to declines in sales (12 vs 15) and employment (2 vs 6) while profitability was steady (at 6). Forward orders were more negative (-7 vs -1), weighed by mining, manufacturing, and construction. Capacity utilization was unchanged (at 83.2%), with capex remaining robust (8 vs 8). Labour cost growth eased to 1.5% in quarterly equivalent terms from the prior 1.7%, and purchase cost growth slowed to 1.2% from 1.5%. Retail price growth eased to 0.9% from 1.4%. "... signs of slowing activity and easing costs support the outlook for gradual inflation from here, but how quickly this occurs remains to be seen," NAB chief economist Alan Oster said.

2. Indonesia April business confidence rose to 127.7 from 123.8 – better than 123.1 expected - the highest reading since May 2023, as all six sub-indices strengthened after the general election held earlier in the year ran smoothly, just in a single round. Income expectations for current income grew the most (up 6.1 points to 124.2), followed by job availability compared to six months ago (up 5.7 to 117.6), expectations about the country's current economic conditions (up by 5.6 points to 119.4), economic outlook (up 2.2 to 136.0), income expectations for the next six months (up 1.2 to 140.6), and job availability (up 0.8 points to 134.8).

3. Swiss April consumer confidence drops to -38.1 from -38 – better than -40 expected – holding close to an eight-month high. Still, the latest reading remained significantly below the long-term average. Pessimism eased in the gauge of expected economic development (-21.2 vs -22.6 in March), and concerns were lessened about job security (-21.0 vs -22.1). Meanwhile, there was a deterioration in the gauges for expected financial development (-36.2 vs -35.1) and expected price development in the next 12 months (95.9 vs 94.8). Moreover, consumers were also more unlikely to make big purchases (-37.2 vs -36.4).

4. Turkey March retail sales slow to 0% m/m, +19.4% y/y after 3.6% m/mm, 25.2% y/y – less than the 1.8% m/m expected – dropping from 7-month highs. Sales volumes were up 10.5% y/y. Sales rose at a softer pace for food, drinks & tobacco (12.4% y/y vs 13.2% in February) and non-food products (27.8% vs 36.5%). Among non-food items, smaller gains were observed in sales for computers, peripheral units & software, books, telecommunications equipment, etc. (44.2% vs 56.4%), audio & video equipment, hardware, paints & glass (14.6% vs 25.5%), textiles, clothing & footwear (11% vs 16.3%), and via mail orders & internet (41.3% vs 55.9%), while sales grew slightly for pharmaceutical goods, medical & orthopedic goods, cosmetic & toilet articles (18.6% vs 18.1%). At the same time, sales declined for automotive fuel (-2.4% vs 5%).

Turkey turnover vs. retail sales - is this volume or price?



Source: Turkey Statistics Agency /BNY Mellon

Disclaimer and Disclosures

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



Bob Savage

HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB

