

iFlow

MARKET MOVERS

May 14, 2024

On Hold

"Courage is fear holding on a minute longer" – George S. Patton
"It is strange how we hold on to the pieces of the past while we wait for our futures" – Ally Condie

Summary

Risk mixed – mostly frozen with investors waiting for more data particularly US CPI. The US PPI is hoped to be lower at 2.3% y/y core. Yesterday's NY Fed consumer inflation expectations rose to 3.26% 12M forward – that makes real data important. The mood overnight was mixed from the tight Australian budget to the ongoing hope for China easing to the lackluster JPY and ongoing talk of BOJ tightening and MOF intervention risks. The US tariffs on China were well telegraphed but still make clear that the world trade order is changing. India inflation was higher and the RBI is on hold with many expecting this to be the new normal. The wait for better data is on everywhere. German ZEW hopes are high for such but the reality of UK jobs is another story. BOE rate cut hopes are also high. FX like other markets is stuck with little movement notable except in carry trades particularly in Europe but South Africa is the exception while SEK, JPY and CHF remain the funding anchors of the rising return to carry trades. For the day ahead, PPI seems less important than the FOMC Powell comments, but few really think central bankers are going to change the on-hold mood.

What's different today:

- **Japan Y1.74trn 5Y bond sale comes at 0.572%** up from 0.404% previously – still healthy 3.9 bid/cover but has tail - 10Y yields rise further up 1.3bps to 0.94%.

- **Return of Meme stocks** – GameStop shares up 90% in pre-market. The “roaring kitty” story is a flash back to Pandemic excess. AMC and BlackBerry are also up again.
- **iFlow** – Mood still risk-off but bouncing, Carry back to positive, Trend almost neutral, while USD buying in G10 with JPY selling and EUR notable. EM is about PLN, TRY and ZAR buying vs. THB and IDR unwinding. The equity markets remain positive in sectors with only consumer discretionary negative led by Japan, some of Europe and some EM mostly in LatAm.

What are we watching:

- **US April PPI** expected up 0.3% m/m, 2.2% y/y after 0.2% m/m, 2.1% y/y – with core down 2.3% y/y from 2.4% y/y
- **Central Bank Speakers:** FOMC Powell speaks in Amsterdam; Dutch central bank chief and European Central Bank policymaker Klaus Knot speaks; Fed Governor Lisa Cook speaks; Kansas City Fed President Jeffrey Schmid speaks; ECB board member Isabel Schnabel speaks; Bank of England chief economist Huw Pill speaks
- **US 1Q Earnings:** Home Depot. Walmart was reported to be cutting hundreds of corporate jobs and asking most remote workers to move to offices.

Headlines:

- Japan Apr PPI up 0.3% m/m, 0.9% y/y – most in 4-months – IMF think further hikes should be gradual and data dependent, supports flexible JPY, MOF Suzuki closely watching FX moves – Nikkei up 0.46%, JPY off 0.1% to 156.40
- China Security Journal: PBOC may cut RRR after bond issuance peaks, Moody sees China new home sales staying weak, with secondary market rising; US imposes tariffs on Chinese chips, minerals and EVs – CSI 300 off 0.21%, CNH flat at 7.2410
- China and South Korea meet to discuss North Korea, China calls for stable ties despite “difficulties” – Kospi up 0.11%, KRW off 0.1% to 1369
- Australian Budget – second straight surplus planned at A\$9.3bn, sees CPI dropping, plans A\$15bn investment in renewable energy and critical minerals – ASX off 0.3%, AUD flat at .6610
- Indonesia Mar retail sales jump 9.9% m/m, 9.3% y/y – best in 2-years – but April expected just 0.15% y/y – IDR off 0.1% to 16,093
- India April WPI up 0.79% m/m, 1.26% y/y – 13-month highs – led by food – Sensex up 0.45%, INR up 0.15% to 83.508
- Norway 2Q consumer confidence up 7.9 to -16.3 – best since 2Q 2022 – NOK up 0.1% to 10.81

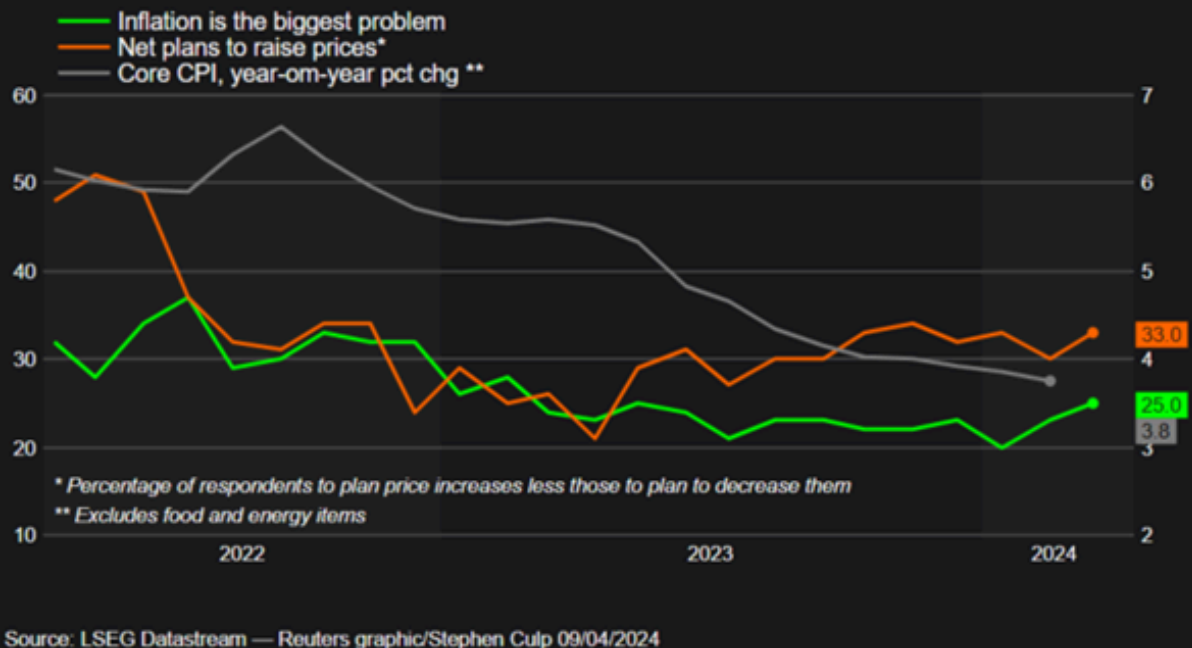
- German May ZEW economic sentiment rises 4.2 to 47.1 – best since Feb 2022 – final Apr CPI confirmed up 0.5% m/m, 2.2% y/y - DAX off 0.25%, Bund 10Y up 0.5bps to 2.51%, EUR up 0.1% to 1.08
- UK Mar unemployment rises 0.1pp to 4.3% with 178,000 jobs lost – worst in a year – FTSE up 0.1%, Gilt 10Y off 1bps to 4.165%, GBP flat at 1.2555

The Takeaways:

Focus remains on US data and CPI particularly this week, but the shift from policy worries – is the FOMC going to ease seems to be shifting regardless. Markets are going back to the growth focus and the idea that the Fed won't cut if the US economy is growing faster. The US small business optimism index from the NFIB for April is a case in point. The index rose from 88.5 to 89.7 – better than the 88.2 expected. The first increase of the year, but still the 28th month below the long-term average of 98. However, under the hood of growth hopes is the ongoing fear of inflation. “Cost pressures remain the top issue for small business owners, including historically high levels of owners raising compensation to keep and attract employees,” said Bill Dunkelberg, NFIB Chief Economist. “Overall, small business owners remain historically very pessimistic as they continue to navigate these challenges. Owners are dealing with a rising level of uncertainty but will continue to do what they do best – serve their customers.” On the other side of the market focus is unemployment. As reported in NFIB's monthly jobs report, 56% of owners reported hiring or trying to hire in April, and of those hiring or trying to hire, 91% of owners reported few or no qualified applicants for the positions they were trying to fill. For the day expect any volatility to center around how markets hear Fed Powell and think about the growth/inflation balance.

Does inflation matter to growth?

NFIB: Inflation worries and price hikes



Source: Reuters/ BNY Mellon

Details of Economic Releases:

1. Japan April PPI up 0.3% m/m, 0.9% y/y after 0.2% m/m, 0.9% y/y – as expected - the 39th straight month of growth in producer prices, remaining the highest wholesale inflation since last October as cost continued to rise for most components: transport equipment (1.7% vs 2.1% in March), beverages & food (2.9% vs 4.0%), petroleum & coal (5.3% vs 5.3%), electrical machinery (3.3% vs 4.5%), production machinery (5.0% vs 4.6%), metal products (2.9% vs 3.4%), other manufacturing (5.3% vs 5.5%), general-purpose machinery (3.2% vs 3.8%), non-ferrous metals (11.7% vs 5.8%), business-oriented machinery (2.9% vs 4.0%), and information (3.3% vs 2.2%). At the same time, prices of plastic products bounced back (0.5% vs -0.3%). By contrast, cost fell for chemicals (-0.6% vs 0.2%) and iron & steel (-0.6% vs -3.1%).

2. Indonesia March retail sales rose 9.9% m/m, 9.3% y/y after 1.7% m/m, 6.4% y/y – more than the 3% y/y expected – April outlook expected at just 3.3% m/m, 0.1% y/y, still the March result was the tenth straight month of expansion in retail trade and the fastest pace since March 2022, as spending accelerated during the Ramadan fasting month and ahead of the Eid-el-Fitr celebration. There was strong growth in food sales (10.4% vs 9.1% in February), automotive parts & accessories (17.3% vs 9.0%), clothing (20.6% vs 0.3%), fuels (7.1% vs 10.7%), while trade stayed solid for home appliances (2.9% vs 0.5%). Simultaneously, sales dropped at softer paces for cultural & recreational goods (-5.4% vs -7.1%) and information & communication (-5.9% vs -21.9%).

3. Norway 2Q consumer confidence improves to -16.3 from -24.2 - better than -17 expected – still the 9th quarter of negative mood but the best since 2Q 2022, as households' views over their own finances became more optimistic for next year (21.4 vs 17.7 in Q1) and less pessimistic for last year (-10.5 vs -17.7). Moreover, consumers' assessment over the country's economy next year became positive (6.8 vs -1.4), while it was less negative for last year (-51.5 vs -71.8). Additionally, households' willingness to make large purchases were less unfavorable (-31.7 vs -45.7)

4. India April WPI up +0.79% m/m, +1.26% y/y after +0.4% m/m, +0.53% y/y – more than the 1% y/y expected - the sixth consecutive period of wholesale inflation and the fastest pace since last March 2023 due to a faster rise in food and primary articles amid a rebound in fuel prices and softer falls in manufacturing prices. Primary articles (5.01% vs 4.51% in March) and food index (5.52% vs 4.65%) advanced faster, due mainly to higher onion (59.75%), potato (71.97%), and vegetables (23.60%). Meanwhile, fuel and power prices rebounded (1.38% vs -0.77%) amid softer drops in LPG (-9.40% vs -10.19%), HSD (-1.86% vs -3.51%), and Petrol (-0.63% vs -0.94%). At the same time, manufacturing prices declined less (-0.42% vs -0.85%), weighed by basic metals (-3.65% vs -5.34%), chemical and chemical products (-3.61% vs -4.64%), and textiles (-1.24% vs -1.68%).

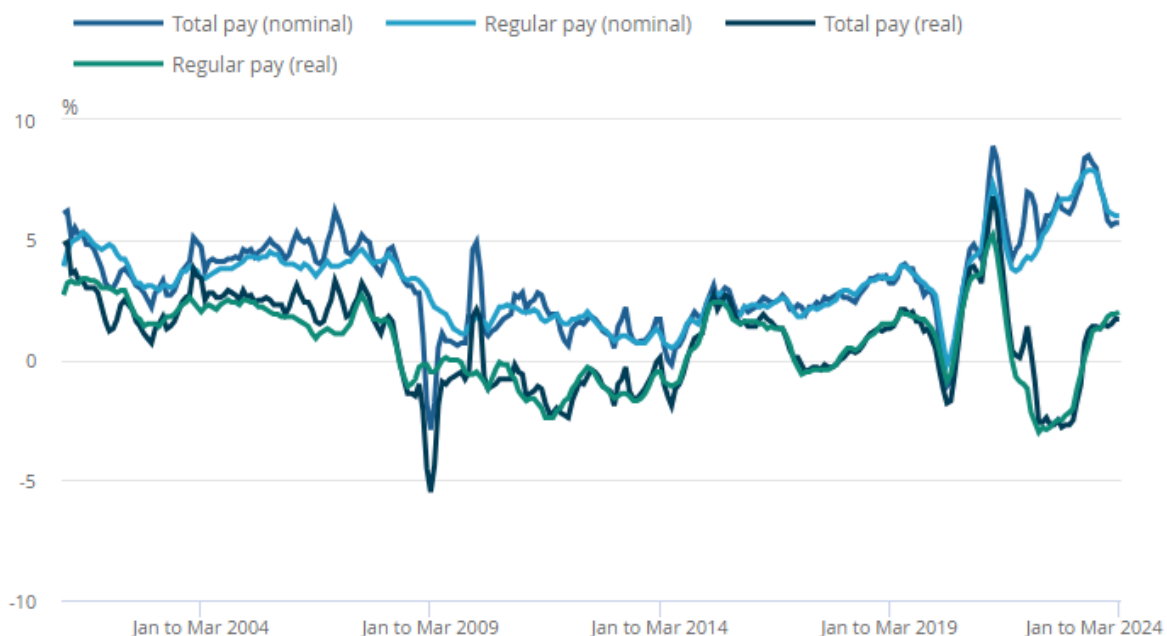
5. German May ZEW economic sentiment rises to 47.1 from 42.9 – better than 46 expected – best since February 2022. The current conditions subindex also improved to -72.3 from -79.2, compared to expectations of -75.8. This marks the tenth consecutive month of rising confidence among financial experts, driven by signs of economic recovery in Germany and stronger-than-expected GDP growth in Q1. Additionally, improving economic conditions in the Euro Area and China have contributed to a better outlook. Expectations for domestic consumption, as well as the construction and machinery sectors, have seen substantial increases.

6. UK March unemployment rises to 4.3% from 4.2% - as expected – the highest reading since May to July 2023, as the number of unemployed individuals rose by 46,000 to a total of 1.49 million, driven by those unemployed for up to 6 months, which remained above levels from a year ago. Also, those unemployed for over 6 and up to 12 months and those over 12 months had increased in the latest period. Meanwhile, the number of employed individuals went up by 17,000 to 33.0 million, primarily due to a rise in full-time employees. For the month -178,000 jobs fell after -156,000 – better than the -215,000 expected. On the other hand, the number of part-time employees decreased during the quarter. Finally, the economic inactivity rate fell by 0.1 percentage point to 22.1%. the 3M average hourly wages including

bonus were flat at 5.7% y/y while ex-bonus they were 6% y/y. The April claimant count change was up 8,900 after -2,400 – better than 14,000 rise expected.

Do flat wages mean a BOE cut soon?

Average weekly earnings annual growth rates in Great Britain, seasonally adjusted, January to March 2001 to January to March 2024



Source: Monthly Wages and Salaries Survey from the Office for National Statistics

Source: UK ONS /BNY Mellon

Disclaimer and Disclosures

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



Bob Savage

HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB

