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MARKET MOVERS

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Jumping the Gun

"In the sprint of life, jumping the gun, will never allow our bullet of effort, to reach its target of success." – S Roses
"Things get much easier if one jumps on the bandwagon of exiting trends." – Lei Jun

Summary

Risk mixed even with most of the world big bourses at new record highs ahead of US CPI, begging the question of whether investors are getting ahead of the data. Markets price 2 Fed cuts this year and that may change today. The CPI comes in at 3.4% y/y off from 3.5% y/y and that helps move bonds higher, stocks higher and hits the USD. The market jumped the gun on the headlines yesterday with PPI and may do the same today. The retail sales were weaker, and the Fed Speakers will clarify. The overnight makes clear that inflation matters from Sweden to the EU while the PBOC leaves rates unchanged despite the moribund credit demand and markets yawn at the talk of selling excess housing to local governments. Debt burdens aren't the story but maybe after 8.30 am. USD is flat like much of the rest of the world with only JPY moving back as politics and policy in EM matter more and carry trades stutter.

What's different today:

- **Copper at new record highs** touched \$5.13 lb before retreating to \$5.05 - led by global recovery hopes
- **US MBA weekly shows mortgage rates dipping for 2nd week** of 10bps to 7.08% - all about the shift in US leads.

What are we watching:

- **US April CPI** lower at 0.3% m/m, 3.4% y/y with core 0.3% m/m, 3.6% y/y when it was expected up 0.4% m/m, 3.4% y/y after 3.5% y/y with core up 0,3% m/m, 3.6% y/y off 0.2pp.
- **US April retail sales** lower at 0% m/m, ex autos up 0.2% m/m, when it was expected up 0.4% m/m, 3.8% y/y after 0.7% m/m, 4% y/y - with ex autos 0.2% after 1.1% m/m
- **US 1Q earnings:** Cisco, Progressive
- **Fed Speakers**: Governor Michelle Bowman, Fed Vice Chair for Supervision Michael Barr, Kansas City Fed President Jeffrey Schmid and Minneapolis Fed chief Neel Kashkari all speak

Headlines:

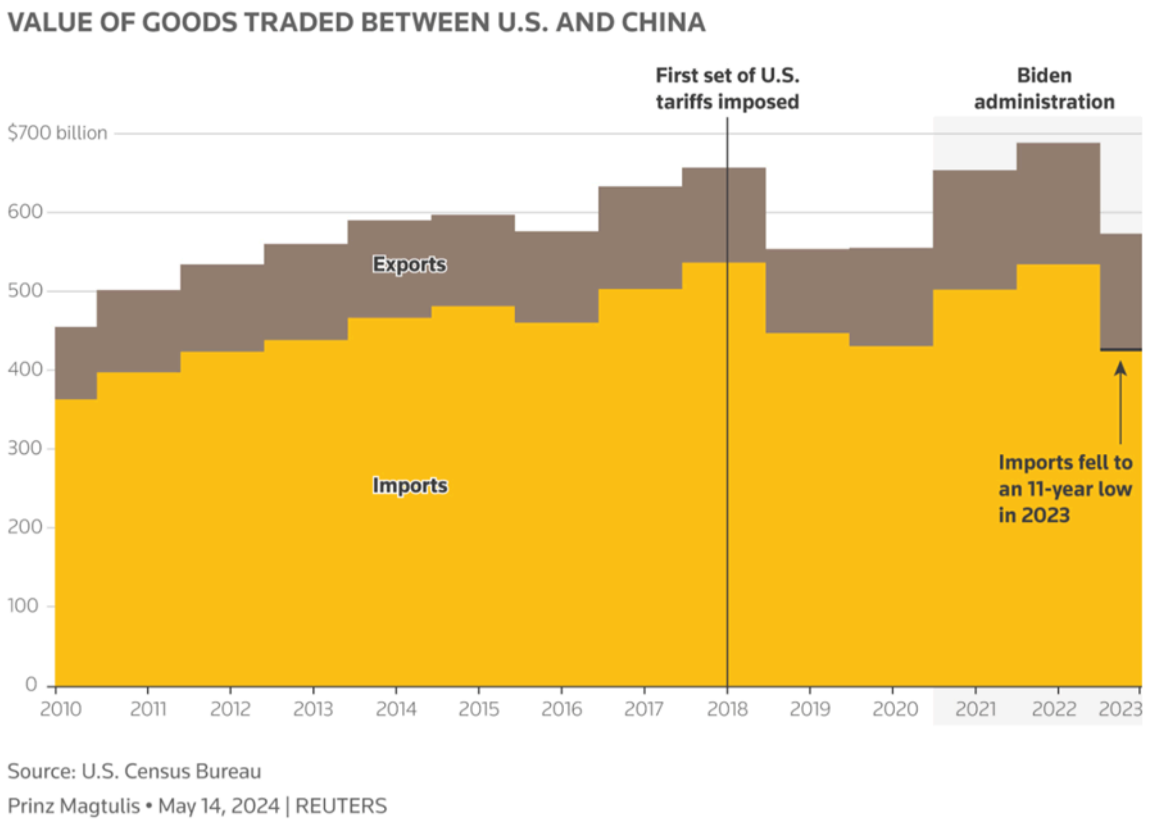
- Argentina cuts rates 10% to 40%- as expected as Apr CPI drops 2.1pp to 8.8% m/m - off from Dec 25.5% m/m highs - still 289.4% y/y; Blue Dollar ARS 10,70 up 2.4%
- China PBOC keeps 1Y MLF rate unchanged at 2.5% - as expected – CSI 300 off 0.85%, CNH up 0.3% 7.2195
- Australian 1Q wages up 0.8% q/q, 4.1% y/y - less than expected - still near 2009 highs – ASX up 0.3%
- Sweden Apr CPI dips 0.2pp to 3.9% - lowest since Jan 2022 - while Riksbank May 7 minutes show more cuts to follow if CPI remains tame – OMX off 0.4%, SEK up 0.3% to 10.78
- South Africa Mar retail sales rise 1.4% m/m, 2.3% y/y - as expected – ZAR up 0.3% to 18.37
- Eurozone 1Q GDP unrevised at 0.3% q/q, 0.4% y/y with employment up 0.3% q/q, 1% y/y - best since 3Q 2022 – EuroStoxx flat, EUR up 0.15% to 1.0835
- US weekly API oil inventories drop -3.104mb more than -1mb expected - gasoline fell 1.269mb about 2% below 5Y average while distillate rose 30.349mb still 7% below average – WTI off 0.5%.

The Takeaways:

China is back in the focus post the US CPI, with housing the key and plans to sell excess inventory to local governments the latest story. While this may cut the supply story it won't fix the market, nor will it make the demand higher. The pain moves from developers to provincial government leaders with debt still the worry. While the

PBOC will likely be the go-between for troubles there it will be a dangerous bog for quantitative easing talk. The jumping of the gun theme for today started yesterday and continues today with US CPI and China/US relationships mattering more than anything else. The two biggest economies of the world are not working together like they did in the growth stages of 1994-2007 and that mourning of such makes may wonder if they can still grow separately. The Biden tariffs maybe the next political story for the US election even as both Republicans and Democrats fret about Chinese strength and competition. The world is watching today to see if the USD rallies with rates or drops with them. The correlation of trade and US bonds will be in the front of markets with TIC data at 4pm but as our own iFlow data show, foreigners aren't going to buy US debt without a premium.

Does trade matter to markets?



Step chart with data from the U.S. Census Bureau showing the annual value of U.S.'s exports to and imports from China since 2010.

Source: Reuters/ BNY Mellon

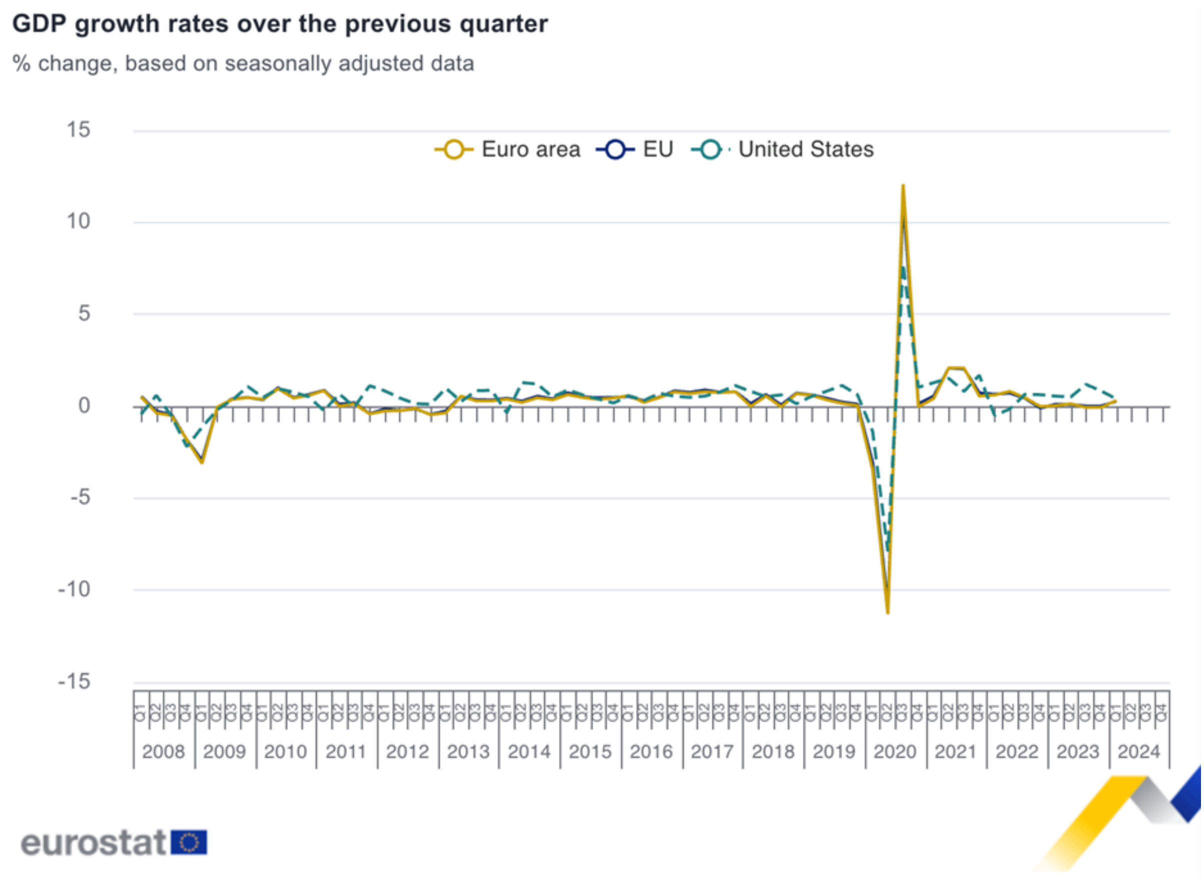
Details of Economic Releases:

1. Australian 1Q wage price index rises 0.8% q/q, 4.1% y/yafter 1% q/q, 4.2% y/y - less than the 4.2% y/y expected - but this is just off the highest reading since Q1 of 2009. The wage growth eased for both the public sector (3.8% vs 4.3% in Q4 of 2023) and the private sector (4.1% vs 4.2%). In original terms, the main contributors to the growth were healthcare and social assistance (5.3%), electricity, gas, water, and waste services (4.4%), retail trade (4.4%), administrative and support services (4.3%), transport, postal & warehousing (4.3%), construction (4.2%), education and training (4.1%), manufacturing (4.0%), and mining (3.8%)

2. **Sweden April CPI rises 0.3% m/m, 3.9% y/y after 0.1% m/m, 4.1% y/y - better than the 4% y/y expected -** the lowest reading since January 2022, mainly driven by a slowdown in prices for housing & utilities (8.6% vs 9.3 in March), due to lower electricity costs. Additionally, inflation went down for transport (0.2% vs 1.9%), recreation & culture (2.4% vs 3.1%), miscellaneous goods & services (3.7% vs 4.5%), and clothing & footwear (4.6% vs 4.9%). Conversely, prices for food & non-alcoholic beverages rose 0.7% in April, after declining by 0.7% in the prior period.

3. **Eurozone 1Q GDP unrevised at 0.3% q/q, 0.4% y/y after -0.1% q/q, +0.1% y/y - as expected.** the strongest GDP growth since the third quarter of 2022, with German GDP rebounding (0.2% vs -0.5%) and France (0.2% vs 0.1%) and Italy (0.3% vs 0.1%) expanding at a faster pace. Also, the Spanish economy grew at a robust 0.7% (vs 0.7% in the previous quarter). After a year of stagnation in 2023, the Eurozone is now on the path to recovery, particularly in Germany. Inflation is nearing the 2% target, and the European Commission now forecasts 0.8% growth for 2024, little changed from previous predictions, driven by a steady rise in consumer spending and improved trade, although investment growth appears to be softening.

Does 1Q GDP tell us anything about 2Q?



Source: Eurostat /BNY Mellon

Disclaimer and Disclosures

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