BNY MELLON

iFlow MARKET MOVERS

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Fragile

"Beauty is a fragile gift." – Ovid
"Life if fragile. We're no guaranteed a tomorrow so give it everything you've got." – Tim Cook

Summary

Risk mixed as weakness isn't strength. The Japan 1Q GDP weakness worried, as did the Australian higher unemployment, but the weaker USD spurred by the flat US retail sales and lower CPI spurred a notable rally back in risk for APAC. FX relief from the dollar is important and explains the turn in Europe as Fed Williams wasn't dovish and US bonds are mixed. The China/Russia headlines return markets to geopolitical risks while the ECB highlights them in their FSB report. The threat of higher inflation is less scary than the threat of no rate cuts from the ECB or even BOE in June. The news from the US today is likely to make clear the fragility of mood with weekly jobless claims a key focus now given weaker job fears as is industrial production and even housing starts given the Fed house price focus. The markets are clearly relieved but fragile in their new found ranges for FX and bonds.

What's different today:

- **The S&P500 VIX option index fell to 4-month lows at 12.48**, while the US bond market MOVE volatility index fell to 6-week lows at 93.78 – both reflect relief after US CPI was lower and retail sales weaker yesterday.
- **Lithium prices trade at multi-year lows** – CNY 105,000 a ton – stuck near the 2 ½ year lows since February with the EV inventory glut and new US and EU tariffs on Chinese EV cars and batteries part of the story.

- **Hong Kong Hang Seng jumps 1.59% to close over the 9-month high** and resistance – with property stocks leading the rally. Further hope for selling excess housing supply to governments driving recovery.
- **iFlow Mood is back to neutral** – the risk off pressures reverse – with global shares higher in most sectors but energy, consumer – while IT even saw recovery. The FX markets was mixed with JPY selling in G10 main story, while in EM buying in EMEA and LatAm vs selling in APAC stands out. The bond flows were mixed with G10 mixed as US and Sweden and Europe saw inflows, LatAm selling against APAC buying.

What are we watching:

- **US weekly jobless** claims expected down 11k to 220k with continuing claims off 5k to 1.78mn – key focus given weak retail sales yesterday
- **US April housing starts** expected up 7.6% to 1.421m after -14.7% m/m drop – key for house prices – also annual revisions will be important
- **US May Philadelphia Fed business outlook** expected off to 8 from 15.5 – key for ISM forecasts
- **US April industrial production** expected up 0.1% m/m after 0.4% m/m – with health of sector important for growth views
- **Fed Speakers**: Michael Barr, the Fed's vice-chair for supervision, will testify at the US Senate Banking Housing and Urban Affairs Committee hearing on the oversight of US financial regulators. Atlanta Fed president Raphael Bostic will participate in a conversation about the economic outlook at an event in Florida. Cleveland Fed president Loretta Mester will deliver remarks at an event in Wooster, Ohio
- **1Q Earnings**: Deere, Under Armour and Canada Goose will report before the bell.

Headlines:

- Philippines BSP leaves rate policy unchanged at 6.5% - as expected – could ease in August – PHP up 0.15% to 57.47
- China state council meeting Friday to discuss property market – CSI 300 up 0.39%, CNH flat at 7.2185
- Japan 1Q GDP drops -0.5% q/q, -2% y/y – led by weaker consumption – Nikkei up 1.39%, JPY up 0.1% to 154.75
- South Korea court allows government plan to boost medical school admissions in blow to strike – Kospi up 0.83%, KRW up 1.7% to 1345

- Australia April jobs rise 38,500 but unemployment up 0.2pp to 4.1% - highest since January, RBA Hunter – no quick fix to housing crisis – ASX up 1.65%, AUD off 0.3% to .6675
- Israel 1Q GDP jumps 14.1% q/q, +3.3% y/y after -21.7% q/q– rebounding from Hamas war slump – ILS off 0.2% to 3.6815
- Norway 1Q GDP (mainland) up 0.2% q/q – as expected – slowing with weaker consumption and investment – NOK off 0.2% to 10.69
- ECB Financial Stability Review: Sees risks from global elections and geopolitics, fragile outlook – EuroStoxx 50 off 0.3%, EUR off 0.1% to 1.0875
- Fed Williams: CPI report shows economy in "good place" not ready to ease policy yet – US S&P500 futures flat, US 2Y rates up 1.7bps to 4.74%, USD index up 0.1% to 104.41

The Takeaways:

Debt fears are back in play as the US slowing economy removes inflation fears and puts the burden back to growth and productivity to make the arithmetic of borrowing work. If you can't inflate your way out of debt you have to grow more productively. The pressure on monetary policy and the data will remain in play until central banks play their hand in June. The ECB Financial Stability report today is a case in point as it highlights the risk. "Any reassessment of sovereign risk by market participants due to high debt levels and lenient fiscal policies could raise borrowing costs further and have negative financial stability effects, including via spillovers to private borrowers and to sovereign bondholders," the ECB report noted. Coupled with the ECB fears about debt, the FT interview with Ray Dalio about US debt, makes clear the focus in the medium term is on how bonds handle weaker growth, lower inflation and higher supply. The US bond market rally in lock step with US stocks maybe the focus for today given the data overload and the burden of stocks being again at record highs. The sustainability of all is in doubt as we live in a beautiful but fragile world.

<u>Does debt matter if central banks cut rates?</u>

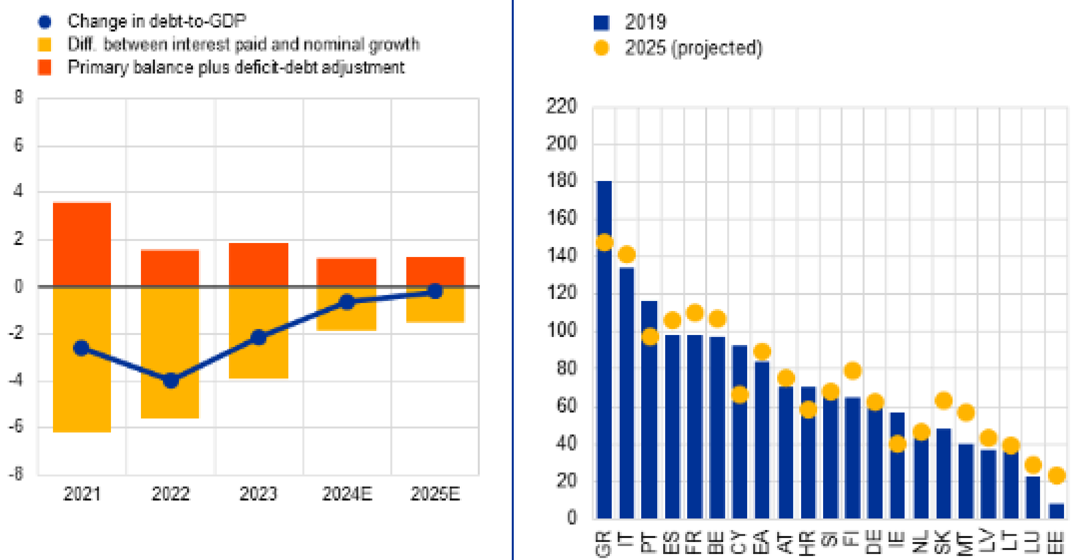
Despite falling somewhat in recent years, projected sovereign debt levels remain high

a) Change in euro area government debt-to-GDP and its drivers

(2021-25, percentages of GDP and percentage point contributions)

b) Projected government debt-to-GDP ratios across euro area countries

(2019 and 2025, percentages of GDP)



Sources: European Commission (AMECO), Eurostat and ECB (GFS) and ECB calculations.
Note: Panel a: values for 2024 and 2025 are projections.

Source: ECB/ BNY Mellon

Details of Economic Releases:

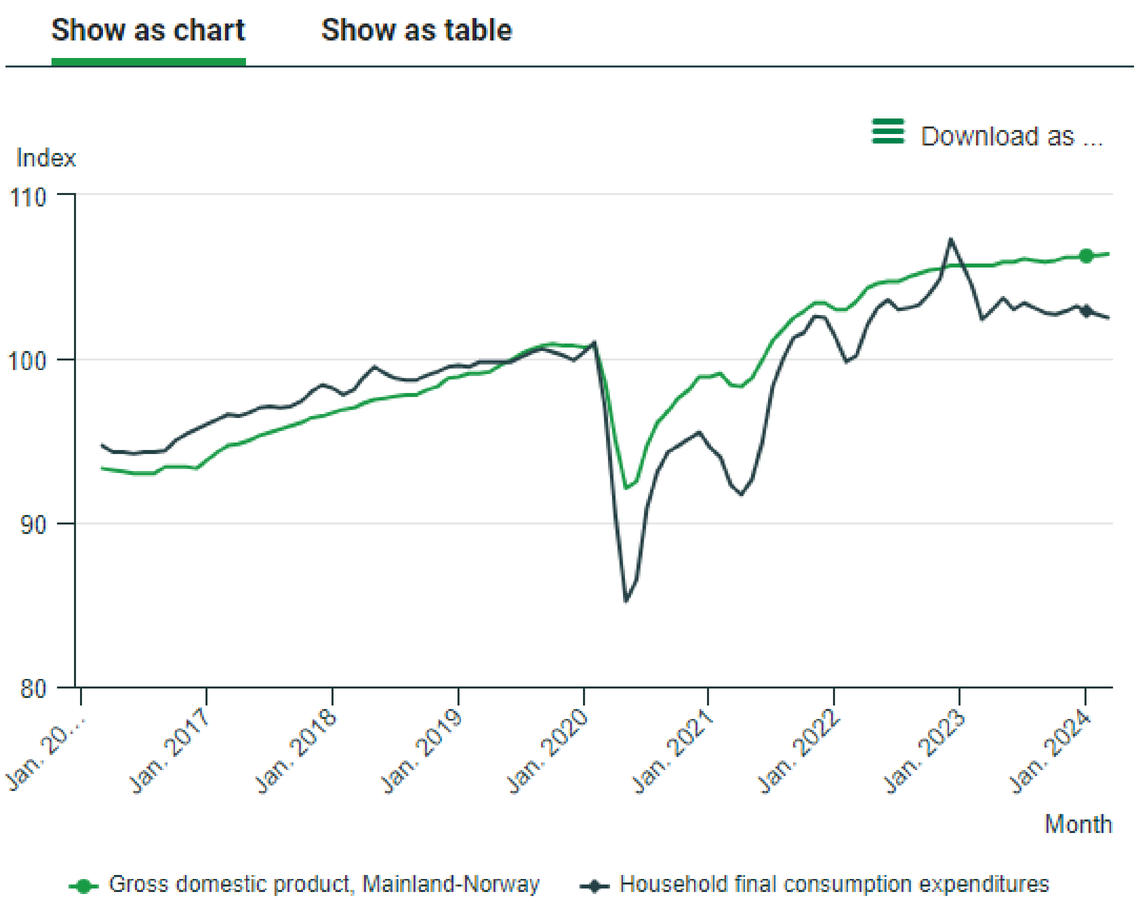
1. Japan 1Q GDP -0.5% q/q, -2% y/y after 0% q/q, 0% y/y – weaker than the -0.4% q/q, -1.5% y/y expected. Private consumption, which accounts for more than half of the economy, fell for the fourth straight quarter (-0.7% vs -0.4% in Q4), marking the steepest fall in three quarters as consumers continued to reduce their spending in the face of expensive costs of living and sluggish wages, and after a quake that struck the Noto peninsula at the start of the year. Capital expenditure also dropped (-0.8% vs 1.8%), compared with expectations of a 0.7% fall, due to the significant reduction of auto production after a scandal at Toyota's unit Daihatsu Motor. Net trade was also a drag on the GDP, matching forecasts, as exports (-5.0% vs 2.8%) declined more than imports (-3.4% vs 1.8%). On the other hand, government spending grew by 0.2%, compared with a 0.2% drop previously.

2. **Australian April jobs rise 38,500 after -5,900 – better than 23,700 expected – but unemployment rate rises to 4.1% from 3.9%, more than 3.9% expected,** and the worst since January as the participation rate rises to 66.7% from 66.6%. Also, jobs created were in part-time positions 44,600 reversing March -32,500 while full-time jobs fell -6,100 after 26,600 rise. The underemployment rate edged up to 6.6% from 6.5%, remaining 2.1 points lower than in March 2020. Additionally, monthly hours in all jobs were unchanged at 1,962 million.

3. **Norway 1Q GDP up 0.2% q/q, -0.8% y/y after 1.6% q/q, 0.4% y/y – as expected**. The mainland GDP (ex-offshore oil) also rose 0.2% q/q but down from 0.3% q/q in 4Q. March monthly GDP fell 0.2% m/m after-0.3% m/m.. The slight slowdown was mainly driven by a decline in household consumption, due to sharp drop in purchases of motor vehicles. At the same time, fixed investments fall sharply during the quarter. On the production side, increases in the manufacturing and service industries supplying the oil sector contributed to the growth. Activity also grew for health, social work, wholesale, retail trade and repair of motor vehicles.

Is the Norges Bank behind the curve for cuts?

Figure 1. Gross domestic product and household final consumption expenditures. Rolling three-month sum. Seasonally adjusted. Volume indices. 2019=100



Source: Eurostat /BNY Mellon

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