

# iFlow

## MARKET MOVERS

May 20, 2024

Wit

***"Wit is educated insolence." - Aristotle***

***"Many would live by their wits but break for want of stock." – Benjamin Franklin***

### Summary

Risk on as markets chase the tape and take comfort in lack of shocks. The second-tier economic data stream in economics helps keep bonds tame, USD stuck. The geopolitical reaction to tragic crash of Iran's Raisi kept calm. Oil off despite China demand clearly up. The gold, copper rally reflect the underlying narrative of global growth recovery in a less inflationary world. Whether this holds requires some nimble thinking. Markets don't get much news today but Fed speakers and a few more earnings matter. Politics and geopolitics remain front and center as well as we have seen from ZAR and the Zuma court ruling. How the wars play out ahead are part of the equation. Most expect the FOMC minutes and the global PMI reports to be the highlights for the week ahead.

### What's different today:

- **Japan 10Y yields touch 10-year high yields - up 2.5bps to 0.975%** - with July rate hike expectations rising.
- **Copper and Gold both touch record highs** - Gold up 18% ytd at \$2440, Silver over \$30, Copper trades \$5.15 lb. All linked to stronger demand.
- **iFlow** – In FX, factor show value in extreme holding zone, carry nearing that, trend back to neutral. Overall, Mood fully back to risk neutral. FX in G10 Friday data shows JPY selling CHF buying, while in EM CNY, HB, MXN and COP outflows against PLN, TRY, ZAR inflows. Equities mixed with only LatAm showing significant inflows. Fixed Income mixed with G10 Australian and New

Zealand selling vs. Sweden buying, while EM was Peru, Brazil, Philippines and South Africa buying vs. Indonesia, Argentina outflows.

### What are we watching:

- **US 1Q earnings:** Palo Alto Networks, Nordson, Keysight Technologies
- **Fed Speakers:** Fed Vice Chair Philip Jefferson, Fed Vice Chair for Supervision Michael Barr, Fed Board Governor Christopher Waller, Atlanta Fed President Raphael Bostic all speak

### Headlines:

- Iran President Raisi killed in helicopter crash - Mokhber named by Khamenei as interim leader - 5 days of mourning declared – Oil WTI off 0.35%
- China PBOC leaves 1Y LPR at 3.45%, 5Y at 3.95% as expected - fiscal revenue for Apr +2%, spending +3.5% ytd – CSI 300 up 0.35%, CNH off 0.1% to 7.2415
- Taiwan new President calls on China to stop threats - April exports up 10.8% best in 2 years, China orders up 16.3% y/y – TWD off 0.1% to 32.237
- BOJ Survey show 70% of large manufacturers see weak JPY as drawback - top companies agree to 5.58% pay hike – Nikkei up 0.73%, JPY off 0.35% to 155.75
- South Africa court bans former president Zuma from running in May 29 election – ZAR off 0.25% to 18.22
- Spanish Apr consumer confidence up 2 to 84.5 - best in 8-months – IBEX up 0.2%, SPGB off 1bps to 3.425%
- Italian Mar construction output -1.9% m/m, +3.8% y/y - weakest since May 2023 – BTPs 10Y flat, EUR off 0.1% to 1.0865
- BOE Broadbent - could be close to easing as wage pass-through declines – FTSE up 0.25%, GBP off 0.1% to 1.2695

### The Takeaways:

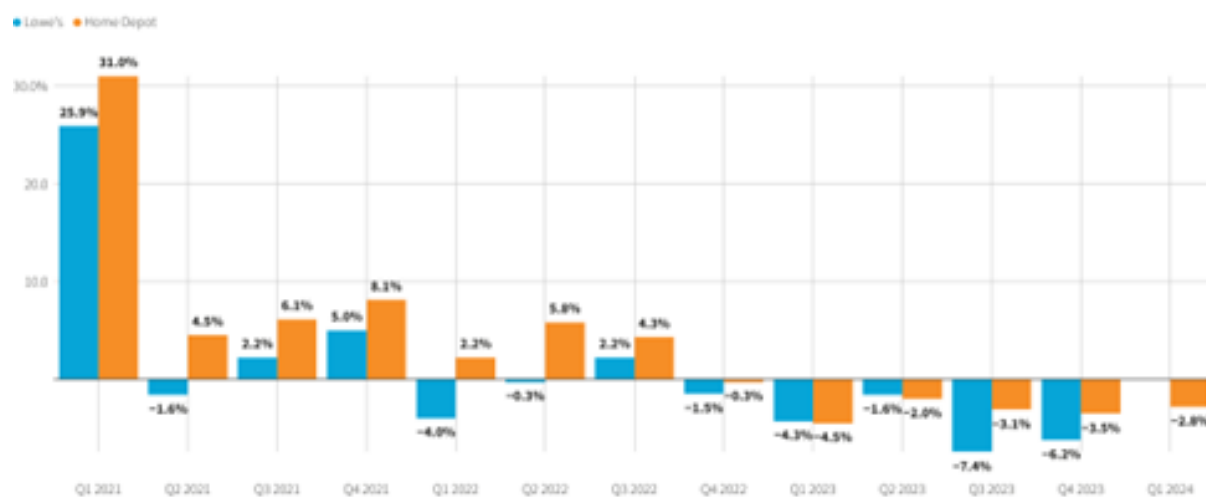
There is intelligence, smarts, cleverness, and wit – all show how the human brain deals with the present and future to thrive. So the oddities of the English Language make today one to keep your wits. It is Whit Monday which follows the Pentecost, a day of the Holy Spirit and a moveable feast. That is the connection to the force for markets today which have started the week without much faith or spirit. The moving part of the storyline comes from the focus on markets that higher rates have on

economies globally. In Japan, the higher rates leave some money at home. While in the US, higher rates are beginning to show up in housing, not in cheaper rates but rather in lower home investment as borrowing to improve a home to sell and move to better jobs elsewhere competes with old mortgage rates at 2-3% which many see as more valuable. The conundrum of the US markets is wrapped around the mobility of labor vs. mortgage rates. To make money in any sector or asset – let alone real estate – requires real thinking ahead.

## Is US housing immune from rates?

### Home improvement sales have been strained as demand lags

Comparable same-store sales have dropped for six consecutive quarters



Source: Company press releases and USISG data | By Gareth Yarak

Source: Reuters / BNY Mellon

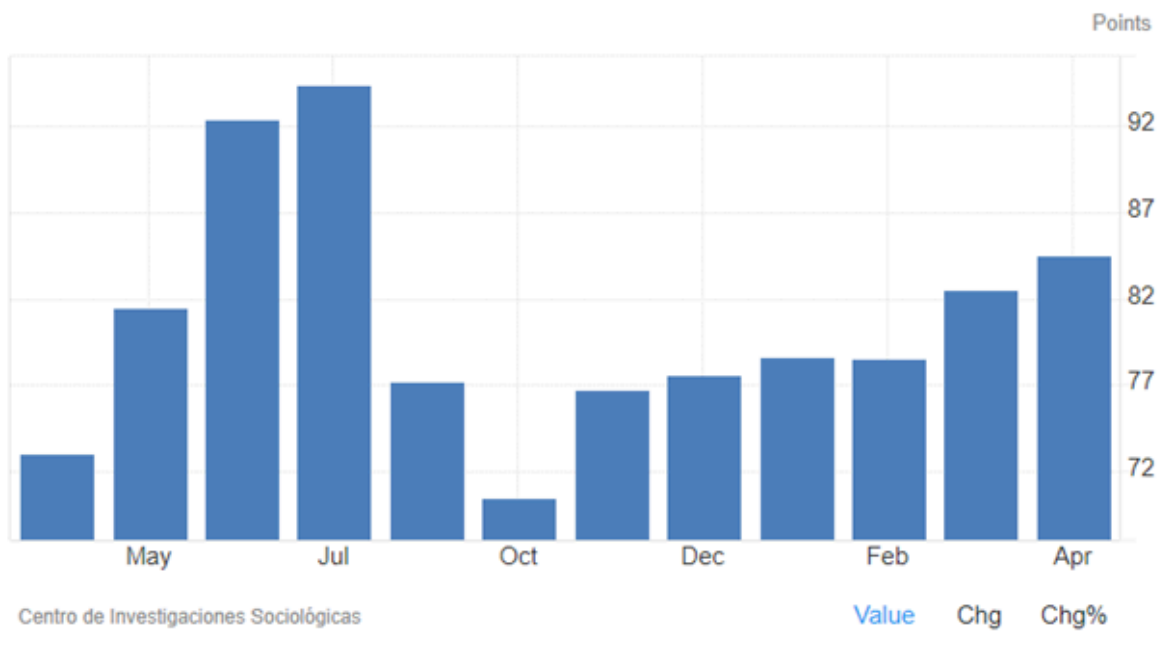
### Details of Economic Releases:

**1. China April fiscal revenue (ytd) rose 2% while fiscal expenditure rose 3.5% in the first four months** versus a 2.9% gain in the first quarter, according to finance ministry data released on Monday. For April alone, fiscal revenue fell 3.7% against a 2.4% decline in March, while fiscal spending was up 6.1%, compared with March's 2.9% fall.

**2. Italian March construction output fell -1.9% m/m, +3.8% y/y after -3% m/m, +7.4% y/y — more than 2% y/y expected** - still, the slowest expansion since May 2023. For 1Q, output rose 7.8% on an adjusted basis.

**3. Spanish April consumer confidence rises to 84.5 from 82.5 - weaker than 85 expected** - still best in 8 months. The positive uptick was driven by a more optimistic outlook for the future (91.4 vs 89.1 in March), and satisfaction with the current state of the economy (77.6 vs 76).

## Is Spain the best story in EU and is there room for more?



Source: Spain CIS/BNY Mellon

Disclaimer and Disclosures

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