BNY MELLON

iFlow
MARKET MOVERS

May 28, 2024

Dazed

""I have never been lost, but I will admit to being confused for several weeks." – Daniel Boone
"When life leaves you dazed and confused, seek solace in nature's embrace." – John Muir

Summary

Risk mixed. Both the US and UK return from a long weekend more dazed and confused than determined. The AI boom and the hope for lower inflation still dominate markets. China $47bn new AI fund from the weekend, better industrial profits and worries about its pension and debt wrapped around property concerns leave CSI and Hang Seng lower from a good start, but the biggest story is Apple China iPhone shipments up 52%. Japan LEI and BOJ Ueda both point to better economy and rate hike risks follow, but JPY is flat, while in Australia better retail sales point to RBA holding longer. The EU outlook continues for ECB June cut but uncertainty after that while in UK the BOE Broadbent rejects the argument they were late to fighting inflation. Markets also are watching the war in Gaza, the numerous Fed speakers and the heavy US bond and bill supply today.

What's different today:

- **North Korea rocket fuel blamed for explosion on China border in failed satellite launch** – the push for better technology and more Russian aid also cited in attempt.
- **Japan corporate services prices for April jump 2.8%** from 2.4% - most since 2015 – boosted by labor costs in the service sector and adding to BOJ hike expectations with 10Y JGBs up 0.5bps to 1.02%
- **iFlow continues with mood neutral**, FX factors value extreme, carry positive and trend nowhere. The Friday FX flows show G10 mixed with USD buying along with CHF and SEK but selling in NZD and JPY notable. The EM world

was MXN outflow vs. ZAR inflow with APAC and LatAm negative as well. The equity flows were only positive in APAC and bits of LaTam while bonds were bought in Colombia despite default risk threats from government.

What are we watching:

- **US March FHFA home prices** expected up 0.5% m/m after 1.2% m/m while S&P Case-Shiller 20-City expected up 0.3% m/m after 0.61% m/m – both matter along with the 1Q home prices last up 1.5% q/q as shelter costs are part of sticky inflation worry.
- **US May conference board consumer confidence** expected 96 from 97 – with the focus on outlook last 66.4 and on jobs hard to get – both are going to be compared to the Michigan survey
- **US bills and bonds** – US treasury sells $70bn in 3M and $70bn in 6M bills, then $69bn in 2Y notes, $65bn in 42-day CMB and $70bn in 5-year notes.
- **Central Bank Speakers**: Federal Reserve Board Governor Lisa Cook and Minneapolis Fed President Neel Kashkari speak; European Central Bank policymaker Klaas Knot and Bank of England policymaker Catherine Mann both speak

Headlines:

- Israel PM Netanyahu calls air strike in Rafah a tragic mistake, continues to press assault on Hamas – WTI up 1.6% to $79
- China April industrial profits up 4.3% y/y – with April rebound led by SOE manufacturing – China starts $47.5bn chip fund for national firms, China trilateral summit gets support for supply chains – CSI 300 off 0.73%, CNH off 0.1% to 7.2630
- BOJ Ueda – will proceed cautiously with inflation targeting, tightening rates hard to measure effect on economy; Japan Mar LEI up 0.1 to 112.2 while coincident up 2.1 to 113.6 – Nikkei off 0.11%, JPY flat at 156.85
- Australian April retail sales rebound up 0.1% - linked to Easter – ASX off 0.28%, AUD up 0.1% to .6665
- German May Ifo flat at 89.3 but expectations up 0.7 to 90.4 while WPI rose 0.4% m/m, -1.8% y/y – 12th consecutive annual deflation – DAX off 0.1%, Bund 10Y yield up 2bps to 2.565%
- ECB April consumer inflation expectations ease to 2.9% from 3.0% - lowest since Sep 2021
- UK May CBI retail sales jump 52 to +8 – biggest jump since Dec 2022
- US Fed Bowman: Early QT would have allowed earlier rate hikes, thinks balance sheet should be UST – US S&P500 futures flat, US 10Y off 0.5bps to

4.46%, US index off 0.15% to 104.43

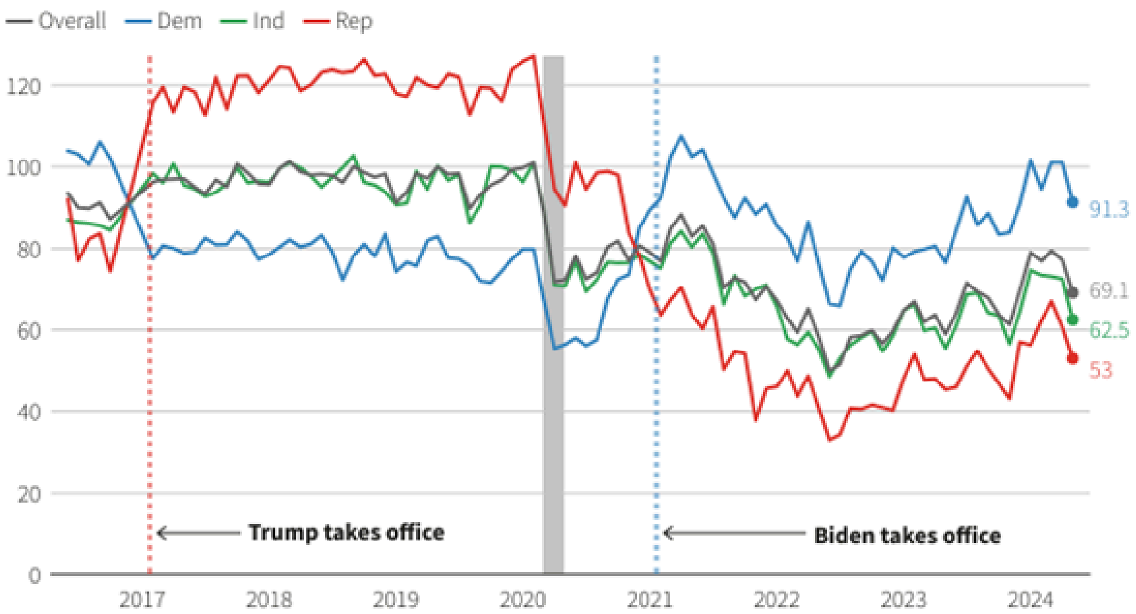
The Takeaways:

The US markets have a slow start to a busy week, with focus today on bond supply and on Fed speakers, but the US housing prices matter behind the scenes as they add to the concerns about sticky inflation. What is left out is the consumer confidence report today and that might be even more telling for the medium term as markets should be preparing for a summer of discontent rather than being dazed and chasing the noisy tape of AI investments and flight to safety shocks from Ukraine and Gaza. The recovery of the world in 2024 continues albeit less happy and certainly with less bravado than most hoped for in the beginning of the year. For the US consumer, the data has been less kind for real wages than in the last 2 years. The mood is fragile and the drop in the University of Michigan survey on Friday confirmed this, but it also highlighted the split of views about the economy by party affiliation. What the survey also highlights is just how unhappy anyone is from the start of the US President Biden term and this puts more pressure on the election and the FOMC indirectly to fix inflation faster – something that higher for longer doesn't seem to be getting done. The split of moods and how the US conference board report comes to compare to the Michigan survey all matters to how risk plays out today. In the absence of immediate fears or shocks, the normal reaction should be to go back to micro stories and chase the momentum of another quiet session, with the summer markets ready to start.

Do consumer surveys mean anything for votes?

U.S. consumer sentiment by party affiliation

U.S. consumer sentiment about the economy now largely reflects the partisan divide. Political independents, though, typically measure near the Michigan survey's overall sentiment reading but so far in 2024 have swung notably below it. That downside gap in May was the largest since readings of sentiment by party have been published on a monthly basis.



Note: Gray bar is the recession triggered by the COVID-19 pandemic shutdowns; survey was not conducted from November 2016 through January 2017.
Source: University of Michigan Surveys of Consumers

Source: Reuters / BNY Mellon

Details of Economic Releases:

1. China April industrial profits steady at 4.3% y/y (ytd) after 4.3% in March – better than 3.5% y/y expected. On the month April profits rose 4% m/m after -3.5% m/m in March. Profits in the private sector accelerated (6.4% vs 5.8% in Jan-March) while those in state-owned firms fell further (-2.8% vs -2.6%). Profits grew for computer, communications (75.8%), non-ferrous metal smelting (56.6%), heat production (44.1%), cars (29.0%), textile (24.9%), chemicals (8.4%), general equipment (6.2%), and oil and natural gas (4.3%). By contrast, profits fell for non-metallic minerals (-53.9%), coal mining (-34.2%), special equipment manufacturing (-7.3%), and machinery & equipment (-4.7%). Meantime, petroleum, and coal turned from profits to losses.

2. Australian April retail sales rose 0.1% m/m, 1.3% y/y after -0.4% m/m. +0.9% y/y – weaker than 0.2% m/m expected - amid earlier Easter and the different timing of school holidays across the country. Turnover in most non-food industries rose: other retailing (1.6% vs -0.1% in March), household goods retail (0.7% vs -1.4%), cafes, restaurants and takeaway food (0.3% vs -0.2%), and department stores (0.1% vs -1.7%). At the same time, sales of clothing, footwear fell much softer (-0.7% vs -4.6%). By region, retail trade was mixed. Sales grew in New South Wales (0.7%) and South Australia (0.5%) but fell in Victoria (-0.4%), Queensland (-0.2%), and

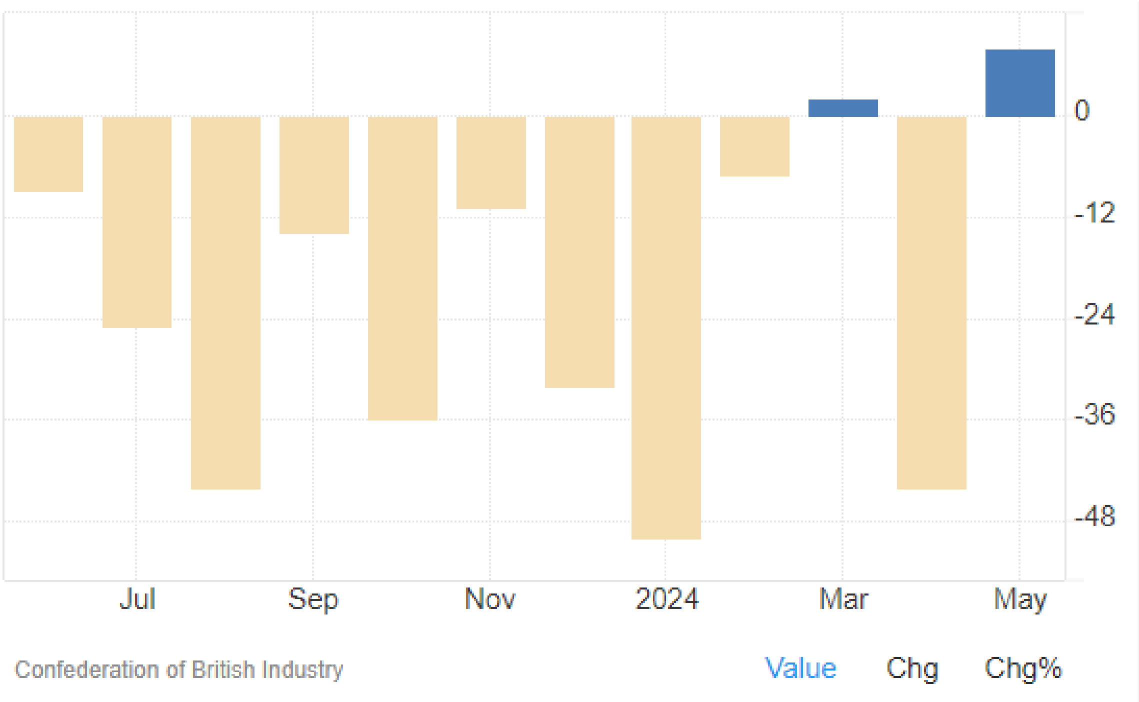
Australian Capital Territory (-0.3%). Meanwhile, trade was flat in Tasmania, Western Australia, and Northern Territory.

3. German May Ifo business climate flat at 89.3 – weaker than 90.4 expected – but expectations rise to 90.4 from 89.7. The current conditions subindex declined to 88.3 compared to 88.9 in April and forecasts of 89.9. "Companies were less satisfied with their current business situation, but expectations brightened. The manufacturing, trade, and construction sectors are recovering, although the service sector took a slight hit. Germany's economy is working its way out of the crisis step by step", Ifo President Clemens Fuest said.

4. German April WPI rose 0.4% m/m, -1.8% y/y after +0.2% m/m, -2.6% y/y – more than the 0.1% m/m expected – still, this was the twelfth consecutive month of falling producer prices, but the smallest drop since August 2023. The downturn was attributed mainly to lower prices of chemical products (-17.9%), grain, unmanufactured tobacco, seeds and animal feeds (-12.2%), metals and metal ores (-7.2%), waste and scrap (-6.8%), and milk, milk products, eggs, edible fats and oils (-6.3%). On the other hand, costs went up for coffee, tea, cocoa and spices (9.3%), sugar, confectionery and bakery products (7.2%), and tobacco products (5%).

5. UK May CBI retail sales surge to +8 from -44 – better than -24 expected - the largest rise since December 2022, following an April slump likely due to the Easter holiday and bad weather. The survey also revealed that more retailers considered sales normal for the time of year than in the past eight months. Meawnhile, the CBI's measure of selling price inflation was at its slowest since August 2020 and was below its long run average with expectations of only a slight pick.up in June. "Falling inflation, and continuing real wage growth will contribute to a healthier consumer outlook, in turn supporting the retail sector further," said Alpesh Paleja, CBI lead economist. "However, a drop in retailers' investment intentions underscored the fragile mood in the sector", he added.

UK CBI retail sales show May bounce



Source: UK CBI /BNY Mellon

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

Bob Savage

HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB