BNY MELLON

iFlow
MARKET MOVERS

May 3, 2024

No Hurry

"Nature does not hurry, yet everything is accomplished." Lao Tzu
"Just be patient. Let the game come to you. Don't rush. Be quick, but don't hurry." – Earl Monroe

Summary

Risk on but with further Golden Week holidays with Japan and China out leaving less liquidity into the all important US jobs report this morning. The Apple earnings were slightly better than feared and with a big share buyback, equities rose. The Norges bank was on hold as expected but more hawkish suggesting high for longer while the UK by-elections suggest more Tory trouble even while Service PMI soars to 1-year highs. The Australia services soggy but housing loans rising suggest RBA more on hold than cutting. The focus on US labor report today is twofold with jobs on one hand and wages on the other. How the FOMC reacts to it matters even more and 2 Fed speakers maybe the event to watch more than the report itself. There is a pent up desire to fight back against selling in May and going away but data dependency leaves many less worried about chasing the tape.

What's different today:

- **UN FAO food price index for April rose 0.3% m/m** to 119.1 led by meat and vegetable oils – still y/y index off 9.6% y/y
- **JPY up 0.3% to 153.10 – holding 3% gains on the week** – after 2 rounds of unofficial intervention with $60bn estimated size. The JPY fell 14% this year touching 160.30 on April 29 after BOJ kept policy unchanged.
- **iFlow** – Still risk-off mood and negative trend while carry rises back to positive even with more USD selling vs G10 with EUR leading, while in EM MXN and

THB and CNY notable. Only ILS and SGD saw selling. In equities only Japan saw buying in G10 while EM was Argentina and Thailand. Bonds were mixed again globally with Canada leading G10, while Israel and India notable buying as well.

What are we watching:

- **US April non-farm payrolls** expected 240,000 from 303,000 with unemployment rate steady at 3.8%, with participation rate steady at 62.7% and wages 4.0% y/y from 4.1% y/y.
- **US April service ISM e**xpected 52 from 51.4 – with jobs 49 from 48.5 and priced 55 from 53.4; also the final services PMI expected at 51 from 50.9.
- **Central Bank Speakers**: New York Federal Reserve President John Williams and Chicago Fed President Austan Goolsbee speak
- **1Q corporate earnings**: Hershey, Monster Beverage, CBRE, Cboe Global Markets, Trimble

Headlines:

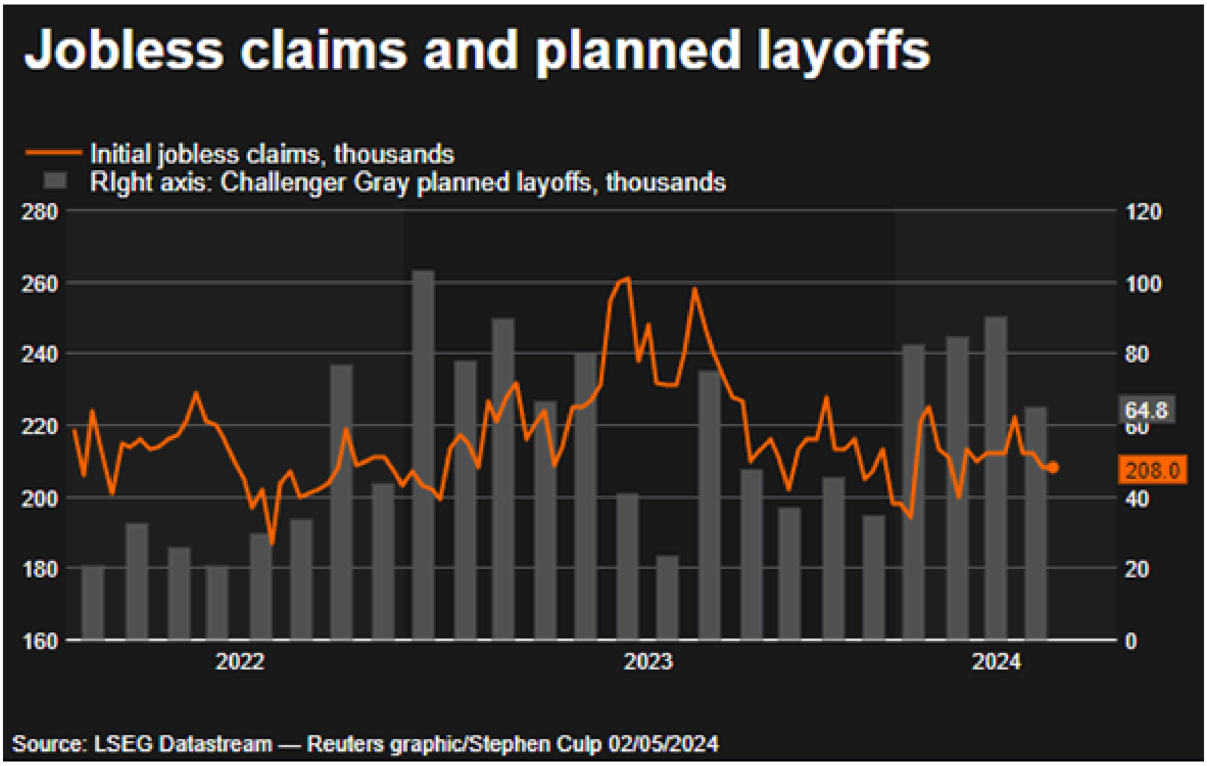
- Norges bank keeps policy unchanged at 4.5% - as expected – sees rates holding for some time – NOK up 0.7% to 10.92
- Argentina central bank cut rates 10% to 50% - 5th easing action since December with inflation 11% m/m in March expected at 3.8% in September.
- Australia Apr final services PMI off 0.8 to 53.6, while home loans for March rose to 1.3pp to 2.8% m/m – ASX up 0.55%, AUD up 0.2% to .6580
- Turkey April CPI up 1.3pp to 69.8% y/y – most since Nov 2022 – TRY up 0.1% to 32.34
- French Mar industrial production off -0.3% m/m – led by manufacturing – CAC 40 up 0.6%, OAT 10Y off 1.2bps to 3.01%
- Eurozone Mar unemployment steady at 6.5% record lows – holding for 3-months, EuroStoxx 50 up 0.5%, EUR up 0.1% to 1.0740
- UK Apr final services PMI up 1.9 to 55 – best in a year; UK by-elections show Labour with another early win – FTSE up 0.5%, GBP up 0.2% to 1.2555

The Takeaways:

There is no urgency in markets but that doesn't mean that prices won't change quickly. The pent up desire to prove the curse of May wrong faces the risk of US jobs reports today. The bigger player remains US bonds with 2Y now 4.88% from 5.03%

into the FOMC meeting. The 10Y is a calm 4.57% unable to hold over 4.75%. The yields reflect ongoing faith in the FOMC to tame inflation and to get to a softer landing. The ability to not make a mistake rests on their patience working. How the data today and going forward lands will determine if prices fall or bounce both in the real economy and in asset prices. The ability for earnings to drive the markets has reached its peak and many now expect the return of macro with the risk of a USD smile returning should easing in Europe and better data there prove that growth differential work. The data isn't yet there and the narrative of such will require more money to hold any USD weakness – particularly against the JPY where the MOF may have smoothed over the market but not fully turned it. Many will see 156 before 150 in the week ahead. But on the day its anyone's guess as ongoing US labor market tightness is the expectations with any headline non-farm payrolls below 200,000 likely sparking USD selling and further front-end relief if not repricing for 2+ Fed easings. The key will be unemployment itself as anything over 4.2% seems the trigger for Fed action and that is hard to get to in 1 month with the March 3.8% surprise expected to hold today. The whisper is slightly higher given the April data so far holds strong enough with the Atlanta Fed GDP nowcast for 2Q at 3.3%. The other stories for the US are less robust and economic surprises are pointing lower across the world making the robust recovery homes fade into the summer. There may be no hurry but there is a need to be quick should the data or the narrative for global growth and inflation turn.

Will layoffs matter to NFP?



Source: OECD / BNY Mellon

Details of Economic Releases:

1. Australia April Judo Bank final services PMI slips to 53.6 from 54.4 – weaker than 54.2 flash – still, the third consecutive expansion in services activity, albeit at a softer pace as the real estate & business services sector saw the sharpest rise in activity driven by higher new business inflows. Services new business increased for a third straight month, reaching the fastest pace since May 2022 as demand improved. Additionally, new export business returned to growth after falling in March, supporting the uptick in overall new business. Firms increased their employment levels to cope with ongoing workloads, with headcounts rising at the fastest pace in the consumer services sector. Input prices continued to rise, extending the sequence of inflation to just under four years. Higher energy, labor, and input material costs led to average input prices rising above the series average.

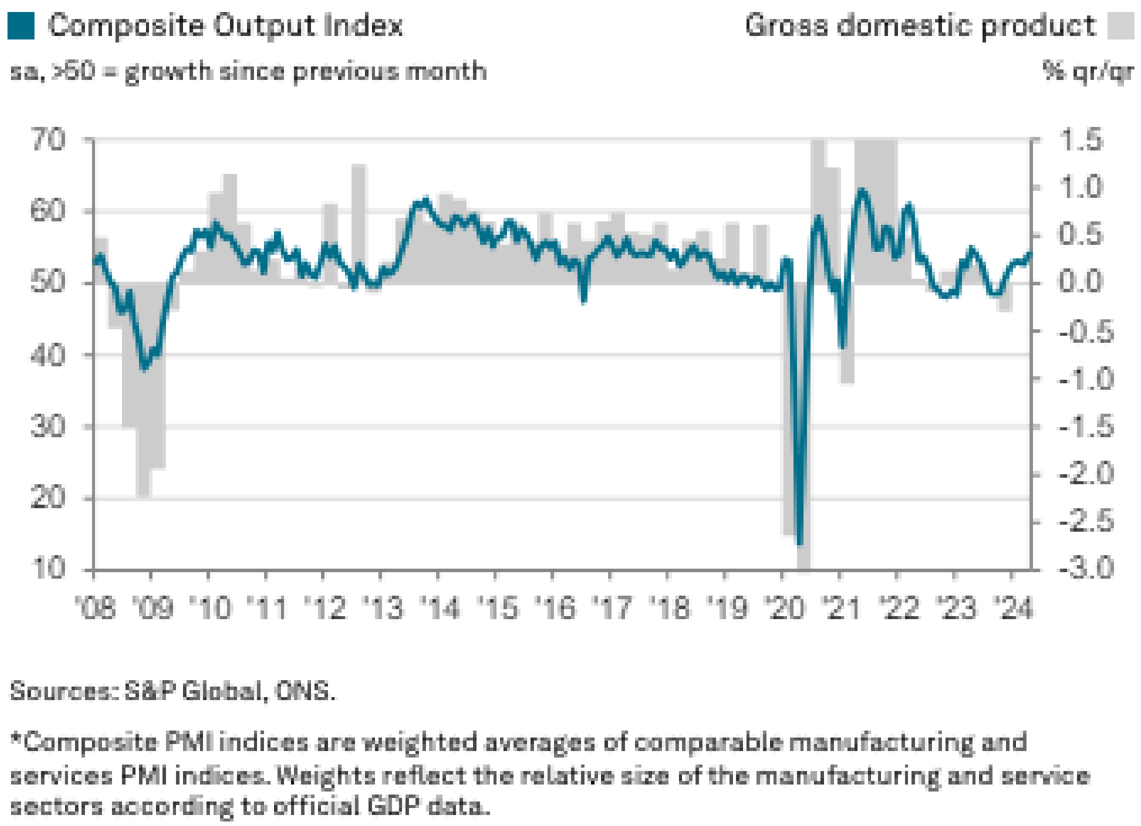
2. French March industrial production drops -0.3% m/m, +0.7% y/y after +0.2% m/m, -0.6% y/y – weaker than the +0.3% m/m expected. Manufacturing output tumbled (-0.5% vs 1% in February), mainly driven by declines in manufacture of food products & beverages (-0.4% vs 1.3%) and coke & refined petroleum products (-4.6% vs 8.6%). Meanwhile, output rebounded for mining & quarrying, energy, water supply & waste management (0.7% vs -3.8%), as well as output for construction (1.1% vs -2.1%).

3. Turkey April CPI rises 3.18% m/m, 69.8% y/y after 3.16% m/m, 68.5% y/y – better than 3.4% m/m, 70.3% y/y expected - still, the highest reading since November 2022, mainly driven by higher prices of housing & utilities (55.55% vs 51.17% in March), and transport (80.39% vs 79.92%). Additionally, inflation went up for clothing & footwear (51.20% vs 50.10%), alcoholic beverages & tobacco (78.53% vs 62.98%), furnishings, household equipment, & routine maintenance (67.88% vs 63.72%), and hotels, cafes & restaurants (95.82% vs 94.97%). On the other hand, food inflation slowed further to 68.50% in April compared to 70.41% in the prior period. Meanwhile, the core inflation rose to 75.81% from 75.21% previously.

4. Eurozone March unemployment steady at 6.5% - as expected – holding record lows for 3-months. The number of unemployed individuals decreased by 94 thousand from the prior month to 11.087 million. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, went down to 14.1% in March from 14.4 in February. Across the major Euro Area economies, Spain continues to report the highest jobless rate at 11.7%, followed by France at 7.3% and Italy at 7.2%. Conversely, Germany recorded the lowest rate at 3.2%. A year earlier, the jobless rate was slightly higher at 6.6%

5. UK April final services PMI rises to 55 from 53.1 – better than 54.9 flash – sixth monthly expansion and best in 12-months. Service providers enjoyed a sharp increase in new orders amid a turnaround in economic conditions for clients. Paired with lower backlogs of work, business activity also recorded a considerable increase. Still, figures from April pointed to an only marginal increase in staffing levels, with surveys citing difficulties to fill vacancies and purposeful hesitation to take in staff due to the high costs of labor. In fact, elevated wage pressures drove input costs for service providers to rise the most since August 2023, with many noting the increase in the National Living Wage as an added pressure. In the meantime, companies remained upbeat about business activity prospects in the year ahead, pinned by signs of turnaround in client demand, forthcoming marketing initiatives, and long-term expansion plans.

Will services hold in UK this summer?



Source: S&P Global/BNY Mellon

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

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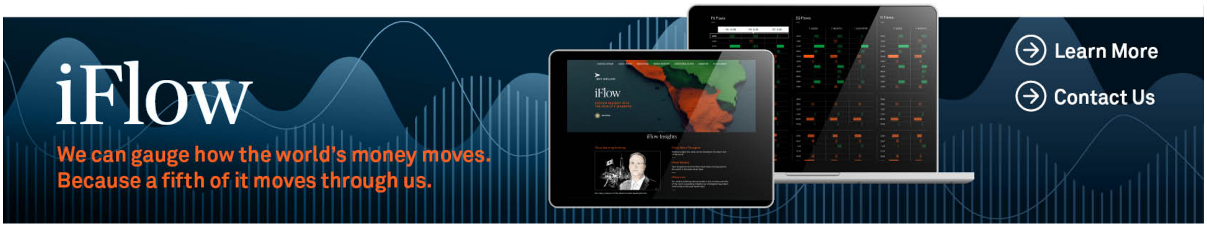

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