BNY MELLON

iFlow

MARKET MOVERS

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Divergence

"Our economy is built upon convergent thinkers, people that execute things, get them done. But artists and designers are divergent thinkers: they expand the horizon of possibilities." – John Maeda
"Debate and divergence of views can only enrich our history and culture." – Ibrahim Babangida

Summary

Risk mixed with Asia lower, Europe higher. Earnings drive EuroStoxx to new record highs along with easier money policy. Sweden Riksbank cuts 25bps as expected and makes clear 2 more cuts are planned for 2024. The clarity of G10 divergence in policy and the lack of FX or other market pain matters. SEK didn't drop significantly making clear rate differentials aren't the only driver for FX markets. Further to that BOJ Ueda hinted at hikes should JPY move further – driving down shares lower. The break in FX weakness to stock gains notable in Japan. Weaker global growth views post PMI leave oil lower, driving less inflation fears in pipeline. Markets have had little to shake the 4-day rally up in US shares other than earnings and policy guidance. 3 Fed speakers today and more earnings and another US Treasury auction are all in play to undo the present upbeat mood for risk in the US.

What's different today:

- **Copper fell back from 2-year highs** – now \$3.55 lbs from \$4.70 on April 295h – still up 13% in 2Q with supply concerns ongoing.
- **Nat Gas in Europe off 3.6% to E30.5 MWh** – linked to warm weather and higher storage

- **iFlow** – Mood indicator still negative for 8th day, FX Trend negative as well. USD selling continued with only AUD and CAD seeing slight outflows. EM is still all about MXN over BRL, TRY and ZAR gains and ongoing THB inflows. The global share demand notable with 5 sectors seeing inflows and with Japan being joined by Norway, Hong Kong and Brazil for notable inflows. Fixed income was non-event except for ongoing Canada inflows and in EM, Argentina outflows and Indonesia buying.

What are we watching:

- **US March wholesale inventories** expected -0.4% after -0.4% m/m – key for inventory revisions to 1Q GDP report.
- **US Treasury** sells $42bn in 10-year notes
- **Fed Speakers:** Vice Chair Jefferson on careers in economics, Governor Cook on financial stability at Brookings, Boston Fed Collins at MIT fireside chat
- **1Q Earnings:** Uber, Shopify, Fox and Affirm will report earnings before the bell. Arm, Duolingo, Bumble, Beyond Meat and Robinhood will report after markets close.

Headlines:

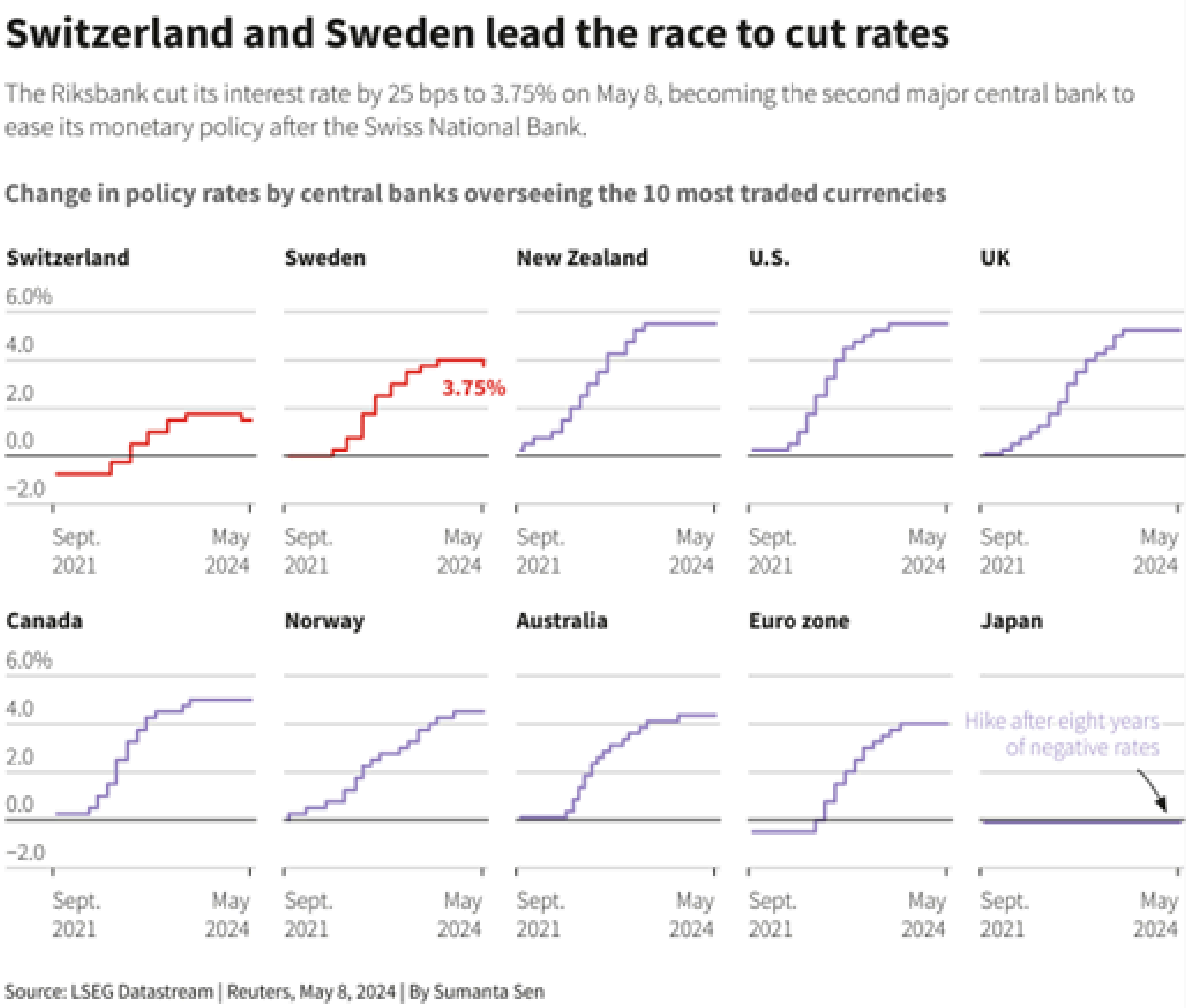
- Swedish Riksbank cuts rates 25bps to 3.75% - as expected – first cut since 2016, sees 2 further cuts this year – OMX up 0.1%, SEK off 0.4% to 10.905
- Iceland central bank leaves rates unchanged at 9.25% - as expected – keeps rates at 2010 highs for 5th straight decision -
- BOJ Ueda: signals chance of hike should JPY weakness add to inflation – Nikkei off 1.63%, 10Y JGB yields up 1.3bps to 0.873%, JPY off 0.4% to 155.40
- China Xi gets red-carpet welcome in Serbia, Xi praises Hungary for independent foreign policy ahead of visit, IMF warns US/China trade divisions risk global growth – CSI 300 off 0.79%, CNH off 0.1% to 7.2305
- Taiwan April exports rise 4.3% y/y – off from 2-year highs near 19%, weaker than expected – TWD off 0.1% to 32.411
- Spanish Mar industrial production drops –0.7% m/m – worst drop since Oct 2023 – IBEX 35 up 0.5%, SPGB 10Y yields up 4bps to 3.24%
- Italian Mar retail sales flat m/m, up 2% y/y – 24th month of gains – MIB off 0.15%, BTP 10Y up 3.5bps to 3.79%
- German Mar industrial production drops -0.4% m/m – first contraction this year – DAX up 0.5%, Bund 10Y yields up 3.5bps to 2.452%, EUR flat at 1.0750

- US weekly crude oil API inventories rise 0.509mb when -1.5mb draw expected – while gasoline supply rose 1.48mb and distillate rose 1.713mb – both remain below 5Y average but crude at 10-month highs – WTI off 1.4%.

The Takeaways:

The divergence of data drives the break of monetary policy convergence. However, this gets complicated with expectations and forward guidance. Better than feared is the new phrase for EU data as shown by German industrial production today. The drop could have been worse and with that equities gain, but the tempering of record share prices in Europe rests on the ECB and how it handles the pressure for a June cut and beyond. The impulse of easier financial conditions drives wealth effects and consumers in the US but that doesn't have the same effect elsewhere. The one notable story for today was in the divergence of the Swedish Riksbank in easing policy. They join the Swiss National Bank in cutting rates and set the tone for the Bank of England tomorrow to at least point to a path for easing this autumn. One key reason for Sweden's cut today was in the wealth effect of housing troubles and the pain of rates on the consumer. The biggest surprise for markets maybe in that lack of volatility in G10 despite the clear divergence of monetary policy. The USD holds its gains from the start of the year and US rates are higher overnight with FOMC speakers sticking to higher for longer talk. The risk for markets is in the doubt that this policy can last without a recession. So, any data to push back on US exceptionalism matters, but this week there is none to note, leaving stocks watching earnings and rates. The ability for the 4-day rally to crack rests on the risk of modest growth and sticky inflation hurting corporate earnings – which so far with 80% of the S&P500 reporting – beat expectations at 5% blended for the 1Q. The risk reward for trading today will be in the divergence not of rates but growth and how monetary policy clashes with fiscal to help consumers everywhere. The chart below makes clear that CHF/JPY might be the currency pairing to watch into the next week as risks rise for more FX intervention in Asia.

Who is next to cut the ECB and BOC?



Source:Reuters/ BNY Mellon

Details of Economic Releases:

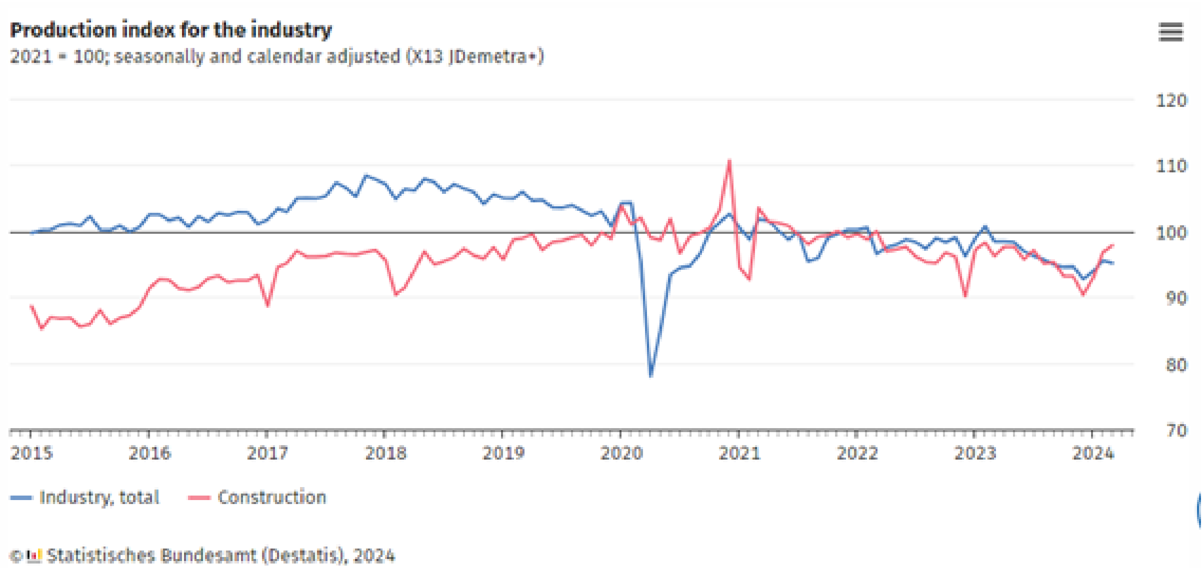
1. Spanish March industrial production fell -0.7% m/m, -1.2% y/y after +1.3% y/y – weaker than +1% y/y expected. Production declined for durable consumer goods (-4.2% y/y vs 0.2% in February), energy (-3.8% vs -1.5%) and capital goods (-1.4% vs 3.9%). Meanwhile, output growth slowed for non-durable consumer goods (3.7% vs 4.7%) and intermediate goods (0.1% vs 1.7%).

2. Italian March retail sales 0% m/m, +2% y/y after 0.1% m/m, 2.4% y/y – weaker than 0.2% m/m expected. The reading contrasted with a 0.8% jump in the Euro Area and combined an increase in the price of retail goods with a 0.1% decline in the volume of retail sales. Turnover remained unchanged for food goods while declining by 0.1% for non-food goods. From the previous year, retail sales advanced by 2%. Notable was that on-line sales fell 2.4% y/y ending a 5-month uptrend.

3. German March industrial production fell -0.4% m/m after +1.7% m/m – better than -0.6% m/m expected - the first monthly contraction so far this year as production in manufacturing, which excludes energy and construction, was down 0.4%; while energy output shrank 4.2%. By contrast, construction activity grew by

1.0%. At the same time, production fell for consumer goods (-1.4%) and intermediate ones (-0.6%) while consumer goods were up 0.1%. The less volatile three-month on three-month comparison showed that production was 0.1% higher from January to March 2024 than in the previous three months.

German Industrial Production not yet in recovery



Source: German Destatis /BNY Mellon

Disclaimer and Disclosures

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB