iFlow MARKET MOVERS

May 9, 2024

Vigilance

"An owl is traditionally a symbol of wisdom, so we are neither doves nor hawks but owls, and we are vigilant when others are resting." – Urjit Patel
"When good people in any country cease their vigilance and struggle, then evil men prevail." – Pearl S. Buck

Summary

Risk mixed to lower as markets await more data and more central bank decisions with Mexico this afternoon. The BOJ Ueda promises vigilance on inflation and weaker JPY effects. The China trade surplus bounce higher even with higher imports stokes some global growth hopes while some of Europe enjoys Ascension Day. The BOE on hold, the BMN on hold and the BCB cutting just 25bps suggests that easing policy remains in play but not the salve for all that ails the markets or the world. US bonds face another test with its 30Y bond auction today, while weekly jobless claims will be important in either confirming or denying the FOMC easing hopes from slowing labor market demand. The focus on Israel and Gaza continues to nag both politics at hope and energy but many are more focused on Russia as it celebrates its Victory Day and Putin warns on global war. The rush of risk on that started post the Powell FOMC press conference fizzled yesterday as markets want to hear more about how the FOMC can ease and cares less about the divergence path of other central banks. The code word for doubt about faster easing is vigilance and that seems to be the favorite phrase from central bank speakers of late, particularly in Japan.

What's different today:

- **Brent up 0.45% to $84bbl** – extending yesterday's rally with US EIA data showing crude inventory drop along with global growth recovery hopes, tempered by geopolitical hopes for Israel ceasefire. Most analysts now see OPEC extending production cuts and US White House lifts SPR target buying zone to $79.99 bbl.
- **Philippines 1Q GDP rose 5.7% y/y** up from 5.5% in 4Q but less than 5.9% forecast – the fourth quarter of sequential growth boosted by government spending up 1.7%, trade up 7.5% but tempered by consumption up just 4.6% and investment up just 2.3%.
- **Iflow – risk off continues** with Mood indicator -0.147 off for 9th day – while FX trend bounces off the lows. USD selling stalled yesterday and G10 flows mixed except for notable CHF buying. Equities by sector globally bouncing with only 2 notable outflows in consumer staples and IT. The bond markets are mixed as well with Indonesia, Thailand and Mexico seeing inflows but Chile, India and Argentina outflows.

What are we watching:

- **US weekly jobless claims** expected up 4k to 212k – with continuing claims up 12k to 1.782mn – both matter to the trend of labor markets post the easing of non-farm payroll jobs.
- **Fed Speaker**: San Francisco Fed Daly has Q/A at George Mason University
- **1Q Earnings**: Tapestry, Warner Bros Discovery, Constellation Energy, Roblox and Hyatt will report earnings before the bell.
- **US Treasury** sells $25bn in 30Y bonds – along with $80bn in 1M and $80bn in 2M bills

Headlines:

- Brazil BCB Copom cuts Selic rate 25bps to 10.50% - less than 50bps partially expected – see higher growth/inflation ahead – BRL 5.09 close
- Malaysia BNM keeps rates on hold at 3% - as expected, sixth consecutive meeting of no change, see MYR not reflecting economic fundamentals – MYR flat at 4.74
- BOJ Summary of April meeting – sees inflation risks with wage-price spiral, weaker JPY and fiscal policy – but Mar average earnings off 0.8pp to 0.6% y/y lowest since Sep 2023 – Nikkei off 0.34%, 10Y JGB yields up 3.3bps to 0.906%, JPY off 0.25% to 155.95
- China Apr trade surplus $72.35bn with exports up 1.5% y/y but imports up 8.4% y/y led by AI materials, Hangzhou lifts house buying restrictions – CSI

300 up 0.95%, CNH off 0.1% to 7.2320

- Turkey TCMB 2Q inflation report – sees inflation hitting peak in May 75% y/y post natural gas subsidy end, forecasts 38% CPI up from 36% for end of 2024 – TRY up 0.1% to 32.21
- Australian Mar building permits up 1.9% m/m – first increase since Nov 2023 – ASX off 1.06%, ACGB 10Y up 5.5bps to 4.344%, AUD off 0.1% to .6575
- Bank of England leaves rates unchanged at 5.25% with 7-2 vote – with 2 for cuts – Governor Bailey gives guidance for future cuts – FTSE up 0.1%, GBP off 0.3% to 1.2455

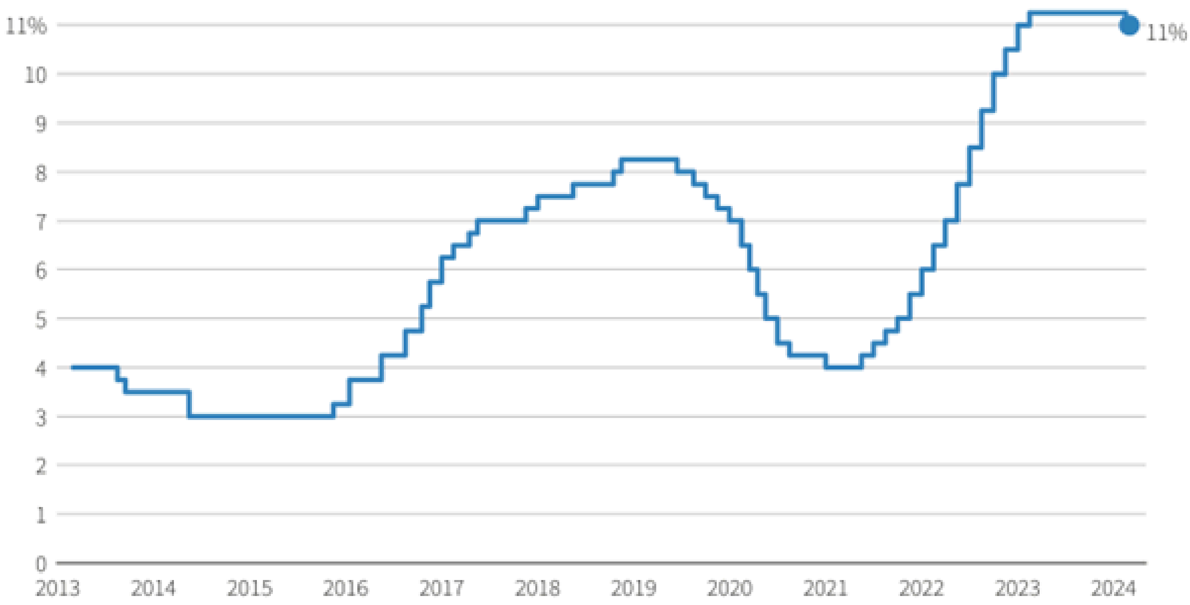
The Takeaways:

Does Mexico matter? The markets have had a host of central banker decisions this week and face the Banxico decision this afternoon, but many see fatigue in the waiting for bigger data and stories to move markets. This is a mistake as the Mexico economy is deeply linked to the US one and the decision on rates is critical for how Mexico grows into the June 2 election and afterwards. There is a level of real rates necessary for credibility in the fight against inflation and there is a level necessary for holding FX markets stable and preventing a run on the currency. Neither of those arguments fit the present situation for Mexico. The need for higher for longer rates in Mexico to get inflation to their 3% target has not fully worked. The lesson for the US is clear. In fact, the ability for the FOMC to ease in September will require more evidence of inflation going down and the Mexico story is connected. Markets are efficient and the carry trade in Mexico has seen a recent surge back in Mexico bond buying and MXN inflows on the currency front according to the iFlow data. Whether this turns around or not could all rest on today’s decision. MXN trading below 17 isn’t something that makes politics easier in Mexico or growth. It may also matter to the Fed as a stronger MXN may add to US inflation costs – as its one of the few places where FX matters on trade to the US and where the fair value is pointing to 18 rather than 16. Of course, Mexico matters and it's going to show up this afternoon whether markets want to believe it or not.

Mexico rate decision matters

Bank of Mexico benchmark interest rate

The interest rate was lowered 0.25 percentage points in March.



Published March 21, 2024 at 8:12 PM GMT
Sources: The Bank of Mexico, LSEG

Source: Reuters/ BNY Mellon

Details of Economic Releases:

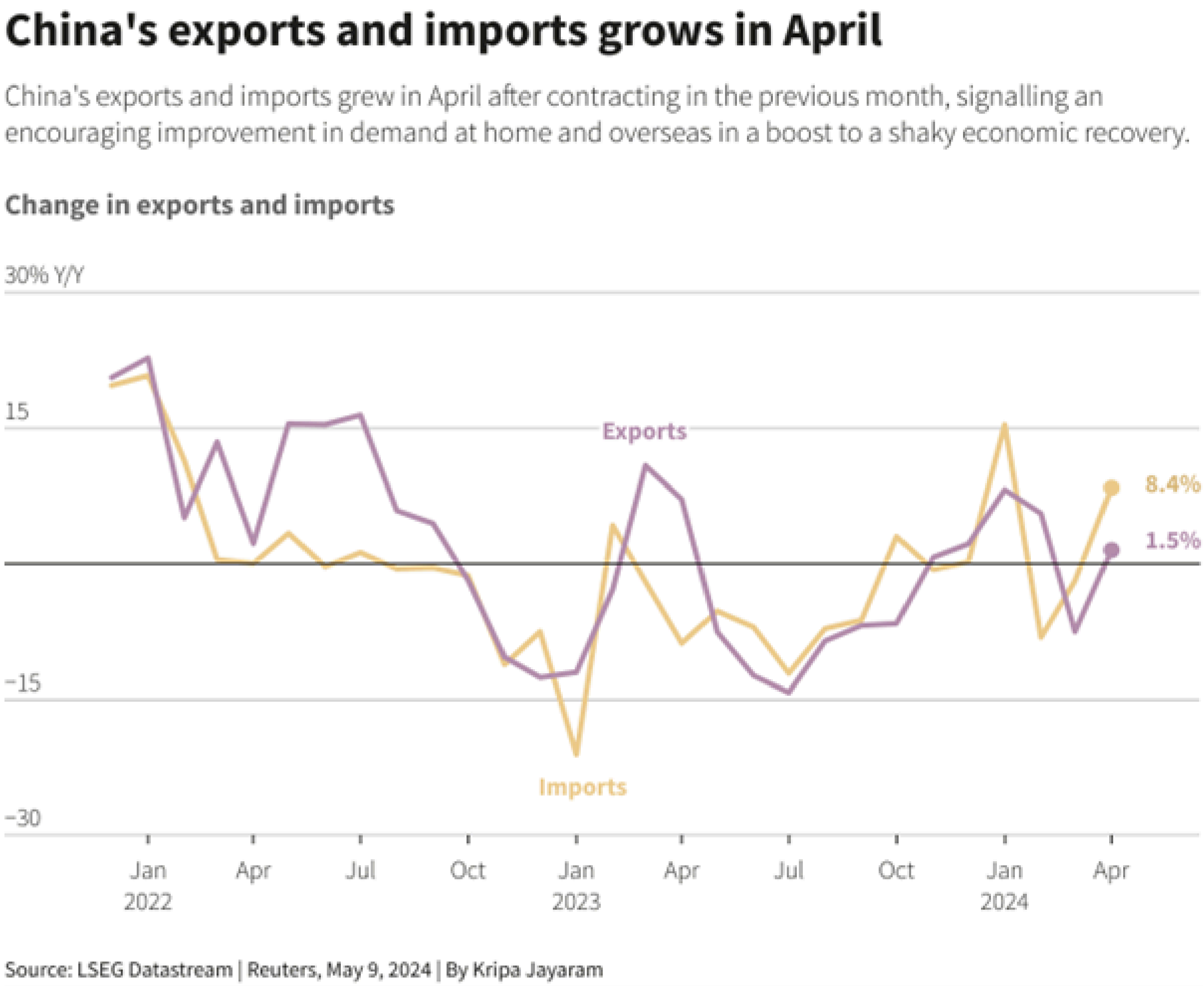
1. Japan March average cash earnings rise 0.6% y/y after 1.4% y/y – less than the 1.5% y/y expected - the lowest since September last year. Moreover, the country's nominal wage growth lagged behind the 2.6% core consumer inflation rate in March, marking two straight years of negative inflation-adjusted real wages which fell 2.5% last month. The average overtime pay fell 1.5% y/y after -1.6% y/y. The following industries contributed the most to the wage rise: finance & insurance (7.2%), living-related & personal services & amusement services (5.4%) and information & communications (4.9%). Meanwhile, wages declined in mining & quarrying of stone & gravel (-11.6%), accommodations, eating & drinking services (-8%) and scientific research, professional & technical (-2.3%).

2. Japan March leading economic index slips to 111.4 from 112.1 – better than 111 expected – pulling back from Feb highs best since August 2022, led by strong consumer sentiment and service sector growth along with slowing factory contraction. The coincident index rose to 113.9 from 111.5 – also better than 111 expected - the highest figure since last December, supported by optimism that the economy will continue to recover amid improving labor market and income situation.

3. Australian March final building permits rose 1.9% m/m after -0.9% m/m – as expected - the first increase since last November and the strongest growth in five months, mainly supported by an upturn in permits for private sector dwellings excluding houses (3.6% vs -24.7% in February). Meanwhile, approvals for private sector houses moderated sharply (3.8% vs 12.4%). Among states and territories, region, the numbers of dwellings approved grew in Victoria (3.2%) and Western Australia (1.5%) but fell in Tasmania (-18.1%), South Australia (-7%), Queensland (-5.2%) and New South Wales (-1.2%).

4. China April trade surplus rises to $72.35bn after $58.55bn – less than the $76.7bn expected - as exports grew much less than imports. Exports rose by 1.5%, compared to expectations of a 1% growth, while imports surged by 8.4%, beating expectations of a 5.4% gain. The trade surplus with the United States increased to USD 27.2 billion in April from USD 22.94 billion in the previous month. For the first four months of the year, the country registered a surplus of USD 255.66 billion, with exports advancing 1.5% to USD 1.1 trillion while imports rose 3.2% to USD 843.91 billion.

China exports up but imports even more?



Source: Reuters /BNY Mellon

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