

iFlow

WEEK AHEAD

April 14, 2024

Escalation

"Between an uncontrolled escalation and passivity, there is a demanding road of responsibility that we must follow." – Dominique de Villepin

"Like a dance, conflict escalation generally requires the participation of both parties." – Brian Mistler

Summary:

The shift from economic data to geopolitical fears and bottom's up analysis from 1Q earnings sets up the next week for even more volatility. We closed last week set up for a difficult weekend for news and start the week ahead with the sad reality of Iran launching a missile and drone attack on Israel. Markets will await the Israeli response and likely watch oil and gold as the barometers for further troubles ahead. Lost in the fog of war is the economic fears of sticky inflation and central bank easing leaving policy doubts and growth constraints into the rest of the year. The start of the IMF meetings in Washington will bring a host of world leaders and speakers discussing the path toward stable prices and better growth with a world straddled in debt and hampered by dollar strength. The week ahead may also see cracks in US exceptionalism should earnings or retail sales or Fed speakers shift their focus. For many, hope that the world returns to contained wars, capped inflation and nascent recoveries outside of the US starts with the worst fears proving to not be an inflection point but merely a new status quo.

Key Themes:

- **Retaliation Cycles vs. Containment** – Key balancing act for markets will be how the world waits for Israel to respond to the Iran attacks. Both the war in Ukraine and that of Israel are in the news and dominating fears of higher inflation with costs and disruptions to global commerce in play. The war in Ukraine is also key as Russia's role and the use of Iranian drones there and fears of a summer offensive grow. Markets are waiting and watching and wondering how to hedge.
- **1Q Earnings and the shift from macro to micro** – Expectations are high for 1Q earnings with FactSet expecting at least 7% y/y. The last 40 quarters have only had 3 misses - Q1 2020, Q3 2022, and Q4 2022. If that happens, markets will be surprised and the bond market and USD will react. The FactSet view links back to how companies consistently beat street estimates – on average over the last 5 years by 8.5% - so adding that rise to the 1Q outlook of 3.4% y/y that stood March 31, it's easy to get over 7% y/y. The other expectations for higher earnings revolves around the energy sector specifically, with shares up 17% as oil prices jump higher. The balance of inflation risks against earnings beats will be key for 2Q earnings outlooks. What this means to equities will be critical to how investors see risks of growth, FOMC policy and inflation.
- **US Exceptionalism and Surveys vs. Hard Data** – The last week saw the financial conditions index drop sharply in the US, while the economic surprise index fell further but the S&P500 still hasn't had a 2% daily correction. Volatility in shares and the high for longer FOMC talk with sticky inflation leave many wondering if

the US exceptionalism holds. The German ZEW will be contrasted with the US Michigan Consumer Sentiment survey in the week ahead. Markets are looking at the differences of hard data against soft. Green shoots of growth in EU data vs. lower US outlooks maybe key to keeping the USD capped in the week ahead. US exceptionalism on growth and the need for higher real rates to match higher real growth follows with the focus on the hard data.

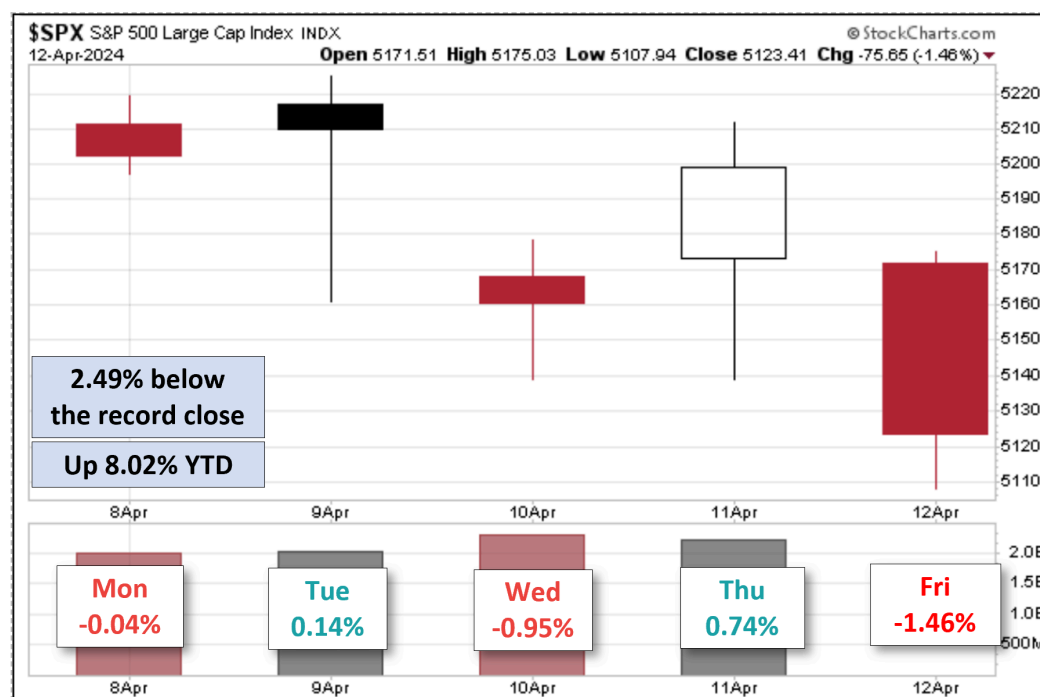
What are we watching: Geopolitical risks, IMF meetings, Fed Speakers, US retail sales, China GDP and retail sales, UK Jobs, CPI

- **Geopolitics:** UN security council, G7 and G20 meetings with IMF/World Bank meetings in Washington.
- **Economic Data: Monday** – China 1Y MLF, India WPI, US Retail Sales; **Tuesday** – China GDP, retail sales, industrial production, UK jobs, German ZEW, Canada CPI, US industrial production; ; **Wednesday** – Japan trade, UK CPI, EU final CPI; **Thursday** – Australia jobs, US Philly Fed and weekly jobless claims; **Friday** – Japan CPI, UK retail sales, Mexico retail sales,
- **Fed Speakers: Monday** - Dallas Fed Logan in Tokyo, NY Fed Williams on Bloomberg TV, SF Fed Daly fireside chat; **Tuesday** – Fed Gov Jefferson on monetary policy; NY Fed Williams with ECB Villeroy; Richmond Fed Barkin on economic outlook, **FOMC Chair Powell** in moderated Q&A; **Wednesday – Fed Beige Book**; Cleveland Fed Mester update; Fed Gov Bowman on IIF forum; **Thursday** – NY Fed Williams moderated discussion; Fed Bowman on Basel III; Atlanta Fed Bostic fireside chat; **Friday** – Chicago Fed Goolsbee in Q/A.
- **US Issuance: Monday** - \$70bn in 3M and \$70bn in 6M bills; **Tuesday** - \$46bn in 1Y bills and \$65bn in 42-day CMB; **Wednesday** - \$13bn in 20-year bonds and 4M bills; **Thursday** - \$23bn in 5-year TIPS along with 1M and 2M bills

What changed last week:

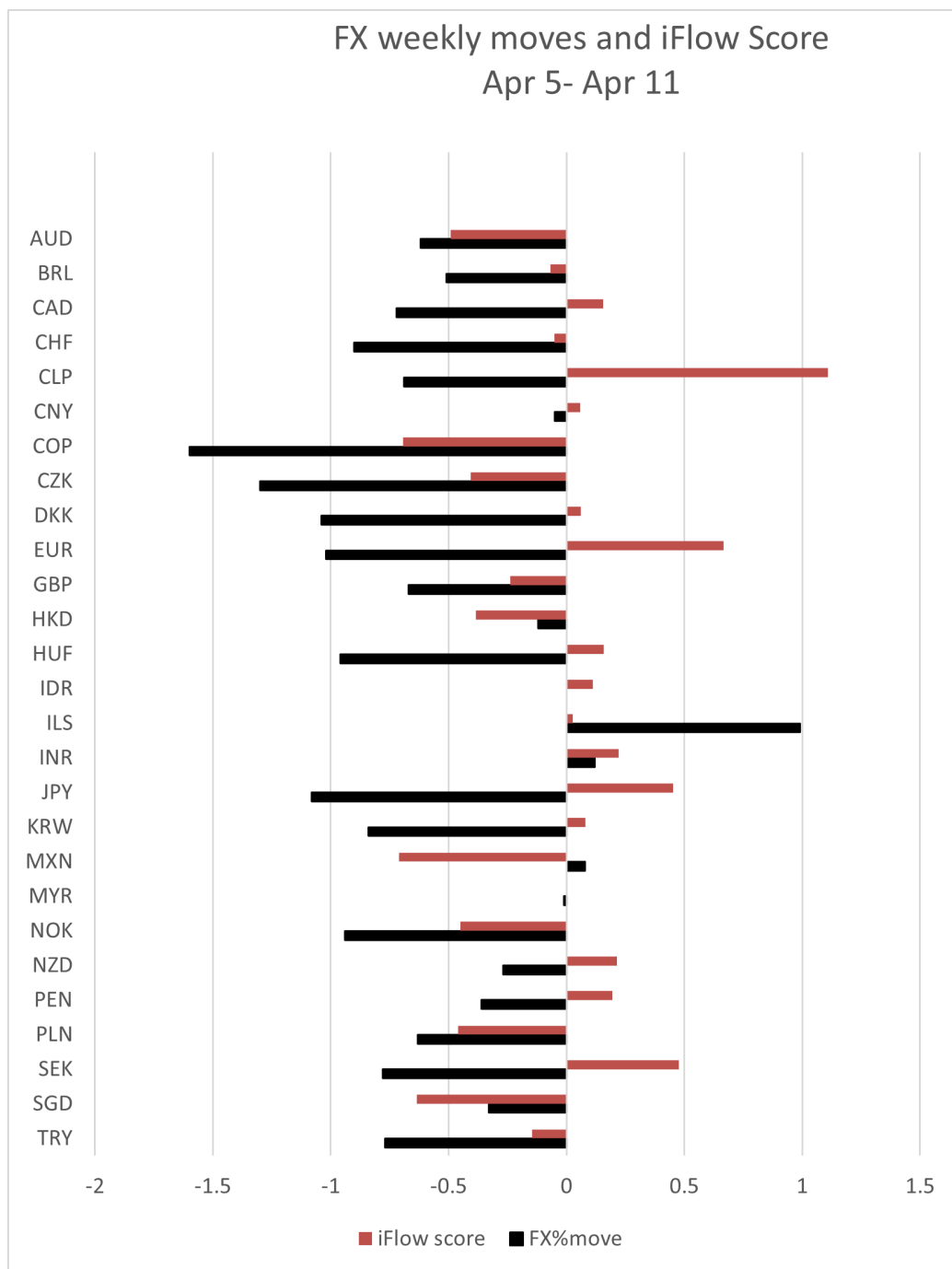
- **In Equities, the S&P500 fell 1.55%** off for the second consecutive week and counter to April seasonality bias. The index is currently up 8.02% year to date and now sits 2.49% below its record high close from March 28, 2024. The global bourses all lost ground with 2 notable exceptions – UK FTSE rose 1.07% as GBP weakness helped and Japan Nikkei rose 1.36% as JPY weakness extended to over 153. In USD terms – the FTSE fell 0.42% but the Nikkei was up 0.3%. The Mexico Bolsa fell 2.63%, the worst of the EM world while China CSI fell 2.58% and the US DJIA fell 2.37%.

US equity markets slip again - 5% correction risk?



- **In FX, the USD rallied 1.6% on the week** to 106.04 on its index – breaking out due to US CPI and safe-haven demand. The biggest movers in G10 were JPY, EUR and CHF all off 1% or more while in EM ILS, INR and MXN gained but modestly. The largest divergence between our flows and price moves were in CLP, EUR and JPY.

FX sees USD biggest gain in 18-months



- **In Fixed Income**, the US markets dominated with CPI/PPI pushing down and further out FOMC rate cut expectations and bear flattening trades. Globally, EU bonds rallied sharply as the ECB suggested a June cut,

Sweden led the rally with lower CPI and May Riksbank easing now expected with 10Y Sweden yields off 16bps, while New Zealand and more hawkish RBNZ put 10Y rates up 14.7bps.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.63	3.64	0.08
20Y	5.44	0.87	4.75	3.88	0.09
10Y	5.26	0.52	4.52	4	0.12
5Y	5.18	0.19	4.56	4.37	0.16
2Y	5.22	0.09	4.9	4.81	0.15
3M	5.63	0	5.36	5.36	0.00
FFR	5.41	0.04	5.32	5.28	0.00
The Yields and Fed Funds Rate data from January 2007					

Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – 1Q earnings, US retail sales, Fed Speakers, IMF meetings, China GDP, UK jobs, CPI and the India election

This week, the United States will be closely watched for corporate updates. The start of the Q1 earnings season will see major companies like Goldman Sachs, Bank of America, J&J, Morgan Stanley, UnitedHealth Group, Blackstone, Taiwan Semiconductor Manufacturing, Netflix, American Express, and P&G reporting their financial results. Also, investors' focus will be on retail sales figures and speeches by Federal Reserve officials followed by building permits, housing starts, and existing home sales. In China, attention will be on the Q1 GDP growth rate, industrial production, retail sales, house prices, and fixed asset investments. In the UK, markets will follow inflation rate, unemployment rate, and retail sales. Also, inflation data will be released for Canada, New Zealand, South Africa, and Japan. Finally, Japan, India, Euro Area, Italy, Spain, and Switzerland will release foreign trade data, Germany ZEW Economic Sentiment indicator and Australia's labor market figures.

1. US Consumers: Retail Sales vs. Sentiment. Monday brings US tax day and retail sales along with more 1Q earnings reports. March retail sales likely climbed 0.2% m/m according to Bloomberg consensus while a Reuters poll of economists showed 0.3% m/m. That follows a lower-than-expected 0.6% rise in February which suggested a [slowdown in consumer spending](#) amid rising inflation and high borrowing costs. Retail sales control group ex-cars, gasoline, food and building materials – expected up just 0.2% m/m after 0% m/m – and after inflation -0.1% m/m. Most of the retailer commentary has been downbeat with flat 1Q outlook for fast-food, shift in apparel demand also lower. Fear from [the University of Michigan consumer sentiment for April](#) will also be a factor for March retail sales as many see the data in the context of higher inflation risks ahead – with the report's inflation expectations increased for the year-ahead (3.1%, the highest in four months from 2.9% in March) and the five-year outlook (3%, the highest in six months, from 2.8%). It reflects some frustration that the inflation slowdown may have stalled.

Will retail sales confirm US consumers slowdown?

U.S. retail sales growth is moderating

Analysts expect monthly retail sales growth slowed in March.

Monthly growth in retail sales



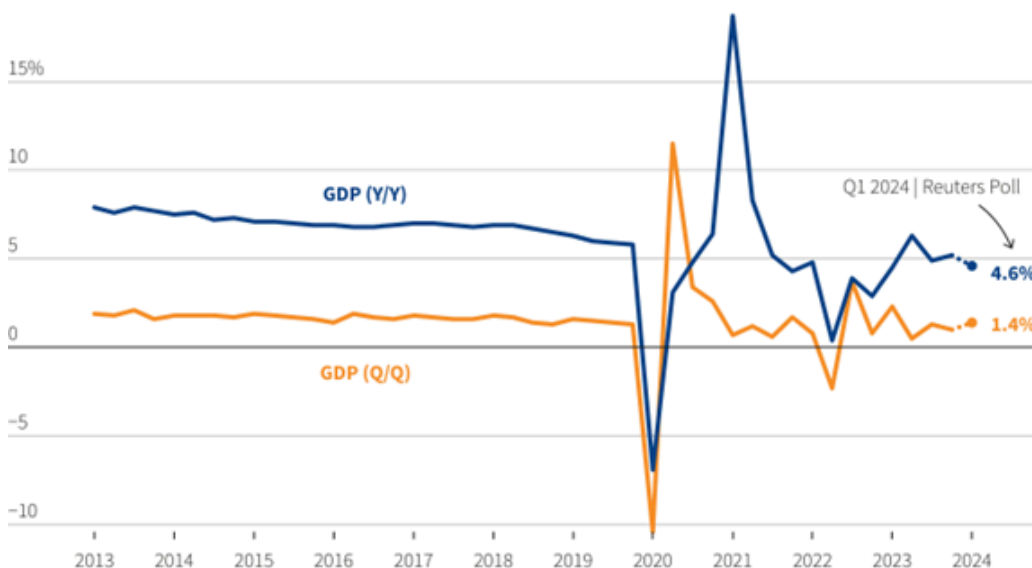
Source: LSEG Datastream | Reuters, April 10, 2024 | By Vineet Sachdev

Source: Reuters, BNY Mellon

2. China and the 5% GDP target. The key question for the week ahead across global markets is about global growth recoveries in the context of geopolitical fears – with US/China trade and the two wars dominating the news agenda, but the economic data from China will be critical in balancing out the hopes for some new normal on 2024 growth. China first quarter gross domestic product numbers are due on Tuesday, alongside data on house prices and retail sales. Expectations are for the economy to have grown 4.6% on an annual basis, a rocky start for Beijing in meeting its 2024 growth target of around 5%. The role for property in the make up of growth matters with the investment into property expected to be better than the -32.7% y/y from Jan/Feb. The Monday MLF roll over and the next weeks 1Y and 5Y LPR are also critical parts of the equation for many investors watching China growth and domestic recovery.

China's economy likely slowed in the first quarter

The Chinese economy likely grew 4.6% in the first quarter from a year earlier, a rocky start for Beijing in meeting its 2024 growth target of around 5%.



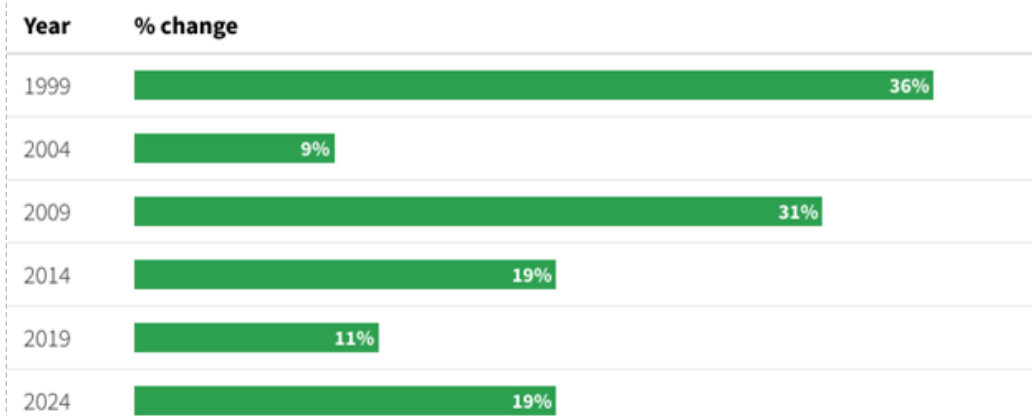
Source: LSEG Workspace, Reuters Poll | Reuters, April 11, 2024 | By Kripa Jayaram

Source: Reuters, BNY Mellon

3. India and the election – The start of the 7 part election begins April 19th with the results expected by June 4th. Incumbent Prime Minister **Narendra Modi** seeks a rare **third consecutive term**, with the BJP-led National Democratic Alliance (NDA) expected to lead the Indian National Congress-led INDIA (Indian National Developmental Inclusive Alliance). Since the NDA won key state elections in December, markets have rallied on hopes of policy continuity at the national level. India's benchmark stock indexes Nifty 50 and Sensex as well the broader, domestically focused mid-caps CP100 are at record highs, helped by sustained domestic inflows and a strong economic outlook. An NDA loss, viewed as a low-probability, could trigger a (temporary) pull back. The larger issue for investors is whether the INR holds at 83.50 with current USD gains and some lower CPI that opens room for RBI easing. There is also the worry that the push of money flows in 1Q will pause in 2Q given the election and other uncertainties in the nation.

Does the election drive stocks?

How India's Nifty 50 has fared six months before elections



Source: LSEG data, Nomura
Source: Reuters, BNY Mellon

4. UK CPI and the room for BOE easing. British inflation has slowed, putting the Bank of England on track to start cutting rates from 16-year highs. Attention turns to Wednesday's March consumer prices data to confirm the trend. Companies' expectations for selling prices and pay increases in the year ahead are cooling, according to a BoE survey that its rate-setting Monetary Policy Committee monitors closely. Consumers expect lower inflation too. But MPC comments show a divided central banks for when to cut, with no urgency to rescue an economy that entered a shallow recession late last year before manufacturing and mortgage approvals data signaled a recovery. The level of the recovery as shown by jobs and retail sales this week will matter. Traders, who had played with the idea of a June rate cut, now expect easing to start in August. Some of that repricing is related to the pull-back in U.S. rate-cuts bets, but the week ahead will lock it in should the CPI or the other data surprise.

BOE June or August to be set by CPI?

UK inflation is slowing down

Inflation in Britain has eased over the last few months keeping the Bank of England on track to start cutting interest rates in the second half of the year.



Source: LSEG Datastream | Reuters, April 11, 2024 | By Sumanta Sen
Source: Reuters, BNY Mellon

Economic Data and Events Calendar April 15-19:

Central Bank Decisions

- No Major Central Bank decision

Key data/releases

Date	BST	EDT	Country	Event	Period	Cons.	Prior
4/12-4/15			CH	Money Supply M2 YoY	Mar	8.70%	8.70%
04/15/24	00:50	19:50*	JN	Core Machine Orders MoM	Feb	0.80%	-1.70%
04/15/24	09:00	04:00	PD	CPI YoY	Mar F	--	1.90%
04/15/24	13:30	08:30	US	Retail Sales Advance MoM	Mar	0.40%	0.60%
04/16/24	03:00	22:00*	CH	GDP YoY	1Q	4.80%	5.20%
04/16/24	03:00	22:00*	CH	Industrial Production YoY	Mar	6.00%	--
04/16/24	07:00	02:00	UK	ILO Unemployment Rate 3Mths	Feb	4.00%	3.90%
04/16/24	07:00	02:00	UK	Jobless Claims Change	Mar	--	16.8k
04/16/24	10:00	05:00	GE	ZEW Survey Expectations	Apr	34	31.7
04/16/24	10:00	05:00	GE	ZEW Survey Current Situation	Apr	-77.9	-80.5
04/16/24	13:30	08:30	US	Housing Starts	Mar	1480k	1521k
04/16/24	13:30	08:30	CA	CPI NSA MoM	Mar	0.70%	0.30%
04/16/24	13:30	08:30	CA	CPI YoY	Mar	3.00%	2.80%
04/16/24	14:15	09:15	US	Industrial Production MoM	Mar	0.40%	0.10%
04/16/24	23:45	18:45	NZ	CPI QoQ	1Q	0.60%	0.50%
04/17/24	07:00	02:00	UK	CPI MoM	Mar	0.40%	0.60%
04/17/24	07:00	02:00	UK	CPI YoY	Mar	2.90%	3.40%
04/17/24	07:00	02:00	UK	CPI Core YoY	Mar	--	4.50%
04/17/24	08:00	03:00	TU	Current Account Balance	Feb	--	-2.56b
04/17/24	09:00	04:00	SA	CPI YoY	Mar	5.40%	5.60%
04/17/24	10:00	05:00	EC	CPI YoY	Mar F	2.40%	2.40%
04/17/24	10:00	05:00	EC	CPI MoM	Mar F	0.80%	0.80%
04/17/24	12:00	07:00	SA	Retail Sales Constant YoY	Feb	--	-2.10%
04/17/24	12:00	07:00	US	MBA Mortgage Applications	Apr-12	--	0.10%
04/18/24	02:30	21:30*	AU	Unemployment Rate	Mar	3.90%	3.70%
04/18/24	02:30	21:30*	AU	Employment Change	Mar	10.0k	116.5k
04/18/24	05:30	00:30	JN	Tertiary Industry Index MoM	Feb	0.80%	0.30%
04/18/24	13:30	08:30	US	Initial Jobless Claims	Apr-13	--	211k
04/18/24	15:00	10:00	US	Existing Home Sales	Mar	4.16m	4.38m
04/19/24	00:30	19:30*	JN	Natl CPI YoY	Mar	2.80%	2.80%

Key Speeches / Events

Date	BST	EDT	Country	Event
04/15/24	07:30	02:30	US	Fed's Logan Speaks on Panel in Tokyo
04/15/24	08:30	03:30	EC	ECB's Simkus Speaks
04/15/24	12:15	07:15	UK	BOE's Breeden speaks
04/15/24	13:00	08:00	EC	ECB's Lane Speaks
04/15/24			SW	Riksbank's Thedeem and Breman at IMF Spring Meeting, DC
04/16/24	01:00	20:00*	US	Fed's Daly Gives Keynote Remarks
04/16/24	09:00	04:00	FI	ECB's Rehn Speaks
04/16/24	10:00	05:00	UK	BOE Deputy Governor Clare Lombardelli testifies
04/16/24	14:00	09:00	US	Fed's Jefferson Speaks at Monetary Policy Forum
04/16/24	17:30	12:30	EC	ECB's Villeroy Speaks
04/16/24	18:00	13:00	UK	BOE Governor Andrew Bailey speaks
04/16/24	18:15	13:15	CA	Fireside Chat with Tiff Macklem
04/16/24	19:00	14:00	EC	ECB's Vujcic Speaks
04/17/24	13:05	08:05	UK	BOE's Megan Greene speaks on panel
04/17/24	14:00	09:00	EC	ECB's Cipollone Speaks
04/17/24	15:00	10:00	SW	Riksbank's Floden speaks on monetary policy communication
04/17/24	16:00	11:00	EC	ECB's de Cos Speaks
04/17/24	16:45	11:45	EC	ECB's Schnabel Speaks
04/17/24	17:00	12:00	UK	BOE Governor Bailey speaks in Washington
04/17/24	19:00	14:00	US	Federal Reserve Releases Beige Book
04/17/24	19:00	14:00	UK	BOE's Haskel speaks
04/17/24	22:30	17:30	US	Fed's Mester Gives Update on Fed
04/17/24	23:30	18:30	US	Fed's Bowman Speaks at IIF Global Outlook Forum
04/18/24	02:30	21:30*	JN	BOJ Board Noguchi Speech in Saga
04/18/24	07:30	02:30	SW	Riksbank's Bunge speaks on current monetary policy
04/18/24	09:00	04:00	NO	Norges Bank 1Q Survey of Bank Lending
04/18/24	13:00	08:00	EC	Bundesbank Chief Nagel, Germany's Lindner Speak in Washington
04/18/24	14:15	09:15	US	Fed's Bowman Speaks at SIFMA Roundtable
04/18/24	14:15	09:15	US	Fed's Williams Participates in Moderated Discussion
04/18/24	15:00	10:00	SW	Riksbank's Jansson speaks on current monetary policy
04/18/24	16:00	11:00	US	Fed's Bostic Speaks in Fireside Chat on Economy
04/18/24	17:00	12:00	SZ	SNB's Martin Speaks at Money Market Event in Zurich
04/18/24	18:30	13:30	EC	ECB's Centeno, Simkus Speak
04/18/24	20:00	15:00	EC	ECB's Vujcic Speaks
04/18/24	22:45	17:45	US	Fed's Bostic Chats About Economy, Monetary Policy
04/19/24	15:15	10:15	UK	BOE's Ramsden speaks
04/19/24	15:30	10:30	US	Fed's Goolsbee Participates in Q&A
04/19/24	20:00	15:00	EC	ECB's Nagel Speaks

Conclusions: IMF and a world torn

Can the simple power of talking de-escalate the conflicts in the world and return the power of globalization in economics to the new normal? The tension of geopolitical splits highlighted by the ongoing wars in Israel and Ukraine will again be central to discussions in Washington in the week ahead as the IMF meetings return. The balance of inflation and growth for 2024 remains in doubt as the rising fears of goods inflation returning due to structural shifts from the push for nationalist policies globally along with the disruptions from the Red Sea to the Black Sea to the weather and climate change all that leaves concerns for goods inflation rising in 2024 rather than the sharp declines from 2023. The sticky inflation problem stands out as the key block to central bankers easing faster and growing better. The US is clearly the leader of such worries while last week, the BOC and ECB, pushed on with June rate cut hopes. Whether central banks have really won the [inflation battle](#) yet (IMF Chief Kristalina Georgieva does not think so), especially as Middle East tensions fire up oil prices. Or how economies, especially [emerging markets](#), will navigate still elevated debt burdens. The difficult choices for many nations requires a global framework for diverse solutions.

Bottom Line: Markets are set up for bad outcomes but the rally up in risk from 1Q has room to further unwind. The path for this week ahead will rest on not just economic data but now 1Q earnings beats and geopolitical solutions. IMF meetings are usually dull affairs but may rise to the occasion as pertinent to the global debates needed for better economic cooperation and fiscal discipline. The credit spread between nations and between high yield vs. investment grade may be the surprise ahead.

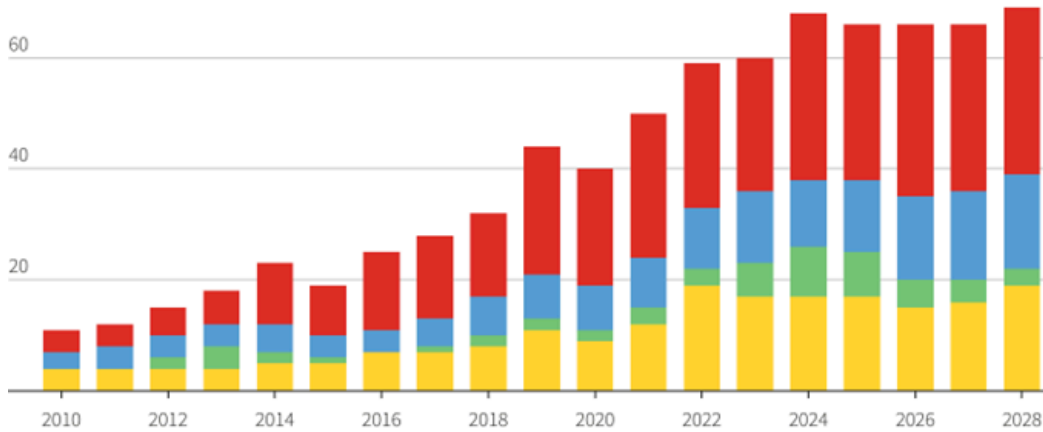
Debt burden of lower income nations will be part of IMF week

Rising debt burden of lower income countries

Debt service of low and lower-middle income countries at liquidity risk by creditor group

● Bi-lateral debt ● IMF ● Multi-lateral debt ● Privately held

\$80 bln



Source: Policy note by Finance for Development Lab | Reuters, April 11, 2024 | By Sumanta Sen

Source: Reuters, BNY Mellon

Disclaimers and Disclosures

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



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