BNY MELLON

iFlow WEEK AHEAD

April 21, 2024

Unsteady Calm

"“Never trust the calm sea when she shows her false alluring smile.” - Lucretius
“Peace is an unstable equilibrium, which can be preserved only by acknowledged supremacy or equal power.” – Will Durant

Summary:
The lack of war doesn’t mean peace and that leaves markets unsettled but hopeful and ready to focus on data and earnings into the next week. The weekend brought Ukraine and Israel funding from the US House while it brought flooding to China and violence in the Israeli West Bank. The vote in the Maldives today is seen as a referendum on the shift to China and away from India, while violence forces a redo for 11 places in the India Manipur vote. The rapid rise of rates was tempered in the last week by geopolitical concerns with the Iran and Israeli attacks driving volatility but the key underlying surprises of stronger US retail sales and a strong Beige Book leaves clear US high for longer rate policy will remain leaving diversity from others essential to growth ahead. The IMF meetings focused on productivity, the strain of war and the stickiness of inflation combined with fiscal spending limitations. The mood for 2024 continues to be upbeat and that contrasts with the equity tape that has drifted lower in the last week and seems set up for more volatility with over 30% of the S&P500 reporting 1Q earnings in the week ahead. Bonds are unlikely to get much respite given the supply and ongoing corporate issuance with $30bn last week and another $30bn expected ahead. For the USD, markets have been laser focused on the risk of intervention and the risks from ECB and BOC cutting rates in June regardless of the FOMC. The diversity of views on growth and real rates may make the Friday core PCE data even more important to FX markets over fixed income. For many, the unsteady calm of Friday post follows with the news agenda skewed

towards the end of the week. Lack of trouble today doesn't mean tranquility tomorrow.

Key Themes:

- **Geopolitics and the cost of fear** – Markets are trying to measure the risks of ongoing wars in Israel and Ukraine with precision. The US $61bn aid package passed by the House in route to the Senate and likely signed next week by the President will extend the Ukraine story and likely reset the expectations for a Russian Summer offensive. In the last five months, the Ukraine loss of about 5% of its territory, the hit to its electric grid and the loss of further soldiers matters and will hang over the war effort. The risk in Israel of escalation to Rafah and what that means for further action elsewhere seems likely to be tested. The markets are watching oil and gold as the best barometers of fear, but the cost of the wars is showing up in inflation and lost productivity along with the spurt of defense spending and production that may give false hopes for recovery to some.
- **Intervention and the cost/benefits** – The week ahead will focus on JPY and other APAC FX stories as the 155 lines in USD/JPY seems likely unless the BOJ acts on rates or the MOF acts with reserves. The cost of weak FX has been inflation and lowering of confidence, while the benefits in trade are harder to pinpoint. The cost of everything seems to matter more still than any exporters edge. Markets are watching the overvaluation of the USD globally and wondering what the cost of such is on global growth vs. selling out some reserves to cap or reverse it. The link of reserves to rates is not yet clear to all. Correlation of higher rates to a stronger USD will be critical in the weeks ahead.
- **Monetary policy and inflation/growth mix** – The rise of divergence in G10 rate policy leaves monetary policy as an important driver for risk in the weeks ahead. The key rate decisions from some of the largest held emerging markets in the week ahead will set the tone for how rates and FX work together to fight inflation or hold back growth. All eyes will be on HUF and IDR for such balancing in the first part of the week. The role of monetary policy in fixing the fiscal imbalances is also part of the narrative for investors as the cost of borrowing links to growth of the private sector and the risks for default. The rise of credit as a concern maybe back on the front burner for investors as it correlates to stocks which have delivered in the first 3 weeks of April trouble. The cost of money and the use of it in growing businesses will remain a key focus beyond 1Q earnings.

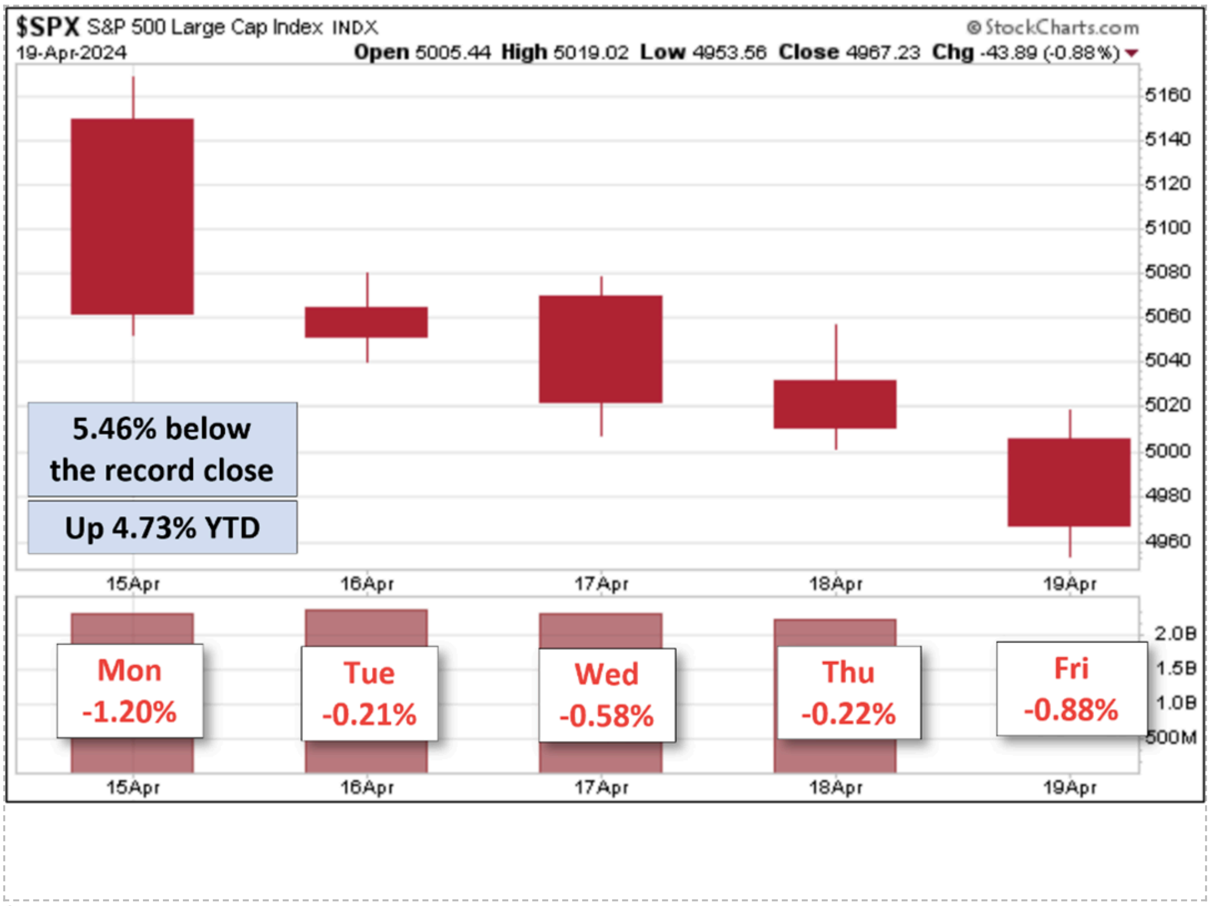
What are we watching: US GDP 1Q and core PCE index for March, BOJ, flash Global PMIs, BI rate decision

- **Economic Releases**: Monday – EU debt to GDP across region; Tuesday – Global flash PMIs, US flash PMI composite expected 50 and Richmond Fed manufacturing; Wednesday – Australia CPI, German Ifo, US Durable Goods expected 2.5%; Thursday – Korea 1Q GDP, US 1Q GDP expected 2.5%; Friday – core PCE price index expected 0.3% m/m, 2.7% y/y, final Univ. of Michigan Survey
- **Central Banks**: Monday – China PBOC 1Y and 5Y LPR no change expected ECB Lagarde speech; Tuesday – BOE Haskell speech, Hungary MNB expected to cut 50bps at least SARB policy review; Wednesday - Indonesia BI rate decision expected on hold but possible hike for FX defense, BOC Minutes, ECB speakers; Thursday – Turkey TCMB no hike expected, ECB economic bulletin and Schnabel speech; Friday – BOJ rate decision.
- **US Treasury Supply**: Monday - $70bn 3M and $70bn 6M bills; Tuesday - $65bn in 42-day CMB, $69bn in 2Y notes; Wednesday - $30bn in 2Y FRN, $70bn in 5Y notes; 1M and 2M bills, $44bn in 7Y notes.

What changed last week:

- **US S&P500 fell for the 3rd consecutive week** – and the biggest loss since March 2023 off 3.05%. The index is currently up 4.73% year to date and now sits 5.46% below its record close from March 28, 2024. In 2024 there have been 8 days of 1% or greater rallies for the index and 6 of 1% or more down days. The number of days where the index is 10% below its peak are 0 compared with 130 in 2023 and 186 in 2022. The US NASAQ fell 5.52% last week while the DJIA held up 0.01%. The EU saw some gains in France with CAC40 up 0.14%, Spain IBEX up 0.41% ad Italy MIB up 0.47%. China stands out up 1.89% in the CSI 300. The biggest loser was Nikkei off 6.21% suggesting weaker JPY isn't sufficient, while Hong Kong Hang Seng also suffered off 2.98%.

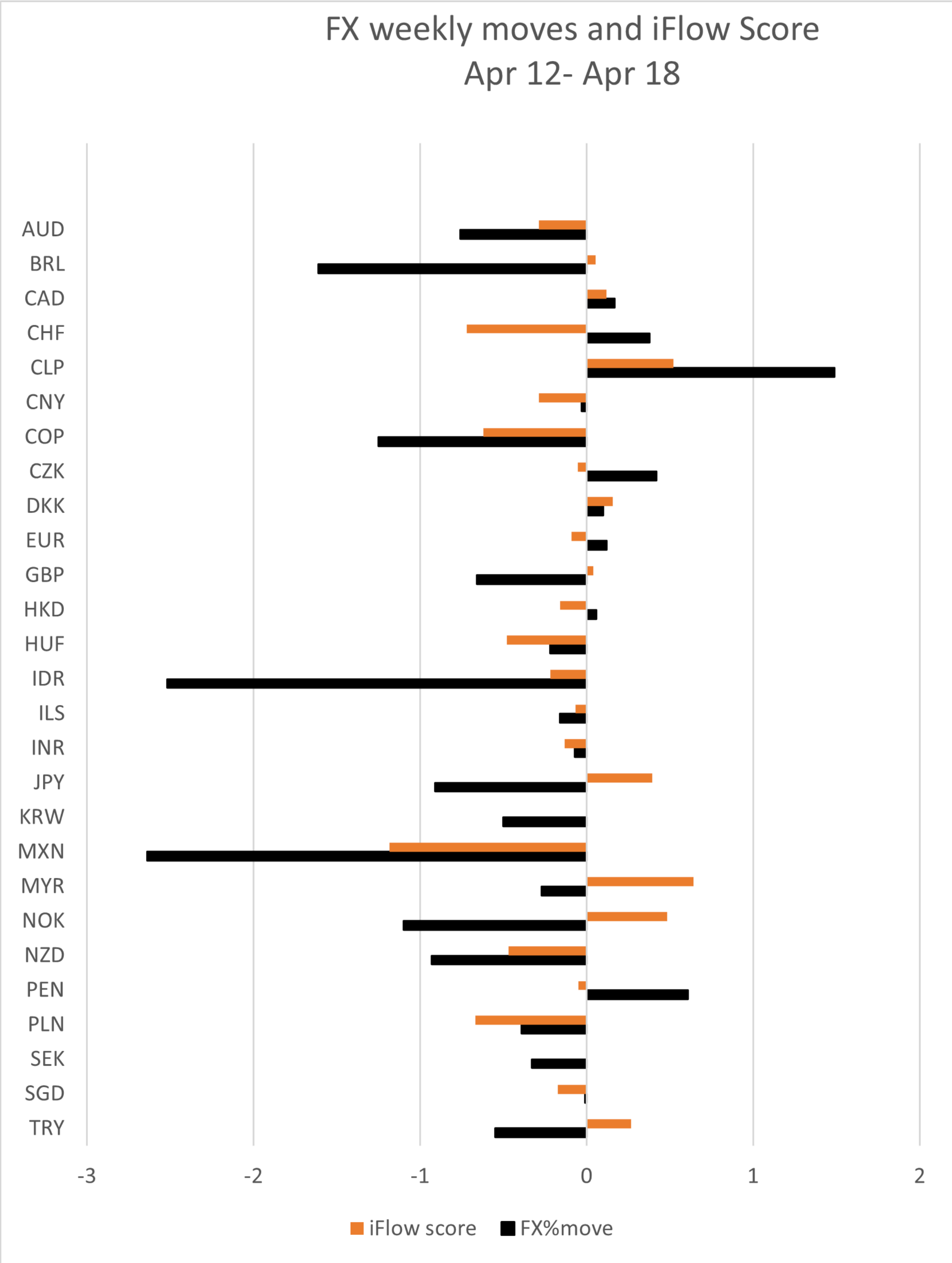
US markets nearing correction zone?



Source: Bloomberg, BNY Mellon

- **In FX, The USD rose marginally** 0.1% on the index with EUR gaining but JPY and GBP weaker. Emerging Markets saw significant volatility with MXN notable loser but CLP and PEN gaining. The role of rates, energy and policy was the nominal driver, but positioning dominated. Election risks are rising for INR, ZAR, MXN. The divergence of iFlow vs. price shows up most notably in CHF, JPY, GBP and NOK.

FX sees USD hold its gains, even with EM intervention



Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income**, US bonds saw a mixed bear steepening trade with 2Y up 8bps, unable to break over 5% yield hurdle but the 5Y belly of the curve rose 11bps, while the 10Y rose 10bps over 4.62%. German Bunds 10Y rose 6bps to 2.50%, while UK Gilts fell 1bps to 4.23% with mixed data driving – even as CPI was higher than hoped. The biggest bond gains were in Mexico 6.5bps to 6.10% and China with 10Y off 2.5bps to 2.25%.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.71	3.72	0.08
20Y	5.44	0.87	4.84	3.97	0.09
10Y	5.26	0.52	4.62	4.1	0.10
5Y	5.18	0.19	4.67	4.48	0.11
2Y	5.22	0.09	4.99	4.9	0.09
3M	5.63	0	5.37	5.37	0.01
FFR	5.41	0.04	5.32	5.28	0.00
The Yields and Fed Funds Rate data from January 2007					

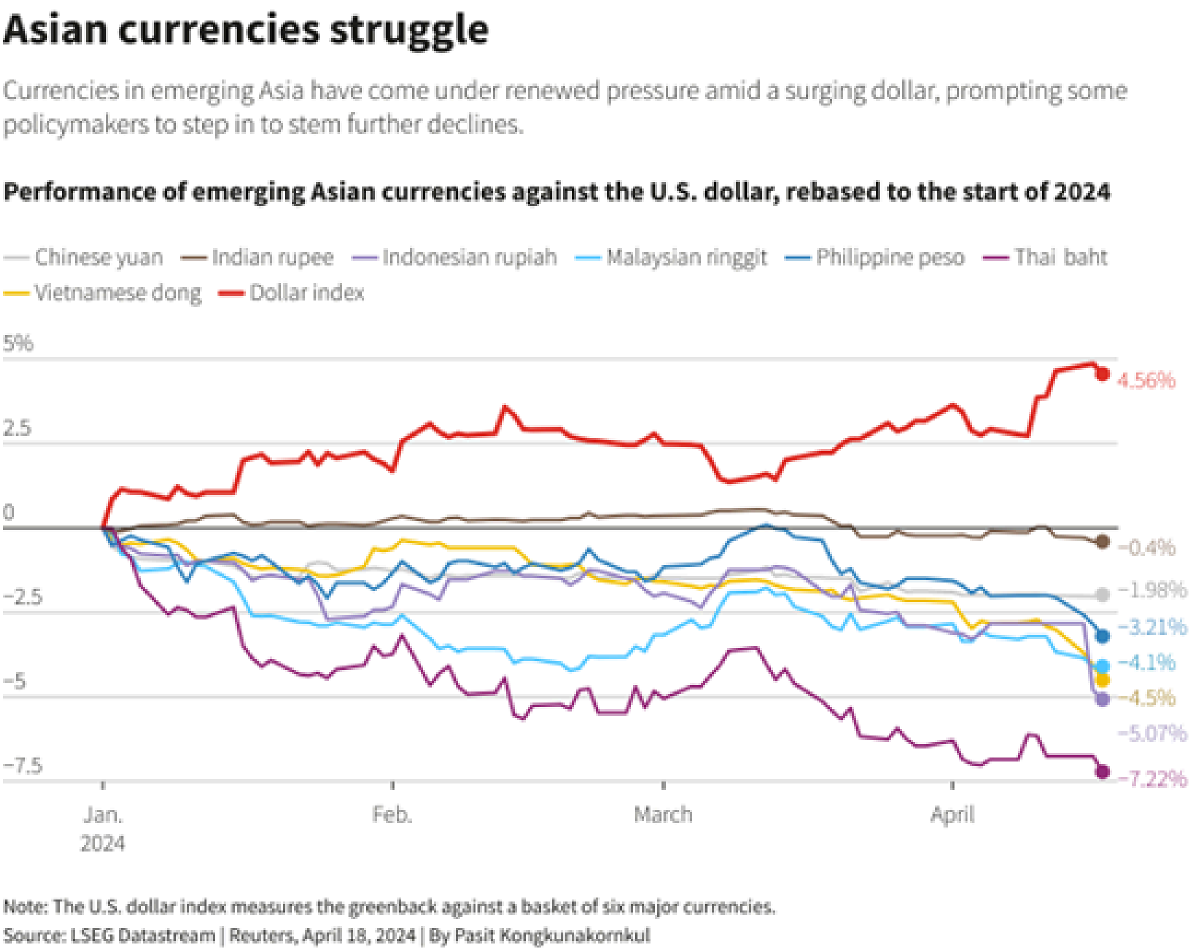
Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – 1Q earnings, US GDP and core PCE, BOJ and BI decisions.

In the United States, all eyes will be on Q1 GDP growth rate and PCE prices, alongside personal income and spending figures. Additionally, investors will closely monitor durable goods orders, Flash S&P Global Manufacturing and Services PMI's and pending and new home sales. Also, earnings season will hit a crescendo with over thirty companies boasting market caps exceeding $100 billion set to unveil their financial reports. Meanwhile, flash manufacturing and services PMI's will be released for Australia, Japan, India, France, Germany, the Euro Area, and the United Kingdom. Also, consumer confidence data will be scrutinized for the Euro Area, South Korea, Italy, Germany, and the United Kingdom. Finally, investors will closely watch interest rate decisions in Japan, China, and Turkey, along with Australia's inflation date, and South Korea's 1Q GDP.

1. Japan and intervention risk – The BOJ meeting April 25 will be important in the context of intervention risk as well as the contrast to other G10 central banks. FOMC Chair Jay Powell has signaled U.S. rate cuts will likely take longer than expected, while Bank of Japan officials have indicated hikes at home will be extremely slow, which could be confirmed at their policy meeting starting April 25. Japan's finance minister wants to stem the yen's slide to a 34-year low, potentially without spending anything on intervention. Finance Minister Shunichi Suzuki held an unprecedented trilateral dialogue with Treasury Secretary Janet Yellen and his Korean counterpart, yielding a US acknowledgement of the Asian nations' "serious concerns" about the steep drop in their currencies. IDR fell to 4-year lows, KRW fell to 12-month lows but after the meeting there was some relief. The KRW gained 1% after such, JPY was flat, CNY has outperformed both but remains over 7.20. Markets are watching the next week post the IMF, the G20 meeting and the G7 communique that repeated FX volatility is undesirable. There is a risk but no clear fear of intervention again in the week ahead. The role of JPY on inflation will be part of the larger BOJ discussion and be key to how markets see rate, FX and inflation in the months ahead. July rate hike risks from the BOJ are priced but the lagging of the economy is a counterpoint to the ongoing JPY problems. **JPY at 155 into the May Golden Week holidays** maybe a trigger beyond the BOJ forcing the Japan MOF and others in the region to spend more money from reserves. The relationship of JPY to rest to the region is key for the week and month ahead. Benign inflation in the region and softer growth suggest other APAC policymakers may be justified in cutting rates, but going before the FOMC would only hurt their currencies further**. Bank Indonesia meets Wednesday, April 23-24**, and analysts see a growing risk of a rate hike from the central bank that was once expected to be among the first in the region to cut.

Will the MOF and BOJ work together to cap USD/JPY?



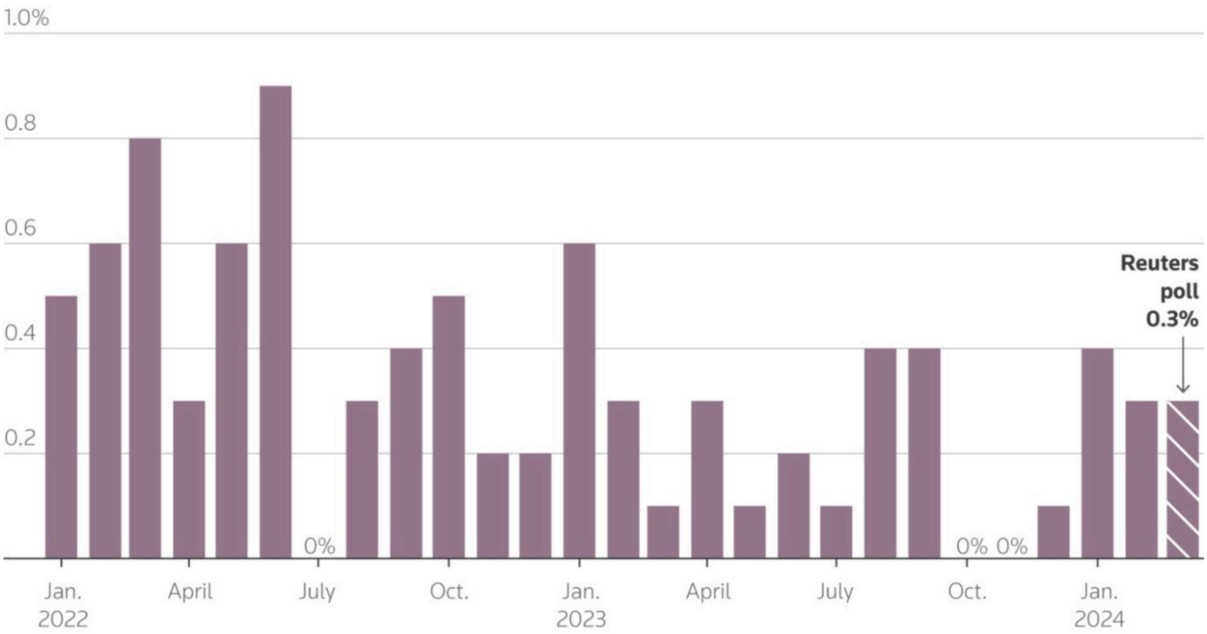
Source: Reuters, BNY Mellon

2. US core PCE price index and the FOMC – Sticky U.S. inflation and oil up 14% this year means price pressures are back in focus. The week ahead economic data releases bring advance Q1 GDP on Thursday, including price deflators and the

March PCE deflator on Friday. Additionally, $183bn of 2-year, 5-year and 7-year Treasury coupon supply comes to auction. None of these events appears to rise to the level of critical market focus individually, but together they may provide a counterweight to some of the geopolitically driven safe haven buying for fixed income in recent days. The question is whether there is scope for a rebound in risk appetite on any benign readings following the recent price action before the uptick of Iran/Israel escalation. The come down of that conflict to a new status quo of wait and see matches markets expectations about FOMC policy being wait and see if the data matters.

Fed's preferred inflation gauge likely kept steady in March

Economists polled by Reuters project the price index for personal consumption expenditures (PCE) to rise 0.3% in March from the previous month, the same pace from February.



Sources: LSEG Datastream, Reuters polling
Prinz Magtulis • April 17, 2024 | REUTERS
Source:Reuters, BNY Mellon

3. EU recovery and the rest of the world. There is a narrow path for the ECB and its bravado in divergence of policy from the FOMC. The risk for a June cut starts with the economic data and with the rise of energy prices in 1Q many are worried about the way inflation plays out ahead. The flash PMIs of April business activity from across global economies are released, attention will fall on any signs that inflation, especially in the services sector, is returning. The March U.S. PMI showed a measure of prices paid by businesses for inputs hit a four-year low, euro area inflation meanwhile slowed to 2.4% in March. Yet the latest US inflation numbers and Middle East tensions keeping oil high means investors are nervous. A key gauge of market euro area inflation expectations has touched its highest since December. The PMIs could also show the euro zone isn't doing too badly. The March PMI showed activity expanded for the first time since May. Just how strong the EU recovery proves to be will matter to the ECB and to how it sees the world ahead. The IMF speeches from the ECB were clear in their intention for a cut in June but this like the weather can chance. The role of the EUR holding in a tight 1.06-1.09 range is also a consideration.

Does the global PMI flash help or hurt ECB cut expectations?

The recovery in euro area business activity has lagged its peers

Composite Flash Purchasing Managers' Index (PMI) across major economies. Expansion > 50 > Contraction

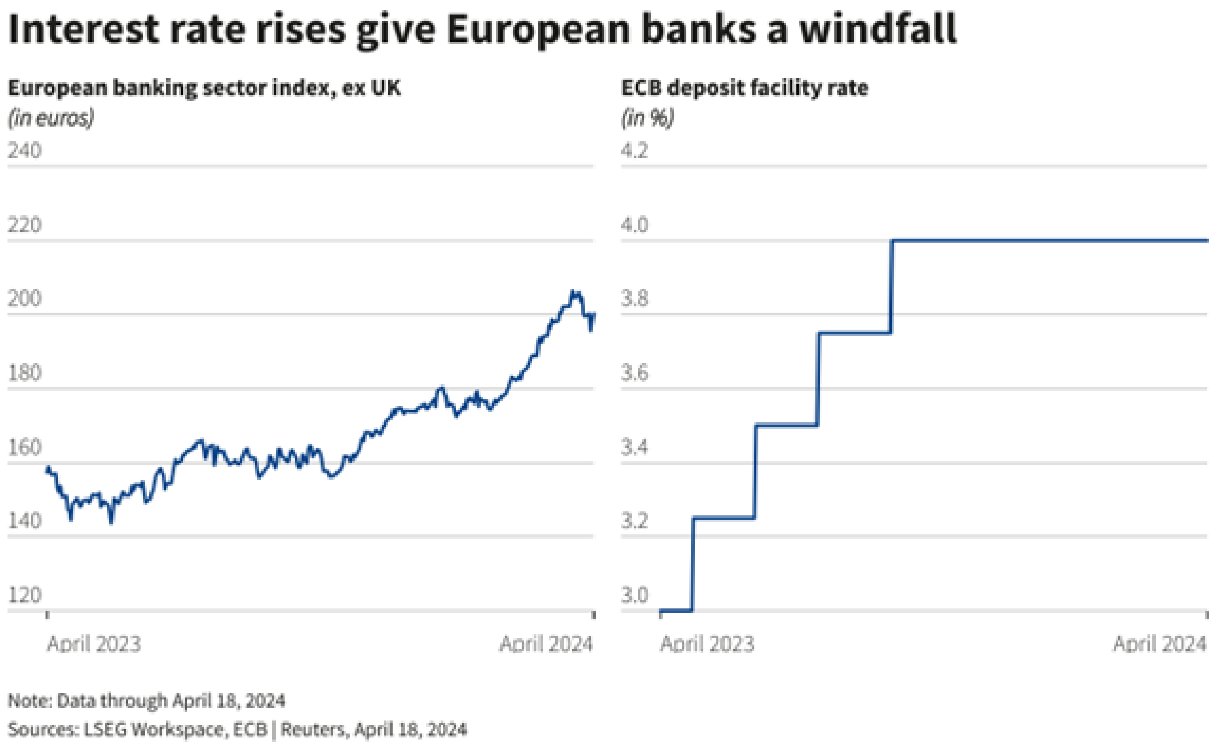
Last 12 months	Apr. 2023	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. 2024	Feb.	Mar.
Australia	52	51.2	51	48	47	50	47	46	47	48	52	52
Euro zone	54	53.3	50	49	47	47	47	47	47	48	49	50
France	54	51.4	47	47	47	44	45	45	44	44	48	48
Germany	54	53.9	51	49	45	46	46	48	47	47	46	47
UK	54	53.9	53	51	48	47	49	50	52	53	53	53
U.S.	54	54.5	53	52	50	50	51	51	51	52	51	52
Japan	53	54.3	52	52	53	52	50	50	50	51	50	52

Source: LSEG Datastream | Reuters, Apr.18, 2024 | By Vineet Sachdev

Source: Reuters, BNY Mellon

4. 1Q Earnings outside of the US – European Banks are back in focus. The EuroStoxx Bank index is up 12%. Interest rate rises gave banks a windfall in 2023 by widening the gap between what they charged for loans and paid to savers. Investors will scrutinize upcoming quarterly earnings reports to gauge how much European Central Bank rate cuts, predicted to start in June, will cost the lenders. Barclays forecasts zero earnings growth for European banks in 2024, then a modest 5% gain in 2025. But JPMorgan recommends a less pessimistic overall stance on European bank stocks, while its credit analysts view these lenders as less exposed to the troubled commercial property sector than US peers. BNP Paribas, Deutsche Bank and Barclays are among the big guns reporting in the coming week.

Do EU banks prove value?



Source: Reuters, BNY Mellon

Economic Data and Events Calendar April 22-26:

Central Bank Decisions

- **Hungary MNB (Tuesday, April 23)** – The ECB's commitment to easing rates in June is now fully clear and this will open some degree of policy space for Central and Eastern Europe. Although pass-through risk remains an elevated risk, it is the euro leg that matters far more and the likes of the MNB can at least continue to match the ECB's rate cuts on a commensurate basis. However, as the ECB is refusing to pre-commit, we believe caution remains the best way forward and would prefer to see a 50bp cut. Wages continue to rise strongly though demand expansion is soft, and inflation numbers are not surprising strongly to the upside though the sequential figures year-to-date are quite high.
- **Indonesia BI (Wednesday, April 24) –** We expect Bank Indonesia to maintain the status quo at 6.0% and reiterate their triple intervention strategies to main FX stability. The most important to look out for is IF Bank Indonesia would tone down its dovish rhetoric. Given heightened market volatility in IDR, rising food and inflationary pressure and the higher oil prices, we see chance for Bank Indonesia to divert away from near-term interest rates development but to focus on FX stability. Note that BI explicitly comment on timing of policy reversal "room to cut in H2 2024" in January 2024, BI kept similar rhetoric in February 2024 before a subtle shift to "room for policy moves in H2".

- **Turkey TCMB (Thursday, April 25) –** We expect TCMB to maintain a vigilant stance having pushed nominal rates up to 50%. There is a clear positive real rate buffer at present based on sequential inflation levels but any let-up in the policy path could jeopardise the gains, especially with U.S. rates on the ascendency again. Keeping monthly inflation anchored at around three percent is likely the first step and the rest will rely on Turkey continuing to anchor balance of payments. Official data pointed to a strong finish to 2023 while iFlow also suggests that outflow interest is limited for now. Navigating flow stability is essential ahead of greater clarity in the Fed’s policy path.
- **Japan BoJ (Friday, April 26) –** Having excited negative interest rate policy and yield curve control at the prior meeting, any BoJ meetings should be considered ‘live’ for the near future though markets continue to lack consensus on the operational basis of normalisation. The BoJ was clear in March that monetary policy was still in easing mode and the balance sheet would continue to expand accordingly. Markets are far more focused on the Ministry of Finance at present given the level of USDJPY and we expect Governor Ueda to spend much of his time deferring to the MoF on JPY levels. FX levels are causing greater concern on a global basis, but the BoJ will also likely state that the direction of travel for US rates which has been supporting the moves is beyond Tokyo’s control.
- **Russia CBR (Friday, April 26) –** The Central Bank of Russia is expected to maintain rates at 16%.

Key data/release

Date	BST	EDT	Country	Event	Period	Cons.	Prior
04/22/24	09:00	04:00	PD	Sold Industrial Output YoY	Mar	-1.90%	3.30%
04/22/24	09:00	04:00	PD	PPI YoY	Mar	-9.60%	- 10.10%
04/23/24	01:30	20:30*	JN	Jibun Bank Japan PMI Mfg	Apr P	--	48.2
04/23/24	08:30	03:30	GE	HCOB Germany Manufacturing PMI	Apr P	42.5	41.9
04/23/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Apr P	46.5	46.1
04/23/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Apr P	50.2	50.3
04/23/24	***13:00***	***08:00***	***HU***	***Central Bank Rate Decision***	***Apr-23***	***7.75%***	***8.25%***
04/23/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Apr P	51.8	51.9
04/23/24	15:00	10:00	US	New Home Sales	Mar	670k	662k
04/23/24	23:45	18:45	NZ	Trade Balance NZD	Mar	--	-218m
04/24/24	02:30	21:30*	AU	CPI QoQ	1Q	0.80%	0.60%
04/24/24	02:30	21:30*	AU	CPI YoY	1Q	3.50%	4.10%
04/24/24	***08:20***	***03:20***	***ID***	***BI-Rate***	***Apr-30***	***6.00%***	***6.00%***
04/24/24	09:00	04:00	GE	IFO Business Climate	Apr	88.8	87.8
04/24/24	12:00	07:00	US	MBA Mortgage Applications	Apr-19	--	3.30%
04/24/24	13:30	08:30	US	Durable Goods Orders	Mar P	2.80%	1.30%
04/25/24	***12:00***	***07:00***	***TU***	***One-Week Repo Rate***	***Apr-25***	***50.00%***	***50.00%***
04/25/24	13:30	08:30	US	GDP Annualized QoQ	1Q A	2.30%	3.40%
04/25/24	13:30	08:30	US	Initial Jobless Claims	Apr-20	--	212k
04/26/24	00:30	19:30*	JN	Tokyo CPI Ex-Fresh Food YoY	Apr	2.20%	2.40%
04/26/24			***JN***	***BOJ Target Rate (Upper Bound)***	***Apr-26***	***0.10%***	***0.10%***
04/26/24	11:30	06:30	RU	Key Rate	Apr-26	16.00%	16.00%
04/26/24	13:00	08:00	BZ	IBGE Inflation IPCA-15 MoM	Apr	--	0.36%
04/26/24	13:30	08:30	US	Personal Income	Mar	0.50%	0.30%
04/26/24	13:30	08:30	US	Personal Spending	Mar	0.60%	0.80%
04/26/24	15:00	10:00	US	U. of Mich. Sentiment	Apr F	77.9	77.9

Key Speeches / Events

Key speeches/events

Date	BST	EDT	Country	Event
04/22/24	10:05	05:05	UK	BOE's Benjamin speaks
04/22/24	16:30	11:30	EC	ECB's Villeroy speaks in Paris
04/23/24	09:00	04:00	UK	BOE's Haskel speaks
04/23/24	12:15	07:15	UK	BOE's Huw Pill speaks
04/23/24	13:30	08:30	EC	ECB's Nagel Speaks in Berlin
04/23/24	14:30	09:30	EC	ECB's Nagel Speaks in Berlin
04/23/24	15:30	10:30	SA	SARB Monetary Policy Review
04/24/24	08:00	03:00	EC	Bundesbank Chief Nagel Speaks on Central Bank Money
04/24/24	08:35	03:35	EC	ECB's Cipollone Speaks in Frankfurt
04/24/24	15:00	10:00	EC	ECB's Schnabel Speaks in Frankfurt
04/24/24	18:30	13:30	CA	Bank of Canada Releases Summary of Deliberations
04/25/24	06:15	01:15	SZ	SNB Publishes 1Q Results
04/25/24	08:00	03:00	EC	ECB's Schnabel Speaks in Frankfurt
04/25/24	09:20	04:20	EC	ECB's Vujcic Speaks
04/25/24	13:10	08:10	NO	Norges Bank Executive Director Bech-Moen Speech
04/25/24	16:15	11:15	EC	Bundesbank Chief Nagel Speaks About Climate Change
04/25/24	18:30	13:30	EC	ECB's Panetta Speaks in Frankfurt
04/26/24	09:00	04:00	SZ	SNB's Jordan Speaks at Central Bank AGM in Bern
04/26/24	09:00	04:00	SZ	SNB's Jordan Speaks on SNB AGM in Bern
04/26/24	10:00	05:00	EC	ECB's Centeno Participates in Panel in Frankfurt

Conclusions: What do price and earnings tell us about the macro markets now?

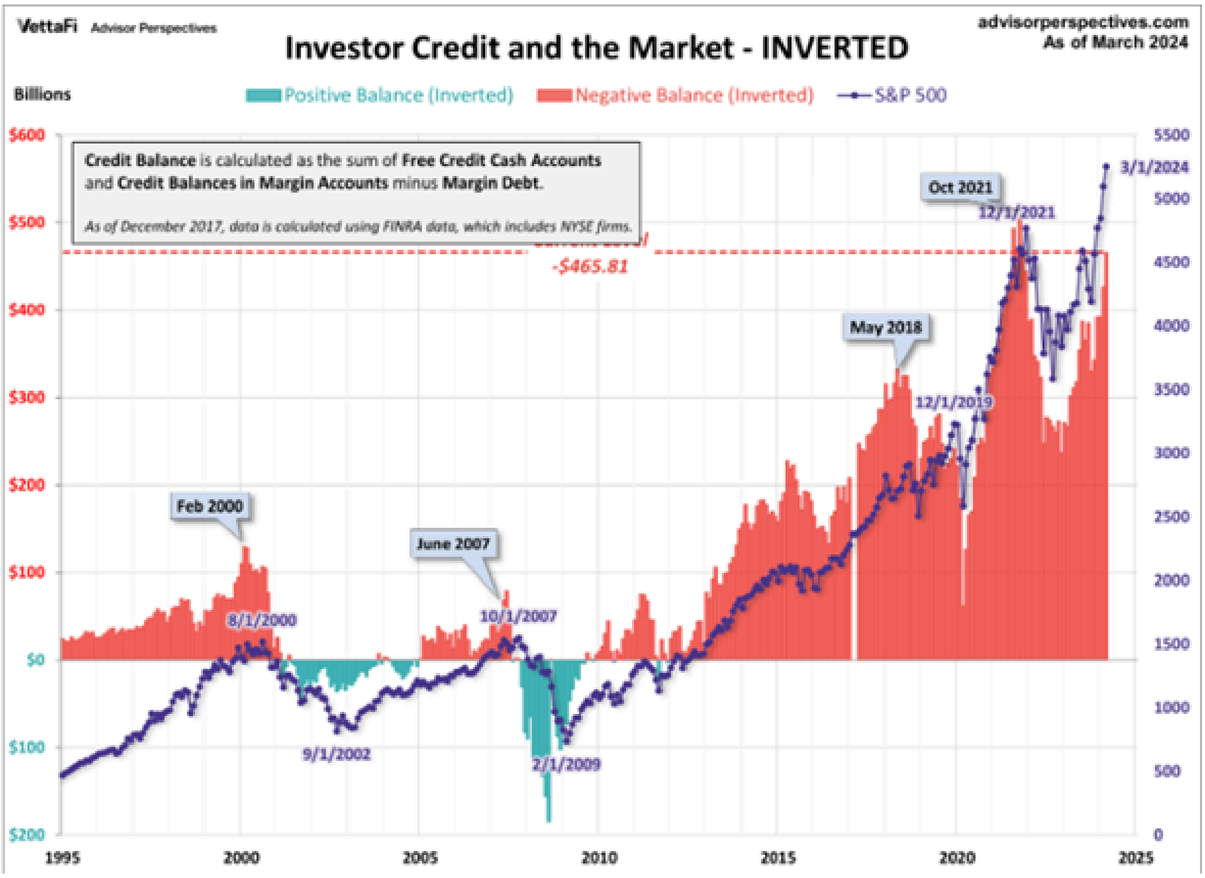
With just 14% of the S&P500 earnings reported, the actual results are likely to change again this week with 158 companies reporting. However, right now blended actual and estimated earnings – using FactSet data - are for 0.5% growth down from 0.9% last week and 3.4% at the end of March. Six sectors have growth so far - led by the Utilities, Information Technology, Communication Services, and Consumer

Discretionary sectors. On the other hand, five sectors are reporting a year-over-year decline in earnings, led by the Health Care, Materials, and Energy sectors. The blended revenue growth is up 3.5% - on target to the March 31 forecasts. Looking ahead, analysts expect (year-over-year) earnings growth rates of 9.6%, 8.7%, and 17.7% for Q2 2024, Q3 2024, and Q4 2024, respectively. For CY 2024, analysts are calling for (year-over-year) earnings growth of 10.7%. The forward 12-month P/E ratio is 19.9, which is above the 5-year average (19.1) and above the 10-year average (17.8). However, it is below the forward P/E ratio of 21.0 recorded at the end of the first quarter (March 31).

FINRA has released new data for margin debt, now available through March. The latest debt level rose for a fifth straight month to $784.14 billion, its highest level since March 2022. Margin debt is up 5.5% month-over-month and up 21.5% year-over-year. However, after adjusting for inflation, debt level is up 4.9% y/y and up 17.4% y/y. Tracking equity margin debt is several weeks old when the data is published. Thus, even though it may, in theory, be a leading indicator, a major shift in margin debt isn't immediately evident. Nevertheless, we see that the troughs in the monthly net credit balance preceded peaks in the monthly S&P 500 closes by six months in 2000 and four months in 2007. The peak in margin in the recent history Dec 2019 was 23 months.

Bottom Line: The next week has the potential for risk turning around given the calm of the weekend and the significant risk moves lower in stocks and bonds on the month. The ability to see markets move against the pullback pressures requires some confidence in value and sustainable calm. The 1Q earnings reports will dominate if there are no other surprises. US core PCE if it comes in lower would support the soft landing and hopes for a Fed easing sooner than September. The runway for some positive hopes will remain small and rests on the view that the USD is capped at 155 JPY and that the index is peaking out at 106.50. The role of rates is another problem requiring some calm as the math of higher bonds will require more expectations for FOMC easing ahead. None of the above is simple but markets are prepared for trouble and so just the lack of that maybe sufficient for a few days of grinding with modest positive returns.

Credit Balances in Margin Accounts suggest more trouble in stocks



Source: Advisor Perspectives BNY Mellon

Disclaimers and Disclosures

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

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HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB