

iFlow

WEEK AHEAD

March 31, 2024

No Hurry

"Nature does not hurry, yet everything is accomplished." – Lao Tzu

"Most men pursue pleasure with such breathless haste that they hurry past it."

– Soren Kierkegaard

Summary:

There is no hurry in the US for the FOMC to cut rates and the data are not certain for either hawks or doves to win the debate. We are the tale of two cities where it's the best and worst of times. The PCE price report Friday was as expected with headline higher and core lower both insufficient to drive any new thinking about interest rate policy ahead. The GDP revision higher and the month-end, quarter-end euphoria appears unsustainable given the headwinds of the rest of the world along with clear election risks from Korea, India, South Africa, not to mention the Autumn US and UK votes. Markets are set up for a continuation of the first quarter but the second one delivers less certainty with the week ahead focused on US jobs, EU inflation, China growth and rate policy divergence in the G10 vs. the emerging markets. The rise of intervention risk for FX markets is also notable. There are three key questions that investors will want answered before new money chases old.

- Do Jobs matter anymore given focus on inflation? We will find out on Friday next week but JOLTS and other data matter in the equation of wages to inflation for the Fed.
- Does inflation matter to the ECB more than growth? The flash CPI reports due Monday are likely to drive markets fully into ECB June cut expectations, how the EUR moves will be watched.
- Is FX a policy risk in Asia with Japan and China at odds with rates and growth. How China trades post the NBS PMI report over the weekend and with the

Caixin PMI reports this week matters for more than stocks, FX is watching risks for more CNY intervention.

Key Themes:

- **Divergence of Policy** – can the ECB cut before the FOMC? Much of the hope for a recovery in Europe shows up in expectations for central bank easing. The ability to do that rests more on the inflation data ahead with March flash reports key for credibility in this faith. Similarly, the ability for the Japan and Taiwan rate hikes to have effect requires some pullback in the USD, as import inflation from a too strong dollar offsets the recent policy shifts and the carry trade power of rates in an uncertain world continues to make JPY and TWD favorite funding currencies.
- **Low Volatility vs. Surprise risks** – Beyond the economic data, the elections in April will matter as will the data – the weekend Turkey local vote, the Korean parliamentary elections April 10, the Croatian legislative vote April 17, India general elections from April 19 to 1 June in seven phases to reelect PM Modi, Ecuador referendum April 21, along with ongoing US and EU election campaigning, the mess of Israeli politics and its war on Hamas, the Ukraine and Russia war and the UK PM Sunak timing question for the next election. Markets also have weather events with the shift of Spring earlier wreaking flooding and crop worries globally. What stands out is that markets across bonds, stocks and FX remain closer to multi-year lows in option volatility. This stands in contrast to the known unknown risks ahead.
- **China Recovery vs. US exceptionalism.** At the heart of the current debate – economic forecasts – with the US 2% GDP outlook for 2024 below the 2023 result while China's 5% target is flat. The lack in faith in the Chinese recovery and the exuberance over the US economy contrast and set up for a reversal. The risk of a flip-flop in mood in 2Q over China economic recovery and US no-landing growth stands out in positioning and mood. The China NBS official March PMI for manufacturing rose to 50.8 from 49.1 – the first growth in six months. New export orders rose for the first time in 11-months. Service NBS PMI rose to 53 from 51.4 – the best since September 2023.

What are we watching: US Labor Data, US ISM, Japan Tankan, China Caixin PMI, Eurozone flash CPI along with host of central bank speakers and decisions.

- **Economic Data:** US ISM, Jolts and Non-Farm Payrolls, Japan Tankan, Eurozone flash CPI, China PMI. Australia retail sales
- **Central Banks:** India RBI, Poland NBP, Chile BCC rate decisions and Fed Speakers including Cook, Bowman, Williams, Mester, Daly, Goolsbee, Barr,

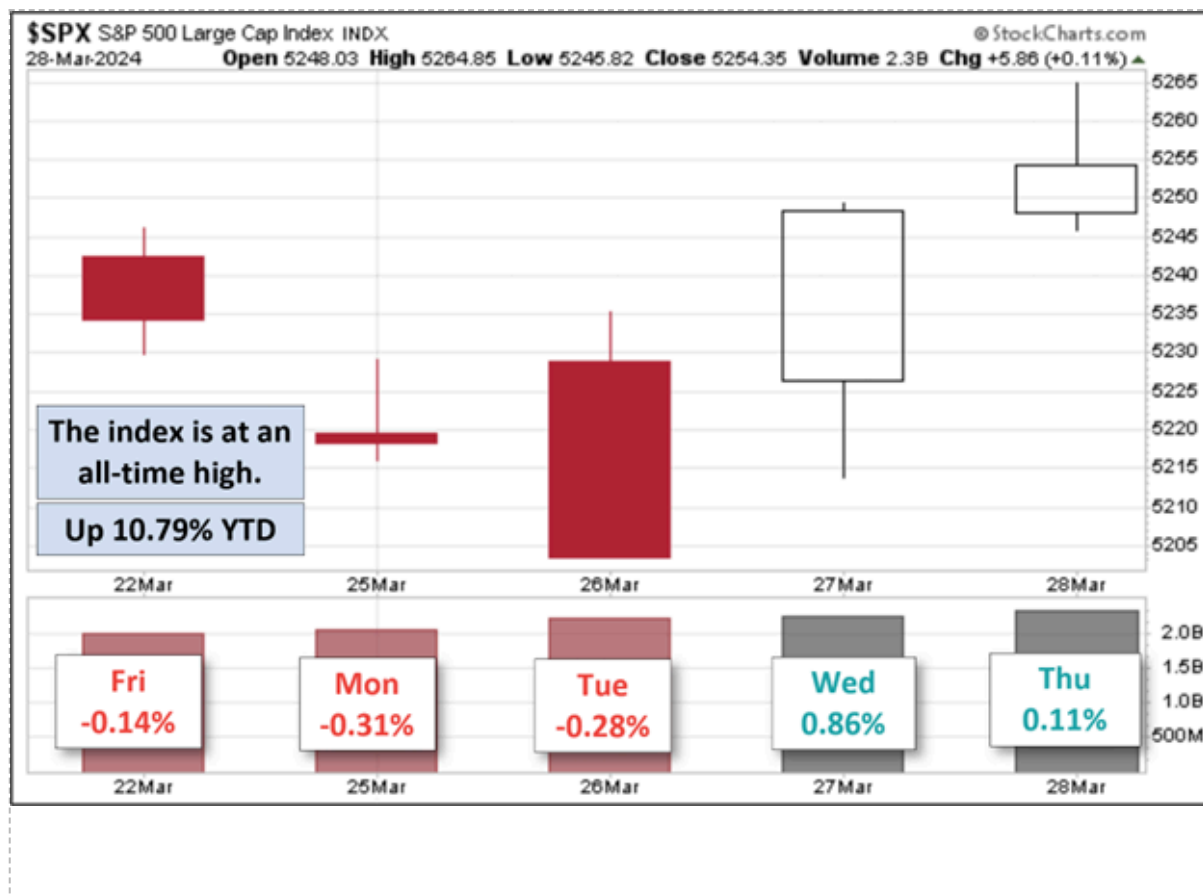
Kugler, Harker, Barkin, Musalem, Logan and Chair Powell again, ECB meeting minutes and CPI expectations.

- **Issuance:** US Bills 3M \$70bn, 6M \$70bn, 42 day \$65bn CMB, 1M and 2M and 4M to-be-determined along with corporate supply.

What changed last week:

- **In Equities** - The S&P 500 closed out the first quarter of 2024 with another record close and finished Q1 up 10.16%, up 3.1% in March after 5.17% in February and rose 0.24% on the holiday shortened week. The index has set a new record closing high 22 times so far this year. The Nasdaq rose 9.11% and DJIA 5.62% on the quarter. For the week - the Hong Kong Hang Seng had the worst performance -1.91% followed by Japan Nikkei off 1.27% and the China CSI 300 off 0.21%. For the quarter, the best performers were Japan Nikkei up 20.63%, Italy's MIB up 14.49% and the EuroStoxx 50 up 12.43%. Brazil's Bovespa was the worse performer -4.53% followed by Hong Kong Hang Seng off 2.97%.

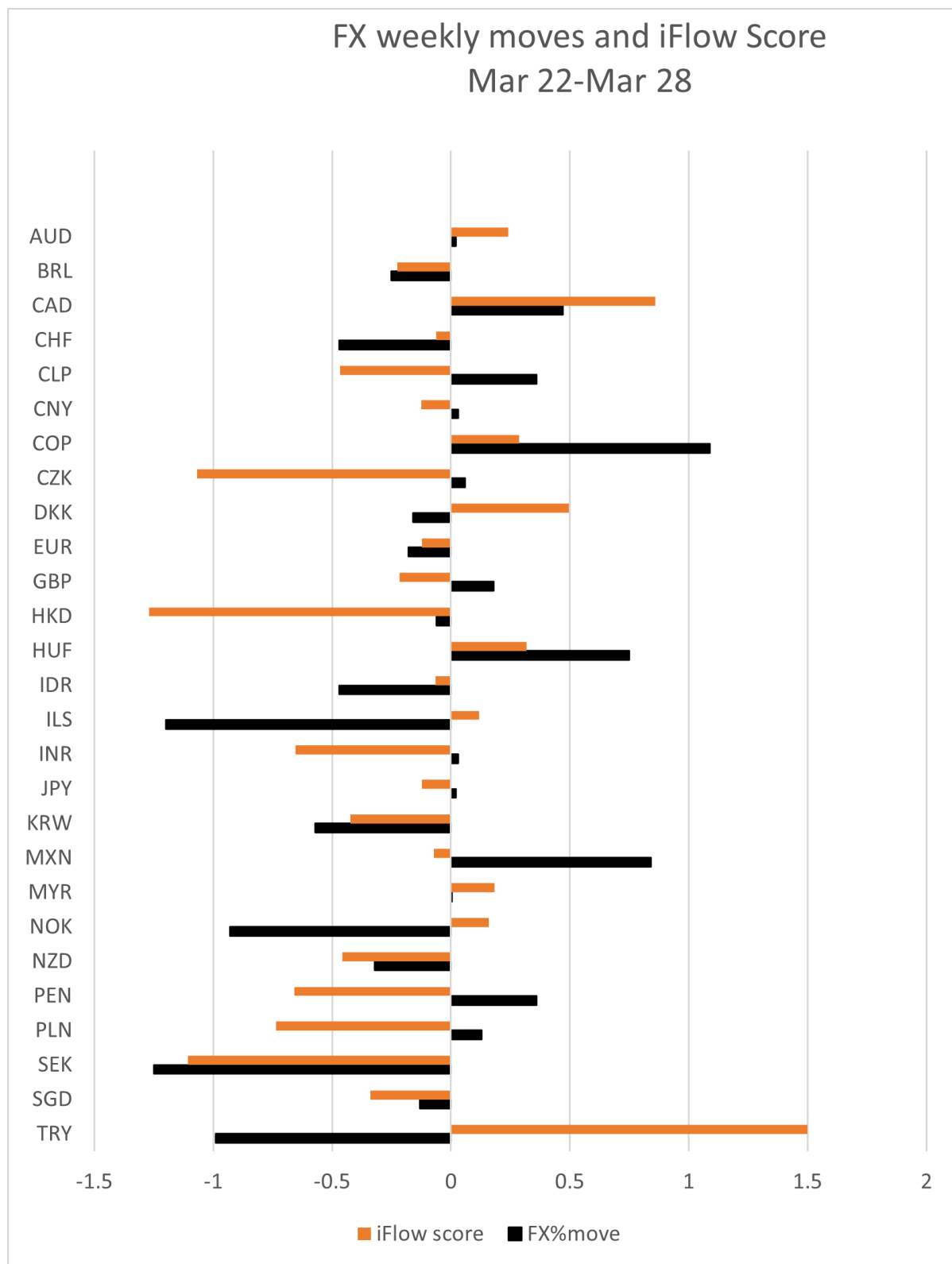
US equity markets set new record highs again



- **In FX** - the USD was flat on the week but up 0.6% on the month and 3% on the quarter. The focus on the week was on US PCE core which came as expected leaving FX markets waiting for more data – NZD fell on RBNZ Orr

sounding dovish, CAD gained on the economic data, GBP gained even as it confirmed a recession, while intervention in CNY capped some of Asia FX weakness. The biggest dichotomies of iFlow vs. markets were in EM again – TRY, PEN, PLN, ILS, MXN and CLP.

FX sees flat USD but busy EM



Source: Bloomberg, iFlow, BNY Mellon

- **In Fixed Income** – US bonds were mixed with curve flattening as 2-5-7Y note sales went well but the expectations for Fed June cut remain 50% at -14bps. The corporate bond issuance was heavy with \$529bn for 1Q total setting a new record from the 2020 \$479bn previously, March was \$142bn another record for that month. On the quarter, US 10Y rates are up 32bps while UK are up 41bps, Sweden up 39bps but Japan just 11.5bps even as BOJ hiked. On the week, biggest mover was New Zealand with RBNZ Orr on rate cuts driving 10Y rates up 4bps to 4.55% while Germany led with Bund off 7.5bps to 2.37%. In EM, Turkey outflow was notable but inflows into Egypt and Nigeria continued matching that and more.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.34	3.35	-0.04
20Y	5.44	0.87	4.45	3.58	-0.02
10Y	5.26	0.52	4.2	3.68	0.00
5Y	5.18	0.19	4.21	4.02	0.03
2Y	5.22	0.09	4.62	4.53	0.03
3M	5.63	0	5.33	5.33	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 – US ISM and Jobs, Japan Tankan, Eurozone CPI flash, China Caixin PMI

This will be a very busy week in the United States with investors focusing on the labor market report, featuring non-farm payrolls estimated at 200k and the unemployment rate expected down to 3.8%. Other important data include JOLTS job openings, ISM Manufacturing and Services PMI, factory orders, and foreign trade data. Globally, market participants will keep a close eye on the March inflation rates from Germany, the Euro Area, the Netherlands, Switzerland, South Korea, Turkey, Indonesia, and the Philippines. In addition, Manufacturing PMI readings from China, South Korea, Russia, Canada, Italy, Spain, and Switzerland, as well as Services PMI from China, Brazil, Spain, and Italy, will be under scrutiny. Trade data from Canada, Brazil, and Australia will offer insights into the global trade dynamics. Moreover, the unemployment rates in Canada and the Euro Area, along with India's interest rate

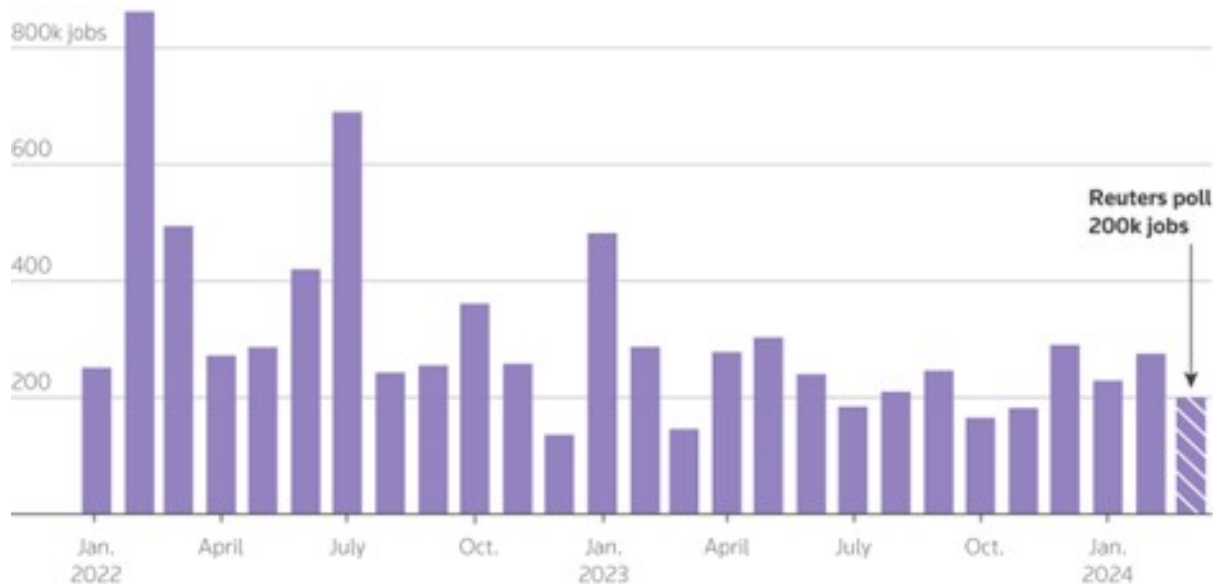
decision, are set to influence market sentiment and investment decisions as we start 2Q and question the key themes that drove 1Q performance.

1. US Labor Report – Non-Farm Payrolls – does this matter anymore? The April 5 U.S. jobs report will test investor confidence that the economy will be able to avoid a recession even as inflation cools off. The job creation story since the pandemic has surprised and risks growing old. Non-farm payrolls are expected to have climbed by 200,000 in March, according to economists polled by Reuters. That would be a step down from the 275,000 jobs added in February. Indicators from the weekly claims suggest no big shift in the labor market, while that of the conference board suggests deterioration. Hopes for a "soft landing" for the U.S. economy appeared to grow after the Fed at its March meeting backed its view of three rate cuts this year while raising its economic growth estimate but the boost in consumer morale will be tested by higher gasoline prices and home prices stalling. The key parts of the labor reports ahead revolve around hours worked for the productivity part of the US growth equation along with wages and where the jobs are in demand. Government spending fueled in an election year won't last beyond November.

Slowing Jobs but lower unemployment?

US job growth projected to slow

Economists polled by Reuters expect the U.S. to have added 200,000 jobs in March, the lowest so far this year.



Sources: LSEG Datastream, Reuters polling

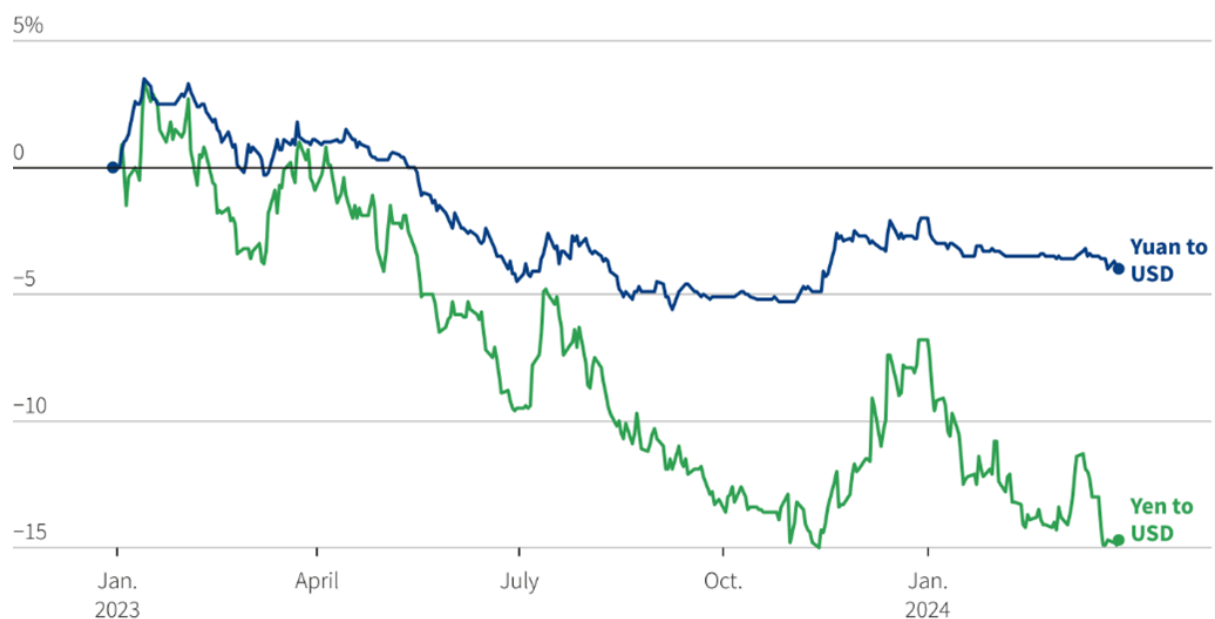
Prinz Magtulis • March 26, 2024 | REUTERS

Source: Reuters, BNY Mellon

2. Intervention risks in FX – CNY and JPY - Monetary authorities in Japan and China are on high alert as their currencies weaken past levels that they've been defending for months, largely thanks to the resurgent dollar. The link of dollar higher to FOMC holding longer will continue to be tested by the economic data in the week ahead. With the yen faltering towards the 152 per dollar level and the yuan struggling to break above the stronger side of 7.20 per dollar, officials have stepped up efforts to stem any further depreciation. The question for many is whether this continues. In Japan, that means verbal warnings, while in China it has been state banks buying yuan and selling dollars. Given how much the two big Asian currencies have fallen, there's a growing school of thought that Beijing could have grown more tolerant of a weak yuan to maintain its competitive edge against the yen. Bank of Japan action is in contrast to the PBOC and may be another key factor to consider in a week with much of the region on holiday, illiquidity breeds volatility which spurs action from authorities.

Yen and yuan slide

The two major Asian currencies have depreciated significantly in the last year.



Source: LSEG Datastream | Reuters, March 28, 2024 | By Sumanta Sen
Source: Reuters, BNY Mellon

3. China and the recovery – A strong rebound in China's economy has been a long time coming and investors aren't pinning much hope on the latest set of Purchasing Managers' Index (PMI) figures to paint a different picture. The over the weekend NBS data is a surprise and one that will need to be confirmed by the more watched Caixin reports. Expectations are for the Caixin manufacturing PMI to show a slight expansion, likely continuing its divergence with the official reading - overall offering a mixed outlook for the Chinese economy. While upbeat industrial profits last week may have offered some relief, a property crisis and various domestic headwinds are

keeping foreign money on the sidelines. Also in an attempt to restore business confidence, President Xi Jinping met American business leaders in Beijing, though there was little detail of what was discussed. Still, investors want China to walk the talk. Calls for further monetary and fiscal stimulus are still met with much reticence, and that's hurting stocks and the yuan. The flow of foreign money back to China looks more passive than active and merits close attention should the data continue to surprise to the upside.

China 1Q recovery on track?



Economic Data and Events Calendar April 1-5:

Central Bank Decisions

- **Chile BCC (Tuesday, April 2)** – The BCC is expected to continue easing rates, but the market is leaning towards a 75bp move rather than 100bp, taking the overnight rate to 6.50%. The Fed's current policy course is proving limiting for LatAm central banks keen to move towards further accommodation and Chile's economy requires particular care regarding inflation risk. The most recent

consumer and industrial figures all surprised strongly to the positive side – a surprise considering the current industrial commodity environment – and additional pass-through risk cannot be tolerated.

- **Poland NBP (Thursday, April 4)** – The market unanimously expects the NBP to hold rates at 5.75%. Policy space is still limited as sequential inflation is running at relatively robust levels (0.3%-0.4% m/m) and the ECB's delay to June at least in easing is an additional factor to consider. Domestic demand is softening but wages and spending are running at levels which require vigilance. The are non-policy related issues concerning the NBP at present which is potentially becoming a distraction, but we expect limited impact on policy outcomes, pending new developments.
- **India RBI (Friday, April 5)** – We expect RBI to keep repurchase rate unchanged at 6.5%. Headline CPI is within 4.0-6.0% band, but not sufficient to call for a cut. RBI voting pattern would be most interesting to see if more would dissent to call for rate cut. One member called for 25bp rate cut in February 2024. Macro conditions have been positive over the past meeting cycle and the RBI should be confident enough to stay the course.

Date	BST	EDT	Country	Event	Period	Cons.	Prior
03/31/24	02:30	21:30*	CH	Manufacturing PMI	Mar	50.1	49.1
04/01/24	00:50	19:50*	JN	Tankan Large Mfg Index	1Q	10	12
04/01/24	01:30	20:30*	JN	Jibun Bank Japan PMI Mfg	Mar F	--	48.2
04/01/24	02:45	21:45*	CH	Caixin China PMI Mfg	Mar	50.9	50.9
04/01/24	08:00	03:00	TU	S&P Global/ICI Turkey Manufacturing PMI	Mar	--	50.2
04/01/24	14:00	09:00	BZ	S&P Global Brazil Manufacturing PMI	Mar	--	54.1
04/01/24	14:30	09:30	CA	S&P Global Canada Manufacturing PMI	Mar	--	49.7
04/01/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Mar F	--	52.5
04/01/24	15:00	10:00	US	ISM Manufacturing	Mar	48.5	47.8
04/02/24	07:00	02:00	UK	Nationwide House PX MoM	Mar	0.30%	0.70%
04/02/24	07:00	02:00	UK	Nationwide House Px NSA YoY	Mar	2.40%	1.20%
04/02/24	07:30	02:30	SW	Swedbank/Silf PMI Manufacturing	Mar	--	49
04/02/24	08:00	03:00	PD	S&P Global Poland Manufacturing PMI	Mar	47.9	47.9
04/02/24	08:30	03:30	CZ	S&P Global Czech Republic Mfg PMI	Mar	44.5	44.3
04/02/24	08:55	03:55	GE	HCOB Germany Manufacturing PMI	Mar F	41.6	41.6
04/02/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Mar F	45.7	45.7
04/02/24	09:00	04:00	NO	DNB/NIMA PMI Manufacturing	Mar	--	51.9
04/02/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Mar F	49.9	49.9
04/02/24	13:00	08:00	GE	CPI YoY	Mar P	2.30%	2.50%
04/02/24	13:00	08:00	GE	CPI MoM	Mar P	0.40%	0.40%
04/02/24	15:00	10:00	US	Durable Goods Orders	Feb F	--	1.40%
04/02/24	22:00	17:00	CL	Overnight Rate Target	2-Apr	6.50 %	7.25%
04/03/24	08:00	03:00	TU	CPI YoY	Mar	69.05%	67.07%
04/03/24	10:00	05:00	EC	CPI MoM	Mar P	0.80%	0.60%
04/03/24	12:00	07:00	US	MBA Mortgage Applications	29-Mar	--	-0.70%
04/03/24	13:00	08:00	BZ	Industrial Production YoY	Feb	--	3.60%
04/03/24	13:15	08:15	US	ADP Employment Change	Mar	150k	140k
04/04/24	01:30	20:30*	AU	Building Approvals MoM	Feb	3.00%	-1.00%
04/04/24	07:30	02:30	SZ	CPI YoY	Mar	1.40%	1.20%
04/04/24	07:30	02:30	SZ	CPI MoM	Mar	0.30%	0.60%
04/04/24			PD	Poland Base Rate Announcement	4-Apr	5.75%	5.75%
04/04/24	13:30	08:30	US	Initial Jobless Claims	30-Mar	--	210k
04/05/24	02:00	21:00*	PH	CPI YoY 2018=100	Mar	3.80%	3.40%
04/05/24	05:30	00:30	IN	RBI Repurchase Rate	5-Apr	6.50%	6.50%
04/05/24	08:00	03:00	SZ	Foreign Currency Reserves	Mar	--	677.6b
04/05/24	13:30	08:30	CA	Unemployment Rate	Mar	5.80%	5.80%
04/05/24	13:30	08:30	US	Change in Nonfarm Payrolls	Mar	216k	275k
04/05/24	13:30	08:30	US	Unemployment Rate	Mar	3.80%	3.90%

Key Speeches/Events

Date	BST	EDT	Country	Event
04/01/24	15:30	10:30	CA	BoC Business Outlook Future Sales
04/01/24	23:00	18:00	CO	Colombia Monetary Policy Minutes
04/01/24	23:10	18:10	AU	RBA's Kent-Speech
04/02/24	01:30	20:30*	AU	RBA Minutes of March Policy Meeting
04/02/24	08:00	03:00	CZ	CNB minutes
04/02/24	17:00	12:00	US	Fed's Williams Moderates Discussion at Economic Club of NY
04/02/24	17:05	12:05	US	Fed's Mester Gives Remarks on Economic Outlook
04/02/24	18:30	13:30	US	Fed's Daly Participates in Fireside Chat
04/03/24	17:00	12:00	US	Fed's Goolsbee Gives Opening Remarks
04/03/24	17:10	12:10	US	Fed's Powell Speaks at Stanford Event
04/04/24	00:50	19:50*	AU	RBA's Jones-Speech
04/04/24	08:30	03:30	SW	Riksbank minutes from March 26 meeting published
04/04/24	12:30	07:30	EC	ECB Publishes Account of March Rate Decision
04/04/24	12:30	07:30	SW	Riksbank's Bunge speech on Sweden's corporate bond market
04/04/24	15:00	10:00	US	Fed's Harker Participates in Fireside Chat
04/04/24	16:00	11:00	MX	Central Bank Monetary Policy Minutes
04/04/24	17:45	12:45	US	Fed's Goolsbee Participates in Moderated Q&A
04/04/24	19:00	14:00	US	Fed's Mester Gives Remarks on Economic Outlook
04/05/24	00:20	19:20*	US	Fed's Musalem Gives Introductory Remarks
04/05/24	14:00	09:00	PD	Polish Central Bank Governor Glapinski Holds News Conference

Conclusions: Is it buy in April and sell in May?

Much has changed since we started 2024. In January, markets priced in almost six rate cuts from the Federal Reserve this year - a total of nearly 150 basis points. Now, just three are priced but the markets is evenly distributed rather than skewed. Fears of a recession are hard to find and consensus for a no-landing or soft-landing dominates. The confidence in a [soft landing](#) has ignited an "everything rally" that has swept stocks, gold and cryptocurrencies to record highs. The US dollar, meanwhile, is [riding high](#) against almost every major currency, pushing central banks, including those of Japan, China and India, to intervene, or consider intervening, to bolster their [currencies](#). With the shift in the global interest-rate cycle, low yielding assets are out and everything with a whiff of yield is in. The coming quarter will be the ultimate litmus of whether this view is right.

The seasonality of 2Q in the S&P500 stands out with April returns up 2% on average over the last 20-years. Also interesting is that US 10Y bonds are notably choppy in April but generally flat in their performance. The USD usually has a tough month, with the index average -0.5% but this drop is less consistent than the moves in stocks higher. There is a clear message in all of the markets about 2nd quarter – they are usually volatile and filled with sharp reversals – as was the case in 2023. Given the agenda of the year with geopolitical risks and political ones, the focus on growth and inflation apart from monetary policy is considerable and raises the specter of how voters can spook investors globally.

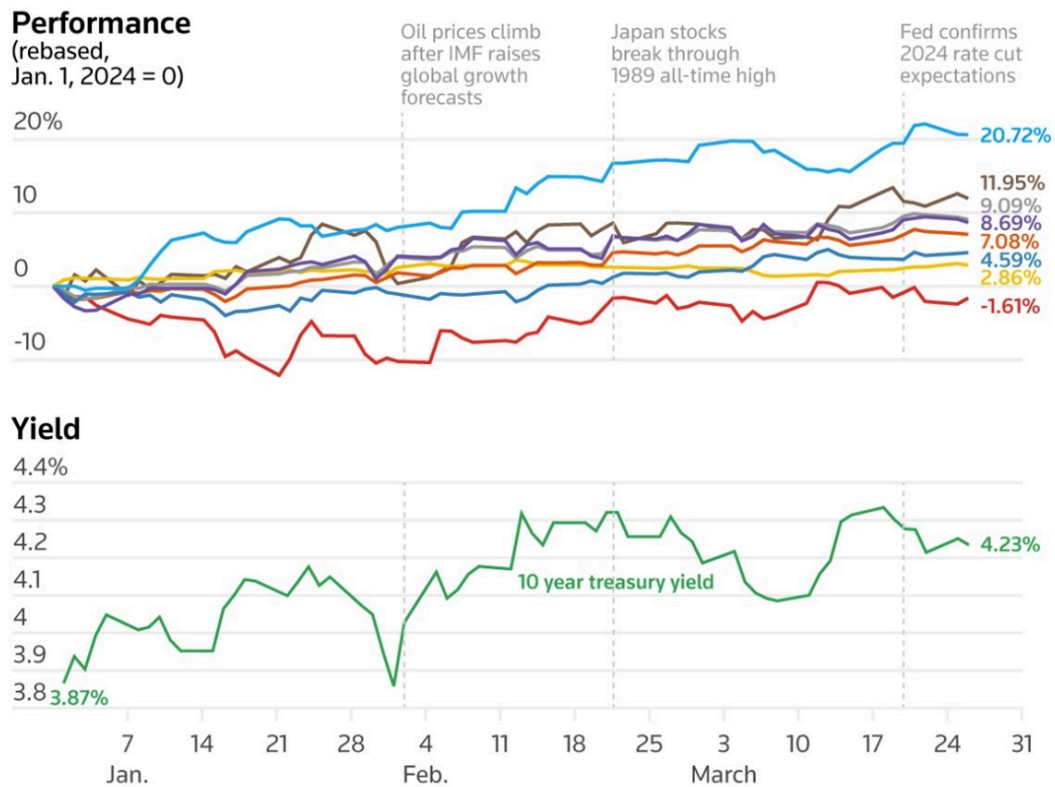
Bottom Line: Markets are set up for putting money to work with the rise of FOMO as a key acronym given the winning performances of stocks, BTC and some FX. There is plenty of risk that the markets chase the tape and nascent trends of the first

quarter only to hit a wall in May. The biggest bricks in any wall for risk reversal fears starts with the data and we get plenty of that in the week ahead, even as much of the world is still on holiday.

Good first quarters make second quarters more volatile.

Global markets in Q1 2024

Oil Dollar index MSCI all-country world stocks MSCI China S&P 500 MSCI Europe
Nikkei 225 Nasdaq



Sources: LSEG Datastream
Pasit Kongkunakornkul • March 27, 2024 | REUTERS

Source: Reuters, BNY Mellon

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