

iFlow

WEEK AHEAD

May 19, 2024

Nonplussed

"Don't underestimate the power of the nonplussed look and the shake of the head. Letting noxious words hang in the air can be very powerful." - Emily Yoffe

"Ignorance is the parent of fear, and being completely nonplussed and confounded about the stranger, I confess I was now as much afraid of him as if it was the devil himself who had thus broken into my room at the dead of night." - Herman Melville

Summary:

May has beaten the seasonal curse of selling and going away. Investors are on the edge of fear in missing out from the present trend of asset price inflation which paradoxically followed the drop in the consumer inflation. For bonds in the US this leaves the MOVE volatility measure at 6-week lows and the 10-year yield in the middle of the range, while the USD rally stalls and maybe in reverse. However, there is a difference between calm and not surprised. Soft landings expectations follow until the hard reality of the world returns whether that comes from geopolitics, domestic politics or the business cycle. The "not nonplussed" nature of the current time won't last but the lesson from the last week is to enjoy the moment. The lack of bigger shocks to the world in the last week stands out and makes for an extension of the May risk rally. The market calm from the last week started with the relief of lower-than-expected US CPI, extended on the US flat retail sales and found comfort in Chinese plans to fix property markets. Whether this summer continues will require more than one swallow flying, it will require the confidence of central bankers and more economic proof. The world's largest economies continued to grow and hope for Europe and Asia growth looks courageous. The opposite of confusion and uncertainty in markets is lower volatility, more trend following and less fears from

geopolitics or even politics as medium-term issues about debt and sustainability find value and growth dominant in the current trading framework.

The week ahead will pivot on the Fed speakers and FOMC minutes in how they paint the picture of policy risks ahead, with a bias to ease rather than hike essential.

Similarly, data dependency elsewhere from CPI reports in Japan will be key for the Bank of Japan, along with the CPI in Canada for the Bank of Canada. The mid-month CPI in Mexico along with the Banixico minutes will matter to MXN and more. The growth vs. value balancing act of risk may turn on the flash global PMI reports with US exceptionalism and the nascent USD turn at risk. Can the USD fall with high real rates where they are maybe the essential question. With equity markets near record highs and bonds trading on the upper band of their recent ranges, the reward for doing nothing seems clear but dangerous as the measures of hubris and irrational exuberance also rise with financial conditions easy globally.

Key Themes :

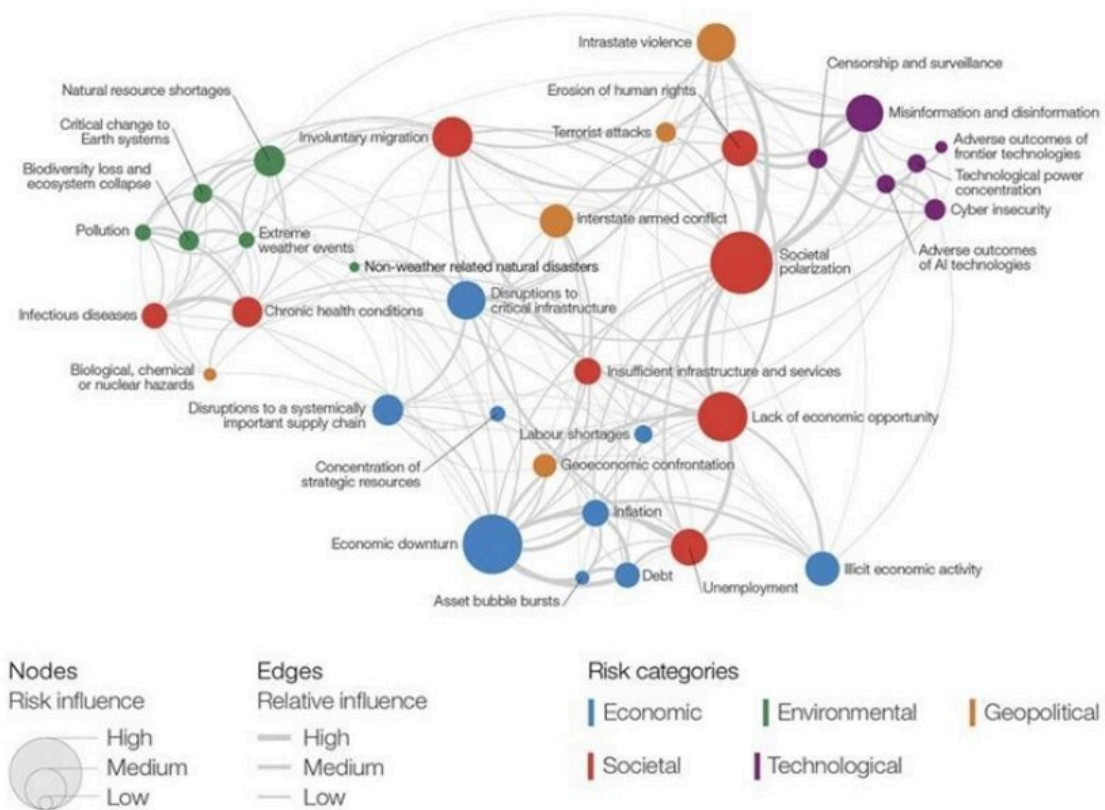
- **USD Strength and Fed Rate Cuts.** The US dollar fell 0.8% last week. This happened in lock step with less than expected US CPI, flat retail sales and weaker housing starts. The slowing US economy narrative sparked the hope for earlier Fed rate cuts – moving from one cut last in the year to two cuts starting in September. The US bond markets enjoyed another rally, while equity indices printed new record highs. The linkage of US strength eroding being a key part for FOMC rate cuts ahead is clear. Whether this prevents a soft-landing or whether markets see the relative growth from the rest of the world 6-12 months ahead as better should other ease policy faster is also part of the discussion.
- **Meme Stocks return and so do Financial Conditions as a worry.** The excess liquidity in the US markets during Covid was blamed for the risk in Meme stock buying then, but now the same arguments also have higher asset prices and rates to suggest the financial impulse of dividends and coupons helps some day trading in stocks look more like gambling again. The [near round trip in the shares of GameStop stands out in the last week](#) as a warning signal for speculation. The larger issue for investors ahead wraps around how higher equity prices and high for longer rates drive excess disposable income and what this means for Fed policy.
- **Geopolitics and trading the impossible.** The last week brought new tariffs on China EVs, batteries and Chips, along with a China/Russia meeting where the role of the US in their “multi-polar” world was questioned. The new offensives of Russia in Ukraine, the ongoing Israel / Hamas war and the multiple elections

ahead from India, South Africa and Mexico leave investors questioning how to hedge tail risks for surprise outcomes. The WEF President Brende warns that the re-writing of rules in the world is a geopolitical recession. "Geopolitically, we are in a kind of a recession," Brende said. "We are between world orders. We had one world order, and we don't know really what the next one is ... but we know that the decisions we're making now will have consequences for many years to come."

Global Risks Report 2024



Global risks landscape: an interconnections map



Source: World Economic Forum Global Risks Perception Survey 2023-2024.

What are we watching: RBNZ and other central bank rate decisions, FOMC Minutes and speakers, Global PMI, AI and earnings

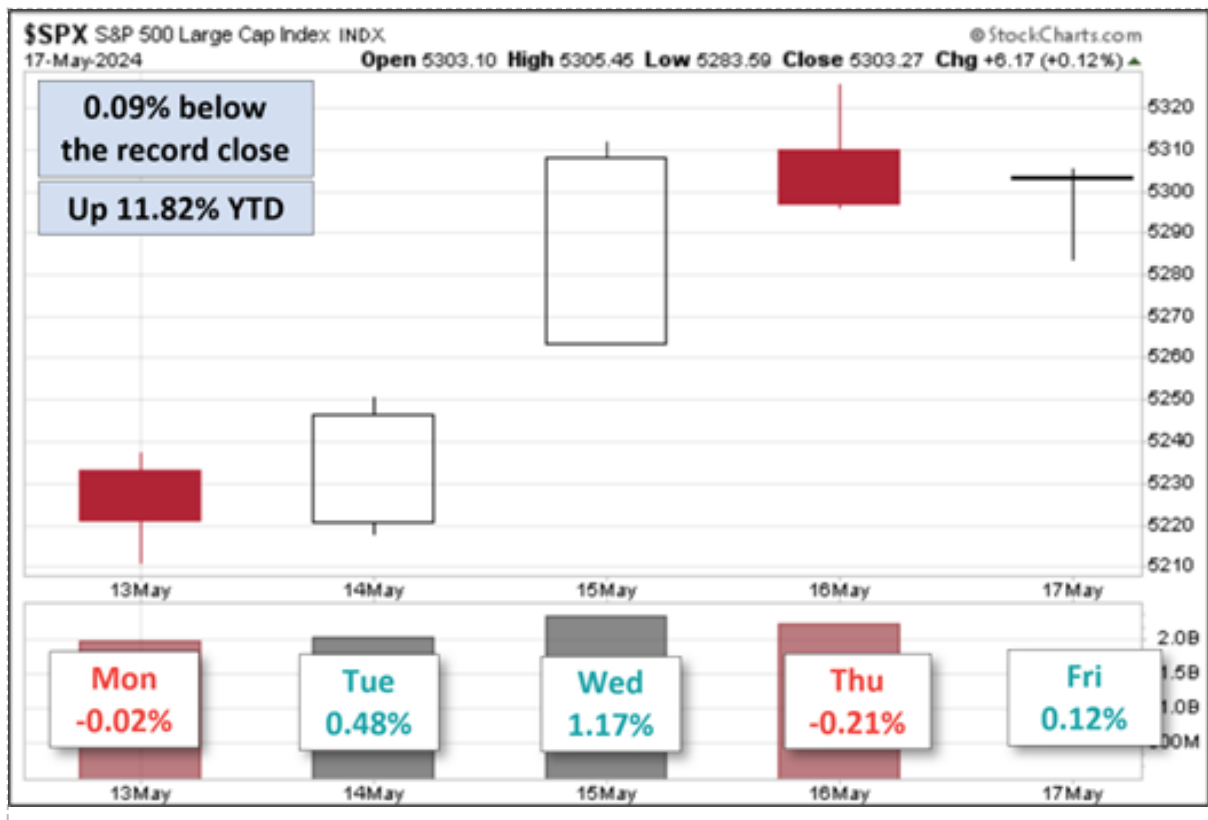
- **Economic Releases: Monday** – Mexico retail sales; **Tuesday** – German PPI, EU trade and labor costs, Canada CPI; **Wednesday** – Japan trade, UK CPI, South Africa CPI, US existing home sales; **Thursday** – flash Global PMIs, Singapore CPI, Mexico CPI, US jobless claims; **Friday** – Japan CPI, UK retail sales, US durable goods and final Univ. of Michigan consumer sentiment

- **Central Banks: Monday** – China 1Y and 5Y LPR, BOE Broadbent, Fed Waller; **Tuesday** – Hungary MNB rate decision, Fed Speakers Waller and Williams; **Wednesday** – New Zealand RBNZ rate decision, Indonesia BI rate decision, FOMC minutes; **Thursday** – Korea BOK rate decision, Turkey TCMB rate decision, Mexico Banxico minutes, Chile BCC rate decision
- **US Issuance:** US coupon supply is modest \$16bn with zero cash flow but 4-week forward is -\$120bn with \$267bn issues against \$146.9bn in coupons and redemptions. Monday – \$70bn in 3M and \$70bn in 6M bills; **Tuesday** - \$75bn in 43-day CMB; **Wednesday** - \$16bn in 20Y bonds; **Thursday** – 1M and 2M bills and \$16bn in 10Y TIPS
- **EU and UK Issuance:** European supply is expected around E9.9bn with Germany, Finland and Greece. This will be a negative cash-flow of E26.9bn with E27bn of settlements offset buy 0.5bn of coupons. UK supply expected is GBP 6.25bn and is also a negative cash flow. **Tuesday** - Germany issues E4bn in 5Y Bobls, Finland sell E1.5bn of 5Y and 10Y RFGB, UK issues 19Y Gilts for GBP2.25bn; **Wednesday** – Germany sells E4bn of 10Y Bunds, Greece sells E0.5bn in 5Y GGB, UK sells GBP 4bn of 5Y Gilts.

What changed last week:

In Equities, US S&P500 rallied for the fourth consecutive week up 1.54% to new record highs. The index is currently up 11.82% year to date and has recorded a new all-time high 23 times this year. The DJIA rose 1.24% and broke the headline grabbing 40K level. The NASDAQ rose 2.11% on the week. The iFlow Mood indicator flipped from negative to positive on the day before CPI - suggesting our investor flows are matching the tape and new found trend to beat back May's seasonality. In other bourses the rally in China property propelled Hang Seng up 5.48% on the week, while CSI 300 in China up just 0.32%. Europe was a laggard off 0.41% in EuroStoxx50 with CAC40 off 0.63% and Sweden OMX off 0.98%.

US markets rally again, breaking May's curse?

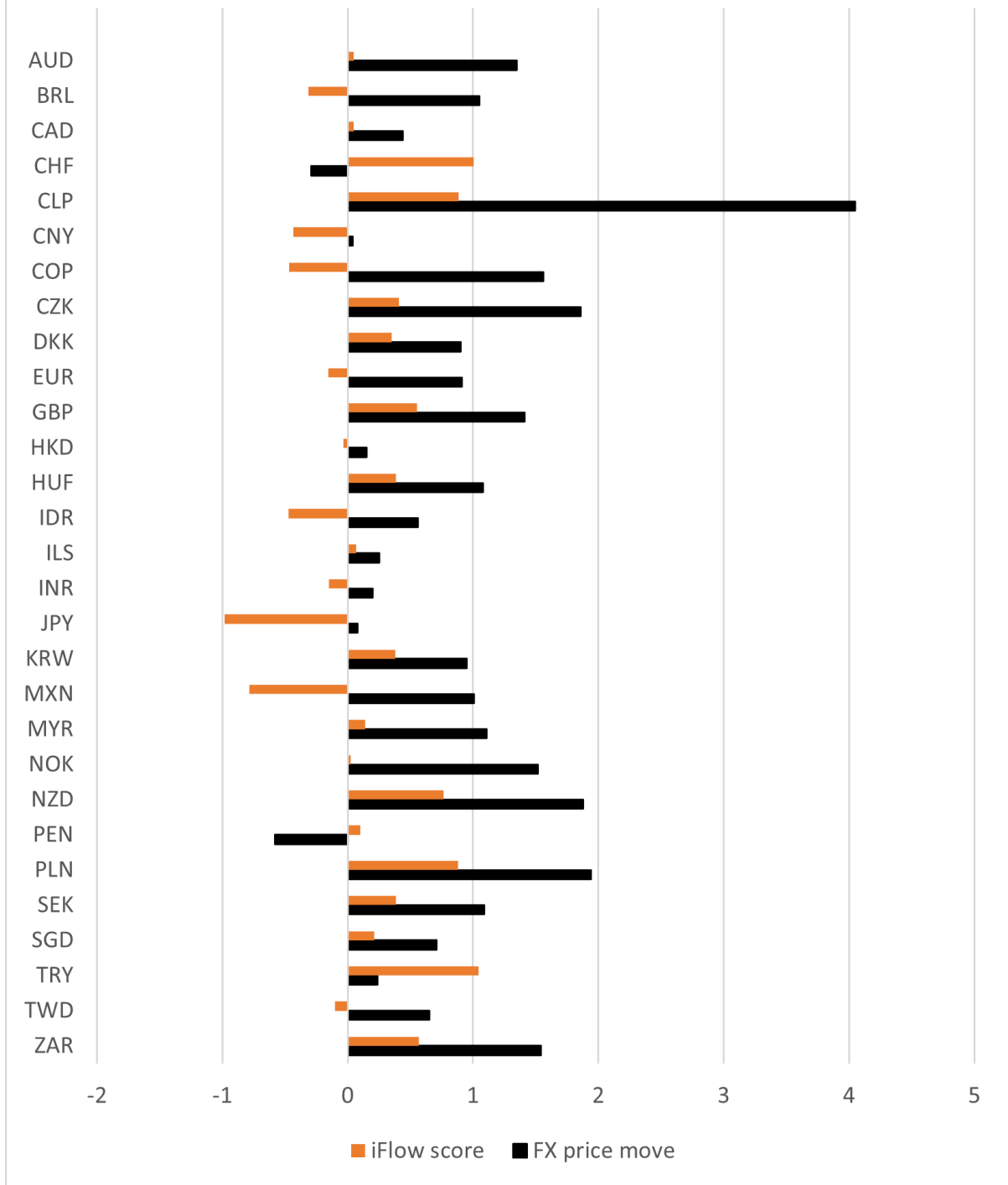


Source: Bloomberg, BNY Mellon

- **In Foreign Exchange**, the USD fell 0.8% on the week tracking yields while the biggest winners were CLP, PLN and NZD while the worst performers were PEN, ARS and CHF. The iFlow divergence in FX prices was most notable in MXN and JPY. The iFlow Trend in FX rebounded from highly negative to nearly flat while value factors rose sharply. JPY and CHF and SEK remain key anchors for carry trade and are in focus.

FX focus US dollar turning

FX weekly moves and iFlow Score May 10-May 16



Source: Bloomberg, iFlow, BNY Mellon

- In Fixed Income**, US bonds rallied after a quiet week where CPI and retail sales shifted up Fed easing hopes to September but the actual rate cut expectations for 2024 remain near 44bps. The focus on rest of world bond moves mattered with China issuing new supply Friday, with BOE rate cut hopes holding and with push back from ECB on multiple cuts after June. The China 10Y rates rose 2bps on the week to 2.31% as did Japan with 10Y up 2bps to 0.94% while Europe was mixed with German Bunds up 1bps on the week to

2.52%. Notable moves in 10Y rates in Asia tracking FX moves - South Korea off 12bps to 3.425% and Australia off 11.5bps to 4.21%.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.56	3.72	-0.08
20Y	5.44	0.87	4.66	3.97	-0.08
10Y	5.26	0.52	4.42	4.1	-0.08
5Y	5.18	0.19	4.45	4.48	-0.06
2Y	5.22	0.09	4.83	4.9	-0.04
3M	5.63	0	5.27	5.37	0.02
FFR	5.41	0.04	5.33	5.28	0.01
The Yields and Fed Funds Rate data from January 2007					

Source: Bloomberg, iFlow, BNY Mellon

News Agenda and Weekly Themes – Flash PMIs, AI and 1Q earnings, RBNZ, G7

In the US, investors will be closely monitoring speeches by several Fed officials, the FOMC meeting minutes, and key economic indicators including the flash S&P Manufacturing and Services PMI, durable goods orders, and new and existing home sales. The earnings season is nearing its end, with reports expected from major corporations such as Palo Alto Networks, Lowe's, Nvidia, PDD Holdings, TJX Companies, Analog Devices, Synopsys, Target, and Intuit. Globally, attention will be on interest rate decisions in China, New Zealand, South Korea, and Turkey. Inflation reports will be released for Canada, the UK, Japan, and South Africa. Additionally, Other flash Manufacturing and Services PMI data will be published for Australia, Japan, India, France, Germany, the Euro Area, and the United Kingdom. Consumer confidence figures will be reported for Australia, the UK, and the Euro Area, along with retail sales data for the UK and Canada and trade balance for the Euro Area and Japan.

1. Global growth vs. US Exceptionalism. Upcoming May business activity numbers from big economies should reinforce a brighter global economic outlook. A slow euro area recovery [appears to be underway](#) after six straight quarters of stagnant or negative growth, U.S. inflation just [resumed its downward trend](#) and China grew faster than expected in Q1. So, global PMIs should stay on the right side of the 50 divides between expansion and contraction. However, Manufacturers in Germany, Europe's biggest economy, are already experiencing shifts in world trade and geopolitics and whether this extends to others in EU matters. Heightened trade tensions - with a US election looming - could hurt them further, upend China's

recovery and reignite goods inflation everywhere. US exceptionalism and the soft-landing hopes are intertwined with the USD and with how productivity plays out with services and AI investments.

Will the PMI continue to grow outside the US?

Global business activity is improving

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

Last 12 months	May 2023	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. 2024	Feb.	Mar.	Apr.
Australia	51	51	48	47	50	47	46	47	48	52	52	54
Euro zone	53	50	49	47	47	47	47	47	48	49	50	51
France	51	47	47	47	44	45	45	44	44	48	48	50
Germany	54	51	49	45	46	46	48	47	47	46	47	51
UK	54	53	51	48	47	49	50	52	53	53	53	54
U.S.	55	53	52	50	50	51	51	51	52	51	52	51
Japan	54	52	52	53	52	50	50	50	51	50	52	53

Source: LSEG Datastream | Reuters, May.16, 2024

Source: Reuters, BNY Mellon

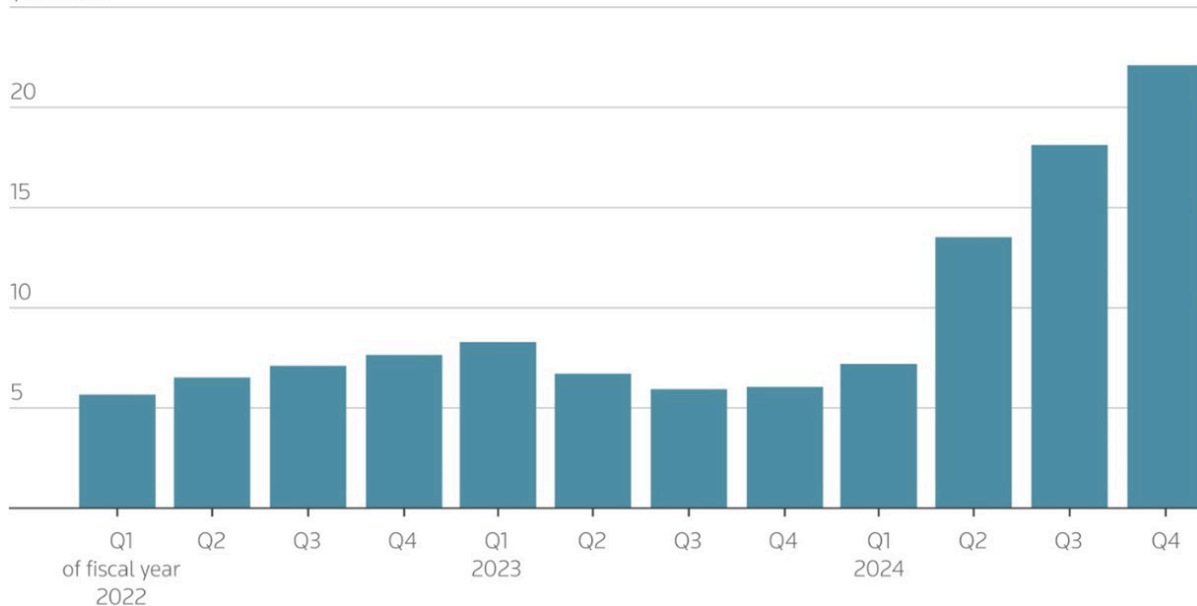
2. AI Chips and the rollout. The AI hype and hope continues to drive US growth hopes and stock market flows. The semiconductor company at the center of the AI's business potential is expected to report a massive jump in revenue and profit for its fiscal first quarter. Revenue is expected to rise to \$24.8 billion, from \$7.2 billion a year earlier, with earnings per share soaring to \$5.57 from \$1.09, according to LSEG data. The key reaction of the market to what Nvidia delivers Wednesday sets the tone for risk into the summer. Meeting and beating high expectations seem necessary to stock prices moving higher. Nvidia Shares have jumped over 90% this year after more than tripling in 2023, making the AI darling the third-largest U.S. company by market value.

Nvidia rides on AI boom as revenues surge

Nvidia's data centers, which produce graphic processing units for AI, accounted for nearly 78% of the firm's revenues in fiscal year 2024.

QUARTERLY REVENUES

\$25 billion



Note: Nvidia's fiscal year runs from February to January.

Source: LSEG

Prinz Magtulis • May 15, 2024 | REUTERS

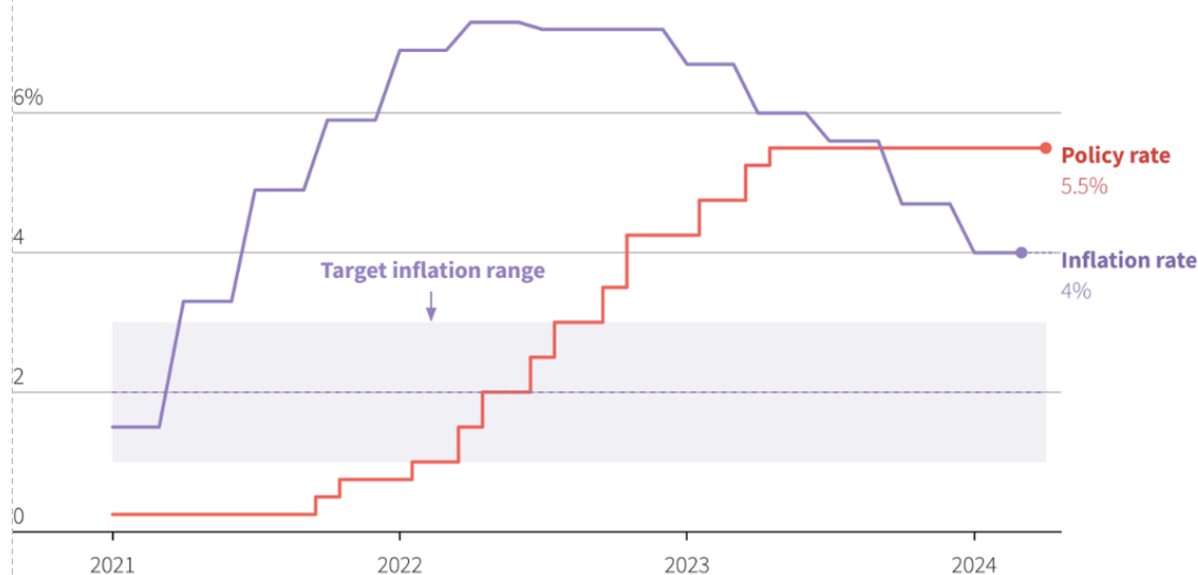
Source: Reuters, BNY Mellon

3. RBNZ and the limits of high for longer. The Reserve Bank of New Zealand on Wednesday is expected to leave rates unchanged for a seventh consecutive meeting. The RBNZ is watched as a trend setter for policy shifts as it the first major monetary authority to ease at the start of the pandemic, and the first to hike in the aftermath. However, this shifted as the SNB and Riksbanks cuts have pre-empted the central bank and so the RBNZ decision is more about the power of high for longer vs. CPI targets. The RBNZ in the "watch, worry and wait" policy it adopted a year ago with [sticky inflation](#) and a flatlining economy making many unhappy. The market prices in a cut in October lagging further behind the ECB, BOC all of which are expected to move in June or in the summer, followed by the BoE in August and the Fed in September. The RBNZ itself is even less optimistic, projecting no lowering of rates until next year. How the NZD reacts will be an important measure between rate differential expectations vs. growth fears.

Is the RBNZ no longer leading?

New Zealand's central bank to keep key rate unchanged

The Reserve Bank of New Zealand is expected to leave its key rate at 5.5% on May 22 as sticky inflation and a flatlining economy are keeping central bank in a "watch, worry and wait" stance.



Note: The chart shows the year-on-year change in inflation for every quarter, data through March 2024.

Source: LSEG Datastream | Reuters, May 16, 2024 | By Pasit Kongkunakornkul

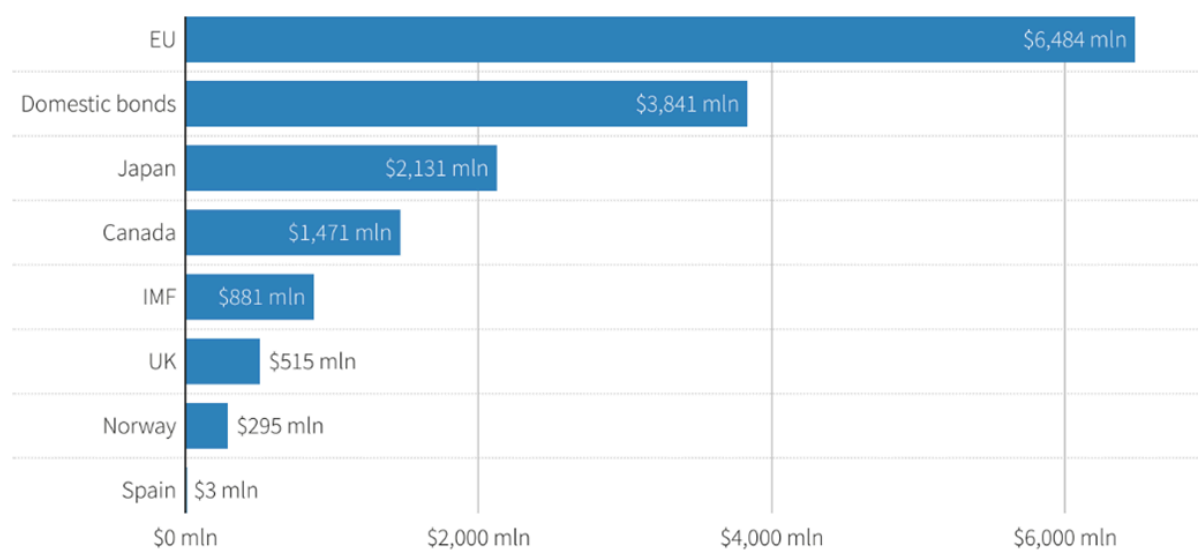
Source: Reuters, BNY Mellon

4. G7 and Ukraine funding. Finance chiefs from the Group of Seven major democracies will back a European Union plan to use the income from frozen Russian assets to help Ukraine's war effort at a May 24-25 meeting, according to Italy, which holds the rotating presidency of the group. The prospect of more funding potentially in the near future comes at a critical time for Ukraine, which faces a **new Russian offensive** in the north eastern Kharkiv region. The G7 froze some \$300 billion worth of financial assets soon after Moscow's attack on its neighbor in February 2022 - and has debated since then whether and how to use the funds to help Ukraine. While Washington has proposed seizing the assets in their entirety, **Europe has balked** at that push, citing risks to the euro and legal repercussions. Italy has said it will also try to revive an international deal on how to share taxing rights on large corporations which the United States is struggling to ratify in Congress and will undoubtedly become more complicated in the US election.

Does the Russia/Ukraine war get worse?

Financing Ukraine has received so far this year

Total financing received by Ukraine in 2024 in loans and grants from various sources.



Source: Ministry of Finance, Ukraine | Reuters, May 16, 2024 | By Sumanta Sen

Source: Reuters, BNY Mellon

Economic Data and Events Calendar May 20-24:

Central Bank Decisions

- **Hungary MNB (Tuesday, May 21)** – As the ECB is expected to cut soon and headline rates are relatively high, there is additional space for MNB to lower rates in Hungary, with the market looking for a 50bp cut to 7.25%. However, there is clear acceleration in sequential inflation and the strong upside surprise in retail sales in March also points to the need for additional caution, which is already materialising in CEE. Like much of EM, we expect some caution regarding policy due to FX pass-through risk, but as ECB policy caps the euro and the dollar has fallen back, there will be some relief for high-beta names.
- **New Zealand RBNZ (Wednesday, May 22)** – No change is expected in the overnight cash rate as the pace and distribution of inflation declines in New Zealand remains uncomfortable for the RBNZ. Headline levels remains high at 4.0%/y/y and tradables inflation is particularly strong at 1.6%/q/q, indicating that the RBNZ could do so with some additional currency strength to complement the notable decline in tradables inflation as domestic demand wanes. We suspect that the central bank will wait for another quarter of data to confirm a clear trend in price growth before signalling a readiness to cut.
- **Indonesia BI (Wednesday, May 22)** – Bank Indonesia is expected to keep rate unchanged at 6.25% next week after a surprise rate hike in April. It was one of the prime examples globally on how fears of a hawkish Fed and upward pressure on the dollar had impacted policy elsewhere. BI's peers are likely

frustrated by the lack of policy space realized this year due to ongoing resilience in US rates. FX stability is the top priority for now, though the recent turn in US data should alleviate some concerns. We expect BI to maintain a neutral to hawkish tone.

- **Turkey TCMB (Thursday, May 23)** – No further change is expected in Turkish rates as TCMB expects current levels are sufficiently high to push down inflation to far more manageable levels. Activity levels are mixed at present as the unemployment rate is holding despite some contraction in industrial production. Services demand is also expected to pick up on a seasonable basis and policymakers will have to carefully inflation expectations as price growth continues to run at around 3%_{m/m}.
- **Chile BCC (Thursday, May 23)** – Large rate cuts in Latin America are becoming more difficult to come by but Chile will probably still be able to move by 50bp to 6%, especially as the dollar has softened slightly. Furthermore, terms of trade in CLP are improving strongly with copper prices having rallied strongly over the past quarter, and with domestic demand restraint in place, FX pass-through should be favorable for inflation management – sorely needed as recent sequential prints have been relatively strong.
- **Korea BoK (Thursday, May 23)** – Bank of Korea is expected to keep rate unchanged at 3.5%. Focus will be on the BoK's latest macroeconomic forecast, where we see chance for upside revision on growth. BoK turned marginally dovish in April "to keep restrictive stance for sufficient period" vs previously "for a sufficiently Long period of time". We expect BoK to stay neutral and not providing any encouragement for easing expectation.

Key data/releases

Date	BST	EDT	Country	Event	Period	Cons.	Prior
05/20/24	05:30	00:30	JN	Tertiary Industry Index MoM	Mar	-0.10%	1.50%
05/21/24	13:00	08:00	HU	Central Bank Rate Decision	May-21	7.25%	7.75%
05/21/24	13:30	08:30	CA	CPI NSA MoM	Apr	0.50%	0.60%
05/21/24	13:30	08:30	CA	CPI YoY	Apr	2.70%	2.90%
05/22/24	00:50	19:50*	JN	Core Machine Orders MoM	Mar	-2.00%	7.70%
05/22/24	03:00	22:00*	NZ	RBNZ Official Cash Rate	May-22	5.50%	5.50%
05/22/24	07:00	02:00	UK	CPI MoM	Apr	0.10%	0.60%
05/22/24	07:00	02:00	UK	CPI YoY	Apr	2.10%	3.20%
05/22/24	07:00	02:00	UK	CPI Core YoY	Apr	3.60%	4.20%
05/22/24	08:20	03:20	ID	BI-Rate	May-31	6.25%	6.25%
05/22/24	09:00	04:00	SA	CPI YoY	Apr	5.30%	5.30%
05/22/24	09:00	04:00	PD	Sold Industrial Output YoY	Apr	1.60%	-6.00%
05/22/24	09:00	04:00	PD	PPI YoY	Apr	-8.20%	-9.60%
05/22/24	12:00	07:00	US	MBA Mortgage Applications	May-17	--	0.50%
05/22/24	15:00	10:00	US	Existing Home Sales	Apr	4.16m	4.19m
05/23/24	01:30	20:30*	JN	Jibun Bank Japan PMI Mfg	May P	--	49.6
05/23/24			SK	BOK Base Rate	May-23	3.50%	3.50%
05/23/24	08:30	03:30	GE	HCOB Germany Manufacturing PMI	May P	--	42.5
05/23/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	May P	46.2	45.7
05/23/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	May P	49.5	49.1
05/23/24	12:00	07:00	TU	One-Week Repo Rate	May-23	50.00%	50.00%
05/23/24	13:30	08:30	US	Initial Jobless Claims	May-18	--	222k
05/23/24	14:45	09:45	US	S&P Global US Manufacturing PMI	May P	50.2	50
05/23/24	15:00	10:00	US	New Home Sales	Apr	680k	693k
05/23/24	23:00	18:00	CL	Overnight Rate Target	May-23	--	6.50%
05/23/24	23:45	18:45	NZ	Trade Balance NZD	Apr	--	588m
05/24/24	00:30	19:30*	JN	Natl CPI YoY	Apr	2.40%	2.70%
05/24/24	13:30	08:30	US	Durable Goods Orders	Apr P	-0.70%	2.60%
05/24/24	15:00	10:00	US	U. of Mich. Sentiment	May F	67.4	67.4

Key speeches/events

Date	BST	EDT	Country	Event
05/18/24	22:45	17:45	US	Fed's Kugler Gives Commencement Speech
05/19/24	20:30	15:30	US	Fed's Powell Delivers Commencement Speech
05/20/24	11:00	06:00	SW	Riksbank Governor Erik Thedeen speech
05/20/24	13:00	08:00	SW	Riksbank Deputy Governor Per Jansson speech
05/20/24	13:45	08:45	US	Fed's Bostic Gives Welcome Remarks
05/20/24	14:00	09:00	US	Fed's Barr Gives Keynote Remarks
05/21/24	00:00	19:00	US	Fed's Bostic Moderates Keynote Remarks
05/21/24	02:30	21:30*	AU	RBA Minutes of May Policy Meeting
05/21/24	09:00	04:00	EC	Yellen, ECB's Lagarde, Germany's Lindner Speak
05/21/24	11:30	06:30	SW	Riksbank Deputy Governor Aino Bunge speech
05/21/24	14:00	09:00	US	Fed's Barkin Gives Welcome Remarks
05/21/24	14:00	09:00	US	Fed's Waller Discusses US Economy
05/21/24	14:05	09:05	US	Fed's Williams Gives Opening Remarks
05/21/24	14:10	09:10	US	Fed's Bostic Offers Brief Welcome Remarks
05/21/24	16:45	11:45	US	Fed's Barr Speaks in Fireside Chat
05/21/24	18:00	13:00	UK	BOE's Bailey speaks
05/22/24	00:00	19:00*	US	Fed's Bostic Moderates Panel with Collins and Mester
05/22/24	03:00	22:00*	NZ	RBNZ Monetary Policy Statement
05/22/24	04:00	23:00*	NZ	RBNZ Governor News Conference After OCR Decision
05/22/24	13:45	08:45	UK	BOE's Breeden speaks
05/22/24	14:40	09:40	US	Fed's Goolsbee Gives Opening Remarks
05/22/24	18:30	13:30	SW	Riksbank Governor Erik Thedeen keynote speech at OSC Dialogue
05/22/24	19:00	14:00	US	FOMC Meeting Minutes
05/22/24	21:10	16:10	NZ	RBNZ Governor at Parliament Select Committee on MPS
05/23/24	08:05	03:05	SW	Riksbank Deputy Governor Aino Bunge speech
05/23/24	12:30	07:30	UK	BOE Chief Economist Huw Pill Speaks on Panel
05/23/24	16:00	11:00	MX	Central Bank Monetary Policy Minutes
05/23/24	20:00	15:00	US	Fed's Bostic Participates in Student Q&A
05/24/24	08:00	03:00	EC	ECB's Schnabel Speaks
05/24/24	08:45	03:45	SZ	SNB's Jordan Speaks in Lucerne
05/24/24	10:15	05:15	EC	ECB's Vasle & Muller, Serbia's Tabakovic Speak on Panel
05/24/24	10:15	05:15	EC	Bundesbank's Nagel, Germany's Lindner Speak at G-7 in Stresa
05/24/24	14:35	09:35	US	Fed's Waller Gives Keynote Address
05/24/24	16:25	11:25	EC	ECB's Centeno Speaks on a Panel

Conclusions: Watch your neighbors?

The week ahead is going to feel like last week, but with even less economic data for the US. The lack of expected new news leaves room for more calm and higher risk. But the way the data from Canada and Mexico show up this week ahead will matter and set the tone for other policy shifts and the role of divergence. The Mexico central bank cut rates already and Canada seems sure to follow in June. The ability for either Banxico or BOC to act rests like the Fed on the data ahead. What seems more to the point for risk trading comes from FX markets and how the USD alternatives of MXN and CAD fare in the week. Both have important data events, and both should see some pullback in demand if the EUR and JPY and EM markets see the dollar turn that started with CPI continue into the week ahead. Much of this USD weakness seems fragile and likely rests on what other central bankers say and do more than the FOMC high for longer mantra being repeated in the week.

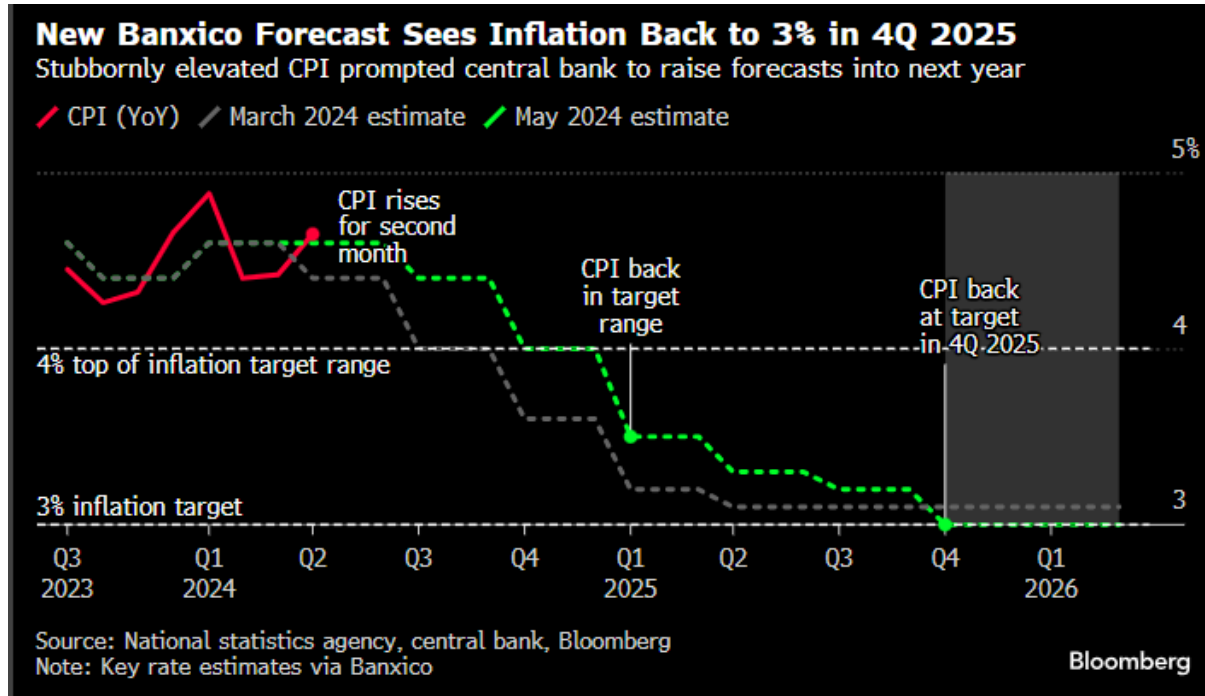
For Canada, the CPI comes on Tuesday, May 21 and its going to matter to CAD and the BOC odds for a rate cut. Expectations are for 0.5% m/m rise in April headline inflation slowing from 0.6%. What is more important to the report is the role of gasoline and shelter in the report – both hurt politics in the nation. The car deflation is another point to watch given they have been lower every month in 2024 so far. Downside surprises here could make the CAD move back to test 1.38 again.

The Minutes of the Banxico May 9 meeting and the mid-month CPI this week will set the tone for the June 27 central bank decision for a rate cut. That was penciled in by the market after their 25bps rate cut to 11% back in March. Real rates are high, but they aren't keeping CPI lower. This "sticky inflation" problem isn't unique, and it's correlated to the flow of money and role of onshoring to the US economy. The final 1Q GDP report from Mexico this week will matter in this regard as high real growth offsets high real rates.

Bottom line: If the markets want to unwind US exceptionalism this will have bigger implications for US bonds and US stocks. US stocks reflect the AI boom and all the hopes that follow from it. US bonds reflect the higher real yields that track higher real growth. The ability for the USD to pullback has to be linked to other places in the world offering better growth and value opportunities. Value could be in play as investors check themselves at new record highs or at the edges of the 2024 trading ranges. For the USD, focus has been on big emerging markets – particularly Poland, South Africa, Indonesia and Mexico – all those could be in danger if the ongoing repricing of value in FX holds with JPY and CHF and SEK in play. There is also a

danger in the lack of excitement for markets in the week ahead as this begets more surprises when any market moves.

Does Mexico Peso offer better value than the USD?



Source: Bloomberg, BNY Mellon

Disclaimers and Disclosures

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



Bob Savage

HEAD OF MARKETS STRATEGY
AND INSIGHTS

CONTACT BOB

