BNY MELLON

iFlow
MARKET MOVERS

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Ceasefire

"When envoys are sent with compliments in their mouths, it is a sign that the enemy wishes for a truce." – Sun Tzu
"Some battles don't have a winner. Sometimes the best a good general can hope for is a ceasefire." – Emma Chase

Summary

Risk off with markets confused by higher for longer and the implications for global growth against the hopes for AI productivity growth globally. The biggest headline was the non-starter that Russia would end its war in Ukraine at current frontlines. The other story was about Japan and its CPI going a bit lower but still all over 2% target making the BOJ hike risk for July higher. The UK retail sales missed badly but odds for August BOE cut are just one in three. The US markets open with a holiday mode but clearly unsettled and set up for a larger down draft should the data or headlines push another unwind into the week ahead. The investor battle to keep profits requires vigilance despite hopes for calm into a Monday holiday.

What's different today:

- **Oil is off over 3% on the week** - trading near 3-month lows - despite higher global PMI flash reports. Some point to China demand, others to Russia war headlines.
- **US Treasuries down for first week in May** – 10Y yields up 3.5bps on the week with the US markets pricing in just over 1 cut in 2024 for December (35bps). The oddity is 2/10Y inversion now -45.5 the biggest of the year.
- **iFlow stuck on neutral** – with mood, carry, trend and value not moving further – while USD buying continues in G10 along with SEK, CHF and GBP against AUD, EUR, JPY and NZD selling. In fixed income duration buying continues in US along with EM favorites Colombia, Turkey, Philippines, Thailand. Equities

are mixed with only real estate sector up globally and inflows into EMEA emerging markets.

What are we watching:

- **US April durable goods** orders expected off 0.8% m/m after +2.6% m/m, with cap goods, non-defense and ex-air, expected up 0.1% unchanged. Key input for growth in 2Q.
- **US May final University of Michigan consumer sentiment** expected 67.7 from 67.4 – with 1Y inflation 3.4% from 3.5% - how this plays out maybe last excitement for early Friday close in bonds.
- **Fed Speaker** – Governor Waller might be important given the ongoing view shift of FOMC cut hopes
- **China, Japan, South Korea summit** – low expectations for any new deals but clearly a focus on trade and perhaps FX.

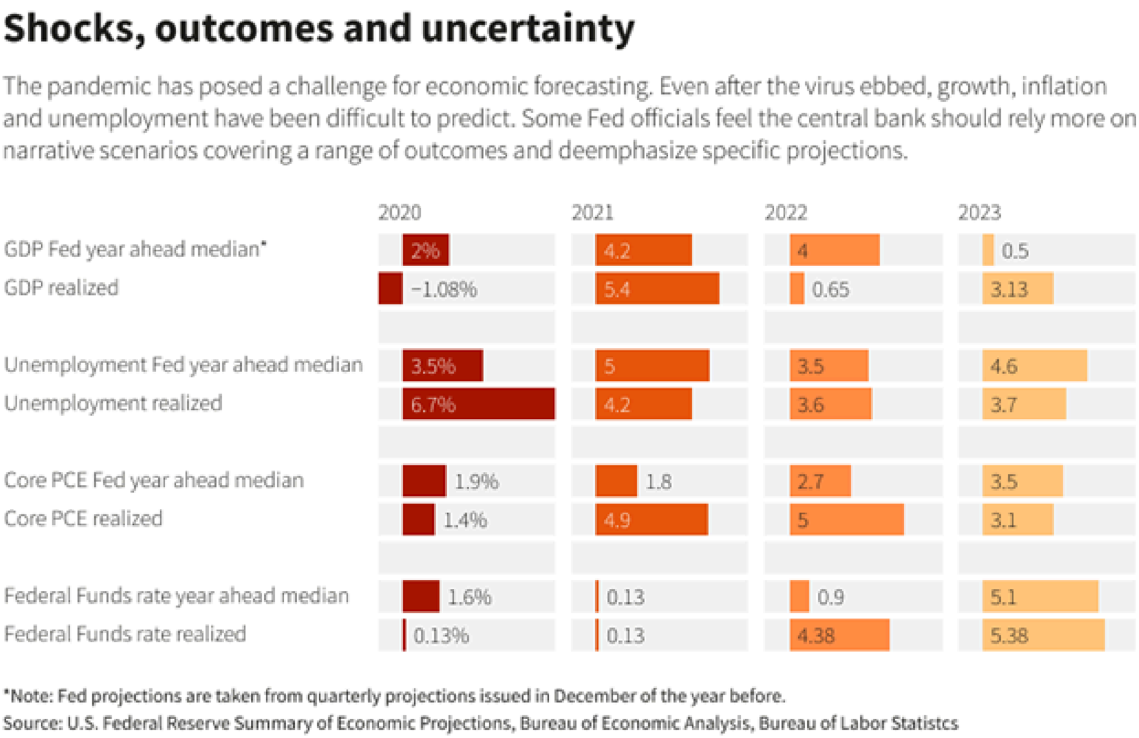
Headlines:

- China Apr FDI drops to -27.9% y/y - while China military drills around Taiwan use live missiles – CSI 300 off 1.11%, CNH flat at 2.2585
- Japan Apr CPI fell 0.2pp to 2.5% y/y - as expected led by food - with core 2.2% y/y – Nikkei off 1.17%, 10Y JGB yields up 0.2bps to 0.994%, JPY flat at 156.95
- Singapore Apr industrial production up 7.1% m/m - led by transport – STI off 0.18%, SGD up 0.1% to 1.3505
- French May business confidence off 1 to 99- climate steady at 99 -4-months lows, led by weaker manufacturing – CAC 40 off 0.2%, OAT 10Y off 0.5bps to 3.06%
- German final 1Q GDP confirmed +0.2% q/q, -0.2% y/y - as expected — modest growth from construction investments – DAX off 0.35%, Bund 10Y off 0.5bps to 2.59%, EUR up 0.15% to 1.0835
- Sweden Apr PPI up 0.5% m/m, +0.9% y/y - first annual rise in 11-months - linked to energy; OMX off 0.8%, SEK up 0.2% to 10.708
- Swiss 1Q payrolls up 1.8%- holding positive despite cautious outlook – Swiss Mkt off 0.5%, CHF off 0.1% to .9150
- UK Apr retail sales fell -2.3% m/m, -2.7% y/y - worst drop in 4-months – FTSE off 0.4%, Gilts 10Y off 0.5bps to 4.255%, GBP up 0.1% to 1.2715
- Russia Putin wants cease-fire on all front lines in Ukraine- WTI off 0.45% to $76.50

The Takeaways:

Forward guidance requires good forecasts and some luck to work. The markets are set up for another risk down move after the failure of AI to fix all that drives stock valuations beyond investment. The question about US rate policy dominates the market balancing act today and the data release of durable goods might matter just as flash PMI did yesterday. The biggest problem for the Fed and for investors is in the forward guidance on rates having some credibility to the actual future. The Fed summary of economic projections will be important next month and the data for that is mostly out. The models have been woefully inaccurate since the pandemic and this begs the question of what star Chair Powell should use to guide markets to a soft-landing. The history of markets is filled with investors climbing a wall of worry. The one stand out risk for the month is the new theme that high real growth and sticky inflation requires high real rates. For investors there is no peace deal for trading economic data as it remains uneven, and confusing, with labor markets tight, growth above models of sustainable levels without more inflation and with higher-than-normal policy uncertainty at home and abroad.

Will the Fed SEP move the market in June?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. China April FDI (ytd) drops to -27.9% y/y after -26.1% y/y - worse than the -25% y/y expected. For 2023, FDI was off 80% to $33bn- 30-year lows - for 1Q 2024, FDI fell 57% y/y to $10bn.

2. Japan April core CPI drops to 2.2% y/y from 2.6% y/y - as expected - 2nd consecutive decline. The deceleration came due to milder food inflation, but stayed above the Bank of Japan’s 2% target as a weak yen pushed up import costs.

Japan's core inflation print has now been at or above the BOJ's target for 25 months in a row, keeping the central bank under pressure to tighten policy further. The headline CPI fell to 2.5% y/y from 2.7% y/y - also as expected.

3. Singapore April industrial production up +7.1% m/m, -1.6% y/y after -16.1% m/m, -9.2% y/y - better than the 5.7% m/m expected. Output rebounded for transport engineering (10.6% vs -7.3% in March) and general manufacturing industries (7.3% vs -3.1%). Moreover, output decreased at a softer pace for electronics (-1.1% vs -11.3%) and biomedical manufacturing (-29.1% vs -34.8%). Meanwhile, output eased for chemicals (3.1% vs 4.1%) and precision engineering (2.9% vs 3.1%).

4. Sweden April PPI up 0.5% m/m, +0.9% y/y after 0.8% m/m, -0.6% y/y - less than the 2% y.y expected — still, this marked the first price growth after eleventh consecutive months of deflation, as prices fell at a softer pace for energy-related products (-4.4% vs -6.8% in April). Moreover, prices increased faster for both consumer (3.3% vs 2.5%) and capital (4.5% vs 3.8%) goods. Excluding energy-related products, producer inflation increased to 1.8% from the prior 0.5% gain.

5. Swiss 1Q payrolls rose 1.8% to 5.484mn after 1.7% - better than 5.4mn expected. Employment in the industrial sector went up 0.7 percent to 1.131 million, bolstered by continued growth from most sectors, namely mining & quarrying (1 percent), manufacturing (1.3 percent), electricity, gas, steam & air-conditioning supply (2.6 percent) and water supply & waste management (0.5 percent). Moreover, payrolls in services grew 2.3 percent to 4.352 million, mainly due to increase in water & air transport (11.3 percent), transport & stockage (1.4 percent), hotels & gastronomy (1.9 percent), and finance & assurance (1.6 percent).

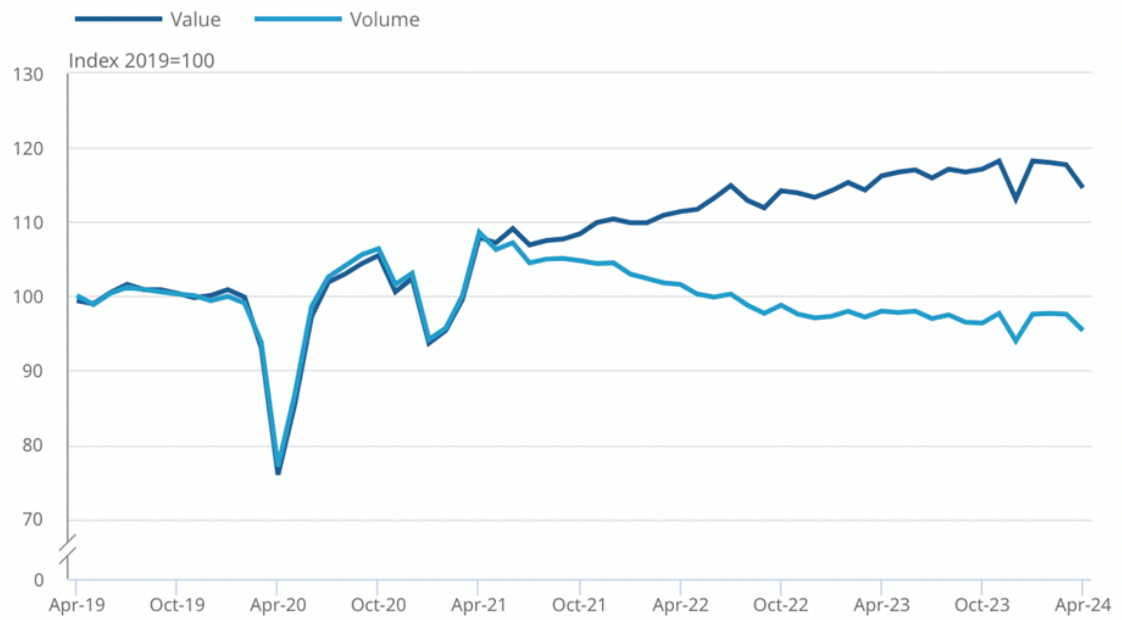
6. French May business confidence drops to 99 from 100 - weaker than 100 expected - while business climate steady at 99, entiment slightly improved for service providers (101 vs. 100), while it remained unchanged for constructors (101). Meanwhile, morale weakened for manufacturers (99 vs. 100) and retailers (99 vs. 102).

7. UK April retail sales dorp -2.3% m/m, -2.7% y/y after -0.2% m/m, +0.4% y/y - worse than the -0.4% m/m expected - the biggest decrease in retail sales in four months, with sales volumes declining across most sectors. Sales at non-food stores were down 4.1%, namely clothing retailers, sports equipment, games and toys stores, and furniture stores, with retailers reporting poor weather and low footfall as the main reasons. Also, automotive fuel sales showed their largest monthly fall since October 2021, while food stores sales volumes fell for their third consecutive month, mainly because of supermarkets. Retail sales were down 0.7% in the three months to April compared with the previous period. - worse than the -0.4% m/m expected.

UK retail sales lower enough to move BOE?

Sales volumes and values fell sharply in April

Volume and value sales, seasonally adjusted, Great Britain, April 2019 to April 2024



Source: UK ONS/BNY Mellon

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