BNY MELLON

iFlow MARKET MOVERS

May 21, 2024

Stuck

"If you get stuck, draw with a different pen. Change your tools; it may free your thinking" – Paul Arden
"Sometimes Limbo is a tolerable place to be stuck." – William Boyd

Summary

Risk off with APAC selling led by Hang Seng as rethinking property hopes continues, while in Europe the lack of news cools hopes for a faster recovery. RBA hawkish minutes will be followed tonight by the RBNZ expected to discuss much the same frustration about high for longer and the need for more than just time. IMF warning on tax cuts in UK make the election more important and the ongoing surprises to the downside in the US leave soft-landing expectations intact. How markets deal with more Fed speakers, more earnings and more drama in geopolitics (G7 meetings) all matter. Markets are stuck waiting for more information with tomorrow's FOMC and NVIDIA earnings seen as key for week.

What's different today:

- **Oil is off 1.7% WTI as traders rethink risks in the Middle Eas**t post Iran's President Raisi death. Houthi missile strike on China bound oil tanker and Russian refineries hit by Ukraine are balanced against yesterday's buying.
- **US Natural Gas traders at 5-month highs** at $2.80 up 1.6% on day, led by less production and ongoing demand – with weather forecasts for hot temperatures driving electrical demand outlooks. LNG exports also back in play.

What are we watching:

- **Canada April CPI** expected up 0.5% m/m, 2.7% y/y after 2.9% y/y – with core expected 0.4% m/m, 2% y/y – key for BOC rate cut expectations and CAD.
- **Fed Speakers:** Fed governor Christopher Waller will deliver a speech on the economic outlook at a conference in Washington. Michael Barr, the Fed's vice-chair for supervision, will participate in a discussion on bank supervision and regulation at an event hosted by the Federal Reserve of Dallas. The respective presidents of the Atlanta Fed, Boston Fed, and Cleveland Fed will speak together on a panel at the Atlanta Fed's 2024 Financial Markets Conference.
- **US 1Q Earnings:** Lowes, Macy's and Amer Sports will report earnings before the bell.

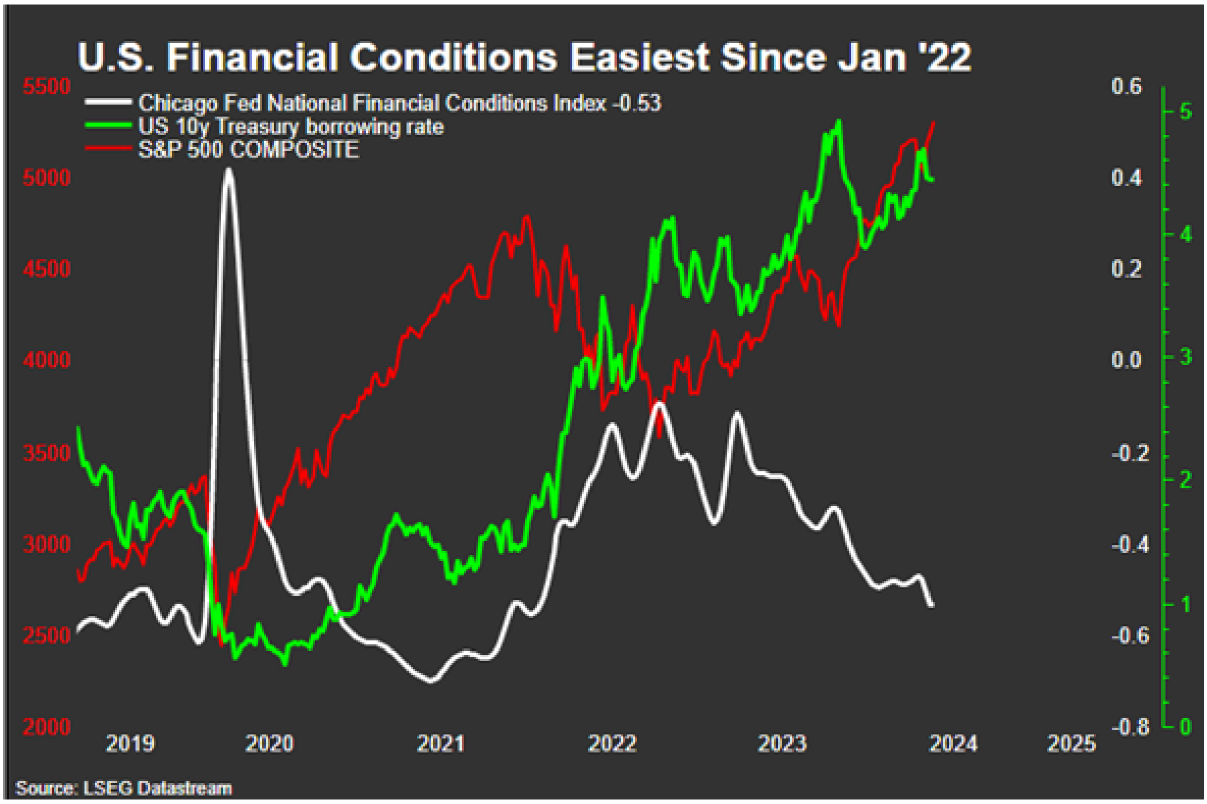
Headlines:

- RBA May Minutes highlight hike discussion, frustration with sticky CPI - while May Westpac MI consumer confidence drops 0.3% to 82.2 on inflation pessimism - ASX off 0.15%, AUD flat at .6670
- Korea May consumer confidence drops 2.3 to 98.4 - off from Aug 2023 highs - future income outlook drops; Kospi off 0.65%, KRW off 0.5% to 1363.2
- Japan $77bn in property gains for non-real estate companies key target for activist investors,Nikkei reports weak JPY adds to speculation of faster BOJ hikes - Nikkei off 0.31%, JPY off 0.25% to 156.25
- China warns S.Korea and Japan on redline for diplomatic visits to Taiwan, US Treasury Yellen asks EU to join US with plan on excess China goods - CSI 300 off 0.40%, CNH flat at 7.2450
- Germany April PPI drops 0.4pp to -3.3% y/y- 10th month of deflation led by energy – DAX off 0.45%, Bund 10Y yields off 1bps to 2.52%
- Eurozone 1Q flash labor costs up 1.5pp to 4.9% y/y; Mar construction output up 0.1% m/m, +0.1% y/y - led by civil engineering in Germany and Italy - while Mar C/A surplus rises E7bn to E36bn – EuroStoxx 50 off 0.5%, EUR up 0.1% to 1.0865
- UK CBI May industrial trends orders -10% to -33 - IMF warns against UK tax cuts on debt worries – FTSE off 0.4%, GBP up 0.1% to 1.2715

The Takeaways:

The FX markets are stuck, stocks are lower while bonds are bid – this is more a holding pattern than a confirmation of nothing to do. The risks from elections and policy decisions ahead are dominate. The lack of bigger news and the expectations for change leave investors on edge. What is notable is that trend, carry and value are all in play in FX markets still - witness the biggest overnight movers of buying ZAR and selling KRW. The RV trades everywhere are being played from NOK/SEK to AUD/NZD where the RBA minutes open the risk for more hikes should the data not provide relief. The RBNZ has the same problem but the burden of a decision tonight. This is a critical moment for markets as they face more change but without more information. The FOMC minutes tomorrow and the NVIDIA earnings are set up for the turning point for many things – perhaps the most important being the level of volatility. The VIX, MOVE and CVIX are all low compared to the tail risks ahead. Perhaps the most important event today is from Fed speakers and how they see markets pricing in these risks – as the financial conditions are easy – beyond the summer 2023 levels when the Fed hawkish talk was notable. If everyone knows high for longer is not changing, then the only policy is about the next 5% of S&P500 or 50bps in 10Y rates.

Do easy financial conditions matter to Fed?



Source: Reuters / BNY Mellon

Details of Economic Releases:

1. Korea May consumer confidence dips to 98.4 from 100.7 - weaker than 100 expected and from August 2023 highs. Consumer sentiment regarding current living standards fell by one point lower from the previous month to 88, and that concerning the future outlook lost two points to stay 92 level. Consumer sentiment related to future household income dropped two points to 97, and that concerning future household spending was one point lower than in the previous month, at 109. Consumer sentiment concerning current domestic economic conditions dipped one point to 67, and that concerning future domestic economic conditions was two points lower than in the previous month, at 79. The expected inflation rate for the upcoming year was 3.2%.

2. Australia May Westpac consumer confidence dips -0.3% to 82.2 after -2.4% to 82.4 - weaker than 83.1 expected - 2nd consecutive drop as persistent inflation and high interest rates continued to weigh on Australian households. The index has also held below 100 for over two years, the longest since the early-1990s recession, indicating pessimists heavily outweigh optimists. The 12-month and the 5-year outlooks for the economy slipped 2.7% and 4.4%, respectively. Meanwhile, markets expect the Reserve Bank of Australia to start lowering rates late this year, but robust jobs data and rising house prices clouded the outlook. Matthew Hassan, a senior economist at Westpac said: “The bank’s latest commentary shows it is becoming a little more comfortable that further rate rises will not be required but it is not yet confident enough about the inflation outlook to consider the case for rate cuts.”.

3. German April PPI slows +0.2% m/m, -3.3% y/y after +0.2% m/m, -2.9% y/y - lower than 0.2% m/m, -3.2% y/y expected.- 10th month of deflation, dragged by a decline in energy costs (-8.2%), influenced by natural gas (-18.0%) and electricity (-14.0%). Meanwhile, prices of intermediate goods dropped by 3.1%, weighed by paperboard and paper products (-7.7%), metals (-5.8%), and basic chemicals (-6.6%). By contrast, prices of non-durable consumer goods increased by 0.3%, while those of durable consumer goods climbed by 1.0%. Also, prices of capital goods advanced 2.4%, mainly driven by rises in machinery prices (2.8%) and the prices of motor vehicles, trailers, and semi-trailers (1.7%).

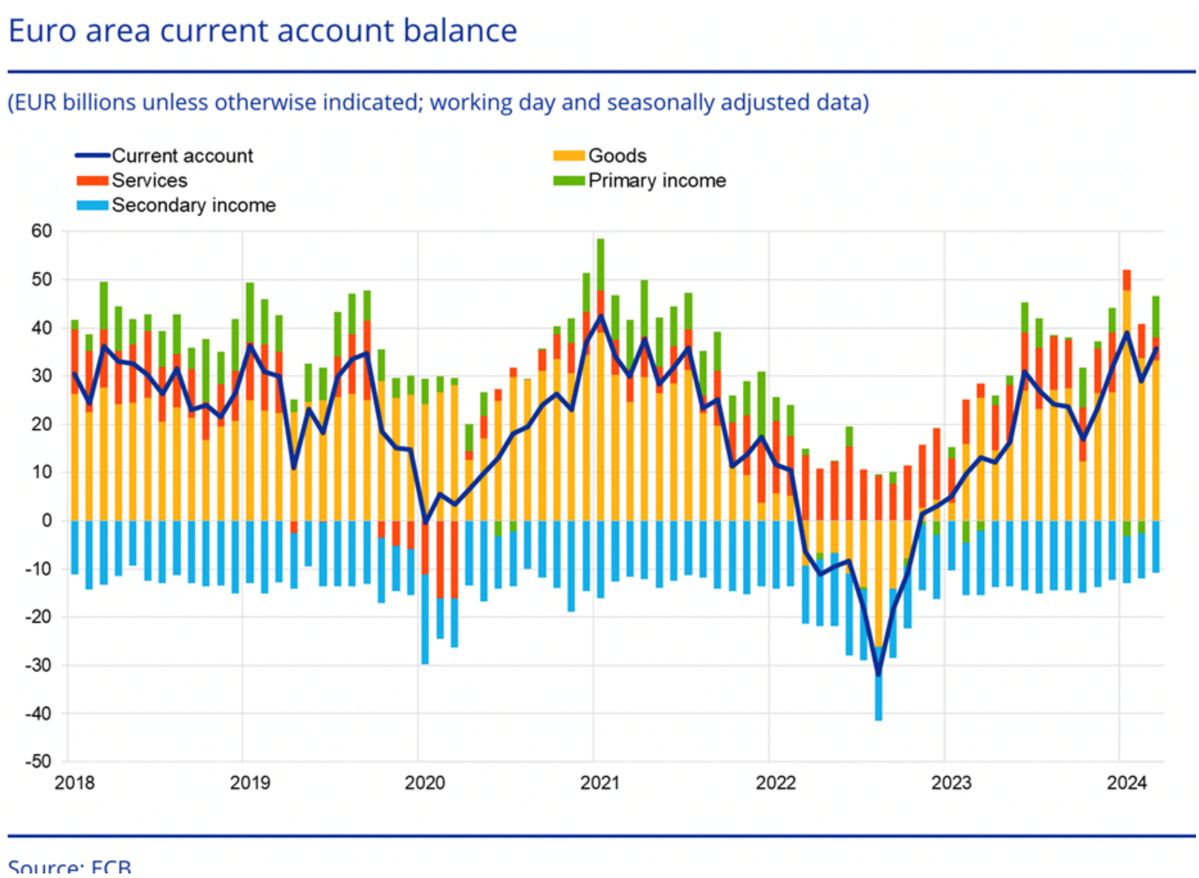
4. UK May CBI industrial trends orders -33 after -23 - weaker than -20 expected. Export orders fell to -27 from -23 while inventories rose to 14 from -1.

5. Eurozone March construction output rises +0.1% m/m, +0.1% y/y after -1.8% y/y - better than -1% y/y expected. Output accelerated for civil engineering works (5.4% vs 3.8% in February) and contracted less for specialized construction activities (-0.3% vs -1.1%). On the other hand, production declined faster for building activity (-3.5% vs -2.9%). Among the largest economies in the Euro Area, construction activity rose in Germany (+1.9%) and Italy (3.8%) but fell in France (-1.8%), and Spain (-4.2%).

6. Eurozone 1Q Labor Cost Index rises 4.9% y/y after 3.4% y/y - higher than 3% y/y expected. Wages and salaries per hour worked were up 5% (vs 3.2% in the previous quarter) while the non-wage component advanced by 4.4% (vs 3.9%).

7. Eurozone March current account surplus rises to E35.8bn after E28.9bn - more than E30bn expected. The goods surplus increased to €41.5 billion from €39.6 billion, the services surplus went up to €3.9 billion from €1.8 billion and the primary income surplus surged to €12 billion from €1.2 billion. Also, the secondary income gap narrowed to €12.9 billion from €15.6 billion.

EU current account surplus sign of trouble?



Source: ECB/BNY Mellon

Disclaimer and Disclosures

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

Bob Savage
HEAD OF MARKETS STRATEGY AND INSIGHTS

CONTACT BOB