BNY MELLON

iFlow MARKET MOVERS

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Too Quiet

"Below a certain point, if you keep too quiet, people no longer see you as thoughtful or deep; they simply forget you." – Douglas Copeland

"Everything was too quiet to be natural. It seemed as if the silence was rising, rising – would suddenly brim over and break into laughter." – Vladimir Nabokov

Summary

Risk on in quiet markets with Japan and UK holidays leaving no futures for US bonds, while China returns with a bang as stocks catch up along with FX. The services slowdown was modest, and the recovery of the nation holds. The USD is mostly lower except against the JPY with 152.50-154.50 the new trading envelope. Europe saw its best service PMI in 11-months but whether that offsets the industrial weakness will remain to be seen in 2Q GDP. The Xi visit to Paris and the ongoing geopolitical hopes and fears about the Israel/Hamas war leave energy prices higher and some doubts about the newfound soft-landing path for the US post the modest jobs report Friday. How US markets open with bonds and the dollar will likely drive the mood today with the Fed senior loan officer survey the only big release. The winners overnight are NOK, AUD, and GBP – with the RBA and BOE expected hawkish this week and the Norges surprised with Friday's tone. With little data and just the Fed speakers this week to guide, most see the rest of the world driving the tape today and most of the week with risks that in the calm investors find tragedy over comedy.

What's different today:

- **Panama elects Jose Raul Mulino President– a last-minute stand in for Martinelli.** Mulino, the former security minister, got 35% of vote – 9% over other candidates. The risks of a downgrade in the nation's debt remains high, with focus on copper mines and the drought problems of the Canal.
- **iFlow** – Mood indicator remains negative despite the Friday relief rally, while FX Trend also negative near historic lows. The USD selling continued Friday with only AUD showing minor outflows, while in EM MXN, BRL and THB all gained. The bond markets in G10 saw minor buying except CAD where it was notable. While in EM Argentina and China outflows offset by Indonesia and Mexico. Global shares were less negative with IT still seeing outflows but communications up along with utilities.

What are we watching:

- **Fed Senior Loan Officer Survey** – with focus on credit tightening and demand
- **Fed Speakers** – Barkin on economic outlook, Williams at fireside chat
- **US Treasury** sells $70bn in 3M and $70bn in 6M Bills
- **1Q Earnings** - Tyson Foods, Loews, Microchip Technology, Axon, Vertex Pharmaceuticals, Realty Income, Simon Property, FMC, International Flavors & Fragrances, Progressive Corp, Williams

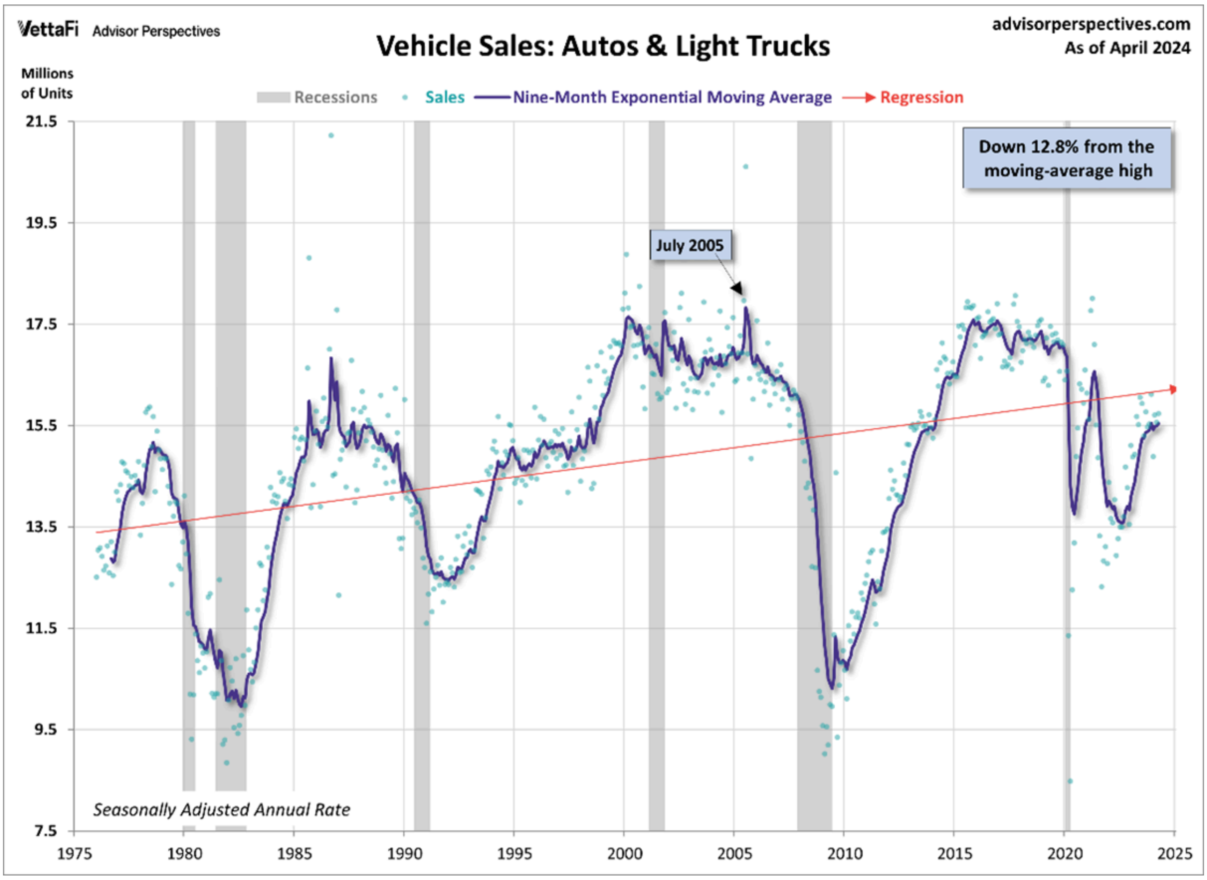
Headlines:

- China Apr Caixin services PMI slips 0.2 to 52.5 as expected – 16th month of gains with best new orders in 12 months – CSI 300 up 1.48%, CNH up 0.5% to 7.2070
- Indonesia 1Q GDP fell -0.83% q/q, +5.11% y/y – first contraction in a year – with government spending and capex drops – IDR up 0.35% to 16,020
- India Apr final services off 0.4 to 60.8 – worse than flash – 33rd month of gains led by exports, Sensex up 0.02%, INR off 0.1% to 83.493
- Spanish Apr unemployment -60,503 – lowest jobless since 2008 – while services PMI rose 0.1 to 56.2 – IBEX up 0.55%, SPGB off 5.5bps to 3.203%
- Eurozone April final services up 1.8 to 53.3 – better than flash and best in 11-months – while PPI deflation slows 0.7pp to -7.8% y/y – EuroStoxx 50 up 0.8%, EUR of 0.1% to 1.0770
- Israel tells Gazans to leave Rafah, Hamas warns of "consequences." – WTI up 1.05%, ILS off 1% to 3.7470

The Takeaways:

The overload of data last week shifts this week with less from the economic releases, more from global central bankers. In the noise of the US jobs report, the US auto and truck sales story grabbed less airtime. But given the importance of autos to demand and energy consumption and the linkages to rate policy given most sales require consumer loans, the rise in April up 1.1% to 15.736mn may matter as it highlights the overall consumer demand despite costs. Looking at vehicle sales per capita and index to 1976 the trend of owning a car is lower, further looking at it against the July 2005 highs we are still below those highs. There is something important about the post great financial recession and consumers that still matters and that shift in the US maybe linked back to the post pandemic labor markets. Further, the role of wages outweighing near zero rate could be more powerful as the age of the US fleet of cars and trucks remains older than back in 2003-2007. The risk of upside growth in the US shows up in places like housing and autos and reflects a pent up demand, lack of supply story that makes those sectors less rate sensitive than "average." The one key report on today, the Fed senior loan officer survey, should show the role of rates on demand. Given the Auto sales, it's worth digging under the hood to see if the engine of growth still has miles to go before restrictive policy matters.

Will auto loans matter to car sales?



Source: Advisor Perspectives / BNY Mellon

Details of Economic Releases:

1. China April Caixin Services PMI fell to 52.5 from 52.7 – as expected. The composite rose to 52.8 from 52.7 – better than 52.5 expected – led by manufacturing. Still, this was the 16th straight month of growth in services activity, with new business growing the most in nearly a year, boosted by the latest rise in activity and an improvement in confidence. New order growth accelerated to the fastest since May 2023 amid improved demand conditions and a broadening of customer bases, with foreign sales rising the most in 10 months, lifted by increasing tourism activity. Employment fell for the 3rd straight month due to resignations and redundancies, while backlogs of work remained unchanged. On the cost side, input cost inflation accelerated due to higher raw materials, labor, and energy costs despite being below the series average. Meanwhile, output price inflation rose above the series average as firms sought to share rising cost burdens with clients. Finally, sentiment improved to a four-month high amid hopes of improvement in market prospects.

2. Indonesia 1Q GDP fell -0.83% q/q, +5.11% y/y after 0.45% q/q, 5.04% y/y – better than -0.9% y/y, +5% y/y expected - first quarterly GDP contraction in a year, with fixed investment falling (-4.84% vs 2.57% in Q4) and government spending tumbling (-36.69% vs 39.13%). Simultaneously, private consumption moderated (0.64% vs 1.58%), due to impacts of elevated cost pressure and high borrowing costs. Net trade contributed positively, with exports and imports falling by 6.26% and 4.11%, each. On the production side, output contracted for mining (-2.56% vs 2.76%), manufacturing (-0.35% vs 0.51%), utilities (-2.47% vs 2.63%), construction (-2.57% vs 0.29%), wholesale & retail trade (0.12% vs -0.27%), transport (-1.63% vs 2.15%), and accommodation, food & beverages (-0.88% vs 4.53%). Meanwhile, activity related to financial services eased (2.25% vs 2.74%). At the same time, agriculture output was almost flat after sinking 17.70% in the previous period.

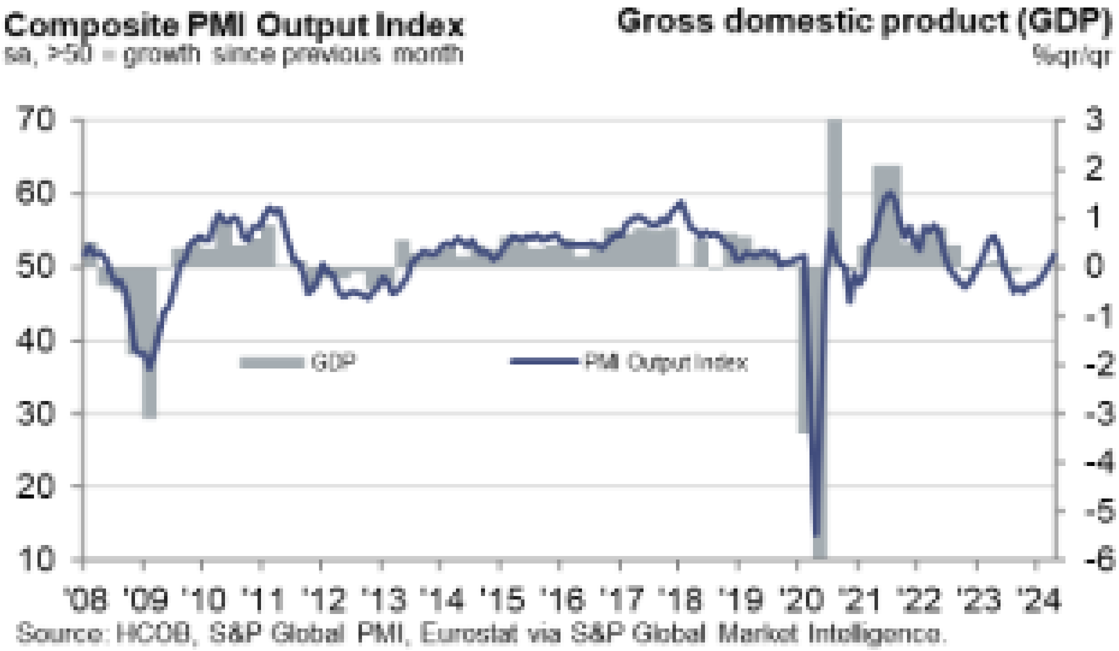
3. India April final HSBC services PMI slips to 60.8 from 61.2 – worse than 61.7 flash – still, the 33rd straight month of growth in services activity, as growth of new business and output remained sharp and among the fastest in 14 years. New export orders grew to the second-fastest in a near-ten-year, with rising sales from several countries in Asia, Africa, Europe, the Americas, and the Middle East. Meantime, service providers took on extra staff at a marginal pace that was softer than that in March. On prices, input prices continued to rise due to higher labor and operating costs. Meanwhile, output prices climbed as service providers passed part of their additional cost burdens through to clients, despite the inflation eased from March's near seven-year high and was close to its long-run trend. Lastly, business sentiment improved to a three-month-high bolstered by resilient demand conditions.

4. Spanish April unemployment drops -60,500 after -33,400 – less than -74,500 expected. Still the lowest unemployment since 2008 with total at 2.67mn. On a yearly basis, unemployment decreased by 121,870 people, or 4.4%. By sector, jobless numbers were down primarily in the services sector, with a decrease of 42,067 people, followed by construction (-4,902), industry (-4,433) and agriculture (-3,451). Unemployment decreased in 16 Autonomous Communities, led by Andalusia (-20,954 people), Madrid (-8,044 people), and Catalonia (-7,359 people).

5. Eurozone March PPI -0.4% m/m, -7.8% y/y after -1.1% m/m, -8.5% y/y – as expected - the fifth consecutive monthly decline, driven by a continued drop in energy costs (-1.8% vs -3.6% in February). Also, prices eased for capital goods (0.1% vs 0.2%) and durable consumer goods (0.1% vs 0.4%). On the other hand, cost advanced faster for intermediate goods (0.1% vs a flat reading in February) and non-durable consumer goods (0.4% vs 0.1%). Excluding energy, producer prices rose 0.2%, following a 0.1% increase in February.

6. Eurozone April final HCOB services PMI 53.3 from 51.5 – better than 52.9 flash. With Italy slowing -0.3 to 54.3, France rising 3 to 51.3 and Germany up 3.1 to 53.2. Increased demand was a primary factor in the higher output, with new business volumes expanding at the fastest rate since May of the previous year. This surge in sales resulted in an uptick in backlogs of work for the first time in ten months, however, the accumulation was only marginal. With rising new business and capacity constraints, employment grew at an accelerated pace, reaching levels not seen since mid-2023. Although business confidence dipped slightly from its recent peak, it remained strong overall and aligned with historical averages. Price pressures in the eurozone services sector increased mildly, with input costs rising slightly from an eight-month low in March. Output charges also saw a modest uptick.

Will services growth offset manufacturing in EU?



Source: S&P Global/BNY Mellon

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