

Rate Cuts On Hold

Macro Overview

US

Tech stocks suffered its biggest weekly loss in almost 18 months, due to tensions in the Middle East and the continued uncertainty surrounding when the Fed may cut rates. The S&P 500 fell for the 6th straight session and 3rd straight week leaving it more than 5% below its all time high of March 28th. Eight of the 11 S&P 500 sectors declined. The information technology (-7.3%), consumer discretionary (-4.5%), and communication services (-3.2%) sectors logged some of the largest declines, clipped by weakness in their mega cap constituents. Israel launched a retaliatory strike on Iran following last week's missile and drone barrage from Tehran, according to two US officials, though media from both countries appeared to downplay the significance of the incident. Futures prior to Friday's open pointed to a bounce following easing concerns of a retaliatory act by Iran, failed to lift markets during the day's session.

This coming week will be critical with the release of the PCE Deflator to further indicate if the disinflation process has stalled. Various comments from Fed officials contributed to the negative sentiment by fuelling speculation that the start of its rate cuts could be pushed back. The consensus as fickle as it is, is for the first rate cuts to begin in September, months later than the June meeting that were once talked about by Fed watchers. There are also some floating the idea there may not be any rate cuts until 2025 as the economy remains resilient and the path to 2% could be bumpy. The 2-yr note yield settled 10 basis points higher at 4.98% and the 10-yr note yield settled 12 basis points higher at 4.62%.

US weekly jobless claims released Thursday showed that the labor market remains resilient and the Philly Fed Manufacturing Index rose to 15.5 from last month's 3.2%. **Retail sales earlier were stronger than expected fortified by a strong job market, consumers continued to spend freely in March in an act that will continue to support a soft landing or no landing outlook for the U.S. economy suggesting the Fed may be right in not rushing to lower rates.** In fact, on Tuesday the IMF gave the US its biggest upside revision, going from 2.1% per their January's forecast to 2.7% now. Citi's strategists are calling to buy the equity dip if oil doesn't spike. Key data to watch this week – GDP Annualised data QoQ, Personal consumption, income & spending data and Friday's PCE Deflator. Bloomberg expects a MoM Core release of 0.3% (unchanged from Feb) and 2.6% YoY from Feb's 2.8%.

The US House passed \$61 billion in fresh aid for Ukraine on Saturday, ending a six-month political impasse. The Ukraine aid will be combined with funding for Israel and Taiwan, for a foreign assistance package totalling \$95 billion. Treasury really has its work cut out for them.

The Bitcoin network on Friday evening completed its fourth "halving," reducing the rewards earned by miners to 3.125 bitcoins from 6.25. Mechanically, the halving itself shouldn't affect the price of bitcoin in the short term, but many investors are expecting big gains in the months ahead, based on the cryptocurrency's performance after previous halvings. After the 2012, 2016 and 2020 halvings, the bitcoin price ran up about 93x, 30x and 8x, respectively, from its halving day price to its cycle top. BTC trades around \$65k whilst Ether is at \$3150.

EUROPE

European stock markets closed lower on Friday, rounding off a week in which escalating tensions in the Middle East and repricing of interest rate expectations have been in focus. The regional Stoxx 600 index provisionally ended 0.1% lower. After a strong start to 2024, the index is heading for its first monthly loss since October.

Last week started on a bright activity note in the Euro Area, with February EA industrial production ex construction growing at 0.8% m/m. This rebound was fueled by heightened output of durable, investment, and intermediate goods, though there were decreases in non-durable and consumer goods. Sectors reliant on energy saw robust growth, increasing by 2.6% month-on-month, marking the most significant monthly increase since the COVID recovery began in the summer of 2020. Overall, hard data are now slowly moving in line with soft data which recently indicated improvements in the manufacturing outlook.

Euro Area final March HICP release was unrevised from the flash reading, at 2.4% y/y with core at 2.9% y/y. While services inflation remained robust, this was influenced by a few volatile components impacted by the early Easter holiday.

Barclays approximated that the early Easter contributed roughly 0.2 percentage points to services inflation. Likewise, core goods inflation continued to ease, dropping further to 1.1% year-on-year from 1.6% year-on-year. Overall, with services inflation back on track and core goods coming in very soft, this print increased the confidence in further core disinflation.

Chief Economist Lane delivered an update last week on the euro area's disinflationary trend. The key insight from his briefing is that forward-looking wage indicators suggest that the ongoing slowdown in wage growth is intensifying, bolstering confidence in the disinflation trajectory. Additionally, more hawkish members are closely monitoring the possibility of cuts.

This week, on the data side, we will get several early indicators for economic activity in the Euro Area throughout the week. The focus will be on Tuesday's prelim April PMIs, EC EA April Prelim consumer confidence.

Over in the UK, regular private sector wage growth was stronger than expected in February but broadly in line with BOE's most recent forecast. However, the larger than expected rise in the unemployment rate points to building slack in the labour market.

UK's March headline CPI printed at 3.2% y/y and core at 4.2% y/y continued to ease but printed above forecast, owing to stronger momentum in the services sector. Retail sales stalled in March printing slightly above consensus forecast. While this week's inflation and wage data have overall surprised us to the upside, we remain of the view that the activity and price data released since the last MPC meeting have been broadly in line with the February MPR.

This week, the April flash PMI surveys will be the main data release next week. The April flash print will provide preliminary insights as per the strength of the of activity at the beginning of the second quarter in the UK.

India began voting on Friday in the world's largest election as Prime Minister Narendra Modi seeks a historic third term in office on the back of growth, welfare, his personal popularity and Hindu nationalism. Elections are being held in India from 19 April to 1 June 2024

Japan's exports grew 7.3% year-on-year in March, up for the fourth straight month, according to the Ministry of Finance. The reading compared with an 8.0 % gain recorded in the previous month. Imports fell 4.9 per cent in the year to March, versus a decline of 4.7 per cent expected and a 0.5% gain in February. Japan CPI missed, up 2.7%yoy in March and core-core inflation rose 2.9%.

Indonesian equities resumed trading last Monday after being closed for a full week of Eid Mubarak celebration. More than 1.1 million travellers during this festive period. Bank Indonesia stepped in to support the rupiah after the currency weakened past 16,000 per dollar for the first time in four years. The rupiah's decline adds pressure on Bank Indonesia to maintain stability in the currency amid persistent dollar strength and foreign capital outflows. The nation's foreign- currency reserves fell \$3.6 billion last month as the authorities intervened in the currency and bond markets. Rupiah stability is a priority in BI policy.

The State Bank of Vietnam (SBV), the central bank, will be flexible in its handling of the exchange rate. "We are ready to intervene if the exchange rate has a negative impact, even from today" said officials, adding the country had sufficient foreign exchange reserves. The Dong weakened past 25,000 per U.S. dollar earlier this month and is trading at record lows.

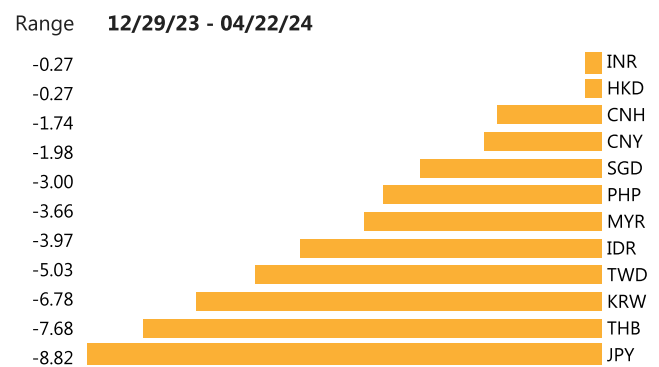
Other Asian currencies, like the Indian rupee plummeted to a record low against the dollar at 83.739 on Wednesday last week. Taiwan's currency dropped to the lowest level in almost eight years this week. Malaysia issued verbal intervention last Monday, the MYR is trading at 26-year low. Seoul is "thoroughly" monitoring developments in the FX market with scenario-based response plans in place.

ASIA

Markets in Asia ended generally lower last week with Vietnam and Nikkei leading losses, down 7.97% and 6.2% respectively. CSI 300 beat the overall trend to close up 1.89% last week. The latest developments on the geopolitical front, prompted the risk off concerns. Specifically, the potential widening of the Israel-Hamas war in Gaza to include other countries in the Middle East. The sell off in chip related stocks specifically signalled investors might be rotating out of this sector in tech related stocks.

China reported Q1 GDP that grew 5.3% in January-March from the year earlier. On a quarter-by-quarter basis, GDP grew 1.6% in the first quarter, above the forecast for growth of 1.4%. **China data appears to be strong on the headline, but the details are weak.** A slew of China's economic data points showed that the nation's economic rebound remains uneven. **While both gross domestic product and fixed assets investment beat forecasts, data on retail sales and industrial output fell short of estimates. March data on exports, consumer inflation, producer prices and bank lending showed that momentum could falter again and reinforced calls for more stimulus to shore up growth.**

Spot Returns (%)



GeoPolitics

Israel – Iran: Iran's historic attack on Israel over last weekend was "performative". It was calibrated to send a message rather than cause damage. Netanyahu pushes back against Western calls for restraint, says Israel will do "everything necessary" to defend itself. Iran's foreign minister on Friday said Tehran was investigating an overnight attack on Iran, adding that so far a link to Israel had not been proven as he downplayed the strike. Iranian media and officials described a small number of explosions, which they said resulted from air defenses hitting three drones over Isfahan in central Iran in the early hours of Friday. Israel has said nothing about the incident.

US – Iran: Biden administration announced a series of sweeping sanctions Thursday targeting leaders and entities tied to Iran's Islamic Revolutionary Guard Corps, Tehran's defense ministry and its missile and drone program following last weekend's missile and drone attack against Israel. The Treasury Department also sanctioned five companies that provide or purchase steel production materials to Iran's Khuzestan Steel Company, a US-designated entity.

US – Foreign Aid: *The US House approved \$95 billion in aid for Ukraine, Israel and Taiwan, ending months of political impasse. The Senate is expected to vote on the combined package Tuesday, which could then head to Joe Biden's desk for signing later in the week.* Volodymyr Zelenskiy said the support will give Ukraine the means "to retake the initiative."

US – Africa: Thousands of people in Niger's capital on Saturday protested for the immediate departure of US soldiers from the north, after the military junta in Niamey said it was withdrawing from a military agreement with Washington.

US – China: *Trade tensions between Washington and Beijing ratcheted higher overnight on several fronts. Reuters reported Washington plans to reverse a two-year tariff exemption that allows the import of dominant solar panel technology from China and other countries, although no timetable has been put in place for the change. Bloomberg reported Beijing has criticized a White House move to launch a review of its maritime, logistics and shipbuilding sector, saying the probe was "full of false accusations". President Biden also accused China of "cheating" and called for a tripling of steel and aluminium tariffs against Chinese imports, adding China's steel companies need not worry about profit because they were so heavily subsidized.*

FX

DXY USD Index rose 0.11% to 106.154 driven by upside surprise on US Retail Sales and Chair Powell speech. US Headline Retail Sales rose by 0.7% m/m in March (C: 0.4%; P: 0.9%), with an upward revision to prior two months.

Chair Powell accentuated that recent data has not provided the confidence to ease policy and instead indicated that rate cut has been pushed back. Resistance level at 106/107. Support level 105.70/105.

EURUSD rose 0.12% to 1.0643. ECB President Lagarde reiterated that ECB is heading towards a moment where they have to moderate. EU CPI came in in-line with y/y at 2.4% and m/m at 0.8%. Resistance level 1.075. Support level 1.06/1.05.

GBPUSD fell 0.66% to 1.237, breaking the support level of 1.24, despite UK inflation beating consensus in March but lower than previous month. UK March Retail Sales surprised to the downside across the board. BoE Governor Bailey suggested the UK is disinflating at full employment, expecting a drop in the labour part of services inflation and inflation forecasting errors have diminished. Resistance level 1.24/1.245. Support level 1.23/1.225.

USDJPY rose 0.92% to 154.64 driven by USD strength. Japan Nationwide CPI (ex-fresh food) eased to 2.6% y/y in March (C: 2.7%; P: 2.8%), although this marked the 24th consecutive month above the 2% price stability target. The finance ministers of Japan, South Korea, and the U.S. hosted trilateral talks over the recent sharp depreciation of both the Yen and Won. The MoF has seemingly made it difficult to justify intervention, given the recent rise in USD/JPY has been driven by a change in US fundamentals, in response to strong US economic data. Resistance level at 155/155.50. Support level at 154/153.70.



US – China: US Treasury Secretary Janet Yellen concluded her four-day visit to China with no major breakthroughs, but US and China agreed to hold more talks to address growing friction over trade, investment and national security. China seemed unmoved by Yellen's call to scale back its recent surge of clean energy technology exports and has denied illegally subsidizing those exports. On the bright side, China also emphasized importance of strengthening communication and avoiding "decoupling"

Israel – UK: UK Foreign Secretary Cameron, who said Britain will not halt arms sales to Israel by British companies having reviewed the latest legal advice on the matter. The article pointed out that six months into the Israeli air and ground campaign in Gaz, triggered by Hamas' 7-Oct attack on southern Israel, PM Sunak's government has come under pressure to revoke the license that allows arms exports to Israel.

Israel – Iran – US: US officials warned an attack by Iran or its proxies on Israeli soil against military and government targets is imminent. **Over the weekend, Iran's drone attack on Israel closed airspaces in the Middle East.** It led airlines like United and American to cancel and divert flights as unrest in the region threatens to expand. **Tehran says its retaliation has been 'concluded' but warns of a harsher response next time if Israel strikes again.** US has said that it will not take part in any Israeli retaliatory action against Iran. Israel has said the attack "crossed every red line and Israel reserves the legal right to retaliate"

The UN Security Council met on Sunday in New York, with many members urging restraint. **China called for a cease-fire in Gaza and a two-state solution for Israel and the Palestinians. Russia blamed Israel's war in Gaza for the crisis and said the UK, France and the US should have condemned the April 1 attack on Iran's compound.**

Ukraine – Russia – US Allies: Writing on the social media platform X, Zelenskyy said: "Iran's actions threaten the entire region and the world, just as Russia's actions threaten a larger conflict, and the obvious collaboration between the two regimes in spreading terror must face a resolute and united response from the world." Zelenskyy for months has urged Ukraine's Western allies, particularly the United States, to summon the "political will" to provide the air defences and weaponry Ukraine needs.

Credit/Treasuries

Intense bear-flattening in Treasuries materializes post-CPI as markets price out the first 25bp Fed rate cut to November and imply less than 40bp of cuts this year; 2y UST yields rise 23.0bp to 4.97% after the release of the CPI & 10Years yield traded above 4.50% for the first time since mid-November last year.

The whole US Treasury curve moved higher last week with the 2 & 5years yields up 15bps, 10years +11bps & 30years +8bps. US IG credit spreads were 2bps wider while US HY credit spreads widened by 16bps.

In term of performances, US IG lost 1.10% over the week, US HY lost 0.80% and leverage loans lost 5bps. This week main economic data in the US will be the March retails sales, industrial production and quite a lot of data on the health of the real estate sector.



FX

DXY USD Index rose 1.67% to close the week at 106.038. Strong US CPI led to broad USD strength, as market participants pushed back both the timing of the first rate cut (September as first cut) as well as the eventual terminal rate (only +46 bps hike this year).

March US Core CPI lacks sequential progress in disinflation at 0.36% m/m (P: 0.36%) and continues the re-acceleration in 3m (A: 4.53%, P: 4.18%) and 6m (A: 3.94%, P: 3.85%) annualized core inflation. Core PPI (ex-food, energy, and trade) rose by 0.21% m/m in March (C: 0.2%; P: 0.3%) and brought the annual rate to 2.8% y/y (P: 2.7%). March FOMC Minutes reveal participants favored reducing the monthly runoff pace by "roughly half from the recent overall pace," with a preference to leave MBS runoff cap unchanged.

EURUSD fell 1.79% to close the week at 1.0643, driven by USD strength. ECB kept rates unchanged at 4% and indicates June remains the base case for the first cut.

GBPUSD fell 1.47% to close the week at 1.2452, driven by USD strength. UK GDP grew by 0.1% m/m in February (C: 0.1%; P: 0.3%), aided by strong manufacturing and a pick-up in professional services. The January revision (10bp to 0.3% m/m) and this data are consistent with 1Q24 growth of 0.3% q/q. The UK has left a technical recession in the past, but the recovery still appears fragile.

USDJPY rose 1.06% to close the week at 153.23, driven by widening US-JP interest rate differential. There was more verbal intervention as USDJPY broke 153. A Japan MOF official reiterated they will take appropriate action against excessive FX move, while BoJ Governor Ueda suggested they may respond to FX move, given JPY weakness would have a material impact on underlying inflation. A media report suggested the BoJ may revise up its FY24 inflation outlook, following strong wage deals. The media report also mentioned the BoJ is likely to forecast inflation of around 2% in its first projection for the fiscal year from April 2026.

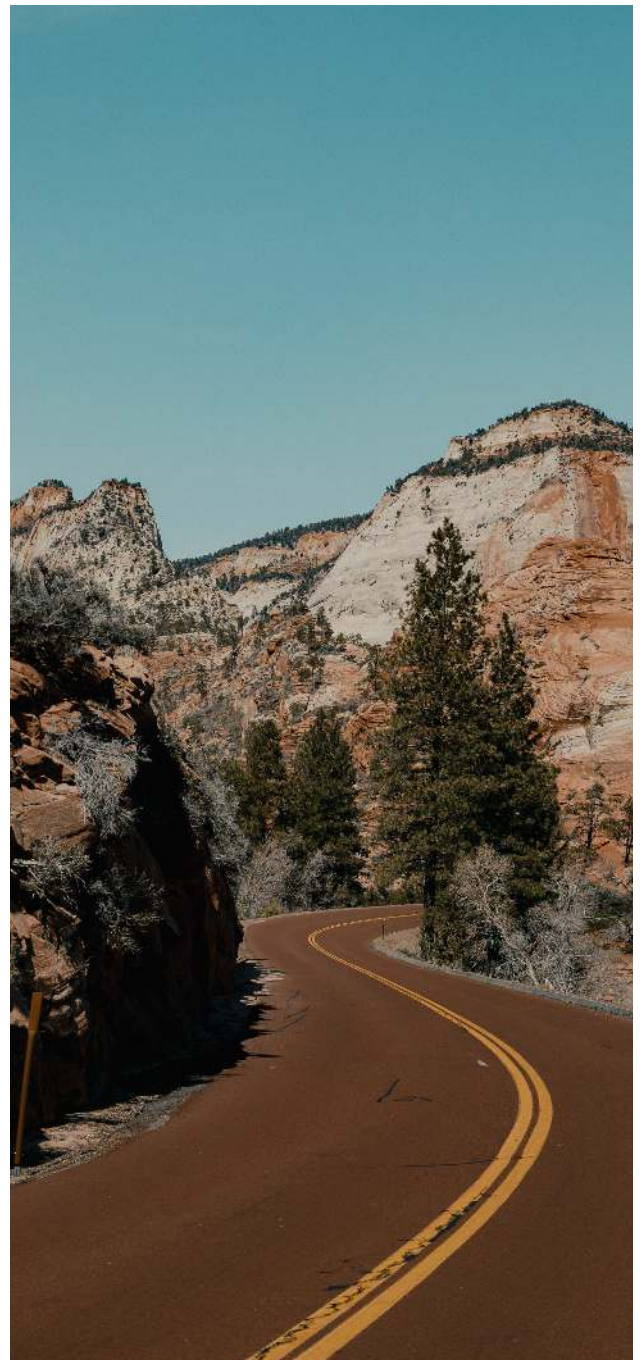
Oil & Commodities

WTI crude oil future fell last week, with WTI (-2.94%) and Brent (-3.49%) ending the week at 83.14 and 87.29, after Iran playing down reported Israeli attacks, signalling no retaliation. Iran's foreign minister said the drones, which the sources said Israel launched against the city of Isfahan, were "mini-drones" and that they had caused no damage or casualties. US Crude Oil Inventory rose to the highest since June 16, 2023, adding to limited upside on oil prices from demand side.

Gold rose 2.03% to 2391.93, supported by Middle East tension and despite the rise in US treasury yields. However, Gold price has been trading downward this morning, trading at 2376 at the point of writing, as Iran downplayed reported Israeli strikes. Resistance level 2410/2440. Support level 2340/2300.

Economic News This Week

- **Monday** – CH LPR, US Chicago Fed Nat Act., EU Cons. Confid.
- **Tuesday** – AU/JP/EU/UK/US Mfg/Svc/Comps PMI Prelim Apr, US New Home Sales/Richmond Fed Mfg
- **Wednesday** – NZ Trade Balance, AU CPI, SW Unemploy. Rate, US MBA Mortg. App./Durable Goods Orders, CA Retail Sales
- **Thursday** – US GDP/Personal Cons./GDP/Core PCE/ Wholesale Inv/Pending Home Sales
- **Friday** – NZ Cons. Confid., JP Tokyp CPI/BoJ Rate Decision, AU PPI, EU ECB CPI Exp./M3 Money Supply, US Personal Income/Spending/PCE Deflator/Mich. Sentiment



Key Market Moves

19 April, 2024

Name	WTD	MTD	YTD	Last px
MSCI ACWI Index	-2.92%	-5.14%	1.70%	743.28
S&P 500 Index	-3.05%	-5.46%	2.51%	4,967.23
Dow Jones Industrial Average	0.01%	-4.57%	-0.43%	37,986.40
NASDAQ Composite Index	-5.52%	-6.70%	0.78%	15,282.01
EURO STOXX 50 Price EUR	-0.75%	-3.25%	5.80%	4,918.09
STOXX Europe 600 Price Index EUR	-1.18%	-2.61%	2.80%	499.29
Nikkei 225	-6.21%	-7.67%	2.71%	37,271.74
Tokyo Stock Exchange Tokyo Price Index TOPIX	-4.83%	-4.07%	4.10%	2,655.82
MSCI AC Asia Pacific Index	-4.51%	-5.35%	0.54%	167.41
MSCI AC Asia Pacific Excluding Japan Index	-3.70%	-4.20%	2.24%	514.71
MSCI Emerging Markets Index	-3.60%	-3.74%	2.91%	1,004.17
Shanghai Shenzhen CSI 300 Index	1.89%	0.46%	10.53%	3,553.78
Hang Seng Index	-2.98%	0.34%	7.18%	16,597.24
India NSE Nifty 50 Index	-1.65%	-0.81%	1.94%	22,147.00
Taiwan Stock Exchange Index	-5.83%	-3.31%	9.69%	19,623.32
Korea KOSPI Index	-3.35%	-4.68%	4.84%	2,618.07
Singapore Straits Times Index STI	-1.26%	0.13%	2.38%	3,228.17
Thailand SET Index	-4.60%	-3.33%	-2.38%	1,332.08
Jakarta Stock Exchange Composite Index	-2.74%	-2.48%	-1.38%	7,108.38
Philippines Stock Exchange PSEI Index	-3.25%	-5.81%	-2.17%	6,502.15
Vietnam Ho Chi Minh Stock Index / VN-Index	-7.97%	-8.51%	0.91%	1,174.85

Source: Bloomberg

Name	WTD	MTD	YTD	Last px
US Generic Govt 10 Year Yield	0.02	0.11	0.19	4.65
Euro Generic Govt Bond 10 Year	0.06	0.09	0.15	2.50
Japan Generic Govt 10Y Yield	(0.00)	0.20	0.19	0.87
MARKIT CDX.NA.HY.32 06/24	3.66%	11.63%	2.07%	368.70
MARKIT CDX.NA.IG.32 06/24	4.13%	10.34%	0.36%	56.82
MARKIT CDX.EM.31 06/24	2.55%	8.92%	0.49%	183.74
EUR-USD X-RATE	0.12%	-1.12%	-1.38%	1.07
GBP-USD X-RATE	-0.66%	-1.85%	-2.35%	1.24
CHF-USD X-RATE	0.37%	-1.03%	-5.43%	1.10
USD-JPY X-RATE	0.92%	2.19%	5.27%	154.66
USD-CNY X-RATE	0.03%	0.28%	1.03%	7.24
USD-HKD X-RATE	-0.06%	0.10%	0.19%	7.83
USD-INR X-RATE	0.07%	0.08%	0.52%	83.47
NYMEX Light Sweet Crude Oil	-2.94%	-0.30%	9.32%	82.92
ICE Brent Crude Oil Future	-3.49%	-1.03%	5.96%	86.58
VIX Index	8.09%	43.81%	30.38%	18.71
Gold Spot	2.03%	6.51%	16.45%	2,375.00
Silver Spot	2.91%	13.35%	23.25%	28.30
Palladium Spot	-2.00%	0.91%	4.47%	1,025.81
Bitcoin/USD	1.24%	-8.68%	52.37%	64,696.01
Etherum/USD	2.64%	-13.73%	37.62%	3,134.43

Sources – Various news outlets including Bloomberg, Reuters, Financial Times, FactSet, Associated Press

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