

Morning Market Tidbits

Rebalancing has yet to begin in earnest

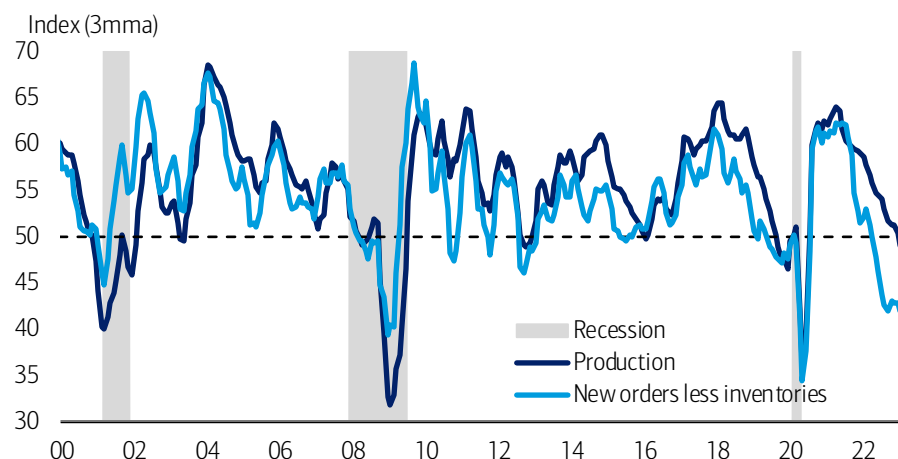
In focus

In our latest [US Economic Weekly](#), we review the effect of inventories on 1Q GDP, and the developments in the May FOMC meeting. Despite the sharp slowdown in inventory accumulation in 1Q, we do not expect a rebound in factory output any time soon (Exhibit 1). The Fed lifted its policy rate to 5.0-5.25% and signaled it is likely to pause its rate hike cycle. That said, the Fed retains an upward bias to the policy rate path and a hike in June cannot be ruled out. (See [Federal Reserve Watch: May FOMC: Fed pause, but no Fed pivot](#)).

In our latest [Global Economic Weekly](#), we address the big macro question on how much economic weakness will be needed to bring inflation under control. Our point is that there has been only limited progress in bringing global inflation down with almost no real pain. While investors are trying to look towards a more normal period ahead, first the rebalancing needs to actually happen.

Exhibit 1: ISM manufacturing index (>=50 equates to expansion)

New orders less inventories still point to lower manufacturing output



Source: Institute of Supply Management, Haver Analytics, BofA Global Research.

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Market action

The Asian equity markets that we cover closed mostly positive overnight. Looking at individual markets, the Korean Kospi was up 0.5%, the Indian Sensex and the Hang Seng added 1.2% each, the Shanghai Composite rose 1.8%. On the flipside, the Nikkei fell 0.7%.

As of 7:00 am ET, aggregate European stocks are up 0.4% and S&P500 futures are up 0.1%. In the bond markets, 10-year Treasury yields are up 2bp to 3.46% and German Bund yields are up 3bp to 2.33%. The dollar is weakening against a basket of other major currencies with the DXY index down 0.1% to \$101.07. WTI crude oil prices are up \$1.76 to \$73.10/bbl, and gold prices are at \$2,024.17/oz. (Continued on next page)

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12555897

Timestamp: 08 May 2023 08:05AM EDT

08 May 2023

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GDP: Gross Domestic Product

FOMC: Federal Open Market
Committee

Data recap

FOMC rates decision

As expected, the Fed lifted its policy rate by 25bp to 5.0-5.25% and signaled it is likely done hiking rates this cycle. That said, additional hikes cannot be ruled out yet and the Fed retains upward bias in its policy rate guidance. The Fed sees inflation as coming down only slowly. Powell cautioned against thinking a pause could turn into a pivot.

Nonfarm payrolls

Nonfarm payrolls topped expectations in April, increasing by 253k. Downward revisions to the prior two months were 149k. Average hourly earnings growth accelerated to 0.5% m/m, and the unemployment rate fell a tenth to 3.4%. It's difficult to argue the labor market cooled. The report reinforces upside risks to the near-term monetary policy path.

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