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# FIS Macro Report

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	Last	Previous	% Change
U.S. Dollar Index	96.87	96.03	0.87%
US/CNY	6.31	6.32	-0.15%
U.S. FOMC Upper Int Rate	0.25	0.25	0
China Repo 7 day	2.10	2.38	-13.33%
Caixin China Manufacturing PMI	50.40	49.10	2.58%
Markit U.S. Manufacturing PMI	53.50	57.90	-8.22%

## Hypothesis of SWIFT Ban Risk - Trades and Financial Risk

With fighting still continuing Russia and Ukraine finally entered into negotiations, although the first round did not seem to reach any significant conclusions. However the market potentially saw these negotiations as a tension easing signal.

The SWIFT ban was the latest financial sanction of the West. Russia accounts for approximately 2% - 3% total global trade amount. This disconnect of the dollar link with Russia could cause financial risk since 80% forex trades and 50% of trades were connected with dollar. Ranking from import value, China accounts for 25% of Russia import, NATO countries were 25-30% of imports. The impact of the ban would likely increase global financial destabilisation and increase inflation if energy exports were disrupted to European countries with Russia being the second largest crude oil exporter as well as the biggest natural gas exporter.

The Russia's outstanding debts totalled 1.215 trillion U.S. dollars. Italy, France, Austria and U.S. are the top four creditor countries totalling slightly less than 70% of the total debt.

Although the short-run impact on inflation seems to become a support driver, however in the long-run if financial appetite shifts to risk adverse, as well as the international trade decrease, commodity markets could see a significant negative impact.

#### A Macro Review over the First Two Months of the Year 2022

Reviewing the first two months of 2022, the market experienced three important stages. The related commodities also shifted to different logics during the period. Investment dynamics shifted from hot portfolio flows to valuations. Historically, the change of these dynamics appeared in the middle of a bear market. For example, Chinese average steel profits were down 19.05% in 2015 compared to previous year. However the realisation on this "hot money to valuation" dynamic shift was only half-way through a bear market period. Major Asian country's steel price slumped to historical lows, with the market realising an investment change early in the first half of 2015. This bear market lasted 18 months, with top steel makers suffering from a continuous loss for 18 months, with mid to small mills vanishing from that point.

Sources: Bloomberg, FIS

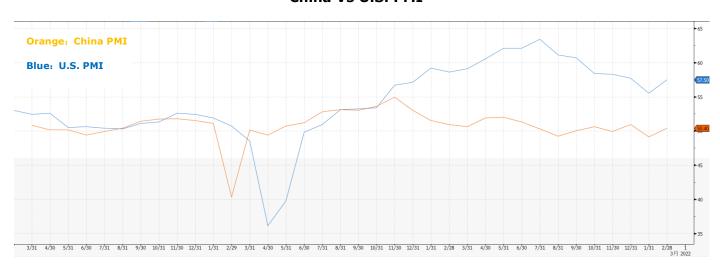
	Last	Previous	
LME Copper 3 Month Rolling	9883.50	9898.00	-0.15%
LME Aluminium 3 Month Rolling	3368.50	3279.50	2.64%
WTI Cushing	95.72	91.07	4.86%
Iron Ore62%	139.50	140.00	-0.36%
U.S. Gold in Dollars	1905.24	1898.64	0.35%
BDI	2040.00	2045.00	-0.25%

### I. Herd Effect (December 22nd to January 10th):

Similar to the first 2 months of 2021, or tQ2 of 2020, commodity market investors recalled the excitement in news headlines of the "Super Bullish Run Cycle", which was yet to be confirmed rigorously from relevant commodity prices or economists after first hearing this statement in mid-2020. Consequently, agricultural, ferrous and petrochemicals created a rough 4-month positive run from that year's October. However investments shifted out concerning after The US Federal Bank proposed a higher than expected interest rate raise path. "Hot Money" is normally sensitive to these macro variables or sudden change on external factors.

#### II. Marginal Investment Decrease (January 11th to February 10th):

The inter-period between Western and Asian New Year is typically a high volatility window for commodity markets historically, with frequent policy changes and systematic risks. The divergence between expectation and reality caused major losses on commodity markets during this period. For example, Chinese investment in infrastructure and housing eased were far beyond expectations compared to last December. Global storms extended the energy shortage risk. However market investments started to shift among sectors instead of an overall irrational euphoria.



China Vs U.S. PMI

Sources: Bloomberg



	Last	Previous	
Shanghai&Shenzhen 300 Index	4592.77	4574.15	0.41%
Dow Jones Industrial Average	33892.60	34079.18	-0.55%
FTSE100	7458.25	7484.33	-0.35%
Nikkei225	26951.80	26910.87	0.15%
U.S. T-Bond 10 Year Yield	1.8388	1.9312	-5.03%
China T-Bond 10 Year Yield	3.0500	3.0700	-0.66%

#### III. Return to Fundamental Market (Mid to Late February):

The unexpected Ukraine-Russia tensions finally broke into war. Multiple Chinese departments investigate to control the false pricing and speculation on iron ore and coals, which successfully resist the imported inflation. Ferrous market calmed fast, as investors started to re-value on some commodities. Commodity investment preference shifted to fundamentals.

#### **Major Commodity Inventory Change**

Chinese imported Russia oil to leverage the cost of expensive western oils. Japan started to increase iron ore inventories and sought alternative sources other than Brazil and Australia, to counter against unexpected shortage on iron ores. European markets started to stock wheat and corns since the major risk is the disruption of grains from road transportation from eastern Europe as well as Black Sea shipping.



Sources: Bloomberg

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