FIS Macro Report

info@freightinvestor.com | freightinvestorservices.com | (+44) 207 090 1120

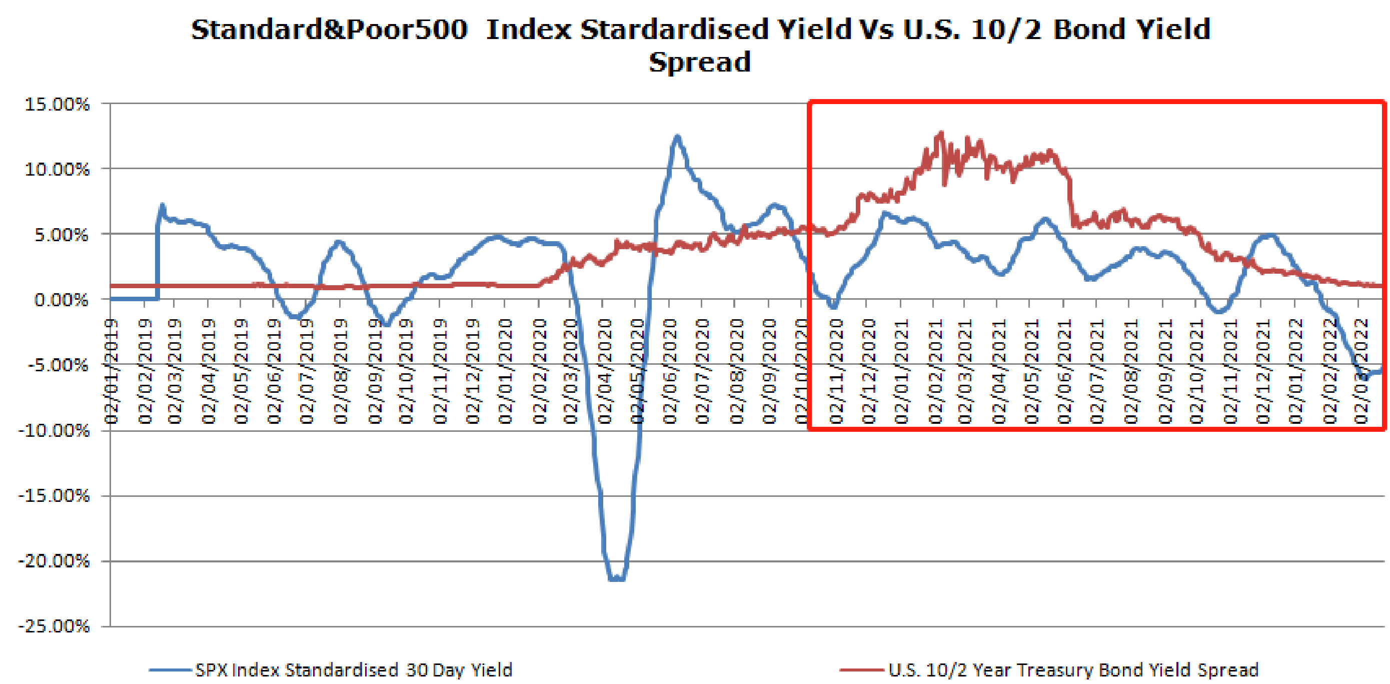
29/3/2022

	Last	Previous	% Change
U.S. Dollar Index	99.07	98.49	**0.58%**
US/CNY	6.38	6.38	**0.09%**
U.S. FOMC Upper Int Rate	0.50	0.25	**N.A.**
China Repo 7 day	3.10	2.18	**29.68%**
Caixin China Manufacturing PMI	50.40	49.10	**2.58%**
Markit U.S. Manufacturing PMI	58.00	53.50	**7.76%**

U.S. Hiking Cycle

The U.S. Fed interest rate expectation is at 3.25% by the year end, potentially meaning that interest rates need to increase by 50 basis points at least 6 times out of the remaining seven FOMC meetings. The alternative way was to stretch out this interest rate increase cycle to maintain a lower impact on the equity market and economy. Although Powell's speech from the last FOMC indicated a potential Fed increase of 50 basis points in the coming meetings, the market still expects a longer rate increase cycle. Tracing back 10 out of the 13 previous U.S. hiking cycles, it took one-year more from the end of hiking cycle to resist the CPI growth. It even took 3 out of 10 hiking cycles more than one year to recover. The cycle analysis potentially indicated that commodity prices in general could maintain relatively strong compared with other assets at least one year after this hike cycle ends. Assuming the U.S. Federal reaches this target in Q2 2023, the according CPI return to healthy levels would be expected in Q2 of 2024.

The interest rate increase in the U.S. has a significant spillover risk for major economies. Investments tend to be withdrawn from emerging market before a hiking cycle. However during the hiking cycle, emerging market investment tends to become stable except countries.



Sources: Bloomberg, FIS

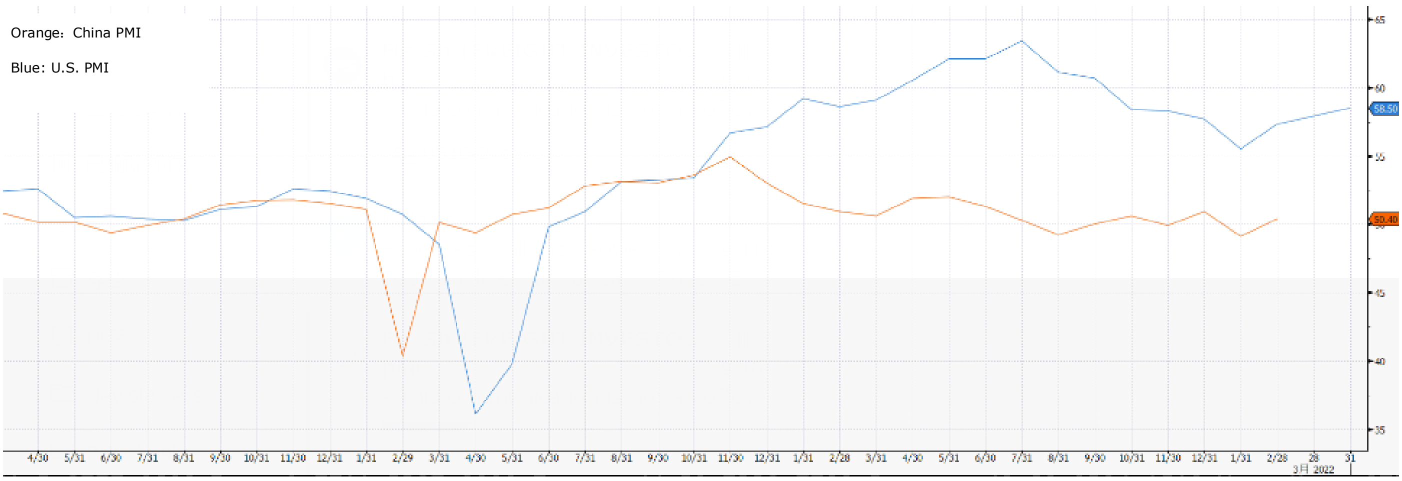
	Last	Previous	
Shanghai&Shenzhen 300 Index	4131.83	4255.30	-2.99%
Dow Jones Industrial Average	34955.89	34552.99	1.15%
FTSE100	7473.14	7442.39	0.41%
Nikkei225	28110.73	27224.11	3.15%
U.S. T-Bond 10 Year Yield	2.4569	2.3156	5.75%
China T-Bond 10 Year Yield	3.0400	3.0800	-1.32%

U.S. Long-Short Term Bond Yield Risk

U.S. 10 year/2 year Treasury Bond Yield difference reached an historical low area at below 0.5%. The major U.S. stock market had yet to see a massive correction even with the geo-political tensions for almost a month, as well as the Hawkish movement from U.S. Federal Reserve. However the standardized 30 day average return showed an increasingly significant positive relationship with the bond yield spread, in particular from Q3 2020. Bond yields narrowing created a signal or confirmation of the weakening of stock returns. As a result, some funds may potentially start to avoid equity markets when they saw stock growth and flattened long/short run bond yield spread, where they value as a divergence.

U.S. Treasury Bond Yield Difference Vs Dow Jones Index

China Vs U.S. PMI



Sources: Bloomberg, FIS

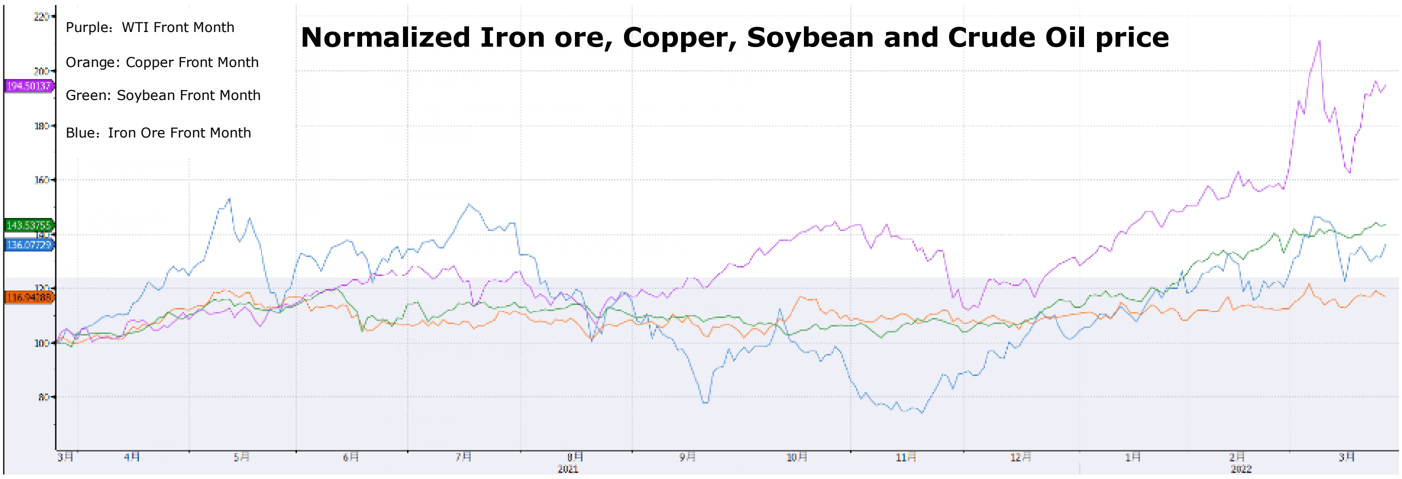
	Last	Previous	
LME Copper 3 Month Rolling	10341.00	10295.00	**0.44%**
LME Aluminium 3 Month Rolling	3614.00	3521.00	**2.57%**
WTI Cushing	105.96	112.12	**-5.81%**
Iron Ore62%	152.50	150.00	**1.64%**
U.S. Gold in Dollars	1926.99	1921.69	**0.28%**
BDI	2484.00	2589.00	**-4.23%**

Impact of China Pandemic

Major areas of China started a “grid management” to screen for potential infected-patients, which effectively found significant numbers of new cases found in the suspected areas under control. The new patients in non-control areas have decreased significantly, however we are yet to see a turning point in Shanghai. The whole country planned to start a bigger round of screening with more isolated testing to avoid data missing in the next 10-20 days, expected to receive better results.

Virus spread has impacted both production and downstream of industrial and retail business for one month, covering major cities which contributed 30 –35% of GDP during the last two years. However the current market reflected that investment markets are confident on the after-pandemic market, when the demand loss is expected to catch up with faster and more efficient supply.

The Chinese semi-finished materials export market could potentially be substituted by other countries for example India, and Asian countries with less impact on the economy. On the other side, U.S. and Europe gradually recovered the production utilisation and are expecting to decrease some imports from China in the next quarter.



Sources：Bloomberg

Written by **Hao Pei**, FIS Senior Research Analyst

Edited by **Chris Hudson**, FIS Communications Director

News@freightinvestor.com, +44 207 090 1120