FIS Macro Report

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

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	Last	Previous	% Change
U.S. Dollar Index	98.98	98.40	0.58%
US/CNY	6.37	6.38	-0.08%
U.S. FOMC Upper Int Rate	0.50	0.50	0
China Repo 7 day	1.82	2.41	-32.42%
Caixin China Manufacturing PMI	48.10	50.40	-4.78%
Markit U.S. Manufacturing PMI	61.40	58.00	5.54%

U.S. Hiking Cycle

Following the last report, we built two hypotheses on different U.S. Federal Reserve decisions: one expected route and one hyperinflation route. The current inflation situation which reached a second historical high was widely compared with the 1970s.

Fed Chairman Walker decided to raise interest rates from 9.5% to 20% during the last four months in 1980 which effectively ended the inflation, but was the consequence of ten years of "mild" monetary policy. U.S. Fed, BOE and European central banks all realised the inflationary risk and started to utilise monetary tools in early stages. However the downside was major economies also printed historic amounts of money.

We assume Powell's plan in normal conditions would mean the interest rate ended at 3.25% by the end of 2022, or double the increased amount at the end of 2023 at 6.25%. The rationale for the worst case was because a 6% interest rate for the two years could potentially control inflation rates at 10-12%, if no more external factors change.

The monthly rates movement was a velocity indicator of the interest rate during the hiking cycle, comparing with the results in the right side column to see how CPI was controlled a year after the hiking cycle ended. Luckily, 100% of inflation was controlled indicated by this table. Unchanged or closed CPI increase rate meant a good result since the delay of CPI increase calculation on real consumer price.

U.S. Hiking Cycle

Hiking Cycle End	Length	U.S. Fed Funds Rate Start	U.S. Fed Funds Rate End	Yearly Rates Movement	U.S. CPI at Rate Increase	U.S. CPI 1 Year after End of Rate Increase
Dec-22	24	0.2500%	6.2500%	3.0000%	6.4000%	*7%
Dec-22	12	0.2500%	3.2500%	3.0000%	6.4000%	*5.5%
Dec-18	36	0.1250%	0.2375%	0.0375%	2.1000%	2.1000%
Jul-06	24	1.0000%	5.2500%	2.1250%	1.9000%	1.8000%
May-00	10	4.7500%	6.5000%	2.1000%	2.1000%	2.5000%
Feb-95	12	3.0000%	6.0000%	3.0000%	2.8000%	3.0000%
Feb-89	11	6.5000%	9.7500%	3.5455%	4.4000%	4.7000%
Sep-87	9	5.8800%	7.2500%	1.8267%	3.8000%	4.2000%
Aug-84	15	8.5000%	11.7500%	2.6000%	3.6000%	5.2000%
Dec-80	4	9.5000%	20.0000%	**31.5000%**	11.8000%	11.6000%
Mar-80	39	4.7500%	20.0000%	**4.6923%**	6.1000%	6.5000%
May-74	26	3.5000%	13.0000%	**4.3846%**	3.3000%	3.0000%
Apr-69	69	3.0000%	6.0000%	0.5217%	1.3000%	1.6000%
Sep-59	12	1.7500%	4.0000%	2.2500%	1.7000%	2.4000%

Sources：Bloomberg, FIS

	Last	Previous	
Shanghai&Shenzhen 300 Index	4276.16	4174.57	2.38%
Dow Jones Industrial Average	34921.88	34955.89	-0.10%
FTSE100	7558.92	7473.14	1.13%
Nikkei225	27715.75	28252.42	-1.94%
U.S. T-Bond 10 Year Yield	2.4081	2.4569	-2.03%
China T-Bond 10 Year Yield	3.0200	3.0600	-1.32%

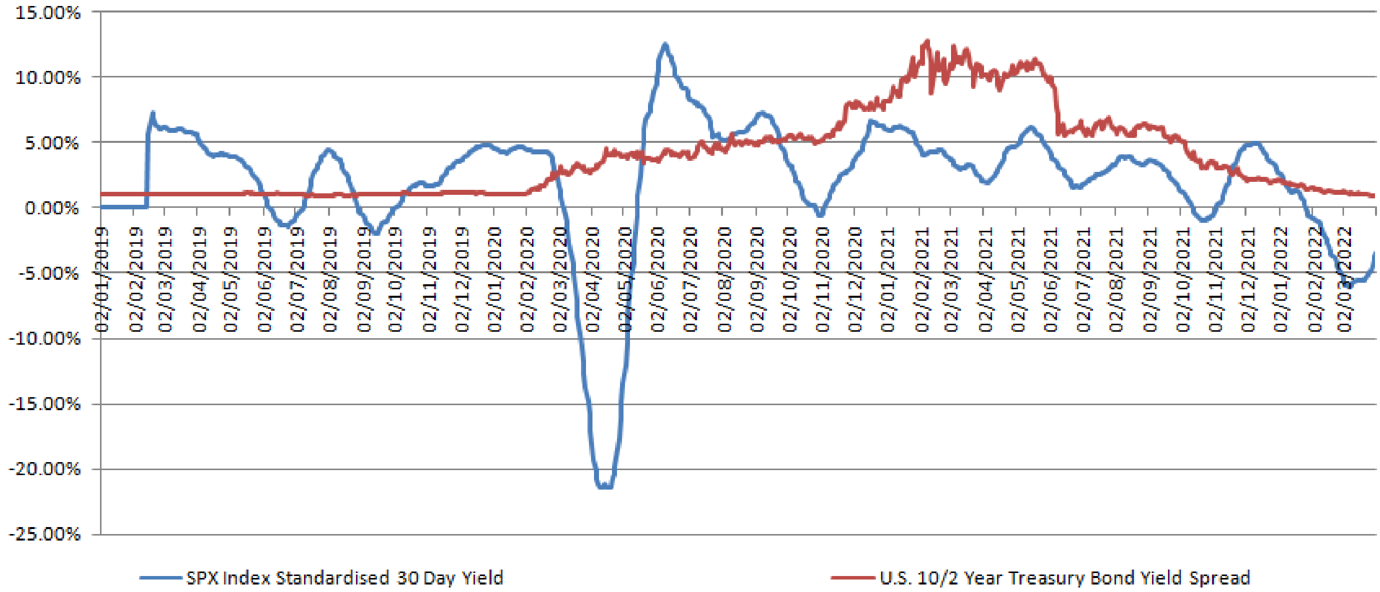
Hiking Cycle (Cont'd)

Eliminating the highest and lowest number on the Yearly Rates movement column, the major range of remaining numbers fell 0.5– 3.5%. Thus, the interest rate increase in 2022 was close to the higher end.

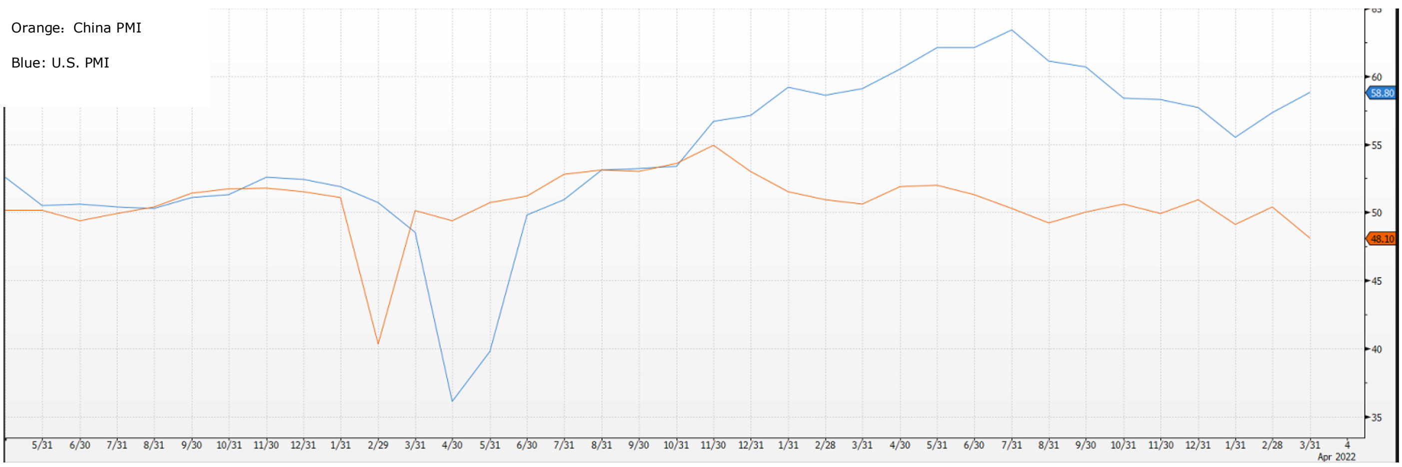
If CPI in the U.S. finally reaches above 12% or below 5% area, then Fed potentially would alter their major decisions which would be not applied to the condition anymore. The Q4 decision in 1980 is not expected to happen so far considering the U.S. and Europe have developed food and necessities supply to prevent regional shortage.

Crude oil, gas, and rest of commodities are expected to become less correlated after the crude oil supply gradually pick up in the next few months as U.S. and OPEC+ promised in last month.

Standard&Poor500 Index Stardardised Yield Vs U.S. 10/2 Bond Yield Spread



China Vs U.S. PMI



Sources: Bloomberg, FIS

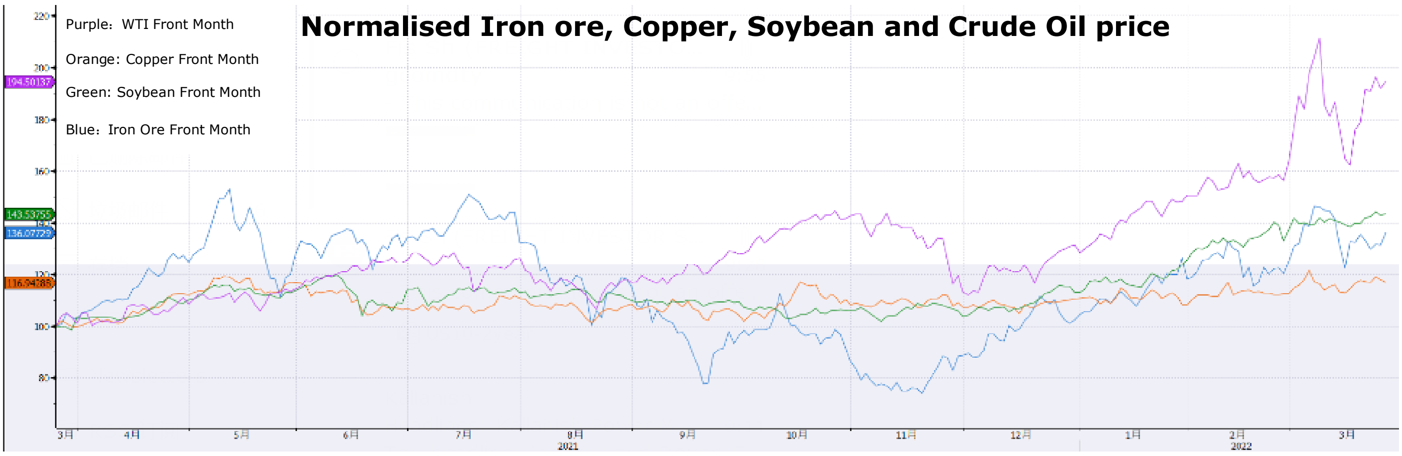
	Last	Previous	
LME Copper 3 Month Rolling	10469.00	10341.00	**1.22%**
LME Aluminium 3 Month Rolling	3447.00	3614.00	**-4.84%**
WTI Cushing	103.28	105.96	**-2.59%**
Iron Ore62%	159.50	152.50	**4.39%**
U.S. Gold in Dollars	1930.60	1919.43	**0.58%**
BDI	2307.00	2484.00	**-7.67%**

Impact of China Pandemic and Loose Housing Strategy

Shanghai entered a few days of an “emergent period” to accelerate screening of residents infected by Omicron varient. Many other Chinese provinces sent support medical and manpower to Shanghai from early April. The change looks like a positive signal by the investor market since a faster solution would mean less impact on economy. However the turning point needs to see a significant decrease in daily new positive cases.

The loosened housing strategy triggered warm sentiment in the housing sector, with a few Chinese housing developers rebounding more than 30% after the relevant news came out. The investor market generally believed that the government would weigh more development instead of a strict control on housing and industrial productions.

However, the strategy also requires a roof on house prices. The stable downstream house prices could potentially squeeze back to upstream materials price in long-run. Since house developers are currently in a dilemma of forced decreasing debt ratios as well as a price cap. The preferential loan rates for house developers are playing limited roles gradually unless they are able to resolve their internal financial risks. House market entered an official size-down period after massive default cases in China last year. The contraction cycle would take up to 10 years from major economy historical examples.



Sources：Bloomberg

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

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

News@freightinvestor.com, +44 207 090 1120