FIS Macro Report

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	Last	Previous	% Change
U.S. Dollar Index	100.94	100.29	0.64%
US/CNY	6.38	6.38	0.10%
U.S. FOMC Upper Int Rate	0.50	0.50	0
China Repo 7 day	1.85	2.00	-8.11%
Caixin China Manufacturing PMI	48.10	50.40	-4.78%
Markit U.S. Manufacturing PMI	61.40	58.00	5.54%

Economy Obstacles in China and U.S.

After a hawkish speech from U.S. Federal Reserve indicating a potential 75 basis points interest rate increase in the coming May, U.S. dollar index DXY reached 101.86, the highest since March of 2020. The only major economy running a loose monetary strategy, the Chinese currency suffered over 1700 basis points depreciation over the last four trading days. Global equity markets encountered its biggest single day loss since early 2020. Internally, the Chinese yuan depreciation to a certain extent revealed the scale of idle money, because of the reluctance of investment and consumption caused by the current pandemic. In long-run depreciation and appreciation of Chinese yuan was adjustable after Chinese foreign exchange reform in 2015.

Chinese PBOC cut foreign exchange deposit ratio by 1% to 8%, which promoted a sell-off in foreign currencies to support its domestic currency. CNH climbed back 389 basis points on the support of the news. In general, its expected that the U.S. dollar would remain strong during the rest of the year since the high interest rate would attract risk-averse investments back to the currency. On the other side, China confronted some investment outflow in the coming months. However many investments abroad have a very complete mechanism to hedge risks of currency and also be able to tolerate high risk compared with domestic companies. As long as no further trade barriers are imposed, China even potentially started to enjoy the some of the benefits of exports. However the biggest obstacle for Chinese economic recovery was still the containment of the pandemic spread.

Normalised Iron ore, Copper, Soybean and Crude Oil price

Sources: Bloomberg, FIS

	Last	Previous	
Shanghai&Shenzhen 300 Index	4150.28	4179.97	-0.72%
Dow Jones Industrial Average	34411.69	34721.12	-0.90%
FTSE100	7616.38	7551.81	0.85%
Nikkei225	26830.82	26334.98	1.85%
U.S. T-Bond 10 Year Yield	2.8675	2.7164	5.27%
China T-Bond 10 Year Yield	3.0400	3.0100	0.99%

Economy Obstacles in China and U.S. (Continued)

China set a target of 5.5% of GDP growth in 2022, followed by the IMF who set a growth expectation of 4.4%. Federal Reserve officials expected the growth rate of the U.S. to be 3% in 2022, and the IMF's expectation is 3.7%. The statistics of IMF clearly placed more weight on the ongoing impact of pandemic growth/impact. Separately, China Q1 GDP was above expectations at 4.8%, even including the impact of pandemic. China set a 5% GDP growth target in Q2, much of which depends on the recovery of manufacturing. The retail and service market expected to recover in Q3. Shanghai downstream market started to recover gradually with the strict close-cycle management. The total number of daily new add patients and perspectives were entering a decreasing trend. The challenge was that several new cases found in Beijing.

In terms of imports and exports, the trade deficit of the United States exceeded 1 trillion dollars in 2021, which set a historical record. As one of the biggest importers on the globe, the large trade deficit of the U.S. also reflected the sharp rise in domestic consumption from the pandemic, which was a positive consequence after the government leveraged an economic stimulus as well as job creation. In 2021, China achieved a year with the largest trade surplus in global history, reaching $676.4 billion. At the critical moment of 2022, many exporters of China would regain competitiveness by the cancellation of trade barriers from U.S. and other importers, along with a certain weakening on the currency which increased the buying power of importers.

Infrastructure was once believed as the best economic stimulus for China and the United States for the previous two years. However several concerns explained the downside of the strategy for the two countries. For U.S., the infrastructure bill encountered many practical problems. The disputes between the two political parties have continued since the beginning of the year 2021. The profitability of the infrastructure projects were much lower than other similar manufacturing business compared with semi-conductors, numerical control machines, or smart product making. The U.S. HRC in April was 70 –75% higher than that of Chinese export HRC. The actual cost of U.S. infrastructure projects during construction could be 2.5 times higher at least due to higher labour and product costs, compared with Asian countries. As a result, local government has very limited motive to commence time-consuming and low return projects.

The China housing investments expected to decrease although the restriction ended. Infrastructure investments increase were not great enough to fill the gap created by housing related investment exit. The only positive news are China issued the earliest amount of infrastructure bill during March and April, which would left more time to develop dynamic investments in pipe network, hydraulic engineering, intelligent facilities and charging hubs. Infrastructure investments become the area to expand monetary multipliers.

Sources：Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	10315.00	10311.50	0.03%
LME Aluminium 3 Month Rolling	3285.50	3385.00	-3.03%
WTI Cushing	108.21	98.26	9.20%
Iron Ore62%	156.50	150.50	3.83%
U.S. Gold in Dollars	1977.69	1966.76	0.55%
BDI	2137.00	2061.00	3.56%

Inflation Control and Global Monetary Policy

U.S. March core CPI created 6.5% growth rate was 0.1% lower than estimation, first time since last September. The curve of core CPI potentially reached a peak area of the year, although nominal CPI just approached the highest over the last forty years. Jobless claim refreshed the lowest for the previous 53 years. Thus, the April U.S. CPI data become very important to the market. A confirm of the reversal would mean the monetary strategy successfully functioned, which would prevent the on-going spill over risk global wise.

European central bank once again in the year mentioned to shift interest rate raise to Q3 from Q4, waiting for the results of inflation control in U.S. and Canada. China market set CPI alert line at 3%, which was 1.1% in Q1, left some room to support the utilisation of monetary ease tools. A breakthrough on the CPI line would mean the government has to reconsider the monetary direction. Japan would announce the new interest rate resolution in the coming Thursday this week.

U.S. Hiking Cycle — an Observation

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

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