

# FIS Macro Report

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	Last	Previous	
U.S Dollar Index (DXY)	103.57	103.47	0.10%
US/CNY	6.74	6.65	1.35%
U.S. FOMC Upper Interest Rate	1.00	0.50	100%
China Repo 7 Day	1.65	2.02	-18.32%
Caixin China Manufacturing PMI	46.00	48.10	-4.37%
Markit U.S. Manufacturing PMI	59.40	61.40	-3.26%

## U.S. Hiking Cycle and Inflation

CME FedWatch indicated that the probability of an interest rate increase by 75 basis points in June has risen to 83%, although the Chairman of U.S. Federal Bank Jerome Powell indicated that a 75 basis points increase was not an option in the FOMC meeting a day earlier. During the last two trading days of last week, U.S. equities were on a roller-coaster ride. Similarly, metals and oil commodities rebounded after the last FOMC meeting, however, they gave back most of their gains following the bad news from FedWatch. Uncertainty in geopolitics has become the biggest variable in investment markets, outweighing fundamental dynamics in 2022.

The inflation spill over risk originating from large economies has led to the collapse of countries with limited resources and large dollar reserves. An early signal of this could be seen in South America and ASEAN countries in 2021 when some countries struggled with energy shortages, as well as significant currency depreciation. China and Japan luckily averted most of the imported inflation by finding alternative import resources including coal, oil, and natural gas, and releasing national reserves. Inflation rates are expected to slow down as the U.S. core CPI was almost flat in February and March at 6.4% and 6.5% respectively, which indicated that the inflation was approaching a peak with slower growth rates forecasted. U.S. PPI, a leading indicator of inflation level, had refreshed a 10-year-high in March at 11.2% y-o-y (February 10%).

## U.S. Hiking Cycle Observation

Hiking Cycle End	Length	U.S. Fed Funds Rate Start	U.S. Fed Funds Rate End	Average Yearly Rates Movement	U.S. CPI at Rate Increase	U.S. CPI 1 Year after End of Rate Increase
Dec-22	24	0.2500%	4.7500%	2.2500%	8.5000%	*6%
Dec-22	12	0.2500%	2.5000%	2.2500%	8.5000%	*4%
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	3877.44	4016.24	-3.46%
Dow Jones Industrial Average	32245.70	33061.50	-2.47%
FTSE 100 Index	7216.58	7544.55	-4.35%
Nikkei 225 Index	26319.34	26818.53	-1.86%
BVAL U.S. 10-Year Note Yield	3.04	3.00	1.33%
BVAL China 10-Year Note Yield	2.90	2.91	-0.34%

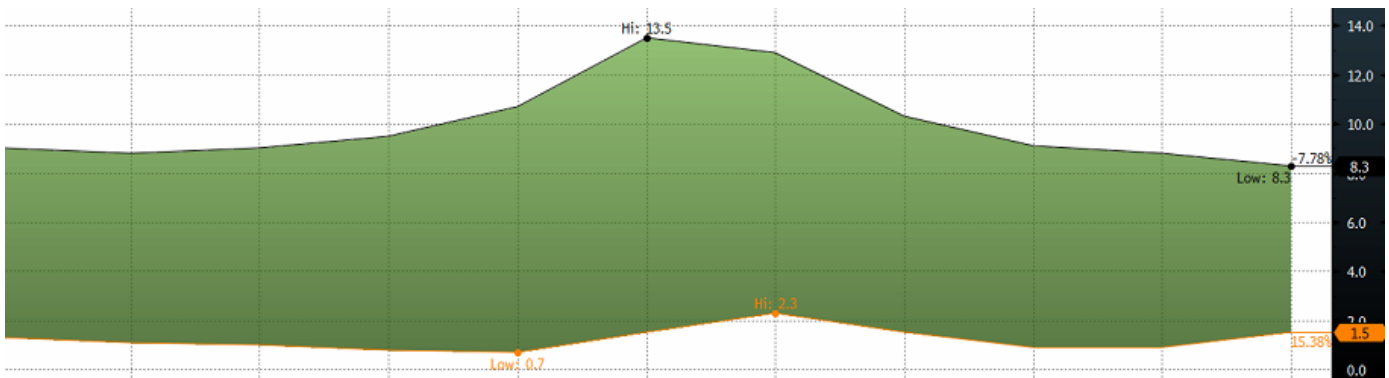
## U.S. Hiking Cycle and Inflation (Cont'd)

The reversal of the inflation cooling normally needs to confirm with a narrowing of the PPI and CPI spread. For example, Chinese inflation was believed to be under control with five months of decreases in the PPI—CPI difference. However, the impact of the pandemic in China significantly increased consumer prices, which was then reflected in the official statistics in April and May this year. Thus, the global investment market is currently waiting for a PPI-CPI difference narrowing in the U.S. alongside inflationary control with a tighter monetary policy before making any further investments.

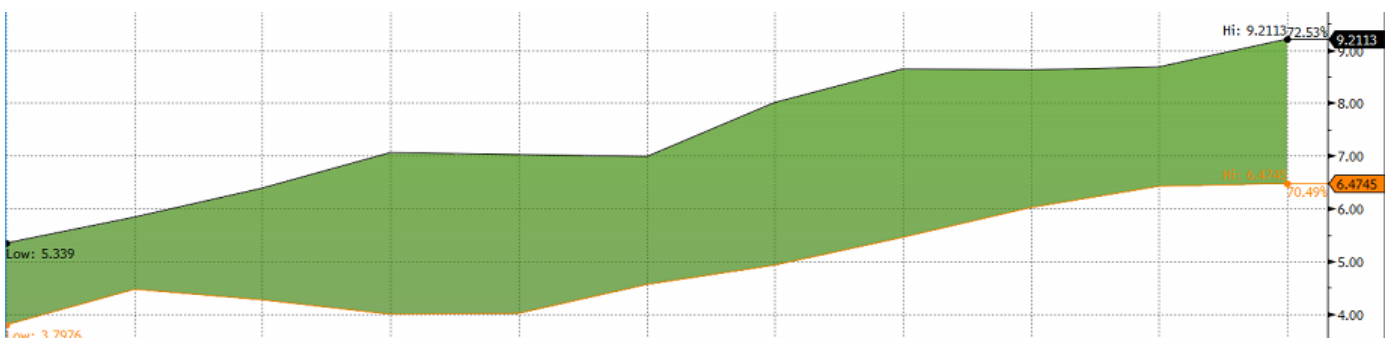
Eurostat March statistics indicated that the Turkish inflation rate has reached 61% while Russia reached 14.5%. The following countries were ranked at the top of the inflationary scale with Lithuania, Estonia, Czech Republic, and the Netherlands at 15.6%, 14.8%, 12.7%, and 11.9% respectively.

The tightening of monetary strategy, diversifying of import resources, and the adjustments to the dollar reserve are important tools for global governments to bring inflation under control. Capital controls are becoming a considered alternative to capital flow, considering the Efficient Markets Hypothesis was less efficient in the current divided world.

**China PPI—CPI(excl. Food and Energy)**



**U.S. PPI—CPI(excl. Food and Energy)**



Sources: Bloomberg, FIS

	Last	Previous	% Change
LME Copper 3 Month Rolling	9237.50	9769.50	-5.45%
LME Aluminium 3 Month Rolling	2755.00	3052.50	-9.75%
WTI Cushing Crude Oil	103.09	105.17	-1.98%
Platts Iron Ore Fe62%	131.35	142.00	-7.50%
U.S. Gold Physical	1863.36	1868.12	-0.25%
BDI	2831.00	2404.00	17.76%

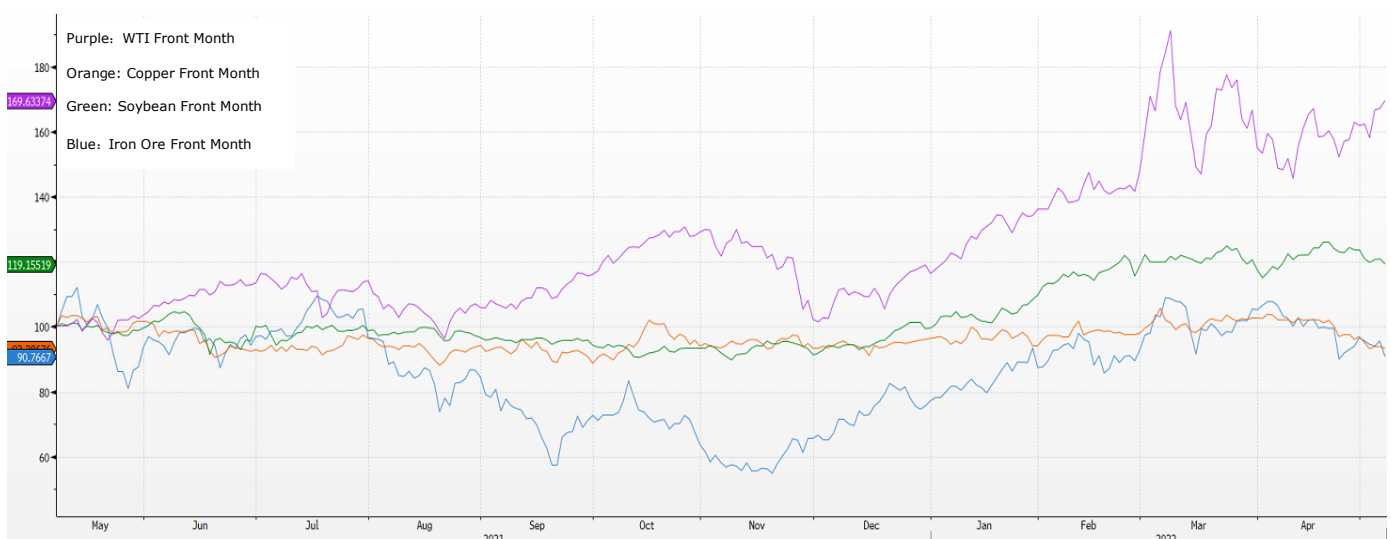
## Commodity Dynamics Change

The EU started to set up a timeline to end oil imports from Russia, which drove up WTI crude oil to \$110. The sanctions' impact on crude oil may become less significant as it retreats from the highs of \$130 in early March. The high oil and natural gas cost have increased refining, shipping, and general input costs for the industrial supply chain, and it seems it would be difficult to decrease global inflation to the 2019 level without resolving the high cost of energy products.

The World Food Programme (WFP) has had difficulty providing food to about 125 million people, as inflationary pressures have created the worst 'food crisis' since World War II. The war in Ukraine has significantly decreased the planting area in Ukraine. However, Australia and India increased their annual guidance for wheat export by 300% and 150% respectively. India exported 7.85 million tons of wheat in FY2021, a 275% growth compared with FY2020. The World Bank expected a 22.9% growth in grain prices in 2022, and there had already been a 31% increase in 2021. International Grains Council (IGC) indicated that global food reserves have shrunk for the fifth consecutive year. The war will further increase global food prices and hunger to unprecedented levels. The quantity is not the only reason causing this difficult situation, as high prices dulled the interest of net importers of grains including Bangladesh, Egypt, Lebanon, Libya, Pakistan, Tunisia, Turkey, and Yemen.

Infrastructure projects were difficult to promote in some areas in developed countries because of the longer cycle of accounts receivables, high cost, and lower wages compared with advanced manufacturers and the service industry. Iron ores delivery volumes are expected to increase significantly in Q2 as big miners started to implement the sales revenue on the annual report. U.S. scrap export market was softened after seeing the European importers were decreasing the sizes and shifting demand to later months.

## Normalised Iron ore, Copper, Soybean and Crude Oil price



Sources: Bloomberg, FIS

## Commodity Dynamics Change (Cont'd)

Coal was in a tight supply, as most exporters started to see some interest from international buyers including China, Japan, and India. However, Indonesia started to decrease exports to guarantee domestic consumption. The increase in seaborne coal trades narrowed down the price difference among dynamic sellers worldwide.

### —Fact Sheet—

**EMH: Efficient Market Hypothesis:** proposed by Eugene Fama in 1970, Economist, and Nobel Prize Winner in 2013. The EMH believed that in the stock market with sound laws, good functions, high transparency, and full competition, all valuable information should be timely, accurate, and fully reflected in the stock price trend. Unless there is market manipulation, it is impossible for investors to obtain excess profits higher than the average level of the market.

**Eurostat:** is the highest administrative body of EU statistics, located in Luxembourg. The statistical system consists of Eurostat, statistical institutions, and central banks of EU Member States, Iceland, Norway, and Liechtenstein.

**FedWatch:** CME Group's FedWatch tool allows investors to gauge the market's expectations of a potential change quickly and efficiently to the Fed Funds target rate.

**Lagging Economic Indicators:** refers to the time lag of the indicator relative to the economic cycle. For example, if the peak or bottom of an indicator is several months behind the peak or bottom of the natural economic cycle, the indicator is called a lagging indicator. The common examples are the unemployment rate, materials inventory, and the scale of uncollected loans.

**Leading Economic Indicators:** Indicators that make forecasts on economic trends. The most common indicators are unemployment insurance application rate, money supply, weekly average working hours, new house construction rate, and stock index trend.

**U.S. Hiking Cycle:** refers to the decision of the Management Committee of the Federal Reserve System to adjust the monetary policy and raise the federal fund's interest rate after the meeting held in Washington.

**Stagflation:** an economic situation where there is high inflation (prices rising continuously) but no increase in the jobs that are available or in business activity.

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