

# FIS Macro Report

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

17/5/2022

	Last	Previous	% Change
<b>U.S. Dollar Index(DXY)</b>	104.23	103.92	0.29%
<b>USD/CNY</b>	6.79	6.75	0.60%
<b>U.S. FOMC Upper Interest Rate</b>	1.00	0.50	100.00%
<b>China Repo 7 day</b>	1.60	1.65	-3.03%
<b>Caixin China Manufacturing PMI</b>	46.00	48.10	-4.37%
<b>Markit U.S. Manufacturing PMI</b>	59.40	61.40	-3.26%

## The Global Infrastructure Time

Since the start of the pandemic in 2020, many economies around the world have entered a new cycle of increased infrastructure spending. Why is infrastructure so important? Historically, large scale infrastructure construction became the most effective solution for big economies to recover after a recession. Infrastructure projects increased employment, improved incomes, balanced capacity, and consumption of materials, and promoted the development of industries and their related sub-industries. In the last four years, infrastructure became an option to resolve some problems caused by inflation, such as decreasing structural unemployment, accelerating investment activities, rebalancing the import and export materials, and increasing the money flow between commercial banks and enterprises.

Infrastructure construction created a firm foundation for multiple industries and even supported the services sector. According to a report from McKinsey Global Institute (GMI), \$1 of infrastructure investment will bring an increase of 20 cents to GDP. Every 1 percent increase in the proportion of infrastructure investment in GDP will create employment opportunities for 3.4 million, 1.5 million, 1.3 million and 700,000 people in India, the United States, Brazil, and Indonesia respectively.

China has entered a new infrastructure cycle from the fourth quarter of 2018. A normal infrastructure cycle usually lasts five years, considering the project's construction length and the tenures of local governors. The annual investment growth rate reached 7-8% during the last two years. The growth rate was far from the compound 18% growth rate in 2012-2016 because the infrastructure from 2020 included the replacement of traditional projects with new projects including advanced technology. China has passed the expansion cycle on infrastructure. Traditional infrastructure mainly covered transportation, water conservancy, electric power, municipal engineering, industrial parks, and other fields. The new infrastructure mainly covered 5G, UHV, intercity highway and rail transit, big data centres etc. The growth rate of traditional infrastructure may be stable or unchanged in the near future. The scale of new infrastructure is relatively small, accounting for some 8% of the total infrastructure sector. However, the compound growth rate can reach as much as 20% annually. The scale effect should appear in five years when the proportion of new infrastructure reaches around 20% of the whole infrastructure sector. In summary, the whole infrastructure industry growth rate increase has not been enough to replace the diminishing role of the housing construction market. Apart from the growth figures, modern infrastructure projects improved the job market and stimulated capital investment. Strengthening new infrastructure will undoubtedly become a decade-long mission for the China Government.

Sources: Bloomberg, FIS

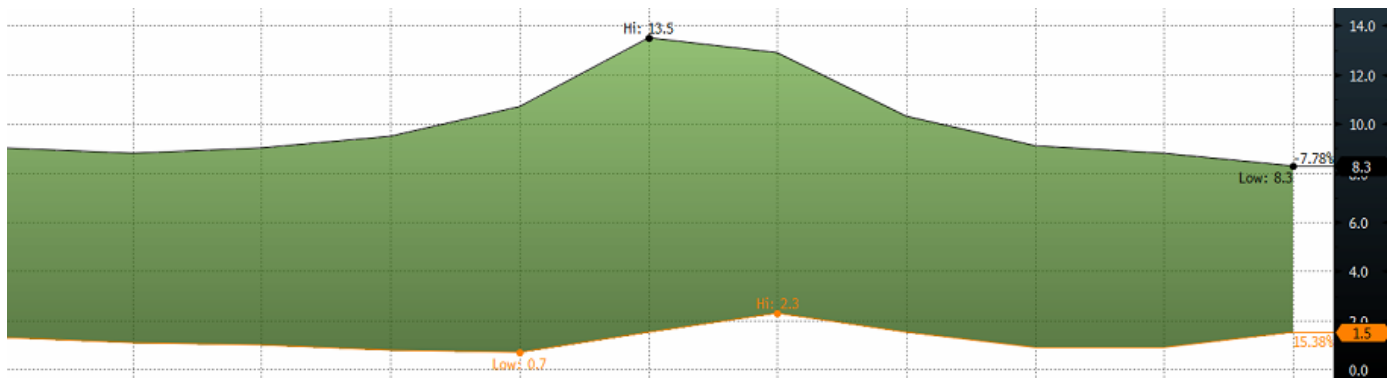
	Last	Previous	
Shanghai & Shenzhen 300 Index	3956.54	3877.44	2.04%
Dow Jones Industrial Average	32223.42	32245.70	-0.07%
FTSE 100 Index	7464.80	7216.58	3.44%
Nikkei 225 Index	44698.00	44690.00	0.02%
BVAL U.S. 10-Year Note Yield	2.90	3.04	-4.61%
BVAL China 10-Year Note Yield	2.90	2.90	0%

## The Global Infrastructure Time (Cont'd)

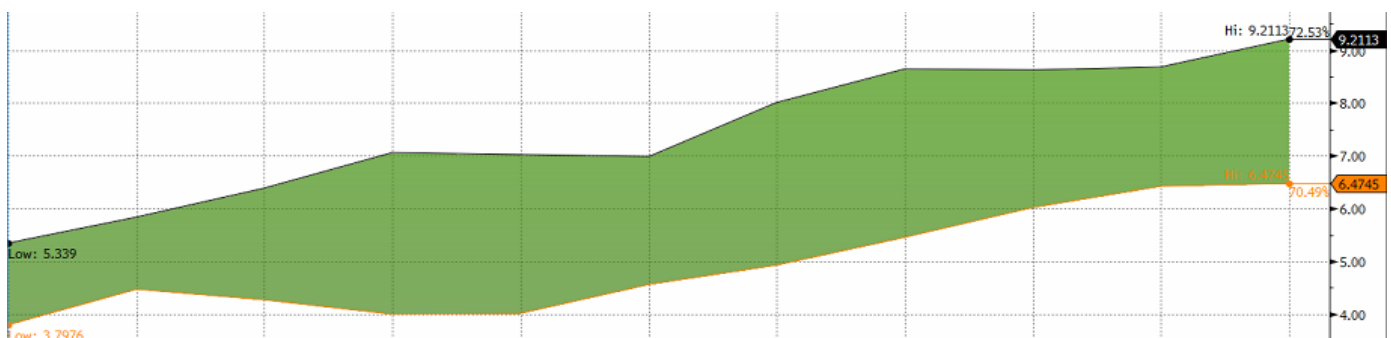
The beginning of infrastructure construction in ASEAN countries can be traced back from 7-8 years, many involving international cooperation. Japan helped to establish unique high-quality projects in Thailand and Vietnam, which naturally avoided competition and imitation. China's cooperation in Southeast Asia included long investment cycles and cheap materials. China has sought opportunities for trilateral cooperation with Japan and ASEAN countries in recent years, particularly on green energy projects including wind and photovoltaic. There are huge infrastructure projects and resultant prosperity has been concentrated in metropolitan areas. For example, Hanoi and Ho Chi Minh have been the major centres of investment in Vietnam. The two cities account for 42% of Vietnam's GDP and took more than 80% of infrastructure investment. These areas have significant space to build stations, highways, and data centres backed by a strong GDP base. The downside of the current development in infrastructure in many South-eastern countries is that private participation only contributes 20% of funding, lower than the 40% envisaged by the original projects. The governments need to diversify investment venues including the issuance of specialised debt instruments.

Historically, the U.S. was the biggest infrastructure nation on the globe, while this number retreated to the 13th in 2021—the lowest rank among the largest economies.

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



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



Sources: Bloomberg, FIS

	Last	Previous	
<b>LME Copper 3 Month Rolling</b>	9238.50	9237.50	<b>0.01%</b>
<b>LME Aluminium 3 Month Rolling</b>	2832.00	2755.00	<b>2.79%</b>
<b>WTI Cushing Crude Oil</b>	114.20	103.09	<b>10.78%</b>
<b>Platts Iron Ore Fe62%</b>	127.35	131.35	<b>-3.05%</b>
<b>U.S. Gold Physical</b>	1822.44	1838.27	<b>-0.86%</b>
<b>BDI</b>	3085.00	2831.00	<b>8.97%</b>

## The Global Infrastructure Time (Cont'd)

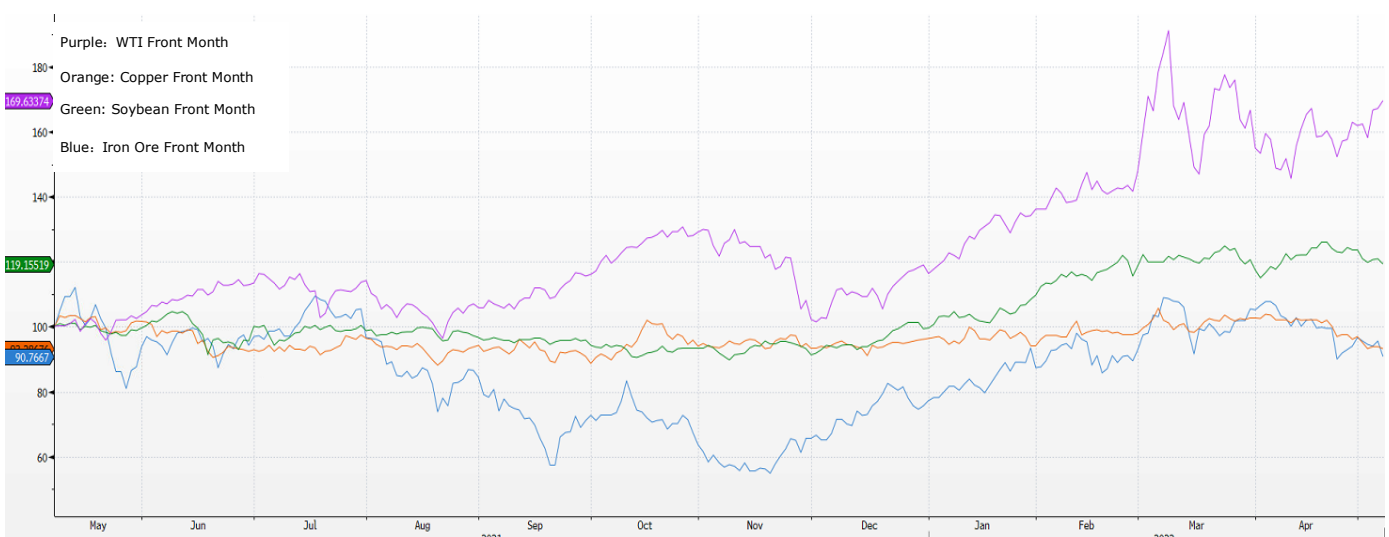
U.S. president Joseph Biden saw the opportunity to recover the economy from stagflation by signing up a prehistorical infrastructure bill with \$1.2 trillion, symbolising that the country had entered one of the three biggest infrastructure cycles in U.S. history. The early stage of projects includes road reconstruction and municipal facilities refurbishment.

There were some difficulties encountered as stated in a few previous reports, as the beginning of the infrastructure cycle coincided with the high price and lack of raw materials. Moreover, the traditional industries were less attractive to the younger generation. Some local governments were reluctant to cooperate with decade-long projects because the investors were looking for smaller investment cycles. Good news came over that the Marine Administration of the U.S. Department announced an additional appropriation, with a record \$234 million assigned to port-related projects. In the long run, with the reduction of inflation and trade barriers, infrastructure investment is expected to accelerate, boosting the economy.

## The Global PMI Brief

The Eurozone manufacturing PMI fell to 55.3 in April, falling for a third consecutive month and hitting a 15-month low. The decline was mainly due to the decrease in consumption and capacity after high inflation. The Eurozone PMI is expected to meet further pressure after the tightening of interest rate policy in H2 2022.

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



Sources: Bloomberg, FIS

## The Global PMI Brief (Cont'd)

U.S. manufacturing PMI was 55.4 in April, having fallen for two consecutive months. Although industrial activities recovered significantly in 2022, labour shortages and inflation inhibited the development of the industry.

In April, China's Caixin manufacturing PMI decreased to 46, and the Caixin service industry also decreased to 36.2 in April, both fell to the lowest level since the beginning of the global pandemic. The manufacturing industry declined due to the lockdown in China. However, the PMI is expected to rebound rapidly after the resumption of work in May and June. The sharp contraction of the service industry has mainly been caused by the significant reduction of residents' demand during the lockdown. The return of the service industry requires a higher improvement of economic activity in Q3.

### —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.

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

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

News@freightinvestor.com, +44 207 090 1120