FIS Macro Report

24/5/2022

	Last	Previous	% Change
U.S. Dollar Index(DXY)	102.08	104.19	-2.03%
USD/CNY	6.66	6.74	-1.19%
U.S. FOMC Upper Interest Rate	1.00	0.50	100.00%
China Repo 7 day	1.60	1.65	-3.03%
Caixin China Manufacturing PMI	46.00	48.10	-4.37%
Markit U.S. Manufacturing PMI	59.40	61.40	-3.26%

Stimulus of China House Market

China unexpectedly cut its 5-year loan prime rate (LPR) by 20 basis points last week, the biggest single decrease since the LPR mechanism was introduced in 2019. China has adopted a series of strategies to save the housing market from a downturn and housing stocks have picked up significantly during the previous three weeks.

Housing market participants including developers, house buyers, and local governors believed that the housing market has moved from a "policy bottom" to a "market bottom". The annual growth rate of new commercial housing prices showed the first negative growth in April, something not seen since November 2015. On the other side, land purchases and prices inclined significantly in April and early May, with land sales gradually concentrating in Tier 1 cities. The entire housing market and subsidiary investments are estimated to make up around 30% of GDP. Saving the house market has become the most reliable tool to realise the government's target growth rate after the early Q2 economy was impacted by the pandemic and lockdown controls, global investment outflow, competitive exporters who had recovered from the pandemic, and thin industrial profits.

The decrease on the deferred LPR decreased long-run lending capital. According to observations in big economies including U.S., Japan and India, the short-term housing market policies have been poorly correlated to the direct investment market. Thus, the futures and equity market could potentially over -interpret the news in the short run. The housing market could take as long as a decade to entirely recover to its pre-pandemic investment appetite, especially when considering the natural cycle of the housing market.

Although China prevented the hard-landing, there are few concerns to restrict the prospect of the housing market in the long run.
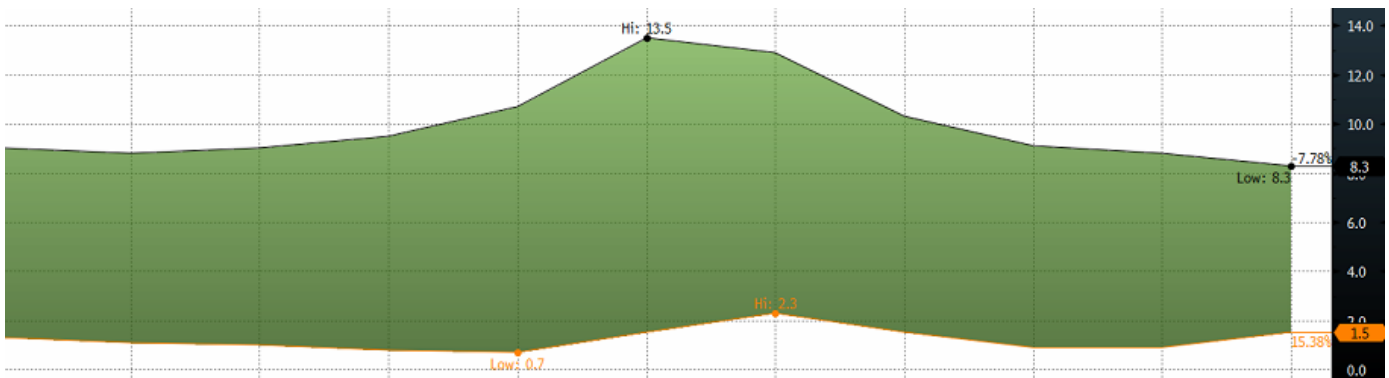
Sources：Bloomberg, FIS

	Last	Previous	
Shanghai&Shenzhen 300 Index	4077.60	3988.60	2.23%
Dow Jones Industrial Average	31880.24	32223.42	-1.07%
FTSE 100 Index	7513.44	7464.80	0.65%
Nikkei 225 Index	26739.03	26427.65	1.18%
BVAL U.S. 10-year Note Yield	2.8750	2.9010	-0.90%
BVAL China 10-year Note Yield	2.8694	2.8972	-0.96%

Stimulus of China House Market(Cont'd)

1. 1. China's average housing area per capita raised to 45-50 square meters, approaching the top end of the scale across the world.

2. 2. Chinese house sizes increased approximately 8 times over when evaluating from benchmark areas over the past 20 years. A housing cycle normally covers 25–30 years.

3. 3. An ageing population will account for 30% by 2030. The ageing issue has the potential to restrict new house buying in the next generation.

4. 4. The cumulative housing property inventories reached 600 million square metres during the year 2021, however with around 20% of these units being empty, it would suggest they are purchased purely for investment. The flat or decreasing house prices in non-Tier 1 cities are increasing pressure for investors to seek higher returns in other investments.

China PPI—CPI

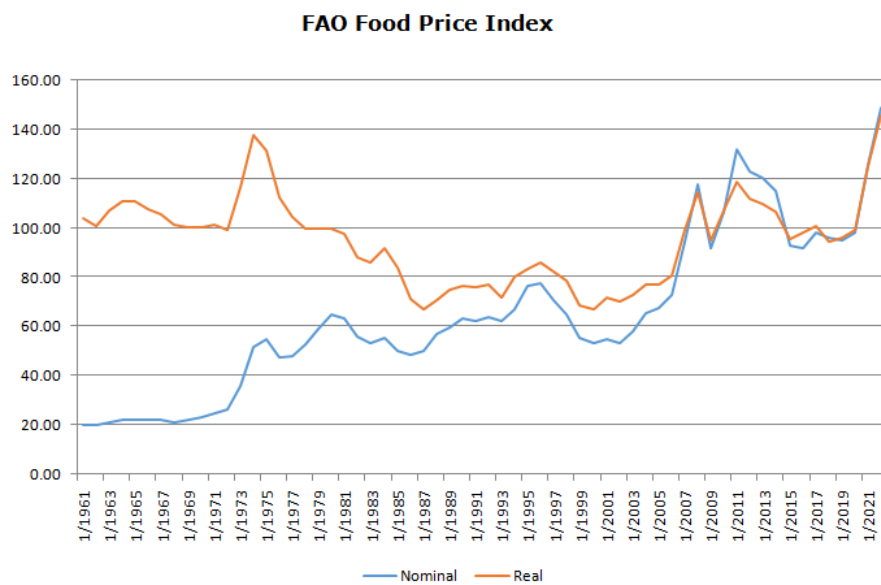**U.S. PPI—CPI(excl. Food and Energy)**
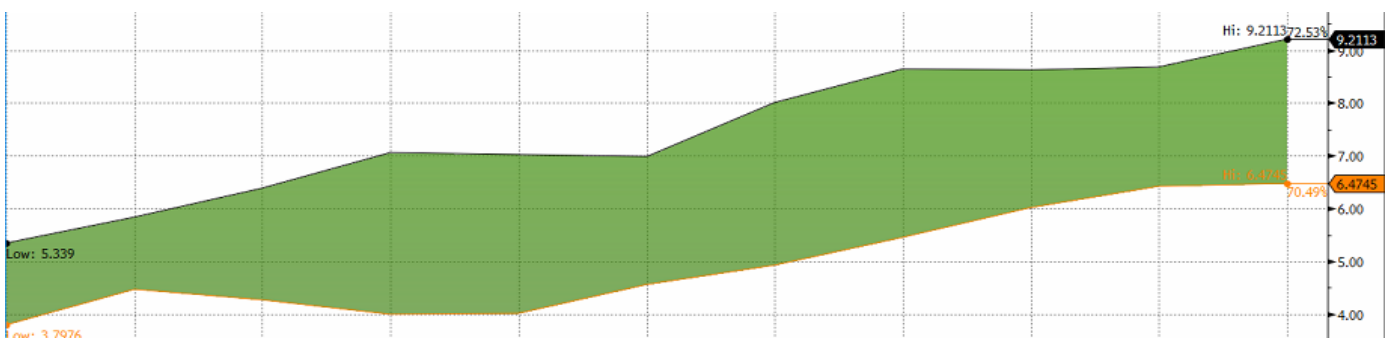
Sources：Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	9422.00	9159.00	2.87%
LME Aluminium 3 Month Rolling	2946.00	2788.00	5.67%
WTI Cushing Crude Oil	113.04	114.20	-1.02%
Platts Iron Ore Fe62%	135.95	127.35	6.75%
U.S. Gold Physical	1854.05	1815.16	2.14%
BDI	3344.00	3104.00	7.73%

The Commodity Dynamics and Logics

The crude oil market is gradually becoming less sensitive to the endless Ukraine war and sanctions, as WTI price moved along in a stable range between $92– 115. The correlation between crude oil and refined oil has become less significant over the last two weeks. Investments could shift among the oil-chemical chain instead of buying the whole basket.

FAO Food Price Index once rebounded 75% in March over the past two years, its fastest growth, and the highest level in history. The initial drivers of high grain prices have been the trade barriers caused by war and sanctions, the pandemic spread, and the prehistoric oversupply of the dollar as the major settlement currency for grains. Fortunately, the pandemic recovery worldwide and tight monetary policy should help to reverse this extreme trend on grains. However, it might not apply to different products and areas. Structurally and regionally the shortages have no quick fix solution on the table yet.

FAO Food Price Index

Normalised Iron ore, Copper, Soybean and Crude Oil price

Purple: WTI Front Month

Orange: Copper Front Month

Green: Soybean Front Month

Blue: Iron Ore Front Month
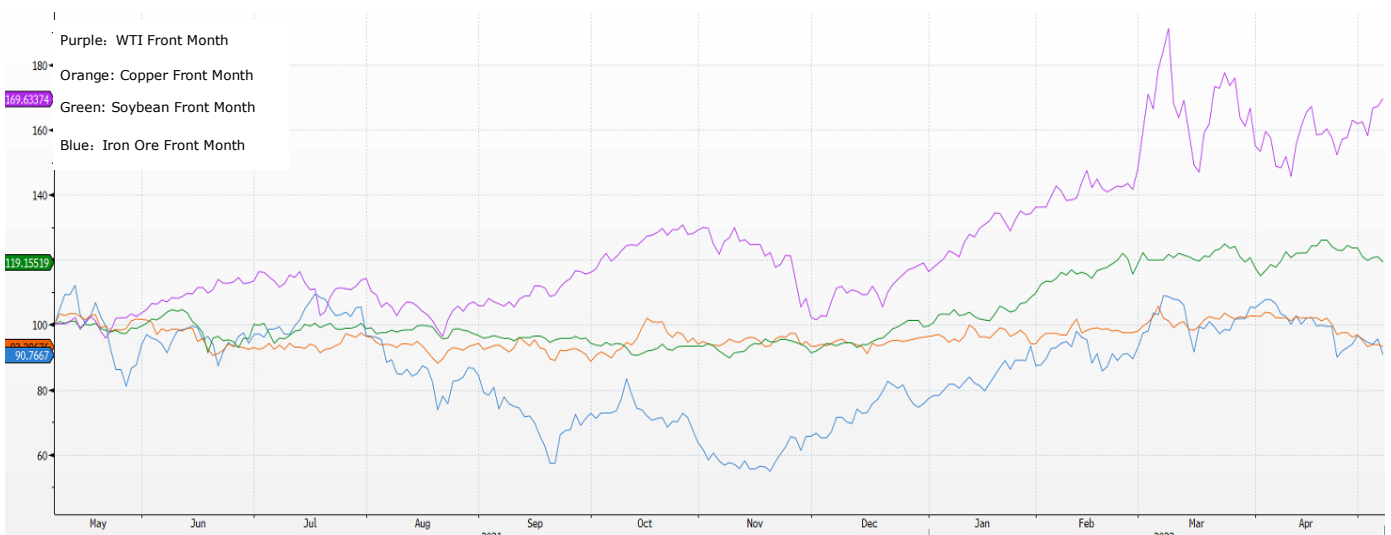
Sources：Bloomberg, FIS

—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