FIS

Macro Report

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	Last	Previous	% Change
U.S. Dollar Index(DXY)	101.67	101.86	-0.18%
USD/CNY	6.68	6.66	0.30%
U.S. FOMC Upper Interest Rate	1.00	0.50	100.00%
China Repo 7 day	1.86	1.64	13.41%
Caixin China Manufacturing PMI	46.00	48.10	-4.37%
Markit U.S. Manufacturing PMI	59.40	61.40	-3.26%

U.S. Inflation and the FOMC

The U.S. Federal Bank strategy became clearer after the FOMC conference was held last week. Most attendees believed that it would be appropriate to increase the interest rate by 50 basis points in the next few monetary conferences. According to CME FedWatch, the probability of a rate hike by 50 basis points in June reached 93.3%, unchanged from the previous week. At the same time, the expectation of a 75 basis points rate hike fell to 6.4%, significantly down from 16% the previous week. The probability of a 25bp hike rose by 30% to 59.6% in July. The expectation of a monetary shift from "Hawkish" to "Dovish" is expected within three weeks, indicating that the U.S. Fed was confident of controlling inflation effectively with its current monetary decisions. S&P500 Index recovered by 9.15% from a 14-month low on May 20th. However, the Commodity Research Bureau Index was still refreshing a 10-year high at 320.52—more than triple the low created in March 2020. Thus, there is still a big disparity between reality and expectation.

U.S. Hiking Cycle

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%	3.8000%	1.7750%	8.5000%	*2.3%
Dec-22	12	0.2500%	1.9000%	1.6500%	8.5000%	*2.3%
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	4029.02	4053.98	**-0.62%**
Dow Jones Industrial Average	33212.96	31261.90	**6.24%**
FTSE 100 Index	7600.06	7513.44	**1.15%**
Nikkei 225 Index	27369.43	27001.52	**1.36%**
BVAL U.S. 10-year Note Yield	2.75	2.80	**-1.76%**
BVAL China 10-year Note Yield	2.83	2.87	**-1.38%**

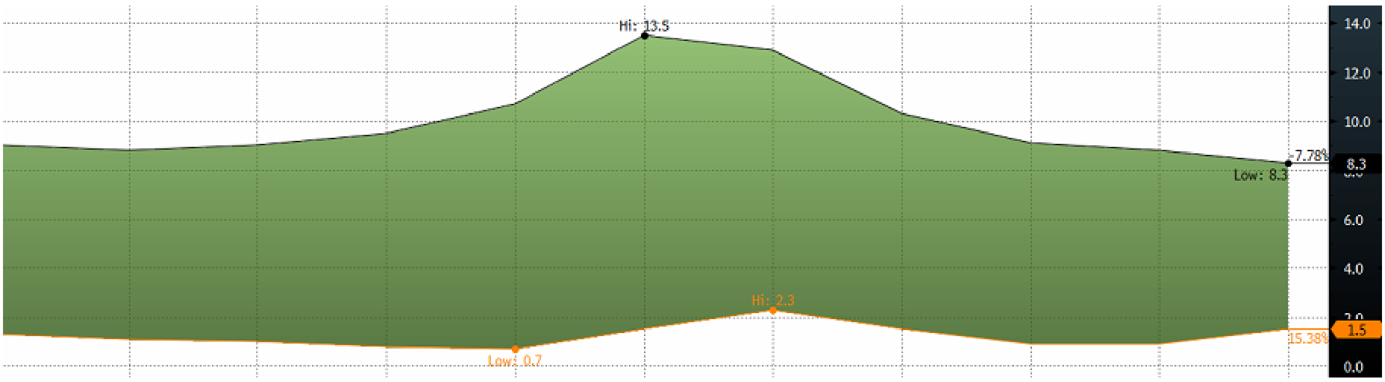
U.S. Inflation and the May FOMC (Cont'd)

The hiking cycle chart on the previous page indicates that core inflation is expected to reach 2.3% in 2023, with two inflation rate increases by 50 basis points in 2022. The final inflation target would maintain around 2% from 2024–2026 as predicted by CBO.

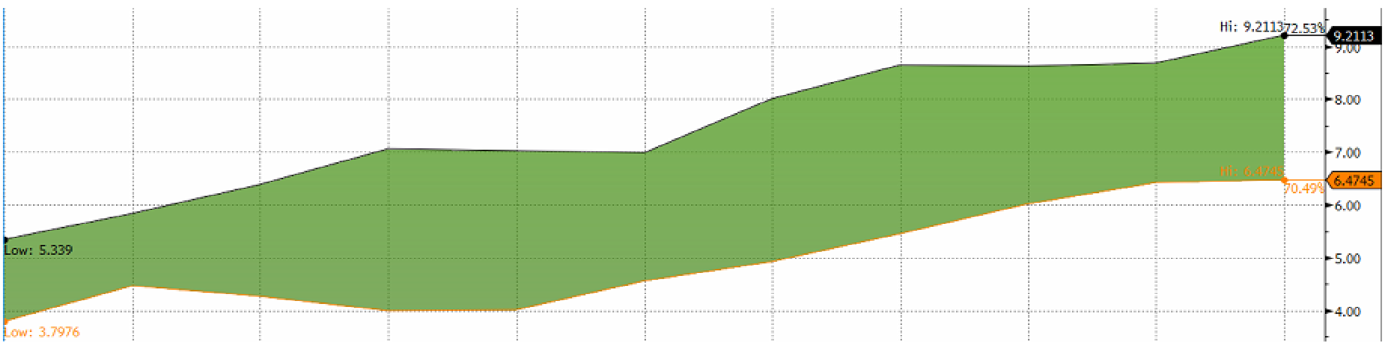
Although investment preferences shifted from equities to commodities during the year, a recession was gradually becoming a lower threat this year after the U.S. Fed eliminated the possibility of a single 75 basis points increase. The average annual increase of interest rates was at a moderate level if we scroll back over the past twelve hiking cycles illustrated in the table. The slower movement on rate changes has calmed fears of a long-run capital outflow. Core CPI saw its first correction by 0.2% in April, which was believed as a sign of a reversal on inflation growth.

Germany's inflation rate reached 7.9% in May, a record high. Imported inflation from commodities would keep impacting Europe and CIS countries unless there is a crucial change in sanctions or energy policies. Asian countries gradually recovered from high inflation due to less aggressive monetary policies from China, Japan, and Vietnam, stabilising currencies and helping PMIs recover in May.

China PPI—CPI



U.S. PPI—CPI(excl. Food and Energy)



Sources: Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	9543.00	9548.00	-0.05%
LME Aluminium 3 Month Rolling	2888.50	2956.00	-2.28%
WTI Cushing Crude Oil	115.07	113.23	1.63%
Platts Iron Ore Fe62%	136.60	135.95	0.48%
U.S. Gold Physical	1852.46	1866.45	-0.75%
BDI	2571.00	3369.00	-23.69%

Alternative Stimulus — Coupons

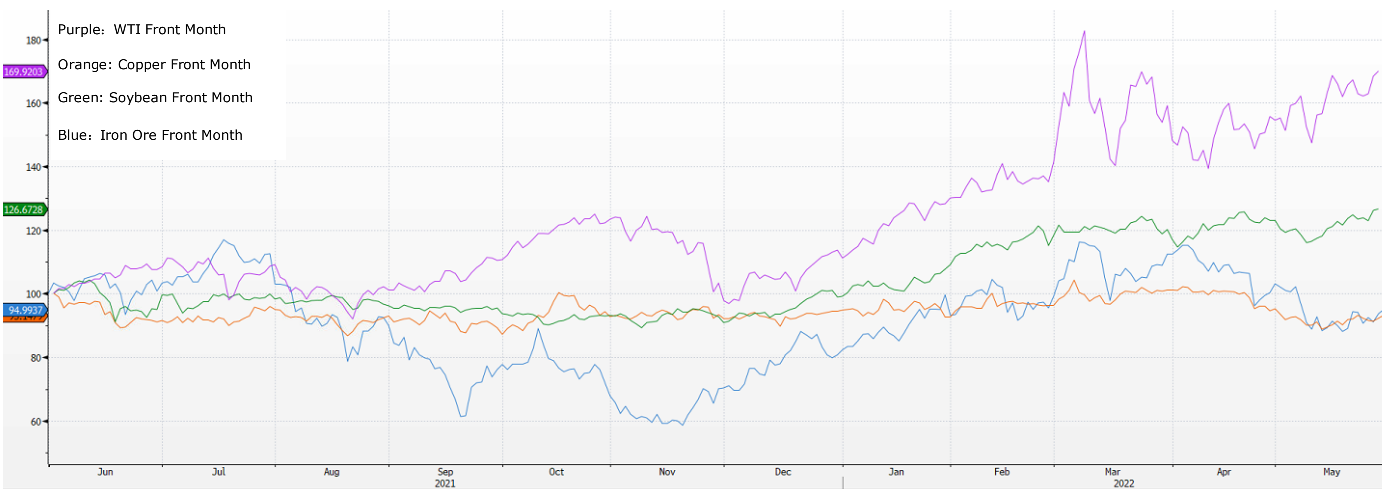
Coupon allocation has become an alternative strategy to low mortgage rates, as the second stage of economic stimulus. The low mortgage and loan rates have caused slow proactive investment in China this year, after the unexpected pandemic impact from March to May. Electronic product coupons have been issued in Shenzhen, China, as a pilot to help resolve the mid-small companies' revenue issues, as well as to accelerate capital flow. The market believed that the coupons would soon be expanded to other cities in China if the Shenzhen trial is successful.

In Europe, imported inflation significantly limited the willingness to consume. French President Emmanuel Macron proposed to issue consumption coupons of €50-60 this summer to 8 million low-income individuals, jobless people, and students. Before the beginning of the program, northern city Hélesmes had allocated vouchers with a face value of €30 to 2,000 residents.

In economic theory, coupon stimulus normally increases the amount of both production and consumption, which was a "saving" strategy compared to direct cash allocation. However, governments would in effect absorb the cost of excess supply and demand, also known as a deadweight loss. Theoretically, a $1 coupon has a multiplier effect on generating $3 of consumption. However, cash allocation normally has a smaller monetary multiplier with no expiration date. As cash may be left in deposit accounts, reducing the multiplier effect of the stimulus.

The disadvantage of the coupon is that the low face value per capita limited the motive to spend. Slightly increasing this face value would be equal to a large gross increase, but becomes a heavier burden for government finances.

Normalised Iron ore, Copper, Soybean and Crude Oil price



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.

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