

FIS Macro Report

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	Last	Previous	% Change
U.S Dollar Index (DXY)	105.15	102.32	2.77%
US/CNY	6.76	6.67	1.35%
U.S. FOMC Upper Interest Rate	1.00	0.50	100%
China Repo 7 Day	1.63	1.65	-1.21%
Caixin China Manufacturing PMI	48.10	46.00	4.57%
Markit U.S. Manufacturing PMI	55.60	59.40	-6.40%

Unexpected U.S. May CPI Growth

U.S. May CPI growth rate reached 8.6% year-on-year, refreshing its highest monthly rate since December 1981. The unexpected increase broke the previously accepted 'inflation peak theory' in May. The market increased expectations of the aggressive tightening policy from the U.S. Federal Bank. In addition, other countries adjusted their monetary policies accordingly. Australia's Central Bank announced a 50 bp rate hike, more than the expected 25 bp. The ECB announced a 25 interest rate increase in the following meeting and will terminate asset purchases from July 1st. S&P 500 Index entered a technical bearish market after a two-day slump. Dow Jones index refreshed its lowest since October 2020. Copper, Iron ore, Steel and some industrial materials followed this correction as well. The World Bank decreased its global economic growth rate prediction to 2.9%, down 1/3 since its last update. The World Bank indicated that it expects the growth rate to be similar in 2023 and 2024. Global Manufacturing PMI achieved 53.5% in May, up 0.3% and ended two months of decreases.

From the hiking cycle bootstrap table below, the rates hike potentially falls into a situation between the worst and the best scenarios. The resolution of inflation became less possible without any aggressive interest rate hikes. From The Wall Street Journal, CME FedWatch staff Nick Timiraos said, 'A series of worrisome inflation reports in recent days may lead Federal Reserve officials to consider raising interest rates at a higher than expected 75 basis points at this week's meeting'.

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	% Change
Shanghai & Shenzhen 300 Index	4189.35	4166.09	0.56%
Dow Jones Industrial Average	30516.74	32915.78	-7.29%
FTSE 100 Index	7205.81	7608.22	-5.29%
Nikkei 225 Index	26987.44	27915.89	-3.33%
BVAL U.S. 10-Year Note Yield	3.38	3.05	10.82%
BVAL China 10-Year Note Yield	2.87	2.87	0%

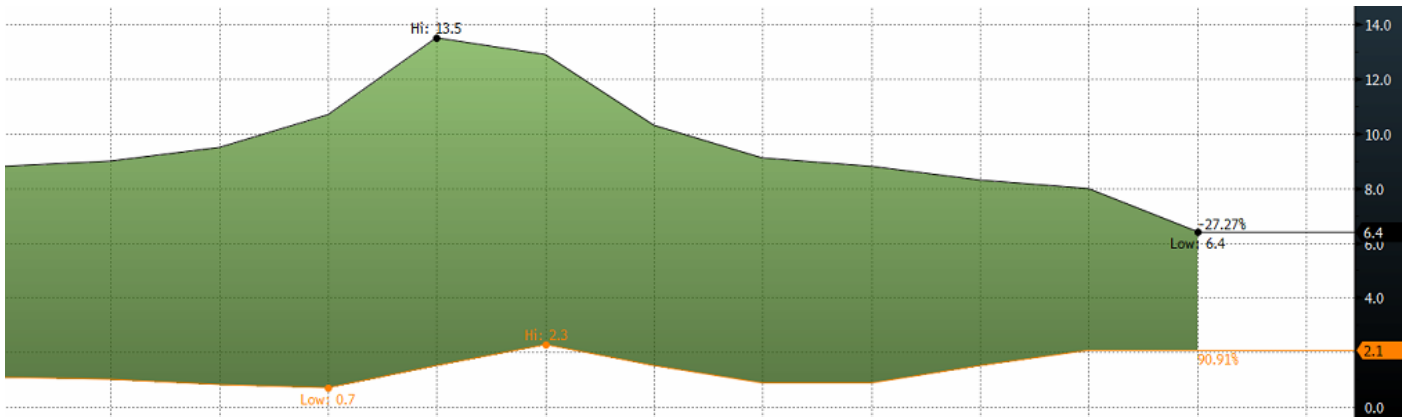
Unexpected U.S. May CPI Growth(Cont'd)

Interestingly, Nick Timiraos is often referred to as the 'whistleblower' of the Federal Reserve, through whom the Federal Reserve has repeatedly strategically revealed some key guidelines to the market.

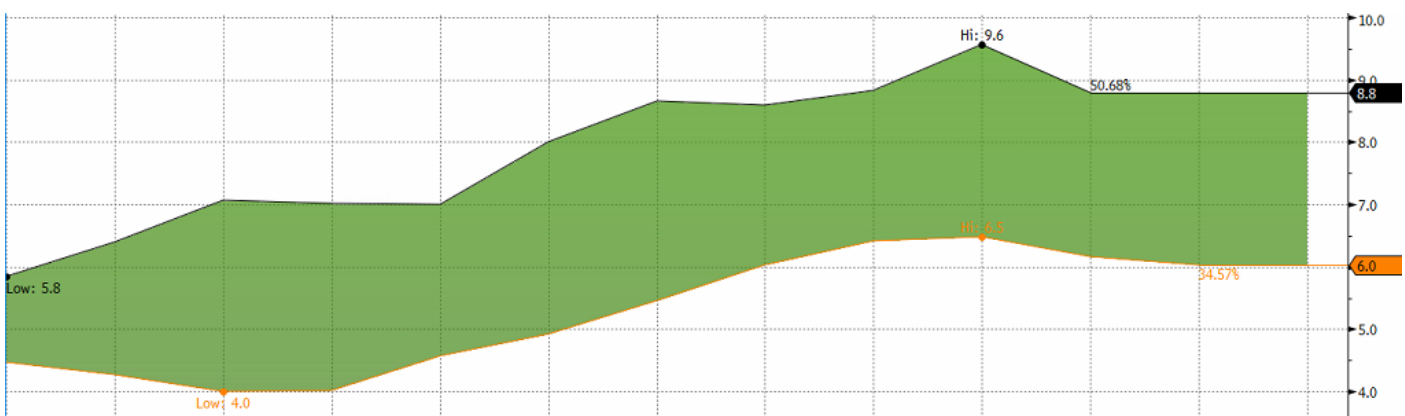
The 2-year U.S. Bond rate spiked 25 basis points at 3.41% following the news, along with a sharp drop in global equities. Goldman Sachs revised the expectation on June and July from 50 basis points to 75 basis points. The interest rate is expected to reach 3.25%-3.5% area by the year-end.

The major contributor to the CPI in May was the energy sector, where there was a month-on-month increase from -2.7% to 3.9%. Food prices became an important driver as well, which increased 10.1% year-on-year, the first two-digit number growth saw from March 1981. Core CPI excluding energy and food increased by 6% y-o-y, decreasing from the high in February gradually. The divergence between core CPI and nominal CPI indicated that the inflation conduction was near an end to affect all industry chains. In other words, we could assume a slow increase in food/energy would generate almost no direct impact on other CPI sectors.

China PPI—CPI



U.S. PPI—CPI(Excl. Food and Energy)



Sources: Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	9294.00	9745.00	-4.63%
LME Aluminium 3 Month Rolling	2628.00	2782.50	-5.55%
WTI Cushing Crude Oil	120.93	118.50	2.05%
Platts Iron Ore Fe62%	136.60	146.75	-6.92%
U.S. Gold Physical	1824.83	1852.37	-1.49%
BDI	2260.00	2560.00	-11.72%

Automobile Market 'Reboot'

Following the previous report last week, this report will bring more data and views to create a map of the development of the global automobile market in H2 2022.

China passenger vehicle wholesales were up 64% y-o-y in May, and retail sales were up 30% y-o-y in May. In the first-week wholesales were down 7% y-o-y, marginally improved compared with May data. Wholesalers expected the market to improve in the coming 2-3 weeks. The big subsidies on auto purchases stimulated demand from Tier III and Tier IV cities, with less public transportation. The revenues of auto-manufacturing totalled 8-8.5 trillion yuan, ranked second place of all industries following computer and telecommunications. The shift from traditional fuel vehicles to electronic vehicles (EV) could drive total sector revenues up by 20% in the coming years. The Chinese Commerce Department statistics indicated that 1 job created in the automobile industry would generate seven new job positions elsewhere in the economy. The development of automobiles has become a strategic option to boost China's economy in revenue, taxes, and jobless resolution.

Germany became the second-largest producer of electronic vehicles (EV) after China. Germany has the biggest EV sales at 690,100 units in 2021 in Europe, while the UK ranked second with only half the number of sales. The EV ROP (Rate of Penetration) in Germany reached 26.32%, which left enough room to develop if targeting a complete shift to the EV market in the next 8 years. German green steel development was becoming the leading area in the world. Thus, the temporary slowdown in automobile sales did not mean Germany or any country in Europe could afford to lose automobile market share, considering the job and investment opportunities, as well as the huge industry supply chains. However, there was a report from PWC indicating that the realisation of a 100% EV market in 2035 would cause a loss of half a million jobs in Europe.

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, investors can't 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 available jobs or business activity.

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