FIS Macro Report

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	Last	Previous	
U.S Dollar Index (DXY)	104.30	105.52	**-1.16%**
US/CNY	6.68	6.75	**-1.04%**
U.S. FOMC Upper Interest Rate	1.50	0.75	**100%**
China Repo 7 Day	1.75	1.63	**7.36%**
Caixin China Manufacturing PMI	48.10	46.00	**4.57%**
Markit U.S. Manufacturing PMI	55.60	59.40	**-6.40%**

U.S. June FOMC and its Chain Effect

U.S. May CPI growth rate reached 8.6% year-on-year, refreshing the highest monthly rate since December 1981, with the FOMC raising rates by 75 basis points. Nick Timiraos's speech has become an important indicator after he successfully predicted the Fed's decision. The aggressive monetary decision and the other global interest rate hikes scared away inflation speculation investments. The entire commodity sector corrected massively, with crude oil and iron ore leading the correction by 12% and 23% respectively during the past two weeks. CRB Index corrected from a three-year high by 6.22% over the past six trading days. The inflationary control measures have turned the bullish commodity prices towards a more bearish outlook, as participants started to believe in the efficiency of price controls in many countries. In addition, the global steel correction was due to a significant consumption loss in H1. Similarly, crude oil and petrochemicals are facing conditions of low utilisation and refining rates in H2 2022. U.S. President Joe Biden was in the decision-making process to relieve some Trump-era trade tariffs on China. Moreover, the market was curious about the China–Australia conference, with hopes that some trade barriers on iron ore, coal, and grains would be relaxed. There are early signs of major economies aligning tools to fight against inflation.

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

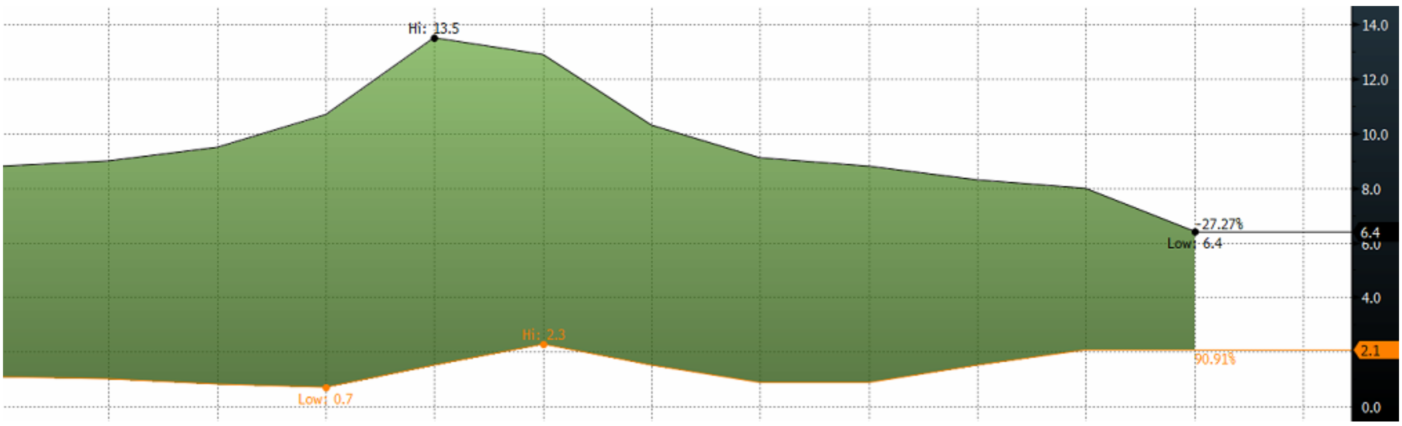
	Last	Previous	% Change
Shanghai & Shenzhen 300 Index	4330.43	4189.35	3.37%
Dow Jones Industrial Average	29888.78	31392.79	-4.79%
FTSE 100 Index	7121.81	7205.81	-1.17%
Nikkei 225 Index	25771.22	26987.44	-4.51%
BVAL U.S. 10-Year Note Yield	3.23	3.16	2.22%
BVAL China 10-Year Note Yield	2.88	2.87	0.35%

U.S. June FOMC and its Chain Effect (Cont'd)

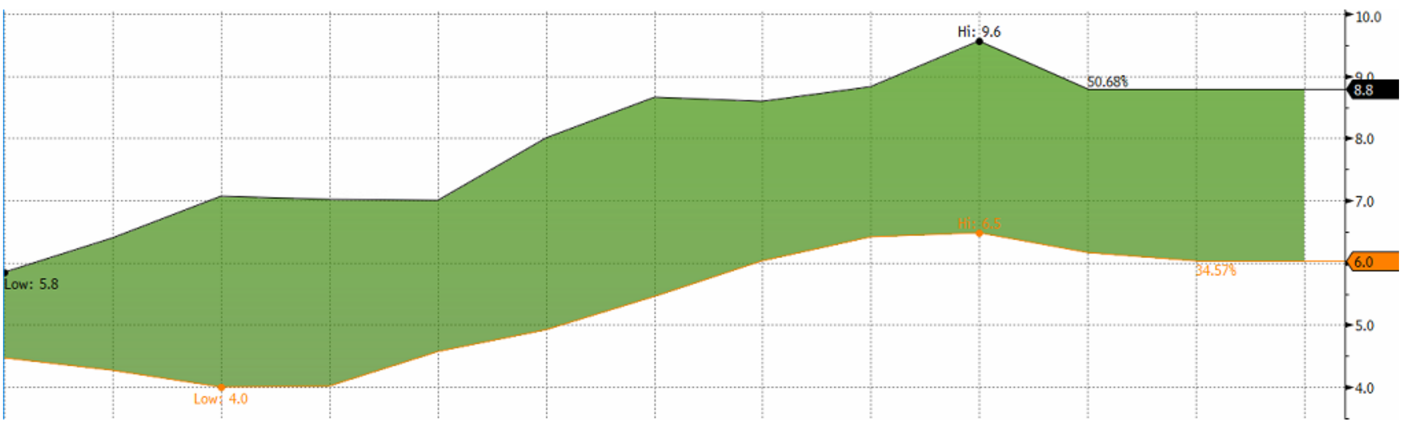
Powell said on June 15th that the sharp rate hike was not an attempt to trigger an economic recession however, the probability of a 'soft landing' of the U.S. economy has decreased significantly. The latest economic forecast released by the DSGE model of the New York Fed showed that the probability of a 'soft landing' for the U.S. economy is only 10%, and the probability of a 'hard landing' is about 80%. The definition of a soft landing expected GDP growth rate of 4% in the following 10 quarters and maintaining positive growth. A hard landing is defined as the GDP growth rate of less than -1% in at least one of the next 10 quarters. The Wall Street Journal believed that the downside risk of the US economy is rising.

The Fed's move will increase the pressure on global central banks to keep pace with it. However, the overall impact of monetary instruments on the market is relatively slow, so there will be a delay in the reaction from a radical monetary policy to actual economic impact. Monetary policy is only one of the solutions in the economic tool basket, which cannot be a reason for the economy to get better or worse. The internal causes of economic recession are complex. It is far from enough to rely on expectation management.

China PPI—CPI



U.S. PPI—CPI(Excl. Food and Energy)



Sources: Bloomberg, FIS

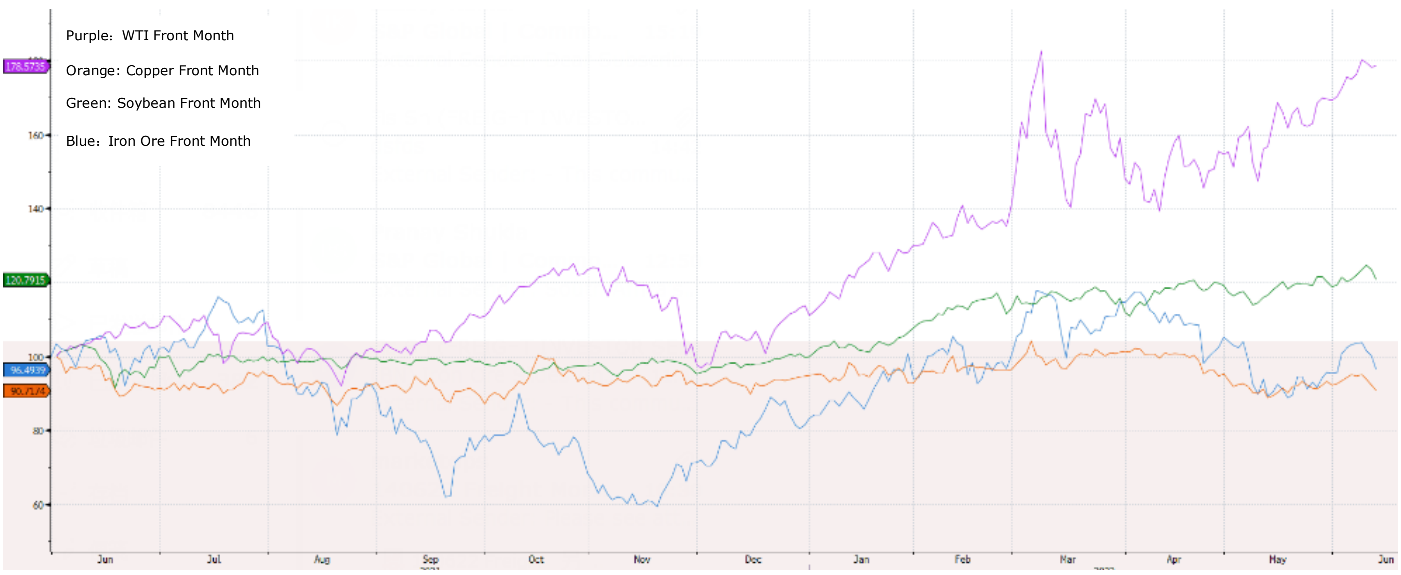
	Last	Previous	
LME Copper 3 Month Rolling	8977.50	9294.00	**-3.41%**
LME Aluminium 3 Month Rolling	2527.00	2628.00	**-3.84%**
WTI Cushing Crude Oil	109.56	120.67	**-9.21%**
Platts Iron Ore Fe62%	112.35	136.60	**-17.75%**
U.S. Gold Physical	1840.09	1808.49	**1.75%**
BDI	2596.00	2260.00	**14.87%**

China Economy Test Time in H2 2022

China has frequently introduced economic stimulus policies since April. Among them, an additional 140 billion yuan will be added as a tax rebate, which is required to be completely allocated in July. An additional 800 billion yuan of credit lines were granted to policy banks to support infrastructure construction. Temporary subsidies will be granted to eligible unemployed migrant workers. Extended 90 billion yuan of commercial vehicle loans to Central auto enterprises to postpone the repayment of principal loans and interest. Although the policies are implemented intensively, the specific implementation and effects on statistics will be delayed for several months. For example, there is a delay of more than one month from the actual itemised data to the summary of GDP growth and size. Therefore, it is expected that the recovery of emerging economies can be predicted from some classified leading variables such as automobile sales or machinery operation rate, and finally verified by the core lagging economic indicators, such as GDP.

CICC said in a strategy meeting in June that when the epidemic situation eased and the superimposed uncertainty decreased, it is expected that the economic growth in the second half of the year will rebound to about 5.5%, and the total growth in the next four quarters may reach 6.5% year-on-year. The recovery of the financial industry and physical recovery will proceed simultaneously in the second half of the year. Tianfeng securities, on the other hand, has a lower expectation of 4.0-4.8% of GDP in the fourth quarter. From the perspective of the Chinese equity market, which presented a strong defensive attribute in particular during the global stocks market panic in late May and June. Chinese equity potentially continues to attract foreign investment. The Chinese economy is entering a test time in the late half of 2022.

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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