

# FIS Macro Report

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

28/6/2022

	Last	Previous	% Change
U.S Dollar Index (DXY)	103.95	104.44	-0.47%
US/CNY	6.70	6.69	0.15%
U.S. FOMC Upper Interest Rate	1.00	0.50	100%
China Repo 7 Day	2.50	1.70	47.06%
Caixin China Manufacturing PMI	48.10	46.00	4.57%
Markit U.S. Manufacturing PMI	55.60	59.40	-6.40%

## Central Banks Decisions in Stagflation

The fundamental problem of stagflation for economies is insufficient supply and low efficiency. The reason for stagflation is that previous technological progress and growth have slowed down, with stubbornly high inflation, mixed with significant unemployment. The resulting economic stalemate breaks the economic status quo, with more active intervention in the economy needed.

The breaking of the old distribution systems and reform of distribution systems in many countries is driving new trade patterns in the search for cheaper products to calm inflationary problems. The supply chain is redistributing, with a greater focus on the principles of security and efficiency in the reform of the globalised economy.

The central banks of the U.S., E.U. and U.K. largely represented the consensus route to deal with stagflation, as the three economies accounted for 80% of currency payments around the globe. The central banks' decision to start interest rate hikes was regarded by some as a reflection of a 'political decision' to guard the value of their currencies, with the central banks having to choose between a market risk increase or an inflation risk increase.

## 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%	<b>31.5000%</b>	11.8000%	11.6000%
Mar-80	39	4.7500%	20.0000%	<b>4.6923%</b>	6.1000%	6.5000%
May-74	26	3.5000%	13.0000%	<b>4.3846%</b>	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

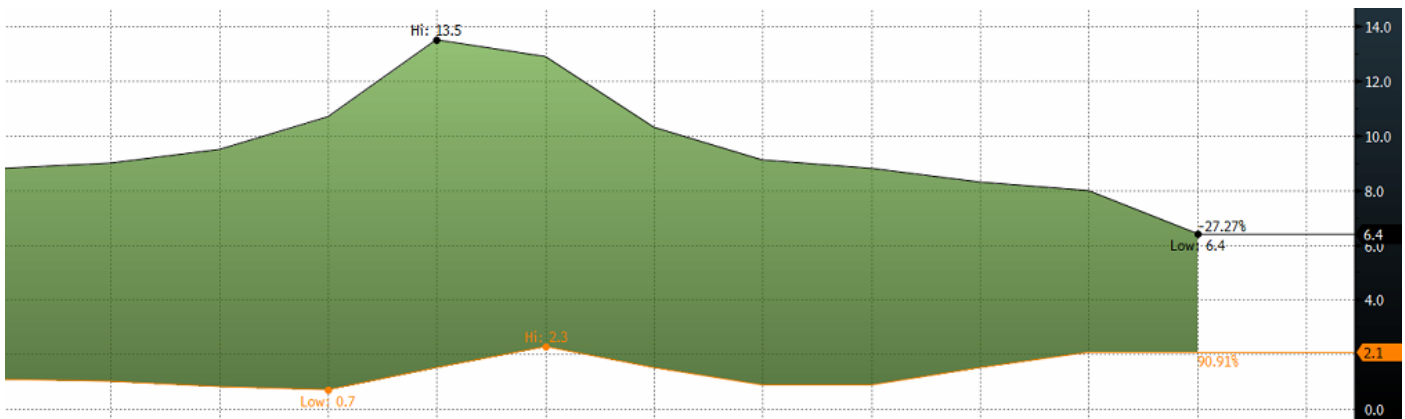
	Last	Previous	% Change
Shanghai & Shenzhen 300 Index	4394.77	4309.04	1.99%
Dow Jones Industrial Average	31438.26	29888.78	5.18%
FTSE 100 Index	7258.32	7121.81	1.92%
Nikkei 225 Index	26871.27	25771.22	4.27%
BVAL U.S. 10-Year Note Yield	3.21	3.23	-0.62%
BVAL China 10-Year Note Yield	2.94	2.88	2.08%

## Structural Improvement in Chinese Industry Sector

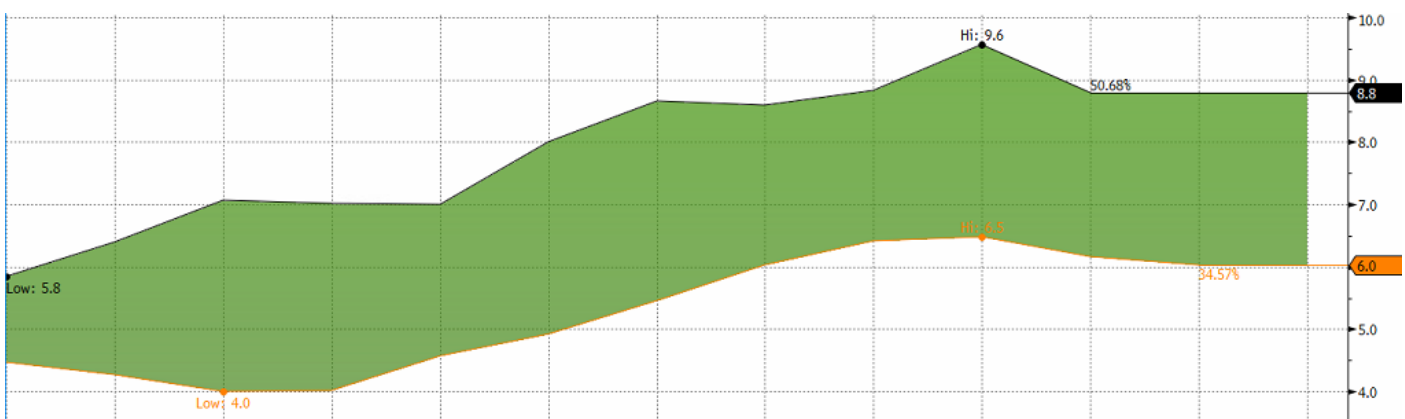
China’s industrial reboot began after a stutter in April, beating most of the expectations from macro analysts. From January to May accumulated industrial profits were above expectations, up 1.0% on the year. The number for May was 2.5% higher than April. June is expected to expand even faster to fill the losses in April. Mining profits were up 131%. Manufacturing profit margins were down 10.8% on the year, which was dragged down by the absence of automobile sales from late March to early May. However, the now booming auto industry is expected to be a major contributor to industrial growth through the second half of 2022. The industry value to the economy is to grow from a negative number to a positive number in May, with a sharp positive impact on manufacturing PMI of 2.2%.

China’s PPI and CPI difference narrowed healthily from over 10% to 4.3% in May, indicating the inflation transmission from the industrial sector to the downstream market was approaching an end according to historical examples. The narrowing of the difference also indicated that the profit squeeze from upstream industries was easing. Thus, downstream and midstream industries are expected to share bigger proportions of industrial profits.

### China PPI—CPI



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



Sources: Bloomberg, FIS

	Last	Previous	% Change
LME Copper 3 Month Rolling	8417.50	8977.50	-6.24%
LME Aluminium 3 Month Rolling	2495.50	2527.00	-1.25%
WTI Cushing Crude Oil	109.57	109.56	0.01%
Platts Iron Ore Fe62%	119.60	112.35	6.45%
U.S. Gold Physical	1824.07	1832.98	-0.49%
BDI	2331.00	2578.00	-9.58%

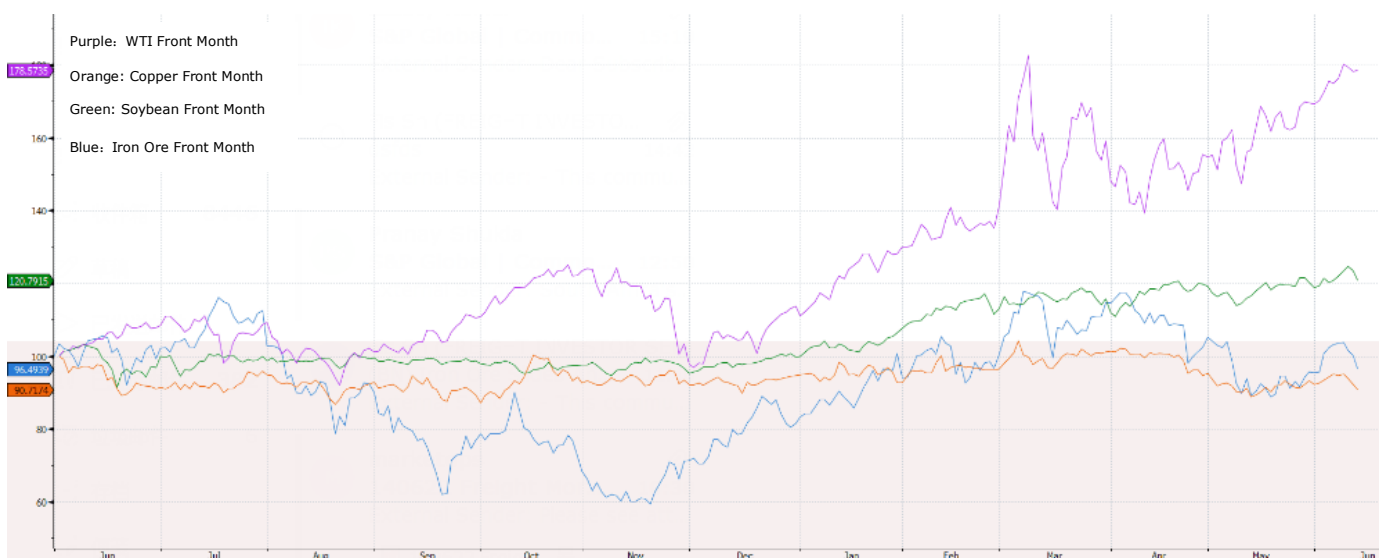
## Structural Improvement in Chinese Industry Sector (Cont'd)

Although industrial profits and revenues improved, some minor indicators were showing some risks. For example, the inventory turnover days of finished products were 19.0 days, an increase of 1.3 days year-on-year. In addition, the average payback period of accounts received was 54.4 days, a year-on-year increase of 2.0 days. This indicator suggests a significant increase in industrial inventories with a slower cash flow cycle. There are 16 out of 41 industry sectors which realised year-on-year profit growth, and 25 out of the 41 realised a year-on-year loss.

The fastest-growing sectors were the alcoholic drinks and food industry with 21% and 8% growth in May respectively. The logistic disruption was resolved in May, thus supply chains were reconnected, which supported the equipment manufacturing industry, but with profit margins down 9% in May (it had been down 32.2% in April).

Tax return decreases are expected to benefit more enterprises which suffered losses in April. China partially relieved the strict quarantine strategy into a more flexible system, which would help the economy back on a growth course.

## 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.

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

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

News@freightinvestor.com, +44 207 090 1120

The information provided in this communication is not intended for retail clients. It is general in nature only and does not constitute advice or an offer to sell, or the solicitation of an offer to purchase any swap or other financial instruments, nor constitute any recommendation on our part. The information has been prepared without considering your investment objectives, financial situation, or knowledge and experience. This material is not a research report and is not intended as such. FIS is not responsible for any trading decisions taken based on this communication. Trading swaps and over-the-counter derivatives, exchange-traded derivatives, and options involve substantial risk and are not suitable for all investors. You are advised to perform an independent investigation to determine whether a transaction is suitable for you. No part of this material may be copied or duplicated in any form by any means or redistributed without our prior written consent. Freight Investor Services Ltd (FIS) is authorised and regulated by the Financial Conduct Authority (FRN: 211452) and is a member of the National Futures Association ("NFA"). Freight Investor Services PTE Ltd ('FIS PTE') is a private limited company, incorporated and registered in Singapore with company number 200603922G, and has subsidiary offices in India and Shanghai. Freight Investor Solutions DMCC ('FIS DMCC') is a private limited company, incorporated and registered in Dubai with company number DMCC1225. Further information about FIS including the location of its offices can be found on our website at [freightinvestorservices.com](http://freightinvestorservices.com)