

FIS Macro Report

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Notice: There will be no Macro Weekly Report in July 19th.

12/7/2022

	Last	Previous	% Change
U.S. Dollar Index(DXY)	108.16	106.54	1.52%
USD/CNY	6.7249	6.7118	0.20%
U.S. FOMC Upper Interest Rate	1.00	0.50	100.00%
China Repo 7 day	1.60	1.60	0
Caixin China Manufacturing PMI	51.70	48.10	7.48%
Markit U.S. Manufacturing PMI	52.90	55.60	-4.86%

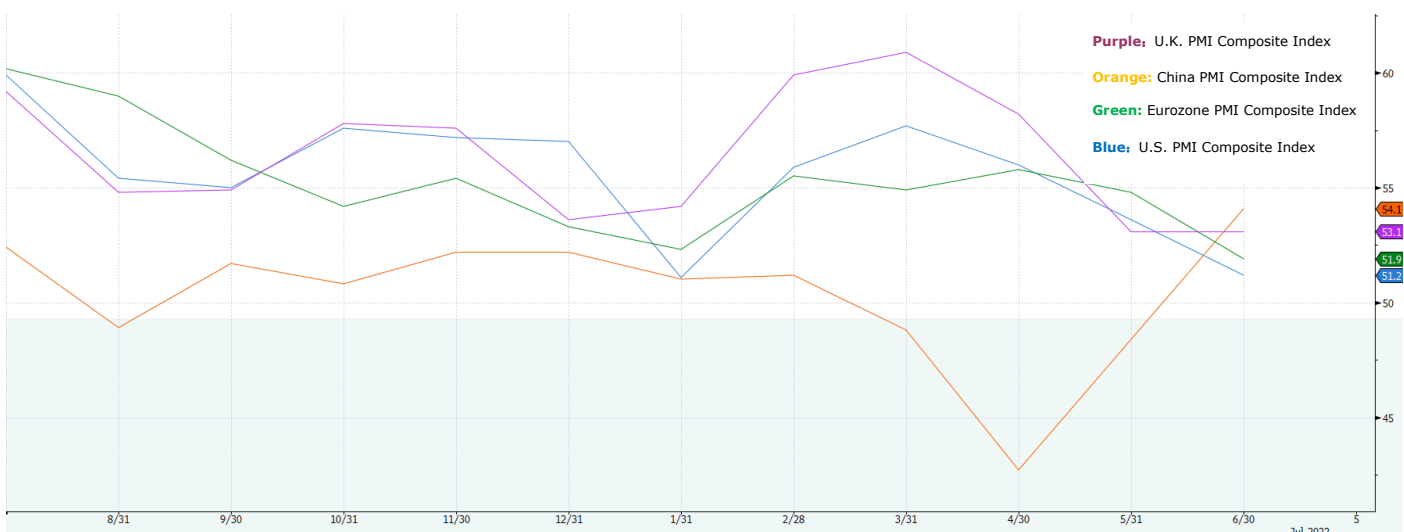
Trade Inflation to Trade Recession

The global investment market gradually shifted from trading inflation to trading recession when crude oil dropped sharply from a 14-year-high by 30% and iron ore decreased by 50% from a historical high last July. Nasdaq corrected 34.83% from the historical high last November. U.S., Europe, and Australia sacrificed economic growth with measures to try and control inflation.

The market and politicians were focused on the nominal CPI of the U.S., seeing an unexpected growth in June. However, the CPI excluding food and energy revealed that the growth rate decreased by 0.5% over the previous three months, indicating the overspill of food and energy price to other sectors has almost terminated. The investment market does, however, tend to overplay "uncontrollable" inflation, especially after the inflation phase has lasted for three years, since the first quarter of 2020.

The drop in commodity prices was mostly due to the supply chain disruption leading to an unaffordable processing cost. Thus, the negative downstream profit market squeezed production and decreased demand from upstream. The oil and petrochemicals, metals and manufacturing, agricultures and bio-techs are all experiencing losses covering whole industrial chains.

PMI Composite of Major Economies



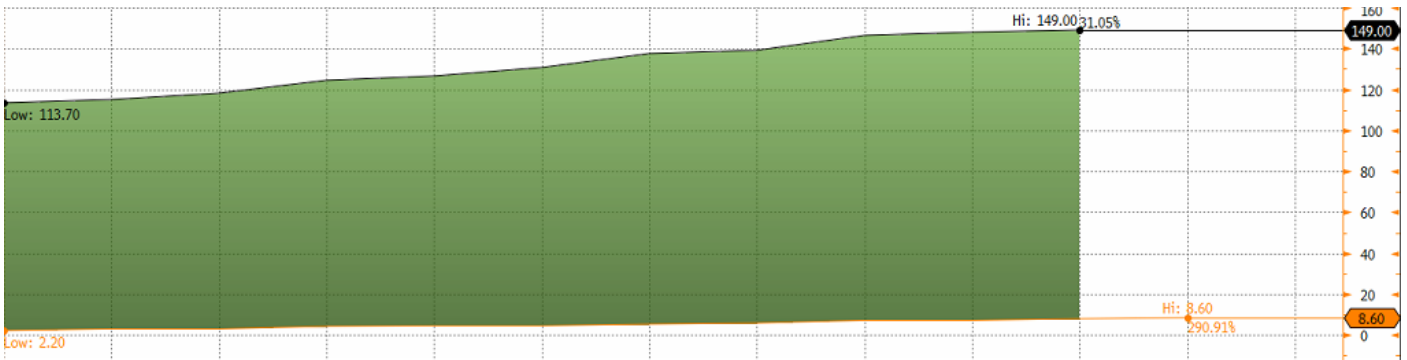
Sources: Bloomberg, FIS

	Last	Previous	
Shanghai&Shenzhen 300 Index	4428.78	4466.72	-0.85%
Dow Jones Industrial Average	31173.84	31097.26	0.25%
FTSE 100 Index	7196.59	7232.65	-0.50%
Nikkei 225 Index	26812.30	26153.81	2.52%
BVAL U.S. 10-year Note Yield	2.9913	2.8887	3.55%
BVAL China 10-year Note Yield	2.9198	2.9474	-0.94%

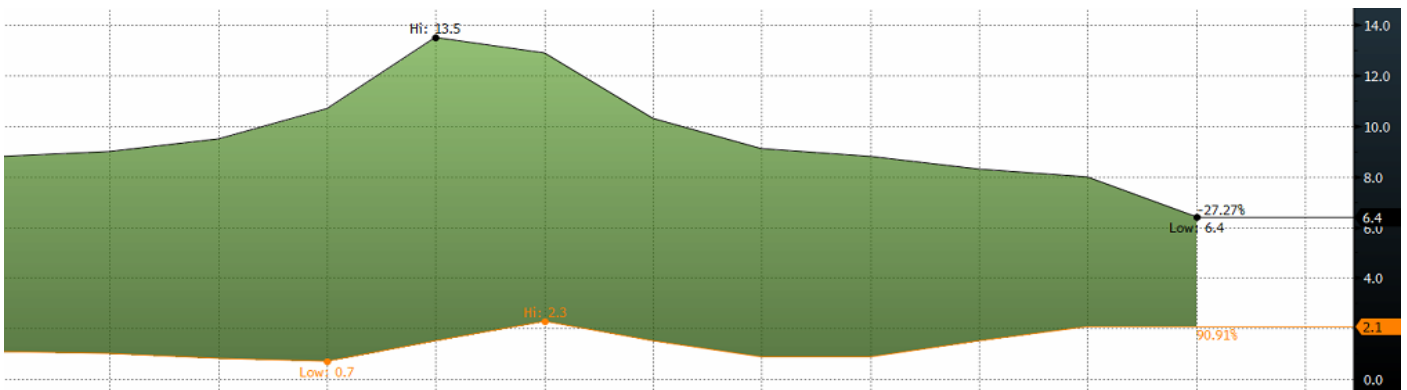
Trade Inflation to Trade Recession (Cont'd)

PPI—CPI difference was one effective tool to evaluate the inflation transmission phase. For example, the spike in PPI versus a slow growth in CPI in Eurozone indicated inflation was in a fast-growing period. PPI played as a leading indicator of inflation, while CPI normally stands for end-users and is the lagging indicator of inflation. Thus, China seemed to approach a periodic end of inflation. However, the assumption needs to be confirmed by the target value of CPI from different countries. U.S. set CPI target at 2% by end of 2023. Europe set a long-term CPI target at 2%. China set CPI at 3% by end of 2022.

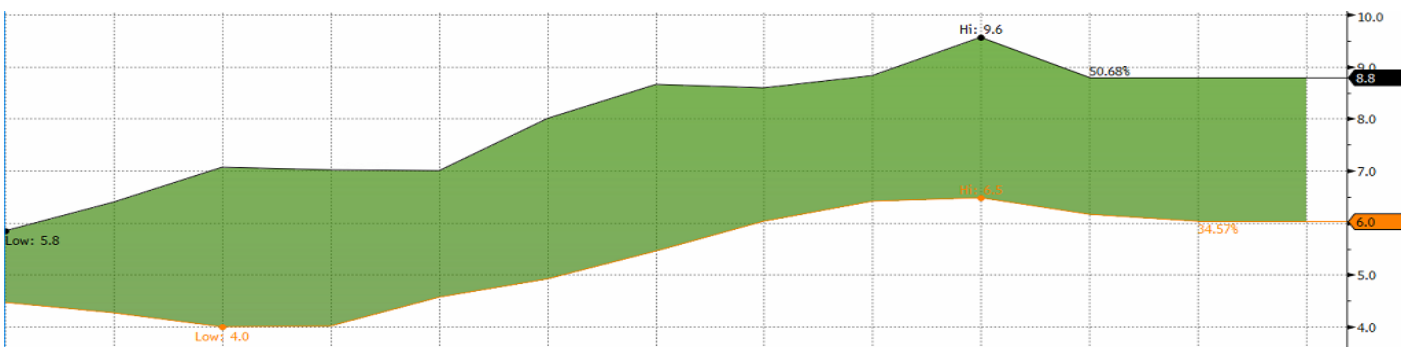
Eurozone PPI—CPI



China PPI—CPI



U.S. PPI—CPI(Excl. Food and Energy)



Sources: Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	7584.50	8006.00	-5.26%
LME Aluminium 3 Month Rolling	2379.50	2464.00	-3.43%
WTI Cushing Crude Oil	104.09	108.43	-4.00%
Platts Iron Ore Fe62%	114.05	116.45	-2.06%
U.S. Gold Physical	1732.67	1764.76	-1.82%
BDI	2067.00	2214.00	-6.64%

Trade Inflation to Trade Recession (Cont'd)

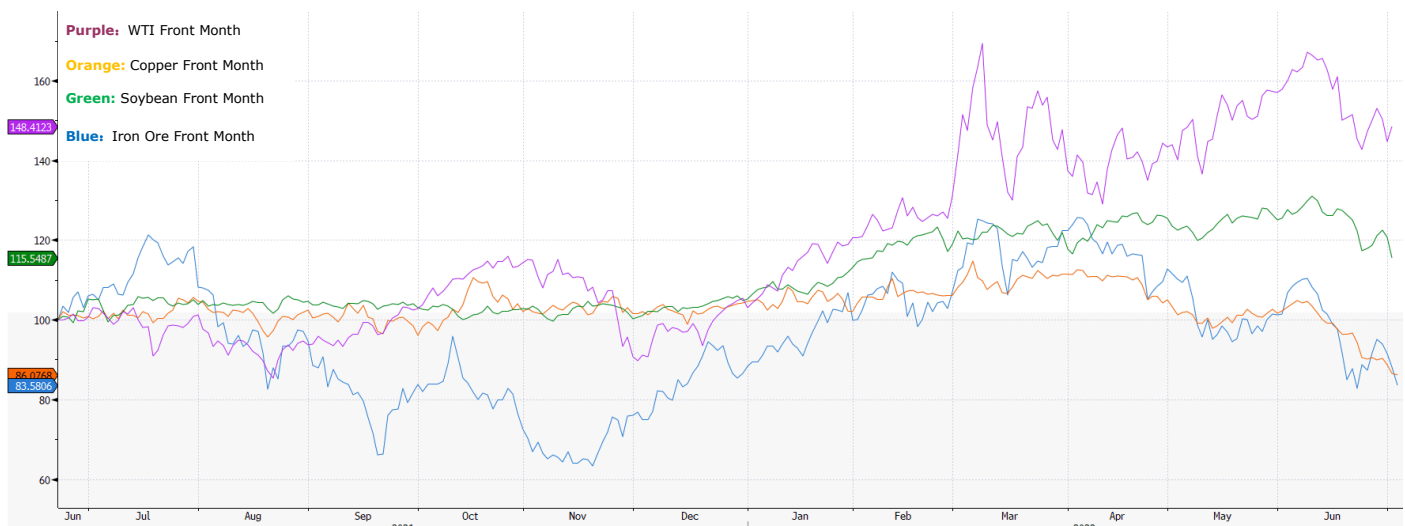
CRB (Commodity Research Bureau) Index retreated by 16.22% to 276.13 from the three-year-high at 329.59. The index more than tripled over the past three years from April 2020. The CPI resilience has fallen since the year-on-year growth of eight out of twelve sub-indicators which had doubled from the average value between 2017–2021. This included energy, food, housing, beverages, transportation, entertainment, education, and other consumer services. With the rise of mortgage interest rates, sales of new homes and existing homes in the U.S. showed negative growth for four consecutive months in H1 2022.

New Pandemic hit several cities in China

A new variation of Covid-19 BA.5 hit some cities in China with the market expecting strict quarantine policies to carry out in the next few weeks. The previous round of restrictions created a significant crash in the Chinese economy in Q2. In response, metals, oil products, and Chinese equities suffered huge corrections from last Friday and early Monday. It is worth mentioning that the inconsistent pandemic potentially damages the confidence in house buying or a long-term investment.

On the other side, loose credit and monetary strategies could gradually offset the long-run impact to bring house buyers back to the market in H2 2022 gradually. There have been 160 cities in China that issued stimulus strategies in the housing sector in the Q2.

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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