

FIS Macro Report

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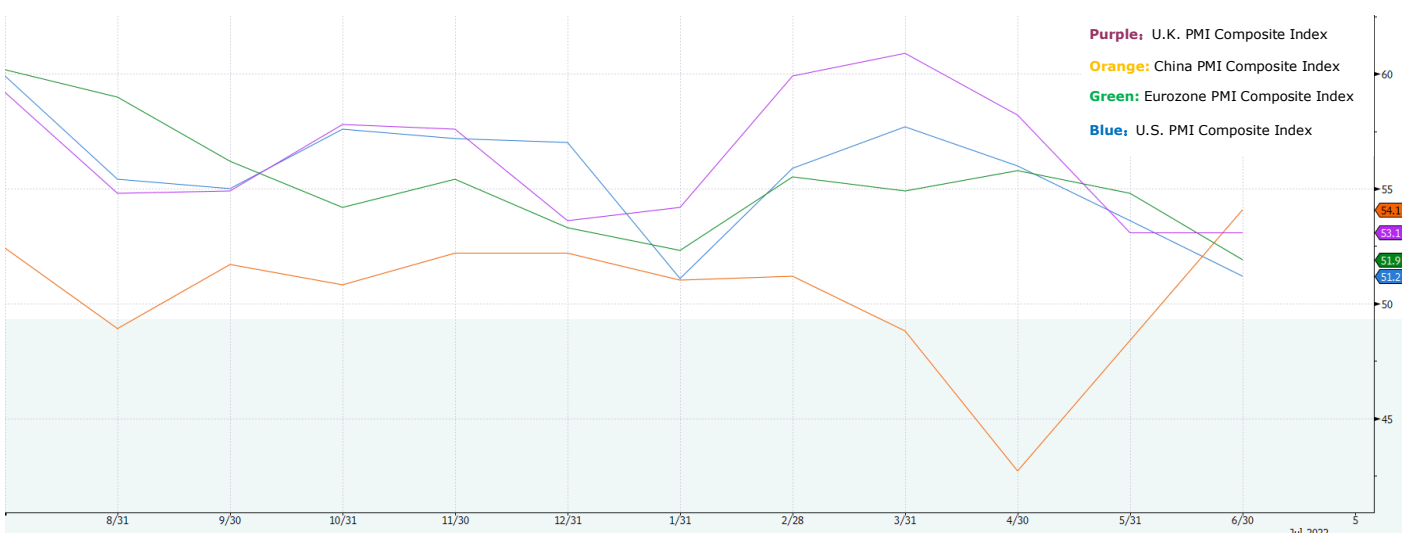
	Last	Previous	% Change
U.S. Dollar Index(DXY)	106.32	106.68	-0.34%
USD/CNY	6.7473	6.7454	0.03%
U.S. FOMC Upper Interest Rate	1.75	1.00	75.00%
China Repo 7 day	1.80	1.61	11.78%
Caixin China Manufacturing PMI	51.70	48.10	7.48%
Markit U.S. Manufacturing PMI	52.90	55.60	-4.86%

Dilemma of Monetary Policy

The introduction of the "Average Inflation Targeting" in August 2020 marked a shift of the U.S. Fed's control of inflation from pre-emptive to post-emptive. Federal Reserve Chairman Powell admitted that it would be better to raise interest rates early. The policy name has changed from "normal monetary policy" to "monetary tightening". In a longer-term economic cycle, the tightening policy of the Federal Reserve has just begun in terms of the Fed's balance sheet. The target interest rate is 1.5-1.75% which lies in a 20-year-low area. However, CPI is at 9.1% and at a 20-year-high, which indicates that the monetary policy has yet to see some practical impact on overheating consumer prices. Thus, it would potentially take several aggressive steps in the near future or a longer tightening period to control price inflation.

Although the U.S. Fed announced a total decrease of \$47.5 billion in U.S. debts monthly, the total debt decrease in June only accounted for \$8.7 billion, including \$6.8 billion in T-bond and \$1.9 billion in mortgage-backed securities. Unlike the soaring nominal CPI, PCE growth rate has shown a clear signal of hitting a cap with a 0.5% decrease over the past four months. The divergence of the two rates indicated that the inflation conduction might have almost finished.

PMI Composite of Major Economies



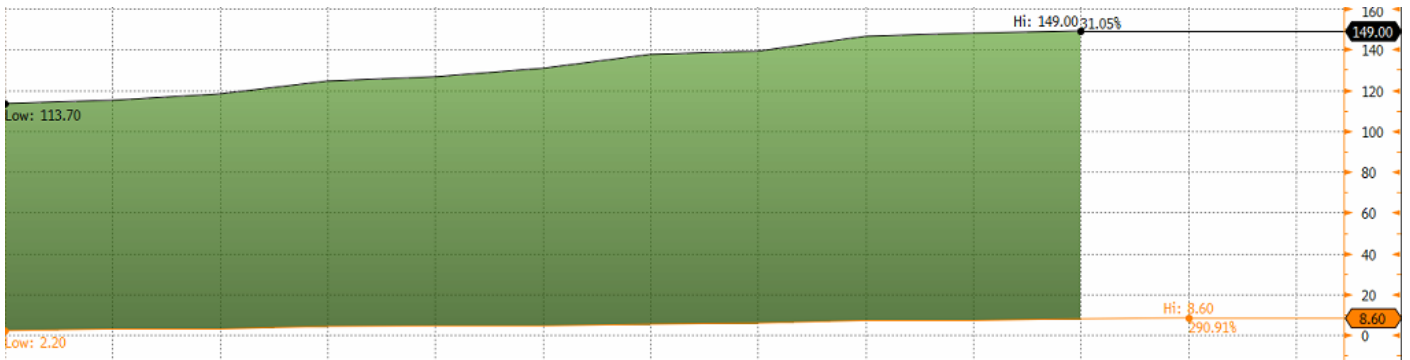
Sources: Bloomberg, FIS

	Last	Previous	
Shanghai&Shenzhen 300 Index	4238.23	4248.53	-0.24%
Dow Jones Industrial Average	31990.04	31072.61	2.95%
FTSE 100 Index	7306.30	7223.24	1.15%
Nikkei 225 Index	27699.25	26788.47	3.40%
BVAL U.S. 10-year Note Yield	2.8131	2.9695	-5.27%
BVAL China 10-year Note Yield	2.8157	2.8370	-0.75%

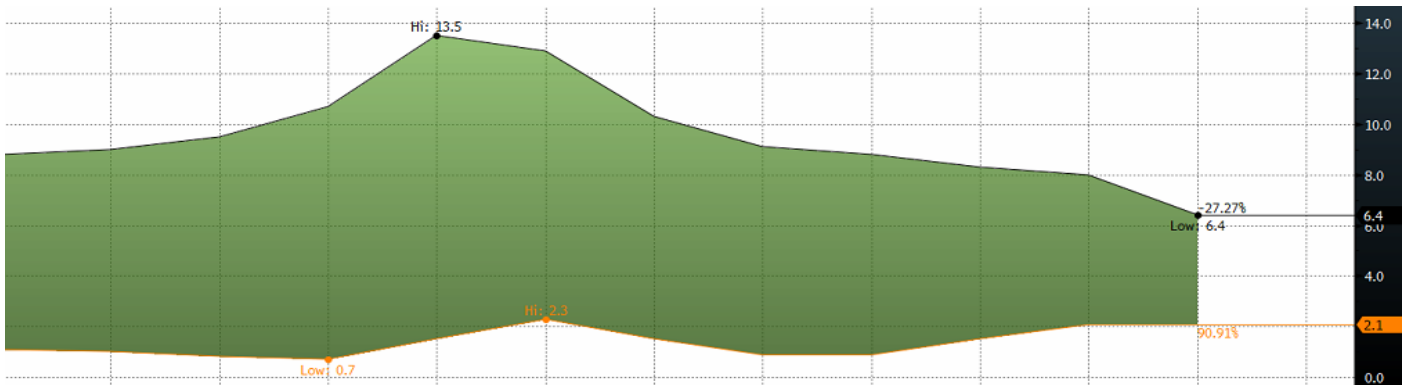
Dilemma of Monetary Policy(Cont'd)

PCE has 4% compared to the 2% long-term equilibrium inflation rate. Thus, it is hard to predict the time window to realise this target. Atlantic GDPNow model predicted that the U.S. economy entered a "technical recession" as of Q2, with the U.S. economy down 1.9% on the year and a 1.6% decrease in Q1. However, the recession-linked warning signs had not changed or impacted the Fed's priority to resist nominal inflation numbers at all cost.

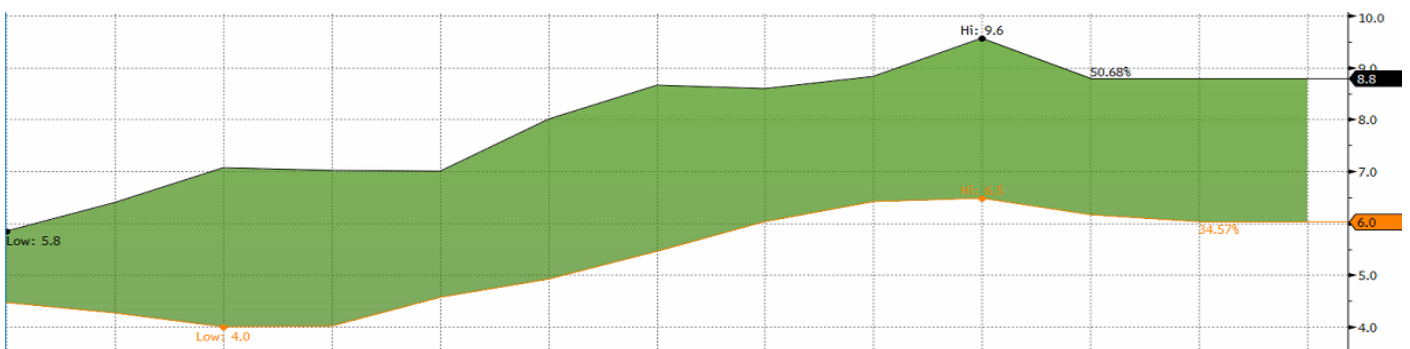
Eurozone PPI—CPI



China PPI—CPI



U.S. PPI—CPI(Excl. Food and Energy)



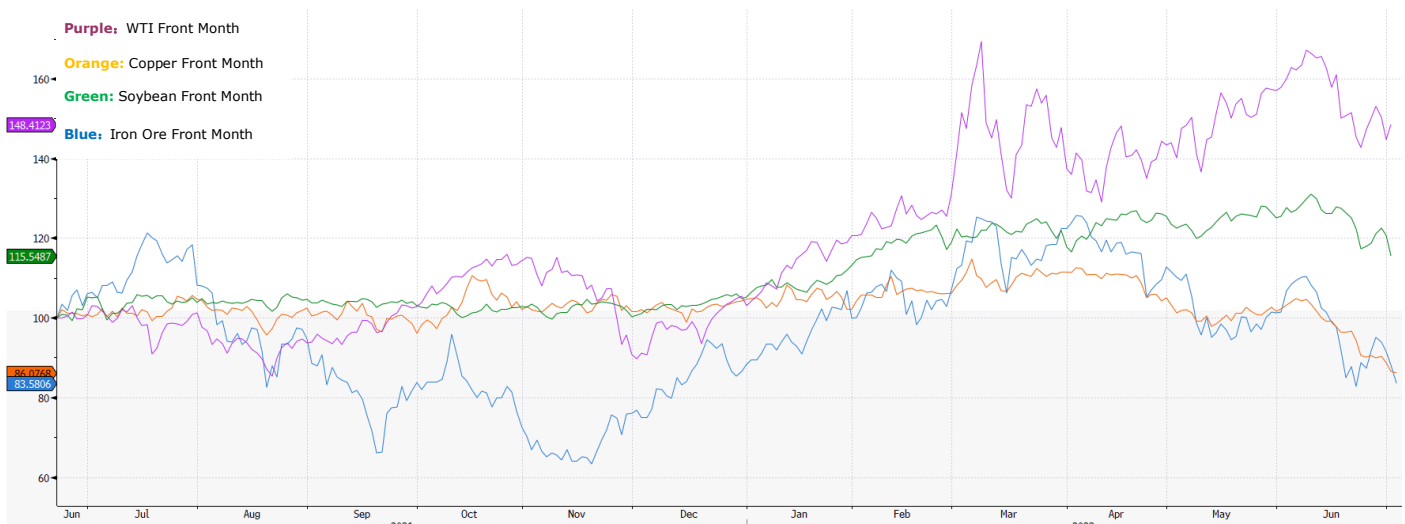
Sources: Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	7479.00	7426.50	0.71%
LME Aluminium 3 Month Rolling	2408.50	2426.50	-0.74%
WTI Cushing Crude Oil	99.60	102.60	-2.92%
Platts Iron Ore Fe62%	104.00	100.90	3.07%
U.S. Gold Physical	1724.93	1711.67	0.77%
BDI	2114.00	2162.00	-2.22%

Trade Inflation to Trade Recession

CRB (Commodity Research Bureau) Index retreated by 17% to 273.26 from early June to mid-July, after the index almost tripled during the past three years. Investors shifted from an inflation trade to a recession trade outlook. Luckily the CRB Index stabilised after the sharp fall through June and the early half of July and maintained in the range bounds of 273.0–288.0. A long-run bubble squeezing cycle has fallen over the commodities sector. However, it does not mean commodity prices have to correct back to early 2020 levels since the economy’s recovery needs to catch up with demand. In other words, the drop in demand was likely in the short term. At the same time, supply shortages would take longer to resolve, including a consensus on different economies to remove trade barriers, logistic optimisation, geo-political tensions and new treaties or trade agreements. The efficiency of consumer goods transactions was limited in a ‘de-globalizing’ period. The transaction barriers potentially hold consumer prices at a high range in many areas or countries for a long time.

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 typical 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 with high inflation (prices rising continuously) but no increase in the available jobs or business activity.

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