FIS Macro Report

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	Last	Previous	% Change
U.S. Dollar Index(DXY)	106.52	106.37	0.14%
USD/CNY	6.8017	6.7552	0.69%
U.S. FOMC Upper Interest Rate	2.25	1.50	50.00%
China Repo 7 day	1.40	1.37	1.91%
Caixin China Manufacturing PMI	50.40	51.70	-2.51%
Markit U.S. Manufacturing PMI	52.50	52.90	-0.76%

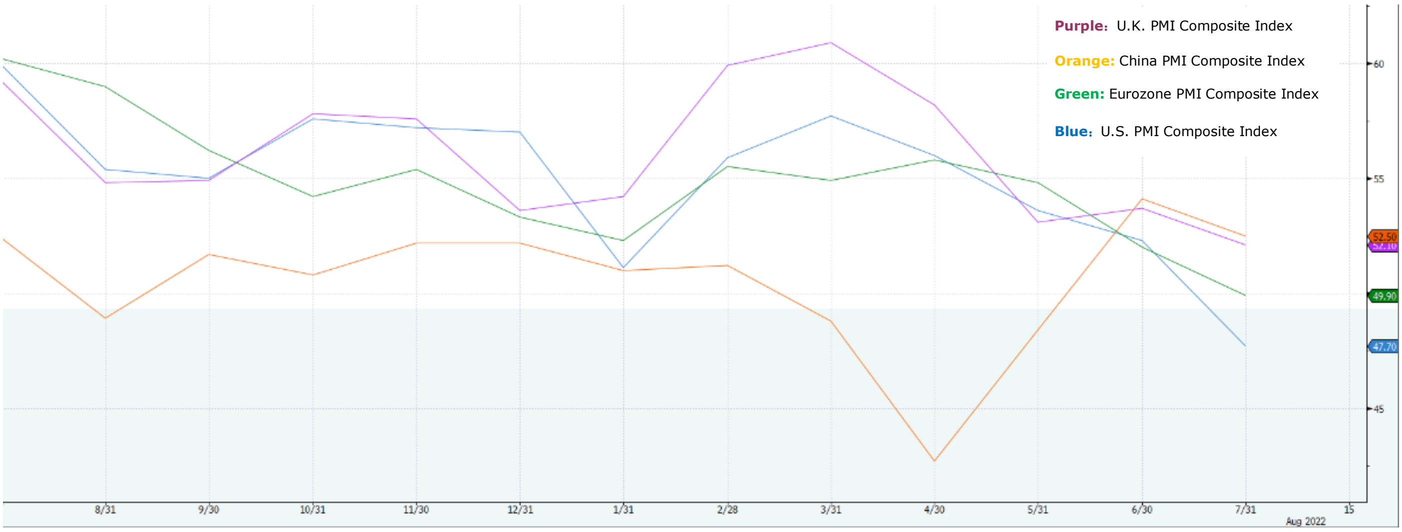
China Social Loans Lower than Expectation

China's social loans grew in July by 756.1 billion yuan, lower than expected and down on the same period last year. Residential mid-term loans were down 250 billion yuan, and companies' long-term loans were down 150 billion yuan on the year. M2—Social Financing difference expanded to 1.3% in July, refreshing its highest level since 2016. The data indicated that the liquidity from banks to entities was delayed. In other words, companies and individuals were less willing to increase loans and expand businesses or investments. The next critical time stamp was the 20th political conference, when the market expected some housing and pandemic-related policies to be announced.

Shanghai's June new commercial house sales index is down 2.9% from May, down 7.5% on the year. At the same time, fixed-income fund returns improved by 0.1-0.15% from last July. The different yields would drive many house investors to the money markets. The housing market was the critical sector to stabilise the current Chinese economy since the sector, and related industries, contributed more than 35% of total GDP. The average housing loan should be much lower than the basis loan rate during an historical monetary easing cycle. However, the current housing loans were similar to basis loans. The encouragement of down payments was not strong enough to resolve long-run investment in housing. In addition, there seemed to be little room to expect a significant decrease when major economies are in an interest hiking cycle.

In general, investment willingness shift, high loan rates, and expectations of policy changes limited the current buying interest in China's housing market.

Major Economies PMI Chart



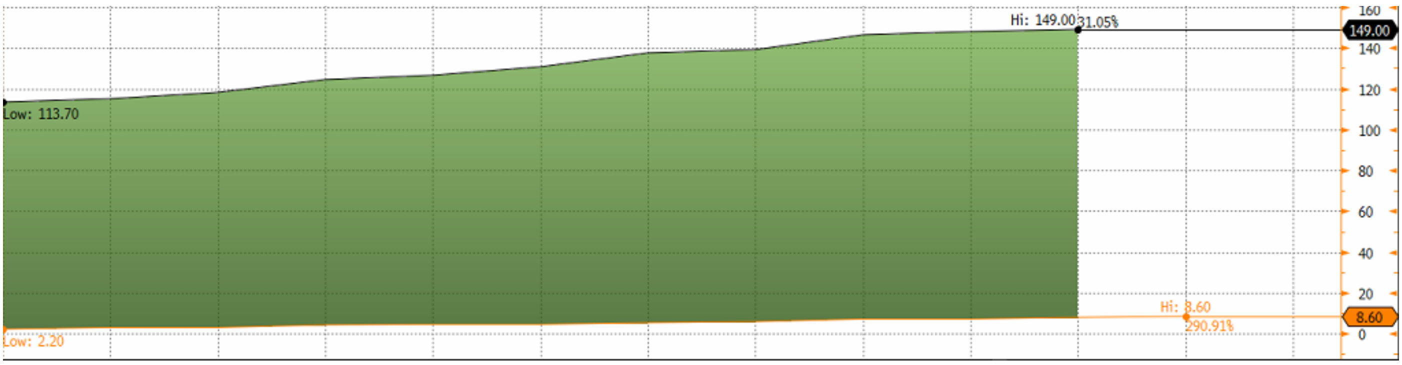
Sources: Bloomberg

	Last	Previous	
Shanghai&Shenzhen 300 Index	4185.68	4148.08	**0.91%**
Dow Jones Industrial Average	33912.44	32832.54	**3.29%**
FTSE 100 Index	7509.15	7482.37	**0.36%**
Nikkei 225 Index	28871.78	28175.87	**2.47%**
BVAL U.S. 10-year Note Yield	2.8009	2.7565	**1.61%**
BVAL China 10-year Note Yield	2.7187	2.7904	**-2.57%**

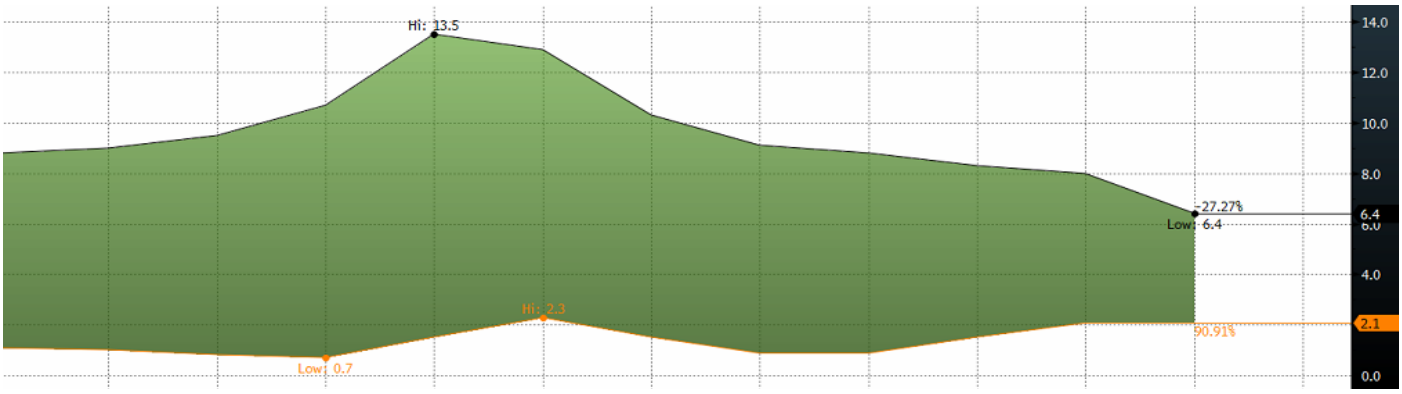
Unexpected Medium Lending Rate Cut in China

The Chinese Central Bank (PBOC) unexpectedly lowered the medium lending facility rate at one-year maturity from 2.85% to 2.75%. Although the single-time cut was small, keeping liquidity at a high level during a general interest hike worldwide was impressive. Market participants expected the Loan Prime Rate would decrease in the following weeks. Some macro analysts believed the decrease was to neutralise the negative impact of M2 figures issued last Friday.

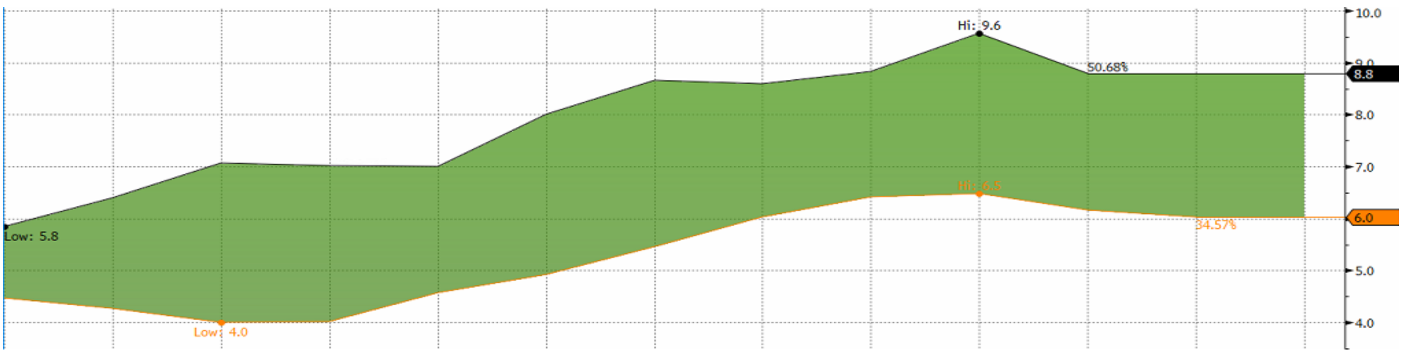
Eurozone PPI—CPI



China PPI—CPI



U.S. PPI—CPI(Excl. Food and Energy)



Sources：Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	7980.00	7987.50	**-0.09%**
LME Aluminium 3 Month Rolling	2390.00	2445.50	**-2.27%**
WTI Cushing Crude Oil	89.41	90.76	**-1.49%**
Platts Iron Ore Fe62%	104.40	108.80	**-4.04%**
U.S. Gold Physical	1781.15	1794.29	**-0.73%**
BDI	1404.00	1566.00	**-10.34%**

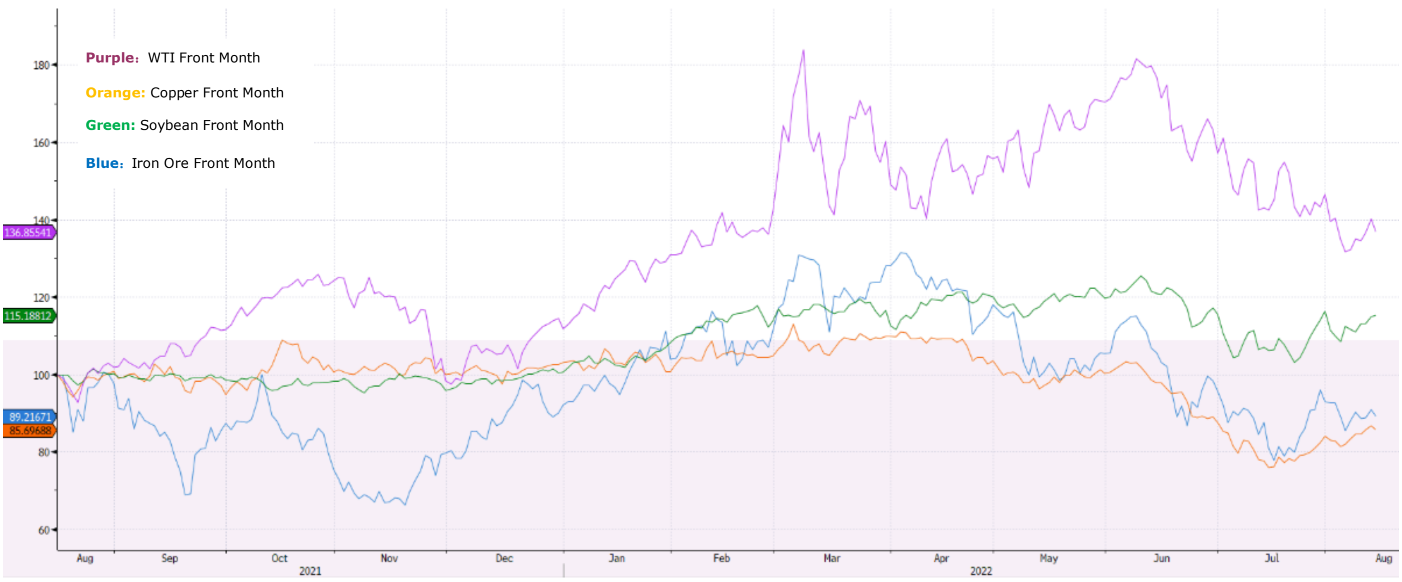
Central Banks Role During Economic Cycle

The fundamental problem of stagflation is insufficient supply and low efficiency. The reason for stagflation is that the previous technological progress has slowed down, and the corresponding internal distribution mode and globalisation mechanism are difficult to maintain. Thus, chaos and contradictions broke regarding global and domestic capital, securitised development and fairness, resources, and environment. The old distribution system ended in turmoil following the reform of distribution systems in many countries. New trade agreements are emerging in different regions and covering more non-trade areas. The supply chain is redistributing its division of labour towards the principle of security and efficiency rebalancing to promote the reform of globalisation.

The central banks of the U.S., E.U. and U.K. essentially represented a general route to a global solution to stagflation because the three economies accounted for 80% of currency payments around the globe. The central banks' decision to start interest hikes was sometimes a reflection of "political correctness" to guard the currency's credit. The central banks must choose between a market risk increase or an inflation risk increase. Unfortunately, some central banks may lose both games because of unsuccessful inflation control and accelerating the economic downturn.

The correction in some major commodity prices was periodical; however, the market may stay in a high price range in the current years as stagflation was coupled with low growth and high inflation.

Normalised Iron ore, Copper, Soybean and Crude Oil price



Sources: Bloomberg, FIS

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—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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