

FIS Macro Report

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	Last	Previous	% Change
U.S. Dollar Index(DXY)	108.92	106.50	2.28%
USD/CNY	6.8635	6.7920	1.05%
U.S. FOMC Upper Interest Rate	2.25	1.50	50.00%
China Repo 7 day	1.45	1.40	3.57%
Caixin China Manufacturing PMI	50.40	51.70	-2.51%
Markit U.S. Manufacturing PMI	52.50	52.90	-0.76%

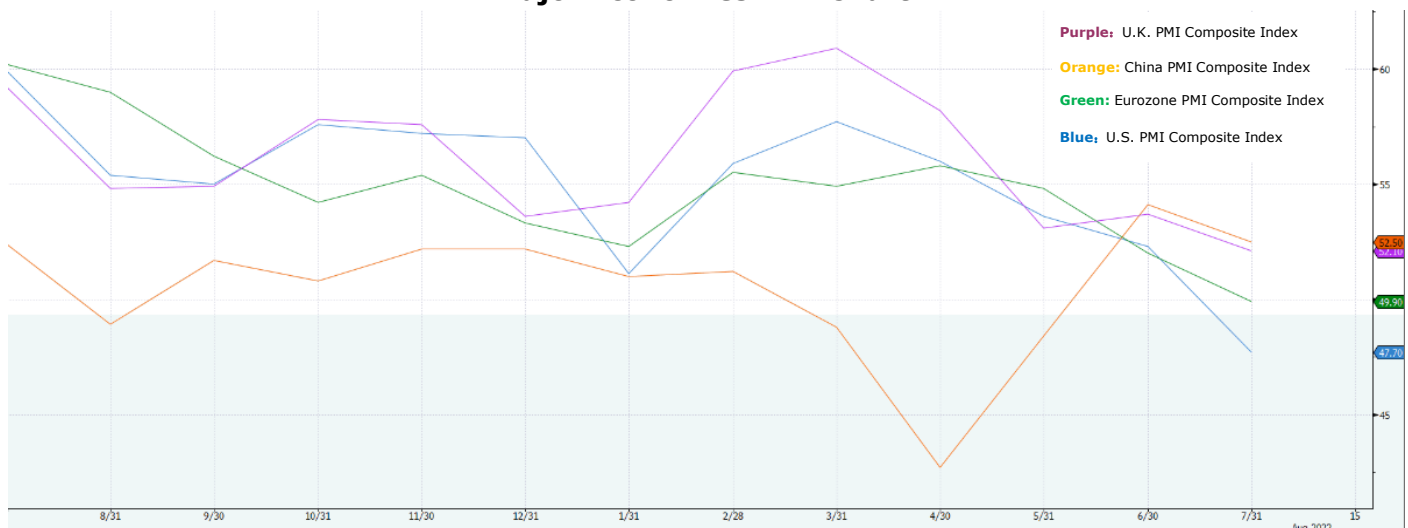
Inflation Turning in U.S.

U.S. inflation mirrored that of global inflation and any sense of a change in U.S. inflation levels could become an early signal of the changing expectation for European countries. The nominal CPI annual growth rate was 8.5% in July, lower than 9.1% in June and far from expectation at an above 9% rate. The sharp drop in gasoline prices and travel neutralised the increase in food and house rent prices. Gasoline decreased 7.7% in July (an increase of 11.2% in June). The core CPI in July rose 5.9%, flat from June. Core CPI entered a descending Tunnel in May. The combined views from statistical angles indicate U.S. inflation reached a ceiling point. However, it could take 2-3 months to see how long the country would stay at these levels before a sharp drop.

Conversely, the non-agriculture data stayed very strong, indicating the inflation decrease might take a longer time. The leading inflation indicators, including salaries and house rent, potentially saw a much higher percentage than the Federal Reserve’s target growth range. The high nominal inflation potentially impacts the economy and people’s livelihood.

There are some market voices cautioning that there’s room for more inflation. One prediction is that the interest rate will reach 3.5-3.75% by the end of 2022. It is hard to anticipate the absolute top for interest rates in the next two years. The market is not likely to start interest rate cuts shortly after the end to hikes.

Major Economies PMI Chart



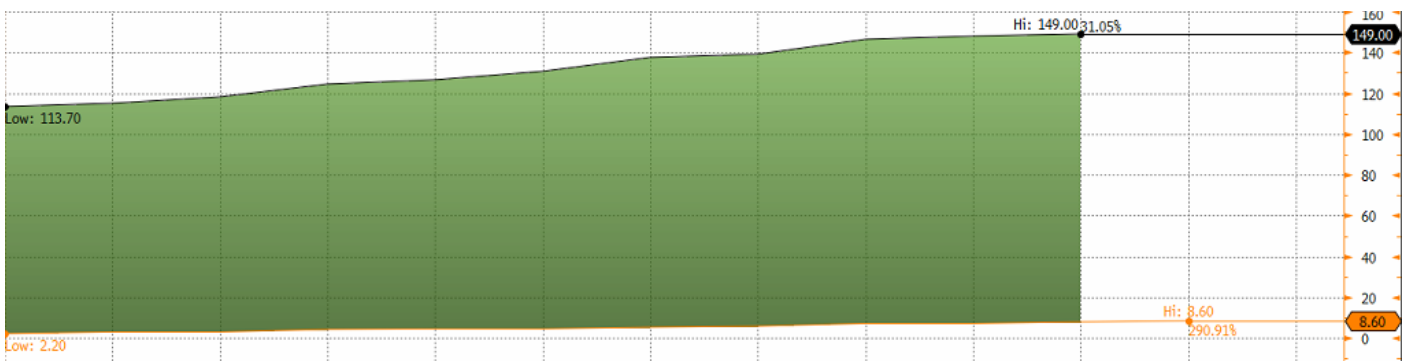
Sources: Bloomberg

	Last	Previous	
Shanghai&Shenzhen 300 Index	4181.40	4185.68	-0.10%
Dow Jones Industrial Average	33063.61	33912.44	-2.50%
FTSE 100 Index	7533.79	7509.15	0.33%
Nikkei 225 Index	28794.50	28871.78	-0.27%
BVAL U.S. 10-year Note Yield	3.0343	2.8009	8.33%
BVAL China 10-year Note Yield	2.6660	2.7187	-1.94%

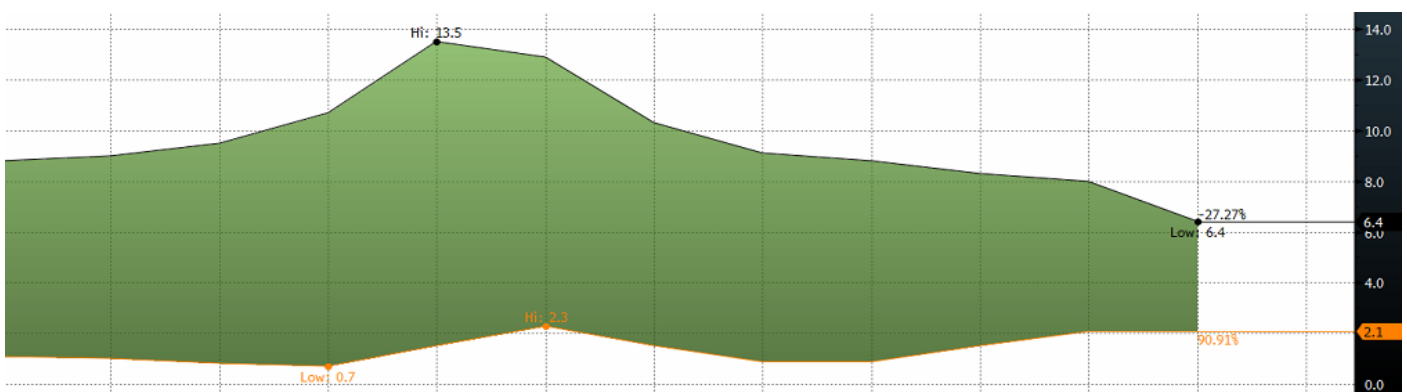
Inflation Turning in U.S.(Cont'd)

An increase in the probability of a recession does not mean a deepening of the recession. U.S. has entered a recession from Q1 since two consecutive negative growth quarters is a usual definition of an economic recession. Luckily, it is a slight recession in the U.S., given solid job numbers, controlled energy costs, a strong currency, and a slight decrease in major industries' size.

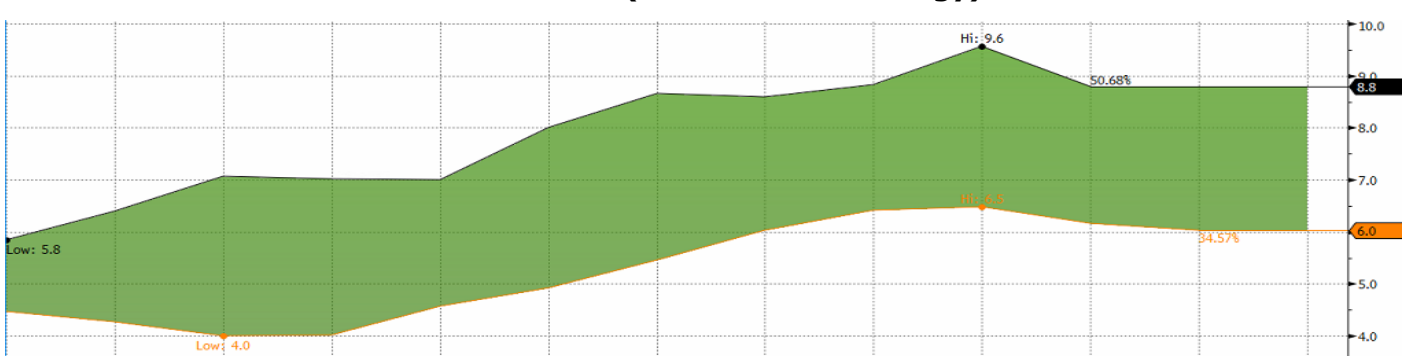
Eurozone PPI—CPI



China PPI—CPI



U.S. PPI—CPI(Excl. Food and Energy)



Sources: Bloomberg, FIS

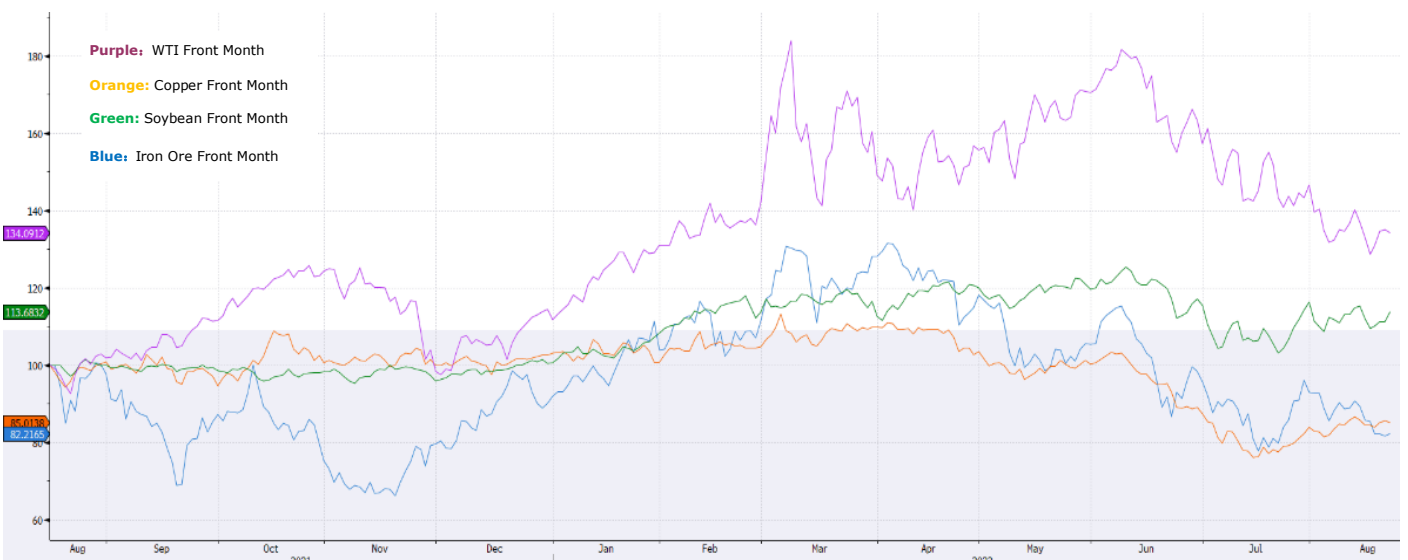
	Last	Previous	
LME Copper 3 Month Rolling	8027.00	7980.00	0.59%
LME Aluminium 3 Month Rolling	2390.50	2390.00	0.02%
WTI Cushing Crude Oil	90.23	89.41	0.92%
Platts Iron Ore Fe62%	100.65	104.05	-3.27%
U.S. Gold Physical	1737.85	1775.69	-2.13%
BDI	1270.00	1404.00	-9.54%

Chinese Monetary Policy

Similar to global central banks, the end of interest decrease does not mean the central bank in China has to start interest hikes immediately. The People’s Bank of China decreased 15 bps on a 5-year Loan Prime Rate, in line with a previous decrease on Medium Lending Facilities. The strategy neutralised a negative impact of a sharp depreciation a week ago. Thus, equities and commodities started to recover any lost territory early this week. China is approaching the floor area for interest rates because the absolute LPR ratio was as low as in 2019. Moreover, the different interest directions would attempt money flow out of China to the U.S. considering the historical high-rate gap, unless China could prove a much better yield in the equity or bond markets.

The interest cut includes a stimulus on enterprises’ investment and a deleveraging process on residents. Chinese reserves increased by 1.88 trillion yuan in H1 2022 from 2023. The deleverage in housing would benefit residents’ consumption in other areas and decrease the housing-related risk.

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

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