

FIS Macro Report

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

30/8/2022

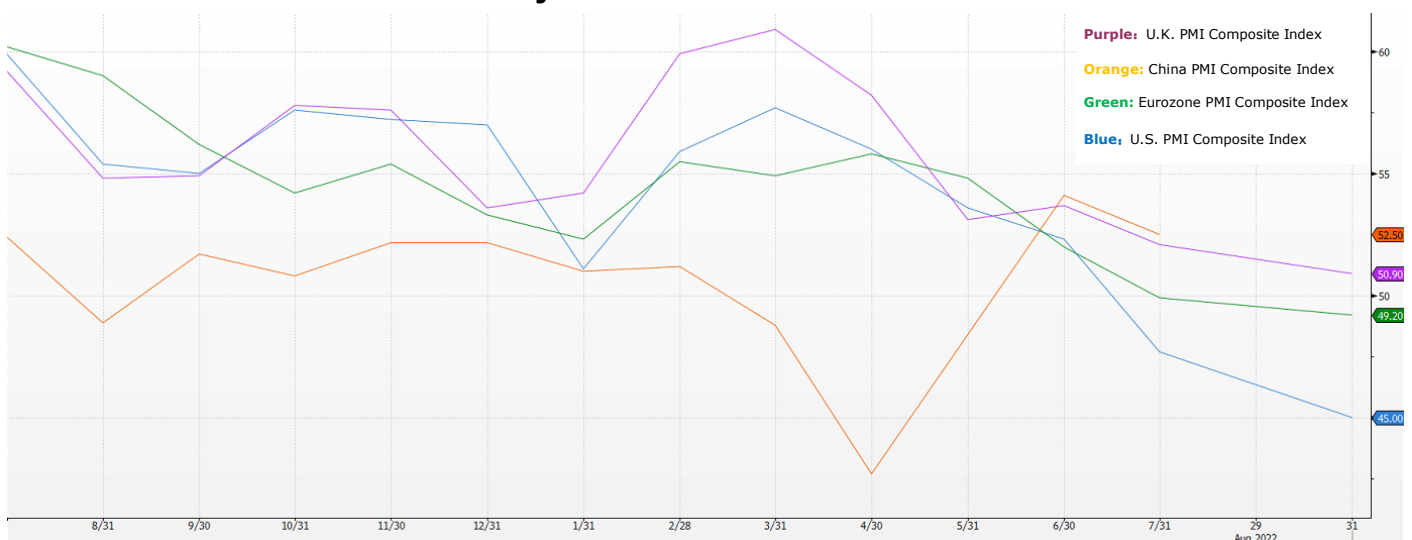
	Last	Previous	% Change
U.S. Dollar Index(DXY)	108.70	108.62	0.07%
USD/CNY	6.9206	6.8544	0.97%
U.S. FOMC Upper Interest Rate	2.25	1.50	50.00%
China Repo 7 day	1.75	1.45	20.69%
Caixin China Manufacturing PMI	50.40	51.70	-2.51%
Markit U.S. Manufacturing PMI	52.50	52.90	-0.76%

The Jackson Hole Conference Embraces Tightening Policy

Central banks gathered in Jackson Hole last week and making policy tightening signals for September. The Chairman of U.S. Federal Bank, Jerome Powell, gave a 10-minute "Hawkish" speech, which knocked down the Dow Jones index by over 1000 points. After the speech, the short-term and long-term bond yields widened, and the 75 bps interest hike probability in September predicted by the FedWatch tool jumped from 50% to 60%.

Like before, the Fed officials generally believe that the range and frequency of interest rate hikes depend on inflation and related data. The nominal inflation fell by 0.5% month on month and was significantly lower than expected. Meanwhile, the core inflation index represented by PCE has dropped to a new low after February 2021. It implied that the transmission of high energy inflation to downstream and consumption has ended. However, the absolute value of PCE of 4.9% is still far from the inflation target of 2%, which could take several years, given the most aggressive prediction model on interest hikes. Other high-frequency data, such as the wages in the United States, still prove that it is difficult for short-term inflation to fall back to a reasonable level. In addition, the prediction model of the Federal Reserve Bank of Cleveland suggests that with the recovery of commodities in August and the rapid rise of rents and wages, the nominal CPI may rebound again. But it will take three months or even longer to see a real reversal at the top.

Major Economies PMI Chart



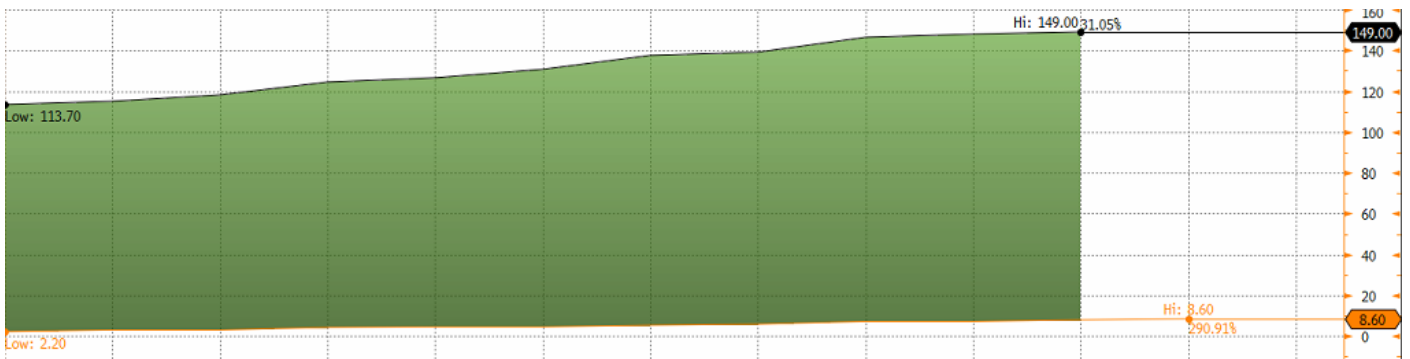
Sources: Bloomberg

	Last	Previous	
Shanghai&Shenzhen 300 Index	4089.52	4181.40	-2.20%
Dow Jones Industrial Average	32098.99	33063.61	-2.92%
FTSE 100 Index	7427.31	7550.37	-1.63%
Nikkei 225 Index	27878.96	28794.50	-3.18%
BVAL U.S. 10-year Note Yield	3.1153	3.0343	2.67%
BVAL China 10-year Note Yield	2.7131	2.6660	1.77%

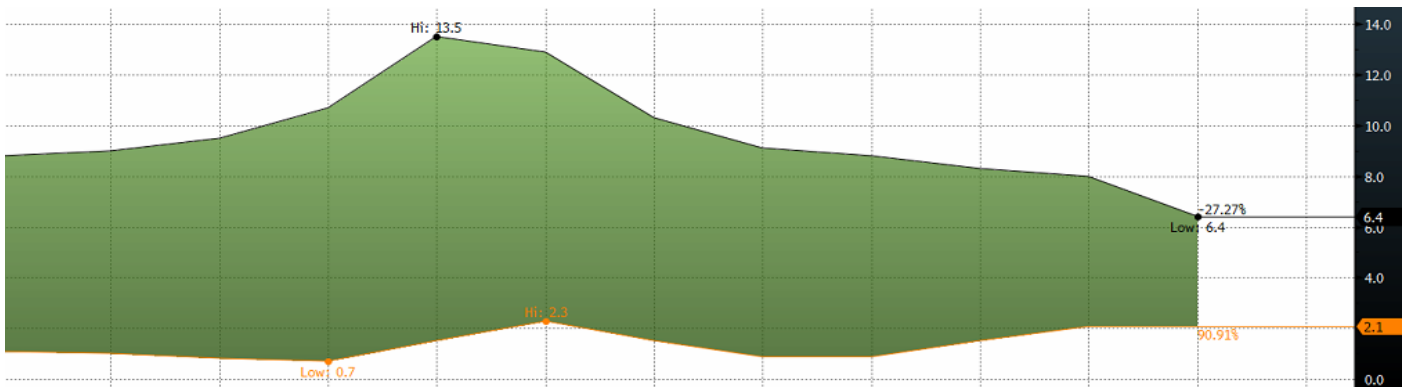
The Jackson Hole Conference Embraces Tightening Policy(Cont'd)

We still maintain the view that inflation has hit a high. It could take three or more months to see this trend's reversal because of the high base levels. The terminal number of the 2022 interest rate prediction raised from 3.5-3.75% to 3.75- 4%, which indicated that the interest hike cycle would extend.

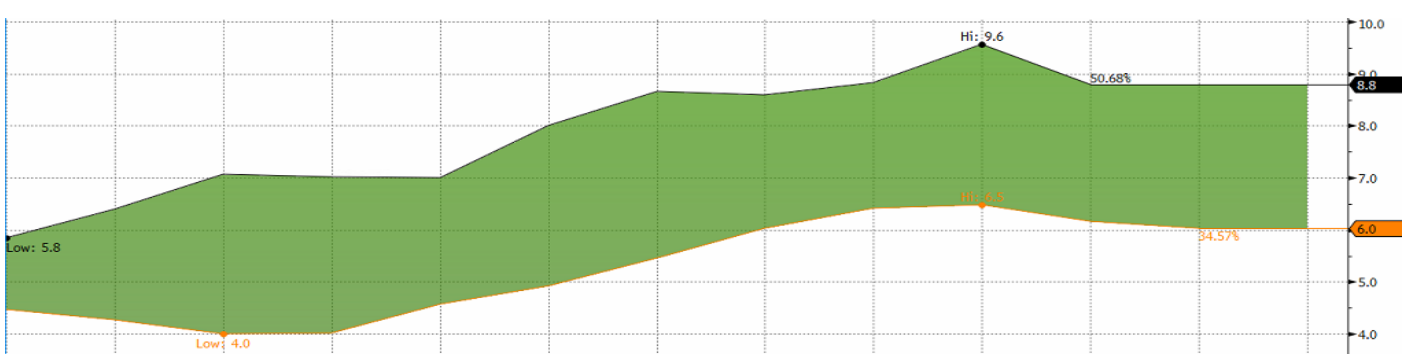
Eurozone PPI—CPI



China PPI—CPI



U.S. PPI—CPI(Excl. Food and Energy)



Sources: Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	8160.50	8078.50	1.02%
LME Aluminium 3 Month Rolling	2493.50	2386.00	4.51%
WTI Cushing Crude Oil	97.01	90.23	7.51%
Platts Iron Ore Fe62%	101.75	102.30	-0.54%
U.S. Gold Physical	1736.81	1748.15	-0.65%
BDI	1082.00	1279.00	-15.40%

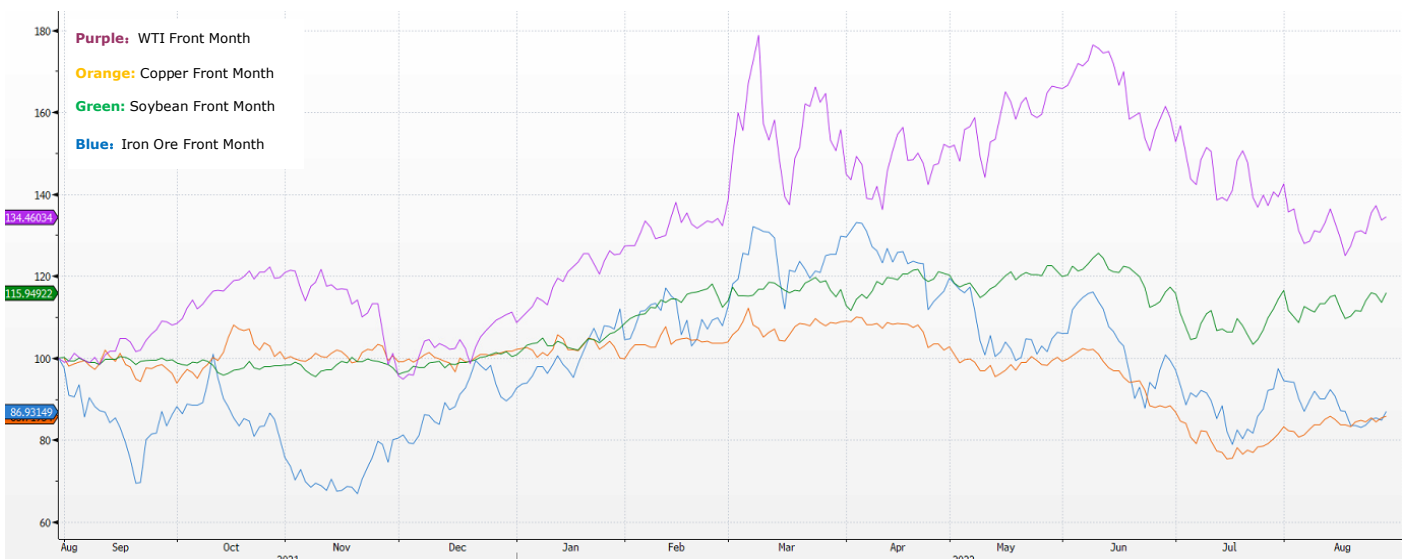
The Jackson Hole Conference Embraces Tightening Policy(Cont'd)

It is worth noting that the U.S. GDP showed a strong recovery in Q2 by 0.6%, which was previously expected to be a negative number. The Atlanta Fed predicts the Q3 and Q4 economy to see resilient growth, which could pull the U.S. economy out of recession. In classified statistics, export growth from negative to positive and consumption growth are expected to become the most significant contributors to GDP growth in Q2 and the following two quarters.

The Metals Outlook in China in September and October

Both utilisation rates in copper and steel climbed massively from late July to late August. However, the metals performed moderately compared with the consumption market. Major industrial metals experienced a significant correction in China from May to July, which also resisted the global market. The late Q2 and Q3 correction in metals were linked to less than expected downstream operation, an unstable economic situation due to the pandemic, and geopolitical tension. However, we expected the consumption would come late rather than never after the cooling down of extreme weather and the arrival of the usual construction. New house construction, new energy facilities and battery projects, and other open infrastructure would bring back a strong base effect in the market.

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.

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