

FIS Macro Report

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****Notice: There will be no Macro Report on Oct 4th****

27/9/2022

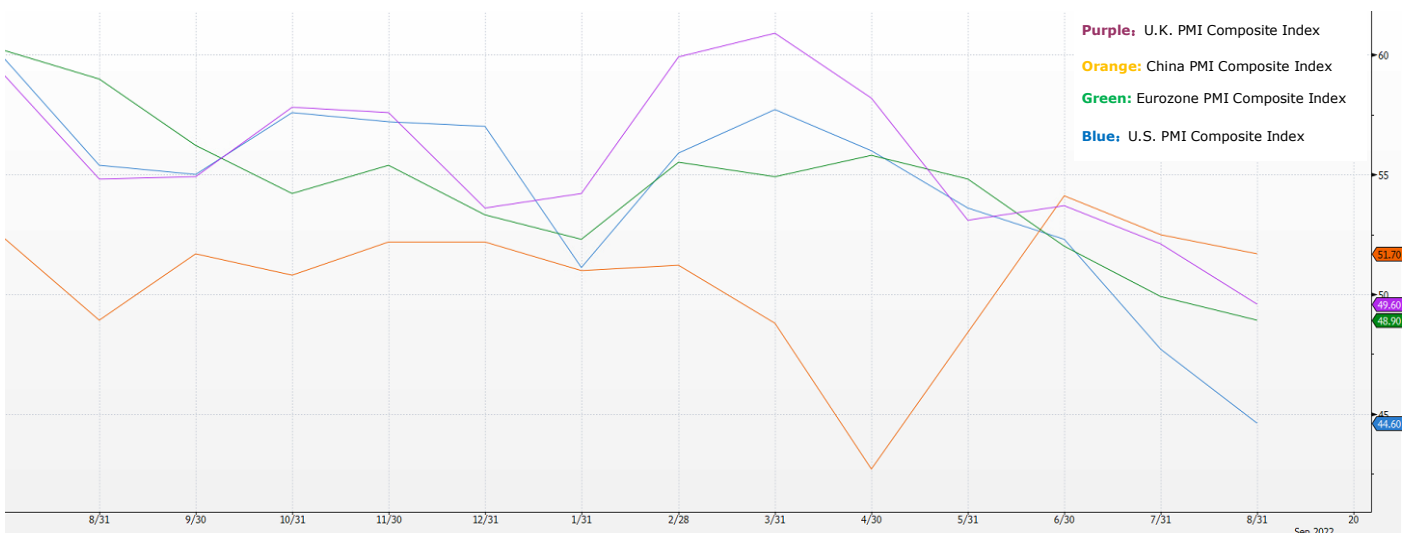
	Last	Previous	% Change
U.S. Dollar Index(DXY)	113.65	110.22	3.11%
USD/CNY	7.1619	7.0305	1.87%
U.S. FOMC Upper Interest Rate	3.25	2.50	30.00%
China Repo 7 day	1.45	1.75	-17.14%
Caixin China Manufacturing PMI	49.50	50.40	-1.79%
Markit U.S. Manufacturing PMI	51.20	52.50	-2.48%

After Super Central Bank Week

U.S. Federal Reserve announced a 75 basis points hike in the September FOMC, which was as previously expected. However, the chairman of the Fed, Jerome Powell, strengthened the connection between inflation and interest rate decisions. Powell insists on interest hikes until the inflation rate reaches or reduces below 2%. As we all know, the primary inflation benchmark, core CPI growth, was 6.3% in August. What’s worse, the plot matrix indicated that the hike cycle will end in 2024. Ten central banks followed the interest hike in the U.S. last week. Argentina raised its interest rate to 75%. European Central Bank President Christine Lagarde said on the 20th that to prevent high inflation from becoming a long-run obstacle to economic activity, the European Central Bank will continue to raise interest rates.

The U.S. dollar index refreshed its 20-year-high on September 23rd at 114.58. China increased the forex reserve forward purchase ratio from 2%–20% to increase the banks’ buying cost on forex. Chinese yuan stabilised on Tuesday following the news. However, the Euro/U.S. reached 0.9552 on September 26th, and the market was concerned about the economic recession after ECB announced the aggressive interest hike route. Europe has closed 10% of steel capacities. At the same time, Europe Union contributed to cutting 10% electricity consumption in 2022 based on 2021.

Major Economies PMI Chart

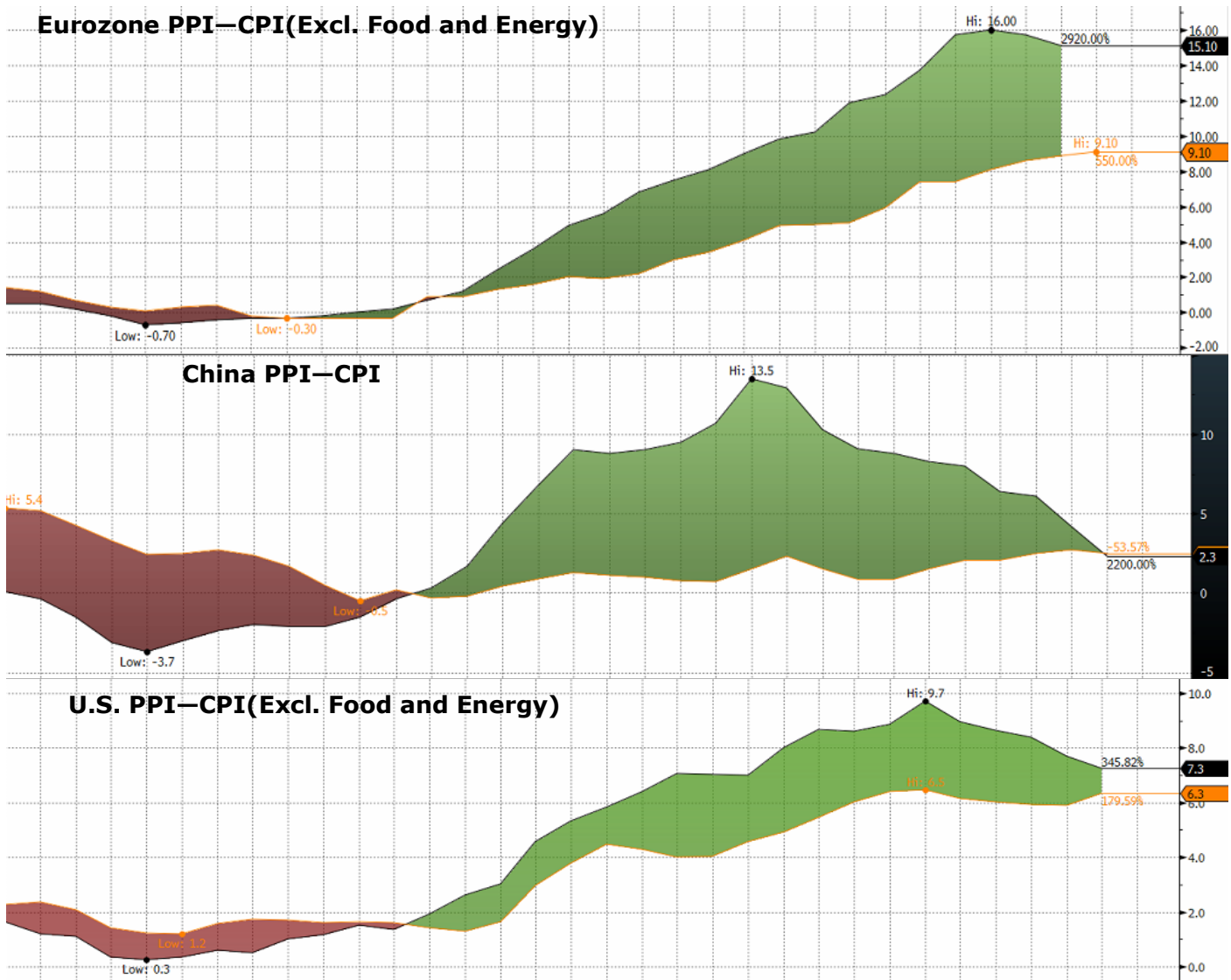


Sources: Bloomberg

	Last	Previous	
Shanghai&Shenzhen 300 Index	3836.68	3928.00	-2.32%
Dow Jones Industrial Average	29260.81	31019.68	-5.67%
FTSE 100 Index	7020.95	7236.68	-2.98%
Nikkei 225 Index	26431.55	27875.91	-5.18%
BVAL U.S. 10-year Note Yield	3.8930	3.4910	11.52%
BVAL China 10-year Note Yield	2.7690	2.7371	1.17%

After Super Central Bank Week(Cont'd)

In August, Chinese retail sales of consumer goods amounted to 3.63 trillion yuan, up 5.4% on the year, and up 2.7% from July. August Chinese industrial value was up 4.2%, increasing 0.4% from July. Chinese PM Li Keqiang emphasised extending the tax payment cycle to help mid and small-capital enterprises and increase tax rebates for manufacturers. Lately, the guarantee on the delivery of houses alleviates the potential default on the liquidity chain between developers and banks.



Sources: Bloomberg, FIS

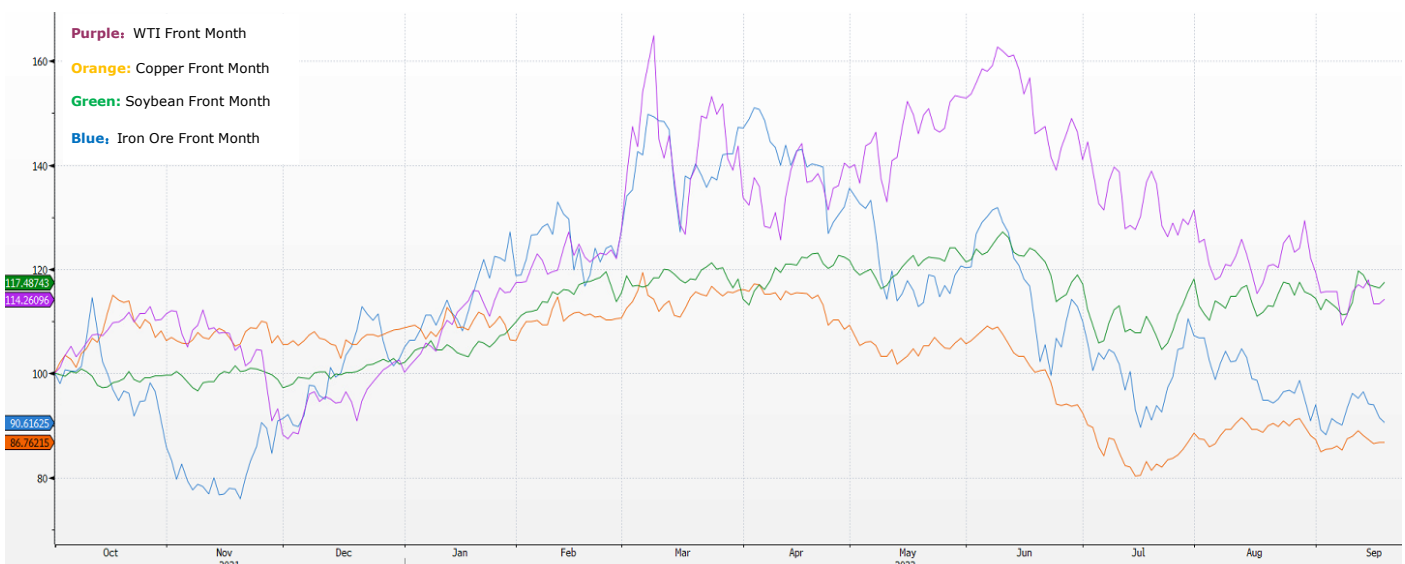
	Last	Previous	
LME Copper 3 Month Rolling	7341.50	7753.50	-5.31%
LME Aluminium 3 Month Rolling	2139.50	2251.00	-4.95%
WTI Cushing Crude Oil	76.71	85.73	-10.52%
Platts Iron Ore Fe62%	96.05	97.70	-1.69%
U.S. Gold Physical	1631.56	1664.89	-2.00%
BDI	1813.00	1553.00	16.74%

Is there a Theoretical Top for the U.S. Dollar?

Bloomberg analysts indicated that the probability of consecutive two-quarter negative growth in Europe had reached 80% because of the winter's unaffordable energy consumption. This number was 60% three months ago. Two-quarter negative growth in a roll means a technical recession. Suppose we learn from all interest hike cycles. In that case, the actual recession comes typically after the cycle, similar to a side-effect rather than a direct impact from the perspective of market performance. 3 out of 4 big hike cycles historically in the U.S. saw a bullish market on equities during the fast hike period. However, all the cycles ended with a huge correction when the Fed terminated the interest raise. Thus, the recession expectation timestamp has become a signal of the market reversal.

There is no theoretical roof for the U.S. dollar index, consisting of five other important currencies. We could understand the U.S. index as how reliable a foreign currency is to the U.S. currency. For example, the fast depreciation of the Euro was because of a high negative correlation between the two currencies. As a result, traders have to sell euros and buy U.S. dollars to avoid currency risk. On the other side, Euro must be the strongest currency when the interest hike ends and the U.S. dollar terminates its growth. Net, the current top did not exist for the U.S. dollar. However, the time of reversal should be earlier than the hike cycle end.

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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