# FIS Macro Report

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**21/03/2022**

| | Last | Previous | % Change |
|---|---|---|---|
| **U.S. Dollar Index(DXY)** | 103.33 | 103.60 | -0.26% |
| **USD/CNY** | 6.8809 | 6.8798 | 0.02% |
| **U.S. FOMC Upper Interest Rate** | 4.75 | 4.50 | 5.56% |
| **China Repo 7 day** | 2.25 | 2.20 | 2.27% |
| **Caixin China Manufacturing PMI** | 51.60 | 49.20 | 4.88% |
| **Markit U.S. Manufacturing PMI** | 47.70 | 46.70 | 2.14% |

## Short Views on Bank System Risk

Following the previous articles last week, we still believe that the banks' system failure was different from the pre-economic crisis in 2008. Then, UBS and the Swiss government took action to save Credit Suisse. The panic in U.S. banks was a "sentiment risk" instead of a "financial risk".

The economic risk typically involves more elements, for example, industrial bankruptcies. Fortunately, both Europe and U.S. government took immediate measures to cut the contagion effect of the liquidity risk. Both Silicon Valley Bank (SVB) and Credit Suisse have had risk control problems for a long time. The massive withdrawals to other banks with sound management systems should resist such risks.

The current leverage ratio was way less than in 2008, with much stricter supervision of financial institutions. As a result, house debts and residential leverage ratio were in the 3-year-low range in the U.S. There are more financial tools to save liquidity, including the Bank Term Funding Program (BTFP) from the U.S. Federal Reserve, which directly eases the liquidity pressure of commercial banks.

On the risk side, the outspread of bank withdrawals decreased investors' risk appetite. Thus, the major equity market, debts and commodities are encountering both value loss and volume shrinking. As a result, most investors were in a watch-and-see mode to wait for the direction of this systematic risk.

**PMI Index**

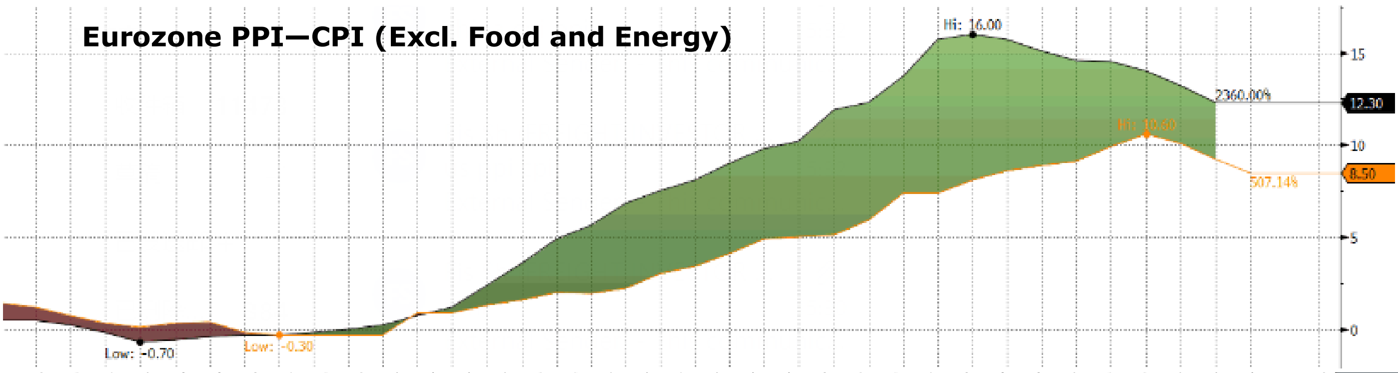

*Sources: Bloomberg*

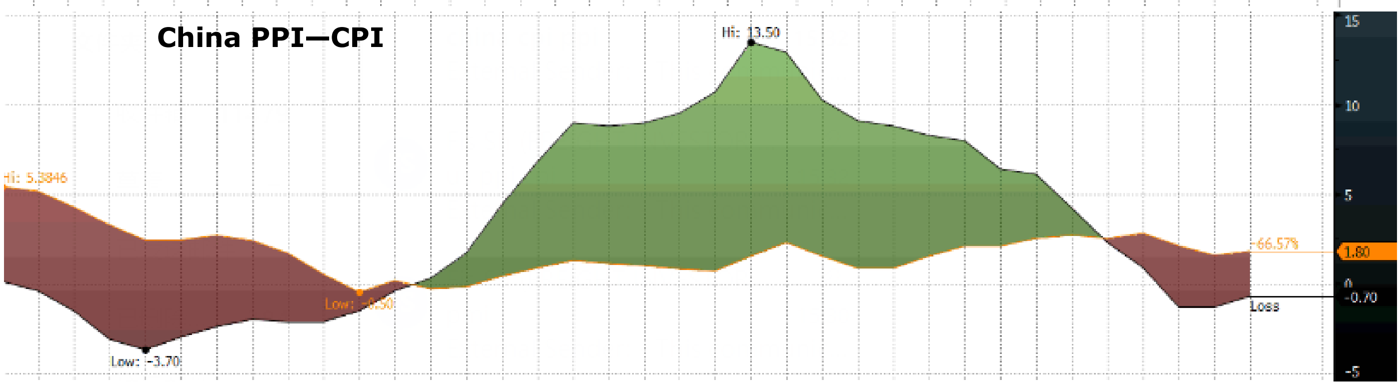
|  | Last | Previous |  |
|---|---|---|---|
| **Shanghai&Shenzhen 300 Index** | 3958.82 | 3967.14 | -0.21% |
| **Dow Jones Industrial Average** | 32244.58 | 31819.14 | 1.34% |
| **FTSE 100 Index** | 7403.85 | 7548.63 | -1.92% |
| **Nikkei 225 Index** | 27333.79 | 28143.97 | -2.88% |
| **BVAL U.S. 10-year Note Yield** | 3.4982 | 3.5425 | -1.25% |
| **BVAL China 10-year Note Yield** | 2.8403 | 2.8790 | -1.34% |

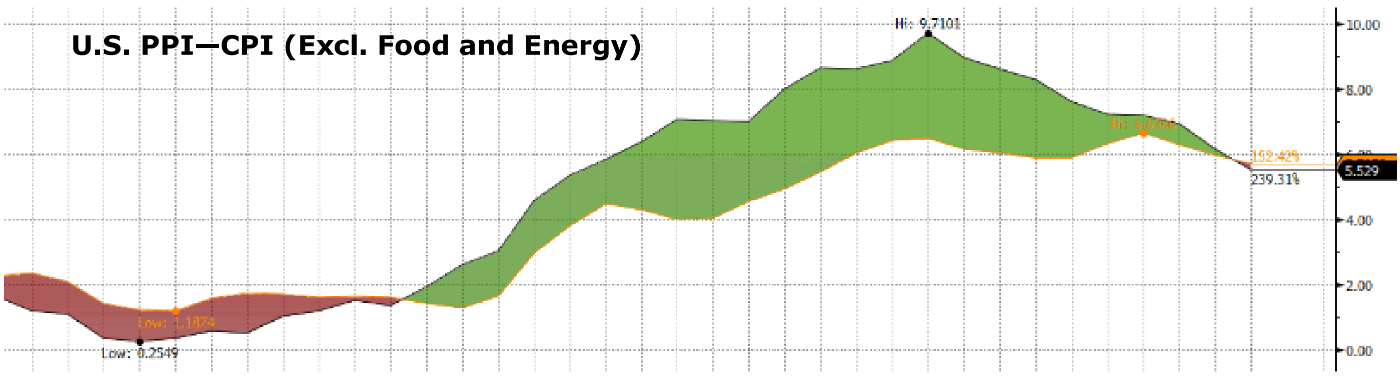
## Inflation became the secondary variation to the Fed's hike

The U.S. Federal Reserve must weigh the importance of inflation control and financial stabilisation in the current decision. Financial and system stabilisation has become the primary concern after the bank-run risk hit U.S. and Europe. Thus, the inflation control decision could be postponed to the late half of 2023 if it takes more time to resolve the bank system risk.

In February, U.S. CPI created a five-month drop in a roll, indicating the inflation slowed. However, it is expected that inflation may maintain high for a few months due to the resilience in salaries and house prices.




*Sources：Bloomberg, FIS*

| | Last | Previous | |
|---|---|---|---|
| **LME Copper 3 Month Rolling** | 8697.50 | 8931.00 | -2.61% |
| **LME Aluminium 3 Month Rolling** | 2274.50 | 2333.50 | -2.53% |
| **WTI Cushing Crude Oil** | 67.64 | 74.80 | -9.57% |
| **Platts Iron Ore Fe62%** | 126.50 | 132.35 | -4.42% |
| **U.S. Gold Physical** | 1982.57 | 1904.01 | 4.13% |
| **BDI** | 1535.00 | 1424.00 | 7.79% |

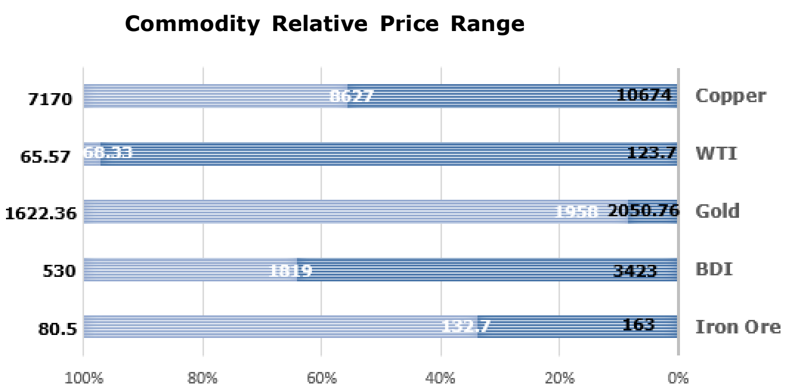
## Commodity Outlook and Major Economists Event

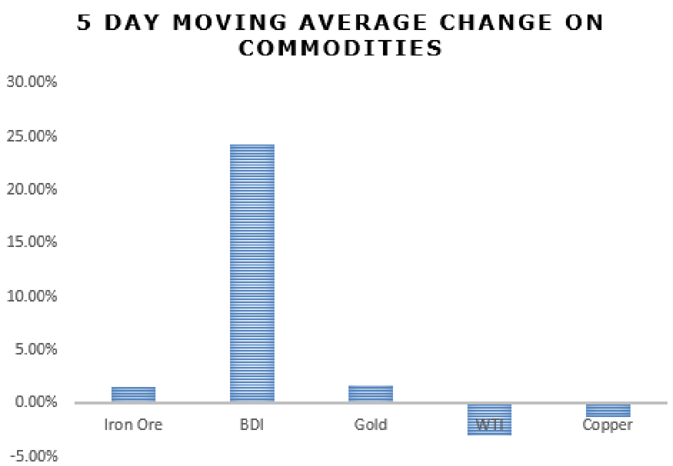
Fed Spectrometer: Fed Members' Policy Inclinations

2023 FOMC Voting Members [-2 = dovish/ 0 = neutral/ +2 = hawkish (1)]

| Board of Governors | | Alternate Voters (2) | |
|---|---|---|---|
| Jerome Powell, Chair | +1 | Helen Mucciolo, Interim First VP of FRB New York | N/A |
| Lael Brainard, Vice Chair of Board of Governor(3) | -2 | Loretta Mester, Cleveland | +1 |
| Michael Barr, Vice Chair for Supervision | 0 | Thomas Barkin, Richmond | 0 |
| Michelle Bowman, Governor | +1 | Raphael Bostic, Atlanta | -1 |
| Christopher Waller, Governor | +1 | Mary Daly, San Francisco | +1 |
| Lisa Cook, Governor | -1 | | |
| Philip Jefferson, Governonor | 0 | | |
| **Voting Regional FRB Presidents** | | **Non-Voters** | |
| John C Williams, New York | 0 | James Bullard, St Louis | +2 |
| Austan Goolsbee, Chicago | -1 | Esther George, Kansas City | +1 |
| Patrick Harker, Philadelphia | 0 | Susan Collins, Boston | 0 |
| Neel Kashkari, Minneapolis | +2 | | |
| Lorie Logan, Dallas | 0 | | |

(1) Numerical ratings are subjective assessments of Bloomberg's U.S. Economics team based on recent comments.
(2) Alternate Voters are non-voting unless required to vote in the absence of a voting member.




- On the left side, the Bloomberg Economics Fed Spectrometer subjectively classifies each governor or banker in a spectrum spanning from −2(Dove) to +2 (Hawk). Voters tilt Dovish in 2023 from this Spectrometer. The chart is updated weekly to observe the voters' decision expectations as an early indicator of FOMC decision.
- The iron ore and steel sector corrected as consumption proved slower as well as risk appetite became low after the bank run in the U.S.
- Primary coals saw resilient demand, and supply was also relieved.
- BDI improved fast, following the recovery sentiment on the global economy.
- Copper slightly corrected, dragged by the lenders' spread over risk in the U.S.
- The oil and energy market corrected, impacted by lenders' default potential, shifted investors to risk-hedging assets from the oil market.

*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 where there is high inflation (prices rising continuously) but no increase in the available jobs or business activity.

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