

FIS Macro Report

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	Last	Previous	% Change
U.S. Dollar Index(DXY)	102.14	102.43	-0.29%
USD/CNY	6.8776	6.8775	0.00%
U.S. FOMC Upper Interest Rate	5.00	4.75	5.26%
China Repo 7 day	2.02	2.85	-29.12%
Caixin China Manufacturing PMI	50.00	51.60	-3.10%
Markit U.S. Manufacturing PMI	51.70	47.70	8.39%

Will U.S. Federal Reserve cut Interest Rate in 2023?

Following the war and subsequent sanctions, the pandemic, new-trade treaties, bank-run and energy shortage, market expectations for interest rate hikes or cuts have changed frequently in the past few months. In the last couple of weeks, some market participants expected a “Federal Put”, which was linked to an interest rate cut. Even if there will be an interest rate cut, it will potentially take more than a year to hit the ground. We have listed some historical cases to find out triggers or conditions for an interest rate cut.

September, 1984: Volcker Time

After the aggressive interest hike from U.S Federal President Paul Volcker in the 1980s, inflation began to slow down. However, after witnessing a slowdown of figures in the job market, as well as negative economic growth, he decided to cut the interest rates to support the economy.

June, 1989: Saving and Loan Crisis

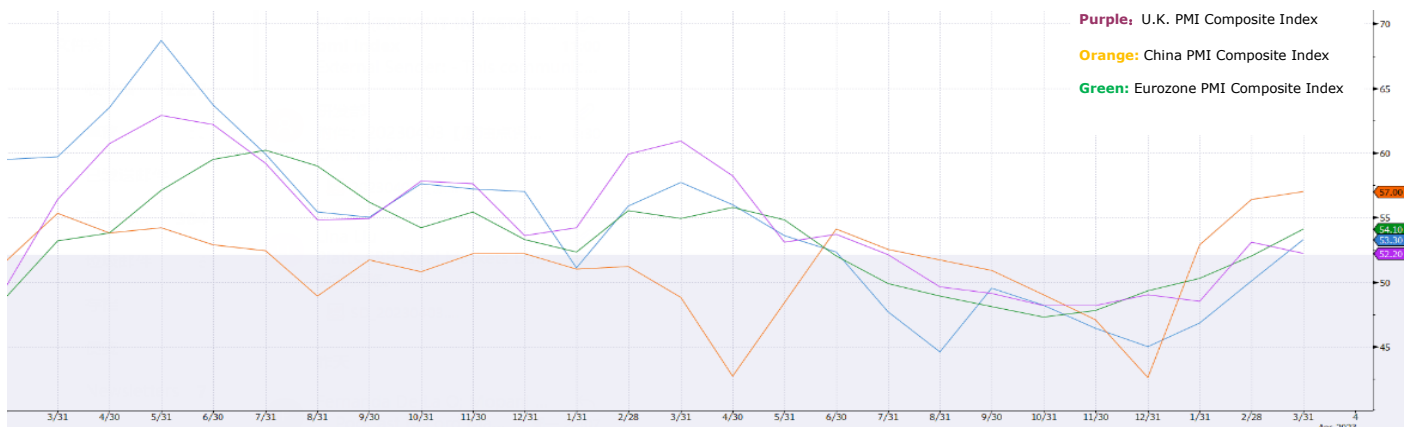
Several bank shut-downs. Europe and Japan plunged into an economic crisis. Federal initiate interest rate cut to counter against the outspread risks, as well as an internal bank-run.

September, 1998: Financial Crisis in Asia

Asia broke out into a financial crisis. LCTM closed down because of the massive investment in emerging markets. The U.S. Federal and other banks jointly saved the LCTM and started an emergency interest cut to prevent an economic crisis in the U.S.

September, 2007: U.S. Sub-Prime Crisis: The super liquidity and sub-prime in houses, followed by a default risk in the entire financial system. FOMC started an emergency call for an interest cut, to forestall the potential chaos to the financial system.

PMI Index



Sources: Bloomberg

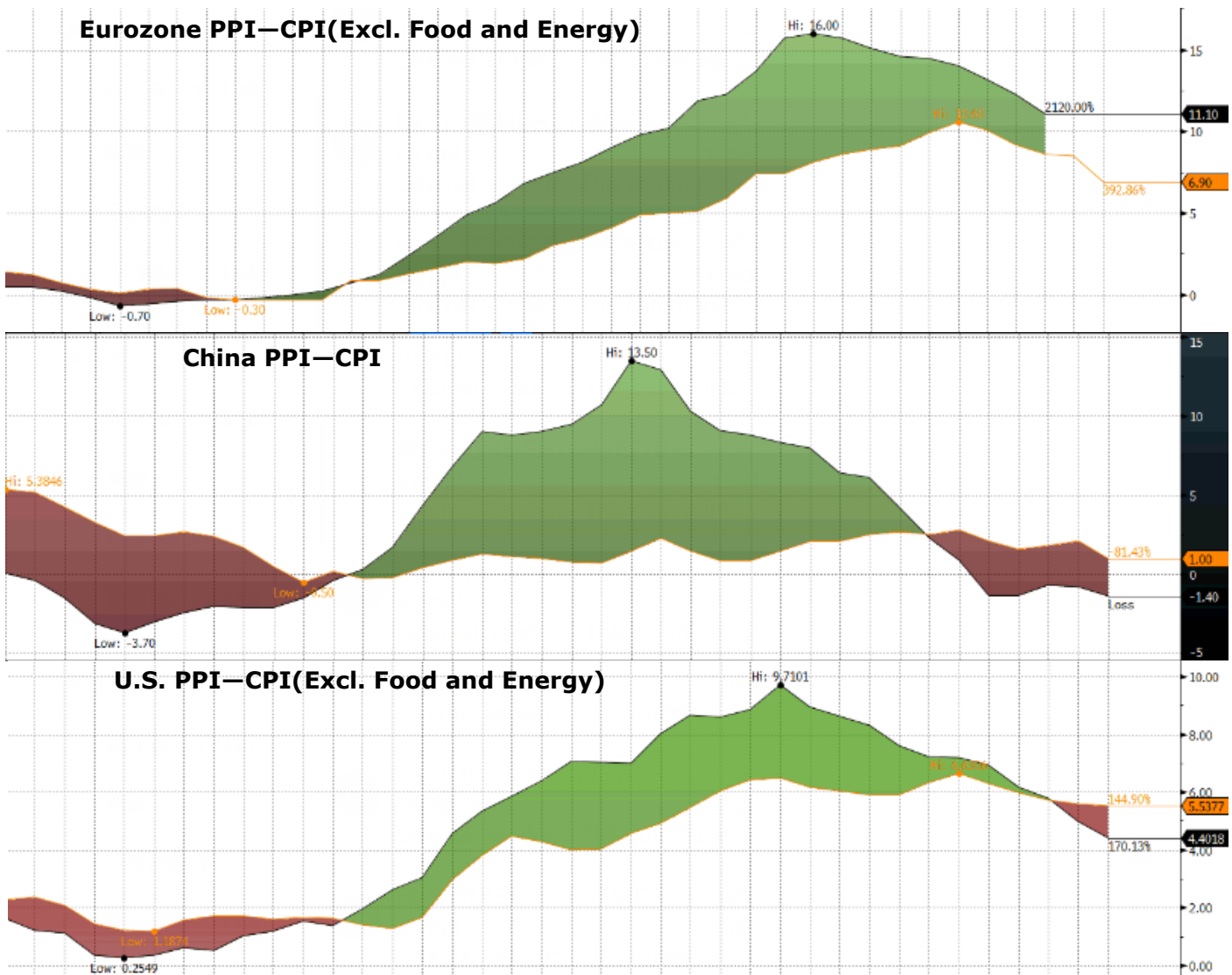
	Last	Previous	
Shanghai&Shenzhen 300 Index	4090.57	4012.48	1.95%
Dow Jones Industrial Average	33601.15	32432.08	3.60%
FTSE 100 Index	7673.00	7471.77	2.69%
Nikkei 225 Index	28188.15	27476.87	2.59%
BVAL U.S. 10-year Note Yield	3.4304	3.5446	-3.22%
BVAL China 10-year Note Yield	2.8589	2.8550	0.14%

The Slow Down on Interest Hike

August, 2019: Trade Tension between China and U.S.

The China and U.S. trade tension from 2018 had increased trade barriers for many countries. Thus, global trades tended to slow down. The Fed started a preliminary interest rate cut.

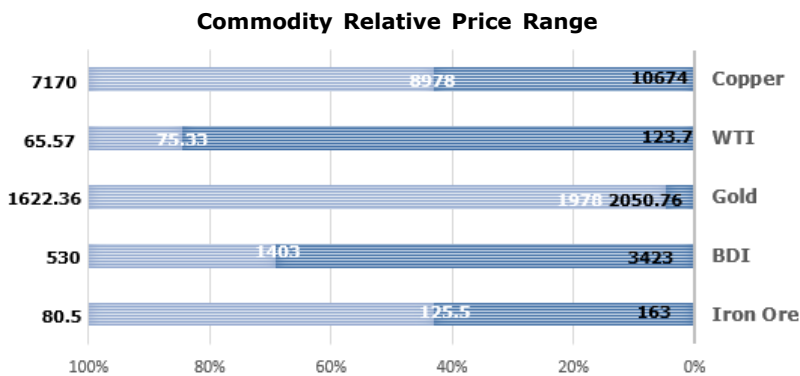
In general, the rate cut always happens in light of multiple economic indicators, for example, slowed inflation rate, slowed job market activities, lower salaries, systematic change in financial system, etc. We have yet to see the significance of these indicators for a rate cut at current months.



Sources: Bloomberg, FIS

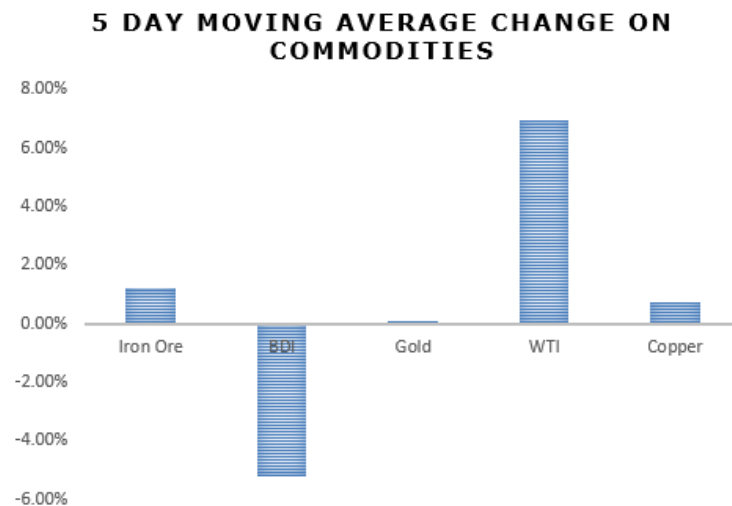
	Last	Previous	
LME Copper 3 Month Rolling	8917.00	8964.00	-0.52%
LME Aluminium 3 Month Rolling	2397.50	2363.50	1.44%
WTI Cushing Crude Oil	80.42	72.81	10.45%
Platts Iron Ore Fe62%	122.40	121.65	0.62%
U.S. Gold Physical	1981.73	1973.54	0.41%
BDI	1412.00	1456.00	-3.02%

Commodity Outlook and Major Economists Event



- The iron ore and steel sector corrected due to market concerns about regulative control on over-heated market.

- Primary coals saw resilient demand from China. However, price level became soft as domestic coal price was cut in China, as well as sluggish demand in ex-China Asian countries.



- BDI corrected because the current cargoes on the sea decreased in iron ore, grains and coals during past two weeks.

- Copper supply has become margin loose, which potentially creates a long-run resistance on the dynamics.

- Oil and energy market spiked due to war concerns, plus a vulnerable cut on production from OPEC countries.

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 a 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 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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