FIS Macro Report

18/07/2023

	Last	Previous	% Change
U.S. Dollar Index(DXY)	99.76	101.73	-1.94%
USD/CNY	7.1759	7.2119	-0.50%
U.S. FOMC Upper Interest Rate	5.25	5.25	0
China Repo 7 day	1.98	1.90	4.21%
Caixin China Manufacturing PMI	50.50	50.90	-0.79%
Markit U.S. Manufacturing PMI	45.20	47.10	-4.03%

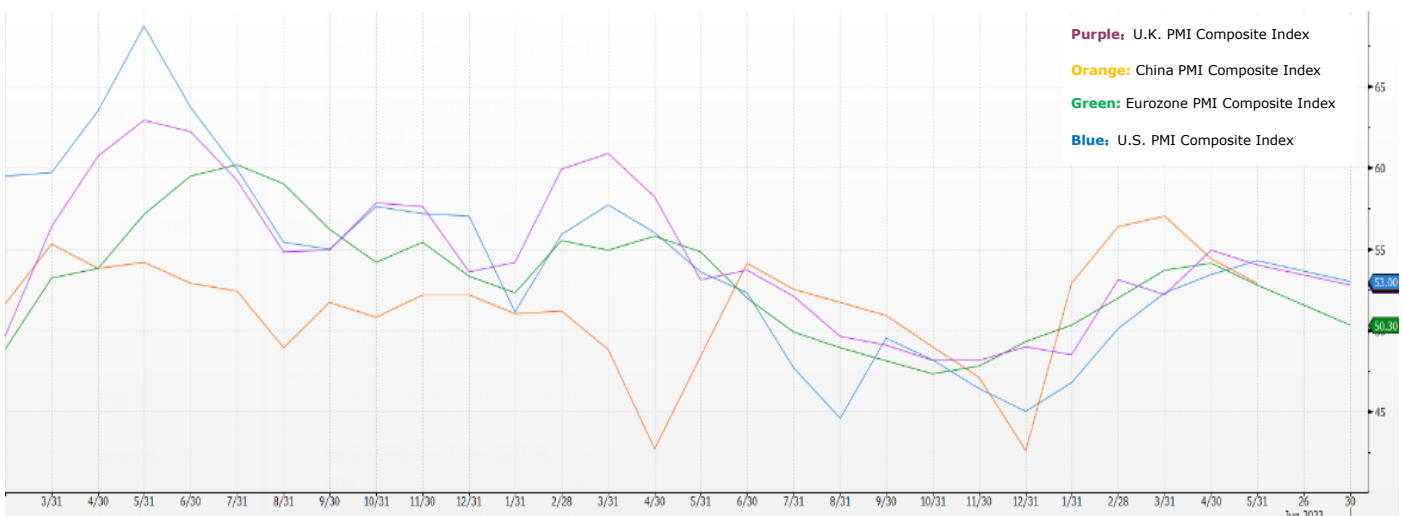## China Property: From Expectation to Reality

The early July rebound in industrial and ferrous commodities reflected a positive expectation on Chinese housing stimulus in late July. Moreover, economists expected a 7.3% growth in China Q2 GDP because of the low base in 2022. China June M2 balance up 11.3% on the year, indicating a high liquidity investment environment in China.

However, the statistics came out on Monday and failed all expectations. China property investment H1 down 7.9% on the year, while GDP up 6.3% in Q2, 1% lower than expectation. Industrial commodities, Chinese equities and CNH suffered a big loss on Monday following the weak statistics.

China property prioritised the debt repayment over expanding other projects. Thus, the completion rate of houses expected to increase while newly built houses expected to remain at lower level. In general, the house sector value would enter a slow change mode. That is to say, the property industry potentially maintain at low profit mode for many years, including house developers, contractors, materials producers, building and interior designers, home decorations, relevant financial advisories and banks and house agencies. From the other side, the optimization on debt structure would prevent bubble burst risk in the long-run.
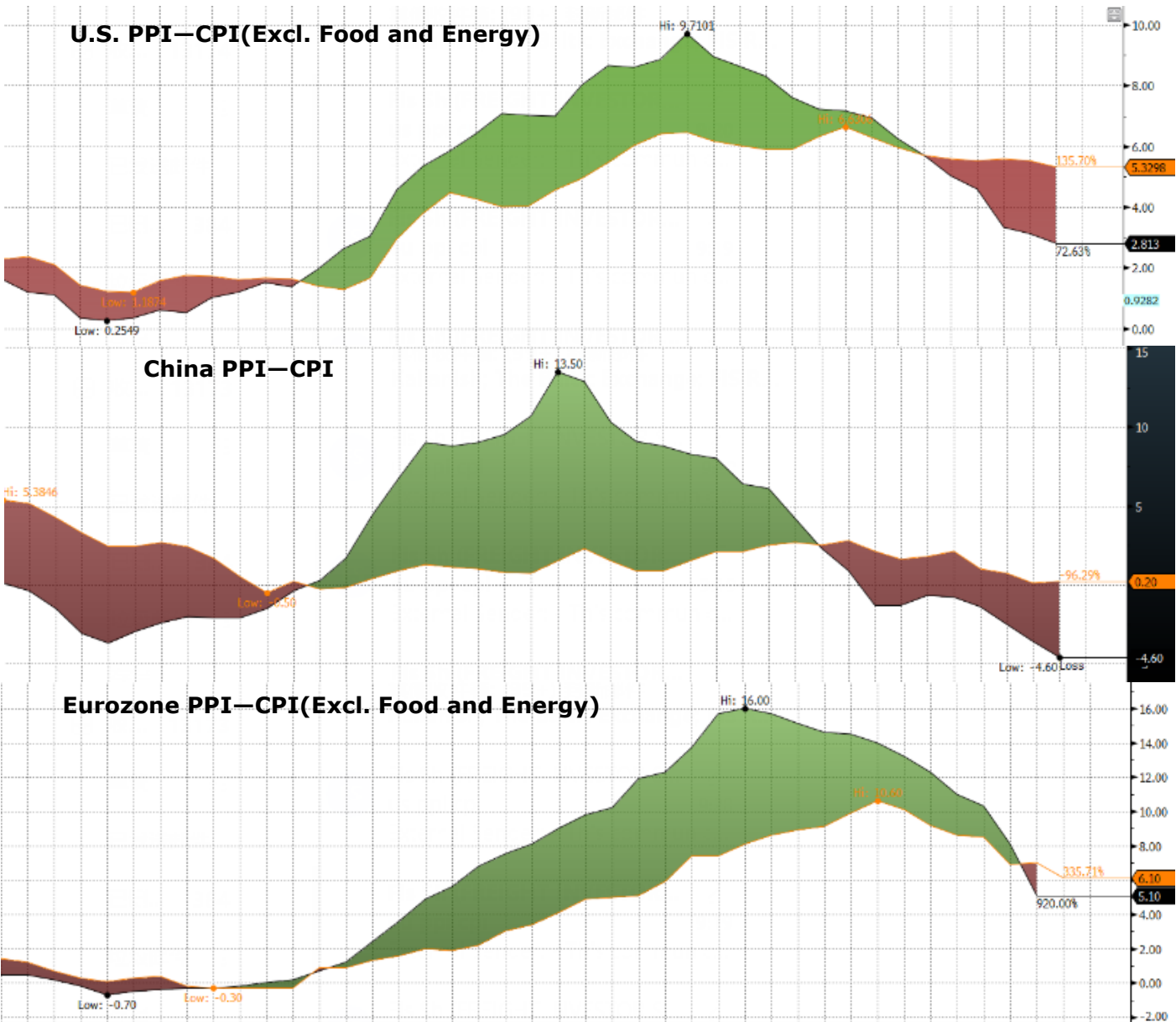
In general, China property stimulus should be a long-run and systematic plan covering decades. Thus, it shouldn't help a speculative purpose investment.

PMI Index

Purple: U.K. PMI Composite Index
Orange: China PMI Composite Index
Green: Eurozone PMI Composite Index
Blue: U.S. PMI Composite Index

Sources：Bloomberg

|	Last	Previous	
Shanghai&Shenzhen 300 Index	3867.18	3844.33	**0.59%**
Dow Jones Industrial Average	34585.35	33944.40	**1.89%**
FTSE 100 Index	7406.42	7273.79	**1.82%**
Nikkei 225 Index	32391.26	32388.42	**0.01%**
BVAL U.S. 10-year Note Yield	3.8080	4.0104	**-5.05%**
BVAL China 10-year Note Yield	2.6865	2.6834	**0.12%**

U.S. PPI—CPI(Excl. Food and Energy)

China PPI—CPI

Eurozone PPI—CPI(Excl. Food and Energy)

Sources：Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	8491.00	8372.50	**1.42%**
LME Aluminium 3 Month Rolling	2255.00	2147.00	**5.03%**
WTI Cushing Crude Oil	74.15	72.99	**1.59%**
Platts Iron Ore Fe62%	115.05	105.40	**9.16%**
U.S. Gold Physical	1960.59	1932.23	**1.47%**
BDI	1073.00	1024.00	**4.79%**

Commodity Outlook and Major Economists Event


Commodity Relative Price Range
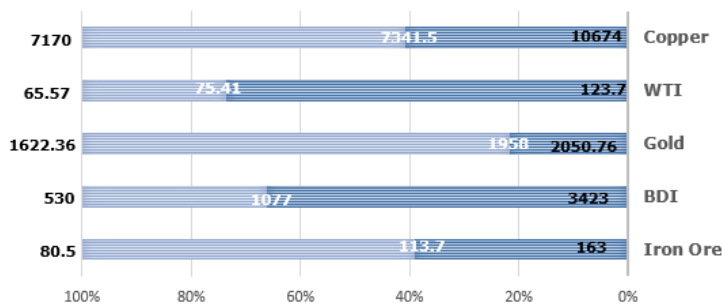
- Iron ore recovered as market participants expected more stimulus for housing out in late July.

- Seaborne coking coal price increased as the Chinese demand increased.

5 DAY MOVING AVERAGE CHANGE ON COMMODITIES

- The BDI and Copper increased significantly , both supported by the lower US inflation statistics, which supported commodity price and trade volume in H2.
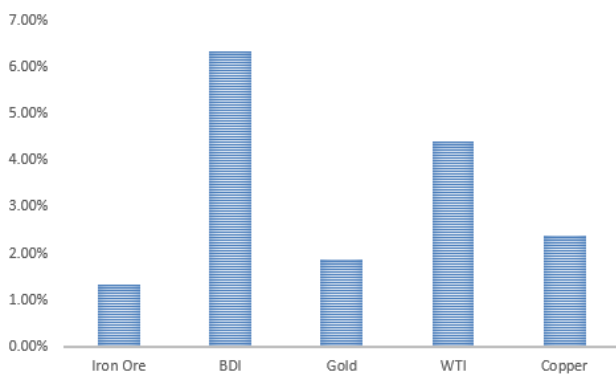
- The production cut as well as the weakened US dollar supported the growth of oil.

Sources：Bloomberg, FIS

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.

Written by **Hao Pei**,

FIS Senior Research Analyst

Edited by **Luke Hanley**

FIS Content Manager