FIS

Macro Report

23/01/2024

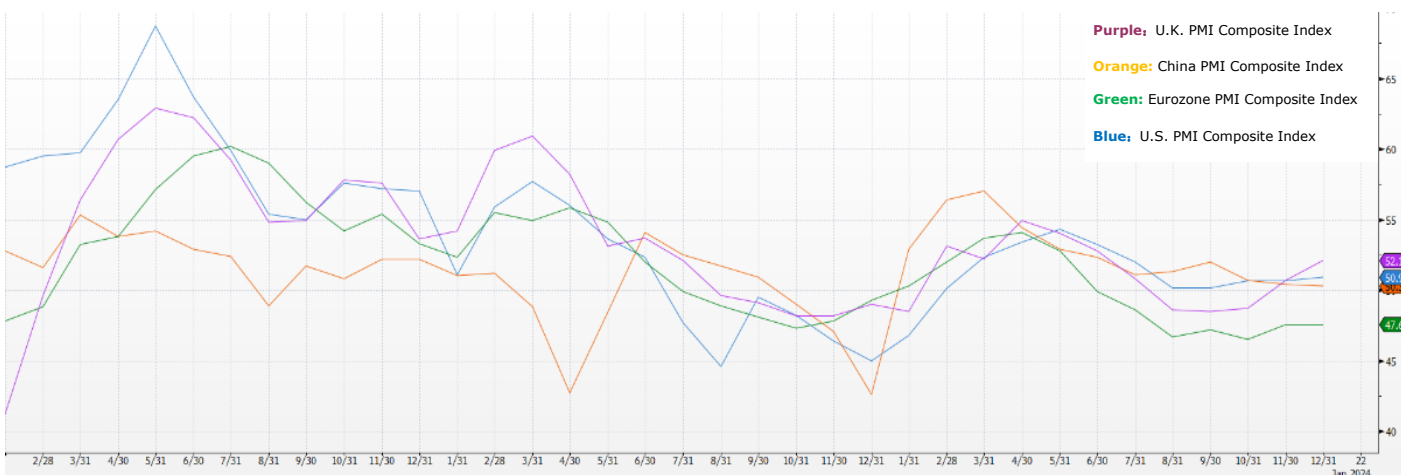|	Last	Previous	% Change
U.S. Dollar Index(DXY)	103.33	102.40	**0.91%**
USD/CNY	7.1969	7.2190	**-0.31%**
U.S. FOMC Upper Interest Rate	5.50	5.50	**0**
China Repo 7 day	2.10	2.25	**-6.67%**
Caixin China Manufacturing PMI	50.80	50.70	**0.20%**
Markit U.S. Manufacturing PMI	46.40	47.90	**-3.13%**

The Rationale Behind March Rate Cut Expectation for US

It is not hard to see that most discussions on rate cuts by US Federal are concentrated on March. The probability of rate cuts in March reached 75% in mid-January. Why March, not May, or any other month? Bloomberg surveys have showed a pattern that the US Federal tend to ease monetary policy six months after the last rate hike. Thus, March in 2024 became the closest number, purely based on historical rules.

From the other side, although the core CPI in December hit 3.9%, the lowest since May 2021, the high absolute number and slow movement on job market data will potentially support a higher rate for longer. Economic data is showing a bigger potential for a "soft-landing". Thus, the statistics on the economic sectors are indicating slower pace of rate cut.

In general, rate cut expectations will potentially become more "volatile" than a market consensus in the next few months, which will definitely become a big factor impacting the commodity market. Higher interest rates will drag down economic performance, increasing the lending cost of trade and business, and lowering the value of the commodity. On the other side, the start of rate cuts could increase expectations of a warm up on the commodity market, trade flows, consumption market and housing market. However, the commodity market will potentially become less sensitive to the policy change after the landing of the rate cuts for the first time.

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	3269.78	3284.17	**-0.44%**
Dow Jones Industrial Average	38001.81	37592.98	**1.09%**
FTSE 100 Index	7487.71	7594.91	**-1.41%**
Nikkei 225 Index	36546.95	35901.79	**1.80%**
BVAL U.S. 10-year Note Yield	4.1054	3.9615	**3.63%**
BVAL China 10-year Note Yield	2.5399	2.5675	**-1.07%**

U.S. PPI—CPI(Excl. Food and Energy)
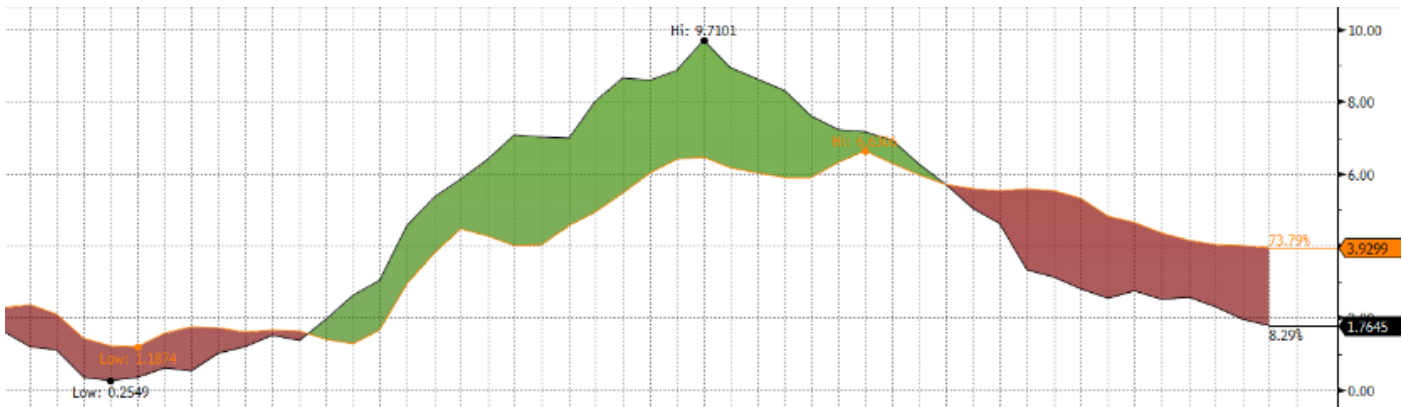
China PPI—CPI
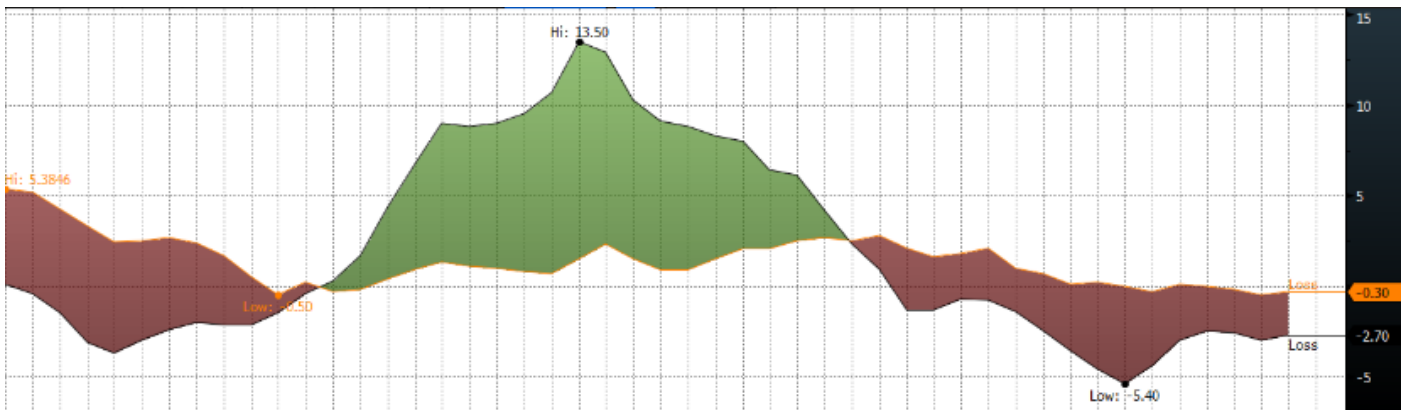
Eurozone PPI—CPI(Excl. Food and Energy)
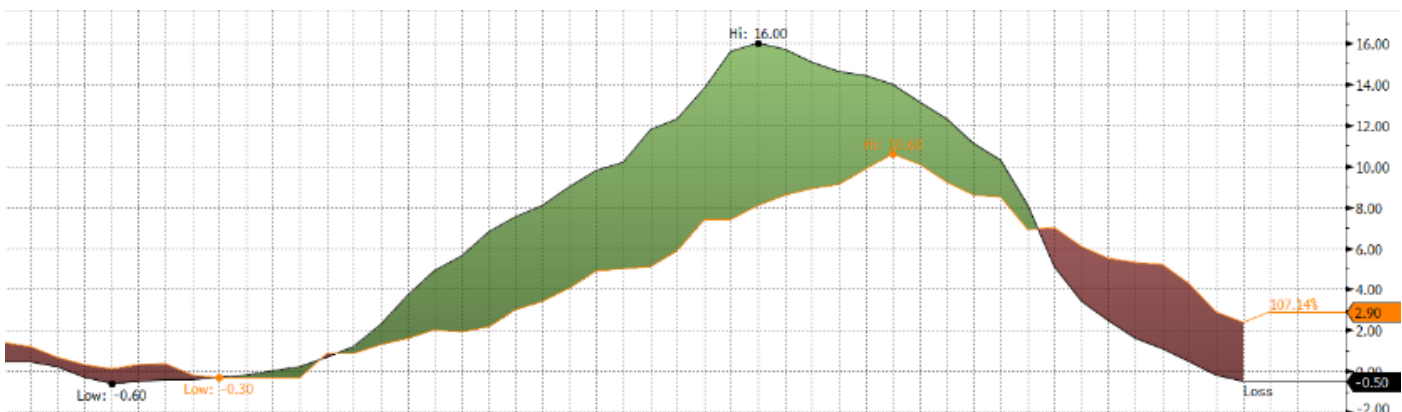
Sources：Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	8345.50	8381.00	**-0.42%**
LME Aluminium 3 Month Rolling	2159.00	2204.50	**-2.06%**
WTI Cushing Crude Oil	75.19	72.68	**3.45%**
Platts Iron Ore Fe62%	129.45	128.95	**0.39%**
U.S. Gold Physical	2021.94	2028.44	**-0.32%**
BDI	1503.00	1554.00	**-3.28%**

Commodity Outlook and Major Economists Event

Commodity Relative Price Range

5 DAY MOVING AVERAGE CHANGE ON COMMODITIES
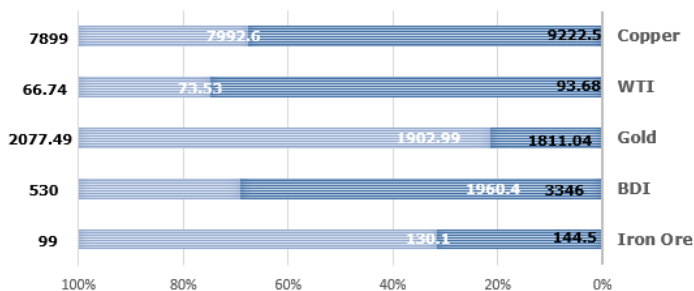
- Iron ore market to see potential delay on some low grade fines. Brazil demand was resilient, however, the rest of iron ore was slightly oversupplied because of the lower pig iron production.

- Seaborne coking coal supported by a current cyclone near Queensland coast.
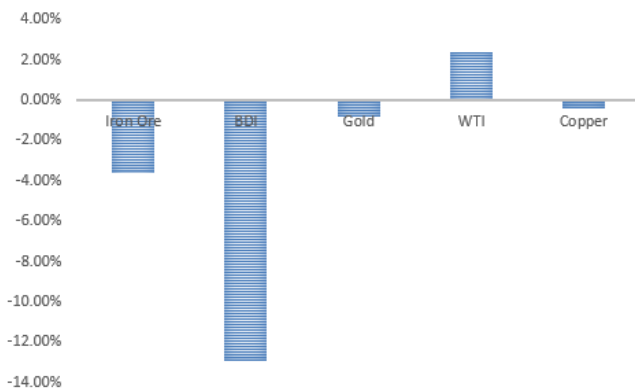
- The BDI gave back gains after seeing some positive change on Red Sea areas.

- WTI Oil price rebounded after the explosion in Russian ports as well as the slow production in US.

- Copper largely unchanged due to the slight hawkish economic data, which will potentially decrease the interest cut probability in March.

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