FIS Macro Report

16/4/2024

	Last	Previous	% Change
U.S. Dollar Index(DXY)	106.38	104.15	2.14%
USD/CNY	7.2732	7.2383	0.48%
U.S. FOMC Upper Interest Rate	5.50	5.50	0
China Repo 7 day	1.90	2.00	-5.00%
Caixin China Manufacturing PMI	51.10	50.90	0.39%
Markit U.S. Manufacturing PMI	53.20	53.80	-1.12%

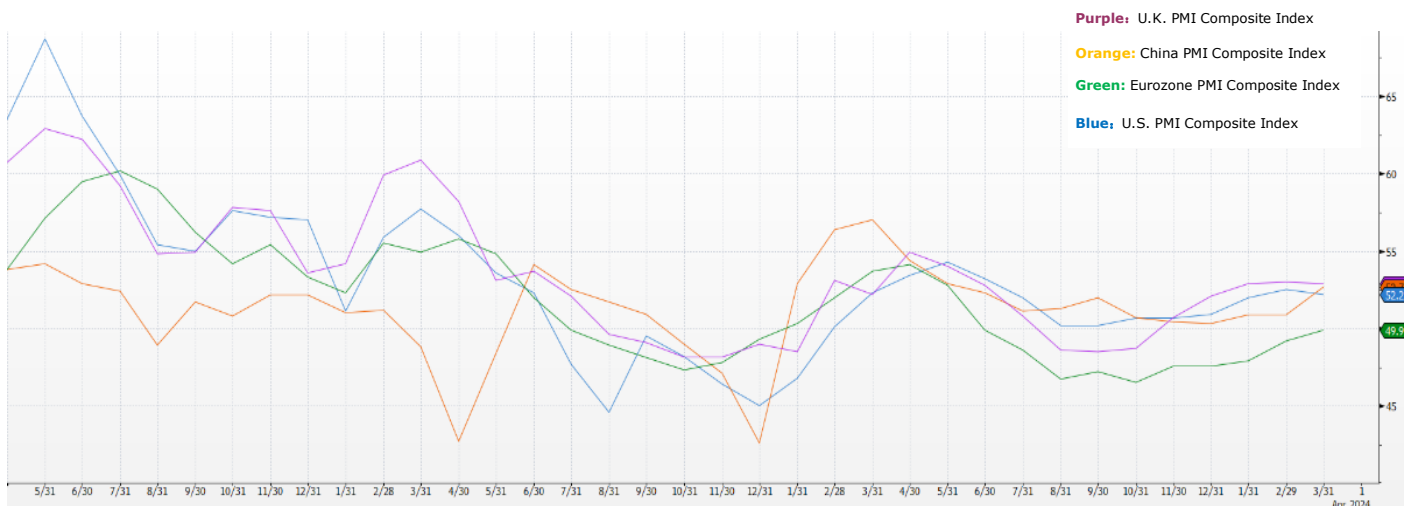## Manufacturing: the next "Housing Market" in China

For the past two years, global investors have expended tremendous effort in trying to find the next "housing market" in China. This sector of the economy in China has been misread for a long time because of the personal interest in housing. Undoubtedly, the housing market debt issues resulted in less material consumption and downside risk. According to the Chinese National Bureau of Statistics, the housing sector contributes more than 7% to GDP, while the manufacturing sector contributes 27%. In 2022 and 2023, the housing market's contribution to GDP decreased, while manufacturing increased it's contribution to Chinese GDP.

Before 2020, most of investments favoured housing instead of manufacturing given its higher yield, in particular during the high interest rate cycle. After 2020, eyeing the low yield in China and high yield in the US and Europe, the investment outflow of China accelerated the housing bubble squeeze. Thus, the opportunity in China has shifted to manufacturing sector again. If we are lucky enough, the change should last for a decade at least because the major investments in heavy industry are not easy to change. It would involve many national think-tanks, resources, new fund chains and enough time to make significant policy changes.

In commodity markets, manufacturing consumption including materials such as copper, zinc, batteries, natural rubber, special steels, agri-bulk related to bio-science and petrochemicals related to energy area.

It will still mean some ups and downs on commodity prices, which are always the most complicated. But manufacturing related consumption of commodities are expected to see further growth.

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

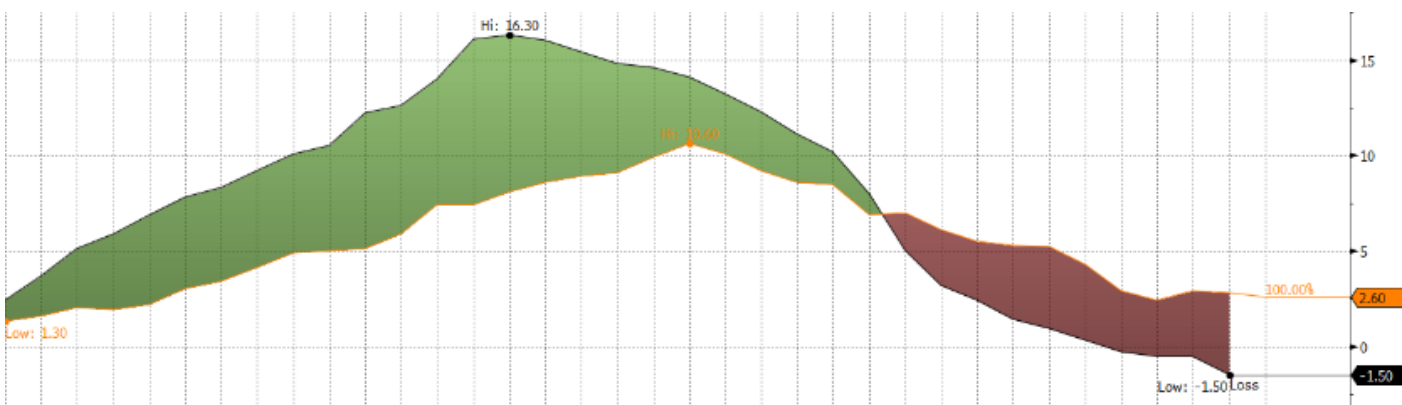|	Last	Previous	
Shanghai&Shenzhen 300 Index	3549.08	3536.41	**0.36%**
Dow Jones Industrial Average	37735.11	38892.80	**-2.98%**
FTSE 100 Index	7965.53	7943.47	**0.28%**
Nikkei 225 Index	39232.80	39347.04	**-0.29%**
BVAL U.S. 10-year Note Yield	4.6171	4.4238	**4.37%**
BVAL China 10-year Note Yield	2.3428	2.3681	**-1.07%**

U.S. PPI—CPI(Excl. Food and Energy)
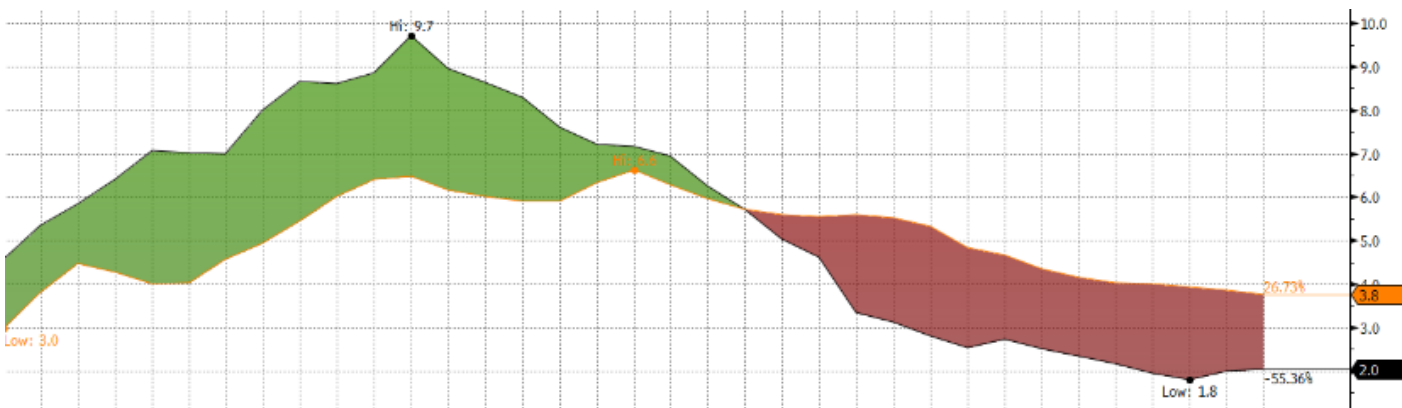
China PPI—CPI
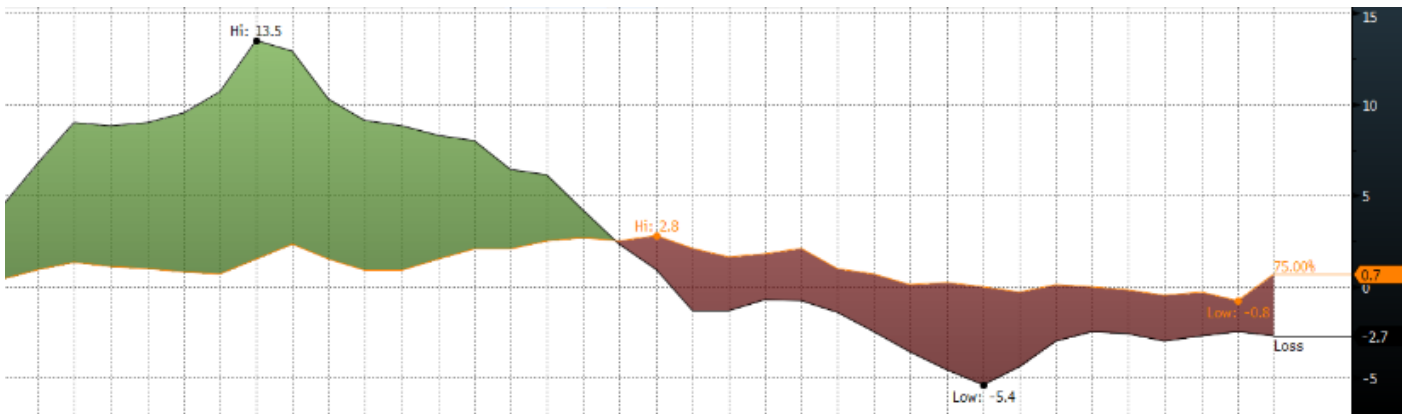
Eurozone PPI—CPI(Excl. Food and Energy)

Sources：Bloomberg, FIS

	Last	Previous	
LME Copper 3 Month Rolling	9576.00	9411.50	**1.75%**
LME Aluminium 3 Month Rolling	2555.00	2460.50	**3.84%**
WTI Cushing Crude Oil	85.41	86.43	**-1.18%**
Platts Iron Ore Fe62%	113.05	98.50	**14.77%**
U.S. Gold Physical	2385.61	2352.78	**1.40%**
BDI	1730.00	1628.00	**6.27%**

Commodity Outlook and Major Economists Event

Commodity Relative Price Range

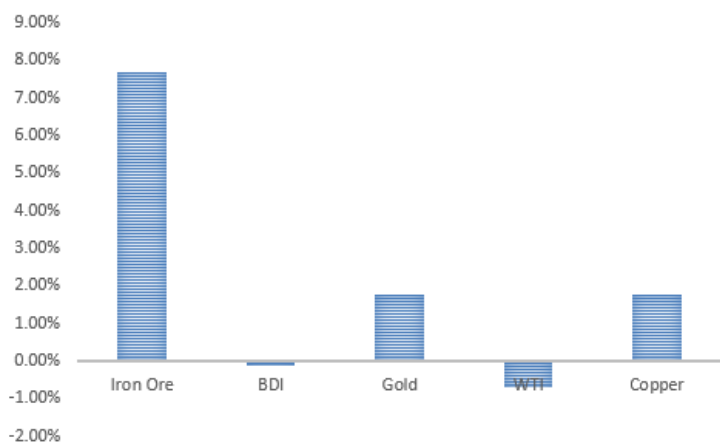5 DAY MOVING AVERAGE CHANGE ON COMMODITIES
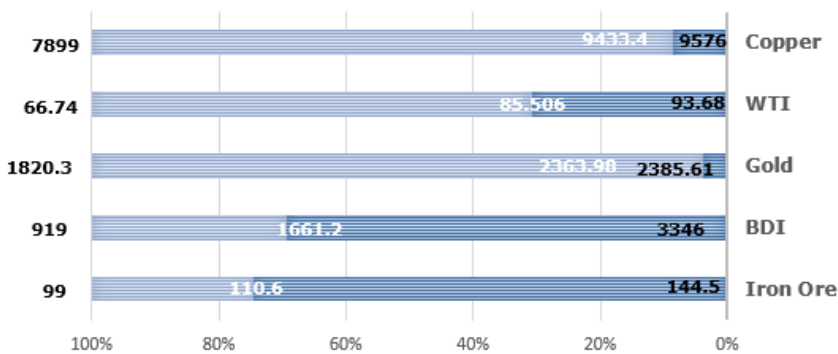
- Iron ore saw big rebound supported by improving physical steel margins as well as enhancing production level.

- Seaborne coking coal stabilised following the big growth on paper market.

- The BDI corrected from seasonal high following seasonal drop.

- WTI price maintained strong because frequent disturbed oil production.

- Copper rebounded significantly as the strengthen confidence on the economy recovery in US as well as the strong performance of gold.

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.

Written by **Hao Pei**,

FIS Senior Research Analyst

HaoP@freightinvestor.com