Weekly Money Market Report
17 October 2021

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Dollar Falls as Tapering Looms

Highlights

- **FOMC minutes show that officials were firming up their plans for the eventual end to the $120bn monthly asset purchase program.**
- **US consumer price growth is now hovering at a 13 year high.**
- **The number of Americans filing new claims for unemployment benefits dropped below 300,000 last week for the first time in 19 months.**
- **Data from the UK showed its economy had picked up momentum in August.**
- **Britain's labor is now at its tightest in more than four decades.**

United States

FOMC Meeting Minutes

The minutes of the September meeting of the Federal Open Market Committee were released on Wednesday showing that officials were firming up their plans for the eventual end to the $120bn monthly asset purchase program. The Federal Reserve signaled that it could start reducing its pandemic era support for the US economy as early as the middle of November. The minutes also showed that a growing number of the Feds policymakers worried that inflation could persist longer than previously thought.

Though no official decision on a taper was taken in the meeting, the minutes showed the Fed to be poised to begin reducing its pandemic era stimulus program as early as next month and to wrap up the process by mid-2022, as the economic recovery advances and more officials start to pencil in an interest rate rise next year.

In a change from the Feds rhetoric during its summer meetings, the minutes showed policymakers were no longer described as "generally" expecting inflation pressures to ease as transitory factors "dissipated." Instead, they suggested there were intensifying worries within the Fed over inflation. "Most" policymakers are now seeing upside risks, and "some" are concerned about elevated inflation feeding through to inflation expectations and more broadly into prices. Still, "several other" policymakers attributed upward price pressures to pandemic related supply bottlenecks that could abate.

With the taper decision on the horizon, market attention is now shifting towards the timing of future rate hikes. The Fed has promised to keep its benchmark overnight lending rate at the current near zero level until the economy reaches full employment, and inflation has not only reached its 2% goal but is on track to stay modestly above that level for some time. These parameters were set by the central bank when inflation had been running below 2% for years, and the big challenge was lifting it up rather than tamping it down.

Now we see the opposite problem to be emerging, with suppressed demand fueling spending in a reopening economy and businesses, we are seeing prices to be running away. The forecasts released alongside last month's policy statement showed half of Fed policymakers thought a rate hike would be needed before the end of next year, with all but one forecasting a first increase in borrowing costs before the end of 2023. Now the key question is whether policymakers will need to begin raising interest rates earlier in an effort to stop inflation from its upward spiral, potentially sacrificing labor market gains in the process.

Fed chair Jerome Powell has played down the possibility of being forced into that uncomfortable position, but the data may be trending against him given the inflation data released on the same day of the minutes.

Heating Inflation

Data released alongside the Feds' meeting minutes showed the pace of US consumer price growth to be pushing higher in September, now hovering at a 13 year high as inflationary pressures drove up the cost of food, energy and rent.

The Bureau of Labor Statistics published the consumer price index (CPI) on Wednesday showing the figure to be rising 5.4% in September from a year ago. Slightly higher than the annual increase of 5.3% reported in August. On a monthly basis, prices climbed 0.4% up from the 0.3% increase recorded a month earlier. Taking out the prices of volatile items such as food and energy, core CPI ticked up 0.2% from August, up from the previous reading of 0.1% and maintaining an annual pace of 4%.

Looking at the components of the figures, Food prices jumped a significant 0.9% for the month, and shelter costs were higher. Combined, those two categories accounted for more than half of the monthly increase in the headline figure. Energy prices rose 1.3% in September, and are now up 24.8% for the year. On Wednesday, the US Energy Information Administration separately forecast a sharp rise in domestic heating bills this winter, as a global energy crisis begins to reach American consumers.

Both economists and policymakers have debated the extent to which ongoing consumer price increases will shift to a more persistent inflation that broadens beyond sectors that are most sensitive to pandemic related disruptions, such as used cars and travel related expenses, which have so far driven the bulk of the increase.

Prices for used cars and trucks fell another 0.7% in September after a 1.5% decline in the previous month. For the year, however, prices are still up 24.4%.Additionally, airlines fares decreased by 6.4% over the month after falling 9.1% in August. Apparel costs fell 1.1% for the month, pushing the brakes on a five-month streak of increases.

September's data showed that pricing pressures were beginning to broaden out elsewhere, with Owner's equivalent rent — a measure of what homeowners believe their properties would rent for — and rents posted their largest increase since 2000, up 0.4% and 0.5% respectively for the month. The readings are especially important as the FOMC meeting minutes showed that "many" participants said owners' equivalent rent should be "monitored carefully."

Dropping Unemployment Claims
The Labor Department reported on Thursday the second week of straight weekly declines, Initial claims are now in the zone that is generally associated with healthy labor market conditions. Yet, the labor market still faces challenges from shortages of workers and raw materials, especially in the auto sector. Initial claims for state unemployment benefits dropped 36,000 to a seasonally adjusted 293,000 for the week ended Oct. 9. That was lowest level since mid-March 2020, when the nation was in the early phase of the COVID-19 pandemic.

Producer Price Index
In another report on Thursday, the Labor Department said its producer price index for final demand increased 0.5% in September after advancing 0.7% in August. A 1.3% jump in prices of goods accounted for nearly 80% of the increase in the PPI. Energy products and food boosted goods prices, which advanced 1.0% in August. Economists had forecast the PPI gaining 0.6%. In the 12 months through September, the PPI accelerated 8.6%, the largest year-on-year advance since November 2010 when the series was revamped, after surging 8.3% in August.

Boosted Retail Sales
The Commerce Department released its retail sales reading on Friday, showing sales unexpectedly increased in September, but there are fears that supply constraints could disrupt the holiday shopping season amid continued shortages of cars and other goods.

Retail sales rose 0.7% last month, vanishing economists' expectations of a 0.2% decline. While Data for August was revised higher to show retail sales increasing 0.9% instead of 0.7% as previously reported. Sales last month were partly lifted by higher prices.

UK

GDP
Data from the UK showed its economy had picked up momentum in August, but grew at a slower pace than expected due to the spread of the Delta variant of the coronavirus, which halted recovery in July.

The Office for National Statistics (ONS) said on Wednesday that gross domestic product rose by an initial estimate of 0.4% in August from the previous month. The initial estimate that the economy had expanded by 0.1% in July was cut to a 0.1% decline, driven by revisions to data for the motor industry and oil and gas sector.

August's tentative growth reflects a return to activity over the summer, but economists warned that the UK's recovery could yet stall as the country struggles with rising living cost and supply shortages.

The ONS figures showed that increased activity in accommodation and food services and arts and entertainment drove August's recovery, while mining and quarrying expanded rapidly. Across all consumer-facing services, output increased 1.2% but remained 4.7% below pre-pandemic levels.

Officials last month revised their assessment of GDP growth for the second quarter upward, to 5.5%, but steadily rising coronavirus rates and a cost of living crisis, with inflation rising to 3.2% in August, have clouded expectations of the speed of the recovery being maintained.

A Tight Labor Market
A separate reading was released by the ONS the day before, showing that Britain's labor is at its tightest in more than four decades, with fewer unemployed people for each job vacancy than before the pandemic.

The ONS said that the number of open jobs rose to a record high of 1.1m in the three months to August, while the average unemployment rate for the period fell to 4.5%, down from 4.9% in the previous three-month period.

The vacancies matched or exceeded pre-pandemic levels in all sectors and come as Bank of England policymakers grow concerned about building inflationary pressures in an economy grappling with supply chain disruptions and rising energy costs. However, the figures indicated the UK workforce is still significantly smaller than it was before the Covid-19 crisis began. The Institute for Employment Studies estimated that there are almost a million people fewer in the labor market, largely due to younger people staying in education and older people dropping out of the workforce.

The data divided economist's opinions on whether it would increase the chance that the BoE would tighten monetary policy sooner than it had previously signaled. They are now on the lookout for any further pick up in wages.

Asia

China's Exports
In China, exports surged to record highs in September despite expectations of a slowdown amid a nationwide power crunch that forced factories to cut production. According to data from the General Administration of Customs, exports grew 28.1% and reached a new monthly record high of $305.7 billion. The figure beat expectations of a 21.5% gain, and proved to be a very optimistic figure given that exports have been a driver for the economic rebound throughout the pandemic.

Market Movement

Last week saw the US dollar's first weekly decline versus major peers since the start of last month as global risk appetite rebounded, while the Japanese yen headed down to clock a three-year low. The dollar index closed the week down 0.12% at 93.954, in what was the first weekly loss in six weeks. The Japanese yen, another currency seen as a haven against risk, suffered from the risk on sentiment closing the week at 114.26, the first time since October 2018.

The sterling on the other hand, rose to a four week high, to close the week at 1.3751, boosted by rising expectations that the Bank of England will raise rates this year. Many investors are now betting that the BoE will become the first major central bank to lift interest rates since the start of the pandemic. The market is pricing in a 72.4% chance of a rate hike at the BoE's December 2021 meeting, up from a 45.6% chance a week ago.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30170

Rates – 17 October, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1569	1.1524	1.1624	1.1599	1.1400	1.1750	1.1623
GBP	1.3615	1.3569	1.3773	1.3749	1.3600	1.3925	1.3751
JPY	112.24	112.08	114.46	114.26	113.00	115.00	114.07
CHF	0.9275	0.9195	0.9313	0.9230	0.9100	0.9360	0.9200