

Weekly Money Market Report

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Mixed Global PMI Data Increases Uncertainty as to When Policymakers Should Loosen Monetary Policy

- FOMC meeting minutes signal cautious view on when to begin interest rate cuts.
- USA flash manufacturing PMI Shows an increase in February.
- Unemployment claims in the US decreases to 201,000 versus 213,000 previously.
- UK positive PMI data signals signs of recovery for the economy.
- Mixed PMI data in the Eurozone show services rebounding in February, while manufacturing contracting further.
- China implements reduction in the benchmark mortgage rate by reducing the five-year loan prime rate 25 basis points.

United States

FOMC Meeting Minutes

Despite inflation showing signs of cooling, the US Federal Reserve remains cautious of prematurely lowering interest rates. Minutes from their recent meeting revealed most officials prioritized ensuring inflation stays restrained over concerns about harming the economy with high rates. While rates have likely peaked, the exact timing of cuts remains uncertain. Interestingly, some support slowing the pace of reducing the Fed's asset portfolio, suggesting a gradual shift towards easing policy in the future. The overall message is clear: the Fed won't rush to cut rates and risks delaying action to avoid reigniting inflation later. This cautious view has translated to lower bond prices and a slightly down stock market. With recent economic data suggesting inflation isn't fully tamed, expect the Fed to maintain a watchful eye before easing their grip on interest rates.

Flash Manufacturing PMI Increases

US Flash Manufacturing PMI revives in the latest publication by S&P Global published in February. Coming in at 51.5, above expectations of a minor decrease from the previous figure of 50.7 to 50.5. The data pointed to a strong increase in growth for the factory sector, as it is considered the first increase in three months, as well as being the fastest rate of growth since April of 2024.

Flash Services PMI Declines

While the manufacturing sector saw a decrease in the month of February, the services sector on the other hand saw a decrease from the 52.5 figure in January while remaining in expansion territory. With the February figure easing to 51.3, below expectations of almost no change at 52.4. Despite holding positive momentum, as well as an increase in headcount from service providers, the pace of hiring showed signs of slowing as the downward trend in sales growth drove companies to be more cautious about slowing orders. The cooling in business activity sent encouraging notes on inflation, where the services PMI was on an upward trend the past five months, despite restrictive monetary policy and high interest rates.

Unemployment Claims Decreases

The US Labor market remains resilient, with the unemployment claims decreasing in the month of February to 201k, below expectations of 217k and the previous 213k figure. Meanwhile continuing claims also declined by 27,000, reaching 1.862 million claims. The resilience in the labor market,

accompanied by a robust manufacturing and services sectors reduces the urgency for the federal Reserve to begin cutting rates. Where the recent FOMC meeting minutes underpinned concerns from policymakers about the risks of cutting too soon. As the positive data increases uncertainty about how long borrowing costs should remain at their current level.

Existing Home Sales

Existing home sales in the US rose to 3.1% in the month-over-month figure, with an annualized rate of 4 million in the month of January. The figure marked the highest level in five months, beating December's figure of 3.88 million and slightly higher than expectations of 3.97 million. The increase can be attributed to home buyers taking advantage of the lower mortgage rates in comparison with late 2023. Meanwhile, housing prices increased to an all-time high with the median existing-home price at \$397,100 for the month of January.

The greenback ended the week closing at 103.957.

Canada

CPI Data Shows Decline in Inflation

Inflation in Canada slowed more than expected, with annual CPI declining to 2.9% from 3.4% previously and below market expectations of 3.3%. On a monthly basis, CPI was unchanged versus market consensus of a 0.4% rise. The largest contributor to the slowdown in inflation is gasoline prices, which declined 4% y/y compared to December's 1.4% increase. Annual core CPI, which excludes energy and food prices, came in at 2.4%, down from 2.6% previously. The positive inflation readings has markets bolstering up rate cut projections, with a probability of a cut in April rising to 60% from 33% prior to the figures coming out.

The Canadian Dollar was last seen trading at 1.3505.

Europe

Flash Manufacturing PMI Decreases

The manufacturing PMI in the Eurozone continues to shrink, with the February figure at 46.1, below expectations of 47.0 and the previous figure of 46.6. The PMI data released this week paints a mixed picture for the Eurozone, as the two major contributors diverge in outputs. Where manufacturing in Germany saw a sharp decline to 42.3 from the previous 45.5 figure, sinking deeper into contraction territory. Meanwhile, France's manufacturing PMI saw an increase from the previous 43.1 figure, coming in at 46.8 for the month.

Flash Services PMI Increases

The services sector on the other hand saw an increase in the Eurozone, as February's figure showed signs of recovery coming in at 50.0 up from 48.4, signaling a positive sentiment towards an expansion in the sector as it is the first sign of improvement after 6 months of decline. The increase in services PMI was seen in several eurozone countries, with Germany's Services PMI increasing to 48.2 and the French PMI also increasing to 48.0 for the month.

The Euro ended the week last trading at 1.0818.

United Kingdom

Flash Manufacturing and Services PMI Shows Signs of Recovery

Economic growth in the UK accelerated in February, where the latest data released shows business activity seeing the largest rise in 6 months, and the growth recorded in 4 months. Flash Manufacturing PMI showed a slight increase to 47.1 in February, despite expectations of a decrease to 45.0. Meanwhile, the services PMI remained unchanged in expansion territory at 54.3. This recent positive

data has signaled that the UK's shallow recession seen towards the end of last year is short lived. On the other hand, inflation remains high with expectations for the CPI figure to remain at around 4% in the upcoming month, adding pressures to the BoE as to when they should start the interest rates cutting cycle.

The Sterling Pound was last seen trading at 1.2679.

Asia-Pacific

China Implements Reduction in the Benchmark Mortgage Rate

China announced that it will be implementing its biggest ever reduction in the benchmark mortgage rate on Tuesday, in an aim to support the struggling property market and boost the economy. The rate cut cycle was done by reducing the 5-year loan prime rate (LPR) by 25 basis points reaching a rate of 3.95%, down from 4.20% previously, meanwhile the 1-year LPR was left unchanged at 3.45%. Despite a larger than expected cut in interest rates, Asian shares did not have a significant impact from the cut, as the news failed to excite investors who were seeking bigger stimulus measures.

The USD/CNY currency pair is up on the week, closing at 7.1952.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30760.

Rates – February 4th, 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0822	1.0810	1.0839	1.0818	1.0780	1.0930	1.0839
GBP	1.2656	1.2646	1.2700	1.2679	1.2575	1.2685	1.2687
JPY	150.53	150.29	150.79	150.50	149.75	150.75	148.41
CHF	0.8801	0.8779	0.8819	0.8811	0.8650	0.8815	0.8727

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