Weekly Money Market Report

14 November 2021

>NBK Treasury
+965 22216603
tsd_list@nbk.com

The US Dollar Soars Amid Heating Inflation

Highlights

- **Consumer prices in the US reached a 3-decade high in October.**
- **US government bonds saw a sharp selloff following the inflation data.**
- **Expectations for a June 2022 rate hike jumped around 30% and now sits at 80%.**
- **Prices paid to US producers climbed 0.6% from the prior month and 8.6% on a yearly basis.**
- **The ZEW Indicator of Economic Sentiment for Germany rose for the first time since May.**
- **UK's output grew 1.3% in the three months to September, missing the 1.5% increase forecast by the BoE**

United States

US Inflation Jumps Most Since 1990

In the beginning of last week, senior Fed officials including Chair Jerome Powel and Vice-chair Richard Clarida, maintained their stance that the current imbalances would eventually recede as global supply chains and labor markets adjust, meaning that inflation will ultimately prove to be transitory and would fade over time. Unfortunately for team transitory, that sentiment did not age well, as inflation data released on Wednesday challenged it.

Consumer prices in the US reached a 3-decade high in October due to a combination of persistent supply shortages and strong consumer demand. The Labor Department reported last week that the consumer price index increased by 6.2% from a year ago, marking the fastest 12-month pace since 1990. The figure also marks the fifth straight month of inflation running above 5%. The core figure, which excludes volatile food and energy items, climbed 4.6% in October y/y, its highest level since 1991. In September, it stood at 4%.

The drivers of the uptick were increases across the board including costs of energy, shelter, food, used cars, new vehicles, and travel. Contributing largely to the inflationary pressures, energy costs soared 4.8% just from September to October, and are up around 30% for the year. Food prices jumped 0.9% over the month, with a 1% rise in "food at home" costs. Prices for used cars, which had driven the bulk of the inflation's surge during spring, picked up again after two months of declines, rising 2.5% from September and 26.4% for the year. Hotel expenses also increased 1.5% following several months of lower prices, bringing the annual rise to almost 26%. Rents and other shelter related costs, which represent around a third of CPI and are considered one of the more inelastic factors of inflation, kept advancing steadily. Owners' equivalent rent rose 0.4% from September, and 3.1% on the year. The data also confirmed prices were picking up across a broader number of sectors, now including medical care, household furnishings, and recreation, in addition to transportation services that rose 0.4% after two months of decreases.

The surge in inflation complicates the US Federal Reserve's strategy for unwinding the ultra-easy monetary policy imposed early on in the pandemic, and puts pressure on the Biden administration's economic agenda. For months, Fed Chair Jerome Powell described inflation as "transitory" and asserted the view that prices will return to normal as soon as labor and supply shortages clear. However, more recently, Powell did acknowledge that higher prices might last well into next summer.

President Joe Biden on Wednesday signaled out the rising energy costs as a primary driver of inflation, and said that it was a "top priority" to reverse the continuing trend. Biden's administration is now scrambling to tame the soaring inflation, as the rising prices undercut the US's economic recovery, jeopardizes his spending plans and kills the Democratic Party's chances in next year's midterm elections. Biden also plead with Congress to pass his $1.75tn spending bill, defending it by saying "17 Nobel Prize winners in economics have said that my plan will ease inflationary pressures," although some Republicans have countered that such a huge injection of spending will make inflation worse.

Following the release of the data, US government bonds saw a sharp selloff, intensifying concerns that the Fed will need to act more decisively to put brakes on the rising inflation. Yields on two-year Treasury notes, which are highly sensitive to interest rate expectations, rose by the most since the market turbulence triggered by the coronavirus outbreak in March 2020. The yield increased 0.09 percentage points to 0.52%, signaling a significant drop in price. The biggest move was in the five-year note, which rose 0.14 percentage points to 1.22%, while yields on the Benchmark 10-year bond rose 0.06 percentage points to trade around 1.51%. Expectations for a June 2022 rate hike jumped around 30% and now sits at 80%.

The dollar reacted by touching its strongest point against the euro in 16 months on Thursday, and closed the week at 1.1450, the sterling also saw a sharp drop against the dollar, reaching its lowest level since December 2020 to close the week at 1.3413. The risk sensitive Australian dollar sank as low as 0.7277 against the dollar for the first time in a month, but gained back some of its strength to close the week at 0.7334. The dollar index closed the week at 95.122, its highest level since July 2020.

Producer Prices Climb 0.6%

Looking at prices paid to US producers, the figure climbed 0.6% from the prior month and 8.6% on a yearly basis. The annual advance marked the largest since 2010 and matched economists' expectations. Excluding volatile food and energy items, the core PPI figure rose 0.4% and was up 6.8% from a year ago. Similar to the CPI figures, higher energy costs drove the PPI gain as more than 60% of the headline increase was due to 1.2% rise in goods. Meanwhile, the cost of services saw a more moderate 0.2% for a second month in a row.

Europe & UK

Economic Sentiment Rises in Europe

In Europe, the ZEW Indicator of Economic Sentiment for Germany rose for the first time since May. According to data released last week, the metric gained 9.4 points to reach a new reading of 31.7. For the Eurozone as a whole, sentiment stands at 25.9 points, 4.9 points higher than the previous month. Furthermore, the survey revealed inflation expectations declined sharply, with the indicator dropping 31.4 points compared to October. "This shows that the experts expect the inflation rate in the Eurozone to decline over the next six months," the ZEW press release said.

UK Growth Slows Down in the Third Quarter

Data from the UK showed growth had slowed more than expected in the third quarter as the boost from businesses reopening eased, and shortages of goods and workers hit economic activity.

The data released by the Office for National Statistics on Thursday showed that gross domestic product rose by a monthly rate of 0.6% in September, up from the 0.2% expansion in August. The September figure was stronger than the 0.4% forecast by economists yet 0.6% below the level of February 2020.

The three months leading to September however, are telling a different story, showing UK output grew 1.3%, significantly lower than the 1.5% increase forecast by the Bank of England due to downward revisions to figures of both August and July. Growth was also sharply down from the 5.5% expansion in the second quarter when it was boosted by the reopening of many businesses. The brakes on growth were put by a combination of rising coronavirus cases and shortages of raw materials, components, and labor. The quarterly data, which is used by the BoE and the Office for Budget Responsibility, now show that output is still 2.1% below its pre pandemic levels, a larger gap than any other G7 country.

The Bank of England forecasts growth to slow in the fourth quarter to 1%, reflecting supply chain disruptions and the impact of higher inflation on businesses and household spending.

Commodities

In the commodities complex, oil prices fell on Friday, wiping out gains from the previous session as the dollar continued firming amid expectations that the Fed would bring forward an increase to interest rates. Brent crude dropped 0.82% to close the week at $82.17, while the US West Texas Intermediate dropped 0.74% to close at $80.87.

Looking at gold, the precious metal lost some of its shine on Friday as some investors locked in profits from a six-session streak of gains, closing the week at $1,864.044 per ounce. While a stronger dollar typically makes takes a negative effect on gold prices, the yellow metal is reaping benefits of its reputation as a store of value and a hedge to higher inflation readings.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30210

Rates – 14 November, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1554	1.1431	1.1608	1.1450	1.1300	1.1600	1.1477
GBP	1.3495	1.3352	1.3607	1.3413	1.3300	1.3575	1.3418
JPY	113.43	112.70	114.30	113.85	113.00	115.00	113.69
CHF	0.9124	0.9100	0.9237	0.9213	0.9100	0.9360	0.9185