

Weekly Money Market Report

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>NBK Treasury
+965 22216603
tsd_list@nbk.com

Inflation Bites as Markets Hold Their Nerve

Market Commentary

Global markets navigated a week of competing forces, as stronger-than-expected US inflation data collided with cautious optimism surrounding Trump's landmark visit to Beijing. April CPI accelerated to 3.8%, its highest since May 2023, while producer prices surged 6.0% year-on-year, cementing expectations that the Federal Reserve will hold rates higher for longer. Yet risk sentiment proved resilient: retail sales beat forecasts, the labor market remained firm with jobless claims still well below historical averages, and the prospect of tariff relief on some USD 30 billion of US-China bilateral goods offered a rare constructive signal. In the UK, a stronger-than-expected Q1 GDP print of 0.6% was overshadowed by sterling's sharp weekly decline, as political uncertainty around a potential Starmer leadership challenge and fresh oil price fears pushed GBP/USD below \$1.34. Across the Asia-Pacific, Japan's producer prices posted their fastest annual rise since May 2023, underscoring how energy-driven cost pressures continue to ripple through global supply chains. The week's central message is clear: underlying economic activity remains more resilient than many had feared, but inflation, fueled by the Iran war's energy shock, is proving equally stubborn, leaving central banks with little room to pivot.

United States

US Inflation Accelerates to Highest Level Since 2023 Amid Energy Shock

US annual inflation accelerated to 3.8% in April 2026, rising from 3.3% in March and reaching its highest level since May 2023, as higher energy prices linked to the Iran war continued to fuel inflationary pressures. The increase came in above market expectations, driven primarily by a sharp surge in energy costs, particularly gasoline and fuel oil prices. Inflation also picked up in shelter costs, while food inflation remained elevated. On a monthly basis, consumer prices rose 0.6%, slowing slightly from March's sharp increase but still reflecting persistent price pressures across the economy. Meanwhile, core inflation, which excludes food and energy, edged higher to 2.8% year-on-year and rose 0.4% month-on-month, both exceeding forecasts and reinforcing expectations that the Federal Reserve may maintain a tighter monetary policy stance for longer.

US Producer Inflation Jumps Sharply, Reinforcing Fed Tightening Concerns

US producer price inflation accelerated significantly in April, with headline PPI rising 1.4% month-on-month and 6.0% year-on-year, far exceeding market expectations and marking the strongest increase since 2022. Core producer prices, which exclude food and energy, also rose sharply, signaling broad-based inflationary pressures across the economy. The surge was driven by higher energy prices, rising services costs, and a sharp increase in transportation and warehousing expenses, with truck freight costs posting their largest increase since 2009 due to elevated fuel-related pressures. The stronger-than-expected inflation data reinforced expectations that the Federal Reserve may keep monetary policy tighter for longer, as rising upstream costs increasingly fed into broader production and consumer prices.

US Retail Sales Remain Resilient Despite Rising Energy Costs

US retail sales increased 0.5% month-on-month in April 2026, matching market expectations and following a downwardly revised 1.6% rise in March, signaling continued resilience in consumer spending. The strongest gains were recorded at gasoline stations as fuel prices rose amid the Iran war, while solid increases were also seen in electronics, online retail, food and beverage stores, and

restaurants. Excluding gasoline stations, retail sales still rose a healthy 0.3%, indicating broader underlying consumer demand. However, spending weakened in furniture, clothing, and auto dealerships, reflecting some pressure on discretionary purchases. Meanwhile, core retail sales, which feed directly into GDP calculations and exclude volatile categories such as autos, gasoline, building materials, and food services, also rose 0.5%, exceeding expectations and pointing to steady momentum in the US economy despite elevated inflationary pressures tied to higher energy prices.

US Jobless Claims Rise Slightly but Labor Market Remains Resilient

Initial jobless claims in the US increased by 12,000 to 211,000 in the first week of May, coming in above market expectations of 205,000. Continuing claims also rose by 24,000 to 1.782 million, although slightly below forecasts. Despite the uptick, both measures remain well below their average levels from last year, reinforcing signs of a still-resilient US labor market with relatively low levels of layoffs. Meanwhile, unemployment claims filed by federal employees declined modestly, easing some concerns related to disruptions caused by recent government shutdowns and delays in unemployment insurance processing.

Trump's Landmark China Visit Amid Trade and Geopolitical Tensions

US President Donald Trump's visit to China marked the first US state visit to China in nine years, meeting President Xi Jinping in Beijing as both nations attempted to stabilize relations amid rising geopolitical tensions linked to Iran and Taiwan. Talks focused on trade normalization, regional security, rare earth supply chain dependencies, and possible tariff relief, with both sides reportedly considering a framework to reduce tariffs on around USD 30 billion of bilateral goods. President Xi emphasized the importance of a "partners not rivals" relationship, while Trump highlighted greater market access for US companies as a key priority. The visit also included senior executives from major US firms such as Apple, Nvidia, Tesla, and Citigroup, while negotiations continued around extending the October trade truce and addressing disputes over rare earth export controls and US sanctions tied to Iranian oil trade.

The Greenback was last seen trading at 99.284.

United Kingdom

UK Economy Expands Strongly in First Quarter of 2026

The UK economy grew 0.6% in the three months to March 2026, continuing its steady recovery after growth rates of 0.5% and 0.4% in the prior rolling three-month periods. The expansion was mainly driven by the services sector, which rose 0.8%, while construction output rebounded 0.4% after five consecutive quarterly declines. Production output also increased modestly by 0.2%, although growth slowed compared to the previous period. On a monthly basis, GDP rose 0.3% in March following a 0.4% increase in February, supported by gains in both services and construction activity. Construction output surged 1.5% during the month, helping offset a slight decline in production. Overall, the data points to improving momentum in the UK economy during the first quarter of 2026, led primarily by the services sector and a recovery in construction activity.

Pound Falls as UK Political Uncertainty and Inflation Risks Intensify

The British pound fell below \$1.34 on Friday, hitting its weakest level since early April and heading for an almost 2% weekly decline against the US dollar. Sterling came under pressure after reports suggested Andy Burnham, viewed by bond investors as a less market-friendly candidate, could challenge Prime Minister Keir Starmer, adding to political uncertainty in the UK. Concerns over inflation also increased after comments from US President Donald Trump regarding the Strait of Hormuz pushed crude oil prices higher, raising fears of further energy-driven price pressures. Markets are now pricing in around 70 basis points of additional Bank of England rate hikes this year, while BOE Chief Economist Huw Pill signaled support for further monetary tightening to counter inflation risks stemming from the ongoing energy shock linked to the Iran war.

The GBP/USD currency pair was last seen trading at 1.3321.

Asia-Pacific

Japan Producer Prices Surge Amid Energy-Driven Cost Pressures

Japan's producer prices rose 4.9% year-on-year in April 2026, accelerating sharply from a revised 2.9% increase in March and surpassing market expectations of 3%, marking the fastest annual growth since May 2023. The surge was largely driven by rising energy costs and supply chain disruptions linked to the Iran war, which intensified input cost pressures across the economy. Strong price increases were seen in chemicals, petroleum and coal products, electrical machinery, transport equipment, and electronic components, while textile prices returned to growth and declines in iron and steel prices moderated. On a monthly basis, producer prices jumped 2.3%, up from 1.0% in March and the strongest monthly increase since April 2014, highlighting mounting inflationary pressure at the producer level.

The USD/JPY currency pair was last seen trading at 158.76.

Commodities

Oil Prices Surge as Strait of Hormuz Risks Keep Supply Concerns Elevated

Brent crude futures climbed to around \$109 per barrel on Friday, putting prices on track for an approximate 8% weekly gain as tensions surrounding the Strait of Hormuz continued to fuel supply concerns. Markets remained unsettled after US-Iran peace talks stalled, with President Donald Trump warning Iran to strike a deal or face "annihilation," while optimism for a durable ceasefire faded. Although Iran stated that some ships had resumed crossing the Strait, the critical waterway remains largely restricted following the collapse of negotiations on a US-backed proposal earlier this week. Adding to concerns, the International Energy Agency estimated that crude and fuel flows through the Strait declined by roughly 4 million barrels per day in March and April, warning that the global oil market could remain significantly undersupplied through October even if the conflict is resolved soon. Further uncertainty stemmed from ongoing reports of ship attacks and seizures in the region, while Trump also indicated that China was seeking to increase oil purchases from the US amid the disruption.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30635.

Rates – May 17th, 2026

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1777	1.1616	1.1790	1.1625	1.1500	1.1700	1.1670
GBP	1.3609	1.3312	1.3653	1.3321	1.3175	1.3400	1.3320
JPY	156.39	156.39	158.84	158.76	158.00	161.00	157.60
CHF	0.7761	0.7760	0.7873	0.7867	0.7800	0.8030	0.7790

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