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Weekly Money Market Report
10 July 2022

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Dollar Prevails Amid Recession Fears

Highlights

- **Federal Reserve's June meeting minutes showed top Fed officials fear tighter monetary policy will be needed if price growth exceeds their expectations.**
- **Jobs reports released on Friday showed Red-hot labor demand stoked another strong month of US jobs gains.**
- **Switzerland's inflation accelerated to its fastest pace in nearly three decades.**
- **Bank of England Governor Andrew Baily says the global economic outlook has "deteriorated materially" and warns of possible further shocks to come.**
- **Australia's central bank delivered its first ever consecutive half percentage point hike on Wednesday.**

United States

June's Meeting Minutes

The minutes of the Federal Reserve June meeting were released on Wednesday showing that top Fed officials think entrenched inflation is a "significant risk" to the US economy and fear tighter monetary policy will be needed if price growth exceeds their expectations. Officials in the meeting emphasized the need to fight inflation even if it meant slowing an economy that already appears on the brink of a recession.

Policymakers showed support to raising interest rates to the point at which economic activity is restrained, with the possibility that they could become "even more restrictive" if warranted by the data. Raising benchmark borrowing rates by 0.75 of a percentage point in June (the first of this caliber since 1994) was necessary to control cost-of-living increases running at their highest levels since 1981, central bankers said. They said they will continue to do so until inflation gets close to their 2% long-run goal. They acknowledged the policy tightening likely would come with a price. "Participants recognized that policy firming could slow the pace of economic growth for a time, but they saw the return of inflation to 2% as critical to achieving maximum employment on a sustained basis," the meeting summary stated.

The notes revealed the alarm spreading through the top ranks of the US central bank over inflation, which is running at an annual pace of 8.6%. The account also showed the lengths officials were willing to go to ensure prices do not spiral further out of control. The Fed will decide whether to raise rates by 0.50 percentage points or 0.75 percentage points at its meeting this month, although several officials have indicated their support for the larger increase, and markets expectation seem to agree.

The minutes echoed recent comments from Fed chair Jerome Powell, who has emphasized that the central bank has little room for maneuver as it tries to tame inflation without causing widespread job losses. A US recession is now "certainly a possibility", and would in large part depend on factors outside of the Fed's control, he said last month, pointing to the war in Ukraine and prolonged Covid-19 lockdowns in China. Powell reiterated that message last week on a panel with other central bankers, when he warned that a failure to restore price stability would lead to an even worse outcome for the US economy.

The account of the June meeting shed further light on why the Fed abruptly decided to dramatically step up the pace at which it is tightening monetary policy, opting to discard its previously signaled plans for a second consecutive 0.50 percentage point rate rise. The decision followed the publication of two economic reports, one showing a large jump in consumer prices in May and the other a rise in inflation expectations. Participants expressed concern that the former report suggested inflationary pressures were not yet abating and "solidified the view that inflation would be more persistent than they had previously anticipated."

The June meeting also featured revised forecasts, which indicated officials envisaged rates rising to just under 3.5% by year-end. Further rate increases that push the policy rate to 3.75% are expected next year before reductions in 2024. Officials also penciled in higher unemployment and lower growth over that period.

Surprisingly Strong

The long waited jobs reports came on Friday showing red-hot labor demand stoked another strong month of US jobs gains, defying expectations for a sharper slowdown and dampening fears of an impending recession. Signs of persistent labor market strength provides the Federal Reserve ammunition to deliver another 0.75 percentage point interest rate increase later this month.

Non-farm payrolls grew by 372,000 in June, the Bureau of Labor Statistics reported; far above the 265,000 that economists had expected and just shy of the downwardly revised 384,000 positions created in May. June's larger-than-expected employment gains pushed the economy closer to recouping all the jobs lost during the pandemic. The unemployment rate was unchanged at 3.6% for a fourth straight month. This is inconsistent with an economy that is on the verge of a recession.

Economists had widely expected monthly job creation to slow given the strength of the recovery and the fact that almost all of the jobs lost during the pandemic have been recouped. As June’s figures show, the labor market remains the bright spot of the world’s largest economy despite growing recession fears and concerns that American consumers are starting to tighten their purse strings as their pandemic savings shrink.

Average hourly earnings ticked up another 0.3% in May, after a 0.4% increase the previous period, and are now 5.1 per cent higher on a year-over-year basis. Yet, the labor force participation rate, which tracks the share of Americans either employed or actively looking for work, dipped to 62.2%. That is more than one percentage point shy of levels seen before the start of the coronavirus pandemic.

With the Federal Reserve now embarking on what is expected to be the most aggressive campaign to tighten monetary policy since the 1980s, economist’s fear the US jobs market is at serious risk, with unemployment likely to rise next year and into 2024, delivering a further hit to President Joe Biden’s popularity. However, a senior White House official on Thursday said a slowdown in job creation is not a “cause for concern”, but rather reflective of a transition to a “more sustainable pace of job growth”.

Europe & UK

Switzerland’s Heating Inflation

Switzerland’s inflation accelerated to its fastest pace in nearly three decades after gaining 3.4% in June, up from nearly 2.9% in May. The pace is well above the Swiss National Bank’s 2% target, with the bank’s chief Thomas Jordan adding that officials are considering another hike to counter price pressures. The development comes just two weeks after the SNB shocked markets by raising its monetary policy rate to 0.25%, marking its first rate hike since 2007.

The central bank’s June forecast for inflation is 2.8% this year, 1.9% in 2023 and 1.6% in 2024. Persistent supply chain bottlenecks stemming by Covid-19 sparked inflationary pressures, further accelerated by Russia’s war with Ukraine.

Britain’s Conundrum

Bank of England Governor Andrew Baily said on Tuesday that the global economic outlook has “deteriorated materially” and warned of possible further shocks to come. The Governor blamed Russia’s invasion of Ukraine for adding more pressure on commodity prices and already rising inflation. The warning also contained the BoE’s semi annual financial stability update, which comes as the UK faces its highest inflation in 40 years, adding to concerns that households and businesses will struggle to pay their debts. The BoE also noted the recent turmoil in global markets and cautioned that “risky asset prices remain vulnerable to further sharp adjustments” against a backdrop of additional supply shocks, faster than expected increases in global interest rates and slower than expected economic growth.

British inflation rates hit a high of 9% in June 2022, the highest number since 1982. The Bank expects the worst is yet to come. The number could touch 11% by the end of this year. This could lead to more interest rate hikes in an attempt to curb inflation. In June 2022, BoE increased the rates form 1% to 1.25%, the highest in 13 years.

On the following day, BoE's chief economist Huw Pill warned that Britain's economy would slow to a crawl over the next 12 months and repeated his preference for a "steady-handed" approach to raising interest rates. With inflation heading towards double digits and growth in the economy fading fast, Pill said the BoE was trying to chart a narrow path between these two forces and get consumer price growth back to its 2% target. Additionally, Prime Minister Boris Johnson resigned following the resignation of his health and finance ministers, throwing political strife and adding to the sense of turmoil in Britain.

Pill said he is willing to step up the pace of tightening policy if data supported such moves, adding that his decision in August would depend on the economic news. But for now, he stuck with his preferred "steady-handed" approach and warned that big moves in the central bank's benchmark rate could be counterproductive. The BoE has raised interest rates five times since December, raising rates to 1.25% from 0.1%. Faster tightening is expected despite the fact that growth is losing momentum as the highest inflation in 40 years erodes households' purchasing power.

Asia-Pacific

Continuing With The Hikes

Australia's central bank delivered its first ever consecutive half percentage point hike on Wednesday while committing to keep tightening monetary policy to suppress accelerating inflation. The RBA took the cash rate to 1.35%, marking its highest level since May 2019. "The board expects to take further steps in the process of normalizing monetary conditions in Australia over the months ahead," RBA Governor Philip Lowe said in a post meeting statement. "The board is committed to doing what is necessary to ensure that inflation in Australia returns to target over time."

Market Reaction

The Week of The Dollar

Recession fears and simmering geopolitical issues were the name of the game in the markets during the past week, holding the US dollar high and burying major currencies deep into their lows. The Euro kept reaching new lows since it was first introduced as banknotes and coins in the beginning of 2002, shedding 3.62% of its value against the dollar to reach a low of $1.0070 to then recover a slight margin of its losses to close the week at $1.0183. The sterling also tumbled against the dollar but the fall was less severe than that of the euro. The trajectory of the rate hikes of the BoE in addition to a small lift after Boris Johnson quit helped, but the Cable still fell against the strengthening dollar as an unfavorable macroeconomic backdrop overshadowed concerns about politics. The Cable closed the week 0.72% down at $1.2027. The strengthening dollar also saw its reach in the commodities market, casting its shadow on the once shimmering metal, leading gold prices to continue on a fourth week of continuing drop. Gold ended the week at $1,743.82.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30730.

Rates – 10th July, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0422	1.0070	1.0462	1.0183	1.0110	1.0440	1.0251
GBP	1.2101	1.1873	1.2165	1.2027	1.1819	1.2241	1.2050
JPY	135.32	134.77	136.56	136.08	130.60	138.99	135.15
CHF	0.9609	0.9573	0.9798	0.9762	0.9486	0.9910	0.9695