

# Weekly Money Market Report

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### US Inflation Sticky as Japan and UK Enter Technical Recession.

- US Consumer Price Index came in at 0.4% vs expectations of 0.3%.
- US Retail Sales came in at -0.8% vs expectations of -0.2%.
- US Unemployment Claims came in at 212K vs expectations of 219k.
- UK Consumer Price Index y/y came in at 4.0% vs expectations of 4.0%.
- UK GDP q/q came in at -0.3% vs expectations of -0.1%.
- The Reserve Bank of Australia held its policy interest rate steady at 4.35%.

## United States

### US Consumer Price Index

Higher than expected inflation data in the US drives significant movements in currencies, equities, and bonds across the board. Where the consumer price index report showed a higher-than-expected figure for January, at a 0.4% month-over-month beating expectations of 0.3%. Meanwhile the year-over-year figure was up 3.1%, down from 3.4% in December, while remaining higher than the 2.9% expected figure. The report release was followed by a drop in major equities with the Dow Jones index dropping 1.35% and the S&P 500 dropping 1.37%. Meanwhile the 10-year bond yield reached 4.3104% up from 4.1514%. Expectations for rate cuts in 2024 were pushed down, with expectations for a rate cut in March dropping to 8.5%, as sticky inflation and a robust labor market is not going to add to Fed confidence that inflation is going to move sustainably towards 2% with looser monetary policy.

### US Core Retail Sales

US retail sales in January dropped the most in 10 months coming in at -0.8% and the so-called core retail sales which excludes automobiles, gasoline, building materials and food services decreased 0.4% in January. The plunge more likely reflects seasonal adjustments and freezing weather. In addition, the strong job market and wage growth suggests consumer spending will remain healthy, supporting the overall economy. January's 0.8% sales decline was surprising, exceeding forecasts and marking the biggest drop since March 2023. However, economists point out the drop was driven by factors like a 4.1% drop in home improvement and a 1.7% plunge in auto sales, exceeded expectations due to larger-than-anticipated seasonal adjustments. The still-solid labor market and rising wages indicate ongoing consumer spending power, which should keep the economy expanding. Despite these weaknesses, signs point towards slowing goods price deflation and sustained economic growth. Import prices climbed in January, suggesting inflation pressures might persist, but a strong labor market and wage growth indicate consumer spending should remain a pillar of the US economy.

### Unemployment Claims

The US labor market showed few signs of cooling last week. New claims for unemployment benefits fell to 212,000, below economists' expectations of 220,000. However, the 4-week average rose to 218,500, and claims for continued benefits reached 1.895 million. Overall, the US job market remains tight, with new claims for unemployment benefits falling below expectations of last week. However, the four-week moving average of claims rose, and claims for continued benefits remained elevated. This suggests that the labor market is not cooling as quickly as some economists had expected.

### US Producer Price Index

Wholesale prices jumped unexpectedly in January, dealing another blow to hopes of easing inflation. The producer price index rose 0.3%, exceeding predictions of a 0.1% increase and marking the biggest jump since August. Meanwhile, the core PPI which excludes volatile food and energy came in at 0.5%, surpassing expectations of 0.1%. This hotter-than-expected inflation at the wholesale level suggests potential continued inflation pressures for consumers down the line.

The greenback traded sideways over the past week, closing at 104.296.

## United Kingdom

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### UK Consumer Price Index y/y

Inflation in the UK held steady at 4.0% in January, lower than expectations of 4.1%. Core inflation also remained unchanged at 5.1%, while services inflation rose to 6.5%, up from 6.4% the previous month. The data release came as a relief for the Bank of England, as markets anticipate a rate cut in the near future since inflation seems to be moving towards the 2% target. On the contrary, wage growth rose by 6.2% annually, double the pace that the BOE views as consistent with getting inflation back at 2%.

### UK GDP q/q

UK's economy dipped into a technical recession in late 2023, dealing a blow to PM Sunak's growth promises before key elections. GDP figures show a 0.3% contraction in the last quarter compared to a 0.1% decline previously. This puts Britain alongside Japan in a technical recession, though it's likely mild. Investors expect interest rate cuts, businesses want government aid, and voters face falling living standards. On the contrary, The Bank of England is expecting signs of an upturn in the economy, with Governor Andrew Bailey stating that forecasts of a "somewhat stronger growth story" is expected ahead.

The Sterling underperformed over the past week, last seen at 1.2598.

## Asia-Pacific

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### Japan Producer Price Index

Japan's economy unexpectedly entered a recession in Q4 2023, shrinking 0.4% after a previous 3.3% decline, allowing Germany to now become the world's third biggest economy. This technical recession comes with doubts about the central bank's ability to exit its ultra-loose monetary policy. Weak domestic demand, including sluggish consumption and investment, are major concerns. Additionally, rising costs and labor shortages add pressure, while external demand offers some limited support. The Bank of Japan faces a tricky balancing act, considering global trends and potential risks. Opinions vary on the timing of potential policy shifts by the Bank of Japan as some see tight labor markets and corporate spending plans as reasons for optimism, while others warn of lingering risks and the need for caution despite signs of improvement in global growth forecasts.

The Yen over performed over the week, closing at 150.21

### China's Consumer Price Index

Consumer prices in China slid deeper into deflationary territory last month, suffering the biggest drop since the global recession in 2009. The country's Consumer Price Index dropped by 0.8% y/y in January, marking the steepest fall since September 2009 and marks fourth consecutive month of decline. The National Bureau of Statistics attributes the weak figure to the strong demand in January 2023 for the Lunar New Year when CPI rose 2.1%. This year the Lunar New Year falls in February, causing distortions to the base. Beijing is currently struggling to revive both consumer and investor confidence as it faces many challenges, including a real estate slump, stock market meltdown and weaker exports. Nevertheless, many analysts believe consumer prices are likely to rise from February onwards.

The USD/CNY currency pair traded sideways over the week, last trading at 7.1929.

### The Reserve Bank of Australia

The Reserve Bank of Australia held its policy interest rate steady at 4.35% in a widely anticipated decision which followed 13 consecutive rate hikes since 2022. It noted that goods inflation was lower than forecast, but that services inflation remained high, with overall inflation at 4.1%. RBA Governor Michelle Bullock held a press conference after the meeting stating that the country was on track to get inflation within the bank's 2% to 3% target band by 2025, and to reach the midpoint of that range by 2026. Bullock added that while there were "encouraging signs," the RBA remains "vigilant" to upside risks that would make it difficult to achieve its target. In its statement announcing its decision, the RBA said it didn't exclude further rises. "We're not ruling in or out anything," Bullock said. "We are focused on bringing inflation down. We still think the risks are

balanced but, as you would know, the further out we go with our forecasts, the more uncertainty there is around them".

The AUD/USD currency pair traded sideways over the week, last trading at 0.6531.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30800.

### Rates – February 18<sup>th</sup>, 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0768	1.0730	1.0787	1.0774	1.0725	1.0900	1.0810
GBP	1.2599	1.2548	1.2624	1.2598	1.2530	1.2690	1.2600
JPY	149.92	149.81	150.64	150.21	148.80	151.90	148.15
CHF	0.8794	0.8793	0.8839	0.8805	0.8615	0.8935	0.8720

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