Weekly Money Market Report
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>NBK Treasury
+965 22216603
tsd_list@nbk.com

A Bit More Dovish

Highlights

- **The FOMC meeting minutes highlighted a dovish Fed tone during their latest November meeting.**
- **US business activity contracted for a fifth straight month in November.**
- **Bank of England Deputy Governor Dave Ramsden backed more interest rate hikes, but said he would consider cutting rates.**
- **UK economic activity has shrunk for a fourth consecutive month.**
- **Business activity in the Eurozone has contracted for the fifth consecutive month.**

United States

Meeting Minutes

The FOMC meeting minutes were released on Wednesday highlighting a dovish Fed tone during their latest November meeting. The vast majority of policymakers at the Fed agreed that reducing the pace of hiking interest rates is appropriate to assess the effect of monetary policy changes on the economy, some even warned that monetary policy would need to be tightened more than expected next year. "A slower pace ... would better allow the Federal Open Market Committee to assess progress toward its goals of maximum employment and price stability," said the minutes.

The minutes showed some Fed officials believe they will have to squeeze the economy more than they initially expected because inflation had shown "little sign thus far of abating" — even if they get there with smaller rate rises. A few also argued it could be "advantageous" to wait to slow the pace of rises until the policy rate was "more clearly in restrictive territory" and that there were clearer signals inflation was slowing. However, in a sign of divisions among policymakers, others warned there was a risk that the cumulative effect of rate rises could "exceed what was required" to bring inflation under control.

Because rate rises take time to feed through to the economy, Fed policymakers have proposed "downshifting" to half-point rate rises as soon as the next meeting in December, when their campaign to tighten monetary policy will enter a new phase. According to the minutes, officials engaged in a long debate about the delayed effects of tighter monetary policy. They noted that interest rate-sensitive sectors such as housing had adjusted quickly, but that the "timing of the effects on overall economic activity, the labor market, and inflation was still quite uncertain".

According to the minutes, economists at the Fed judged the possibility of a recession over the next year was "almost as likely" as their baseline prediction that the world's largest economy will narrowly avoid one. They also indicated heightened concern about financial stability risks associated with the Fed's plans to rapidly increase borrowing costs, citing recent ructions in UK government bond markets that forced the Bank of England to step in.

The US dollar stood close to a three-month low following the release and gained marginally on Friday, as the prospect of the Federal Reserve slowing monetary policy tightening as soon as December preoccupied investors and kept the mood buoyant.

Business Activity Weakens

Data released on Wednesday showed US business activity contracted for a fifth straight month in November, with a measure of new orders dropping to its lowest level in 2-1/2 years as higher interest rates slowed demand. S&P Global said on Wednesday its flash US Composite PMI Output Index, which tracks the manufacturing and services sectors, fell to 46.3 this month from a final reading of 48.2 in October. A reading below 50 indicates contraction in the private sector. Activity is slumping under the weight of the Federal

Reserve's most aggressive interest rate-hiking cycle since the 1980s aimed at curbing inflation by dampening economic demand.

Yet, there were some glimmers of hope in the fight against inflation. The survey's measure of prices paid by businesses for inputs slipped to 65.7, the lowest level since December 2020, from a final reading 67.0 in October. That reflected an easing in supply bottlenecks. Businesses were also raising prices for their products at the slowest pace in just over two years, in part because of ebbing demand, with some firms reporting concessions and discounts to entice customers to place orders.

The survey's flash manufacturing PMI dropped to 47.6 this month, the lowest reading since May 2020, from 50.4 in October. Economists polled by Reuters had forecast the index at 50. While the survey's flash services sector PMI decreased to 46.1 from 47.8 in October. Services businesses also reported weak demand and a moderation in input prices. Average input prices increased at the softest rate in two years, but factories still faced challenges finding skilled labor. This suggests the slowdown in inflation will be gradual, as wages remain sticky.

United Kingdom

More hikes

Bank of England Deputy Governor Dave Ramsden backed more interest rate hikes on Thursday, but said he would consider cutting rates if the economy and inflation pressures panned out differently to his expectation. Ramsden is the latest member of the Monetary Policy Committee to mention the possibility of cutting interest rates at some point, after the BoE earlier this month said market expectations for interest north of 5% were too high.

Speaking to the first BoE watchers conference at King's College London, Ramsden seemed to undermine the contention of Chancellor Jeremy Hunt, who said in his statement that the government's £55bn of budgetary consolidation would allow interest rates to be "significantly lower". Ramsden said the measures to reduce public borrowing would take effect too late to influence BoE monetary policy in the months ahead.

Ramsden said he thought the BoE still needed to tighten monetary policy. "I expect that further increases in the bank rate are going to be required to ensure a sustainable return of inflation to target," he said. The Deputy Governor made it clear he would consider another large interest rate rise at the next meeting in mid-December if he saw that companies still felt able to raise prices to defend profit margins and increase wages significantly higher than the 2% inflation target. He noted that although his bias was "towards further tightening", he would "consider the case for reducing the bank rate" if the economy developed differently to his expectations and persistent inflation stopped being a concern.

At its last meeting, the MPC signaled that if inflation began to shrink, which is expected as the UK enters recession, it would not need to raise rates much further to bring inflation down to its 2% target. But this was criticized on Thursday evening in a speech in Italy by Lord Mervyn King, former governor of the bank. King said "intellectual errors" by central banks had led to inflation hitting double digits around the world, and that because officials had printed too much money during the pandemic it had become inflationary. King said the most likely mistake that policymakers would now make would be not to raise interest rates high enough as inflation begins to fall in 2023.

Shrinking Economic Activity

UK economic activity has shrunk for a fourth consecutive month as new orders fell at the fastest pace in almost two years, pointing to a deepening recession that is forecast to last more than a year. The S&P Global/Cips UK flash composite purchasing managers' index was broadly unchanged at 48.3 in November, compared with 48.2 in October. November's reading, though above the 47.5 forecast in a Reuters poll, was the fourth successive figure below the 50 mark, which indicates a majority of businesses reporting a contraction.

Manufacturing production continued to decline at a faster pace than service sector activity, the survey showed. But the downturn in manufacturing was the least marked since July, as a number of companies reported fewer supply shortage issues. Price pressures also eased in November, partly reflecting weakening demand.

Rishi Sunak's appointment as prime minister resulted in improved business confidence, according to the survey, but the mood of managers remained among the gloomiest seen during the past 25 years.

Europe

Business Activity Contraction

Business activity in the Eurozone has contracted for the fifth consecutive month but there were signs of improvement in confidence as supply chain constraints and price pressures eased. S&P Global's flash Eurozone composite purchasing managers' index rose 0.5 points to 47.8 in November, but still indicated the second-biggest decline in companies' activity for nine years excluding coronavirus lockdown periods.

The outcome of the survey was less gloomy than expected by economists polled by Reuters, who had forecast a decline in the index to 47. Businesses reported an easing of supply constraints and cost pressures and a more upbeat view about the year ahead. The rate of decline eased markedly among manufacturers in Germany, the Eurozone's biggest economy. But the survey also recorded falling factory output, declining new orders and slowing employment growth in another signal that Eurozone economic output is expected to contract this winter.

Conflict of Opinions

Robert Holzmann, head of the National Bank of Austria and member of the ECBs' governing council, backed a third straight 0.75% rise in the deposit rate at the next rate-setting meeting in mid-December. The move would raise benchmark borrowing costs to 2.25%. The European Central Bank needs to maintain the pace of rate rises at its next vote to convince the public that policymakers are "serious" about taming inflation, said Austria's hawkish central bank chief. His comments underline the potential for a clash at the next vote, with policymakers split between keeping up the pace and switching to smaller increases on the back of signs of a recession.

Holzmann said that he could "see no signs that core inflation is reducing" in the Eurozone and he expected only a "flattening out of growth, or a mild recession", rather than a deep downturn in the 19-country bloc. Another big rate rise "would give a strong signal about our determination," said the former economics professor who worked for several years at the World Bank. "It would tell businesses and trade unions we are serious so don't underestimate us, be careful." He said he was still open to changing his mind based on the ECB's new quarterly economic forecasts, out at the same time as next month's meeting on December 15.

ECB chief economist Philip Lane, one of its more dovish rate-setters, said in remarks published on Monday that 75 basis point rises might no longer be necessary as earlier increases meant that its benchmark deposit rate, now 1.5%, was close to the point where it no longer supported growth. "The more we've already done, the less we need to do," Lane told Market News. However, Slovenia's central bank head Boštjan Vasle said the ECB should keep raising rates "even into the territory where monetary policy won't be just neutral, but will become more restrictive."

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30725.

Rates – 27th November, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0316	1.0221	1.0448	1.0395	1.0220	1.0700	1.0469
GBP	1.1885	1.1776	1.2153	1.2093	1.1950	1.2405	1.2125
JPY	140.28	138.04	142.25	139.10	136.00	140.90	137.39
CHF	0.9550	0.9385	0.9598	0.9453	0.9170	0.9610	0.9349