Weekly Money Market Report
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Rate Hikes Are Still the Theme

Highlights

- **The Federal Reserve delivered its fourth consecutive 0.75% rate rise.**
- **US manufacturing & services activity grew at their slowest pace in nearly two and a half years in October.**
- **US jobs growth rose at an unexpectedly rapid pace in October.**
- **The Bank of England raised interest rates by the most since 1989 on Thursday but sounded dovish.**
- **European inflation data took the market by surprise, clocking a record 10.7% increase.**
- **The Reserve Bank of Australia hiked its benchmark interest rate from 2.60% to 2.85%.**

United States

The Hike Train Still Has Steam

The Federal Reserve delivered its fourth consecutive 0.75% rate rise on Wednesday as they continue to battle inflation aggressively, increasing the benchmark rate from 3.00-3.25% to 3.75-4.00%. In a statement accompanying the increase, the committee that sets monetary policy indicated it was preparing to ease up on the accelerator. From now on, the Federal Open Market Committee will take into account how far rates have already risen this year as well as the fact it takes time for such increases to filter through to the real economy. That suggests a slower pace of rate rises in the future.

In his speech following the announcement, Fed chair Jerome Powell warned US interest rates would peak at a higher level than expected even as he held out the possibility of the Federal Reserve slowing the pace of its campaign to tighten monetary policy. Powell warned the Fed had “some ways to go” in its quest to tame soaring prices and pointed to a string of economic reports suggesting it has yet to make a dent in inflation. “Data since our last meeting suggests that the ultimate level of interest rates will be higher than expected,” the Fed chair added. However, Powell also hinted that policymakers are willing to entertain the possibility of adopting a less aggressive increase at the Fed’s next meeting in December. “That time is coming, and it may come as soon as the next meeting, or the one after that.” Powell added that the Fed did not need to see several months of lower inflation reports before switching to smaller increases. “We do need to see inflation coming down decisively and good evidence of that would be a series of down monthly readings,” he said. “But I’ve never thought of that as the appropriate test for slowing the pace of increases.” Powell even went so far as to acknowledge that the path to a soft landing, in which the Fed brings down inflation without a painful recession, had narrowed even further.

The Fed first introduced the notion of slowing down “at some point” back in July, and forecasts published at the September meeting suggest support for such a move in December. At September’s meeting, most officials projected the fed funds rate reaching 4.4% by the end of the year, indicating a step down to a half-point rate rise next month. Economists are concerned that by prolonging its aggressive tightening program, the Fed risks triggering a more pronounced economic downturn than is necessary, as well as instability in financial markets.

Markets struggled to interpret the central bank’s stance, with stocks jumping after the statement was released, and then sinking after Powell warned in his press conference that rates would top out at a higher “terminal” level. The S&P 500 index closed down 2.5% in New York while the tech-heavy Nasdaq fell 3.4%. On the FX front, the dollar lost ground initially post the FOMC statement release and quickly gained ground as Powell delivered his speech to the press.

A Noticeable Slowdown

US manufacturing activity grew at its slowest pace in nearly two and a half years in October amid the Fed’s aggressive push to raise interest rates as it battles inflation. The Institute for Supply Management said that its

Purchasing Managers Index fell to 50.2 last month from 50.9 in September, both the lowest readings since May 2020. While overall manufacturing activity fell, the forward-looking new orders subindex edged higher to 49.2 last month from 47.1 in September, indicating some resiliency among US consumers. The US services industry also grew at its slowest pace in nearly two and a half years in October, but businesses continued to face higher prices for inputs, confirming that inflation was shifting to services from goods. The Institute for Supply Management said its non-manufacturing PMI fell to 54.4 last month, the lowest reading since May 2020, from 56.7 in September.

Beating Expectations

Data came out on Friday showing US jobs growth rose at an unexpectedly rapid pace in October, defying expectations for a larger slowdown as the historically tight labor market again showed resilience in the face of the Federal Reserve's aggressive efforts to curb demand.

The economy added 261,000 positions last month, higher than the forecast figure of 200,000, yet down from the upwardly revised 315,000 in September and 292,000 in August. In July, payrolls swelled by more than half a million. Despite these gains, the unemployment rate ticked up from 3.5% to 3.7%, just above its pre-pandemic low. Wages increased 4.7% y-o-y in October after advancing 5.0% in September as last year's large increases dropped out of the calculation. Other wage measures have also come off the boil, which bodes well for inflation.

The share of Americans either employed or seeking a job, known as the labor force participation rate, again failed to improve in October, steadying at 62.2%. Average hourly earnings rose 0.4%, just above September's increase but slowing the annual pace to 4.7%.

Europe & United Kingdom

BoE Hikes, but Sounds Dovish

The Bank of England raised interest rates by the most since 1989 on Thursday but warned investors that the risk of Britain's longest recession in at least a century means borrowing costs are likely to rise less than they expect. The BoE's 0.75% increase to 3% took interest rates to their highest point since 2008. However, the central bank issued unusually strong guidance that rates would not need to rise much further to bring inflation back to its 2 per cent target, partly because it forecast a prolonged recession ahead. "We can make no promises about future interest rates," said BoE governor Andrew Bailey. "But based on where we stand today, we think rates will have to go up by less than currently priced into financial markets. That is important because, for instance, it means that the rates on new fixed-term mortgages should not need to rise as they have done."

Seven of the nine Monetary Policy Committee members voted for the rise, maintaining that "a larger increase" this month "would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later". However, guidance and economic forecasts published by the BoE suggested it was taking a more dovish stance on interest rates than the Fed. The BoE projected that if it increased interest rates to 5.25%, Britain would be plunged into the longest recession since the Second World War — eight quarters of contraction — and inflation would fall to zero in three years' time.

Nevertheless, in a strong signal that it believed it may have already done the bulk of the work needed to curb inflation, the central bank highlighted an alternative in which rates do not rise any further from the current 3%. In this scenario, inflation was projected to peak at 10.9% in the fourth quarter of 2022 before falling to 5.6% at the end of 2023, 2.2% at the end of 2024 and below its 2% target in 2025. Even if interest rates stay on hold at 3%, the BoE still forecasts a recession for five quarters, based on higher energy prices and mortgage costs.

A Hawkish Contrast from The ECB

By contrast, Christine Lagarde, the ECB president, struck a hawkish note about Eurozone policy, saying on Thursday that a "mild recession" in the region would not be enough to "tame inflation" on its own. Lagarde has indicated a recession in the Eurozone would not be enough to stop the European Central Bank raising rates further, underlining policymakers' determination to quash inflation despite the risks to growth. A recession was not yet her baseline scenario for the 19-country single currency bloc, but if it happened it would not be sufficient for the ECB to "just let it roll out" to bring inflation down to its 2% target.

The hawkish comments by the ECB president follow remarks after the central bank's policy vote last week, which investors initially interpreted as a signal that policymakers could soon stop raising rates due to growing recession fears.

Record High Inflation

Recent European headline inflation data took the market by surprise. The reading came at 10.7% y-o-y in October, up from 9.9% in September while the consensus was at 10.3%. Core inflation also surprised to the upside, rising from 4.8% to 5.0% while economists expected a reading of 4.8%. The main driver was the big rise in food inflation at 15.4%.

Gross domestic product figures published on Monday by Eurostat confirmed Eurozone growth slowed in the third quarter, rising 0.2% from the previous quarter. The figure was in line with expectations, but marked a slowdown from growth of 0.8%in the previous quarter. Growth accelerated slightly in Germany, but France, Italy and Spain reported sharp slowdowns.

Australia

RBA Hikes

The Reserve Bank of Australia hiked its benchmark interest rate from 2.60% to 2.85% on Tuesday, marking the seventh hike decision this year. The central bank revised up its inflation outlook saying that further tightening will be required ahead. "The Board expects to increase interest rates further over the period ahead. It is closely monitoring the global economy, household spending and wage and price setting behavior," RBA Governor Philip Lowe said in a statement. The cash rate is currently at a 9 year high for the RBA.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30980

Rates –6th November, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	0.9946	0.9728	0.9975	0.9960	0.9810	1.0230	1.0040
GBP	1.1605	1.1145	1.1613	1.1375	1.1215	1.1635	1.1418
JPY	147.76	145.66	148.84	146.59	143.57	148.40	144.82
CHF	0.9960	0.9908	1.0147	0.9938	0.9665	1.0050	0.9832

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