Weekly Money Market Report
24 October 2021

Markets React to Inflationary Figures

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- **US equities continue to rally despite alarming inflation figures and potential interest rate hikes**
- **The Euro Zone shows strong manufacturing and services figures**
- **The Bank of England signals for potential interest rate hikes**
- **A tight energy markets skyrockets crude prices to 7 year highs**

United States

Inflation Pressures Continue

Inflation concerns continue to take center stage as the Fed and other major central banks struggle to maintain a balanced approach. Although most central banks continue to hold the stance that inflationary pressures will be transitory, the market seems to be pricing in a longer period of higher prices. Evidently, the 10-year US treasury yield, traditionally a gauge of inflation expectations, jumped another 12 basis points the past week. Nevertheless, the Fed seems set to start tapering its bond purchases program as soon as November, and as mentioned expects higher prices to be transitory despite the recent surge in commodity prices amid supply chain bottlenecks and the rising cost of energy.

Market Movement

The yield on the benchmark 10-year Treasury note has risen by 6 basis points in the course of the week to 1.63% after reaching a high of 1.70%, on fears that this year's surge in inflation is likely to last longer than initially expected. Despite the increase in yields, the Dollar dropped against most of its major counterparts last week amid profit taking and market consolidation. Furthermore, news from China that Evergrande was able to make a last minute payment to avoid default has lifted sentiments and pressured the dollar lower. The dollar index, which tracks the performance of the greenback against a basket of major developed economy currencies was down 0.37% on the week and closed at 93.61. The Euro closed the week higher against the Dollar at 1.1645 after reaching a high of 1.1669. Similarly, the pound found strength against the greenback as expectations that the Bank of England would raise rates surged. Meanwhile Sterling's upward momentum was capped by data showing another decline in retail sales in September, marking the fifth straight month they have fallen. While earlier declines were seen as a shift in spending away from goods toward services as the economy reopened, the most recent data was also affected by weakening consumer sentiment as the government ended its labor market support schemes and the shortage of truck drivers led to widespread shortages of various products, notably fuel. The pound managed to reach a high of 1.3834 and closed the week at 1.3756.

US equities have rallied this week, with the Dow Jones increasing around 1.08%. Similarly, the tech-heavy NASDAQ and blue-chip S&P 500 have increased around 1.37% and 1.64%, respectively. US equities rallied despite mixed quarterly earnings.

Economic Indicators

US economic indicators for the week began with the month-over-month industrial production witnessing a drop of 1.3% versus an expected gain of 0.3%. Such a drop in production shows the heavy impact of high commodity prices on producers, pushing the cost on the consumer, which translates to higher inflation. Additionally, a report published by the Federal Reserve Bank of Philadelphia shows slowed manufacturing at 23.8 points, remaining well above the 0.0 mark indicating improved economic conditions. Furthermore, the manufacturing purchasing manager's index (PMI) fell short of expectations at 59.2 versus the forecasted 60.5 points. The slowdown in manufacturing is partly due to hurricane Ida disrupting production and the rise of commodity prices. On the other hand, the services PMI came in at 58.2 points, exceeding the expected 55.3 points.

EU & UK

Europe

In Europe, the unprecedented spike in energy prices proves to be a significant concern for the European Union, and was discussed in a two-day summit last week. However, EU leaders have struggled to find common ground in response to the soaring energy prices. Additionally, these complications have exposed flaws in the European Union's climate change goals and have divided countries on whether the situation warrants an overhaul of EU energy rules.

The Eurozone as a whole showed positive expansion in the manufacturing industry as the manufacturing PMI exceeds expectations by 1.5 points. The 58.5 points reveals positive manufacturing expansion in the Eurozone area. On the other hand, the services PMI suffered a setback coming at 54.7 points versus the 55.4 expected points. Therefore, this shows a slight slowdown in the services sector, though is still well above the 50 level expansion mark. Germany has helped to increase the manufacturing PMI showing a robust 58.2 points versus the expected 56.5 points. Additionally, France has weighed in on the services PMI reporting 56.6 points surpassing the expected 55.6 points.

United Kingdom

In the United Kingdom, the consumer price index (CPI) rose 3.1% last month, registering its fastest pace in the previous nine years. As a major gauge of inflation, this sounds the alarm for the Bank of England who are forced to react to these figures. The Bank of England's chief economist Huw Pill stated that inflation could surpass 5% in the coming months. If inflation reached 5%, then that is a single percentage point above BOE's expectations and three percentage points above the BOE's inflation target. BOE governor Andrew Bailey reiterated this week that inflation remains transitory. However, the governor emphasized that the current surge in energy prices would push inflation higher and make it last longer. Nonetheless, governor Bailey signaled this week that the Bank of England is gearing up for a rise in interest rates. Such a course of action must be taken in BOE's monetary policy meetings, which makes the next BOE meeting highly anticipated.

Furthermore, in the United Kingdom, the manufacturing PMI came in at 57.7 points versus the expected 56.1 points. Therefore, this shows expansion in the UK's manufacturing industry. Similarly, the services PMI has surpassed the expected 54.5 points and came in at 58.0 points showing an expanding services sector in the United Kingdom.

Commodities

Crude

The rise of the US dollar has made metal and energy prices less attractive. Additionally, the crude market has tightened amid an increase in demand and drop in supply. Saudi Arabia has stated that any extra oil from OPEC+ would be insignificant to control the surging cost of natural gas. Winter is coming and expectations are that the daily demand would jump from 500,000 to 600,000 barrels. OPEC+ daily increase output is at 400,000, which would not meet the demand if the northern hemisphere's winter proves colder than normal. Major crude consumers like the US and Japan have asked oil exporters to counter the rally in crude prices as they are up around 65% this year. Additionally, India is now Asia's second largest oil importer and has raised the alarm over the extremely high crude prices. OPEC+'s steady production increase has maintained oil price levels near $80 a barrel. However, a surprise drop in US inventories last week sent the West Texas Intermediate to a 6-year high.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30155.

Rates – 24th October, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1600	1.1571	1.1694	1.1645	1.1545	1.1845	1.1675
GBP	1.3750	1.3709	1.3834	1.3756	1.3650	1.3950	1.3771
JPY	114.22	113.41	114.69	113.49	111.50	114.45	113.32
CHF	0.9229	0.9151	0.9273	0.9161	0.8955	0.9260	0.9125