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Weekly Money Market Report
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Dollar Rises Amid Heating Inflation and Solid Jobs Report

Highlights

- **America's inflation problem did no abate in February, it rose to a 40 year high.**
- **Employers in the world's largest economy added 431,000 jobs in March, the unemployment rate dropped to 3.6%, and average hourly earnings registered a 5.6% YoY increase.**
- **Eurozone inflation surged to a preliminary reading of 7.5% in March, a record high.**
- **The Bank of Japan will boost its purchases of government bonds over the coming three months.**
- **The White House announced a historic release of around 180 million barrels of oil from the US's emergency stockpile.**

United States

The Case of Aggressive Tightening: Heating Inflation

Personal Consumption Expenditure (PCE), also known as the Federal Reserves' preferred gauge of inflation was released on Thursday where it showed that America's inflation problem did no abate in February as it rose to a 40 year high. The PCE price index rose at a yearly rate of 6.4% in February, clocking the fastest increase since January 1982. Stripping out volatile food and energy costs, the index rose at a yearly rate of 5.4% in February, its fastest increase since April 1983.

The reading is a far cry from the central bank's target of around the 2% level, and adds to the pressures on Fed officials to keep raising interest rates as they try to lower price pressures. It also reflects a change of dynamic for the nature of price increases. Earlier on in the pandemic, prices were rising due to high demand and supply chain issues. However, following Russia's invasion on Ukraine, global commodities markets were shook. Energy prices surged by 25.7% in February. The most widely held futures for Brent crude, which call for delivery of oil in May, breached $100 a barrel for the first time since 2014 after the Ukraine crisis threatened to scramble the region's exports. Economists think the conflict added more pressure on inflation in March, after crude oil prices hit their highest points since 2008 and U.S. gasoline prices climbed to record-breaking levels.

The Fed already lifted its benchmark rate in March by 25bps to a range between 0.25% and 0.50% from near zero, but this is far from enough in this price environment. Expectations are now rising that the US Federal Reserve will make jumbo, 50bps increases this year. Wall Street economists moved this week to revise their 2022 forecasts for monetary policy, projecting the Fed will double the pace at which it is raising rates at one or more of its forthcoming meetings. Economists took their cue from some of the most senior policymakers on the Federal Open Market Committee, who were explicit about the central bank's willingness to take aggressive action given the developing price pressures.

Fed Chair Jerome Powell already embraced moving "expeditiously" to raise rates to a "neutral" level that ceases to further ignite demand, He also said that there was "nothing preventing the Fed from moving forward with half-point increases in May." John Williams, president of the New York Fed and a member of Powell's inner circle, said the Fed should proceed with such a move if warranted by the data, a departure from his earlier stance that there was not a compelling argument for a "big step" at the March meeting. Several other branch presidents, including Charles Evans of Chicago, Mary Daly of San Francisco and Atlanta's Raphael Bostic also expressed their openness to doing so.

Tight Labor Market

The week ended with the release of employment data where the US recorded another month of job growth in March as higher wages lured more workers back into labor force. Employers in the world's largest economy added 431,000 jobs during March, a cooler pace than the revised 750,000 positions added in February and less than markets forecast of 490,000 jobs.

The unemployment rate dropped to 3.6% from the 3.8% level recorded in February, its lowest level since before the pandemic. The data also showed a pick-up in wage growth after it surprisingly slowed down in February. Average hourly earnings registered a 0.4% monthly gain, translating into a 5.6% year on year increase. Businesses are continuing to compete for talent in a rush to fill a near record number of job vacancies, as for every unemployed person there are roughly 1.7 job openings. Demand for hiring is being driven by a sharp decline in COVID-19 infections, which has resulted in restrictions being lifted across the country. There is no sign yet that the Russia-Ukraine war, which has pushed gasoline prices above $4 per gallon, has impacted the labor market. The share of Americans either employed or looking for work has inched higher but still remains below its pre pandemic levels. The labor force participation rate edged up 0.1 percentage point to 62.4%. In February 2020, it stood at 63.4 per cent.

The data gives the Federal Reserve another data point to support an aggressive tightening policy to tame inflation. Jerome Powell did warn earlier that the labor market was "tight to an unhealthy level' and expressed concern about the potential feed through of higher wages on price pressures.

The employment report also helped to dispel financial market fears of a recession following slight inversions of the widely tracked US two-year/10-year Treasury yield curve during the week. Both yields did go up following the news with the two-year and the 10-year closing the week at 2.4625% and 2.3895% respectively.

Dollar Comeback

The forex market started the week with a downward movement for the US dollar as talks between Russia and Ukraine were progressing, edging the US dollar down as investors moved away from safe havens to give support to the euro and sterling pound. Progressing into the week the US dollar started to gain some ground as talks between the conflicting nations showed that they were not as rosy as markets first believed. Putin continued to show aggression in Ukraine and demanded that unfriendly countries pay for its oil in rubles, a move that was unwelcome by most nations. The dollar continued to rise following the jobs readings announced on Friday, with the index closing the week at 98.623. The euro struggled against the strengthening dollar and carried the weight of the Eurozone's record inflation on its shoulder to close the week at 1.1053. The sterling pound also suffered from the strengthening dollar to close the week at 1.3112.

Europe

Grim Readings

In a grim reading for the European Central Bank, Eurozone inflation surged to a preliminary reading of 7.5% in March, hitting yet another record high after it reached 5.9% in February. The numbers come at a time when Russia's invasion of Ukraine has brought renewed economic uncertainty, with some economists wondering whether the Eurozone will enter into a recession in 2022, something that European officials have so far refused to say. Italy's Prime Minister Mario Draghi, for instance, said last week that there will be economic damage from the invasion of Ukraine, but not a recession.

The readings come as Europe took unprecedented measures to punish Russia for its invasion on Ukraine, such as blocking the sale of luxury goods to Russia, and these sanctions are having repercussions on the Eurozone economy itself. Additionally, there are other side effects from the war, most notably higher energy prices which are driving up inflation across the bloc.

ECB president Christine Lagarde said earlier last week that "three main factors are likely to take inflation higher" going forward. She noted that energy prices are expected to stay higher for longer, food inflation is likely to increase, and global manufacturing bottlenecks are likely to persist in certain sectors. Investors are betting the ECB will raise rates several times and lift them back up to zero by the end of the year. The ECB this month responded to soaring inflation by outlining plans to stop net bond purchases by September, setting the stage for it to raise rates this year if inflation stays high. Lagarde said on Wednesday: "The best way that monetary policy can navigate this uncertainty is to emphasize the principles of optionality, gradualism and flexibility." But she also signaled that EU governments could do more to support the economy, saying that "Europe needs a plan to ensure that the necessary investment comes online as quickly and smoothly as possible, with public and private finance reinforcing each other."

Asia

The Bank of Japan

The Bank of Japan said on Thursday that it will boost its purchases of government bonds over the coming three months in a bid to defend their monetary policy target even as the yen comes under heavy pressures. Announcing that it would buy 10-year debt at a faster pace than it had previously did, the move follows a series of exceptional efforts to keep a lid on medium-term borrowing costs. Japan's accommodative policy stance sharply contrasts with most other large economies that are unwinding stimulus measures to battle high inflation.

Commodities

Pumping Oil

In the commodities complex, the White House announced a historic release of around 180 million barrels of oil from the US's emergency stockpile in a bid to cool down crude prices, saying that it would punish some domestic oil companies that do not increase their drillings. President Joe Biden said on Thursday that prices "should not hinge on whether a dictator declares war," referring to Vladimir Putin's invasion of Ukraine and the effect of western sanctions on Russian oil imports. The announced release of 1 million barrels a day was by far the biggest ever announced and will last six months, draining almost a third of the US Strategic Petroleum Reserve. The drawdown would take the reserve to its lowest level since 1984. Meanwhile, OPEC and allies including Russia agreed on Thursday to another modest monthly oil output boost, resisting pressure to pump more. Oil prices did cool down a bit but we are yet to see the true effect of Biden's decision. Brent crude closed the week at $104.39 while West Texas Intermediate closed at $99.27.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30390.

Rates – 3rd April, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0984	1.0943	1.1184	1.1053	1.0850	1.1150	1.1094
GBP	1.3188	1.3048	1.3188	1.3112	1.2900	1.3215	1.3109
JPY	121.95	121.26	125.10	122.49	121.50	124.70	122.17
CHF	0.9303	0.9193	0.9381	0.9254	0.9060	0.9460	0.9216