

# Weekly Money Market Report

April 20, 2025



>NBK Treasury  
+965 22216603  
tsd\_list@nbk.com

## Relative Calm: Economic Data and Central Bank Caution Amidst Trade Tensions

### Market Commentary

This week, global markets saw relative calm following last week's epic volatility. In the United States, market sentiment was dominated by continuing trade tensions and renewed political pressure on the Federal Reserve. Chair Jerome Powell warned that the newly announced tariffs are significantly larger than was anticipated, potentially jeopardising the Fed's dual mandate amidst still elevated inflation. President Trump escalated calls for rate cuts, questioning Powell's tenure. US retail sales rose 1.4% m/m in March, reflecting front-loaded consumer demand ahead of tariff implementation. The labour market showed mixed signals, with unemployment claims declining to 215K but manufacturing indicators weakening. In Canada, the Bank of Canada held its overnight rate at 2.75% as CPI eased to 2.3% y/y, but recession risks rose due to external shocks, prompting the central bank to suspend its forecast guidance. Meanwhile, the European Central Bank lowered its benchmark rate to 2.25%, citing weakening growth projections and tightening financial conditions. The Eurozone's 2025 GDP growth outlook was already revised down to 0.9%. In the United Kingdom, CPI inflation fell to 2.6% y/y in March, below expectations, whilst a weakening labour market drove market expectations of a rate cut at the BoE's 8 May meeting to 100%. In the Asia-Pacific region, China's Q1 GDP grew 5.4% y/y, exceeding expectations, supported by strong March data. Australia added 32.2K jobs in March, keeping unemployment at 4.1%, though the RBA remains biased toward easing. In New Zealand, Q1 inflation rose to 2.5% y/y, exceeding forecasts despite ongoing economic fragility. Equity markets were relatively calm in the holiday-shortened trading week, with the S&P 500 and DJIA finishing the week with deltas of +0.28% and -1.14% respectively. US Treasury yields eased with the 10-year at 4.33%. Gold reached a historic high \$3,357.78, reflecting heightened risk aversion.

### United States and Canada

#### Fed Warns Tariffs May Undermine Dual Mandate as Inflation and Growth Outlooks Deteriorate

Federal Reserve Chair Jerome Powell cautioned that recently announced tariffs by the Trump administration are "significantly larger than anticipated" and likely to exert upward pressure on inflation whilst dampening economic growth. In remarks to the Economic Club of Chicago, Powell stated that such developments could place the Federal Reserve "in the challenging scenario in which our dual-mandate goals [maintaining 2% inflation and maximum employment] are in tension". The Fed's preferred inflation gauge, the personal consumption expenditures (PCE) index, rose 2.5% y/y in February, exceeding target. Several FOMC members, including Governor Christopher Waller and New York Fed President John Williams, warned that inflation may remain elevated as tariff-related import costs ripple through the economy. DXY was last seen at 99.230.

#### Trump Intensifies Pressure on Fed Chair Powell to Cut Rates, Raises Prospect of Early Removal

Former President Donald Trump escalated his criticism of Federal Reserve Chair Jerome Powell, publicly demanding rate cuts and suggesting Powell's removal prior to the scheduled end of his term in May 2026. Speaking from the White House, Trump reiterated calls for immediate easing, stating the Fed "owes it to the American people to get interest rates down". The comments follow Powell's warning that recently announced US tariffs are considerably greater than expected and risk pushing inflation above target whilst weakening economic growth. The Fed, which has held rates steady in 2025, following three cuts in 2024 totalling 100bps, is not expected to move at its upcoming May meeting. Powell reaffirmed the central bank's legal independence, asserting policy decisions remain unaffected by political pressure.

#### US Retail Sales Rise 1.4% in March Driven by Pre-Tariff Purchases; Core Sales Up 0.4%, Auto Sales Surge 5.3%

US retail sales rose by 1.4% m/m in March 2025, marking the strongest increase since January 2023, as consumers accelerated purchases ahead of 25% global tariffs on vehicles and broad consumer goods effected in early April. Core retail sales, which exclude automobiles, fuel, building materials, and food services, increased by 0.4%, following a revised 1.3% rise in February. Motor vehicle sales led the gains, rising by 5.3%, whilst sales at building material suppliers and restaurants climbed 3.3% and 1.8%, respectively. Year-on-year, total retail sales were up 4.6%. Despite the headline strength, consumer sentiment remains near three-year lows, and Q1 GDP growth forecasts remain subdued, with the Atlanta Fed projecting a contraction.

### **Bank of Canada Holds Overnight Rate at 2.75% Amidst Rising Economic Uncertainty from US Trade War**

The Bank of Canada held its benchmark interest rate at 2.75%, following seven consecutive cuts since June 2024, and cited elevated uncertainty due to US-imposed tariffs. March headline CPI unexpectedly slowed to 2.3% y/y, down from 2.6%, driven by lower gasoline and travel costs, whilst core inflation remained elevated. In light of heightened external risks, the BoC suspended its traditional forecast and outlined two economic scenarios, including the possibility of a deep recession and spike in inflation. Prime Minister Mark Carney echoed these concerns in the leaders' debate, warning that Trump's trade actions are an existential threat to Canada's economy. Q2 2025 GDP is expected to weaken after an estimated 1.8% rise in Q1. USD/CAD was last seen at 1.3847.

## **Europe and the United Kingdom**

### **ECB Cuts Rate to 2.25% Amidst Deteriorating Outlook, Seventh Reduction Since June 2024**

The European Central Bank reduced its benchmark interest rate by 25bps to 2.25%, marking its seventh cut since June 2024. The decision, taken unanimously, reflects heightened uncertainty following the US administration's imposition of tariffs across major trade partners. The ECB cited a deteriorating growth outlook and tightening financial conditions driven by adverse market responses to trade tensions. In March, Eurozone GDP growth for 2025 was revised down to 0.9%, whilst the HICP eased to 2.2% y/y. Swaps markets now imply a 62% probability of at least three further cuts in 2025, underscoring the ECB's dovish bias amidst persistent geopolitical and external demand shocks. EUR/USD was last seen at 1.1393.

### **UK CPI Falls to 2.6%, Services Inflation at 4.7%, May Rate Cut Expected Amidst Labour Market Softening**

UK consumer price inflation eased to 2.6% in March from 2.8% in February, below both the Bank of England's forecast of 2.7% and market consensus. Services inflation declined marginally to 4.7% from 5.0%, reflecting moderating domestic price pressures. Preliminary labour market data showed employment declined by 78K in March, with vacancies falling below pre-pandemic levels for the first time since 2021. Despite wage growth of 5.9% in the three months to February, swap markets are now fully discounting a 25bp rate cut at the BoE's 8 May meeting. However, inflation is projected to rebound above 3% from April due to utility tariff increases and employer tax hikes. GBP/USD was last seen at 1.3296.

## **Asia-Pacific**

### **China Q1 GDP Grows 5.4% y/y, Exceeding 5.1% Forecast Amidst Tariff Headwinds and Strong March Data**

China's GDP expanded by 5.4% y/y in Q1 2025, outperforming the 5.1% consensus estimate and matching Q4 2024's pace. Growth was supported by a 7.7% y/y increase in industrial production and a 5.9% rise in retail sales in March, both exceeding expectations. Fixed asset investment grew by 4.2%, whilst the national unemployment rate declined to 5.2% from 5.4%. Exporters accelerated shipments ahead of the April implementation of new US tariffs, which have increased total levies on Chinese goods to 145%, though with temporary exemptions for some products like smartphones and electronics. The outlook remains uncertain as tariffs are expected to constrain export demand and prompt further stimulus from Beijing to support domestic consumption and maintain economic stability. USD/CNY was last seen at 7.2998.

### **Australia Adds 32.2K Jobs in March, Unemployment at 4.1% Amidst Easing Bias**

Australia's labour market showed renewed resilience in March 2025, with net employment rising by 32.2K, partially offsetting February's downwardly revised 57.5K job loss. The unemployment rate ticked up marginally to 4.1% from 4.0%, remaining below market expectations of 4.2% and broadly consistent with the Reserve Bank of Australia's projection of a 4.2% peak. The participation rate increased to 66.8%, whilst hours worked fell 0.3%, partly due to weather disruptions. Despite the rebound, swap markets currently fully price a 25bp rate cut at the RBA's next meeting in May, with a 20% probability of a larger 50bp move, as global growth risks intensify and inflation expectations soften. AUD/USD was last seen at 0.6377.

### **New Zealand Q1 Inflation Rises to 2.5%, Surpassing Expectations Amidst Weak Recovery**

New Zealand's annual CPI rose to 2.5% in Q1 2025, up from 2.2% in the previous quarter and exceeding both the Reserve Bank of New Zealand's and market forecasts of 2.4%. Quarterly inflation also advanced by 0.9%, outpacing expectations. Whilst headline inflation remains within the RBNZ's 1-3% target band, the economy continues to show signs of fragility following a 0.5% GDP contraction in 2024. Core inflation excluding food, energy and fuel eased to 2.6% from 3%, and non-tradables inflation decelerated to 4.0% from 4.5%. Swap markets now anticipate the official cash rate to fall below 2.75% by year-end, from 3.5% currently. NZD/USD was last seen at 0.5937.

## Kuwait

USD/KWD closed last week at 0.30680.

### FX Rates – April 20, 2025

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1355	1.1264	1.1425	1.1394	1.1250	1.1475	1.1457
GBP	1.3087	1.3041	1.3299	1.3295	1.3200	1.3400	1.3299
JPY	143.54	141.62	144.31	142.18	140.00	143.10	140.74
CHF	0.8148	0.8120	0.8268	0.8165	0.8100	0.8260	0.8077

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