Weekly Money Market Report
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Russia-Ukraine War Exacerbates Existing Inflationary Pressures

Highlights

- **US Fed Chair Jerome Powell hinted at the possibility of a more aggressive hike, leaving markets pricing in a 77% probability of a 50 bps hike at the next meeting in May.**
- **German flash manufacturing and services PMIs fell in March, however declines were less severe than expected. The headline Flash German PMI Composite Index fell to 54.6 in March from 55.6 in February.**
- **In Switzerland, the SNB shifted its rhetoric on price pressures after doubling its inflation forecast for the year, citing higher energy costs, production bottlenecks, and the Russia-Ukraine war.**
- **UK inflation reached a 30-year high in February at 6.2%, far above Januarys 5.5% figure. Meanwhile, consumer confidence worsened for the fourth consecutive month.**
- **The US and EU agreed to boost supply of American liquefied natural gas to Europe this year to help wean the continent off Russian energy.**

The Russia-Ukraine war currently shows no imminent signs of abating. On Ukrainian ground, troops are pushing Russian forces further from Kyiv after hundreds were killed in last week's Russian airstrike on a Mariupol theater. The US and allies warned Russia's Vladimir Putin against the use of biological, chemical, or nuclear weapons in Ukraine. US President Joe Biden headed to Poland on Friday in a bid to call for Russia's removal from the G-20 group of major economies.

American and European officials are on an endeavor to hinder major parts of Russia's economy from global commerce. A European Union summit focused on Russia will continue in Brussels with modest tightening of sanctions likely to occur. So far, Russia has been blocked from much of the international financial system by banning transactions with the Russian central bank. Additionally, Russia has been cut off from an essential global bank messaging system called SWIFT, assets of Russian leaders and oligarchs have been frozen, and export from the United States and other nations of advanced technology to Russia have been banned. Russia has responded with its own export bans on food, cars and timber. Russia is on the course for a deep recession and 20% inflation.

United States

Powell: Fed Could Raise Interest Rates Faster

US Federal Reserve Chairman Jerome Powell spoke at the National Association for Business Economics a week after the central bank decided to lift its benchmark rate from near zero to between 0.25% and 0.5%. While the central bank typically raises rates in quarter-point increments, Powell mentioned that moving forward the Fed could raise interest rates by 50 basis points if needed to cool down inflation. He expressed confidence that the Fed will be able to achieve a "soft, or at least, soft-ish" landing.

Powell mentioned that while the labor market is performing strongly, "inflation is much too high". With inflation running at a 40-year high, many critics believe the Fed is now playing catch up in raising rates after waiting too long to pull back from its pandemic era economic stimulus. For a long time, Powell had managed inflation expectations by telling Americans that the spike was driven by "transitory" factors. Today, that rhetoric is far behind us with policy makers starting to get more aggressive after delivering the first hike since 2018 and ending the pandemic-era stimulus program. Financial markets are now forecasting 8 hikes this year, with a 77% probability of a 50 basis points hike at the Feds next meeting on May 4th.

Last week, the greenback gained ground against peers with the index ending the week 0.56% higher at 98.789. The euro lost 0.69% and sterling gained and 0.06% of their values, last seen trading at 1.0981 and 1.3188 respectively. Moving to commodities, oil prices ended the week higher well above $115 per barrel. Looking at gold, the safe-haven metal ended the week higher than $1,950 after declining more than 3% the week prior. In bonds, the yield gap between the 2-year and 10-year Treasury notes narrowed significantly, ending the week at 2.27% and 2.47%.

Europe

Slowdown in German Manufacturing

A surge in inflationary pressures across the German economy was revealed by the latest flash PMI data out from Europe. Businesses registered record increases in both input output prices, while growth was impacted by rising costs, material shortages and geopolitical uncertainty. The headline Flash German PMI Composite Output Index slipped to 54.6 in March from February's 6-month high of 55.6. Nevertheless, declines were smaller than expected as easing supply bottlenecks and fewer COVID restrictions gave the German economy room to recover before Russia's invasion of Ukraine.

The slowdown was led by the manufacturing sector amid supply issues, weaker demand due to the war in Ukraine, and COVID related staff absences. Flash manufacturing and services PMIs came in at 57.6 and 55, respectively. Meanwhile, the service sector maintained a more solid rate of growth amid further easing of pandemic restrictions. With that being said, the rate of expansion in services activity did ease since February as firms also commented mostly on the influence of strong price pressure, high COVID cases, and geopolitical uncertainty.

SNB Shifts Focus to Inflation & Doubles Forecast

Last week, the Swiss National Bank said it will take “all necessary measures” to tackle higher prices according to Chairman Thomas Jordan, marking a shift in tone for a central bank that had battled to tame the strong Swiss franc for years. The SNB cited higher energy costs, production bottlenecks, and the Ukraine war after doubling its inflation forecast for the year. Today, the bank sees 2022 inflation at 2.1%, exceeding its 0-2% target though remains well below many countries.

Contrasting the US Fed and the BoE, the SNB has held off hiking interest rates, and stuck to the world's lowest interest rate of -0.75% in their latest meeting as widely expected. "We are not at all powerless, we look at these inflation forecasts and we will take all necessary measures in order to maintain price stability over the medium to long term," Jordan told journalists. While keeping policy unchanged, the SNB took back its description of the franc as "highly valued", despite the currency recently hitting its highest level against the euro in seven years.

UK

Mounting Inflationary Pressures

UK inflation registered an annual reading of 6.2% in February as the country faces a severe cost-of-living crisis. The 30-year high figure came above expectations for a 5.9% rise, and vastly outstripped January's 30-year high of 5.5%. On a monthly basis, CPI exceeded expectations for a 0.6% rise, registering a 13-year high of 0.8%.

So far, the Bank of England has hiked interest rates at three consecutive monetary policy meetings. Borrowing costs are now at 0.75% after the central bank cut rates to a historic low of 0.1% as it attempts to contain intensifying inflation without harming economic growth. The MPC delivered a more dovish tone than markets had anticipated, stressing the squeeze on household incomes and noting the sharp rise in commodity prices following Russia's invasion of Ukraine. Today, policymakers expect inflation to peak at 8% in Q2 of this year.

As the country faces its biggest drop in living standards since the 1950s, British finance minister Rishi Sunak faced broad criticism last week for not doing enough to help out lower income households. A planned 10% increase on earnings tax kicks in for a lot of workers in April, while at the same time the country's energy price cap climbs 54% to accommodate higher costs of oil and gas.

Consumer Confidence Deteriorates

Consumers across Britain are facing soaring living costs alongside 30-year high inflation, rising fuel and food prices, higher taxation, and the Bank of England's hawkish approach with the prospect of 6 more increases to come this year alone. Declining for the fourth consecutive month, the consumer confidence barometer fell to -31 in March from -26 in February, marking the lowest level since November 2020 when consumers were faced with a surge in COVID-19 cases.

Commodities

Ban of Russian Crude Imports Held Off

Oil prices eased slightly after the European Union decided to hold off on banning Russian crude imports. Additionally, Kazakhstan said disruption at a key export terminal is set to ease, allowing oil tankers to be loaded again. Nevertheless, the price for Brent crude gained 12.23% last week, ending at $120.65 after rising to a high of $139.13 two weeks prior.

Reducing Europe's Dependence on Russian Energy

Moreover, the US and European Union will aim to boost supplies of liquefied natural gas to European countries by the end of 2022 in an effort to displace Russian gas. Under the agreement, Europe will receive around 15 billion cubic meters of additional liquefied natural gas supplies by the end of this year. Plans are also pending regarding an additional 50 billion cubic meters of supply. It is a huge endeavor given Russia is the EU's biggest gas supplier, shipping about 150 billion cubic meters of gas to Europe via pipelines each year and another 18 billion cubic meters of LNG.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30410.

Rates – 27th March, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1057	1.0959	1.1069	1.0981	1.0900	1.1200	1.1022
GBP	1.3180	1.3117	1.3298	1.3188	1.3000	1.3400	1.3185
JPY	119.10	119.03	122.43	122.06	120.00	124.00	121.74
CHF	0.9314	0.9258	0.9375	0.9303	0.9200	0.9500	0.9264