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Weekly Money Market Report
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Major Central Banks' Race Towards Monetary Tightening to Curb Inflation

Highlights

- **US inflation broke a 40-year high sounding the alarm for more aggressive tightening plans.**
- **Mixed economic data continues to shape the short-term outlook for inflation and debate for interest rate hikes in the Eurozone.**
- **The Asian doves insist on patience as a slew of economic data point to lagging economic development.**
- **The greenback took the throne this week as a larger inflation measure and yield jump ate into its peers' gains.**

United States

Inflation at Record High

In the United States, exceeding expectations without disappointment, consumer price inflation broke a 40-year record with a rise of 7.5% in January, the fastest annual pace since 1982. Accessorized with a tight labor market and increasing wages, loud alarms are ringing for aggressive tightening from the Fed. Equities took a deep dive and closed in the red while bond yields catapulted more than 20bps after the news. The 10-year Treasury yield settled at 1.94% after surpassing 2% and the 2-year yield followed upwards to 1.53%. Market speculation readjusted, bringing a 53.8% probability of a 50bps rate hike in March, a 100% probability of 100bps worth of hikes by July, and a total of six hikes fully priced in the federal funds futures through 2022. The balance sheet reduction is expected to start by Q2 this year.

The Fed and financial markets look forward to the PPI month-on-month figure released on Tuesday followed by the Federal Open Market Committee's (FOMC) meeting minutes and retail sales figures on Wednesday to further clarify the upcoming action plan for March.

Market Movement

The greenback's reign was well-protected and armored by boosted yields, heightened inflation that kept peers far from its lead and a highly expected aggressive move in March. The dollar index opened the week at 95.437 and reached a high of 96.053 on Friday as the market digested Thursday's CPI data. Equities ended the week lower with Nasdaq leading the losses year-to-date at 11.85%.

EU & UK

Lagarde's Hawkish Stance

The ECB's Christine Lagarde steered her narrative to a more hawkish stance as she brought Europe more in line with peers in the face of unabated inflation and mixed economic data. Sluggish data from Germany saw industrial output contract by 0.3% in January against an expected rise of 0.4% and a lower trade surplus of €6.8 billion compared to the expected €11.3 billion. The figures are believed to be linked to post-pandemic adjustments and commodity (raw material) volatility, expected to ease throughout the year. Despite a more hawkish narrative, Lagarde emphasized being gradual in policy normalization.

The European Commission's economic forecast expects consumer prices to surge 3.5% and inflation this year to peak at 4.8% in Q1 and decline to 2.1% by Q4. In 2023, inflation is expected to ease to 2% and consumer prices to grow at an average 1.7%. GDP is expected to expand by 4% this year followed by a 2.7% growth in 2023. Supply chain bottlenecks, raw material shortages, elevated energy prices, and worker absences pose as headwinds to growth and continue to contribute to the inflation and interest rate short-term outlook.
German Bund yields followed their peers in the west and shot upwards keeping the 10-year Bund yield in positive territory at 0.29% and the 2-year yield at -0.34%%, above the ECB rate of -0.50%. Markets have priced in 50bps worth of ECB rate hikes this year to reach 0% by year-end.

The single currency almost hit 1.15 before a stark fall below 1.14 under the greenback's pressure. Despite a welcomed hawkish move from Lagarde, escalated Bund yields, and inflation expectations, a seemingly slower and more gradual approach to tightening compared a louder and more active approach in the US limited the single currency's gains.

UK and Rate Hikes

Worsening worries over the UK economy from bank officials raised concerns and limited support around the recent rate hike. On a less hawkish note, chief economist of the Bank of England (BoE) Huw Pill supported a "measured" rather than "activist" approach to decisions moving forward. However, challenging economic data continue to raise aggressive rate hikes back on the table. The market is pricing in six additional hikes this year pushing the policy rate from 0.50% to end the year at 2.00%.

The cable lost its bullish momentum with concerned economic sounds that disheartened the currency. Although the GDP figure out on Friday came slightly below expectations by 0.1% at 1.0% on quarterly basis, it failed to keep the cable above 1.36 level. Other data that may contribute to the cable's gains throughout the week is the CPI year-on-year figure out on Wednesday, followed by retail sales out on Friday.

Asia

Growth in China

China's economic growth is struggling despite posting a score of 51.4 on the Caixin Services PMI that signaled economic expansion. The economy saw slower business activity, falling export sales, and inflationary pressures picking up slightly in January. December's interest rate cut has so far done little to generate excitement and meaningful gains in the market as worries over a weakening economy and property sector woes persist. Later this week, CPI and PPI year-on-year will be released on Wednesday to monitor further developments.

Japan's Fight with Inflation

In neighboring Japan, global commodity inflation contributed to the increase in wholesale prices while households took the hit in wages. Real wages and household spending dipped 0.2% year-on-year while PPI year-on-year rose 8.6% compared to 8.2%. With the current inflation at 0.5%, Bank of Japan (BoJ) officials forecast that inflation will not rise above the 2% target unless the price hikes are accompanied by wage increases.

The yen faltered against the greenback to 116 amid BoJ's attachment to easy monetary policies against an aggressive Fed and strong US yields.

Australia's Take on Inflation

Another record high echoing economic recovery stirred inflation concerns and support for an interest rate hike. Household spending jumped 8.2% in Q4 2021 after suffering a sharp drop in the previous quarter. The Reserve Bank of Australia (RBA)'s Phillip Lowe spoke Friday and is under the spotlight to reconsider their dovish stance and outlook for the year. With quantitative easing terminated, a decision will be determined in May this year about the proceeds of matured bonds. Any surprises throughout the week in wage growth and unemployment out on Thursday may provoke more hawkish measures.

The aussie succumbed to pressure from the greenback despite its own economic growth data and rising 10-year yield which stood at 2.17%. The aussie traded between 0.7100-0.7150 amid high US CPI and Lowe's recent dovish trajectory that awaits evidence that shows a sustainable pickup in inflation before any policy decision.

Commodities

Demand on Energy

Apart from economic data this week feeding the fire, the commodity rally was fueled further from insecure sentiment around geopolitical tensions and diplomatic efforts. Oil prices have been easily triggered by the supply crunch and high demand.

Diplomatic efforts on the Russian-Ukrainian conflict from French president Emmanuel Macron attempted to ease markets with de-escalation remarks from Russian president Vladimir Putin. Nuclear talks between US and Iran have also spread optimism around potentially remedying the supply shortages with Iran contributing to the production quota before year-end. WTI traded close to $90 a barrel and Brent was above $90 a barrel with a bullish outlook to reach over $100 a barrel. Inflation fears and a dampened mood on equities kept gold shimmering above $1,820 an ounce.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30230.

Rates – 13th February, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1447	1.1330	1.1495	1.1350	1.1260	1.1545	1.1390
GBP	1.3547	1.3491	1.3644	1.3564	1.3470	1.3750	1.3558
JPY	115.29	115.11	116.34	115.47	113.50	116.35	115.20
CHF	0.9255	0.9222	0.9297	0.9253	0.9075	0.9470	0.9222