Weekly Money Market Report
26 September 2021

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Hawkish Central Banks Fueled Risk Sentiment Globally

Highlights

- **Economic activity growth eased in US, UK and the Eurozone due to price pressures and supply chain**
- **US 10-Year treasury yield reached a high of 1.449%**
- **Probabilities of a hike in the US is above 100% for December 2022**

United States

Fed Meeting
Following a two day meeting for the Federal Open Market Committee, Federal Reserve Chair Jerome Powell said the US regulator could begin scaling back its asset purchases in November, continuing to gradually complete the process by mid-2022. Additionally we are now seeing a growing number of Fed officials expecting a rate increase in 2022 as the central bank charges ahead with the reduction of its stimulus program. The dot plot is now showing 9 FOMC officials expecting a rate increase in 2022, 2 members higher than the dot plot of June. For 2023 the dot plot is now showing 17 officials to expect hikes up from 13 members in June. Both the forecast for earlier rate hikes coupled with the looming taper now represents the biggest step towards normalization since the central bank took unprecedented action at the start of the pandemic.

Markets React
On the FX front, the greenback initially dipped after the FOMC meeting, however it quickly recovered and found its footing as the overall market reaction was positive. The single currency dipped and entered the 1.1600 level before recovering back to the 1.1700 level. The Swiss Franc was the strongest performing currency in the week, while the Sterling Pound was the weakest.

The sense of normalization boded well with US equities. Following the meeting major US indices recouped their losses from earlier last week and managed to close the week relatively flat. As for the bond market, US 10-year treasury yield surged to early July's highs of 1.44%. The market is currently pricing in a hike of 0.25% in December 2022 with a probability of over 100% following the Fed's meeting and the new dot plot.

US Manufacturing and Services PMIs
Following the Fed's meeting last Wednesday, US PMIs were released on Thursday and showcased a softer figure for both sectors for September. The services PMI came at 54.4 and below the expectations of 55.1 which was also the previous reading. Similarly, the manufacturing PMI just missed expectations by 0.2 and came at 60.5. Both sectors are well above the reading of 50 which marks expansion in the sector.

Europe

Bank of England Meeting
The BOE's MPC has voted by 9-0 to keep the bank rate on hold at 0.10%, and by 7-2 to keep the QE target unchanged. MPC members Michael Saunders and Dave Ramsden voted for a reduction of the target for bond purchases from GBP875bn to GBP840bn, i.e. ending net purchases "as soon as practical". The minutes show the Committee agreed that recent developments had strengthened the case for the "modest tightening" it already thought was necessary over its forecast period.

The most eye-catching statement was that, for the members who did not vote to stop QE, "any future initial tightening of monetary policy should be implemented by an increase in Bank Rate, even if that tightening became appropriate before the end of the existing UK government bond asset purchase program".

This appears to open the door to a rate rise by the end of this year, even while the BoE is injecting net stimulus into the economy via QE. Indeed, the committee now sees CPI inflation remaining above 4% into Q2 2022, according to the minutes. With inflationary pressures and a hawkish MPC members, the market is pricing a hike by the BOE as early as March 2022 with a probability of 89%.

The meeting was viewed hawkish by market participants and that helped push the cable from the week's low of 1.3610 to close Thursday's session at 1.3720. Nevertheless, the hawkish Fed and the dollar strength overshadowed and the cable retreated to close the week at 1.3679.

UK PMIs Ease
UK PMIs saw a slowdown in growth momentum with both manufacturing and services sectors posting lower readings than expected. The services PMI came at 54.6, 0.4 lower than the previous reading while the manufacturing PMI came at 56.3 missing expectations of 59 and a previous reading of 60.3. Rates of expansion in both output and new orders were each the weakest in the respective seven-month sequences of growth.

Eurozone PMIs
The Eurozone's economic activity measured by PMIs was no different than other major economies as both sectors continued to grow but at a slower rate. This reflects the peaking of demand in the second quarter and supply chain bottlenecks and concerns over the ongoing pandemic. The reading for the services sectors came at 56.3, down from 59 in the previous month and lower than the expected figure of 58.4. Likewise, the manufacturing sector came at 58.7, down from 61.4 in the previous month.

Swiss National Bank Meeting
At its quarterly monetary policy meeting, the Swiss National Bank (SNB) kept its policy rate unchanged at -0.75%, as expected. In line with this decision, the sight deposit rate was left unchanged at -0.75%, a level that has prevailed since January 2015. The SNB indicated in its statement that the Swiss franc remains 'highly valued', a wording used since September 2017. The Swiss nominal effective exchange rate has risen by about 0.5% since the last SNB meeting in June, so no change was expected on that front. The Bank stressed that it 'remains willing to intervene in the foreign exchange market as necessary' even if the SNB has not been very active in FX markets over the past few months

Asia

BOJ meeting
In Japan, the Bank of Japan left its main monetary policy rates unchanged as widely expected. As for the Japanese yen, the currency lost 7.22% of its value to the US dollar since the beginning of the year as risk sentiment increased post the critical part of the pandemic and vaccine rollouts globally. Additionally, expectations for wider interest rate differentials helped lower the value of the yen against the US dollar.

Commodities

Prices remain in range
In the commodities complex, crude has recently resumed an upward momentum with the Brent crude witnessing a week gain of around 3.21% when the price reached a $77.74 on Friday. The upward momentum could be influenced by the Gulf of Mexico outage that has left crude buyers in a period of uncertainty. Furthermore, winter is coming and natural gas has been the center of attention due to a tight market that will impact Europe and the United States energy capacity. Therefore, OPEC members have warned that the natural gas crisis could lead to sudden price spikes in the crude markets.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30100

Rates – 26th September, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1734	1.1684	1.1755	1.1720	1.1520	1.1815	1.1745
GBP	1.3743	1.3610	1.3751	1.3679	1.3475	1.3780	1.3687
JPY	109.97	109.12	110.79	110.75	109.75	112.70	110.62
CHF	0.9317	0.9215	0.9333	0.9243	0.9140	0.9440	0.9227