PUBLIC

Weekly Money Market Report
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No Victory Declared in the Inflation Fight Just Yet

Highlights

- **The latest producer prices index (PPI) in the US indicated further that price pressures may be abating and that inflation has peaked, but Federal Reserve officials were quick to damp optimism the central bank's tightening cycle may be nearing its peak.**
- **The release of the Autumn Statement in the United Kingdom will add more pressure to cost-of-living crisis after UK inflation hits 41-year high to 11.1% in October.**
- **Japan hits 40-year high inflation and holds above 2% for the seventh consecutive month, but the Bank of Japan (BoJ) holds on tight to monetary stimulus.**
- **Weakening US data pushed the greenback lower. The US Dollar Index has been hovering in the 106 region, having fallen from levels as high as 113 seen in the recent period, giving room for major peers to excel.**

United States

Price Pressures Still Pumping

US producer price inflation (PPI) surprised to the downside in October, coming in at 0.2% monthly, below consensus estimates of a 0.4% monthly gain. The year-on-year rate fell from 8.4% to 8.0%. Core PPI (excluding food and energy) was flat last month, rising by 0.3% against an expected 0.5% gain, as services PPI declined for the first time since November 2020 and goods inflation eased. The year-on-year core PPI slowed to 6.7% from 7.1%. The latest PPI data provides further evidence after the lower-than-expected CPI figures that inflation in the US may have peaked. Falling commodity prices have been helpful and together with the strong dollar and falling freight costs have lowered imported prices. On the consumer side, retail sales came in stronger than forecast, posting the biggest increase in eight months. In October, both retail and core retail (excluding vehicles and fuel) rose by 1.3%, indicating the US consumer appears to be in good shape despite the sharp rise in interest rates this year.

Applications for US unemployment insurance unexpectedly fell slightly last week and remained near historic lows, underlying the strength of the labor market as other parts of the economy cool. Despite the Federal Reserve's aggressive efforts to slow down the economy and tame inflation, employers are still hiring at a solid pace. The US added more jobs than forecast last month, and there are still almost two open positions for every American seeking work.

Hawk Talk around the Block

The latest data may complicate the argument posed by several Federal Reserve officials pushing for a slower pace of interest rate hikes in the coming months and fresh speculation that the central bank may be nearing the peak of its tightening cycle. Officials continue to acknowledge that inflation is still unacceptably high and that consistent readings of lower monthly CPI figures are required to have confidence that price pressures are heading back to levels consistent with the central bank's 2% target.

Federal Reserve Vice Chair Lael Brainard signaled a preference for a 50bp hike as early as next month but added there is still "additional work to do,". San Francisco's branch President Mary Daly said that while the strategy is to raise rates and then hold for a time, it did not mean they were close to ending their tightening campaign. She stressed that a pause is "off the table" and said she saw the Fed hiking into a range of somewhere between 4.75% to 5.25%. St. Louis branch chief James Bullard echoed and called for raising rates to least 5%-5.25%, citing it the "minimum level" to be "sufficiently restrictive." Minneapolis branch chief Neel Kashkari said "We're not there yet," on pausing hikes and added he needs to be convinced inflation has stopped climbing.

Demoralized Dollar Drums

The dollar took a hit after inflationary data came in weaker than expected and the probability of the Fed slowing down tightening came to light. Despite strong retail sales, the US Dollar Index lingered in the 106 region after seeing levels as high as 113 in the recent period, closing the week at 106.969.

Europe

A Little Light in the Dark

The third quarter this year saw remarkably strong production in the region as easing supply problems helped production growth. Industrial production increased by 0.9% in September, resulting in a quarterly increase of 0.5% for the third quarter. However, there is little hope for this to be the start of a strong recovery as new orders, production expectations and increasing inventories point to weakening production ahead.

Preliminary estimates for Eurozone GDP rose by 0.2% last quarter (1.7% annually). Part of the rise is attributed to the strong industrial production figures. However, the economy is expected to contract in the fourth quarter. Eurozone CPI year-on-year in October has been revised downward from 10.7% to 10.6%, while core Eurozone CPI year-on-year was unchanged at 5%. The economic outlook for Germany, Europe's largest economy, has improved significantly in November compared to October, but still remains negative. The German ZEW survey showed an improvement in investor sentiment on expectations that inflation will slow in the coming months. The ZEW Economic Sentiment for the Eurozone region also posted an impressive gain, but still remains in negative territory.

According to reports by Bloomberg, initial discussions in the European Central Bank's (ECB) governing council are leaning towards a 50bp hike at next month's meeting unless there is a surprise acceleration in inflation before then. Among reasons cited are mounting recession risks, the possibility that consumer price pressures will weaken, and the prospect that a 50bp move in the deposit rate to 2% will reach it close to so-called neutral level that no longer stimulates the economy.

The euro banked on the dollar's weakness and reached as high as 1.04 before retreating back to the 1.03 region. The ECB's persistence to keep hiking while speculation swirls on the Fed helped keep the euro afloat. The single currency closed the week at 1.0325.

United Kingdom

Inflation Hits a 41-Year High

Unemployment in the UK increased to 3.6% in the three months to September from 3.5% even as wage growth (including bonuses) rose to 6% in the three months to September. Another indicator of a tightening labor market showed that less people applied for unemployment. The claimant count was 3.3K, much less than the 17.3K expectation and the 3.9K figure last month. There were signs of moderation in demand with the number of vacancies falling, although it remains high by historical standards. Overall, the data still point to a tight labor market even as the economy slows.

Soaring food and energy prices shot UK inflation to a new 41-year high in October. CPI hit 11.1% year-on-year, higher than forecast and up from September's 10.1% while core CPI was unchanged at 6.5% year-on-year. "In October 2022, households are paying, on average, 88.9% more for their electricity, gas, and other fuels than they were paying a year ago," the Office for National Statistics (ONS) said, "Domestic gas prices have seen the largest increase, with prices in October 2022 being more than double the price a year earlier."

The data is likely to provide support to hawks on the Monetary Policy Committee, who is expected to raise rates by 50bp at the next meeting in December. While many analysts believe that inflation may have now peaked, the data puts pressure on the Bank of England (BoE) to maintain a faster-than-normal pace of rate hikes. The newest BoE policymaker Swati Dhingra favors "very gradual" moves on rates and sees a risk of overtightening. She cited that if interest rates continue to rise, the economy could enter a much deeper recession, because the economy now appears to be slowing faster than previously thought.

Invoice for the Economic Carnage

Chancellor of the Exchequer Jeremy Hunt unveiled his £55 billion ($65 billion) package of tax rises and spending cuts for the UK to plug a hole in the nation's finances and restore Britain's economic credibility. The plan comprises of around £30 billion in spending cuts and £25 billion in tax hikes. The measures include:

- A freeze on income tax thresholds until April 2028 and a lowering the top 45% additional rate of income tax to £125K from £150K— moves directly opposed to the major cuts in September's catastrophic mini-budget, which means millions of people will pay more tax

- The exempt allowance and the annual exemption for capital gains tax will be cut by half to £6K next year and halved again to £3K from April 2024 along with the tax-free allowance for dividend income will be halved to £1K next year and to £500 in 2024

- Additional cost-of-living payments for the "most vulnerable", with £900 for those on benefits, and £300 for pensioners, and £150 for those on disability benefits

- A windfall tax on oil and gas firms will increase from 25% to 35%

- An extension of the household energy price cap for one year beyond April but capped at £3K a year instead of £2.5K

- A 10% increase in welfare and pension payments — in line with September's inflation

- A 9.7% increase in minimum wage to £10.42 an hour for those aged 23 and above, the biggest on record

The measures will increase financial hardship on millions of Britons as they confront the country's worst cost-of-living crisis in decades and its longest-ever recession. However, Hunt believes they were necessary to limit the 41-year-high ringing inflation and recover the UK's reputation. "Unfunded tax cuts are as risky as unfunded spending," Hunt told the House of Commons.

The Autumn Statement was accompanied by long-awaited projections from the UK's independent Office for Budget Responsibility (OBR), which painted a gloomy economic picture for Britain. The forecasts show that the UK is now in a recession and expects to last "just over a year," and the economy is set to shrink by 1.4% next year. Hunt said the government's new plan ensures that the downturn is shallower.

Despite the poor outlook highlighted on the UK, the sterling swam higher as it managed to take advantage of the dollar's dip. Expectations that the BoE will continue raising rates after a once again higher inflation reading pushed the sterling just below 1.19, closing the week at 1.1892.

Asia-Pacific

China Chimes Empty Cheers

China's economy weakened in October as past Covid outbreaks disrupted business activity and damaged consumer sentiment. Growth in industrial output slowed to 5% from 6.3% from a year earlier and retail sales contracted for the first time since May, dropping 0.5% from a year earlier. The jobless rate remained high at 5.5%. October saw a surge in Covid cases, with authorities tightening controls ahead of the Communist Party's congress and discouraging travel during the weeklong National Day holidays.

Beijing recently took its strongest steps yet to stabilize the property market and reduce the economic burden of the Covid Zero policy, fueling investor optimism. However, any rebound will need several quarters to materialize and with economists expecting Covid disruptions to continue through next year, officials are under pressure to do more. The National Bureau of Statistics (NBS) said the foundation for the economy's recovery is not yet strong, adding that China will "scientifically and efficiently" coordinate Covid controls and economic development.

Japan Juggles 40-Year High Inflation

Soaring global inflation and sweeping interest rate increases worldwide undermined the post-Covid recovery in the world's third-largest economy. The weakened yen has magnified the impact on the economy. The Japanese economy unexpectedly shrank by 0.3% in the three months through September (annualized 1.2%), reversing for the first time since last year. This marks a sharp slowdown from the second quarter as consumers spent less amid a resurgence of Covid cases and the weakened yen battered trade. Core machinery orders, regarded as a barometer of capital expenditure, unexpectedly fell by 4.6% in September from the previous month in a sign the global economic slowdown and higher import costs are weighing on firms' capital spending plans.

The nationwide core consumer price index (CPI) in October accelerated to its fastest pace since February 1982, rising to 3.6% annually from 3.0% the previous month as a weaker yen pushes costs of imports and products. CPI growth has remained above the Bank of Japan's (BoJ) target of 2% for the seventh consecutive month.

Despite broadening price pressures, the BoJ refuses to join the global interest rate hiking trek. Governor Haruhiko Kuroda stayed committed to his argument that global commodity costs account for half the factors for price hikes, which are temporary. Policymakers will be hoping that the government's latest economic stimulus package will help shore up growth over the coming months and that the reopening of Japan's borders will bring renewed inbound spending by foreign tourists attracted by a country that has become much cheaper to travel around.

On top of the pressures from slowing global growth and red-hot inflation, Japan has been dealing with the challenge of the yen's slide to all-time lows against the dollar, which has magnified cost-of-living strains on households. Nonetheless, a weakened dollar in the recent period has kept the yen capped below 141. The yen closed the week at 140.35.

Commodities

Ominous Oil Outlook

A short burst of optimism from China's decision to ease some quarantine restrictions last week fizzled as it has become apparent that rising Covid cases there will continue to stymie travel and weak economic data from China pushed down the prospect of increased crude consumption and further tightening in the market. Oil prices extended losses as investors shifted their focus back to concerns over the demand outlook after geopolitical tensions eased. WTI and Brent both closed the week trading below $90 a barrel.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30765.

Rates – 20h November, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0364	1.0314	1.0398	1.0325	1.0185	1.0615	1.0602
GBP	1.1865	1.1859	1.1954	1.1892	1.1760	1.2260	1.2343
JPY	140.19	139.62	140.50	140.35	136.90	144.00	130.02
CHF	0.9519	0.9496	0.9550	0.9546	0.9390	0.9690	0.9834