Weekly Money Market Report
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Dollar Gains as "No Landing" Rhetoric Builds Up

Highlights

- **Annual inflation in the US came at 6.4% which was higher than the consensus of 6.2% in January**
- **Markets are pricing in 0.75% worth of hikes by June of this year as strong data in retail sales, PPI and resilient labor market are shifting the rhetoric of an economy that is slowing down**
- **ECB President Lagarde is reiterating that the central bank is keen on raising interest rates until inflation drops to their 2% target range**
- **Inflation in the UK remains in double digits at 10.1% on annual basis**
- **Japan's Government announced appointing Kazuo Ueda as the new Governor of the BOJ**

United States

Inflation in the US

In the United States, the 'no-landing' scenario, which has been the narrative recently, continued last week. Better than expected US economic data indicates that the downturn that was widely expected by the end of Q1 will not be materializing. CPI data and hawkish comments from Fed officials worried markets that interest rates could remain higher and longer than what was initially priced in. Annual headline CPI rose 6.4% in January, more than the forecasted 6.2% figure. Meanwhile, annual core CPI came in at 5.6%, while m/m headline CPI climbed 0.5%, the biggest increase in 3 months and significantly above the 0.1% growth seen previously in December. The slowing pace of deceleration is driven by elevated costs in energy as well as shelter, and resulted in Fed speakers being vindicated for signaling that more needs to be done to bring inflation down to their 2% target. Among the Fed officials that spoke was Dallas Fed President Lori Logan, who said, "We must remain prepared to continue rate increases for a longer period than previously anticipated." Other Fed speakers acknowledged the deceleration trend, but admitted that the path to 2% inflation will be "bumpy" and that higher rates or a longer timeframe of restrictive rates could be required to get there. The Fed fund futures now imply a peak above 5.2% by mid-year and rates above 5% at year's end.

Retail sales increased 3% in January versus an expected 1.9%, making it the largest monthly gain in approximately two years. Additionally, core retail sales for January came in at 2.3% as opposed to the forecasted 0.9% figure. Jobs and consumer spending have been more resilient than many anticipated, with the unemployment rate near 50 year lows fueling spending by consumers. While inflation in the goods sector cooled over the recent months, it remains sticky in the services and commodities sector. Producer prices also rose in the world's largest economy at 0.5% and 0.7% for headline and core readings respectively. The January retail sales data and the producer prices are likely to add further support that the Fed have more to do in order to bring inflation down to their 2% target.

Market Movement

On the forex front, the dollar rallied like a bull and reached a 6-week high of 104.667 on Friday as the greenback was boosted by solid economic data and hawkish sentiment by Fed officials. As for the fixed income market, the inversion between the 2 and the 10 year treasury yields deepened to 80 basis points amid expectations of further tightening this year.

Europe and UK

Lagarde on Monetary Policy

European Central Bank President Christine Lagarde spoke on Wednesday evening, stating that Euro-zone inflation remains exceptionally high and the ECB will keep raising interest rates to diminish underlying price pressures, reiterating the bank's most recent policy guidance. The ECB has raised rates by a total of 300bps since July, and assured another 50 basis point move in March to reduce inflation, which was initially driven by high energy costs, yet broadened out to impact nearly all sectors. President Lagarde indicated that even though most measures of longer-term inflation expectations currently stand at around 2%, these measures require constant monitoring. While confidence is rising and energy prices have fallen, the ECB expects activity to remain weak in the near term. The market is currently pricing in 120 basis points worth of hikes till September of this year.

UK Data

Inflation in Britain eased to a 10.1% annual rate in January down from 10.5% in the previous reading. On monthly basis, CPI fell by 0.6% in January 2023, with a 0.1% fall in comparison to January 2022. Although inflation eased, the fight is far from over as the figure remains in double digits. UK retail sales volumes rose 0.5% on a monthly basis in January, beating expectations of a 0.2% drop. This is a small upside surprise, but marks only a very tentative recovery, the increase is less than half the magnitude of the revised 1.2% m-o-m fall in December. The overall picture of the UK's economy remains bleak and a strong dollar rally was enough to send the cable below the 1.20 level all the way to a low of 1.1913.

Asia

New BOJ Governor

Japan's government has officially named academic, economist and former BOJ policy board member Kazuo Ueda as its choice to become next central bank governor. The shift marks a historical end to Kuroda's decade-long monetary experiment that sought to shock the public out of a deflationary outlook, and could ultimately align Japan with other major economies towards higher interest rates. The choice for Ueda to succeed as the next BOJ governor could strengthen the chance of an end to Japan's unpopular yield control policy.

Given his past comments, Ueda is expected to hold off on tightening monetary policy. With inflation exceeding the BOJ's 2% target, Ueda is looking at the sensitive task of phasing out its yield control policy that has mislead market function and crushed bank margins. On the other hand, he may be more adamant to roll back yield curve control (YCC). Ueda seems more likely to focus on theory and empirical analysis in guiding monetary policy, making it easier for the BOJ to depart from current stimulus. Nevertheless, the USD/JPY levels spiked towards the 135 levels.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30620.

Rates – 19th February, 2023

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0678	1.0611	1.0735	1.0694	1.0650	1.0970	1.0750
GBP	1.2066	1.1933	1.2268	1.2035	1.1900	1.2350	1.2060
JPY	131.40	131.29	135.10	134.15	131.70	135.00	132.45
CHF	0.9132	0.9135	0.9333	0.9245	0.9100	0.9350	0.9160