

Weekly Money Market Report

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الوطني
NBK

>NBK Treasury
+965 22216603
tsd_list@nbk.com

UK Inflation Surges to 10.1%

Highlights

- US retail sales stalled last month compared with June's 0.8% increase. The core figure, which excludes gasoline and auto sales, rose 0.7% last month.
- Inflation in the UK reached a 40-year high of 10.1%, up from the 9.4% figure in June. Prices are expected to continue to rise, creating complications for the Bank of England that is now battling inflation running at more than 5 times the central bank's target.
- In Canada, consumer price inflation cooled as gasoline prices saw a large decline. Inflation slowed to 7.6% y/y and 0.1% m/m, matching analysts' forecasts and down from the 40-year high of 8.1% in June.
- The Australian economy unexpectedly shed 40,900 roles from a month earlier versus expectations for a 25,000 gain. The report also revealed unemployment fell to a 48-year low of 3.4%.

United States

Stalling Retail Sales

US shoppers have maintained spending despite the highest annual inflation in four decades. Although overall retail sales were flat in July compared with June's 0.8% increase, the core measure of spending that strips out gasoline and auto sales rose 0.7% last month from June. Spending at gasoline stations, which makes up about one-tenth of retail outlays, fell 1.8% on the month reflecting the recent drop in gas prices and providing some respite from inflation pressures. Vehicle sales, which make up about one-fifth of retail outlays, declined 1.6% due to shortages in inventories.

Consumers have been struggling to keep up with an inflationary environment that has left prices 8.5% higher than a year ago. The Federal Reserve has been using interest rate increases to battle inflation by enacting consecutive 75 bps hikes in June and July. Markets are now widely expecting a 50 bps hike at their meeting next September.

FOMC Meeting Minutes

At their July meeting, Federal Reserve officials indicated they likely would not consider pulling back on interest rate hikes until inflation came down substantially. During the meeting in which the Fed approved a 75 bps rate hike, policymakers expressed determination to bring down inflation that is running well above the Fed's desired 2% level. "Participants judged that, as the stance of monetary policy tightened further, it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments on economic activity and inflation," the minutes said. However, the summary also stated that some participants said "it likely would be appropriate to maintain that level for some time to ensure that inflation was firmly on a path back to 2 percent."

The greenback gained 2.40 % last week, leaving the euro right above 1.00 while the pound broke the 1.19 level for the first time in 4 weeks. Notions of a less aggressive Federal Reserve have helped push stocks into a strong summer rally. The S&P 500 had lost 16.6% of its value in Q2, and has so far recovered 12% of those losses so far in Q3.

Canada

Prices Ease in July

Consumer price inflation cooled in July as gasoline prices fell by the most since the start of the pandemic, adding to views that prices have peaked and will begin fading moving forward. Inflation slowed to 7.6% y/y and

0.1% m/m, matching analysts' forecasts and down from the 40-year high of 8.1% in June. The data is in line with the Bank of Canada's estimates for inflation, which it sees averaging about 8% through Q3 of 2022 before slowing.

Canadian and US inflation have been rising almost in tandem. Similar to the US, falling prices for gasoline contributed majorly to the cooling. Canadian pump stations saw a 9.2% monthly drop in activity, marking the biggest decline since April 2020. According to Bank of Canada Governor Tiff Macklem, although inflation is abating, prices are still too high. "The good news is that it looks like inflation may have peaked ... The bad news is that inflation will likely remain too high for some time," Macklem said. He added that the central bank was "determined" to "eliminate" high inflation and that its job won't be considered done until it was back to the 2% target.

Europe & United Kingdom

UK Inflation Above 10%

Inflation in the United Kingdom reached a new 40-year high last month, rising above 10% for the first time since 1982 and creating further pressure on households already struggling to pay their bills. Annual consumer price inflation hit 10.1% in July, up from 9.4% in June. The largest single contributor to the acceleration were soaring food prices, up 12.7% since July 2021 and running at its highest level in 14 years. On a monthly basis, the index was up 0.6% in July, with higher gasoline and diesel prices together with rising travel costs to blame. The unexpectedly high figure will maintain pressure on the Bank of England to follow last month's biggest increase in interest rates in 27 years.

Noteworthy, inflation is still a couple of months away from its expected peak in the autumn when the cap on household energy bills is reset. At that point, the economy may enter a long recession as high energy prices lead to a drop-off in consumer activity and restrain business, according to the Bank of England. Nevertheless, the ruthless rise of inflation is sounding an increasingly loud alarm regarding the cost of living crisis. Prices of essential groceries and services are on the rise, while households are being warned that the average energy bill could climb to 3,500 pounds a year in October – triple what it was a year ago. Meanwhile, the BoE is hiking rates to slow spending as it attempts to tackle inflation which is now five times higher than its target. And even though wages are rising twice as fast as they did on average in a decade, they are failing to keep up with prices. Markets are now widely expecting a 50 basis point hike at their meeting next month.

Asia Pacific

Australia: Jobless Rate Hits 48-Year Low

Employment surprisingly dropped in July, providing the Reserve Bank room for a more flexible approach in its tightening cycle. The economy unexpectedly shed 40,900 roles from a month earlier versus expectations for a 25,000 gain. The report also revealed unemployment fell to a 48-year low of 3.4% as the participation rate declined due to floods along the nation's east coast, Covid outbreaks, and school holidays.

The weakness in the labor market compared with weaker than expected wages might provide the RBA the option of returning to 25 bps hikes following three 50 bps hikes. Figures showed the wage price index grew 2.6%, less than half the pace of inflation. The unforeseen reduction sent the Australian dollar and government bond yields lower.

Commodities

Oil Prices Back to Pre-War Levels

The first half of 2022 was characterized by supply-side constraints that sent commodity prices up significantly. Earlier this week, oil prices fell to 8-month low as traders weighed recession fears, China's slowing economy, and the potential outcome of a nuclear deal with Iran that will release more supply to the market. Data last week released by the Energy Information Administration proved even a large drop in US crude inventories of 7.1 million barrels was not enough to push prices back into the \$100 territory. Other commodities also seem to have lost steam over weak Chinese economic data.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30690

Rates – 21ST August, 2022

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0261	1.0030	1.0268	1.0034	0.9864	1.0165	1.0104
GBP	1.2131	1.1789	1.2148	1.1827	1.1679	1.1924	1.1851
JPY	133.43	132.54	137.23	136.93	135.98	138.69	135.84
CHF	0.9409	0.9404	0.9599	0.9589	0.9497	0.9750	0.9520

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