PUBLIC

Weekly Money Market Report
4 February 2024

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Fed Maintains Rates as Markets Shift Expectations on Cuts After Strong US Labor Market Data

- **CB consumer sentiment print at two-year high of 114.8.**
- **JOLTS job openings at 3-month high of 9.03 million in December.**
- **Unemployment claims in the US rises to 224,000 versus 215,000 previously.**
- **The Fed held interest rates between 5.25%-5.5%.**
- **Non-farm employment surpasses expectations with 353,000 jobs created.**
- **Eurozone narrowly avoided a technical recession with fourth quarter GDP coming in flat.**
- **Bank of England maintained interest rates at 5.25%.**

United States

CB Consumer Confidence Index Rises to Two-Year High

Consumer sentiment in the US continues to improve, with the latest Conference Board reading coming in at a two-year high of 114.8, considerably above the previous print of 108. The present situation index rose to 161.3 from 147.2, while the expectations index was also up to 83.8 from 81.9. This comes amid a time of declining inflation and robust employment, fueling consumer spending and growth across the economy. Finally, the one-year consumer inflation expectations fell to 5.2%, the lowest since March 2020.

JOLTS Reading at 3-Month High

In yet another sign of a strong and robust US labor market, the JOLTS reading showed an increase of job openings in December, coming in at 9.03 million from 8.93 million previously and surpassing expectations of 8.71 million openings. This represents a 3-month high as it was the first time openings rose above the 9 million mark since September. The Federal Reserve have signaled that they are hoping to see easing in the labor market to bring down inflationary pressures. Since consumer spending makes up 70% of US GDP, an imbalance between the supply and demand side of the labor market could see wages rise, continuing the trend of robust spending and remarkable growth. However, this will prompt companies to raise their prices as well, complicating the path to the Fed's desired 2% inflation goal.

Fed Maintains Interest Rates

The US Federal Reserve decided to keep interest rates unchanged between 5.25%-5.5% aligning with market expectations. Fed Chair Jerome Powell gave a speech following the decision, stating that despite inflation moving down the right direction towards the Fed’s desired target, more data is needed to determine whether it’s the right time to start cutting rates, insinuating to markets that a cut in March may be too early. Prior to the FOMC meeting, markets shifted their expectations of a first rate cut from March to May following better than expected JOLTS job openings data.

Unemployment Claims Rises

The number of Americans filing for unemployment benefits rose to the highest level in 11 weeks, coming in at 224,000, up from last week’s 215,000 figure. Additionally, continuing claims were up by 70,000 to 1.9 million, the highest since mid-November. Despite the increase in initial and continuous claims, the US labor market remains historically tight on the back of a historical tightening cycle by the Fed.

Non-Farm Employment Soars Beyond Expectations
Non-farm employment in the US saw a significant increase, soaring to 353,000 new jobs from the previous revised figure of 333,000. Forecasts were for 187,000 jobs to be added. The reading reinforced the narrative of a strong US labor market, especially with the unemployment rate at 3.7%. Moreover, average hourly earnings beat expectations, rising 4.5% annually and 0.6% on the month. Following the data release, treasury yields surged with the 10-year breaking past the 4% mark at one point. Meanwhile, the dollar strengthened and bets on a March pause surged to 80.5% from 64.5% a day ago. The Fed have mentioned that they are keeping an eye on labor markets when factoring the decision to cut rates, with a robust job market likely to add to inflationary pressures.

The greenback strengthened in the week, closing at 103.96.

Europe

Eurozone Barely Avoids a Technical Recession
GDP numbers out of the Eurozone show that the bloc narrowly avoided a technical recession, with the print coming in flat versus the previous reading of a 0.1% contraction. This comes at a time when Europe's largest economy, Germany, continues to struggle as its economy shrank by 0.3% in the fourth quarter of 2023. The better than anticipated growth from Italy and Spain at 0.2% and 0.6% respectively helped offset Germany's troubles and ensure the print was not in contraction. Furthermore, France's economy also recorded 0% growth, indicating that despite barely avoiding a recession, higher interest rates and weak consumer demand are plaguing the Eurozone. ECB President Lagarde signaled that the central bank is not thinking about rate cuts until the summer, however continuous weak data coming out of Europe has the market pricing in cuts as early as April.

Stubborn Inflation in the Eurozone
Headline CPI in the Eurozone eased in January to 2.8% from 2.9% previously, in line with expectations. December's 2.9% figure represented an increase from November's 2.4% print, on the back of winding down on energy support policies. The volatility in the headline figure indicates the sensitivity of the Eurozone to energy prices and measures. Despite this, it's the core numbers that represent a sticky predicament for policymakers, with January's reading coming in at 3.3%, above the forecasted figure of 3.2%. The stubborn nature of the core figure, and more specifically the services sector, represents a hurdle to the ECB's goal of bringing inflation down to their 2% target. While markets are pricing in rate cuts in April, some ECB speakers have pushed back on this expectation calling for rate cut considerations in summer at the earliest. Despite this, economic growth in the block stagnated, just narrowly averting a technical recession. Consumers are also facing pressure from elevated inflation and a historic tightening cycle, making the ECB's job more complicated. The central bank, however, vowed to remain data dependent, making fighting inflation their priority.

The Euro is down to end the week, last trading at 1.0784.

United Kingdom

Bank of England Hold Rates
In a widely expected move, the Bank of England held interest rates steady at 5.25%. BoE Governor Andrew Bailey stated, "We have had good news on inflation over the past few months. It has fallen a long way, from 10% a year ago to 4%. But we need to see more evidence that inflation is set to fall all the way to the 2% target, and stay there, before we can lower interest rates." Markets are narrowly pricing in the central bank to hold rates all the way to May, with the first rate cut happening in June.

The Sterling slightly declined over the past week, last seen at 1.2630.

Asia-Pacific

China's PMI Numbers Show Rebound in Manufacturing Activity

PMI figures coming out of China suggest a rebound in manufacturing despite a soft and struggling economy. China's official PMI reading came in at 49.2 compared to 49 in December. This marks the fourth straight month of contraction despite a slight rebound. Meanwhile, the Caixin manufacturing PMI print came in at 50.8 matching the previous month's number, and extending divergence with the official data as it marks the third straight month of expansion. The Caixin survey encompasses 650 private and state-owned companies located in China's coastal regions, while the official PMI survey includes 3,200 companies across the country. The slight rebound with regards to the official number and a third straight month of expansion in the Caixin reading did little to convince investors that there is a sustainable recovery path ahead without further support and easing measures from Chinese officials. Weak consumer demand, property sector slump, deflation, and risks of further currency devaluation are just some of the problems facing policymakers as they attempt to balance between easing measures to boost demand and preventing a further decline of the Yuan.

The USD/CNY currency pair is up on the week, closing at 7.1920.

Australia Inflation Declines

Inflation in Australia fell more than expected, with annual inflation coming in at 4.1 % from 5.4% previously, and below estimates of a 4.3 % print. On a quarterly basis, this represents a 0.6% rise versus expectations of 0.8% and a previous increase of 1.2%. While the news is welcome, surpassing all forecasts, the figures are still below the Reserve Bank of Australia's target range of 2-3%. Treasurer of Australia Jim Chalmers hailed the "very encouraging" numbers but warned that "it's not mission accomplished yet." Markets are anticipating that the first rate cut will happen in June.

The Australian dollar is down, with AUD/USD declining to 0.6512.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30755.

Rates – February 4th, 2024

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0847	1.0778	1.0897	1.0784	1.0600	1.1000	1.0829
GBP	1.2693	1.2611	1.2772	1.2630	1.2400	1.2800	1.2642
JPY	148.11	145.88	148.58	148.37	146.00	150.00	146.33
CHF	0.8646	0.8549	0.8680	0.8664	0.8500	0.8800	0.8585