Weekly Money Market Report
15 May 2022

Risk-off Sentiment Sends the Dollar to 20-Year Highs

Highlights

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- **Inflation shows early signs of slowing down in the US**
- **7 more hikes are expected by the Fed till year end to fight inflation**
- **Equities suffer while the dollar surges amid risk-off sentiment**
- **ECB is signaling rate hike and markets are pricing in 85 basis points worth of hikes till end of 2022**
- **Oil prices rebound as oil import ban timeline is relaxed by the EU**

United States

Inflation in the US

In the United States, the big macroeconomic data release of the week – the US inflation data – did not behave as was anticipated with another higher than expected print that has clearly reinforced this bout of risk-off in the financial markets. In detail, Headline CPI rose 0.3% m/m in April. The y/y rate fell to 8.3%, down from 8.5% in March. The food index rose 0.9% m/m, and the food at home index rose 1.0%. The index for gasoline fell 6.1% m-o-m, offsetting increases in other energy prices. Core CPI y/y fell to 6.2% from 6.5% in March. The airline fare index rose 18.6% m/m, the biggest one-month increase in the history of the series going back to 1963 as traveling and tourism are heading toward pre-pandemic levels .

The Fed has not even begun to shrink its balance sheet and has only delivered about one-quarter of the monetary tightening that is priced into the US rates market and the inflation report showing price reductions overall. The market remains aggressive with its rate hike projections which remain at 7 hikes till year-end and 50 basis point hike in the upcoming June meeting.

Market Movement

On the forex front, the dollar remained on top of the currencies hill and gained as much as 1.22% reaching a high of 104.925 on Thursday. The bull-run of the dollar pushed the euro below the 1.04 level to a low of 1.0348 while the cable reached a low of 1.2154.

Equities are experiencing a bloodbath with major indices dropping more than 5% in a week as the current global economic conditions are intensifying the risk-off mode. The drop in assets prices has now reinforced US rates moving further lower. The 2-year UST bond yield has now retraced fully the jump in the 2-year yield after the CPI print while the 10-year UST bond yield is now 8bps below where it traded when the CPI data was released

EU & UK

UK GDP Contracts in Q1 of 2022

The gross domestic product (GDP) of the United Kingdom fell 0.1% m/m taking the q/q rate down to 0.8%. That means the UK economy stood 1.2% above its monthly pre-pandemic level in March, or 0.7% above, if we compare Q1 2022 to Q4 2019. But business investment fell 0.5% q-o-q in Q1 2022 and still stands 9.1% below its pre-pandemic level. This may reflect supply constraints - investment in transport equipment fell 9.4% amid ongoing supply shortages in the industry - but is still a disappointment, given the government's super deduction policy which has been in place since April 2021.

Consequently, the sterling kept depreciating against the US dollar and hit lows not seen since the beginning of the pandemic in early 2020. The currency lost 3.41% to the dollar since the beginning of May.

Lagarde's Comments

With ECB President Christine Lagarde flagging a July hike, it seems fear of persistent inflation has trumped recession worries, the hawks on the Governing Council are winning the debate. The market now has about 85bps of tightening from the ECB by the end of the year –this pricing also reflects the more explicit guidance on the extent of tightening to be implemented by the ECB. A number of ECB policy members have also referred to a positive policy rate by the end of the year.

Although the market has narrowed interest rate differential between the single currency and the greenback, the subdued euro levels are a representation of the risk of a major energy supply disruption due to the sanctions being placed on Russia.

Commodities

Oil Prices Rebound

Oil prices pulled higher over the course of last week, recovering some losses from early in the week. Brent and West Texas added around 3.5% on Friday only and reached highs of $111.69 and $110.64 respectively. Demand worries due to lockdowns in China were offset with relaxed timeline on the ban of Russian oil imports by the EU.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30680.

Rates – 13th May, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0550	1.0348	1.0592	1.0411	1.0280	1.0650	1.0470
GBP	1.2336	1.2154	1.2406	1.2261	1.2100	1.2435	1.2273
JPY	130.50	1.2750	131.34	129.19	1.2720	1.3130	128.65
CHF	0.9889	0.9869	1.0047	1.0017	0.9870	1.0120	0.9970