

Weekly Money Market Report

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Central Banks Pause Amid Contraction in Business Conditions

Highlights

- The U.S Federal reserve left its benchmark interest rate unchanged at the target range of 5.25% to 5.50%.
- Inflation in Canada accelerated more than expected.
- The Swiss National Bank kept its policy rate unchanged at 1.75%.
- The Bank of England kept its bank rate unchanged at 5.25%, with the latest PMI data showing worrying signs to the BOE.
- The Bank of Japan kept interest rates unchanged in its last meeting, as it fights to bring inflation to its 2% target.

North America

Federal Funds Rate

The U.S Federal Reserve left its benchmark interest rate unchanged at the target range of 5.25% to 5.50%, as widely expected by the market. The central bank signaled borrowing costs will likely stay higher for longer after one more hike this year. Twelve out of nineteen Fed officials said that they still expect to raise rates once more this year. Markets are now pricing in two rate cuts next year instead of the previously projected four rate cuts. Projections also showed that they expect inflation to fall below 3% next year and then return to their initial target of 2% by 2026. As inflation remains elevated, the overall sentiment given by the Fed was deemed hawkish as they repeated language on 'extend of additional policy firming. All in all, the so called "soft landing" was a bit far-fetched 3 months ago, but now seems within reach.

U.S PMI

There was no significant change in U.S business activity as shown in the latest data to come out on Friday. Flash Manufacturing PMI rose from 47.9 previously to 48.9, remaining in contraction territory. Meanwhile, Flash Services PMI dropped slightly to 50.2, allowing the index to remain in expansion territory.

The U.S Dollar Index closed the week at 105.58.

Inflation in Canada

Inflation in Canada accelerated more than expected in August on the back of rising energy prices, with annual CPI coming in at 4% versus 3.3% in July. On a monthly basis, this represents a 0.4% increase versus estimates of a 0.2% rise. In their press release, governmental organization Statistics Canada stated, "In addition to facing higher energy prices, Canadians paid more for rent and mortgage interest in August." Following the release of inflation data, markets are pricing in a 56% chance of no hike for the upcoming Bank of Canada monetary policy meeting.

Europe

SNB Policy Rate

The Swiss National Bank kept its policy rate unchanged at 1.75%. The latest data in August showed that inflation had in fact declined in recent months and stood at 1.6%, thus downplaying the need for an interest rate hike by the SNB. The monetary policy tightening deployed by the SNB seems to have properly fought back against inflationary pressures so far, however, the SNB reiterated that further tightening can still come into play if deemed necessary.

Eurozone PMIs

As the latest PMI data comes out from the Eurozone, both services and manufacturing remain in contraction territory, and there seems to be no sign of growth anytime soon. The Eurozone's Composite PMI came in at

47.1 after it had reached 46.7 in August. The European Central Bank's vicious rate hike cycles seems to have taken its toll on the economy with the impact now being clearly felt. The ECB seems to have taken the approach of prioritizing inflation rather than the wellbeing of the economy, and they seem that they will continue that way until they reach their desired inflation target.

The EUR/USD currency pair closed the week at 1.0652.

United Kingdom

UK Inflation

Inflation in the United Kingdom fell more than expected coming in at 6.7% annually versus 6.8% previously. This represents an increase of 0.3% on a monthly basis. Expectations were that figures would come in at 7% annually and 0.7% monthly amid a rise in energy prices globally. The Office for National Statistics stated, "The largest downward contributions to the monthly change in both CPIH and CPI annual rates came from food, where prices rose by less in August 2023 than a year ago, and accommodation services, where prices can be volatile and fell in August 2023." Core CPI which excludes food and energy also fell drastically more than anticipated coming in at 6.2% from 6.9% previously. The Office for National Statistics explained the difference between headline and core figures citing "Rising prices for motor fuel led to the largest upward contribution to the change in the annual rates."

Bank Rate

The Bank of England kept its bank rate unchanged at 5.25%, after expectations had long been predicting a 25bps hike. The latest flash PMI data to come out on Friday, which the BOE had a sight of prior to its decision, showed a significant drop to 47.2 from 49.5 in August, showing clear signs of recession. The services sector dropped further into contraction and showed the lowest score since Global Financial Crisis when not taking covid times into account. As for employment, wages had been a major concern for inflation as they had been surging to high levels, however the latest data shows that employment has dropped to its lowest levels since 2009, and thus canceling out the concern of high wages. That, along with cooling inflationary pressures, must have been key behind the BOE's decision to pause rate hikes.

The GBP staggeringly dropped against the USD, with the currency pair closing the week at 1.2238.

Asia Pacific

China Loan Prime Rate

The People's Bank of China's one-year loan prime rate has been kept unchanged at 3.45%, while the five year loan prime rate was held at 4.2%, both in line with expectations. As recent economic data showed that the world's second largest economy is coming back from a sharp slowdown, policy makers believe that the need for immediate monetary easing can be neglected at this time.

Japan's Monetary Policy Statement

Expectedly, the Bank of Japan kept interest rates unchanged in its last meeting, as it fights to bring inflation to its 2% target. Speaking about the decision, Governor Kazuo Ueda said "We have yet to foresee inflation stably and sustainably achieve our price target. That's why we must patiently maintain ultra-loose monetary policy." The BOJ believe that external factors, such as global oil prices, are adding onto inflation and thus believe that there should be no rush to exert stimulus into the economy. However, the BOJ reiterated that should they need to, they will "take additional easing measures without hesitation." Markets have seen the latest remarks by the BOJ as dovish, and that has allowed the Japanese Yen to depreciate further.

The Japanese Yen continues to weaken against the U.S Dollar, with the pair closing at 148.37.

Commodities

Crude Oil

In commodities, global benchmark Brent crude rose towards \$95 a barrel as investors digest the prospect of a widening supply deficit after OPEC+ extended supply cuts. Saudi Arabia and Russia extended a combined 1.3 million barrels per day of supply cuts to the end of the year. Brent and WTI have gained ground for three consecutive weeks, and are on track for their biggest quarterly increases since Russia's invasion of Ukraine in

Q1 of 2022. Despite the supply cuts, demand concerns remain with China as the key risk due to its sluggish economic recovery.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30880.

Rates – 21st May, 2023

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0661	1.0613	1.0736	1.0652	1.0500	1.0800	1.0700
GBP	1.2381	1.2229	1.2424	1.2238	1.2100	1.2500	1.2247
JPY	147.72	147.31	148.45	148.37	146.00	149.00	146.20
CHF	0.8959	0.8930	0.9078	0.9069	0.8900	0.9100	0.8977

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