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Weekly Money Market Report
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Easing Inflation Data Pushed the Dollar Lower

Highlights

- **Inflation data in the US softens and gives relief to major currencies. In July, CPI decelerated to 8.5% from 9.1% in June and import prices declined for the first time in seven months by 1.4% after rising 0.3% in June.**
- **UK GDP contracted by less than expected, but continued to point to growing weakness among consumer-facing sectors of the economy as Britons deal with inflation reaching a 40-year high in the wake of the war in Ukraine.**
- **China's producer price growth has slowed, rising 4.2% in July compared to 6.1% in June, giving policymakers some leeway to stimulate the flagging economy even as central banks elsewhere scramble to fight the flaming inflation with aggressive interest rate hikes**

United States

Inflation Cools Down

Inflation in the US was lower in July, with headline CPI at 8.5% year-on-year from 9.1% in June, the largest month-on-month deceleration of price increases since 1973. The number reflects lower energy prices, though food costs continue to rise. Core CPI also rose by less than forecast, up 5.9% year-on-year, a 10-month low. Healthcare and housing remained key sources of inflation in July while costs of airline fares, appliances, clothing, and used vehicles declined.

Price pressures are still intense and Fed officials were quick to push back against moderating market expectations and stress more rate hikes are coming. Minneapolis Fed President Neel Kashkari said expectations that the Fed will lower rates next year was “unrealistic” as inflation will still likely be well above 2%. The report was the first "positive" reading on inflation since the Fed began raising interest rates in March, Chicago Fed President Charles Evans. He also added that inflation is still "unacceptably" high and the Fed will likely need to lift its policy rate to 3.25%-3.50% this year and to 3.75%-4.00% by the end of next year.

US import prices posted their first decline in seven months in July, helped by a strong US dollar and lower costs for both fuel and nonfuel products, in another sign that inflation may have peaked. Import prices fell by a more-than-expected 1.4% last month after rising 0.3% in June, the Labor Department said on Friday. It was the largest monthly drop since April 2020. In the 12 months through July, import prices increased 8.8% after rising 10.7% in June, the fourth straight month the annual rate has fallen.

The prospect of monetary tightening by the Fed has responded to the shift in inflation trajectory. Markets are pricing in a 42% chance of a 75 basis point hike in September, while it stood at 75% before the inflation data release. Equities in the US closed the week higher and Treasury yields retreated, which is solidifying that markets are pro having the Fed get a grip over inflation at the cost of higher interest rates.

The chorus of Fed officials solidifying rate hike odds failed to fully protect the dollar’s gains. The euro settled at 1.0262. The sterling settled at 1.2134. The yen took a breather from its lows and settled at 133.48.

Europe

UK GDP with an Upside Surprise

UK GDP fell by 0.6% month-on-month in June, the biggest contraction since January 2021, but an upside surprise relative to consensus expectations of a 1.2% decline. This meant that GDP fell by 0.1% quarterly in Q2 2022 whereas market was expecting a decline of 0.2%. Output for the second quarter as a whole still contracted, however, with Britain expected to enter a long downturn at the end of the year in the face of surging inflation and rising interest rates. Friday's data pointed to growing weakness among consumer-facing sectors of the economy as Britons deal with inflation reaching a 40-year high in the wake of the war in Ukraine.

Eurozone Industrial Production Shines

Eurozone industrial production in June grew three times more than expected, data showed on Friday, mainly thanks to a jump in the output of capital goods. The European Union's statistics office Eurostat said industrial production in the 19 countries sharing the euro rose 0.7% month-on-month in June for a 2.4% year-on-year increase. Eurostat said that the production of capital goods, which include things like machinery, equipment, vehicles or tools, rose 2.6% on the month and 7.6% in annual terms.

China

Slowing PPI

In China, the producer price index (PPI) rose 4.2% year-on-year, the National Bureau of Statistics (NBS) said on Wednesday, after a 6.1% increase in June and missing analyst forecasts for a 4.8% increase. China's producer price growth has slowed from a 26-year high hit in October last year, giving policymakers some leeway to stimulate the flagging economy even as central banks elsewhere scramble to fight flaming inflation with aggressive interest rate hikes. The consumer price index (CPI) increased by 2.7% from a year earlier, the fastest pace since July 2020 but missing forecasts for a 2.9% gain. The main driver of consumer prices is food inflation, which rose 6.3% on yearly basis, speeding up from a 2.9% increase in June.

Commodities

Oil Prices Surge

Oil prices surged last week as higher demand on gasoline pushed futures contracts higher amid lower inflation data coming out of the US. Traders are weighing in on the increased demand for oil during the upcoming winter season.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30640.

Rates – 14h Aug, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0318	1.0239	1.0330	1.0262	1.0070	1.0365	1.0327
GBP	1.2211	1.2100	1.2219	1.2134	1.1930	1.2230	1.2154
JPY	133.02	132.87	133.89	133.48	131.70	135.50	132.43
CHF	0.9414	0.9404	0.9450	0.9413	0.9220	0.9620	0.9342