

Weekly Money Market Report

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The Dollar Plunges Amid Softer Inflation Data

Highlights

- US inflation in October eased with headline figure at 7.7% from 8.2% and core inflation at 6.3% down from 6.6%
- Major gains were captured across asset classes with hopes of an end to the aggressive tightening path of the Fed following the release of the inflation report
- US Dollar eases from 110 levels and loses 3.21% in one day as investors charged onto risky assets
- UK GDP drops on monthly basis by 0.6%
- China eases its COVID restrictions and adds to markets optimism

United States

Inflation Report

Last week was a quiet week in markets with all eyes on US inflation report that was released on Thursday. Market participants were expecting a softer inflation reading and that would imply a less hawkish monetary policy by the Fed. The central bank of the US was keen on fighting inflation; hence all stakeholders were looking forward to an easing inflation reading and improved market sentiment towards risk-off mode.

On Thursday, the inflation report was published and showed that headline consumer price index (CPI) rose by 0.4% m-o-m while economists were expecting a 0.6% increase. The reading resulted in a fall in the annual inflation rate from 8.2% to 7.7%. Core inflation, which excludes food and energy sectors, rose by 0.3% on monthly basis against the consensus of 0.5%. The core inflation fell from 6.6% to 6.3% on yearly basis. The primary drivers of the downside surprise to inflation in October came from core prices. Core goods prices fell 0.4% m-o-m, while core service prices rose 0.5%. For the core goods CPI, this was the first decline in seven months.

Market Reaction

Following the release of the inflation report, all asset classes soared as investors sentiment revived their risk appetite. The Nasdaq spiked by 7.35% on Thursday's session alone followed by the S&P 500 posting gains of 5.54% and the Dow Jones at 3.70% on the same day. Long dated treasury yields relaxed by around 30 basis points pushing the 10-year yield to 3.81% from around 4.08%. The markets are currently pricing in a mere 28% of a 75 basis point hike by the Fed in the last meeting of 2022, which will be held on December 14th. Nevertheless, the market can be seen as over optimistic on a single reading and a 50 basis point hike remains fully priced in.

On the FX sphere, the inflation report unleashed an attack on the dollar and sent major currencies to levels we have not seen in 3 months or more. The greenback fell from its high horse levels of 110 to 106 within 24 hours of the release of the inflation data. The single currency soared beyond 1.03 and the cable jumped to 1.18 levels while the yen gained more than 6 figures and reached 138. The Swiss franc appreciated and broke the 0.96 level towards 0.95.

Europe and UK

Lagarde on Monetary Policy

Pressure is mounting on central banks across the world after the Federal Reserve hinted at smaller interest rates moving forward. In Europe, ECB President Christine Lagarde and her deputy had previously signaled the central bank was determined to do its part to fight inflation and called on the 19 governments of the euro zone to avoid fueling prices with heavy spending. Although Lagarde acknowledged that the interest rate increases worked with a lag, she also argued that policymakers do not have the "luxury" to wait to see the full effect.

“What we have to do at the moment is difficult,” Lagarde said in an interview. “We have to bring inflation back to 2% in the medium term --that’s our objective, that’s our primary concern, that’s our compass.”

UK's GDP Falls

UK GDP fell in September by 0.6% on monthly basis against market consensus of a 0.4% drop. September GDP was affected by the Queen's funeral, which saw almost all shops and businesses closed, and potentially also by the financial market turmoil that followed the so-called 'mini budget' towards the end of the month.

Asia

China Eases its COVID Curbs

China on Friday eased some of its heavy-handed COVID rules, including shortening quarantines by two days for close contacts of infected people and for inbound travelers, and removing a penalty for airlines for bringing in too many cases. The loosening of the rules, a day after President Xi Jinping led his new Politburo Standing Committee in a meeting on COVID, cheered markets even as many experts warned that the measures are incremental and reopening probably remains a long way off.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30915

Rates -13th November, 2022

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	0.9909	0.9898	1.0364	1.0352	1.0210	1.0570	1.0429
GBP	1.1301	1.1288	1.1854	1.1835	1.1730	1.2070	1.1871
JPY	147.14	138.45	147.56	138.79	136.50	140.90	137.08
CHF	0.9976	0.9395	0.9987	0.9417	0.9190	0.9640	0.9314

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