Weekly Money Market Report
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Markets Volatile Amid Heating Inflation and Regulator Heavy Week

Highlights

- **New applications for US unemployment benefits saw a plunge last week to reach their lowest level in 52 years.**
- **US consumer prices logged their biggest gain since 1982.**
- **The Bank of Canada kept its borrowing costs unchanged at 0.25%.**
- **Retail sales in the UK grew at an annual rate of 5% in November.**
- **UK growth nearly flattened as output rose just 0.1% between September and October.**
- **The Reserve Bank of Australia left interest rates unchanged at an ultra-loose 0.1%**

United States

Unemployment Claims

In a sign of further progress in the US labor market's uneven recovery from the depths of the coronavirus pandemic, new applications for unemployment benefits saw a plunge last week to reach their lowest level in 52 years. The labor department said on Thursday that state unemployment offices around the US received 184,000 initial jobless claims on a seasonally adjusted basis in the week ending December 4.

The figure clocked the lowest reading since September 6 1969 and showed a decrease of 43,000 claims from the previous week, while missing the 215,000 claims expected by economists. Although, the reading should be taken with a grain of salt as these claims are subject to seasonal fluctuations over the holiday period, which can distort weekly readings.

Another reading showed the number of job openings on the last business day of October jumped to 11.033 million according to the US Bureau of Labor Statistics. The reading came in above market expectations for 10.369 million and was sharply higher than September's 10.602 million reading. Job quitters declined by 4.7%, falling to 4.16 million from 4.36 million. Employers are now competing to hire and retain staff, with Americans quitting their jobs at historically high levels as they seek better work opportunities or turn to self-employment.

Heating Inflation

The most anticipated figure of the week was finally released on Friday where it showed US consumer prices logging their biggest gain since 1982.

The Bureau of Labor Statistics published its consumer price index (CPI) on Friday showing US consumer prices in November increased at their fastest pace in nearly 40 years. CPI rose 6.8% last month from a year ago, a significant pickup from the 6.2% rate of October. On a month-on-month increase, prices between October and November jumped 0.8%, slightly down from the previous month-on-month increase of 0.9%.

Taking out volatile items such as food and energy, core CPI climbed 0.5% from October on a monthly basis, roughly in line with the previous period, but pushed up the annual pace to 4.9% up from 4.6% it registered in October.

Once concentrated to a few sectors most sensitive to pandemic-related reopenings and supply chain disruptions like used cars and travel-related expenses, inflation has broadened out and now shows signs of becoming a persistent problem.

Fed Chair Jerome Powell has said the U.S. central bank should consider speeding up the winding down of its massive bond purchases at its policy meeting next Tuesday and Wednesday. Many economists are expecting an early Fed interest rate increase.

The US dollar had made some early gains ahead of the CPI figure on Friday, but quickly went on to shed these gains following the release of the figure. Against a basket of its rivals, the dollar fell 0.1% to close the week at 96.097.

The markets are volatile ahead of this week which is regulator heavy, as the Fed, European Central Bank, Bank of England, Swiss National Bank, and Bank of Japan all will meet separately. The euro who is seen as vulnerable to a Federal reserve hike especially if European rate rises lag, saw a lot of volatility and closed the week at 1.1311.

Canada

Bank of Canada

The Bank of Canada kept its borrowing costs unchanged at 0.25% while highlighting the strength in the labor market and worries about the persistence of inflation that will likely keep expectations of imminent rate hikes intact. Nevertheless, officials have now stopped referencing inflation as “transitory”, noting employment is now returning to pre pandemic levels. A report due this week is likely to show inflation hitting a three decade high in November of about 5%, while the unemployment rate sits near five decade lows. In October, the central bank ended its bond buying stimulus program and accelerated the potential timing of future interest rate increases amid supply disruptions. Markets are now pricing in rate hikes for the BoC at a faster pace than the Federal Reserve.

UK

Rising Retail Sales

Retail sales in the UK grew at an annual rate of 5% in November, up from a 1.3% increase in the previous month. The data showed UK consumers splashed their cash in November as Black Friday boosted the sale of clothing, toys and jewelry, among a rise in spending at restaurants.

The data showed consumer spending continued to drive the UK’s economic rebound in the fourth quarter so far. In the three months to September, household consumption contributed 1.2 percentage points of the 1.3% economic growth. However, the new Omicron variant of the coronavirus has raised the risk of new restrictions coming in the last part of the festive season.

Flattening Growth

The UK economy disappointed as it nearly flattened in October when supply chain disruptions hit both manufacturing and construction, while the expansion of the services sector slowed. Data released by the Office for National Statistics showed on Friday that UK output rose just 0.1% between September and October. The reading was below the 0.4% increase forecast by economists and a sharp decline from the 0.6% expansion recorded in the prior month.

Looking at the components of the figure, the dominant services sector reached its pre-pandemic level for the first time in twenty months. However, these gains were offset by a drop in activity in restaurants, which fell back after a strong summer, and reduced oil extraction and gas use. Construction experienced its biggest drop since April of last year, with a notable fall in housebuilding and infrastructure, partly driven by shortages in raw materials. Production output decreased by 0.6% and construction fell by 1.8% amid widespread supply chain disruptions and shortages of goods and workers. Services output grew by 0.4% in October, with the most significant contribution coming from health activities.

Overall, the UK’s output was still 0.5% below its February 2020 reading, before the pandemic. The data is the last on UK GDP before the Bank of England interest rate decision next week. Economists expect the regulator to postpone a rate increase because of concerns about the spread of the Omicron variant of the coronavirus.

The reading did not help the frail sterling pound which on Wednesday reached its lowest level in more than a year at $1.3162, after reports of Boris Johnson’s “Plan B” of further restrictions which include requiring vaccine passports for large venues and an order to work from home in a bid to curb the spread of the Omicron variant. It then tried to gain some steam crossing the $1.3200 level then was beaten down by the GDP reading yet saved by the late release of the US inflation reading to close the week at 1.3269.

Australia

The RBA Maintains its Rate

In its last policy meeting of the year, the Reserve Bank of Australia left interest rates at an ultra-loose 0.1% and stuck with its bond buying plans. The Australian regulator resisted the pressure to follow its US counterpart who signaled an earlier winding down of stimulus. The RBA board noted the emergence of the Omicron variant but was confident it would not derail what has been a rapid economic recovery. It is crucial to note that while inflation had picked up in Australia, it was still lower than many other developed nations and is likely to rise only gradually given the inertia evident in wages growth. Last month, the central bank had surprised many by committing to keeping bond yields low, so markets were speculating a shift again by signaling an early end to its bond buying campaign. The RBA was upbeat on the economic outlook as high vaccination rates allowed the lifting of coronavirus lockdowns.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30255

Rates – 12 December, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1319	1.1226	1.1354	1.1311	1.1100	1.1400	1.1271
GBP	1.3240	1.3165	1.3289	1.3269	1.3100	1.3400	1.2488
JPY	112.77	112.76	113.95	113.38	111.00	115.00	107.36
CHF	0.9173	0.9160	0.9275	0.9209	0.9150	0.9425	0.9431