Weekly Money Market Report
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Policy Normalization Accelerates in Face of Sky-High Inflation

Highlights

- **Meeting minutes of the Fed and European Central Bank (ECB) marked hawkish tones as pressure from heightening prices and recent economic data strengthen the case for policy acceleration.**
- **Markets have been grappling with Fed's aggressing tightening campaign against inflation, stirring uncertainty and volatility in equity, forex, and commodity markets.**
- **The dollar gained ground against most of its rivals, particularly against the euro, which has been pressured by investor concerns about the economic costs of war in Ukraine, and the yen, which has been pressured by the Bank of Japan's (BoJ) intervention in the bond market to keep rates low.**
- **Oil prices tranquilized on the lower edge of $100 a barrel with the release of barrels from emergency stockpiles and lower demand from a locked-down China.**

Russo-Ukrainian War

Grinding War under Piling Sanctions

Russia received its fifth round of sanctions from the United States, United Kingdom, and European Union after discoveries of war atrocities in the Ukrainian city of Bucha. In addition to further penalties on Russian financial institutions and wealthy individuals, the UK went ahead to stop all coal and oil imports by the end of this year. The EU followed with a ban on coal imports only and extended a ban on Russian trucks and ships entering the EU. The United Nations General Assembly also voted to suspend Russia from the Human Rights Council.

In the meantime, Ukraine continued to plead for assistance as Russian troops prepare for their new offensive in the eastern region of Ukraine. The sharp spike in global food and fuel prices has been heavily provoked by supply chain disruptions caused by the war, challenging central bankers across the globe in their battle against soaring and potentially entrenching inflation and complicating the economic outlook.

United States

Hot Inflation and Tight Labor in the US Economy

The US economy appears to have had a decent first quarter of 2022 even as inflationary pressures and expectation of higher interest rates weigh on the outlook. With inflation at its hottest in four decades, the week ended with unemployment claims at 166K, the lowest since 1968, in comparison to a 201K expectation and 171K from the previous week, signaling a tightening labor market. The ISM Services Index in March rose to 58.3 from 56.6 a month earlier, thanks to moves in higher employment and new orders. Like the manufacturing sector, input prices also moved higher as inflation entrenches across the US economy. Focus is on next week's release of fresh economic monthly data. CPI and core CPI released on Tuesday, PPI is out on Wednesday, and retail sales is out on Thursday.

The Hawk is Triggered

The latest data stoked aggressiveness in the Fed's tightening policy with the plan to tame inflation on top priority. The FOMC minutes from March's meeting laid out the plan to run down assets at a pace of $95 billion per month, nearly twice as fast as the peak level of $50 billion used in the previous tightening period from 2017 to 2019. Specifically, the proposed shrinking would translate into $60 billion in Treasuries and $35 billion in mortgage-backed securities. Additionally, it made space for a 50bp rate hike upon disclosure that many officials favored that size of a hike last meeting, which was deferred mainly in light of the Russian war. James Bullard, President of the St. Louis Fed, said he prefers boosting the policy rate to 3-3.25% in the second half of this year. Charles Evans, President of the Chicago Fed, and Raphael Bostic, President of the Atlanta Fed, said they favor raising rates to neutral while monitoring the economy's performance.

Market Reaction
Despite dismissal of recessionary concerns and reassurance from Federal Reserve Chair Jerome Powell that the US is able to withstand interest rate hikes, financial markets are on edge as they consider the implications of the tightening campaign on economic growth. The FOMC minutes fueled the Treasury rout, sending the 10-year yield shooting to 2.70% and the 2-year yield to 2.51%. Equities' recovery from an initial fright of the Fed minutes was short-lived and major benchmarks ended mainly in the red, with the exception of the Dow Jones.

Dollar Intact
The dollar aimed high underpinned by the jump in Treasury yields and the aggressing Fed. The US dollar hit 100 for the first time in two years until it later lost momentum and closed the week at 99.796. European currencies have been hurt the most, lost their grip under the weight of their sanctions on Russia translating into their economies. The euro failed to capitalize on its hawkish ECB meeting minutes and remained disheartened, closing the week at 1.0880. The sterling was also demoralized, closing the week down to 1.3031.The Australian dollar tumbled back to 0.7457 after the its own hawkish call from the Reserve Bank of Australia (RBA) was quickly muted by the US. The Japanese yen was pinned down by a widening divergence between the Bank of Japan's (BoJ) and the Fed, ending the week above 124.

Europe

Punctured Growth and Dwindled Optimism
European countries are dealing with repercussions of their sanctions imposed on Russia in their own economies. Inflation sizzled to 7.5% in March, much higher than the ECB's projected 5.1% peak, amid persistence of food and energy inflation and global manufacturing bottlenecks. Considering the region's high dependence on Russian energy, the war and sanctions were punishing to the recent growth trend and is beginning to damage confidence. Germany saw its factory output decline in February for the first time in four months by 2.2%, offsetting the previous month's 2.3% gain. EU retail sales in February also disappointed expectations gaining 0.3% as opposed to the 0.6% expectation, but performed better than January's 0.2% gain. The ZEW Economic Sentiment from Germany and the EU area will be released on Tuesday this week.

The ECB between a Rock and a Hard Place
Despite growing downward risks for the economy, the upward surprise in Eurozone inflation added pressure on the ECB to revise their inflation figures and shift their policy stance. After deciding to halt the Asset Purchases Program (APP) by September this year, ECB President Christine Lagarde increased the room for maneuver as she weakened the link between the end of APP and the start of rate hikes. The March ECB Monetary Policy Meeting Accounts suggested its policy makers are keen to combat inflation and are hawkishly firm on their course for monetary normalization. The main complication to the economic outlook is the war in the region. The next scheduled ECB meeting on Thursday is not expected to bring any change, but markets continue to price in a faster path than what is warranted by ECB signals, seeing a policy adjustment likely in June this year.

Asia-Pacific

A Series of Covid Travails in China
China continued to grapple with virus flare-ups and clung to a stringent zero covid policy, putting a strain on its economy. Virus curbs have held back traditional growth engines of consumption, restricted mobility, and weighed on client demand. China's service sector took a massive blow in March with the Caixin Services PMI shrinking to 42 from 50.2 a month earlier, its fastest pace in two years and indicating economic contraction. According to the PMI, new business activity was at its lowest since March 2020 and new exports were also at 2020 lows. More economic data released on Monday include annual CPI and PPI data.

The People's Bank of China (PBOC) stated it would loosen monetary policy at an "appropriate time" and explore new measures to boost consumption as authorities battle the escalating covid outbreak, a slumping property market, and spiking commodity prices. The next PBOC meeting will be held on April 19th.

The Dove Flies On

The Bank of Japan (BoJ) remains committed to its ultra-easy stimulus, stepping into the market several times to defend its bond yield from rising above 0.25%. The ongoing war, weakening yen, and global inflationary pressure weighed on household purchasing power and the consumer sector. Real wage growth stagnated in February as higher pay matched the rise in inflation, keeping wallets shut and consequently dampened household spending. A former BoJ executive director suggested that the BoJ is likely to adjust its control of yields as soon as this summer due to concerns of a weakening yen and public discontent over inflation, challenging the view and position of Governor Haruhiko Kuroda. Annual PPI will be released on Tuesday.

Another Rising Hawk Down Under

The Reserve Bank of Australia (RBA) kept interest rates unchanged at 0.10% but posed hawkish after omitting “remaining patient” from the rhetoric. Governor Lowe reiterated his focus on pushing unemployment down to levels that will push for wage growth of at least 3% as he remains doubtful that higher inflation is sustainable without stronger wage growth. Facing hawkish heat from the latest economic data and rising consumer demand that risks upending inflation, the RBA is expected to start hiking rates in June this year. The latest unemployment data from March will be released on Thursday.

Commodities

Volatility Can’t Be Contained

While oil juggles Russian oil bans and lower Chinese demand, supply fears were cooled slightly after the International Energy Agency decided to join the US and deploy 60 million barrels from emergency stockpiles. US crude inventories also came in higher than expected at 2.4M barrels. WTI closed the week at $98.26 a barrel while Brent closed the week at $102.78 a barrel. OPEC is set to meet this week after it chose to maintain course and refused to deviate from its long-term plan for gradual output in the face of supply threats.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30470.

Rates – 10th April , 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0881	1.0894	1.0837	1.0880	1.0700	1.1100	1.0925
GBP	1.3079	1.3091	1.2983	1.3034	1.2900	1.3200	1.3035
JPY	123.91	123.66	124.67	124.32	122.00	126.00	123.97
CHF	0.9342	0.9325	0.9374	0.9346	0.9100	0.9500	0.9309