

Weekly Money Market Report

July 28th, 2024



US Economic Growth, Eurozone Stagnation, and Japan Inflation Ahead of Monetary Policy Decisions

Highlights

- US manufacturing and services PMI at 49.5 and 56.0 respectively
- US PCE index m/m increases 0.1%, core PCE increases 0.2% m/m
- US advance GDP increases 2.8% q/q, beating previous quarter 1.4% increase
- Bank of Canada cuts interest rates to 4.5%
- Eurozone composite PMI drops to 50.1, services and manufacturing PMI at 51.9 and 45.6 respectively
- United Kingdom composite PMI rises to 52.7, services and manufacturing at 52.4 and 51.8 respectively
- Japan core CPI rose by 2.2% y/y, slightly higher than previous 2.1% increase
- Peoples Bank of China delivers 10 bps cut, reducing the 1-year and 5-year prime loan rates to 3.35% and 3.85% respectively

North America

US Existing Home Sales

US existing home sales fell in June, where the latest figure shows a drop from 4.11 million homes sold in May down to 3.89M, lower than the expected 3.99M figure. The June figure comes following a 0.7% drop in May, which was considered the lowest reading for the figure since February. Meanwhile, median home prices rose 4.1% y/y reaching USD 426K. Declines were seen in all four major US regions, where sales weakened in all parts of the US except for the West which remained unchanged.

Flash Manufacturing and Services PMI

US Business Activity surged in July, where the US saw a significant acceleration in business activity, with the S&P Global Flash US Composite PMI rising to 55.0, its highest in 27 months. The Services Business Activity Index increased to 56.0, while the Manufacturing PMI Index slipped to 49.5 down from 51.6 in June, marking a six-month low. Employment growth continued for the second month although at a slower rate, driven by stronger service sector performance. Despite this growth, business confidence dipped due to political uncertainties and inflation concerns. Input prices rose at a slower rate, indicating some easing of inflationary pressures.

US Advance GDP q/q

Real gross domestic product in the US increased at an annual rate of 2.8% in the second quarter of the year, up from 1.4% in the first quarter. The increase reflected a rise in consumer spending, which was seen in both services and goods. In services, the leading contributors to the increase were healthcare, housing, utilities, and recreation services. Where in goods, motor vehicles and parts, recreational goods, and household equipment were the biggest contributors to the increase. Personal income increased \$237.6 billion, compared to \$396.8 billion. Disposable personal income rose \$186.3 billion, marking a 3.6% increase compared to 4.8% the previous quarter. While personal saving as a percentage of disposable income was 3.5%, compared to 3.8% in the first quarter.

Core PCE Index

In June 2024, personal consumption expenditures (PCE) increased by \$57.6 billion, or 0.3%, reflecting a rise in consumer spending on both goods and services. The PCE price index, which measures

inflation, rose by 0.1% from the previous month and 2.5% year-over-year. Excluding food and energy, the core PCE price index increased by 0.2% monthly and 2.6% annually. Personal income in the US increased by \$50.4 billion, or 0.2%, driven by gains in compensation and personal current transfer receipts.

The US Dollar index closed the week at 104.32.

Bank of Canada Monetary Policy Decision

In its July 2024 meeting, the Bank of Canada cut its key interest rate by 25 basis points to 4.5%, following a similar cut in June. This decision was influenced by excess supply in the economy, which has helped slow inflation, and signs of moderation in the labor market. The central bank believes that lower interest rates will help reduce mortgage and shelter costs, major drivers of inflation. The Governing Council expects CPI inflation to decrease in the latter half of the year due to base effects for gasoline prices and to stabilize at 2% in 2025.

The USD/CAD currency pair closed the week at 1.3833.

Europe

Eurozone Consumer Confidence

The Eurozone consumer confidence indicator increased by 1.0pp in the euro area to -13.0, from -14.0 the previous month. The figure shows further progress towards reaching its long-term average of around -11, and comes following the ECB decision to hold rates unchanged in its latest meeting as inflation proved to be more resistant.

Eurozone Flash Manufacturing and Service PMI

The Eurozone's economic recovery decelerated in July, with the HCOB Flash Eurozone Composite PMI dropping to 50.1, down from 50.9, marking a five-month low. The Services PMI fell to 51.9, down from 52.8, while the Manufacturing Output Index decreased to 45.3, from 46.1, indicating continued weakness in manufacturing. New orders fell for the second consecutive month, leading to a halt in employment growth. Business confidence dipped to a six-month low amid ongoing inflationary pressures. Despite some optimism, the data points to a challenging outlook for the Eurozone's economy.

The EUR/USD currency pair closed the week at 1.0857.

United Kingdom

UK Flash Manufacturing and Service PMI

In July 2024, the UK's private sector experienced significant growth, with the manufacturing and services PMI figures showing notable improvements. The Composite Output Index rose to 52.7, up from 52.3 in June, indicating solid expansion. The Services PMI climbed to 52.4, and the Manufacturing Output Index reached 54.4, marking a 29-month high. Manufacturing PMI also increased to 51.8, up from 50.9 in June. Employment growth accelerated, particularly in services, which saw the fastest increase in staffing in over a year. Despite ongoing inflationary pressures, business confidence improved, driven by expectations of stronger demand and political stability. This positive trend suggests a promising start to the second half of the year for the UK economy.

The GBP/USD currency pair closed the week at 1.2872.

Asia-Pacific

Tokyo Core CPI y/y

In July, core consumer prices in Japan rose by 2.2% y/y, matching markets forecasts and slightly accelerating from June's 2.1% increase. This marks the third consecutive month of rising inflation in Japan's capital. Excluding fresh food and fuel costs, inflation increased by 1.5% down from 1.8% in June. The figures come a week before the Bank of Japan's policy meeting, where markets are pricing in a 70% chance of a rate hike.

The USD/JPY currency pair closed the week at 153.72.

China 1-year and 5-year Loan Prime Rate

The People's Bank of China delivered a 10 basis points cut to key rates, taking the seven-day reverse repo rate to 1.7% from 1.8% previously, the one-year loan prime rate to 3.35% from 3.45%, and the five-year loan prime rate was lowered to 3.85% from 3.95%. The move took markets by surprise, especially since it was forecasted that rates would remain unchanged. The PBOC decision comes amid a period of weaker growth for the world's second largest economy. Annual CPI came in at the lowest level since March rising just 0.2%. Meanwhile, consumer demand is muted while Chinese imports were weaker than expected. GDP growth also disappointed, increasing by 4.7% versus 5.1% expected. Policymakers in China previously introduced easing measures to boost consumer demand and the economy overall, delivering rate cuts, lowering downpayment requirements for real estate, and decreasing the reserve ratio requirements. It remains to be seen how much further authorities in China are willing to go to support the struggling economy, however it is expected that they will be more comfortable doing so once the Federal Reserve start cutting rates as they attempt to balance between supporting economic growth, and being mindful of interest rate differentials as the Yuan gets weaker.

The USD/CNY currency pair closed the week at 7.2502.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30545.

Rates – 28th July 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0880	1.0824	1.0902	1.0857	1.0700	1.1000	1.0903
GBP	1.2908	1.2847	1.2942	1.2872	1.2800	1.2300	1.2880
JPY	157.44	151.93	157.61	153.72	151.00	155.00	151.65
CHF	0.8889	0.8775	0.8923	0.8836	0.8700	0.9000	0.8740

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