Weekly Money Market Report
23 January 2022

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Britain's Inflation Climbs to 30-year High

Highlights

- **Across the globe, the pandemic has disrupted supply chains and labor markets heavily, leaving many countries facing higher than expected inflation rates that are now lasting longer than policymakers anticipated.**
- **US inflation rose to a 40-year high of 7% in December, while the Eurozone posted an all-time high of 5% last month and the UK saw a 30-year record of 5.4%.**
- **Markets are currently pricing in a 95% chance of a 25 bps hike in the Feds March meeting.**
- **In China, the Central Bank lowered interest rates for the first time since the start of the pandemic in 2020 amid a domestic property-market slump and repeated lockdowns.**
- **The greenback ended the week 0.5% higher, while the yield on the 10-year Treasury touched a pandemic high of 1.9%. Meanwhile, the euro and sterling ended the week 0.74% & 0.90% lower respectively, while the Japanese yen gained 0.35%.**

United States

Elevating yet Moderate Price Pressures

US wage growth accompanied by declining unemployment have made their way into higher prices as seen in the mixed results of CPI, PPI, and retail sales. Souring consumer sentiment tightened retail sales and core retail sales, both of which fell way below market expectations by 1.9% and 2.3% respectively. A higher-than-expected rise in CPI and lower-than-expected rise in PPI revealed an overall elevated level of inflation but moderating underlying price pressures. Business confidence, on the other hand, remained positive despite a slump in manufacturing activity reported in the Empire State Manufacturing Index this month on the back of strong demand and expected supply chain-related price pressures subsiding.

Moving forward, markets are now pricing a 25bps hike in the interest rate in March. The pressure on the Fed to act from financial markets have sent Treasury yields to their highest levels, keeping the greenback strong against its major peers.

UK

Record Inflation

The UK's annual rate of inflation reached 5.4% in December 2021, up from the 5.1% posted in November and marks the largest increase since March 1992. Data revealed the biggest contributors to the increase in inflation were prices for food, furniture, household goods, restaurants, and hotels. Inflation was already outstripping wage growth, creating difficulties for household budgets.

Citizens will now face a cost-squeeze that is coming from many different angles. Alongside prices reaching 30-year highs, a cap on domestic energy costs is expected to rise by 50% in April, just as payroll taxes go up. While prices are already rising across Europe, April's one-off increase will abruptly send UK energy prices far above its neighbors. Moving forward, the BoE projects income from wages and general government benefits will be less than the prior year after accounting for both taxes and inflation. That would mark the third period wage growth had run below inflation in a decade. Prime Minister Boris Johnson, who is already facing pressure to resign over breaking lockdown rules, will now see the cost of living becoming a major focus for him or his successor.

On the other hand, according to the Organization for Economic Cooperation and Development, the UK is leading the way in Europe regarding fiscal repair. Britain is normalizing borrowing levels faster than Germany, France, Italy and Spain. The BoE was the first among major central banks to hike, shocking markets by reaching a 15-basis point increase in December. Evidently, the central bank's mandate allows less room to tolerate inflation compared to the Fed, ECB, or BOJ. To quote the OECD, there is a balance to be struck between "maintaining stimulus for too long and removing it too quickly." Markets are pricing an 80% chance of an interest rate hike in February, sending the yield of the 10-year gilt to levels not seen since May 2019.

Asia

China's Central Bank cuts Benchmark Rates

Unlike their hawkish peers in the West, China lowered interest rates for the first time since the peak of the pandemic in 2020 as the domestic property-market slump and repeated virus outbreaks dampened the nation's growth outlook. Despite a rise in GDP by 4% year-on-year in Q4 2021 (8.1% annually), it was at a slower pace than expected, suggesting that the economy is weak.

In neighboring Japan, despite machinery orders climbing to highest level in 2 years in November, the Bank of Japan kept its negative interest rate and asset purchasing plans unchanged. This was widely forecasted given the inflation pulse is far weaker than other global economies and restrained to specific items (i.e. fuel and cooking items) instead of across the board.

Commodities

Oil Prices Rise

Looking at commodities, sentiment was generally bullish. Oil prices swelled from robust demand faced with supply disruptions in the Middle East and struggles of production quotas to fill low stockpiles. Both WTI and Brent traded close to $90 a barrel this week with no signs of slowing. The sell-off in bond markets and retreat in equities kept the bullion shining as an inflation hedge, reaching a high not seen since November 2021 this week to $1,847 an ounce.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30235.

Rates – 23th January, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1412	1.1299	1.1434	1.1340	1.1155	1.1525	1.1364
GBP	1.3673	1.3543	1.3689	1.3554	1.3350	1.3750	1.3548
JPY	114.20	113.58	115.05	113.68	111.60	115.50	113.56
CHF	0.9122	0.9106	0.9181	0.9112	0.8925	0.9315	0.9088