INTERNAL

Weekly Money Market Report
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Heightened Volatility under a Hawkish Fed and Heated European Tensions

Highlights

- **Growing tensions between Russia and Ukraine took center stage last week fueling market turbulence and spreading risk aversion on both the FX and equity side.**
- **In their latest meeting, the US Fed set a more hawkish tone after supporting a March rate hike and hinting at possible consecutive rate hikes at every meeting, sending Treasury yields to fresh highs.**
- **PMI manufacturing and services data from both sides of the Atlantic came in mixed but signaled overall economic expansion.**
- **Despite some movement throughout the week, a hawkish Fed and rising yields kept the dollar climbing while its major peers slid.**

United States

Fed Hawks Ready to Fly

The highly anticipated Federal Open Market Committee's statement released on Wednesday last week revealed strong support for a March rate hike and set a more hawkish tone as it hinted at potential consecutive rate hikes at each meeting. Governor Jerome Powell dodged a question on whether the Fed could raise rates at every subsequent meeting this year – which would amount to seven increases in 2022 – instead he said that the regulator would be "humble and nimble" and "guided by data." He said that the economy was much stronger now than in 2015, when the central bank last embarked on a rate raising cycle, noting soaring inflation that was "well above" the Fed's 2% target and a robust labor market. Powell also declined to say whether the Fed would consider raising rates by half a percentage point at some point this year, as opposed to the quarter point increases that have become the norm. The Fed also confirmed it will wind down its bond-buying program so that the purchases end in early March.

No time-frame was set for the reduction of the Fed's $9tn balance sheet, but analysts are forecasting it to begin in July, with additional details about the speed of that effort to be unveiled in May. Following the statement, traders in overnight funding markets who were pricing in a quarter-point interest rate rise in March, began to dial up their expectations that the Fed could lift interest rates more than four times this year.

PMI's lower Amid Omicron

PMI manufacturing and services data results earlier last week came lower than expected from softer demand and interrupted supply during the recent omicron wave. However, the results being above 50 indicate economic expansion and the demand outlook is positive.

Market Reactions

Worries of a tightening economy and company profits ahead of rate hikes sent US equities diving deep into the red. Leading year-to-date losses is the Nasdaq 100 with a 11.98% loss, followed by the S&P 500 with a 7.01% loss, and the Dow Jones with a 4.44% loss. Treasury yields, on the other hand, propelled back to their highs with the 10-year yield climbing into the 1.8% range and the 2-year yield back above 1%. A risk-averse environment faced with political tensions and market volatility kept demand for the greenback strong, surging to its highest level in 19 months with the dollar index closing the week at 97.217.

Robust Growth

Data released on Friday showed the US economy capped of 2021 with another robust quarter of strong growth, fulfilling the fastest full year rebound since 1984 as the country began to move past the worst of the economic damage inflected by the pandemic.

US GDP expanded by 6.9% on an annualized basis in the fourth quarter, up from a 2.3% growth clocked in the third quarter. The data surpassed economists' expectations of a 5.5% advance.

Despite disappointing December retail sales data, consumer spending helped support economic growth in the fourth quarter, as Americans did their holiday shopping early amid concerns that supply chain snarls could lead to bare store shelves. Personal consumption rose 3.3% in the fourth quarter, following a more modest 2% rise the previous quarter.

Higher PCE

The week ended with the release of the Federal Reserve's preferred measure of inflation, Personal Consumption Expenditures. Core PCE rose 4.9% year-on-year in December. That was slightly above the forecast for a rate of 4.8% and a slight acceleration from November's reading of 4.7%. The month-on-month rate of core PCE was 0.5% in December, in line with expectations and unchanged from November's rate.

Europe & UK

ECB Doves Rest and BoE Hawks Awake

Tensions in Russia pose a fresh threat to gas supplies, aggravating record inflation levels in a fragile economic environment. Starting the year off strong though, Germany reported higher-than-expected PMI manufacturing and services results with a constructive outlook ahead despite the tensions.

Treading a different path than their hawkish peers westwards, the ECB plans to reduce the balance sheet first over the course of this year before it starts raising rates. The dovish tone is set behind a lower pressure of inflation on the economy compared to US and expectations of consumer price growth falling to below 2% in 2023 and 2024 from lower supply chain blockages and energy prices. However, keeping a close eye to monitor inflation, they did underline the fact that they are ready to act if needed. Bearing the tensions of the region, the euro slid below 1.13 during the week hitting a low of 1.1121 and closed the week at 1.1148.

In the UK, retail sales dropped sharply by 3.7% compared to expectations of a 0.6% decrease, the losses were mainly due to the sudden spread of the Omicron variant of Covid. PMI manufacturing and services data also came in lower than expected.

Disappointing data on top of a 30-year-high inflation and a booming labor market are pressuring the Bank of England to raise interest rates in February. Markets expectations for a rate hike next month and more during the year are high. The pound headed downwards below the 1.35 level during the week hitting a low of 1.3358 and closed the week at 1.3404.

Australia

Heating Inflation and a Potential Change of Plans

Australian inflation reached 3.5%, surpassing the Reserve Bank of Australia's target of 2-3% for the first time since June 2014, fueled by spiraling fuel and housing costs. In addition, CPI results out early last week reported a growth of 1.3% against expectations of a 1% growth. The 10-year yield on Australian bonds shot up to above 2%. With the February meeting to be held this week in sharp focus, the RBA is expected to scrap its bond-buying program and hike rates sometime between May and August.

Commodities

Gold Loses Luster

Heightened geopolitical tensions paired with the Fed's hawkish comments had commodities fluctuating during the week. Oil prices rose as potential supply shortages lingered and demand picked up, with Brent Crude reaching $91.70 on Thursday, its highest price since October 2014. It then lost some of its gains but stayed strong, closing the week at $90.03. On the other hand, gold tarnished ending the week trading at $1,791.53 an ounce posting a year-to-date dent of 2.06%.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30270.

Rates – 30th January, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1344	1.1121	1.1357	1.1148	1.0940	1.1225	1.1185
GBP	1.3553	1.3358	1.3566	1.3398	1.3205	1.3520	1.3409
JPY	113.68	113.47	115.68	115.23	113.45	117.15	115.05
CHF	0.9115	0.9106	0.9338	0.9305	0.9225	0.9470	0.9280