Weekly Money Market Report
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Global Stocks Reach All-Time Highs Despite Inflation Rally

Highlights

- **In the US, consumer prices gained 5% y/y, recording the fastest pace since August 2008. The core figure, which excludes volatile items, gained 3.8% y/y, a 29-year record.**
- **The ECB delivered no talk on tapering after maintaining its benchmark interest rate and commitment to bond purchases. Eurozone GDP is expected at 4.6% in 2021, an upwardly revised figure by the central bank.**
- **Eurozone inflation rose above 2% in May for the first time since 2018, largely due to gains in energy prices.**
- **The BOC is expected to further scale back bond purchases in July following April's 0.25 billion reduction.**

United States

Largest gain in CPI since 2008

US consumer prices accelerated at their fastest pace in 13 years, with the consumer price index rising 5% year-on-year versus expectations of a 4.7% gain. The reading represents the biggest CPI gain since August 2008 when CPI saw a 5.3% y/y increase, just before the financial crisis led the US into a recession. Looking at the core figure, prices rose 3.8% y/y, the most since 1992. Nevertheless, Federal Reserve officials believe the rise is due to temporary factors, and high figures are distorted due to yearly comparisons when economic activity was restricted due to COVID-19 precautions. Today, price pressures are continuing to build in an economy balancing a rush of demand with shortages in material and sometimes labor. Investors will watch closely for the central bank's monthly meeting this week after vice-chair Randal Quarles called for talks about trimming the $120 billion of monthly bond purchases.

Markets React

Global stocks rallied despite the data as investors assess the balanced forecasts for a strong economic recovery. The FTSE global equities benchmark ticked up to an all-time high, gaining 1.1% for this month. Wall Street saw record figures with the S&P 500 reaching an all-time high of 4,249. In Europe, the Stoxx 600 shares index rose to a fresh record while the UK's FTSE gained 0.6%. Moving to bonds, prices maintained a rally that started earlier in the week, sending the yield on the 10-year US Treasury to a 3-month low of 1.4280%. The greenback ended the week mostly unchanged, despite usually spiking on sharp rises in inflation data.

Europe

No taper talk from a dovish ECB

On Thursday, the European Central Bank maintained its commitment to purchasing 1.85 trillion of bonds until March 2022 as part of its Pandemic Emergency Purchase Program (PEPP), and kept interest rates unchanged as widely expected. However, the monetary policy announcement provided no insight regarding tapering after upgrading its inflation and growth projections for 2021 and 2022. Similar to the US Fed, ECB President Christine Lagarde sees the increase in inflation as transitory. "Inflation has picked up over recent months, largely on account of base effects, transitory factors and an increase in energy prices. It is expected to rise further in the second half of the year, before declining as temporary factors fade out," Lagarde said at the following press conference. Following the highly anticipated meeting, the euro traded lower against all major currencies.

Inflation above 2% worries investors

Looking at the data, prices have outpaced the ECBs 2% target for the first time since 2018. Eurozone inflation rose 2% in May following 1.6% in April, fueling anxiety and leaving investors disappointed with the ECBs avoidance of taper talk in its latest meeting. However, a 13.1% y/y rise in eurozone energy prices was the largest factor driving the rise. Looking at the core figure which excludes these volatile prices, inflation rose to a modest 0.9% in May from 0.7% in April. Most economists see it unlikely for the Eurozone to see a sustained period of above-target inflation given the hit to the labor market. Millions of people lost their jobs during the pandemic, with the ECB estimating wage growth had weakened further in Q1 to 1.4%. Unemployment fell to 8% in April, its lowest level for 9 months. Still, 15.4 million people remain unemployed - almost 1.3 million higher than April 2020. The ECB did present an update to the economic outlook, with an upwardly revised GDP of 4.6% for 2021 and 4.7% for 2022. Annual inflation is now set to reach 1.9% this year and 1.5% in 2022.

Canada

BOC may see tapering in July

In its latest meeting, the Bank of Canada maintained its historically low key interest rate at 0.25%, as widely expected. It will also maintain its current pace of bond purchases worth C$3 billion, while reiterating that the pace of purchases will decline alongside the recovery. In April, the BOC had taken the first step among major economies to reduce the emergency levels of monetary stimulus, hailing a stronger-than-expected recovery from the COVID-19 pandemic. The bank scaled back its weekly purchases by a quarter billion, and another taper is expected on the July 14th meeting. For the next two years, three rate hikes are fully priced in which would leave Canada with one of the highest policy rates among advanced economies. The central bank did not comment on pushing back against further gains in the Canadian dollar, though acknowledged the climb alongside commodity prices. So far this year, the Canadian dollar is up 4.67% against the USD.

Commodities

Prices remain in range

Oil prices initially fell following the US inflation data, though later recovered with Brent crude ending the week 1.6% higher at $72.65 a barrel. Similar to oil, gold spiked lower as an initial reaction, falling below $1,880 an ounce.

IEA on oil demand: “Open the taps”

According to the International Energy Agency, oil demand is expected to exceed pre-COVID19 levels by the end of 2022. The agency reiterated that OPEC and its allies needed to “open the taps” and boost oil production to match the world’s demand, adding that “the recovery will be uneven not only among regions but across sectors and products”. The IEA also warned that any slowdown to vaccine distribution could jeopardize any rebound. Noting one “wild card” for the markets was the potential return of Iranian oil supply, pending a deal with the US to lift sanctions. The agency expects a rebound in demand by 5.4 million bpd this year, and a further 3.1 million bpd the next. This would average to 99.5 million bpd in 2022. So far, OPEC+ have agreed to raise production by 2 million bpd between May and July.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30075

Rates – 13 June, 2021

	Previous Week Levels				This Week’s Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2166	1.2091	1.2218	1.2106	1.2010	1.2310	1.2127
GBP	1.4169	1.4071	1.4189	1.4106	1.4010	1.4305	1.4107
JPY	109.50	109.17	109.83	109.65	107.50	111.65	109.57
CHF	0.8997	0.8926	0.9043	0.8978	0.8780	0.9080	0.8958