

# Weekly Money Market Report

## 10 September 2023



>NBK Treasury  
+965 22216603  
tsd\_list@nbk.com

### Central Banks Hold Rates Steady As Oil Prices Rebound Following Extended Cuts

- US ISM services PMI marked its eighth straight month of expansion coming in at 54.5 from 52.7 previously.
- Initial unemployment claims decreased by 13,000 to 216,000 from 229,000 previously.
- Russia and Saudi Arabia announced an extension of voluntary cuts by 300,000 and 1,000,000 bpd until Jan 2024.
- Bank of Canada holds rates steady at 5%, while the Reserve Bank of Australia maintained rates at 4.10%.
- Eurozone PMI declined to a 30-month low of 47.9 on the back of struggles by their two largest economies.
- Bank of England governor Andrew Bailey signals that the hiking cycle is near the end.
- China Caixin services PMI at 51.8 from 54.1 previously.

## United States

### ISM Services PMI

Economic activity in the US services sector continued to expand in August, marking the eighth consecutive month of expansion. The ISM service PMI rose from 52.7 to 54.5, coming in above market expectations of 52.5 and reaching a 6-month high. The reading also signaled renewed inflationary pressures as input prices rose to a 4-month high following higher energy prices. The services sector has been vital in supporting a strong first half of the year for economic growth in the US.

### Unemployment Claims Falls to Lowest Level Since February

Initial unemployment claims decreased to 216,000 from 229,000 previously, considerably lower than market expectations of 232,000. This comes on the back of a resilient year for the labor market, even with a gradual softening in recent readings due to an increase in labor force participation. Despite this, claims data can be choppy, with the last two readings being revised.

The greenback has gained 1.39% over the week as other currencies weaken, last trading at 105.09.

## OPEC+

### Russia and Saudi Arabia Announce Oil Cut Extensions

Saudi Arabia and Russia announced on Tuesday that they would voluntarily extend their oil production cuts of 1 million barrels per day and 300,000 barrels per day respectively until January 2024. Oil prices went up significantly marking \$90 a barrel for the first time since November 2022. In less than 3 months, oil prices have surged 31%. Despite the Chinese economic slump, the U.S announced a delay in refilling their SPR claiming "market conditions made it too expensive". Since then oil prices are up approximately 25% from their target to refill. Markets are worried with oil prices being on the rise, inflation is becoming even harder to tame. With that said economists are wondering what the long-term game plan is for the US.

## Canada

### Bank of Canada Keeps Rates Unchanged

The Bank of Canada kept rates unchanged at 5% but left the door open to further tightening saying the central bank is "prepared to raise rates again if needed". The Canadian central bank acknowledged the recent

growth data stating that the economy has “entered a period of weaker growth” with easing excess demand, however caveated this by saying such is “needed to relieve price pressures”. They referenced the tight labor market but simultaneously flagged the strong 4-5% wage growth as a concern. Markets are pricing in an 82% probability of no change for their next monetary policy meeting.

The USD/CAD currency pair is up on the week, closing at 1.3640.

## Europe

---

### ECB President Lagarde Warns of Public Mistrust

European Central Bank (ECB) president Christine Lagarde spoke on Monday regarding the economy and monetary policy. Lagarde warned that central banks will need to “rebuild confidence” by “conveying the uncertainty we face and the inherent challenge in conducting forward-looking policymaking in this environment.” This comes following inaccurate assessments and forecasts by major central banks in the coming of the current inflation crisis. Eurozone inflation surged to a high of 10.6% before gradually declining, however core inflation of 5.3% remains extremely elevated above the ECB's target of 2%. Lagarde warned that in order to mitigate the erosion of public trust, the ECB needed to be “open about the limits of what we know, the areas where we have missed the mark, and what we are doing about it.”

### Eurozone PMI Disappoints

The Eurozone is struggling with weakening economic data, with the latest services PMI for August declining to a 30-month low of 47.9 from 50.9 previously. Furthermore, composite PMI, which includes both the manufacturing and services sector, dropped to its lowest level since November 2020, coming in at 46.7 from 48.6 previously. The fall in PMI data was marked by struggles to the Eurozone's two largest economies, as Germany (44.6) and France (46.0), both recorded 39 month and 33-month lows respectively. The report also showed that input prices have accelerated, adding pressure to an already elevated inflation problem

The Euro ended the week in decline, with the EUR/USD currency pair closing at 1.0699.

## United Kingdom

---

### Services PMI Decline

Business activity in the UK's services sector fell to a seven-month low, dropping to 49.5 from 51.5 previously and entering contraction territory. Economics director at S&P global Tim Moore stated, “Service providers saw customer spending reverse course during August as higher borrowing costs, subdued business confidence, and stretched household finances all acted to curtail sales opportunities.”

### BoE Monetary Policy Report Hearings

Bank of England governor Andrew Bailey announced that the central bank is “much nearer” to the end of its interest rate hike cycle, but kept the door open regarding the possibility of further tightening. Bailey said, “I think we are much nearer now to the top of the cycle. And I'm not therefore saying we're at the top of the cycle because we've got a meeting to come.” Furthermore, the governor hinted that inflation is falling but is still wary of declaring victory. “Many of the indicators are now moving as we would expect them to move, and are signaling that the fall in inflation will continue.” Bailey added. Despite this, he lamented the pace of wage growth, which recently set a record high, as a force that could add to inflationary pressures. Markets are pricing in a 25bps hike for the upcoming BoE meeting.

The Sterling fell over the week, with the GBP/USD currency pair last trading at 1.2464.

## Asia-Pacific

---

### China Services PMI Points to Slowdown

Services activity in China slowed down to an 8 month low in August, with the Caixin services PMI coming in at 51.8 from 54.1 previously, considerably lower than the forecasted figure of 53.6. Despite the figure still marking an expansion above the 50.0 mark, softening services comes in amid lethargic consumer demand and a real estate slump. Business confidence for the one-year outlook has also reached a 9-month low, as the

People's Bank of China and the Chinese government initiated a series of measures in recent weeks in order to stimulate the economy and revive weakening consumer demand.

The USD/CNY currency pair ended the week higher, last seen at 7.3430.

### RBA Holds Cash Rate

The Reserve Bank of Australia held interest rates steady for the third straight month at 4.10%, meeting market expectations. RBA governor Philip Lowe warned that "In making its decisions, the Board will continue to pay close attention to developments in the global economy, trends in household spending, and the outlook for inflation and the labour market." Furthermore, Lowe reiterated that recent data is consistent with inflation returning to the central bank's target of the 2-3% range. Despite this, he warned that further tightening may be warranted depending on upcoming data.

### Australia GDP Expands

Australia's economy expanded more than expected in the second quarter, as data revealed real gross domestic product rose 0.4% in the second quarter, slightly beating forecasts of 0.3%. The figure was driven mainly by exports and investment, while household consumption remained weak with just a 0.1% gain on the quarter. Annually, GDP was at 2.1%, above expectations for 1.8%. Consumers are saving less amid high costs of living and rising mortgage repayments which jumped by another 11% in the quarter. Their savings ratio dropped further to 3.2%, reaching its lowest level since 2008.

The Australian Dollar is down on the week following the decision to hold rates steady, with the AUD/USD pair closing around 0.6375.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30845.

### Rates – September 10<sup>th</sup>, 2023

Currencies	Previous Week Levels				This Week's Expected Range		3-Month Forward
	Open	Low	High	Close	Minimum	Maximum	
EUR	1.0776	1.0685	1.0808	1.0699	1.0500	1.0900	1.0748
GBP	1.2584	1.2444	1.2642	1.2464	1.2200	1.2700	1.2472
JPY	146.18	146.00	147.87	147.81	146.00	149.00	145.68
CHF	0.8856	0.8831	0.8944	0.8932	0.8800	0.9000	0.8849

© Copyright Notice. The Weekly Money Market Report is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. This report and other NBK research can be found in the "News & Insight" section of the National Bank of Kuwait's website. Please visit our website, [www.nbk.com](http://www.nbk.com), for other bank publications. For further information please contact: NBK Treasury Group, Tel: (965) 2221 6603, Fax: (965) 2229 1441, Email: [tsd\\_list@nbk.com](mailto:tsd_list@nbk.com)