PUBLIC

Weekly Money Market Report
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No Break for Interest Rate Hikes Anytime Soon

Highlights

- **The economic mix in the US has become less favorable with manufacturing business slowing and sentiment souring as central bank officials fight on.**
- **Inflation in major economies is showing no signs of letting up. Prices in Germany held steady at 8.7% annually in February, while France's and Spain's CPI hung above 6% annually.**
- **Further eastward, China shows signs of impressive recovery in business activity, while momentum in the Japanese economic recovery is still fragile and weak.**
- **The dollar lost some ground this week but managed to pick it back up and keep its peers cornered. The US Dollar Index closed the week at 104.52**

United States

Sticky Inflation, Sour Sentiment

In the US, inflation is proving to be stickier than many anticipated and sentiment is souring. US consumer confidence unexpectedly declined as rising prices and deepening concerns about the outlook outweighed the near-term strength of the labor market. The Conference Board's (CB) index decreased to 102.9 in February from a 106 reading in January. The forecast was for the gauge to rise to 108.5. The decline in confidence reflects more pessimistic views on jobs, incomes, and business conditions in the next six months.

On the business side, while still expanding, US manufacturers recorded slower orders and grew at a softer pace compared to last year. According to the most recent survey from the Federal Reserve Bank of Richmond, The Richmond Manufacturing Index reported deterioration in business conditions in February. The composite Manufacturing Index, decreased from -11 in January to -16 in February. A measure of expectations, which reflects consumers' six-month outlook, decreased to 69.7, the lowest since July 2022. Manufacturing activity in the US is facing headwinds from slowing demand and rising borrowing costs. Activity contracted for a fourth consecutive month in February, despite logging a slight improvement from the month prior. The Institute for Supply Management's (ISM) manufacturing index ticked up slightly to 47.7 last month, from 47.4 in January, but still remains in contractionary zone.

Federal Reserve officials said that inflation in the US is resulting from a complex set of unprecedented conditions, and that it may take time to decelerate. Officials acknowledged that interest rates need to increase further and stay elevated into next year to curb US inflation. Interest rates would need to rise between 5% to 5.25% and then remain there "until well into 2024", Atlanta Fed President Raphael Bostic said. Fed Chair Jerome Powell has also cautioned that the tight labor market must ease to cool continuing price pressures.

The US dollar index started the week off at 105.26 and after moving slightly, managed to close the week lower at 104.52.

Europe & United Kingdom

Underlying Price Pressures Sizzling in the Eurozone

Inflation as well as price pressures are firing up further, and are proving to be persistent in the Eurozone with no signs of abating. Headline and core inflation continue to rise during February in Germany, France, and Spain. In Europe's largest economy Germany, inflation did not budge from January and held at 8.7% annually in February. In France, prices jumped from 6% in January to 6.2% annually in February. In Spain, prices advanced from 5.9% in January to 6.1% annually in February, even after the Spanish government cut taxes on key staples. Across the board, inflation has crept up from higher electricity, food, and services costs. In the Eurozone as a whole, headline inflation ticked down slightly from 8.6% in January to 8.5% annually in February, but was higher than the expected 8.3%. However, core inflation, which strips out food and energy, rose from 5.3% to 5.6% annually.

The latest inflation reports highlight the difficulty that lies ahead for the European Central Bank (ECB). The stronger readings cemented the 50 basis point move the ECB is planning at their next meeting and bolster those officials who say more big moves are needed to get inflation under control. Governing Council member Francois Villeroy de Galhau believes the ECB should reach its peak interest rate by September this year.

The euro started the week off close to two month lows after hawkish Fedspeak, falling below 1.0600. But counter hawkish calls from the ECB kept the euro steady, closing the week at 1.0632.

Little Relief Ahead for Britons

The cost-of-living crisis showed little sign of easing for cash-strapped consumers despite broader measures of inflation slowing in the UK. The British Retail Consortium (BRC) said shop price inflation accelerated to 8.4% annually in February from 8% in January, a record for an index that started in 2005. The pressure is highest on essential spending, where food price increases hit 14.5%. Retail prices are reacting to the impact of soaring energy bills, higher running costs, and tougher trading conditions from the war in Ukraine, according to chief executive officer at the BRC, Helen Dickinson. The BRC expects prices to remain high over coming months.

Meanwhile, Bank of England (BoE) Governor Andrew Bailey emphasized that the deceleration in inflation and acceleration in activity and wages has only been slight and warned UK households last month that there was still a “long way to go” before the cost-of-living crunch is brought under control. He cautioned against implying that the central bank’s task of raising interest rates is finished and hinted that more needs to be done.

The sterling’s could not succumb the dollar’s pressure. After starting the week in the throes of 1.1900, it managed to reach as high as 1.2143, before retreating to 1.2040.

Asia-Pacific

Recovery on Track in China

After abandoning Covid restrictions, easing infection eaves, and businesses returning to normal after the Lunar New Year holidays, China’s economy showed signs of a stronger rebound. Manufacturing activity posted the biggest improvement in more than a decade and services activity climbed. The manufacturing purchasing managers’ index (PMI) rose to 52.6 last month, the highest reading since April 2012. A non-manufacturing gauge measuring activity in both the services and construction sectors improved to 56.3. Both indexes beat economists’ expectations. A separate, private PMI survey focused on smaller companies also showed improvement in February. The Caixin Manufacturing PMI rose to 51.6 and the Caixin Services PMI rose to 55, driven by pickups in both supply and demand as production gradually returned to normal.

Nonetheless, caution lingers as there are still headwinds with global demand being relatively still weak and exports likely contract this year. Top leaders in China have pledged to prioritize growth this year, placing an emphasis on the role that domestic demand will play in driving the recovery. The People’s Bank of China (PBoC) said in its latest monetary report that it would provide “sustainable” support for the real economy and refrain from using “flood-style” stimulus.

The offshore yuan started the week off at 6.9607 and ended the week at 6.9048.

The Last Standing Dove in Japan

The recovery and momentum of the world’s third-largest economy remains fragile and weak. Industrial production declined for the first time in three months in January. Factory output fell 4.6% annually, much larger the 2.6% decline expected and followed an upwardly revised 0.3% increase in December. It marked the fastest decrease since May 2022's 7.5% fall, when China's Covid-19 lockdown disrupted Japanese manufacturers' supply chains. Retail sales, on the other hand, rose a solid 1.9% monthly in January versus 1.1% monthly in December and 0.4% rise expected, thanks to apparel and motor vehicle sales. Retail sales posted their fastest growth in nearly two years. Despite the production cuts, retail sales of autos rose 19.3% annually, suggesting strong pent-up demand among domestic consumers caused by delivery delays. Japan's economy is expected to post an annualized 1.4% expansion in the first quarter of 2023 according to a Reuters poll, after weaker-than-expected 0.6% growth in the final quarter of 2022.

Inflation rose as expected in January amid rising commodity costs and robust local demand. Bank of Japan (BoJ) Core CPI held at 3.1% annually, unchanged from the previous month. Japan's deep dependence on food and fuel imports was the biggest factor behind rising inflation in the country, as the Russia-Ukraine war disrupted global commodity markets. However, according to another inflation measure, the Tokyo Core CPI, inflation in the capital decelerated for the first time in more than a year. Consumer prices excluding fresh food rose 3.3% annually in February, slowing a full percentage point from the previous month and in line with forecast. Ramped-up government subsidies masked a strengthening price trend. A slew of measures from Prime Minister Fumio Kishida's administration is holding down an overall Tokyo inflation figure that would otherwise be around 4.5%. The Tokyo figure is a leading indicator of the national data, and the sharp deceleration suggests the country's price growth may also have peaked in January as the full impact of subsidies kicked in.

The BoJ has become one of the last remaining anchors of low interest rates around the world. Any tweaks to its policy have the potential to jolt financial markets, as what happened in December 2022. Kazuo Ueda, an academic nominated to become the Bank of Japan's next governor from April, has stressed the need to maintain the current ultra-low interest rates to support the fragile economy, while signaling the chance of tweaking the central bank's long-term yield control scheme. He asserts that underlying inflation needs to show a major shift to change the course of monetary policy. Ueda believes he benefits of the BoJ's stimulus outweighs its side effects.

Dovish comments from the BoJ and mixed economic data kept the Japanese yen trapped between 135 and 136, it ended the week at 135.86.

Australian Households Hold Strong

Australian retail sales rebounded in the first month of 2023 as consumers spent on everything from eating out to clothing and footwear, suggesting households are yet to be cowed by rising interest rates and elevated inflation. Sales surged 1.9% from a month earlier, outpacing a forecast 1.5% gain, and partially offsetting an upwardly revised 4% slump in December. In annual terms, sales rose 7.5%, in part driven by higher prices.
On the other hand, January's inflation erased a full percentage point to 7.4% annually from 8.4% in December, much lower than the forecasted 8.1%. Gross domestic product (GDP) in the last quarter of 2022 also disappointed, rising by just 0.5% quarterly in comparison to the 0.8% quarterly rise expected. However, thanks to upward revisions to previous data, the annual rate managed 2.7% as expected, down from 5.9% in the third quarter of 2022.

Australia's surprisingly slower economic growth and monthly inflation data may prompt the Reserve Bank of Australia (RBA) to reconsider how aggressive it needs to be with future interest-rate increases. However, while some of January's figures dampened, the resumption of sales growth suggests domestic demand retained some momentum, boosting the case for further rate rises this year. Resilient consumers have been a key factor in policymakers' confidence the economy can withstand higher borrowing costs.

The disappointing data sunk the aussie below 0.6700, but it managed to recover and float itself back above 0.6700, closing the week at 0.6768.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30675.

Rates – 05th March, 2023

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0540	1.0531	1.0691	1.0632	1.0520	1.0740	1.0692
GBP	1.1954	1.1921	1.2143	1.2040	1.1890	1.2160	1.2068
JPY	136.50	135.24	137.09	135.86	134.65	138.10	134.06
CHF	0.9404	0.9340	0.9440	0.9358	0.9200	0.9465	0.9265