

Weekly Money Market Report

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Treasury Yields Record Fresh Highs and Fuels Aggressive Tightening Expectations

Highlights

- US interest rates are expected to reach 5% next year with sticky inflation baffling policy makers.
- UK Prime minister Liz Truss resigns and leaves her post as a result of the backlash of the mini-budget which put the UK economy under a global microscope.
- Bleak retail sales data along with persistent inflation readings in the UK are pushing odds of 75 basis point hike by the Bank of England to 80%.
- The US dollar index hits the 113 level as the Japanese took a dive above the 150 level for the first time since August 1990.

United States

Higher Yields

Last week had few data releases in the US. Nevertheless, the dollar remained on top of the currencies pyramid as US treasuries rose to fresh year-to-date highs. The 10-year US Treasury bond yield has hit a fresh year-to-date high of 4.15% as market participants continue to price in more active Fed tightening. The market is now pricing in the Fed's rate reaching 5.00% next year with two more 75bps hikes now almost fully priced by the end of this year. Chicago Fed President Evans highlighted the current dilemma facing the Fed and other major central banks when he stated that avoiding a downturn is a "closer call" than usual. He remains hopeful that raising the policy rate up to a peak of between 4.50% to 5.00% will be sufficient to bring down inflation back towards their target.

US Housing Market

On the data side, new home construction and new building permits in the US declined in September, adding to evidence that the highest mortgage rates in two decades are draining demand and discouraging building. However, this is unlikely to deter Federal Reserve officials who are yet to see clear evidence that prices are moderating in the economy after the latest CPI figures topped estimates.

The greenback continued to gain ground on major currencies and with the raising yields, it just kept on gaining ground on the Japanese yen. The pair, USD/JPY, touched the 150.00-level for the first time since August 1990 and reach a high of 151.94. The US dollar had 12 consecutive trading days with gains posted on the yen before the BOJ's intervention late on Friday.

Europe & United Kingdom

PM Resigns

UK Prime Minister Liz Truss has resigned last Thursday, making her the shortest serving PM in the country's history. She will stay on pending a leadership contest, which she said would be complete within a week. The UK has been on a political rollercoaster since the EU referendum in June 2016, but the last few weeks have been extraordinary even by those standards. Boris Johnson and his former finance minister Rishi Sunak were leading potential contenders to replace British Prime Minister Liz Truss on Friday, with candidates canvassing support to become the Conservative Party leader in a fast-tracked contest. Those who want to replace Truss must secure 100 votes from Conservative lawmakers by Monday to run in a contest which the party hopes will reset its ailing fortunes.

UK's Data

Soaring food prices are maintaining the inflation elevation across the board. In the UK, CPI rose back into double digits in September to 10.1% from 9.9% in August, matching a 40-year high reached in July. Food was the biggest single driver of the rise in CPI inflation, relative to August, adding 0.16% to the CPI rate. Food & beverage inflation now stands at 14.5% y-o-y, versus 13.1% in August. Retail sales fell by 1.4% on monthly

basis in September against market consensus of -0.5% reading. The probability of a 75 basis point hike by the Bank of England reached 80% for the next meeting that will be held on November 3rd.

The sterling pound continued to trade with high volatility as it reached a high of 1.1439 on Monday but continued to lose ground as the political uncertainties escalated though the week. The hot inflation data and weak retail sales sent the cable below the 1.11 level.

Japan

Inflation and FX Intervention

Inflation reading in Japan came at an eight-year high of 3.0% on yearly basis in September. The data is challenging the central bank's resolve to retain its ultra-easy policy stance as the yen's slump to 32-year lows continue to push up import costs. The inflation data highlights the dilemma the Bank of Japan faces as it tries to underpin a weak economy by maintaining ultra-low interest rates, which in turn are fueling an unwelcome slide in the yen.

Japanese Finance Minister Shunichi Suzuki said on Friday that authorities were dealing with currency speculators "strictly", as an extended sell-off of the yen kept markets on heightened alert for further dollar-selling intervention by Tokyo. We are confronting speculators strictly," Suzuki told a regular news conference, when asked whether the Japanese yen was under attack by speculators. "We cannot tolerate excessive moves by speculators. We will respond appropriately while watching currency market movements with a high sense of urgency." Before the close of Friday's trading session the central bank intervened in the market and pushed the USD/JPY pair to 147 level.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.31030

Rates -23rd October, 2022

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	0.9724	0.9703	0.9875	0.9860	0.9685	1.0150	0.9937
GBP	1.1173	1.1058	1.1439	1.1302	1.1123	1.1570	1.1330
JPY	148.44	146.19	151.94	147.64	145.00	148.83	145.84
CHF	1.0040	0.9917	1.0148	0.9976	0.9745	1.0100	0.9868

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