Weekly Money Market Report
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Taper Talks Increase Amid Persistent Inflation

Highlights

- **July saw the rapid pace of US consumer price increases steadying at a 13 year high.**
- **The Fed could start "dialing back" its pandemic levels of monetary support by the end of the year.**
- **The US Senate voted 69 to 30 to approve the $1 trillion infrastructure bill presented by President Joe Biden's administration.**
- **Initial jobless claims in the US came in at 375,000 last week, down from 387,000 a week earlier.**
- **The UK saw its economy surging forward in the second quarter of the year.**

United States

Inflation Steadies

The month of July saw the rapid pace of US consumer price increases steadying at a 13 year high, with month on month gains slightly moderating. The Bureau of Labor Statistics released its consumer price index (CPI) on Wednesday showing that the figure rose 5.4% in July from the year before. While surpassing the 5.3% increase expected by economists, the reading remained in line with the 5.4% increase reported in June, which was the largest surge since 2008. On month on month basis, the readings showed prices rose 0.5%, compared to the 0.9% gain clocked in June.

With the volatile items such as food and energy removed from the equation, the readings showed price pressures easing a little. The core CPI rose 4.3% in July relative to the year before, just shy of the 4.5% increase in June.

The data showed that inflationary pressures have broadened beyond the sectors most affected by the economic reopening, like air fares and travel related expenses, raising concerns that inflation will be more than a transitory phenomenon.

Looking at the components of the figure, prices for used cars and trucks, which have increased 41.7% on year on year basis, rose a modest 0.2% in July, a sharp deceleration from the 10.5% and 7.3% increases recorded in the two preceding months. Airfares were 0.1% lower month on month, after having shot 19% higher year on year. The rise in hotel expenses also receded slightly, with costs up 6.8% year on year, following an increase of 7.9% in the previous period.

A worrying trend right now seems to be the rising house costs, which climbed further last month. Rent prices ticked up 0.3% month on month in July, building on similar gains in the previous two months, and bringing the year on year increase to 2.4%.

Personal services costs such as price of haircuts rose 1.2% month and month in July, driving the year on year increase to 3.1%, dining out costs increased 0.8% month on month and 4.6% year on year. Such price increases are usually a sign of higher wages being passed on to consumers.

Whether the recent increase in consumer prices will now turn into more persistent inflation is now a point of debate. The Fed has previously taken the view that rising costs will subside over time as pandemic related shortages ease, but Fed chair Jerome Powell has recently acknowledged that inflation risks were tilted "to the upside" in the near term.

We are now seeing an increased number of US central bankers beginning to make the case that the Fed should soon consider scaling back its unprecedented monetary policy stimulus of $120bn monthly asset purchase program.

The Fed has said it will maintain that pace until it sees "substantial further progress" on its goals of 2% inflation on average and maximum employment. Raphael Bostic, president of the Atlanta Fed and a voter in the FOMC said this week that the Fed had achieved the first of these goals, his view is supported by Tom Barkin of the Richmond Fed, Boston's Eric Rosengren and James Bullard of St Louis, among others.

Mary Daly, president of the San Francisco Fed, and one of the more dovish Fed members, who has been advocating a patient approach to withdrawing support, said that the Fed could start "dialing back" its pandemic levels of monetary support by the end of the year given the strengths of the economic rebound. In an interview on Wednesday Daly said "Talking about potentially tapering those later this year or early next year is where I'm at."

Following the CPI report, the yield on the 10-year US Treasury note eased 0.02 percentage points to 1.33%,Two-year Treasuries fell by a larger magnitude, with yields down about 0.02 percentage points to 0.22%.The readings also saw the US dollar dropping with the index showing the greenback 0.72% down to close the week at 92.518.

Bipartisan Support

In an uncommonly bipartisan vote, the US Senate voted 69 to 30 to approve the $1 trillion infrastructure bill presented by President Joe Biden's administration. The bill is designed to invest $1 trillion in roads, bridges, public transport and improved internet access across the next five years. As the vote concluded, Democrats turned their focus to a more partisan endeavor, a $3.5 trillion social policy budget which addresses climate change, health, and education among others. The budget will create tax increases and is expected to be widely opposed by Republicans.

Improved Jobs Figures

Data Released on Thursday showed Initial jobless claims in the US came in at 375,000 last week, down from 387,000 a week earlier and matching economists' estimates, this was the third week in a row that new applications had fallen. Meanwhile, the number of people already collecting state jobless benefits slid by 114,000 to a seasonally adjusted 2.87 million. These so-called continuing claims are now at a pandemic low. The readings show that the delta strain of the coronavirus doesn't appear to have thrown the rapid recovery in the US economy off its rails.

The reading for the producer price index was release on the same day where it showed the pace of wholesale inflation over the past 12 months moved up to 7.8% from 7.3%. That's the highest level since the index was reconfigured in 2010 and likely one of the highest readings since the early 1980s.Around 75% of the increase in wholesale inflation during July was in services, a volatile category that can swing sharply from month to month.

UK

A Growing Economy

The UK saw its economy surging forward in the second quarter of the year, with GDP growing 4.8% as consumers eagerly spent money following the easing of coronavirus restrictions and the progress of the country's vaccination program. The rate came in line with market expectations, but a bit lower than the Bank of England's forecast of a 5% expansion.

The fast quarter on quarter growth rate allowed the UK economy to recover much of the ground it lost over the past years, yet it still produced 4.4% fewer goods and services compared to the final quarter of 2019.
Comparatively, the US has recovered all of its lost ground in the second quarter and the Eurozone output 3% below its pre pandemic peak during the same period. The figures are showing the UK's economic performance was still lagging behind other advanced economies.

Economists expect that the pace of recovery to have slowed down over the summer as the delta variant spread across the UK and Europe, forcing an average of 1m people a week to self-isolate and bottlenecking the recovery in the travel sector.

UK's Treasury chancellor Rishi Sunak welcomed the strong second quarter recovery as evidence that Britain's economy was "bouncing back." He said in a statement ""I know there are still challenges to overcome, but I feel confident in the strength of the UK economy and the resilience of the British people."

Commodities

In the commodities complex, crude prices have climbed at the start of the week but started to shed some of those gains on Thursday as investors wagered that the global demand recovery will remain intact, despite the latest wave of Covid-19, which has pushed governments to implement pandemic restrictions once again. President Joe Biden urged OPEC+ to boost crude supplies to make petrol more affordable for Americans. In the previous meeting, OPEC+ has agreed for a hike in production by 400,000 barrels a day each month from August, however, the rise of the delta variant has been clouding the crude outlook. The International Energy Agency is due to release its monthly report and that will shed light on the impact of the delta variant on the global demand for oil. Shifting to gold, the weaker dollar allowed shimmering metal to revive above the level of $1,770 an ounce.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30085

Rates – 15 August, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1760	1.1704	1.1804	1.1791	1.1700	1.1875	1.1812
GBP	1.3878	1.3789	1.3894	1.3863	1.3700	1.3950	1.3864
JPY	110.25	109.53	110.79	109.57	108.60	110.60	109.49
CHF	0.9144	0.9132	0.9242	0.9154	0.9695	0.9910	0.9132