Weekly Money Market Report
18 December 2022

Major Central Banks End the Year with 50 Basis Points Hikes

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Highlights

- **Inflation eases in the US to 7.1% on annual basis from 7.7% in the previous reading**
- **Federal Reserve hikes by 50 basis points making it the 7th consecutive hike by the central bank in 2022**
- **ECB hikes by 50 basis points and the deposit rate reached 2% amid and Lagarde is firm on more hikes to come**
- **Bank of England lifts benchmark interest rate by 0.50% to reach 3.5% in a fight against double digit inflation figure.**
- **Swiss National Bank hikes for the 3rd time this year with 50 basis points and reached a policy rate of 1.00%**

United States

Inflation in the US

Consumer prices in the US cooled more than expected in a promising sign that the Federal Reserve's strategy to tame inflation is working. Headline prices slowed to 7.1% year-on-year in November, down from 7.7% in October. Core prices also slowed to 6.0% year-on-year in November from 6.3% in October. The deceleration further validates a slower tightening pace for the Fed. However, despite price pressures appearing to have peaked, CPI remains significantly above the Fed's target.

The major news of last week arrived from the US as the Federal Reserve raised interest rates by 50 basis points, marking the seventh consecutive hike in interest rates this year. The increase is the smallest interest rate hike seen since June as the central bank faces the challenge of slowing down inflation while maintaining its resilient economy. Fed Chair Powell reiterated that monetary policy will need to be restricted "for some time." According to the FOMC's dot plot, the expected point where officials expect to end the rate hikes was put at 5.1%, a higher level than previously anticipated.

Market Movement

On the forex front, the dollar continued on a downward slope as easing inflation data suggested less tightening by the Fed and perhaps a pivot by the Central Bank. The greenback reached a low of 103.448 after the inflation data surfaced last Tuesday. The single currency took advantage of a weaker dollar and surged past the 1.06 level that was last seen in May of this year. The euro was later supported by Hawkish ECB President comments on forward guidance. Shares globally extended declines as higher interest rates sapped appetite for risk taking, while the bond market dipped following the higher interest rate environment.

EU & UK

ECB Sets the Tone for More Hikes

The December ECB policy meeting marked yet another hike by the central bank worth 50 basis points. With inflation in double digits and projected by officials to stay above their 2% goal for years to come, last week's meeting both rounded off six months of drastic action and set the tone for further forceful monetary tightening. Although the hike was less than the previous hike of 75 basis points, ECB President Lagarde insisted that investors should not read anything into that and made sure to acknowledge that this is not a pivot by the ECB. With the deposit rate now at 2%, observers see a clear path for several more increases as markets are currently pricing in 1.25% worth of hikes by June 2023.

BoE Hikes

As widely expected, the Bank of England raised its benchmark interest rate by 50 basis points to 3.50% with a three way split on the committee, with one vote for 75bps, six for 50bps and two for no change. The split in the decision actually showcases how unique the economic situation is in the UK with the varying approaches by voting members of the Monetary Policy Committee. In the minutes, the MPC said that the majority of members judged that "should the economy evolve broadly in line with the November Monetary Policy Report projections, further increases in Bank Rate might be required for a sustainable return of inflation to target", while the whole Committee agreed that "if the outlook suggested more persistent inflationary pressures, it would respond forcefully, as necessary".

UK GDP Data

Light finally shines on the UK economy after the release of October’s GDP data. The UK’s monthly real GDP grew by 0.5% in October, exceeding expectations of a 0.4% increase. It was a major boost after witnessing a decline of 0.6% in September. The largest contribution to this October growth was the services sector, as it grew by 6%, after falling by 0.8% in September. Growth in the services sector was mainly a result of wholesale and retail trade. Meanwhile, the production sector was flat, while construction output increased by 0.8%. Manufacturing, on the other hand, rose by 0.7%, mainly driven by an 8.4% increase in the manufacture of basic pharmaceutical products and pharmaceutical preparations, and a 2.3% increase in the manufacture of transport equipment.

While there is reason for optimism following the release of the UK’s month by month GDP, the economy shrunk by 0.3% in the three months leading to October, driven by falls in the manufacturing and services sector. Chancellor Jeremy Hunt has also stated that the UK is already in a recession, and that will be made official once GDP data for October to December is released. All in all, there is no sugar coating the fact that the UK economy is heading towards a recession in 2023.

Swiss National Bank Takes Action

At this quarterly policy meeting, the Swiss National Bank (SNB) hiked its policy rate by 50 basis points, from 0.50% to 1.00%. This is the third consecutive rate hike after the increases decided in June (0.5%) and September (0.75%). Like in September, when the policy rate was lifted into positive territory, the SNB will maintain two specific technical adjustments to ensure that Swiss short-term money market rates remain close to the policy rate. First, remuneration of reserves will continue to be tiered, which means that banks' sight deposits held at the SNB will be remunerated at 1.00% (the level of the policy rate), but only up to a certain threshold. Deposits above this threshold will be remunerated at 0.50%, meaning that the discount relative to the policy rate will remain unchanged at 50bps. Second, the SNB will continue to conduct reserve absorption by way of open market operations. All these changes will be effective from 16 December. The SNB left the door open to further rate hikes in the future. Indeed, it reiterated in its statement that 'it cannot be ruled out that additional rises in the SNB policy rate will be necessary to ensure price stability over the medium term'.

Commodities

Oil Prices Take a Breather

Oil prices had a positive performance last week with renewed potential energy crisis in Europe and renewed tensions in the Russian-Ukrainian war despite some buildup in inventories. Brent crude managed to close near the $80 per barrel mark.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30615.

Rates – 18th December, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0550	1.0501	1.0551	1.0506	1.0200	1.0750	1.0593
GBP	1.2336	1.2273	1.2355	1.2276	1.1830	1.2290	1.2351
JPY	130.50	130.50	131.10	131.08	135.40	140.00	130.49
CHF	0.9880	0.9876	0.9928	0.9925	0.9190	0.9590	0.9866