Weekly Money Market Report
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Volatile Trading Amid Raising Global Uncertainity

Highlights

- **Mortgage rates in the US reach 7%**
- **Global capital markets traded with extreme volatility in the backdrop of global economic recession worries**
- **The US dollar index hits the 114 level as the cable took a dive for a while**
- **Bank of England took measures to push for economic stability amid government tax cut program backlash**
- **Eurozone inflation into double digits at 10%**

United States

Fed Member on UK's Fiscal Policy

Last week, high volatility was the theme across all asset-classes on the back of a potential systemic shock to major economies. Raphael Bostic, president of the Atlanta Fed, spoke last week saying the UK's government fiscal plan has increased economic uncertainty and raised the odds of a global recession. Bostic's warning came after the sterling touched a record low as traders digested UK chancellor Kwasi Kwarteng's £45bn tax-cutting package. "A basic tenet of economics is more uncertainty leads to less engagement by consumers and businesses," he said. "The key question will be what does this mean for ultimately weakening the European economy, which is an important consideration for how the US economy is going to perform." Bostic's comments came on the heels of a warning from Susan Collins, president of the Fed's Boston branch, who said an external shock could send the US economy into a recession.

Resilient, But Not Promising

On the data side, consumer confidence in the US came above expectation of 104 as the reading was 108. Consumer confidence is a leading indicator of consumer spending and hence sheds light on how households perceive the economy. On the other hand, core durable goods orders increased by 0.2% on monthly basis and barely missed expectations of a 0.3% increase.

A more troubling alarm, the national average for 30-year mortgage rate soared above 7.0%, hitting 7.08% and the highest since December 11, 2000. This was the fastest 1% increase in mortgage rates in history and the fact that it took place within a month is even more remarkable. But what is perhaps most remarkable is that according to the Atlanta Fed, as of a few weeks ago, the median American household would need to spend 44.5% of their income to afford payments on a median-priced home in the US, the highest percentage on record with data going back to 2006.

Consumer spending in the US increased more than expected in August, but aggressive interest rate hikes from the Federal Reserve as it battles stubbornly high inflation are slowing demand, which could limit an anticipated rebound in economic growth in the third quarter. The personal consumption expenditures (PCE) price index rose 0.3% last month after dipping 0.1% in July. In the 12 months through August, the PCE price index increased 6.2% after advancing 6.4% in July.

The US dollar has stabilized during the Asian trading session on Friday following a sharp correction lower on Thursday. After hitting a year-to-date high midweek at 114.778, the dollar index then fell abruptly to an intra-day low of 112.56 as it gave back all the gains from this week. The pullback for the US dollar coincided with a sharp correction lower for US yields as well. The two-year US Treasury bond yield has now fallen for two consecutive days after hitting a peak at 4.35% on Monday, which brought an end to a run of thirteen consecutive days of higher closes. The pullback in US yields was even more pronounced at the long end of the curve with the 10-year US Treasury yield dropping sharply from a year-to-date high of 4.02% to an intra-day low of 3.69%. The main trigger for the pullback in the US dollar and US yields appears to be growing fears over potential negative implications for the global economy and financial markets from the loss of confidence in the UK government's public finances.

Europe & United Kingdom

Tax Cut Financing Conundrum

The Bank of England (BoE) made a statement on Monday that it would not hesitate to change interest rates by as much as needed to curb inflation and reach the 2% target and that they were monitoring markets very closely. The BoE also said it would make a full assessment of the government's tax cut plans. Finance Minister Kwasi Kwarteng sent the sterling and government bonds into freefall on 23 September with a so-called mini-budget that was designed to grow the economy by funding tax cuts with huge increases in government borrowing. Although the sterling pound plunged to its all-time low of 1.0327 in Asian trade Monday, the currency recouped its losses and surged all the way to a high of 1.1234 on Friday.

The BoE's decision to step back into the UK Gilt market at the long end of the curve to protect financial stability in the UK has certainly upped the level of concern over the potential negative economic and financial market fallout from the loss of confidence in UK's public finances. The BoE emphasized that "if dysfunction in the long-dated UK government debt market was to continue or worsen, there would be a material risk to UK financial stability. This would lead to an unwarranted tightening of financial conditions and a reduction of the flow of credit to the economy". In short, it would increase the deeper and longer recession for the UK economy. In line with the seriousness of the situation, the BoE has acted quickly to restore market functioning and reduce any risks from contagion to credit conditions for households and businesses by announcing that it will carry out purchases of long-dated bonds until 14th October at "whatever scale is necessary".

Inflation on the Rise in Europe

Eurozone inflation once again surprised consensus to the upside, rising from 9.1% annually in August to 10.0% in September and surpassing market expectations of a 9.7% reading. Core and services inflation both rose 0.5%, to 4.8% and 4.3%, respectively, 0.1% higher than expected. Core industrial goods inflation also rose 0.5% to 5.6%. Meanwhile, energy inflation went back on the rise, going from 38.6% to 40.8% yearly, as the surge in energy prices in August filtered through to consumers. Food inflation also continues to rise, with unprocessed food in particular going from 11.0% to 12.7%. That is likely to make an uncomfortable reading for the European Central Bank (ECB), which targets price growth of 2%, as it suggests that inflation is increasingly being fueled by excess demand and is at risk of becoming entrenched. The market is fully pricing in another 75 basis point hike by the ECB and a 30% chance for a 1% hike in the next meeting.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.31080

Rates –2nd October, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	0.9678	0.9534	0.9853	0.9799	0.9534	0.9936	0.9874
GBP	1.0856	1.0382	1.1234	1.1160	1.0856	1.1240	1.1175
JPY	143.37	143.26	144.90	144.75	142.90	148.00	143.15
CHF	0.9818	0.9737	0.9966	0.9868	0.9728	1.0000	0.9769