INTERNAL

Weekly Money Market Report
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Volatility Raining and War Raging on Geopolitical and Economic Hostilities

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Highlights

- **Volatility spurred by war developments continue to dictate market activity and mood, churning equities, bonds, currencies, and commodities.**
- **European currencies managed to shake off some of the bearish pressure, but the dollar held the throne this week, annexing gains gathered by its peers.**
- **The Federal Reserve and Bank of England (BoE) both raised interest rates by 25bps, while European Central Bank (ECB) showcases a hawkish stance. Asian counterparts numbed without any changes to their policy measures.**
- **Commotion in commodities picked up after a slight pause with oil prices back above $100 a barrel and gold sliding amid geopolitical and economic uncertainties.**

Russo-Ukrainian War

Crumbling Neutrality & Frenzy on the Forex Front

Unfolding its fourth week of warfare, the bickering between Russia and Ukraine on harsh compromises and demands from Russia extinguished progress for peace. In response to Ukrainian pleas, the US and Europe bullied Russia with more sanctions and poured military aid in Ukraine. Markets trying to contend with war implications on their economies are held on a tight grip as ever-changing war developments vied for their full attention, making the task to anchor inflation all the more tricky.

The dollar conquered the week thanks to rising Treasury yields and a fresh interest rate hike but not without tripping in front of some of its peers. The euro clung hard onto hope in its fight against the dollar, flinging to and from 1.0900 and 1.1100 until it closed the week close to 1.1060. The sterling applauded the hat-trick rate hike from the BoE but was capped below 1.3200 after warnings of mounting economic risks, scoring in the vicinity of 1.3180. The wilting Japanese yen could not escape the throes of 119 and ended the week close to 119.20. However, the Swiss franc managed to slip below 0.9400 and closed the week below 0.9320. The commodity-linked Australian dollar staged a strong performance gaining above 0.7400 in line with rising oil prices and a strong jobs report.

United States

Inflation Braking to Marvel Strong US Economic Armor

In a highly anticipated and predicted meeting result, the Fed kicked off its monetary tightening act with a 25bps rate hike and signaled six more hikes to come this year. Details on plans of shrinking the $8.9 trillion balance sheet will be announced at an undisclosed future meeting. With the exception of headline inflation that met expectations at 7.9% in February, the remaining inflationary figures for the month rose at a weaker pace than expected, hinting at decelerated inflation. In comparison to January, February's PPI rose 0.8% against an expectation of a 1.0% and core PPI rose 0.2% against an expectation of a 0.6%. Monthly retail sales also grew by 0.3% compared to an expected 0.4% and core retail sales rose 0.2% compared to an expected 0.9%. Unemployment claims also came in at 214K compared to 221K hinting at improvements in the labor market.

Fed Chair Jerome Powell enlivened consumer sentiment that tanked since the war started in Europe after preaching his confidence in the US economy's strength to withstand interest rate hikes. Uplifted market morale healed wounded equities after a rickety week. The S&P 500 closed the week 1.17% higher, Nasdaq 100 was up 2.05%, and Dow Jones rose 0.80%. Treasury yields kept gathering ammunition in their upward climb with the 10-year yield closing at 2.15% and 2-year yield closing at 1.94%.

EU & UK

A Hawkish Awakening

Eurozone inflation hit a fresh record of 5.9% in February versus the 5.1% in January. Such inflation figures surprised markets as inflation was expected to drop to 4.4%. The ECB insisted that energy prices and supply chain snarls are the main reasons for elevated prices. January's unemployment figure improved to 6.8% from 7.0% in December.

The ECB kept the door open for rate hikes this year after President Christine Lagarde delivered a welcomed hawkish speech emphasizing the focus on taming inflation in the midst of war. Beginning with terminating monetary stimulus measures sooner than expected, decisions in the future will continue to be data dependent in monitoring the economic fallout of the war.

BoE Opens its Umbrella for Gloomy Inflation Forecast Ahead

With the threat of inflation rising up to 8% this year, much higher than the 2% target, along with a standard of living squeeze set to hit households next month, the BoE successfully took the interest rate back to its pre-pandemic level after with a third consecutive rate hike of 25bps to 0.75%. Governor Andrew Bailey tempered the rhetoric from a more aggressive one in previous meetings as recession clouds loom on the path of economic recovery. On a brighter note, unemployment in February eased slightly to 3.9% from 4% last month. Later this week, annual CPI data will be released.

Asia

The Pandemic is Not Over Yet in China

Fading away from the US and Europe, the coronavirus made a comeback in Asia, sending cities back into lockdowns in an already shaky economic environment trying to grasp war aftershocks. In China, the war threatens to disrupt robust recovery in February after retail sales and industrial production growth exceeded expectations rising by 6.7% and 7.5% annually. The lockdowns rang panic in the commodities complex after worries stemmed from weaker demand for oil.

The People's Bank of China (PBOC) surprisingly kept medium-term policy rates unchanged at 2.85% in efforts to keep liquidity ample, defeating expectations for another cut to support its growth rate this year of 5.5%. Markets are awaiting a rate cut in next month's meeting

Perennial Paralysis in Japan

In stark contrast to and divergence from Western counterparts, the Bank of Japan (BoJ) concluded its meeting on Friday without any changes to its -0.10% interest rate. Hefty feeds of massive stimulus to the economy are to continue until inflation fattens to the BoJ's 2% target. In February, core inflation rose to 0.6% from 0.2% in the previous month, marking the fastest growth pace in two years. However, BoJ Governor Haruhiko Kuroda cautioned Japan's vulnerability to war missiles trickling into commodity and food prices in the economy and hinted at the temporary and unsustainable nature of the recent price growth attributed to the war, maintaining further monetary easing.

Commodities

Oil and Gold at the Mercy of Volatility

Oil prices unnerved as they weigh resolution hopes between Russia and Ukraine, progress on talks between US and Iran, additional crude supplies in the US, and risks posed by lower demand in China. After bending slightly below $100 a barrel during the week, WTI and Brent are back in the spotlight closing the week at $104.70 and $107.93 a barrel respectively.

Gold, on the other hand, has tired from wiping gusts of dust off its gains. Worries over the global inflationary outlook, central bank actions, and general misdirection in financial markets had gold close the week at $1,921.62 an ounce.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30385.

Rates – 20th March, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0941	1.0899	1.1137	1.1055	1.0850	1.1150	1.1099
GBP	1.3036	1.2997	1.3211	1.3180	1.2990	1.3280	1.3178
JPY	117.32	117.29	119.39	119.17	118.15	121.05	118.92
CHF	0.9332	0.9312	0.9460	0.9312	0.9125	0.9520	0.9281