INTERNAL

# Weekly Money Market Report
16 January 2022

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## US Inflation Hits 39-Year High

Highlights

- **US consumer price growth climbed 7% in 2021, marking the largest yearly gain since 1982. Growth was largely driven by higher prices for shelter, food, and used vehicles.**
- **Markets are now pricing in an 84% chance for a 0.25bps hike in March.**
- **Meanwhile, data on PPI came in lower than expectations. The index grew 0.2% on a monthly basis versus expectations for 0.4% growth.**
- **Jobless claims unexpectedly rose last week, however the overall labor trend remains positive with unemployment last seen at a 22-month low of 3.9% in December.**
- **In Europe, ECB's Lagarde maintains the stance that price pressure will subside in 2022.**
- **For the week, yields on 10-year Treasuries ended slightly higher while the dollar weakened. Meanwhile, Wall Street see-sawed below closing the week lower. The euro rose to a 2-month high of 1.1482 against the dollar, while sterling reached a high of 1.3748.**
- **In commodities, the price for brent crude rose to a 9-week high of $86.5 while the safe-haven metal gold gained 1.23%**

## United States

### Record CPI Growth

US consumer prices saw the largest 12-month gain since 1982, weakening Americans purchasing power and setting the stage for the US Federal Reserve to begin hiking interest rates in March. The consumer price index climbed 7% in 2021, marking the largest yearly gain in 39 years. On a monthly basis, the gauge rose 0.5% from November, exceeding forecasts. The core figure, which excludes volatile food and energy components, also saw a larger than forecasted figure of 0.6% monthly and 5.5% yearly. The yearly core figure marked the biggest advance since 1991. The increase in CPI was largely attributed to higher prices for shelter, food and used vehicles. Energy prices fell last month after proving to be the main driver of inflation through most of 2021.

Looking at the US Federal Reserve, the inflation data reinforces expectations that the central bank will begin raising interest rates in March. The move would demonstrate a sharp policy adjustment from the Feds timeline just a few months ago, proving the stubbornness of high inflation amid record demand for goods alongside constraints in both labor and material. On the other hand, the unemployment rate now sits below 4%, leaving some policy members voicing the opinion to begin shrinking the Feds balance sheet soon after raising rates. In terms of the Feds dual mandate – inflation & employment – the central bank appears on path to hike in March. Markets were last seen pricing in an 84% chance for a 0.25bps hike in March - largely unchanged following the CPI report.

Moving forward, although the Omicron variant is likely to disrupt already fragile supply chains amid the spread which will prevent employees from going to work, the impact is expected to be temporary. Over the course of this year, economists expect CPI growth to moderate to around 3% as supply chains normalize and energy prices cool off. However, posing upside risks to the inflation outlook are high shelter costs, robust wage growth, and subsequent waves of Covid-19.

The greenback recovered some of its losses on Friday though still ended the week 0.60% lower. Meanwhile the euro and sterling gained 0.56% and 0.65%, respectively.

### PPI Rise Less than Expected

Meanwhile, data on producer prices provided hints of steadying inflation with data released lower than expectations. The producer price index increased 0.2% on a monthly basis following a 1% jump in November, and 9.7% yearly. Meanwhile, the core figure that excludes volatile food and energy components climbed 0.5% m/m and 8.3% y/y. The mixed report reveals overall elevated inflation, however underlying price pressures are moderating. Nevertheless, producers are continuing to face materials shortages, limited labor, and transportation bottlenecks.

### Omicron sends Jobless Claims Higher

The number of Americans filing claims for unemployment benefits increased to an eight-week high amid a surge in Omicron cases that has disrupted activity from airlines to schools. Initial claims jumped to total 230,000 last week, above expectations however still remaining low compared to pandemic averages. Although the figure rose unexpectedly for the second straight week, the underlying trend is still falling. When looking at continuing claims tracking the total number of Americans claiming benefits on regular state programs, the figure fell to its lowest since 1973 at 1.559 million.

### Lower December Retail Sales

US retail sales fell by 1.9% in December versus expectations of a 0.1% drop as cases of Omicron surged and inflation reached record highs. The figure also marks the first month-over-month contraction in sales since July of 2021. Nevertheless, several factors have fueled the slowdown such as a rise in Covid cases, shoppers not receiving the same stimulus support alongside higher prices, and holiday shopping pushed to earlier last year amid warnings on shipping delays.

## Europe

### President Lagarde Maintains Stance

In Europe, ECB President Christine Lagarde reiterated on Friday the central bank's commitment to price stability. Lagarde noted the drivers of inflation are expected to ease over the course of 2022, adding that the ECB will take any measures necessary to ensure delivery on the inflation target of 2.0% over the medium-term, and that monetary accommodation is still needed to reach that goal. While the bank remains confident that inflation will fall this year, price growth hit 5% last month – more than twice the bank's 2% target. Lagarde on Friday said "We understand that rising prices are a concern for many people, and we take that concern very seriously."

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30205.

## Rates – 16th January, 2022

| | Previous Week Levels | | | | This Week's Expected Range | | 3-Month |
|---|---|---|---|---|---|---|---|
| Currencies | Open | Low | High | Close | Minimum | Maximum | Forward |
| EUR | 1.1351 | 1.1283 | 1.1482 | 1.1414 | 1.1210 | 1.1615 | 1.1442 |
| GBP | 1.3585 | 1.3531 | 1.3748 | 1.3673 | 1.3560 | 1.3850 | 1.3672 |
| JPY | 115.63 | 113.47 | 115.84 | 114.20 | 112.50 | 116.20 | 114.12 |
| CHF | 0.9190 | 0.9090 | 0.9278 | 0.9139 | 0.8960 | 0.9320 | 0.9120 |