Weekly Money Market Report
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Risk Aversion Overwhelms Interest Rate Developments

Highlights

- **Risk aversion overwhelmed the market last week as the biggest bank failure since 2008 fueled the flight to safety.**
- **Fed hike probabilities took center stage as Powell's hawkish statement was neutralized by a mixed jobs report.**
- **UK GDP surprised to the upside raising the chances a recession may be averted but puts pressure on the Bank of England to keep hiking.**
- **Haruhiko Kuroda keeps rates unchanged in his last Bank of Japan meeting.**
- **The FX market witnessed a volatile weekly session as market participants try to predict the Fed's next move.**

United States

Powell Turns Hawkish

Federal Reserve Chairman Jerome Powell gave a testimony to the US congress last week regarding his outlook towards the economy and monetary policy. Powell signaled that interest rates are "likely to be higher than previously anticipated" citing the latest economic data that came in "stronger than expected." Powell added that if "data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes." The hawkish testimonial comes on the back of a historically low unemployment rate and sticky inflation readings.

This hawkish turn represents a shift from the Fed's recent meeting in February, where disinflation was introduced in commentary after the February FOMC decision. At that meeting, the Fed acknowledged that inflation was trending lower to justify slowing its pace of rate hikes to 25bps from 50bps in December and multiple hikes of 75bps in 2022. However, since then, economic data from the US has remained strong, including an acceleration in the PCE price deflator, the Fed's preferred inflation measure.

Probabilities of a 50bps hike jumped from 25% to a high of 71% after the testimony. Furthermore, US equities fell sharply while Treasury yields gained after Powell's comments with the 2-year Treasury yield reaching its highest level since 2007.

Mixed Job Report Dampens 50bps Hike in March – For Now

On Friday, nonfarm payrolls topped expectations while wages eased and the unemployment rate rose, offering a mixed picture as the Federal Reserve decides whether to step up the pace of rate hikes. Nonfarm payrolls showed that the labor market added 311K jobs last month topping expectations of 225K and lower than the previous figure of 504K (revised lower from 517K). Wages grew at 4.6%, lower than the expected 4.7%, while the unemployment rate rose to 3.6% versus the expected and previous figure of 3.4%. After the figures, expectations of a 50bps hike dropped from 51% to 44%.

Market Reaction

The US Dollar started the week on a strong footing continuing its upward momentum stemming from hawkish comments by Fed officials a week earlier. Jerome Powell's hawkish turn further bolstered the greenback against its major counterparts to reach a three-month high of 105.883. Meanwhile, mixed labor market figures on Friday fueled volatility and pushed the dollar lower as probabilities of a

50bps hike in the Fed's next meeting faded. The Euro and Pound closed a volatile week of trading close to where they started at 1.0635 and 1.2024 respectively. Meanwhile, the Japanese Yen managed to gain and Treasury yields and equities fell as risk aversion stemming from the collapse of Silicon Valley Bank (SVB), the biggest bank failure in the US since 2008, fueled the flight to safety. This week the market will revolve around developments surrounding the SVB situation and the release of the US February inflation figure to further scale the Fed's path going forward.

Europe & United Kingdom

EU Inflation Weakens Retail Sales & Dampens Confidence

Retail sales in the Eurozone came in weaker than expected at 0.3% in January versus an estimated 0.7%. The weaker rebound from the previous reading highlights the weakness of consumer demand in the Eurozone amid elevated inflation. The persistent inflation seen in Eurozone economies is triggered by rising food and energy costs, and is therefore spilling to other sectors of the economy. Furthermore, the Eurozone Sentix Investor Confidence index fell to -11.6 versus an expected -5.6 and a previous reading of -8.0. The fall is mainly driven by the expectations index, which came in at -13.0 from -6.0 previously. The pessimistic views and expectations from investors matches the economic data showing elevated and sticky inflation, as well as weakness in consumer demand and a broader slowdown in economic activity.

UK GDP

UK economic growth exceeded expectations in January. GDP rose 0.3%, recouping some of the 0.5% drop in December, when strikes halted activity. The figure adds to a series of positive recent surprises on business activity, house prices, retail sales and consumer confidence. This raises the chances a recession may be averted but puts pressure on the BOE to keep hiking. The economy is still 0.2% smaller than before Covid.

Asia-Pacific

Bank of Japan Stands Pat - Kuroda's Last Meeting

Haruhiko Kuroda ended his last meeting as Bank of Japan governor by maintaining his dovishness. The bank left its negative interest rate and its cap on government debt yields unchanged on Friday at the shortest regular meeting during Kuroda's watch, as it stuck to its view that inflation at more than twice its 2% target level still is not sustainable.

RBA Hikes by 25bps

The Reserve Bank of Australia raised its cash rate by 25bps to 3.60% on Tuesday during its March policy meeting, reaching the highest rate in over a decade and marking an aggressive tightening campaign by the central bank. The RBA also declared it expects further tightening of monetary policy to curb inflation and achieve the 2-3% inflation target. According to Governor Phillip Lowe, "the central forecast is for inflation to decline this year and next, to be around 3% in mid-2025."

Following the central bank's policy meeting, the Reserve Bank of Australia's Governor Phillip Lowe spoke again on Wednesday, declaring that the central bank was closer to pausing its aggressive cycle of rate increases as policy was now in restrictive territory, and proposed a halt could come at the next meeting on April 4th, if economic data supported a pause. The board will be closely monitoring developments in the global economy, household spending, and the labor market. The dovish message saw markets scale back the peak forecast for rates to 4.10%, compared to 4.35% earlier.

The Australian Dollar dropped dramatically against the US dollar amid the comments and closed the week at 0.6576 after opening at 0.6758.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30710.

Rates – 12th March, 2023

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0627	1.0523	1.0700	1.0635	1.0400	1.0800	1.0707
GBP	1.2032	1.1802	1.2113	1.2024	1.1800	1.2300	1.2060
JPY	135.88	134.10	137.91	134.85	134.00	139.00	133.11
CHF	0.9363	0.9173	0.9439	0.9212	0.9200	0.9500	0.9116