

Weekly Money Market Report

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Dollar Rises to Fresh Seven-Week High

Highlights

- Flash figures revealed the US manufacturing PMI rose to 47.8 from 46.9 in January while the services PMI increased to 50.5 from 46.8. The flash Composite PMI Output Index, which tracks both the manufacturing and services sectors, increased to 50.2 this month from a reading of 46.8 in January.
- US fourth quarter GDP was revised lower to 2.7% y/y from the 2.9% originally reported - citing a downward revision to consumer spending.
- UK business activity rebounded in February, surprising markets after the S&P Global flash composite purchasing managers' index rose to 53 this month from 48.5 in January - well above expectations of a contraction at 49.
- Canada's consumer price index rose 5.9% from a year ago, marking a smaller rise than the 6.1% increase widely expected by markets and down from 6.3% in December
- The greenback rose to a seven-week high, sending the euro and pound below the 1.06 and 1.20 marks respectively. Meanwhile, the Japanese Yen lost approximately 3.5% of its value in the past two weeks.

United States

Business Activity Rebounds to 8-month High

US business activity unexpectedly rebounded in February according to S&P Global, which said its flash US Composite PMI Output Index that tracks the manufacturing and services sectors increased to 50.2 this month from a reading of 46.8 in January. The data ended seven straight months of the index in contractionary territory, and was largely due to a strength in the services sector while manufacturing remained weak. The survey's flash services sector PMI increased to 50.5 from 46.8 in January after contracting for seven consecutive months, while the manufacturing PMI rose to 47.8 from 46.9 in January. "Despite headwinds from higher interest rates and the cost of living squeeze, the business mood has brightened amid signs that inflation has peaked and recession risks have faded," said Chris Williamson, chief business economist at S&P Global Market Intelligence. "At the same time, supply constraints have alleviated to the extent that delivery times for inputs into factories are improving at a rate not seen since 2009."

In-line with recent robust data which suggests solid momentum for the US economy at the start of the year, the strong report continued to dismiss fears that the Federal Reserve could maintain its interest rate hiking campaign through summer. The Fed raised its policy rate by 450 basis points since last March from near zero to a 4.50%-4.75% range. Though markets are expecting two more rate hikes of 25 basis points in March and May, they are also betting on the possibility of another increase in June.

Fourth-Quarter GDP Revised Lower

Economic growth in the fourth quarter of 2022 was weaker than previously estimated according to the Commerce Department, citing a downward revision to consumer spending. GDP growth in the October to December period was at 2.7% y/y, lower than the 2.9% originally reported. "The updated estimates primarily reflected a downward revision to consumer spending that was partly offset by an upward revision to nonresidential fixed investment," said the Commerce Department in a statement. Growth for 2022 remains unchanged at 2.1% yearly.

The adjustment comes as the Federal Reserve's aggressive efforts to ease demand and reduce price pressures hit consumer spending and lead to a slump in the housing sector. Nevertheless, the labor market and overall

consumption has held up, adding to hopes of a “soft landing” for the economy where inflation is brought down without resulting in a major downturn.

Market Movements

The dollar index rose to seven-week highs on Friday as investors react to a set of strong economic data which may allow interest rates to stay higher for longer. Meanwhile, the yen witnessed volatile trading and declined sharply after incoming Bank of Japan Governor Kazuo Ueda said it was appropriate to keep ultra-loose monetary policy. The euro and pound have lost approximately 2.8% so far this month after a strong start to the year.

United Kingdom

Surprise Rebound in British Business Activity

Following six months of declining output, activity rebounded in February with a majority of UK businesses reporting an expansion in activity for the first time since June 2022. The S&P Global flash composite purchasing managers' index, which tracks monthly changes in both manufacturing and services activity, rose to 53 this month from 48.5 in January – well above expectations of a contraction at 49. The survey follows a string of encouraging data illustrating an economy that narrowly avoided a recession in Q4 of 2022 as inflation declined and the labor market remained resilient. Providing a particularly strong upturn were services providers, with the index rising to 53.3 from 48.7 in the previous month as demand remained strong despite the squeeze on consumer spending. Looking at manufacturing, client demand as well as improving supply chains boosted factory output, sending the index to a nine-month high of 51.6 in February.

Headline inflation was seen dropping to 10.1% in January, down from its peak of 11.1% in October of 2022, boosting expectations that the Bank of England could soon stop raising interest rates. At their latest meeting, the BoE increased interest rates by 50 bps to its 15-year high of 4.0%.

Canada

Inflation Data Leaves Room for Rate Pause

Canada's inflation decelerated in January, providing the Bank of Canada with some room to hold interest rates at current levels despite the recent robust jobs report. The consumer price index rose 5.9% from a year ago according to Statistics Canada, marking a smaller rise than the 6.1% increase widely expected by markets and down from 6.3% in December. On a monthly basis, the index rose 0.5% in January, versus expectations of 0.7%. Meanwhile, two key yearly measures tracked closely by the central bank — the trim and median core rates — edged lower, averaging 5.05% from an upwardly revised 5.25% a month earlier. The inflation report comes less than two weeks after jobs data surprised markets and showed employment grew by 150,000 positions, marking the fifth straight month of increases for a labor market that is continuing to defy predictions of a slowdown.

The data suggest that the central bank's 425 basis points of interest rate hikes in 11 months are starting to temper price gains, supporting views that inflation will continue to ease this year. This will allow the central bank rate to hold steady at 4.5% at its next decision on March 8. Last month, Governor Tiff Macklem declared a conditional pause, adding that he expects growth in output to be near zero in the first three quarters of this year, allowing the economy to move from excess demand to modest excess supply and relieving price pressures. Macklem forecasts inflation will drop to 3% by mid-2023 and to return to the 2% target in 2024.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30660.

Rates – 26th February, 2022

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0686	1.0534	1.0704	1.0546	1.0480	1.0630	1.0617
GBP	1.2046	1.1927	1.2147	1.1944	1.1860	1.2130	1.1990
JPY	134.14	133.91	136.51	136.46	135.40	137.35	134.39
CHF	0.9262	0.9219	0.9414	0.9408	0.9370	0.9460	0.9322

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