Weekly Money Market Report
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US Recovery Hindered amid Supply Chain Bottlenecks

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Highlights

- **US GDP registered a slower pace of growth than expected in Q3 at 2% versus the 6.7% seen in Q2. While the figure slowed dramatically, the drop was largely due to the supply crunch in the auto sector.**
- **Orders for US durable goods fell 0.4% in September, mainly due to a drop in transportation orders. The core figure gained 0.8% following a 0.5% increase the month prior.**
- **In Europe, ECB President Christine Lagarde maintains the view that inflation is transitory and will fade throughout next year, downplaying the chance of a rate hike in 2022. In their latest meeting, the central bank kept its benchmark rate and monetary policy unchanged.**
- **Unlike the ECB, the BOC shocked investors last week by abruptly ending its bond-buying program and pulling forward its timeline for hikes. This led to a steep rally in short-term Canadian bonds.**
- **The greenback ended the week higher at 94.134, with the euro and sterling breaking below 1.16 and 1.37 respectively. In commodities, oil prices remain supported with Brent crude ending the week only slightly lower at $84.38. Moving to Wall Street, stocks maintained their resilience and continued to touch record highs following a positive earnings season.**

Around the world, central bankers and government officials are struggling to assure that the recent spikes in inflation are temporary and will not lead to faster than expected rate hikes. Most of the world has seen significant surges in the cost of living since the Covid-19 pandemic began in early 2020. The Eurozone is widely expected to register its highest figure since the financial crisis at 3.7%. In Russia, Nigeria, and Brazil, inflation has been reported well above 4%. Moreover, in the US, overall prices matched a 13-year high of 5.4% y/y in September. The US Federal Reserve and European Central Bank both maintain the view that inflation is transitory and price hikes are not be expected any time soon. Leading a more hawkish approach, the BOE is on its way to be the first major central bank to hike rates, the BOC abruptly ended its bond-buying program, and the RBNZ already raised interest rates for the first time in seven years.

United States

GDP Slumps during Supply Crunch

The US economy grew at a slower pace in Q3 of 2021 amid supply chain bottlenecks, surging inflation, and a wave of the Delta variant. Data released last week revealed GDP registered 2% growth on a yearly basis for the third quarter, marking a sharp slowdown from the 4.5% and 6.7% growth seen in Q1 and Q2 respectively.

However, upon closer inspection, data has provided a more positive outlook for growth. For starters, the data suggests that absent of the chip shortage that has hurt the auto industry severely, the economy would have registered 4.7% growth for Q3, roughly in line with the pace so far this year. Meanwhile, “final sales to domestic purchasers” rose 6.6%, and is a federal government measure of economy-wide demand that is not adjusted for inflation. The figure is perfectly on track with pre-pandemic trends and indicates that while business and consumers spent more, they took home fewer goods and services due to higher prices.

Additionally, household consumption of services continued to rebound, suggesting the economy is continuing to recover from last year’s lockdowns that caused a collapse in the service sector and a corresponding surge in consumption of goods. Finally and perhaps one of the largest contributors to a positive outlook on growth, was a robust 9.2% gain in compensation of employees at private businesses. Compensation is now slightly above pre-pandemic trends and easily outpaces the rise in inflation.

Despite the disappointing figure, the report relieves recent worries of stagflation, which entails negative growth coinciding high inflation. While prices are rising, there is no decline in spending power. Consumers and business are on the path of rebalancing from goods to services, causing the supply-chain bottlenecks that should prove temporarily. As soon as those bottlenecks are cleared, the world's largest economy should be well positioned to return to higher growth.

Transportation Drags Down Durable Goods Orders

Highlighting the weakness in auto, orders for US durable goods fell 0.4% in September following a 1.3% rise the month prior, marking the first decline after four months of consecutive gains. The bulk of the decline was attributed to the 2.3% drop in transportation orders, with non-defense aircraft orders decreasing 27.9%. Core capital goods orders, which exclude aircraft and military hardware, gained 0.8% following a 0.5% increase the month prior. The core figure data indicates businesses stayed optimistic on the economic outlook even as the Delta variant continued to spread. While the trend in core orders have been resilient, September's data demonstrates the manufacturing sectors struggle with a lack of supply.

Europe & UK

Lagarde Sees no Rate Hikes in 2022 despite Surging Inflation

European Central Bank President Christine Lagarde attempted to downplay the chances of a rate hike for 2022 during Thursday's press conference, warning that markets may be getting ahead of themselves with inflation predictions. Inflation in the Eurozone reached a 13-year high of 3.4% in September. Yet, Lagarde appeared confident with the banks view, noting that they had "really looked and very deeply tested our analysis of the drivers of inflation, and we are confident that our anticipation and our analysis is actually correct."

Nonetheless, money markets are pricing in the probability of a 20 basis points hike for December 2022 as investors believe the bank may be forced to announce a hike before the start of 2023. However, it appears that the ECB is maintaining its view that higher inflation is temporary and will fade throughout 2022. The central bank opted to keep interest rates and its monetary policy stance unchanged as widely expected.

Canada

BOC Signals Earlier Move on Interest Rates

Contrary to the ECB, last week the Bank of Canada surprised investors by abruptly ending its bond-buying program and pulling forward the expected timeline for interest rate rises. "The main forces pushing up prices — higher energy prices and pandemic-related supply bottlenecks — now appear to be stronger and more persistent than expected," the BOC said in a statement. Policymakers opted to end the bank's holding of Canadian government bonds while maintaining its benchmark rate at 0.25%. However, the BOC's forecast suggests inflation is on pace to reach the 2% target in Q2 or Q3 of 2022 versus earlier expectations for the target to hit in the second half of 2022.

The move triggered a heavy sell-off in Canadian government debt, sending the yield on the two-year Canadian bond to a high of 1.262% after trading near 0.85% prior to the announcement. Similar to the UK, Australia, and US, yields have been rising steadily as investors bet on higher rates.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30165.

Rates – 31 October, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1642	1.1533	1.1692	1.1561	1.1370	1.1750	1.1590
GBP	1.3753	1.3666	1.3829	1.3691	1.3470	1.3870	1.3690
JPY	113.59	113.24	114.30	114.00	112.15	115.50	113.90
CHF	0.9155	0.9101	0.9226	0.9156	0.8975	0.9340	0.9135