Weekly Money Market Report
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>NBK Treasury
+965 22216603
tsd_list@nbk.com

Dollar Reignites Amid Hawkish Officials And Surprising Data

Highlights

- **Several Federal Reserve officials signaled the US central bank was committed to its aggressive fight against soaring prices.**
- **US manufacturing activity slowed less than expected in July, while the services sector unexpectedly picked up.**
- **US employment data were surprising, showing 528,000 jobs added and unemployment at a pre pandemic low of 3.5%.**
- **The Bank of England raised interest rates by the most in 27 years on Thursday in an attempt to smother surging inflation on track to top 13% while forecasting Britain was facing a much bleaker economic outlook than either the US or Eurozone .**
- **Australia's central bank warned inflation was heading to three-decade highs requiring further hikes in interest rates.**

United States

The Hawks Remain in the Sky

Several Federal Reserve officials on Tuesday signaled the US central bank was committed to its aggressive fight against soaring prices, prompting a jump in short-dated Treasury yields as investors priced in more interest rate rises.

Officials from across policy spectrum signaled on Tuesday that they and their colleagues remain resolute and "completely united" on getting US interest rates up to a level that will more significantly curb economic activity and put a dent in the highest inflation since the 1980s.

San Francisco Fed President Mary Daly said she was "puzzled" by bond market prices that reflect investor expectations for the central bank to shift to rate cuts in the first half of next year. On the contrary, she said her expectation is the Fed will keep raising rates for now and then hold them there "for a while," adding that the central bank was “nowhere near” done with its fight to cool inflation, which continues to run at 40-year highs. In a separate interview, Chicago Fed president Charles Evans said he thought that a 0.5 percentage point increase at the next meeting in September would be appropriate. However, he left the door open to a larger 0.75 percentage point rise, which he said “could also be OK”.

Cleveland Fed President Loretta Mester struck a similarly hawkish tone, saying she expects below-trend economic growth for this year, which she added is necessary to rein in inflation. She did not believe the US is in a recession given the continued strength of the labor market.

After the July meeting of the Federal Open Markets Committee, investors began pricing in a series of smaller rate increases later this year amid signs the Feds’ aggressive monetary tightening had started to cool US economic growth. However, the comments from Daly, Evans and Mester moved futures markets, with expectations for where the Fed’s benchmark policy rate will stand in December rising from 3.27% on Monday to 3.56% by the end of the week.

The statements also saw their effect on the bonds markets. The two-year yield, which moves with interest rate expectations, jumped by 0.19 percentage points to 3.06%, its biggest daily move since mid-June. The three-year yield rose by 0.22 percentage points, also its largest move since mid-June, to breach 3%.

Daly reiterated her determination on Wednesday saying "I start from the idea that 50 (basis points) would be a reasonable thing to do in September because I believe I'm seeing evidence in my contact conversations, and in the observations of the world I see, that there are some bright spots for me." However, she continued to say, "If we just see inflation roaring ahead undauntedly, the labor market showing no signs of slowing, then we'll be in a different position where a 75 basis point increase might be more appropriate. But I go in with the 50 in mind as I look at the data coming in." Her comments lead to investors paring back the probability that the central bank would raise the policy rate by 75 basis points next month.

Promising
US manufacturing activity slowed less than expected in July amid signs that supply constraints were easing. The Institute for Supply Management's gauge of factory activity eased to 52.8 from 53 a month earlier, marking the lowest level since June 2020 while remaining in expansionary territory.

On the other hand, the US services sector unexpectedly picked up in July amid solid growth in new orders. The Institute for Supply Management's services sector Purchasing Managers' Index improved from 55.3 for June to 56.7 in July, while economists had expected a decline to 53.9. The figure supports views that the economy may not be in a rescission despite output slumping in the first half of the year.

Recession? Or Technical Jargon?
Friday started slow in the morning as investors braced for employment figures due to be released later in the day, and the release proved to be worth the wait. The figures surprised the markets showing the US economy unexpectedly added 528,000 jobs last month, and indicated payroll growth soared even in the face of tighter monetary policy and waning fiscal support, easing fears of a recession.

The data showed unemployment rate edging down to a pre-pandemic low of 3.5% from 3.6% in the prior month, while also showing an acceleration in the pace of job creation compared to June, when the economy added 398,000 jobs. Economists had expected job growth to slow to 250,000 last month.

The employment report painted a picture of a fairly healthy economy muddling despite back-to-back quarters of contraction in gross domestic product. While demand for labor has eased in the interest rate sensitive sectors like housing and retail, airlines and restaurants cannot find enough workers. With 10.7 million job openings at the end of June and 1.8 openings for every unemployed person, the labor market remains tight and economists do not expect a sharp deceleration in payrolls growth this year. Average hourly earnings increased 0.5% last month after rising 0.4% in June. That left the year-on-year increase in wages at 5.2%.

The surprise release combined with the chorus of Fed officials saying more tightening is necessary to rein in inflation. Flipped the odds from a bias towards a 50 basis points hike to a bias towards a 75 basis points, the probability for the latter increased from 41.5% on Thursday to 70.5% by the end of the week.

United Kingdom

Gloomy Remarks
The Bank of England raised interest rates by the most in 27 years on Thursday in an attempt to smother surging inflation on track to top 13%, even as it warned a long recession is coming. The Bank's nine-member Monetary Policy Committee voted 8-1 to raise interest rates by 0.5 percentage points to 1.75% on Thursday. The move now puts Britain in the face of a protracted recession and the worst squeeze in living standards in more than 60 years.

The BoE's move follows the similarly aggressive steps by the European Central Bank and the US Federal Reserve in the face of soaring inflation, but its grim forecasts suggested Britain was facing a much bleaker economic outlook than either the US or Eurozone. Households are more exposed to the energy price shocks than in the US, and less protected by government measures than in the Eurozone, while the effects of leaving the EU have also damaged the UK economy. On Wednesday, the National Institute of Economic and Social Research, a think tank, said more than a million households would soon have to choose between heating and buying enough food.

Governor Andrew Bailey said economic uncertainty was exceptionally large and that all options are open. "Returning inflation to the 2% target remains our absolute priority," he said. "There are no ifs or buts about that." He continued to say that he had "huge sympathy" for households facing rising borrowing costs but "I'm afraid the alternative is even worse, in terms of persistent inflation."

The Bank forecast the country would slide into a 15-month recession later this year, with GDP shrinking by 2.1% from peak to trough, similar to a slump in the 1990s but far less than the hits from COVID-19 and the 2008-09 global financial crisis. Consensus Economics, which averages leading economists' forecasts, projects the US will grow by 1.5% and the Eurozone by 1.7% in 2023. The BoE also said consumer price inflation was now likely to peak at 13.3% in October - the highest since 1980, and much higher than its May forecast - due mostly to the surge in energy prices following Russia's invasion of Ukraine.

Asia-Pacific

RBA Warning

Australia's central bank on Friday warned inflation was heading to three-decade highs requiring further hikes in interest rates that would slow growth sharply, making it tough to keep the economy on an "even keel". The quarterly statement of Monetary Policy was released by the Reserve Bank of Australia showing it jacked up its forecasts for inflation, downgraded the outlook for growth and foreshadowed an eventual rise in unemployment. Yet even with further increases in rates, inflation was not expected to return to the top of its 2-3% target range until the end of 2024, pointing to a long period of pain ahead. The central bank has already raised its cash rate four months in a row, taking it from an emergency low of 0.1 to a seven-year high of 1.85% and is flagging more to come.

Markets are now seeing rates reaching 3.0% by the end of the year and peaking around 3.30% in April next year. The RBA has had to lift its forecast peak for headline inflation to 7.75%, when as recently as May it had tipped 5.9%. Core inflation is seen topping out at 6% by the end of this year and then declining only gradually to 3% by late 2024.

Market Reactions

The week did not start well for the US dollar that dropped against it peers, it then saw some rebound following the statements from the Fed officials to end the week on fire following the surprising employment data. The Sterling pound fell in light of the statements from the BoE and its expectation of a prolonged recession, but that did not last as it started to moderate the day after, while the euro was in range against the dollar for the best part of the week. Friday's release reignited the dollar, which soared broadly alongside with benchmark treasury yields. The greenback proved to be the strongest for the week while the euro closed at $1.0181 and the sterling at $1.2071. Gold also fell more than 1% following the release of the data.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30675.

Rates – 07th August, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0216	1.0121	1.0293	1.0181	1.0000	1.0300	1.0248
GBP	1.2163	1.2001	1.2293	1.2071	1.1900	123.00	1.2095
JPY	133.20	130.39	135.49	134.97	133.00	137.00	133.91
CHF	0.9520	0.9469	0.9652	0.9611	0.9500	0.9800	0.9538