Weekly Money Market Report
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Fueling Inflation Pushes the Dollar Higher

Highlights

- **Inflation in the US jumps to a 40-year high of 9.1%**
- **Retail sales in the US exceed expectations**
- **Yield curve inversion in US Treasury yields deepens**
- **Bank of Canada hikes by 1% and shocks the market**
- **Italian PM Mario Draghi submits his resignation to the Italian President**

United States

Economy Moderates, Demand Cools

US annual inflation hit a fresh 40-year high of 9.1% in June following the 8.6% increase in May, landing above estimates for an 8.8% increase. On a monthly basis, prices jumped 1.3% in June following a 1% rise in May. Stripping out volatile items, core inflation increased 5.9% y/y and 0.7% m/m. Although price gains were "broad based" according to the Bureau of Labor Statistics, a 7.5% increase in the energy index contributed to nearly half of the jump in headline inflation. Later on Friday, US retail sales surprised markets and the reading came at 1% increase for both core and headline retail sales on monthly basis. Consumers bought motor vehicles and a range of other goods even as they paid more for gasoline. The figures exceeded market consensus and may be an indication of a resilient purchasing power, which could contribute to the not-so-transitory inflation.

The data cements expectations of another historically large interest rate rise by the Federal Reserve later this month. Currently, the market is pricing in an 18% chance of a 1% hike in the upcoming meeting by the FOMC and 100% for 75 basis point hike in the following meeting in September. Looking at the expectations until year-end, the implied rate is currently at 3.5%, meaning the market is expecting a 2% increase in the policy rate of the Federal Reserve from the current range of 1.50%-1.75%.

The prospect of more front-loaded tightening has lifted yields at the short-end of the US curve although long-term yields remained more anchored, resulting in a deepening curve inversion. The price action reflects building fears that the Fed will strangle the life out of the US recovery by responding more aggressively to dampen upside inflation risks that is weighing down on the long end. It looks like it will be even more challenging for the Fed to achieve a soft landing after the latest hot CPI report.

Equities lost their momentum after getting a breather in the previous week. Major US indices fell by more than 2% before being pushed on the back of solid retail sales data. Renewed recession worries, heated inflation and an inverted yield curve are casting doubts on valuations amid major US banks missing earnings estimates. High-ranking executives at the largest banks in the world are expressing their fears of worsening global economic conditions.

The Dollar on Top of the Currencies Pyramid

Heating inflation data and expectations for more aggressive hikes by the Fed fueled the dollar rally and sent the greenback to 109.294 on Thursday. The dollar index gained more than 2% last week pushing the index to levels not witnessed since 2002. Looking at the dollar from the beginning of the year, the dollar appreciated by 13.64% on a basket of rival currencies. It has resulted in USD/JPY hitting a fresh year-to-date high of 139.39. Having such appreciation in the currency would hurt the country's exports and give a price advantage to imported goods.

Europe

Italy's Political Turmoil

The euro area is still adjusting and managing the shock to the system due the ongoing Russian war with Ukraine. Amid elevated inflation and the ECB's war to curb that inflation, PM Mario Draghi handed his resignation to the Italian president, who rejected it. After talks with several party leaders following the vote, Mr. Draghi explained in his statement that 5SM's vote was "very significant from a political point of view", that the "national unity coalition that backed this government no longer exists" and that "the conditions are no longer in place for me to carry on". Along with many other brewing factors in the global economy, the single currency slipped below the $1 mark and reached a low of 0.9950.

Canada

Bank of Canada Starts the 1% Hike Movement

Meanwhile, the Bank of Canada surprised markets after hiking interest rates by a full percentage point to 2.5%, registering the largest increase for the central bank since 1998. The decision illustrates the extent to which officials are concerned regarding soaring inflation. "With the economy clearly in excess demand, inflation high and broadening, and more businesses and consumers expecting high inflation to persist for longer, the Governing Council decided to front load the path to higher interest rates," officials said in the policy statement.

China

Economic Development Tide is Low

China's economic growth slowed sharply in the second quarter, highlighting the colossal toll on activity from widespread COVID lockdowns and pointing to persistent pressure over coming months from a darkening global outlook. Gross domestic product in the April-June quarter grew a tepid 0.4% from a year earlier, official data showed on Friday. That was the worst showing for the world's second-biggest economy since the data series began in 1992, excluding a 6.9% contraction in the first quarter of 2020 due to the initial COVID shock.

Commodities

Oil Prices Fizzle Out

Oil prices dropped below the $100 barrel mark as supply and demand estimates have gone senseless with the Russian exports saga with the EU and US pumping more oil while global economic conditions seem to be worsening as central banks try to firefight the flaming inflation.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30780.

Rates – 17th July, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0172	0.9950	1.0183	1.0087	0.9890	1.0180	1.0155
GBP	1.2027	1.1757	1.2039	1.1852	1.1650	1.1960	1.1876
JPY	136.00	135.98	139.39	138.53	137.50	140.40	137.48
CHF	0.9760	0.9755	0.9886	0.9761	0.9570	0.9960	0.9689