

# Weekly Money Market Report

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## Mixed Inflation Readings as Oil Prices Continue to Rise, Government Shutdown Averted

- US CB consumer confidence falls to 103.00 from 108.7 previously.
- US GDP grows as expected at 2.1% for the second quarter.
- Unemployment claims in the US near YTD lows at 204,000.
- US headline PCE at 3.5% from 3.4% on rising energy, while core PCE declined to 3.9% from 4.3%.
- Eurozone inflation down at headline (4.3%) and core (4.5%) levels, lowest in two years.
- Inflation in Australia rises to 5.2% from 4.9% previously.
- Inflation in Japan's capital city falls to 2.8% on a headline basis and 2.5% on a core level.

## United States

### Consumer Confidence Falls

Consumer confidence in the United States fell again in September, with the Conference Board index coming in at 103.00 from 108.7 previously. The drop in consumer sentiment comes amid elevated energy prices as well as a crisis regarding governmental funding that was averted in the last second with a stopgap bill. Within the index, present situation actually improved despite higher energy costs coming in at 147.1 from 146.7 previously. However, there was a noticeable drop in the consumer expectations portion, which declined to 73.7 from 83.3, indicating the level of worry regarding the near-term future.

### GDP Figure Matches Expectations

Gross Domestic Product in the United States grew at an annual rate of 2.1% in the second quarter meeting market expectations. Despite the final figure remaining the same, consumer spending was revised downwards while non-resident fixed investments, exports, and inventory investment were revised higher.

### Unemployment Claims Near Year to Date Lows

Unemployment claims in the United States rose to 204,000 from 202,000 previously but came in better than expected and remains resilient against high interest rates. Last week's print was the lowest since January while current numbers also indicate that the labor market remains historically tight. The Fed have continuously lamented that the labor market was contributing to upwards pressure in inflation, and more readings like this are likely to reinforce expectations made the majority of Fed voting members that an additional rate hike is needed by year-end to combat inflation.

### PCE Inflation Softer than Expected

Headline PCE inflation came in at 3.5% from 3.4% previously with the monthly figure rising to 0.4% versus 0.2% on the back of higher energy prices. Core PCE, which excludes energy and food, fell to 3.9% from 4.3% previously and to 0.1% versus 0.2% on a monthly basis. Furthermore, consumer spending drastically fell to 0.4% from 0.9% previously as student loan repayments resume in October. Core PCE has been the Fed's preferred gauge for inflation and monetary policy decisions, and the drop in numbers is certainly a welcome sign. However, the recent rise in oil prices is expected to add upwards pressure on inflation and could trickle down to services and other measures included in the core report. Markets have dimmed down their bets for a rate hike unlike the majority of Fed committee voters, pricing in no hikes by year-end and anticipating a cut as early as July 2024.

### Government Shutdown Averted

President Joe Biden signed a short-term funding bill passed by congress to avoid an imminent shutdown of the government, with the stopgap bill extending the deadline until November 17. The move comes after weeks of

disagreement between House Republicans and their counterparts in congress. The bill includes natural disaster aid but no additional funding for Ukraine. Republican House Speaker Kevin McCarthy is facing increased scrutiny by conservatives after supporting the stopgap bill, indicating that the political turmoil in congress regarding a long-term solution is still a problem.

The greenback extended gains over the week, last trading at 106.22

## Europe

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### **Eurozone Inflation Falls to Two-Year Low**

Annual inflation in the Euro area fell to lows last seen in October 2021, coming in at 4.3% from 5.2% previously, which represents a fall to 0.3% from 0.5% previously on a monthly basis. Furthermore, core inflation, which excludes energy and food, also fell to 4.5% from 5.3% in August. The print comes amid a series of disappointing data in the Eurozone, including contracting PMI figures in both the services and manufacturing sector, as well as a general weakness in consumer demand. The ECB decided to hike interest rates at the last meeting to take rates to 4%, however a weakness in consumer demand and business activities, as well as signals by multiple ECB speakers, have caused markets to price in no further rate hikes. The theme with several key central bank speakers in the Eurozone seems to be "higher for longer" with French central bank Governor Francois Villeroy de Galhau stating that it is still "premature" to talk about rate cuts.

The Euro ended the week in decline, with the EUR/USD currency pair closing at 1.0570.

## Asia-Pacific

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### **Inflation in Australia Accelerates**

In Australia, the Bureau of Statistics released data showing that the consumer price index (CPI) rose to 5.2% in August 2023, compared to 4.9% the previous month. The rise in CPI was driven by the global spike in prices of oil, as well as a rise in the price of housing which rose by 6.6%. Although the rise was expected, the consumer price index shows an accelerated cost for consumers in various components such as rent which went up 7.8% from the previous year, as well as rises in the price of transport (+7.4%), food (+4.4%), and insurance and financial services (+8.8%). This has led monetary policy makers to indicate that another rate hike this year could be necessary to combat the increased inflation levels.

The AUD/USD currency pair is up on the week, last seen at 0.6434.

### **Tokyo Inflation Slows**

Inflation in Japan's capital fell to 2.8% versus 2.9% in the previous reading likely adding further support to the BOJ's ultra-loose policy. Furthermore, core inflation that excludes fresh food came in at 2.5% from 2.8% previously beating expectations. New governor Kazuo Ueda has continued the path of his predecessors in supporting and defending historically low interest rates, despite bets at certain points from market participants for a shift in policy. Lower inflation readings continue to vindicate the BOJ's decision to maintain policy even when 10-year JG bonds broke through the upper threshold of the central bank's ceiling forcing them to intervene.

The Japanese Yen continues its weakening trend, with the USD/JPY pair closing at 149.35.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30900.

### Rates – October 1<sup>st</sup>, 2023

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0653	1.0486	1.0655	1.0570	1.0400	1.0700	1.0622
GBP	1.2242	1.2108	1.2271	1.2197	1.2100	1.2400	1.2210
JPY	148.36	148.24	149.72	149.35	146.90	150.00	147.09
CHF	0.9062	0.9058	0.9225	0.9149	0.8900	0.9200	0.9056

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