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Weekly Money Market Report
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The Battle Against Inflation Begins

Highlights

- **With signs of deepening entrenchment, major central banks prepare to unleash monetary tightening measures to combat inflation.**
- **Price pressures continue to heat the US economy while Fed officials try to calm market worries of economic disruption from an aggressive rate hike trajectory.**
- **Across the Atlantic, the ECB triggered markets with a dovish decision followed by hawkish comments while the UK's BoE led the way with its first interest rate hike of 2022.**
- **The dollar lost its pedestal as hawkish whistles and fiery inflation data from major peers reverberated through markets.**
- **US manufacturing and services PMI's inch towards contraction**

With markets violently fluctuating over potential excessive tightening, less hawkish Fed officials tried to manage worries by emphasizing gradual tightening in an effort to avoid unnecessary economic disruptions. Nonetheless, the US dollar remains on the back foot as it headed towards its worst week since November 2020. The US dollar index settled around 1.94% after hitting a week high of 97.271 and a week low of 95.379. However, following the labor force figures, the US dollar index recouped some of its earlier losses. The hawkish tilt from Lagarde extended the euro's gains, peaking well above 1.14. The sterling pound picked up and shot above 1.36 after the BoE's hawkish move. However, it failed to maintain its momentum as it shaved off around 0.49% and closed the week at 1.3529.

US equities were heavily hit due to growing inflation concerns and monetary tightening. Strong corporate earnings helped outweigh inflation and monetary concerns. However, overall market sentiment seems to have soured despite corporate earnings showing the world's largest economy remains robust.

In the debt market, treasury yields jumped following the non-farm payrolls figure that came in much higher than expected. The yield on the 10-year treasury advanced several basis points to 1.91% while the 2-year yield rose to 1.31%.

United States

Manufacturing and Services inching closer towards Contraction

The United States manufacturing and service's growth continues to lose momentum amid supply chain constraints, a rise in materials costs, and a surge in Covid-19 cases. The ISM manufacturing PMI came in higher than expected at 57.6, however fell short of the previous month at 58.7. Although the readings are above the 50 points marking an expanding economy, the figures mark the third straight decline and the lowest level since November 2020. Similarly, the ISM services PMI beat expectations coming in at 59.9 versus the expected 59.5. However, it fell short from the previous month's figures of 62 points. Such figures are fueled by supply and demand imbalances amid higher crude oil prices that weigh heavily on manufacturers, who then push the costs over to consumers and ultimately ignite inflation. Additionally, supply chain constraints are not expected to normalize for a few months and inflation is expected to persist throughout the year.

Labor Force Figures Paint a Mixed Picture

Unemployment data was mixed with private sector jobs falling by a whopping 301K compared to an estimate gain of 185K, but unemployment claims came in lower than expected. Meanwhile, the non-farm payrolls exceeded expectations with 467K jobs added versus the expected gain of 110K and the unemployment rate is at 4.0% versus the expected 3.9%. Although the unemployment rate increased, the rise in non-farm payrolls indicates that more people joined the labor force than individuals that left it.

EU & UK

Inflation Mutation

Eurozone inflation hit a fresh record high of 5.1% in January versus the 5.0% in December. Such inflation figures surprised the markets as inflation was expected to drop to 4.4%. The ECB insisted that energy prices and supply chain snarls are the main reasons for elevated prices. Unemployment improved slightly, down to 7.0% from 7.1% previously.

ECB on Defense Mode with a Hawkish Push to March Meeting

Forecast-beating figures confronted the transitory inflation narrative, but the ECB did not budge in their decision. Bond purchases are to slow starting March and rates will be raised once purchases are completely terminated. However, ECB President Christine Lagarde jolted markets with hawkish comments regarding the inflation and policy outlook. Expecting a strong economic recovery and inflation to continue climbing, the door was opened for a faster reduction in asset purchases, leaving interest rate hikes possibly on the table this year. High emphasis was placed on March's meeting, in which clearer forward guidance on hikes and asset reduction could be provided.

BoE Shoots First Bullet Against Inflation

Leading the global battle with tightening, the Bank of England embarked on their first back-to-back interest rate hike since 2004. In line with expectations, rates were hiked by 25bps to 0.50%, the level at which tapering will begin. Starting March, proceeds of maturing bonds will not be reinvested, leaving more than 200 billion pounds to run off by 2025. Inflation is expected to peak at 7.25% in April amid costlier fuels and a new tax introduction. The final Services PMI measure came in at 54.1 against an expected 53.3 hinting economic growth. Similarly, the final manufacturing PMI exceeded expectations as it came in at 57.3 points versus the expected 56.9 points.

Commodities

Tensions Heating, Prices Rising

Oil prices continue to be at the mercy of dwindling supplies that are threatened by volatile political tensions. Despite data showing missed target outputs, OPEC agreed to raise the production quota to 400K barrels a day. The price outlook is bullish as WTI and Brent rallied above $90 a barrel with bets increasing to above $100 a barrel.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30245.

Rates – 6th February, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1151	1.1138	1.1484	1.1449	1.1300	1.1600	1.1478
GBP	1.3401	1.3558	1.3617	1.3528	1.3400	1.3600	1.3524
JPY	115.26	114.16	115.59	115.2	112.00	116.00	114.99
CHF	0.9306	0.9177	0.9343	0.9256	0.9100	0.9400	0.9225