Weekly Money Market Report

June 9th, 2024

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US Manufacturing Contracts as Job Market Shows Signs of Cooling

Highlights

- **US ISM Manufacturing PMI came in 48.7 vs expectations of 49.8.**
- **Jolts Job Openings came in at 8.06M vs expectations of 8.37M.**
- **ADP Non-Farm Employment Change came in at 152K vs expectations of 173K.**
- **Unemployment claims came in at 229K vs expectations of 220K.**
- **Non-Farm Employment Change came in at 272K vs expectations of 182K.**
- **Unemployment Rate came in at 4.0% vs expectations of 3.9%.**

United States

ISM Manufacturing PMI

Manufacturing in the US contracted for the second month in a row, as seen by the latest ISM publication. Where the manufacturing PMI came in at 48.7 in May, down from 49.2 in April, and below expectations of 49.8. The new orders index dropped from 49.1 in April to 45.4 in May, while the production index came in at 50.2 down from 51.3. Furthermore, the prices index registered 57.0, down from 60.9, while the backlog of orders index registered 42.4 compared to 45.4 previously. The figure is considered the 18th contraction figure seen in the last 19 months, highlighting the slowdown in US manufacturing activity amid the current tight monetary policy by the Fed. The US dollar index was seen trading at around 104.63 following the report release.

JOLTS Job Openings

The number of job openings in the US continued to decline in April, reaching its lowest point in 3 years, as they decreased to 8.06 million from the previous month's revised 8.36 million reading. This suggests a slowdown in hiring but layoffs are still low. While this could be a sign of the labor market returning to pre-pandemic levels, it might also indicate a broader economic slowdown. The Federal Reserve is looking for this cooling effect to fight inflation, but they likely won't cut interest rates based on just one month of data. Job openings are still higher than pre-pandemic times, but interpreting the data is difficult due to lower survey response rates and a changed labor market.

ADP Non-Farm Employment Change

In the US, the ADP non-farm employment report indicated that the US private sector added 152k jobs in May, down from 188k the previous month and below expectations of 173k. The report comes following other employment measures such as the JOLTS job openings, which were also slightly lower than expectations at 8.06M compared to 8.36M previously. Meanwhile, the ISM services index rebounded in May, with the index showing a 54.8 print, up from 49.4 in April, and beating expectations of 51.0. Improvements were seen in business activity and new orders, while prices paid eased slightly for the month.

Unemployment Claims

The US Department of Labor reported a slight increase in unemployment claims. New claims for unemployment benefits rose by 8,000 to a seasonally adjusted figure of 229,000 for the week ending June 1st. This was slightly higher than the economist's prediction of 220,000 claims. This comes after a period of interest rate hikes by the Federal Reserve intended to curb inflation and cool down the economy. Despite the uptick, the number of claims remains relatively low compared to historical levels. This suggests the labor market is still in a strong position. Economists believe this strength is reflected in the low numbers for continuing claims, which track individuals who are still receiving benefits after their first week. This data indicates that people who lose their jobs are able to find new employment fairly quickly.

Non-Farm Employment Change
The U.S. job market continued to be strong in May 2024. There was a significant increase in nonfarm payroll employment, exceeding expectations by a wide margin. This growth of 272,000 jobs outpaced the average monthly gain seen over the past year. However, the unemployment rate ticked up slightly to 4.0%, though it remained relatively low. It's worth noting that the labor force participation rate also dipped a bit. On the positive side, average hourly earnings grew at a faster pace than anticipated, suggesting some wage growth for workers. This increase continued a trend of rising wages over the past year. Overall, the data paints a picture of a healthy job market with new positions being created, although there might be a slight shift in labor force participation.

The US Dollar index closed the week at 104.885.

Europe

Monetary Policy Statement
The European Central Bank (ECB) recently announced a reduction in interest rates, signaling a shift in their monetary policy approach. This move comes after several months of holding rates steady, and was expected by the market. The interest rate reduction, which amounts to a quarter of a percentage point (25 basis points), reflects a belief that the period of stricter monetary controls can be relaxed somewhat. However, The ECB also revised its inflation forecasts upwards, now predicting inflation to average around 2.5% for this year and 2.2% for next year. This suggests that the ECB is still cautious about inflation, despite the rate cut. ECB President Christine Lagarde emphasized that this is a moderation, not an elimination, of restrictions. She acknowledged there will be challenges ahead in reaching the ECB's target inflation rate of 2%, and that the bank will be closely monitoring economic data to determine future actions.

The EUR/USD currency pair closed the week at 1.0800.

Canada

BOC Rate Statement
The Bank of Canada cut its interest rate for the first time in over 4 years down to 4.75% from 5% previously, signaling confidence that inflation is falling towards its 2% target. This makes Canada the first G7 country to reduce rates. The bank hinted at further cuts if inflation keeps easing as Bank of Canada Governor Tiff Macklem clearly stated that “If inflation continues to ease, and our confidence that inflation is headed sustainably to the 2% target continues to increase, it is reasonable to expect further cuts to our policy interest rate.” Economists see this as the start of a potential easing cycle, with markets pricing in another potential rate cut for the Bank of Canada in September.

The USD/CAD currency pair closed the week at 1.3764.

Asia-Pacific

Australian GDP q/q
The Australian economy grew at a slower pace of 0.1% in Q4 2023, compared to the upwardly revised 0.3% growth in Q3. This fell short of market expectations of 0.2% growth. This marks the 10th consecutive quarter of growth, but the weakest in the past six quarters. Several factors

contributed to the slowdown, including subdued domestic demand, a further decline in fixed investment, and a drag from net trade where imports significantly outpaced exports.

The AUD/USD currency pair closed the week at 0.6582.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30620.

Rates – 6th June 2024

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0849	1.0798	1.0915	1.0800	1.0700	1.0860	1.0846
GBP	1.2729	1.2692	1.2817	1.2721	1.2600	1.2760	1.2728
JPY	157.31	154.53	157.47	156.70	156.00	157.80	154.53
CHF	0.9025	0.8879	0.9035	0.8959	0.8900	0.9040	0.8865