Weekly Money Market Report
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Dollar Declines on Expectations of Slower Fed Rate Rises

Highlights

- **US PCE - the preferred measure of inflation by the Fed - gained 6% y/y and 0.2% m/m - adding to the case for a more gradual pace of rate hikes moving ahead.**
- **Friday's highly anticipated employment report revealed the US job sector is stronger than expected. Nonfarm payrolls increased by 263,000 while the unemployment rate sat at 3.7% and earnings jumped 0.6%.**
- **The US Conference Board's consumer confidence index measured 100.2 for last month, down from the 102.2 level seen in October however still indicating optimism towards the economy. A strong labor market has helped to support confidence even as inflation runs stubbornly high.**
- **US manufacturing activity declined for the first time since the early days of the Covid-19 pandemic, revealing higher borrowing costs and the hit to demand of goods.**
- **Flash estimates of EU inflation showed the annual rate easing back to 10% in November from 10.6% the month prior. Core inflation held steady at 5%. The data adds to hopes for a more dovish ECB.**
- **In Australia, annual inflation unexpectedly fell to 6.9%, reflecting a drop in food prices. The core figure also dipped to 5.3%.**

Key inflation gauges released in the US, euro area, and Australia all weakened last week, providing the latest signs that global inflation may have peaked. Supply chains complicated by the Covid-19 pandemic and war in Ukraine have now eased, with food and fuel costs retreating as well. Also effecting global economies although on a lagged basis are the historic hikes by central banks globally in response to inflation lasting stronger and longer than anticipated. Today, Bloomberg Economics estimates worldwide inflation topped out at 9.8% y/y during Q3, and will ease down to 9.5% in the final quarter until finally reaching 5.3% at the end of 2023. Nevertheless, crucial risks remain with supply chains not fully healed, commodity prices at risk of spiking once China fully reopens, and the high cost of living may continue to force up wages.

United States

Employment Report Blows Past Expectations

Job growth was far better than expected in November as nonfarm payrolls increased 263,000 for the month while the unemployment rate sat at 3.7%. The data was far better than the expected increase of 200,000 on the payrolls number, and was a slight decrease from October's 284,000. The numbers will do little to slow down rate rises by a Federal Reserve that has been focusing on bringing down 40-year high inflation. In a hit to the Fed's fight against inflation, average hourly earnings jumped double the estimated at 0.6% for the month. After raising interest rates by 75 bps at each of its last four meetings, Fed officials indicated the pace could slow down soon. Markets are now expecting the bank to implement a 50 bps hike at its December meeting.

Fed's Preferred Inflation Gauge Slowed

Inflation remains rapid in the US however is starting to show signs of slowing, providing good news for policymakers attempting to ease historically fast price increases. Prices as measured by the Personal Consumption Expenditures index climbed 6% y/y in October, in line with expectations and down from the 6.3% seen in September. The core figure, which Fed Chair Jerome Powell stressed would be an important measure as to where inflation is heading, rose less than expected at 0.2% m/m in October. Although the report shows inflation is beginning to ease, it remains far above the Fed's 2% goal.

Consumer Confidence Held up by Strong Labor Market

As inflation and economic uncertainty continue to loom over US consumers, confidence declined in November as widely expected. The Conference Board's consumer confidence index measured 100.2 for last month, down from the 102.2 in October. The index is at its lowest level since July when it fell to 95.7 amid historically high gas prices, and November marks the second month in a row that the headline number has fallen. Both gas and food prices serve as the main culprits to the decline in confidence and continue to dominate assessments of short-term economic conditions. The Present Situation index decreased to 137.4 from 138.7 and the Expectations index fell to 75.4 from 77.9.

Still, the above-100 level indicates optimism toward the economy and higher tendency to spend. Despite stubbornly high inflation, the strong labor market left shoppers at relatively stable financial conditions supported by savings and job security. Serving as the major driver of the US economy, consumer spending maintains its resilience, evident by the last two months of the year accounting for approximately 20% of total retail sales, according to the National Retail Federation. The NRF projects holiday sales could grow to as high as $960.4 billion versus last years $889.3 billion.

Manufacturing Sector Contracts

For the first time since the early days of the 2020 pandemic, US manufacturing activity contracted as steeper borrowing costs weighed on demand for goods. The Institute for Supply Management said last week that its gauge measuring factory activity fell to 49 from 50.2 in October. It marks the first contraction and the weakest reading since May 2020. A reading above 50 represents an expansion in the sector, which accounts for about 11.3% of the US economy. Out of the six biggest manufacturing industries, only two registered growth last month. In total, only six industries reported growth, while 12 shrank in November. Meanwhile, the survey's forward-looking new orders sub-index fell further to 47.2, marking the third straight month of contraction.

Market Movements

The US dollar index lost nearly 1.4% of its value last week before recovering, sending both the euro and pound to 6-month highs of 1.0544 and 1.2309. Treasury yields jumped following the stronger-than-expected jobs report, while stocks on Wall Street fell over fears of a more aggressive Fed.

Europe

Lower Inflation Boosts Hope for Softer Hikes

According to an initial "flash" estimate from the EU, the rate of annual inflation across the euro area eased back to 10% in November compared to 10.6% in October. The drop marks the first fall in the rate of inflation in 17 consecutive months. Continuing to contribute majorly is the cost of energy, though price increases slowed last month to 34.9% down from 41.5% annually. However, food inflation accelerated slightly to 13.6% from 13.1% while the rate for industrial goods and services remained steady. Core inflation, which strips out energy and food prices, remained steady at an annual rate of 5%.

The European Central Bank will meet later this month and is expected to raise interest rates again. With inflation running at more than five times the ECB's 2% target, the bank raised rates at its fastest pace on record this year with back-to-back 75 bps hikes. At their next meeting, markets are widely expecting a 50 bps hike after some policymakers argued inflation is finally peaking and that the ECB has made enough progress to justify smaller steps. A string of hikes moving forward is still likely, as price growth will take years to ease. The peak in the deposit rate is still seen at around 3%, suggesting another 150 bps of hikes.

Australia

Unexpected Drop in Inflation Defends Dovish RBA

Aided by smaller increases for food prices, Australia's annual inflation rate fell to 6.9% from September's 7.3% pace. Fruit and vegetable prices fell sharply and holiday costs took a surprising dip, marking an unexpected turn that could mean interest rates will not have to rise as far as many expected. The core rate also fell slightly to 5.3% y/y from 5.4% y/y.

The drop helps to defend the Reserve Bank of Australia's dovish pivot seen a few months ago when it decided to increase rates at just 25 bps per meeting. Both the RBA and Treasury expect inflation will peak in December at about 8% before declining through 2023 as the effect of higher borrowing costs sap demand and supply constraints ease as Covid disruptions end. The Aussie gained 0.95% last week after closing November 6% higher, and was last seen trading at 0.6789.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30710

Rates – 04th December, 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0380	1.0288	1.0544	1.0538	1.0300	1.0800	1.0619
GBP	1.2075	1.1897	1.2309	1.2287	1.2000	1.2500	1.2330
JPY	139.31	133.60	139.89	134.30	131.00	135.00	132.69
CHF	0.9458	0.9325	0.9548	0.9367	0.9300	0.9600	0.9272