Weekly Money Market Report
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Mounting Inflationionary Pressures Send the Dollar Higher

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Highlights

- **Highest headline inflation at 8.5% annually in the US since 1981**
- **Markets pricing in 98% chance of a 50 basis point hike by the Fed**
- **Japanese yen retreats to fresh lows against the US dollar**
- **ECB's meeting clouded the market and sent the euro tumbling below 1.08**

United States

Inflation in the US

In the United States, consumer prices rose 8.5% in March, marking the highest level seen since the Reagan administration in 1981. Excluding food and energy, the core CPI figure increased less than expected at 6.5% y/y and 0.3% m/m, providing some hope that overall inflation is likely easing. The usual culprits were responsible for the increase, with food prices up 8.8% and energy prices up 32% over the year. Gasoline prices alone surged 18.3% for the month, boosted by the war in Ukraine and subsequent pressure on supply. In the US, the latest CPI figures were followed by headline PPI and core figures well exceeding estimates, wiping out any opportunity for leniency from the Fed. Producer prices in March jumped 1.4% from the previous month and 11.2% from a year ago, the most on record. Core PPI, which excludes food and energy, increased 1% in March from a month earlier and was up 9.2% from a year ago. It contrasted the latest core CPI figure, which showed a softening pace in core inflation.

Federal Reserve Governor Federal Reserve Governor Lael Brainard said the slowing increase in core CPI illustrates a "welcome" development in bringing down inflation, adding that she will be looking "to see whether we continue to see moderation in the months ahead." Nevertheless, alongside the surge in inflation worker wages have not kept up with the cost of living. Real average hourly earnings posted a 0.8% decline for the month, and the inability to keep up with costs could add to inflationary pressures. Markets reacted positively to the inflation data with stocks rising and government bond yields declining.

After the strong inflation data, markets have priced in 2 rate hikes worth 50 basis points in the upcoming Fed meeting with a probability of 98%. The mounting pressure on commodities and geopolitical uncertainties have increased inflation expectations and hence more aggressive rate hike expectations. The market is also pricing in 2 rate hikes in the June 15th meeting. If those expectations were to happen, it would mean that benchmark interest rates in the US have increased by 1.25% in 6 months.

Market Movement

On the forex front, the dollar remained on top of the currencies hill and gained much ground on the Japanese yen after the inflation report. The USDJPY reached a new high of 126.66 on Friday as the greenback's momentum continued.

EU & UK

ECB's Vague Forward Guidance

As widely expected, the ECB did not announce any policy changes on 14 April and left all interest rates unchanged, with the deposit rate still standing at -0.50%. No major changes were announced to the forward guidance or the pace of winding down QE purchases. Net purchases under the APP have been confirmed at EUR40bn in April, EUR30bn in May and EUR20bn in June. There was a small tweak, however, to the language regarding the pace of purchases after June. The statement now says that "at today's meeting the Governing

Council judged that the incoming data since its last meeting reinforce its expectation that net asset purchases under the APP should be concluded in the third quarter" while before it said that "if the incoming data support the expectation that the medium-term inflation outlook will not weaken even after the end of its net asset purchases, the Governing Council will conclude net purchases under the APP in the third quarter". The ECB also reaffirmed that the first rate rise will take place "some time" after the end of asset purchases, with Ms Lagarde reiterating that "could be anywhere between a week or several months".

Consequently, the markets were less optimistic on the euro and hence a selloff was evident in the single currency sending the currency to a low of 1.0756 before reversing the move toward 1.08. The market is currently pricing in 6 hikes of 10 basis points starting in July till year end by the ECB. If materialized, the benchmark rate would be 0.10% in out of negative territory.

Inflation Pressure in the UK

The Fed is not alone grappling faster inflation. CPI in the UK rose by 1.1% in March alone, the fastest monthly increase on record, and surged by 7% annually, a 30-year high. Prices are set to surge further this month when a 54% increase in energy costs hits household bills. The pressure is piling on the Bank of England (BoE) to act when they meet next month, the market has priced in a rate hike in the upcoming May policy meeting.

Asia

China’s Inflation

China's inflation figures surprised on the high side, with annual CPI rising to 1.5% and annual PPI gaining 8.3%. The figures are unlikely to prevent the People’s Bank of China (PBOC) from easing monetary policy to cushion the economy from the economic struggles of the recent lockdown.

Commodities

Demand on Energy

Signs of deteriorating diplomacy around Russia’s war in Ukraine and China’s demand forecasts reviving as it looks to ease some of the more stringent lockdown conditions gave way for oil prices to reestablish above $100 a barrel.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30480.

Rates – 17th April, 2022

	Previous Week Levels				This Week’s Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0933	1.0756	1.0950	1.0806	1.0630	1.0925	1.0851
GBP	1.3039	1.2970	1.3147	1.3058	1.2850	1.3150	1.3058
JPY	124.05	123.99	126.68	126.35	125.30	128.20	125.95
CHF	0.9302	0.9284	0.9445	0.9425	0.9235	0.9640	0.9381