INTERNAL

Weekly Money Market Report
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War Stresses Subsidize Inflationary Pressures as Central Banks Race to Salvage Global Economic Growth

Highlights

- **Europe's largest nuclear power plant falls under Russian control taking its toll on the markets.**
- **Commodity prices continue climbing as the situation in Europe progresses.**
- **US employers added 678K new jobs compared to the expectations of a 407K increase, pushing unemployment rate down to 3.8%.**
- **Eurozone consumer prices rose by a record 5.8% in February.**

Russian Invasion of Ukraine

Growing Stakes as Russian Missiles Rain on Ukraine

Undeterred by international condemnation and sanction slams, Russia tightened its grip and intensified attacks in Ukraine. A fire in the eastern region, near Europe's largest nuclear power plant, blasted deafening alarms of radiation worries before being extinguished after the fire was put out and safety of the power plant was confirmed. Global peers, including corporate giants who chose to pitch in, proceeded isolating Russia with ever-expanding sanctions on Russian elites and major banks and halted or exited business operations to financially cripple Russia. To avoid hampering wider economic growth and stoking unanchored inflation, embargos on oil and gas were untouched. Ongoing relentless diplomatic efforts failed to beget any resolution of a ceasefire.

The latest sanction package delivery from the US and Europe to Russia stabbed the ruble and immobilized the Moscow Exchange which has been closed since last Monday. The ruble crashed to 121 against the dollar, driving Russia's central bank to shoot interest rates from 9.5% to 20% to prevent a run on banks.

Nuclear Threats Poison FX Markets

Impulsive war developments and problematic uncertainty echoing into global economies spilled demand for the dollar as it dominated the safe-haven territory. Being in close proximity to the war overwhelmed European currencies. Carrying the weight of the mass exodus of Ukrainian refugees to the region, the euro perished to close the week at 1.0926 despite reassuring comments on the safety of the nuclear plant. The sterling plunged into the ocean of 1.3220. The run to secure liquidity propped up the battle between the dollar and the safe-haven yen and Swiss franc. The yen slipped below 115.00 and the Swiss franc traded below 0.9170. The ballistic commodities rally ignited the commodity-linked Australian dollar above 0.7300.

Commodities

Fear-Fueled Supply Starvation

Commodity prices joined inflation figures as prices across the board break records as the war threatens supply in an already tight and volatile backdrop. Unresolved US-Iran talks, OPEC+ not increasing their supply quota, and companies shunning Russian crude exports have prompted the US and major allies to approve releasing emergency stockpiles in the face of threatened supply. Quelling concerns failed to calm oil prices below $100 a barrel. Gold also fluctuated wildly as it traded above $1,900 an ounce amid higher safe-haven demands and careful trudging from central banks to move forward against inflation. Wheat soared to a 14-year high to above $10 a bushel as about a quarter of world's export is threatened by the war.

United States

Full Economic Tank, Careful Map Ahead

The American economy marched on in its robust economic recovery trek with the latest ISM manufacturing and services PMIs both signaling economic expansion in February. In addition, despite labor shortages, dropping virus cases and easing restrictions kept the job market prospering. In February, employers in the US added 678K new jobs compared to the expectations of a 407K increase, the increase pushed unemployment rate down to 3.8% after it marginally increased at the start of the year.

The report released by the Bureau of Labor Statistics on Friday showed monthly wage growth flattening, however, following a 0.6% jump in average hourly earnings in January, over the past year; hourly earnings are up 5.1%. The readings bolster the Federal Reserve's case to push ahead with a series of interest rate increases this year.

That being said, Fed Chair Jerome Powell's latest testimony emphasized a softer pedal on the rate hike accelerator while still keeping a keen eye on the implications of the current situation on the economy. He told US lawmakers on Wednesday that the Federal Reserve is prepared to push ahead with a series of interest rate increases from March, despite the highly uncertain economic outlook due to Russia's invasion on Ukraine. Powell confirmed his support for a 25bp hike at the regulator's March meeting as he laid out the case for tightening monetary policy amid heightened geopolitical tensions. He said he expects a "series" of interest rate increases this year, and also hinted that he could support raising rates by larger increments later on if inflation fails to moderate sufficiently. "The bottom line is that we will proceed, but we will proceed carefully as we learn more about the implications of the Ukraine war for the economy," said Powell. The Fed still expects inflation to moderate this year as severe supply-demand mismatches subside, but Powell said he is "humble" about being able to forecast when that may happen.

Alongside plans to raise rates, the Fed will also begin scaling back its $9tn balance sheet. While no details have yet been provided about when that process may begin and at what pace, Powell on Wednesday suggested a roughly three-year timeline to shrink it to levels where "it needs to be".

Markets are now pricing in just five quarter-point interest rate increases during the course of the year, compared to the six that were penciled in just before Russia's invasion of Ukraine.

Later this week, February CPI and core CPI will be released along with assessments on consumer sentiment.

Markets at the Mercy of War Developments

Markets oscillated as they tear between threats and hopes and consider the prospect of a less aggressive rate hike trajectory from the Fed. The S&P, Nasdaq 100, and Dow Jones moved down on Friday as worrisome developments in Ukraine weighed on sentiment, The S&P closed Friday down 0.79%, while Nasdaq 100 closed down 1.66%, and Dow Jones closed down 0.53%. Demand on Treasury yields slashed and flattened the curve, hinting at expected slowdown in economic growth. The 10-year yield dipped to 1.73% and the 2-year yield dipped to 1.48%.

Europe

Shattered Peace and Threat to Economic Growth

Across the Atlantic, the war is founding a humanitarian crisis as civilians seep out of Ukraine in seek of refuge from neighboring nations. Gas prices surged as much as 60% as traders move away from dealing with Russian suppliers. The Euro Stoxx Index continues plunging against continued war as investors ran for cover in the face of escalating war in Ukraine, with Russia seizing a big nuclear plant. The Euro Stoxx Index closed Friday's trading session down 3.6%.

Inflation growth in the Eurozone continued climbing as Germany, Spain, and Italy, reported higher CPI than expected. Eurozone consumer prices rose by a record 5.8% in February, the flash estimate for the annual Eurozone inflation of February climbed up from 5.1% in January, and above the forecast average of a 5.4% increase. Excluding more volatile items such as energy and food, core inflation increased from 2.3% in January to 2.7% in February. ECB vice-president Luis de Guindos described the inflation figure for February as "a negative surprise" and predicted that the war in Ukraine would raise prices further and hit growth.

Unemployment also improved coming in at 6.8% compared to 6.9%. More economic data economic advancement (industrial production and retail sales) will scatter throughout the week ahead of the ECB meeting on Wednesday, where the economic forecast is expected to be adjusted in consideration of the war consequences on the economy along with a decision on interest rate movement.

Asia Pacific

Skies Board Hawks and Doves

Unlike its neighbor New Zealand who recently hiked rates, Australia kept its interest rate unchanged at 0.10% in the face of its current economic situation. Despite retail sales growing by 1.8% compared to an expectation of 0.3%, quarterly GDP came in slightly lower than expected at 3.4% compared to the expected 3.5% but much better than the previous decline of 1.9%. Governor of the Reserve Bank of Australia (RBA), Phillip Lowe, is set to testify later this week.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30320.

Rates – 6th March 2022

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1177	1.0884	1.1246	1.0926	1.0725	1.1030	1.0962
GBP	1.3405	1.3199	1.3437	1.3225	1.3020	1.3330	1.3222
JPY	114.97	114.63	115.80	114.78	112.75	116.35	114.51
CHF	0.9275	0.9148	0.9280	0.9165	0.8980	0.9360	0.9127