# Weekly Money Market Report
07 November 2021

>NBK Treasury
+965 22216603
tsd_list@nbk.com

## Hawkish Fed and Solid Data Elevate the Dollar

Highlights

- **The Fed's tone prove to be divergent from other major central banks and starts tapering its asset purchases.**
- **Bank of England takes the markets by surprise and maintains interest rates.**
- **US non-farm payrolls add 531K jobs and unemployment falls to 4.6%.**
- **The US dollar gains across the board on the back of solid fundamentals.**

## United States

### Fed Meeting

Following a two-day meeting last Wednesday, the US Federal Reserve announced it would begin scaling back its massive $120bn bond-buying program this month. The decision entails cutting stimulus by $15bn a month while leaving interest rates unchanged. The tapering process will begin mid-November, and will likely end by June 2022. However, noteworthy was the change in tone regarding inflation, with the Fed providing admission that higher prices may persist. The Fed still maintained a hawkish tone and that is divergent from the BOE and ECB, which both have adopted dovish tones in their recent meetings.

Growing consumer demand alongside supply chain disruptions have resulted in higher prices in many US sectors for longer than previously anticipated by central bankers. On inflation, Powell insisted the Fed still expects recent price rises to be "transitory", while adding that it was "very difficult to predict the persistence of supply constraints or their effects on inflation". Annual inflation was last seen at a 13-year high in September at 5.4%, while unemployment fell to 4.8%. In September, the central bank lowered its forecast for US growth this year to 5.9%, down from 7% in June.

The market has pushed its expectations for a rate hike closer, especially after the official announcement of the tapering decision by the Fed. Current hike probabilities stand at 68% chance of a hike in June 2022 and 93% for July. The market has also priced a 100%+ for a second hike by December 2022. Nevertheless, the latest decision from the BOE proved markets wrong and we will discuss that in detail later on in our report.

As for the labor market, the highly anticipated jobs report displayed solid additions to the labor force led by the private payrolls adding 604K jobs while the non-farm payrolls added 531K jobs in October. Both figures were higher than the previous reading and the market's expectation as the US prepares for the holiday season. The unemployment rate ticked down to 4.6% from 4.8% while the participation rate remained steady at 61.6%.

### Markets React

The dollar gained momentum this week following the unexpected rate hold in the UK by the BOE and the greenback got further support from the solid jobs report later on Friday. The dollar index opened the week at 94.136 and reached a 3-week high of 94.544 following the release of non-farm payrolls.

### US Manufacturing and Services PMIs

In the US, The Institute for Supply Management (ISM) said on Monday its index of national factory activity slipped to a reading of 60.8 last month from 61.1 in September. A reading above 50 indicates expansion in manufacturing, which accounts for 12% of the US economy. US manufacturing activity slowed in October as a measure of new orders dropped to a 16 month low and factories continued to experience delays with deliveries of raw materials.

The services PMI in the US figure came at 66.7 and exceeded the market's expectations for 61.9. Economic activity in the services sector grew in October for the 17th month in a row. The rate of expansion set a record for the fourth time in 2021

## Europe

**Bank of England Meeting**

Financial markets had fully priced in a rate hike by the BOE ahead of the policy meeting help last Thursday. However, the shocking decision to keep benchmark interest rate the same took traders by surprise and caused some chaos on the cable levels. There was a lesson here for all analysts to refrain from over-interpreting remarks from new leaders or policymakers. Additionally, since policy makers have access to markets all it would have taken to calm markets were few words to signal that they got it wrong to avoid such volatility.

Going back to the meeting itself, policymakers in the BOE voted 7-2 to keep benchmark interest rate at 0.1%. The MPC members have prioritized immediate concerns over slowing growth more than the inflation spike, which is expected to hit 5% next year. Officials have also pushed back against market pricing a series of hikes to 1% next year and noted that such an aggressive approach would leave inflation well below their 2% target.

The cable opened the week at 1.3688 and traded cautiously ahead of the BOE's policy meeting. The currency fell to a 4-week low of 1.3424 after the surprising decision by BOE's Governor Andrew Baily to maintain interest rates. On weekly basis, the sterling lost 1.92% of its value as the strong jobs report fueled the dollar's bull-run.

## Australia

**RBA meeting**

The Reserve Bank of Australia met last week and the central bank scrapped its bond yield target and said that the conditions for a rate hike will take some time to materialize. The RBA also signaled that it is open to hiking earlier than its previous guidance of 2024. The Aussie edged lower following the meeting and fell below the 0.75 level to a low of 0.7486. The Aussie's recent positive performance is attributed to higher oil prices. However, the dollar increased across the board on the back of solid data and fundamentals, which pushed the Aussie to a 3-week low of 0.7360.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30165

## Rates – 07th November, 2021

| | Previous Week Levels | | | | This Week's Expected Range | | 3-Month |
|---|---|---|---|---|---|---|---|
| Currencies | Open | Low | High | Close | Minimum | Maximum | Forward |
| EUR | 1.1557 | 1.1514 | 1.1617 | 1.1567 | 1.1375 | 1.1660 | 1.1600 |
| GBP | 1.3688 | 1.3424 | 1.3698 | 1.3498 | 1.3305 | 1.3595 | 1.3517 |
| JPY | 113.93 | 113.30 | 114.44 | 113.39 | 111.50 | 115.50 | 113.21 |
| CHF | 0.9163 | 0.9088 | 0.9175 | 0.9121 | 0.8925 | 0.9315 | 0.9100 |