

Weekly Money Market Report

12 June 2022



Peaking Inflation Data Sends the Dollar Higher

Highlights

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- Inflation reached 8.6% in the US setting the path for additional 50 basis point hikes by the Fed
- The market is pricing in 8 hikes from now till year end which adds 2% to the current 1.0% Federal Funds Rate
- ECB sent a loud and clear message on its approach to fighting inflation through gradual tightening starting in July
- Market has priced 1.5% increase in deposit rates by the ECB till year end, which would raise the policy rate to 1%
- Oil prices continue to surge amid increased demand and lower supply

United States

Inflation in the US

In the United States the highly anticipated and closely monitored inflation data surfaced early on Friday showcasing an increase in price pressures. On an annual basis, the consumer price index in the US reached 8.6% from the previous reading of 8.3%. Core inflation, which excludes food and energy, reached 6% and beat expectations by 0.1%. Futures on the S&P 500 fell more than 1% after the data, exacerbating concerns that the Fed's efforts to control inflation will tip the economy into a recession. The two-year Treasury rate rose, while yields on longer-dated maturities were little changed. The flattening of the yield curve indicates expectations for a faster pace of central-bank tightening. Inflation is still running at the highest in 40 years even after the Fed began winding down monetary support for the economy in March. The central bank signaled it will likely raise rates by 50 basis points when it meets next week.

The market is still pricing in 8 hikes worth 25 basis points each till year end, with the next three meetings having a 100% probability of a 50 basis point hike. The latest inflation data seems to support the rhetoric of the market that the Fed will need to continue to be aggressive in its tightening policy to contain inflation.

Market Movement

On the forex front, the dollar remained on top of the currencies hill and almost reached 104 last week following the release of the inflation data. The divergence in the forward guidance between the Fed and the BOJ continued to weigh in on the yen. The pair has reached a 20-year high of 134.55 while the Swiss franc is depreciating against the dollar and traded close to the 0.9900 level.

EU & UK

ECB Sets the Tone for Future Hikes

The June ECB policy statement was unusually explicit in laying out the ECB's near-term intentions and its new forecasts. It stated that the "Governing Council intends to raise the key ECB interest rates by 25 basis points at its July monetary policy meeting". But for now, as widely expected, the ECB did not change its key interest rates as the deposit rate still stands at -0.50%.

The ECB "expects to raise the key ECB interest rates again in September ... If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting." This suggests that unless the inflation outlook improves between now and September, the door is very much open to a 50bp rise then.

Markets are currently pricing in 100% probability of a 25 basis point hike by the ECB in July and September and a total of 1.5% worth of hikes from now till year end, which will raise the policy rate to 1.00%. Although the ECB was clear in its tightening framework and forward guidance, it was below the market's expectation of a 50 basis point hike, which pressured the euro and sent it tumbling below the 1.06 level.

UK Prime Minister Survives

Prime Minister Boris Johnson survived a no confidence vote motion with 211 Tory MPs voting for him and 148 against him. The rebellion was bigger than the one suffered by predecessor Theresa May, who was ousted as premier six months later after failing to unite the party over leaving the European Union.

Australia

Australia on a Tightening Path

The Reserve Bank of Australia hiked its benchmark cash rate by 50 basis points to 0.85%, whereas markets were expecting a hike of 25 basis points only. The aussie hit a high of 0.7245 after the decision before retreating to 0.7100 levels on the back of a stronger US dollar. The Australian equity market declined by 1.5% as a result of the higher than expected hike by the central bank.

Commodities

Oil Prices Remain Supported

Worries over inflation and monetary tightening are stoked further in the commodities complex, where oil prices advanced past \$124 a barrel, its highest level in three months. Tightening US crude stockpiles and wakening global demand have contributed to rising prices.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30615.

Rates – 12th June, 2022

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0695	1.0517	1.0716	1.0517	1.0300	1.0700	1.0578
GBP	1.2533	1.2316	1.2590	1.2316	1.2300	1.2700	1.2328
JPY	130.85	130.41	134.55	134.42	132.00	136.00	133.73
CHF	0.9620	0.9603	0.9898	0.9871	0.9700	1.000	0.9811

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