

# Weekly Money Market Report

## September 8<sup>th</sup>, 2024



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## NFP Reading Bolsters Expectations of Further Easing as Oil Prices Fall to YTD Lows

### Highlights

- Services PMI in the US increased to 51.5 from 51.4 previously.
- JOLTS report shows openings at 7.7 million versus 7.9 million previously.
- Bank of Canada delivers third consecutive 25 bps cut to take the overnight rate to 4.25%.
- NFP payrolls at 142,000 versus 160,000 forecasted.
- UK manufacturing sector PMI at 26 month high of 52.5.
- Oil prices fall to YTD lows, last seen at 71.06.

## United States & Canada

### US PMI Steady

In August, the US manufacturing sector continued to contract, though at a slower rate, with the ISM Manufacturing PMI slightly increasing to 47.2 from 46.8 in July, but still below market expectations of 47.5. The Employment Index improved to 46 from 43.4, while the New Orders Index declined to 44.6 from 47.4. The Prices Paid Index, which measures inflation, rose to 54 from 52.9. Timothy R. Fiore, Chair of the ISM Manufacturing Business Survey Committee, noted that although manufacturing is still contracting, the pace of contraction has slowed, with weak demand, declining output, and accommodative input conditions. Meanwhile, economic activity in the services sector edged higher to 51.5 from 51.4 in July, beating expectations of a 51.1 print. Steve Miller, chair of the Institute for Supply Management (ISM) Services Business Survey Committee, stated that "low-to-moderate growth was cited across many industries, while ongoing high costs and interest-rate pressures were often mentioned as negatively impacting business performance and driving softness in sales and traffic."

### JOLTS Report Show Openings at New Lows

US job openings fell to 7.7 million in July, the lowest since January 2021, down from 7.9 million in June. The decrease, below the expected 8.1 million, represents a 13% decline from last year and signals a slowdown in labor demand. Layoffs also increased to 1.8 million, the highest level since March 2023. These developments, coupled with recent weaker payrolls and job growth revisions, have heightened expectations for Federal Reserve interest rate cuts. Treasury yields fell sharply, after the 2s10s disinverted, with the two-year note now at 3.65% and the ten-year note at 3.72%. Meanwhile, US equities mostly fell for a second day, with Nvidia sliding further after its \$279 billion, 9.5% drop on Tuesday, the largest one-day market-cap loss for a US company.

### Bank of Canada Deliver Rate Cut

Elsewhere, the Bank of Canada has lowered its benchmark overnight rate by 25bps to 4.25% on Wednesday, marking its third consecutive cut and signaling the possibility of further reductions if inflation continues to trend toward the 2% target. Canadian CPI slowed to 2.5% y/y in July, with weak economic growth and an unemployment rate of 6.4%. Wednesday's rate cut was also targeted at addressing housing affordability pressures, a significant issue for Trudeau's Liberal government. The policy outlook aligns with global trends, as other G7 central banks, including the Bank of England and European Central Bank, have also begun reducing rates, reflecting a broader easing of monetary conditions amid moderating inflation.

### NFP Reading Came in Short of Expectations

Nonfarm payrolls in the US rose by 142,000, greater than the previous revised reading of 89,000 but short of the expected 160,000 figure. The unemployment rate edged lower to 4.2%, while labor force participation remains unchanged at 62.7%. Average hourly earnings rose to 3.8% annually versus 3.6% previously, which represents an increase of 0.4% m/m, coming in above the expected 0.3% growth. The greenback came under selling pressure following the NFP data, with markets pricing in further easing by year-end. Prior to the reading, markets were favoring a 100 bps cut until year-end, however following the print, odds of a 125 bps cut rose sharply despite markets still slightly favoring 125 bps.

The US Dollar index closed the week at 101.187.

## Europe

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### PMI Shows Decline in Business Activity

In August, eurozone manufacturing remained in contraction, with the S&P Global PMI coming in at 45.8, slightly above July's 45.6 figure, and signaling ongoing economic difficulties. Meanwhile, the index for new orders fell to 43.3 from 44.1, its lowest since December, as domestic and international demand fell. Although factory prices rose for the first time in 16 months, overall inflation in the currency bloc decreased to a three-year low of 2.2%. Moreover, eurozone final services PMI declined to 52.9 from 53.3 prelim. These declines bolster expectations for further policy easing by the European Central Bank.

### Retail Sales in the Eurozone Rebounds

Eurozone retail sales edged higher by 0.1% in July from a 0.4% decline previously in June. The slight increase was in line with market expectations. Food, drinks, and tobacco sales rose by 0.4%, while sales excluding food and automotive fuel saw a 0.1% increase. On the other hand, sales of automotive fuel saw a 1% fall. Despite the recovery of retail sales on the month, the numbers continue to highlight the persistent struggles in consumer spending as households remain squeezed amid elevated interest rates.

The EUR/USD currency pair closed the week at 1.1083.

## United Kingdom

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### PMI Reaches New Highs

The manufacturing sector in the UK reached a 26-month high in August, with UK Manufacturing PMI rising to 52.5, up from 52.1 in July. This indicates continued growth in output, new orders, and employment, supported by easing inflationary pressures. Despite robust domestic demand, new export orders declined for the 31st consecutive month due to weak European and Chinese markets, high shipping costs, and geopolitical uncertainties. Overall, the UK's manufacturing outlook remains positive, with strong domestic performance offsetting export challenges. The services sector also experienced greater than expected expansion, with the final PMI reading at 53.7 from 53.3 prelim. The recent positive economic data from the UK has markets questioning if the Bank of England has more room to hold rates higher for longer than their counterparts in Europe and the US. Markets are currently pricing in two 25 bps cuts by year-end to take the bank rate down to 4.5% and are currently pricing in no change for the upcoming September meeting.

The GBP/USD currency pair closed the week at 1.3123.

## Commodities

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### Oil Decline Continues

WTI crude oil futures fell below \$70 per barrel, continuing a decline due to concerns about weaker global demand and economic uncertainty. Furthermore, reports of an agreement between different factions in Libya that would restore oil output after previously being disrupted is also contributing to the fall in prices. Meanwhile, manufacturing in China fell to a six-month low in August adding to demand concerns after a series of economic data indicated a slowdown in the world's second largest economy and largest oil importer. OPEC + countries agreed to boost oil production in October, adding to the narrative of excess supply amid global economic slowdown and weaker demand, but have since declared plans to delay this move for two months. Officials previously indicated that the decision could be adjusted or reversed depending on market conditions.

## Kuwait

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### Kuwaiti Dinar

USD/KWD closed last week at 0.30495.

## Rates – 8<sup>th</sup> September 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1045	1.1025	1.1155	1.1083	1.1000	1.1100	1.1131
GBP	1.3119	1.3084	1.3238	1.3123	1.3040	1.3180	1.3134
JPY	146.18	141.77	147.20	142.27	141.00	143.00	140.54
CHF	0.8494	0.8374	0.8537	0.8428	0.8360	0.8500	0.8344

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