Weekly Money Market Report
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>NBK Treasury
+965 22216603
tsd_list@nbk.com

Market Crosscurrents: Disinflation Meets Escalation as Cooling US Prices Collide with Energy and Tech Risks

Market Commentary

Global markets traded on two competing narratives this week: the clearest US disinflation signal in over a year on one side, and renewed US strikes on Iranian targets alongside a sharp repricing of AI-linked technology valuations on the other. In the United States, June CPI fell 0.4% MoM - the largest monthly decline since April 2020 - taking headline inflation to 3.5% YoY from 4.2%, while core CPI was flat MoM, easing to 2.6% YoY; producer prices echoed the impulse, falling 0.3% MoM. Fed Chair Kevin Warsh, in his first semi-annual testimony before Congress, cautioned that the improvement is not "mission accomplished", with a majority of officials still seeing the case for at least one hike before year-end; initial jobless claims fell to 208K, underscoring labour-market resilience, while retail sales slowed to 0.2% MoM as ex-autos sales declined 0.2%, the first drop in over a year. Meanwhile, the Bank of Canada held its overnight rate at 2.25% and upgraded its growth outlook. Across Europe and the United Kingdom, euro area industrial production slipped 0.2% MoM in May as durable-goods weakness persisted, while UK GDP returned to growth at 0.1% MoM and BoE Governor Bailey signalled that rate cuts remain off the table despite a softening economy. In Asia-Pacific, China's Q2 GDP slowed to 4.3% YoY, the weakest since late 2022, keeping stimulus expectations alive into the late-July Politburo meeting, while the yen remained pinned near multi-decade lows amid escalating intervention rhetoric. US Treasury yields firmed, with the 10-year at 4.56%, and global equities saw a chip-led correction - the Nasdaq underperformed as Micron and TSMC slid on AI-spending concerns - even as the S&P 500 held near record territory at 7,534. Commodities remained hostage to geopolitics, with Brent at 85.40, WTI at 80.30 and spot gold at 3,970, as fresh hostilities kept a supply-risk premium embedded despite uninterrupted physical flows through the Strait of Hormuz.

United States and Canada

US CPI Posts First Monthly Decline Since 2020 (-0.4% MoM) as Headline Eases to 3.5% YoY; PPI Falls 0.3% MoM

US inflation data delivered a decisively disinflationary surprise, with headline CPI falling 0.4% MoM in June - below consensus and the largest monthly decline since April 2020 - taking the annual rate down to 3.5% from 4.2% in May. The energy index was the largest contributor to the monthly decrease, dropping 5.7% MoM as gasoline tumbled 9.7% during a lull in the Iran conflict, while shelter rose just 0.1% MoM and food gained 0.2%. Core CPI was unchanged MoM, also below expectations, easing to 2.6% YoY from 2.9%. Producer prices reinforced the message, with headline PPI unexpectedly falling 0.3% MoM against a flat consensus, as goods prices dropped 1.4% - the steepest decline since July 2022 - on a 6.4% plunge in energy, although services prices edged up 0.2% and the annual rate remains elevated at 5.5%. Markets remain wary that renewed Gulf escalation since the survey period could reverse part of the energy-led improvement in coming prints.

Warsh Tells Congress Inflation Fight Is Not "Mission Accomplished"; Majority Sees Case for a Hike by Year-End

Delivering his first semi-annual Monetary Policy Report testimony as the 17th Fed Chair, Kevin Warsh told the House on Tuesday and the Senate Banking Committee on Wednesday that the June CPI decline should not be over-interpreted, warning that "there might be some that look at this morning's data and say, 'oh, mission accomplished'", while vowing to make the inflation surge of the last five years "a thing of the past", describing it as "a tax on the American people and businesses". With the federal funds target range held at 3.50%-3.75%, Warsh reiterated that a majority of officials continue to see a case for at least one rate hike before year-end, criticised the 2020 flexible average inflation targeting framework as "a mistake", and unveiled five task forces reviewing communications, balance sheet management, data usage, productivity and employment, and the inflation goal as part of a broader "regime change" in Fed operations. Swap markets continue to price roughly one 25bps hike by year-end, with September seen as live.

US Retail Sales Slow to 0.2% MoM as Ex-Autos Falls 0.2%; Jobless Claims Drop to 208K

US consumer momentum cooled in June, with headline retail sales rising 0.2% MoM - in line with consensus but the weakest gain since January, as sales ex-autos unexpectedly declined 0.2% against a flat forecast, the first decrease in over a year. The control group, which feeds directly into GDP, rose a firmer 0.5% for a sixth consecutive increase, leaving headline sales up 6.7% YoY. The labour market, by contrast, remained resilient: initial jobless claims fell 8K to 208K, below the 215K consensus, while continuing claims eased to 1.805M and the four-week average declined to 214K. The combination of falling inflation, stable employment and cooling-but-positive consumption keeps the soft-landing narrative intact.

The Greenback was last seen trading at 100.765.

Bank of Canada Holds at 2.25% and Upgrades Growth Outlook; Inflation Seen Back at 2% by Early 2027
The Bank of Canada left its overnight rate unchanged at 2.25% (Bank Rate 2.50%), judging that the current policy stance "remains appropriate to sustain the economic recovery and bring inflation back to the 2% target". CPI inflation reached 3.2% in May, driven primarily by gasoline prices linked to the Middle East conflict, while inflation excluding gasoline stood at 2.2%. The Bank projects inflation to ease gradually and return to around 2% in early 2027, averaging near target through 2027-2028. On growth, momentum was upgraded: Q2 GDP is estimated at 2.5% annualised with expansion broadening across consumer spending, exports and business investment, and the economy is projected to grow 1.8% in both 2027 and 2028 following 0.7% in 2026. Governing Council reiterated it is "prepared to adjust monetary policy as needed" amid elevated geopolitical and trade-policy uncertainty.

The USD/CAD currency pair was last seen trading at 1.4020.

Europe and the United Kingdom

Eurozone Industrial Production Slips 0.2% MoM in May as Durable-Goods Weakness Persists
Euro area industrial production declined 0.2% MoM in May, reversing April's 0.1% gain and leaving no clear underlying trend across the bloc: output rose in Germany and Spain, fell sharply in Ireland, and eased more moderately in Italy and France. Durable consumer goods production declined again - a consistently negative factor in recent months - while activity continues to draw support from precautionary inventory accumulation against supply-chain disruption, comparatively favourable production conditions versus Asia in the conflict's early phase, and structurally higher defence spending. With the energy shock still filtering through to costs and sentiment resting heavily on hopes of geopolitical stabilisation and public investment, the data reinforce a subdued eurozone growth pulse heading into the second half.

The EUR/USD currency pair was last seen trading at 1.1439.

UK Economy Returns to Growth with GDP Up 0.1% MoM in May; Bailey Says Rate Cuts Remain Off the Table
UK GDP rose 0.1% MoM in May, in line with expectations and reversing April's 0.1% contraction, leaving output up 0.7% on a three-month rolling basis - a sixth consecutive period of expansion. Services (+0.3% MoM) drove the gain, led by a 5.1% surge in scientific research and development, while production fell 0.5% and construction contracted 0.8% on a 5.0% decline in private housing repair. Speaking on Tuesday, Governor Andrew Bailey said the decision to hold rates was based on a softening economy, stressed that rate cuts are "off the table at the moment" given the oil-driven inflation spike, urged a renewed national growth push, and noted the Bank would need to respond were an AI-related asset bubble to burst. Markets continue to see the BoE holding through the energy shock while fiscal pressures keep the policy mix delicate.

The GBP/USD currency pair was last seen trading at 1.3453.

Asia-Pacific

Yen Pinned Near 162.50 as Intervention Rhetoric Escalates
The yen remained under persistent pressure, with USD/JPY grinding to the top of its recent range as wide rate differentials, elevated energy import costs and the Bank of Japan's cautious normalisation kept carry demand intact, while Japanese authorities again warned against excessive one-way moves, keeping intervention risk elevated on approaches toward 163. A Reuters poll sees June core CPI, due July 24, accelerating to 1.6% YoY from 1.4% in May - boosted by elevated crude costs linked to the Iran situation and revised medical service fees - a fifth consecutive month below the 2% target but an outcome that would strengthen the case for further BoJ tightening at its month-end meeting, when the Board also conducts its quarterly review of growth and price forecasts.

The USD/JPY currency pair was last seen trading at 162.39.

China Q2 GDP Slows to 4.3% YoY, Weakest Since Late 2022, as June Activity Beats Mask an Investment Slump
China's economy expanded 4.3% YoY in Q2, missing the 4.5% consensus and marking the weakest print since the final quarter of 2022, with sequential growth slowing to 0.9% QoQ from 1.3%; first-half growth of 4.7% nonetheless remains within Beijing's 4.5%-5.0% target band. June activity data surprised positively - retail sales rose 1.0% YoY against expectations of a decline, reversing May's 0.6% drop, while industrial production jumped 5.3% YoY on AI-led export strength - but the investment picture deteriorated, with H1 fixed asset investment down 5.7% and real estate

investment plunging 18%, underscoring the widening gap between supply and demand. Attention now turns to the late-July Politburo meeting, where analysts increasingly expect policymakers to lean in harder during Q3 - possibly with a rate cut and an infrastructure push - although export resilience gives Beijing room to stay measured.

The USD/CNY currency pair was last seen trading at 6.7760.

Kuwait

USDKWD closed last week at 0.30750.

FX Rates – 19 July 2026

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1410	1.1376	1.1482	1.1439	1.1300	1.1600	1.1481
GBP	1.3388	1.3339	1.3557	1.3453	1.3300	1.3700	1.3452
JPY	161.56	161.55	162.54	162.39	160.00	164.00	161.19
CHF	0.8078	0.8032	0.8151	0.8072	0.7900	0.8200	0.7993