

Weekly Money Market Report

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The Fed Starts Its Interest Rate Cutting Cycle Aggressively

Highlights

- The NY Empire State Manufacturing Index surged to 11.5 in September 2024.
- US retail sales exceeded expectations in August.
- The Federal Reserve reduced its benchmark rates by 0.5 percentage points to a range of 4.75%-5%.
- The inflation rate in Canada slowed down to 2% on an annual basis.
- Inflation in Australia has dropped to its lowest level since March.
- The Bank of England has kept interest rates at 5%.
- The Bank of Japan kept its benchmark interest rate steady at around 0.25%.

North America

New York Empire State Manufacturing Index

The NY Empire State Manufacturing Index surged to 11.5 in September 2024, the highest since April 2022, up from -4.7 in August and beating forecasts of -4.1. This marks the first growth in business activity in New York state in nearly a year, driven by higher new orders (9.4 vs -7.9) and shipments (17.9 vs 0.3). Delivery times and supply availability were stable, while inventories leveled off. However, the labor market remained weak, with employment contracting slightly and the workweek steady. Input and selling prices saw little change. Despite a dip in capital spending, firms were more optimistic about future conditions.

US Retail Sales

Retail sales exceeded expectations in August, indicating that consumers are still spending despite the labor market slowdown, driven by rapid wealth gains and falling energy prices. Retail sales rose 0.1% in August compared to economists' forecast of a 0.2% decrease, while July sales were revised upward to a 1.1% increase from a previous reading of 1%. Excluding auto and gas, sales rose 0.2% in August, slightly below estimates, but the control group increased 0.3%, aligning with expectations.

Federal Funds Rate

The Federal Reserve enacted its first interest rate cut since the early COVID-19 pandemic, reducing benchmark rates by 0.5 percentage points to a range of 4.75%-5%. This decision, driven by softening inflation and labor market concerns, aligns with recent market expectations. The move is seen as a response to prevent a labor market slowdown and signals potential additional rate cuts through the end of 2025. The cut was the largest since 2008 (outside of COVID-related reductions), and Chair Jerome Powell emphasized the Fed's commitment to stabilizing inflation without significantly raising unemployment. Although the rate cut follows steady GDP growth and inflation above the Fed's 2% target, the central bank remains cautious, noting job gains have slowed, and unemployment has edged higher to 4.2%. The Federal Open Market Committee (FOMC) vote was 11-1, with dissent from Governor Michelle Bowman, who favored a smaller 0.25 percentage point cut. Market reactions were volatile, with stocks initially rising before leveling off. Powell made it clear that the cut is not part of a series of large reductions.

Canada Inflation

The inflation rate in Canada slowed down to 2% on an annual basis, hitting the Bank of Canada's target, and bolstering expectations for aggressive rate cuts. The reading marked the slowest increase since February 2021. The deceleration was driven by a drop in energy and gas prices, while the main contributor to inflation remains housing costs. The print comes amid a time of slowing growth and a weakening labor market, with the unemployment rate rising to 6.6% in August. Bank of Canada governor Tiff Macklem stated that the central

bank is open to steeper cuts if “growth does not materialize as expected.” Markets are pricing in 50 bps worth of cuts by year-end.

The US Dollar Index closed the week at 100.723.

England

Official Bank Rate

The Bank of England (BoE) has kept interest rates at 5% following steady inflation in August but hinted at a potential rate cut in November. The Monetary Policy Committee (MPC) voted eight-to-one to maintain rates after a quarter-point cut last month. The BoE indicated it would adopt a gradual approach to easing monetary policy if economic conditions remain stable, though it remains cautious about reducing rates too quickly. Sterling briefly rose to its highest against the dollar since March 2022. BoE Governor Andrew Bailey noted that inflationary pressures were easing, and the economy was progressing as expected. The BoE's decision comes after the US Federal Reserve and the European Central Bank also cut rates. UK inflation held steady at 2.2% in August, down from a peak of over 11% in 2022 but slightly above the BoE's 2% target. Inflation is expected to rise to 2.5% by year-end. Despite the easing of underlying inflation, services price inflation remains a concern.

The GBP/USD currency pair closed the week at 1.3321.

Asia Pacific

Bank of Japan Policy Rate

The Bank of Japan (BOJ) kept its benchmark interest rate steady at around 0.25%, the highest since 2008, following a two-day meeting. This decision aligns with expectations, and economists anticipate another rate hike by year-end as the BOJ moves to normalize its monetary policy after years of ultra-low rates. While Japan's economy has recovered moderately, some weaknesses remain. The BOJ expects the economy to grow above its potential growth rate, driven by a cycle of income and spending, with core inflation forecasted to rise through fiscal year 2025. Despite global central banks easing policies, the BOJ remains focused on tightening, having raised rates to 0.25% in July after abandoning negative rates in March. Inflation continues to climb, providing room for further rate hikes. Japan's core consumer price index increased by 2.8% year-on-year, with inflation excluding fresh food and energy rising to 2.0%. The BOJ's next rate decision is expected in October. Analysts caution that rate hikes could slow growth or trigger a downturn. Japan's GDP growth for Q2 was revised down to an annualized 2.9%, below forecasts, indicating a weaker recovery than expected.

The USD/JPY currency pair closed the week at 143.91.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30500.

Rates – 22nd Sep, 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1161	1.1135	1.1181	1.1162	1.1080	1.1330	1.1200
GBP	1.3284	1.3265	1.3340	1.3321	1.3210	1.3530	1.3320
JPY	142.62	141.72	144.49	143.91	141.75	145.50	142.23
CHF	0.8476	0.8449	0.8517	0.8501	0.8400	0.8475	0.8418

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