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Weekly Money Market Report

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Cooling U.S. Inflation Supports Fed Pause Amid Global Economic Uncertainty

Market Commentary

Global markets were influenced this week by easing inflation in the United States, resilient economic growth in the United Kingdom, and continued caution from central banks amid geopolitical uncertainty and elevated energy prices. While inflation pressures appear to be moderating across major economies, policymakers remain mindful of risks stemming from the Middle East conflict and its impact on energy costs. In the United States, inflation slowed for a second consecutive month in July, with headline CPI easing to 3.4% year-on-year from 3.5% in June, while core inflation moderated to 2.5%. Producer price data also pointed to softer inflationary pressures, as the Producer Price Index (PPI) remained unchanged during the month, helped by a 3.1% decline in energy prices. These developments have strengthened expectations that the Federal Reserve will keep interest rates unchanged, as current policy settings appear restrictive enough to guide inflation lower over time. The U.S. labour market remains relatively resilient despite signs of slower hiring. Initial jobless claims rose modestly to 209,000, while the unemployment rate held at 4.1%. Although layoffs remain low, employers have become increasingly cautious about hiring due to elevated borrowing costs and economic uncertainty. This combination of easing inflation and softening labour market conditions has reduced expectations of a near-term Fed rate hike. As a result, the U.S. Dollar Index (DXY) weakened toward 99.8, reflecting lower expectations for further monetary tightening. In the United Kingdom, the economy expanded by 0.4% in the second quarter, matching expectations but slowing from 0.6% growth in the previous quarter. Growth was supported by the technology, advertising, and pharmaceutical sectors, as well as stronger consumer activity linked to favourable weather and the FIFA World Cup. However, economists remain cautious, noting that much of the recent strength may be temporary. Ongoing energy market volatility, fragile business confidence, and concerns over inflation could weigh on future growth. The GBP/USD pair traded below 1.35 as investors balanced encouraging economic data against external risks. In the Asia-Pacific region, the Reserve Bank of Australia (RBA) kept its cash rate unchanged at 4.35% following three rate hikes earlier this year. While the central bank acknowledged slowing economic growth and rising unemployment, it maintained a hawkish stance, warning that inflation remains too high and could require further policy tightening if upside risks emerge. Governor Michele Bullock reiterated that additional rate increases remain possible if inflation does not ease as anticipated. Commodity markets continued to reflect geopolitical developments. Gold prices fell below $4,350 per ounce as softer U.S. inflation data reduced the likelihood of an imminent Fed rate hike. Meanwhile, Brent crude oil climbed to around $87 per barrel, supported by ongoing concerns over supply disruptions in the Middle East and uncertainty surrounding the reopening of the Strait of Hormuz. Overall, the latest economic data suggest that major central banks are likely to maintain a cautious approach in the near term. Easing inflation in the U.S., steady growth in the UK, and persistent inflation concerns in Australia point to a "higher-for-longer" interest rate environment, while geopolitical developments and energy prices remain key risks for global markets

United States

US Inflation Eases to 3.4% in July, Continuing Downward Trend

US inflation eased for a second consecutive month in July 2026, with the annual CPI rate slowing to 3.4% from 3.5% in June, matching market expectations. The decline suggests that inflationary pressure continues to cool from the 2023 high of 4.2%, helped by easing energy-related effects. Gasoline prices still rose sharply on an annual basis at 24.6%, but this was lower than June's 26.7% increase, while fuel oil inflation also moderated. Shelter inflation eased slightly to 3.2%, while food inflation remained unchanged at 3.0%. On a monthly basis, CPI rose 0.1%, supported mainly by shelter and food, while gasoline prices fell 2.9%. Core inflation rose 0.2% month- on month, while the annual core rate eased to 2.5%, reinforcing the view that underlying inflation is gradually moving in the right direction.

Falling Energy Costs Drive Producer Inflation Lower

Producer inflation showed signs of stabilizing in July 2026, providing support for the Federal Reserve to keep interest rates unchanged as inflation pressures begin to ease. The Producer Price Index (PPI) was flat compared with June and rose 4.7% year-over-year, suggesting that producer price inflation may be moving onto a downward path. A key contributor was a 3.1% decline in energy prices, which could gradually reduce cost pressures across the economy and eventually benefit consumers. While services prices continued to rise modestly as earlier cost increases flowed through supply chains, goods prices fell for a second consecutive month, narrowing the gap between the two sectors. At the same time, consumer spending patterns showed early signs of shifting back toward goods, which could help improve the balance between supply and demand and ease inflationary pressures. Despite these encouraging developments, inflation remains elevated, with core producer prices, excluding food and energy, still 4.2% higher than a year ago, reflecting the lingering effects of this year's oil price shock. The Federal Reserve must also contend with emerging weakness in the labor market, including job losses reported in July, as it determines the appropriate course for monetary policy. Although lower producer costs are a positive sign, policymakers will likely need broader evidence of cooling inflation before considering any policy changes. For now, the latest producer inflation data supports expectations that the Fed will keep interest rates steady through the rest of 2026 and into 2027 while monitoring both inflation and economic growth trends.

U.S. Labor Market Shows Resilience Amid Sluggish Recruitment
U.S. jobless claims increased modestly last week, but layoffs remain at historically low levels, indicating that the labour market continues to be relatively resilient. Initial unemployment benefit applications rose to 209,000 from a revised 200,000 the previous week, slightly exceeding expectations, while the four-week moving average held steady at 199,000. Although these figures suggest strong job security for those already employed, with the unemployment rate remaining low at 4.1%, conditions are less favourable for job seekers. Many employers, still mindful of the labour shortages experienced after the pandemic, have been reluctant to reduce headcount but are also cautious about expanding their workforce, creating what economists describe as a “no-hire, no-fire” environment. As a result, hiring activity remains subdued, with employers cutting 23,000 jobs last month and adding an average of 61,000 jobs per month so far in 2026. While this marks an improvement from the exceptionally weak hiring pace seen in 2025, elevated interest rates and uncertainty surrounding President Trump’s trade policies continue to weigh on business confidence and recruitment plans.

Cooling Inflation Reduces Pressure for Immediate Fed Rate Hike
Kevin Warsh became Federal Reserve Chair in May at a time when officials were debating whether interest rates should be increased to fight inflation, while President Trump was pushing for lower rates to boost the economy. Recent economic data, however, suggests the Fed may keep rates unchanged for now. The job market has slowed, wage growth has weakened, and hiring remains modest, but unemployment is still low at 4.1%. Inflation remains above the Fed’s 2% target, although it has started to ease after rising sharply earlier in 2026 due to higher energy prices linked to the U.S war with Iran. Many Fed officials believe current interest rates are already high enough to gradually bring inflation down, especially since much of the recent inflation was caused by temporary factors such as tariffs, oil prices, and strong investment in artificial intelligence. Recent reports showing slower inflation and weaker job growth have reduced expectations of an immediate rate hike. However, some policymakers remain concerned that keeping inflation above target for too long could cause consumers and businesses to expect permanently higher prices, making inflation harder to control in the future. As a result, the Fed faces a difficult choice. Raising rates could help bring inflation back to 2% more quickly but may slow the economy and increase unemployment. Leaving rates unchanged could support growth but risks inflation staying elevated for longer. While a few Fed officials are still calling for rate increases, many economists believe the Fed will likely keep rates steady if inflation continues to cool and the economy gradually weakens. The key issue now is balancing economic growth with maintaining confidence that inflation will eventually return to the Fed’s target.

The Greenback was last seen trading at 99.667.

United Kingdom

GDP m/m
The UK economy grew by 0.4% in the second quarter of the year, matching market expectations but slowing from the 0.6% expansion recorded in the first quarter. According to the Office for National Statistics (ONS), economic growth remained relatively strong, making the UK one of the better performing economies among the G7 countries so far this year. Despite concerns that the Iran war and political uncertainty surrounding Prime Minister Keir Starmer’s resignation could weigh on activity, the economy is now 1.2% larger than a year ago. Growth during the quarter was supported by sectors such as computer programming, advertising, and pharmaceuticals, while declines in power generation and sewerage services partially offset these gains. Favourable weather conditions, summer heatwaves, and increased spending linked to the men’s football World Cup also contributed to stronger economic activity in June. While the economy has shown resilience, economists caution that this performance may not be sustainable. Some of the recent growth was driven by temporary factors, and ongoing volatility in energy markets remains a significant risk, particularly if disruptions related to the Middle East conflict continue. Businesses reported that higher costs for raw materials following the Iran war have begun to stabilize, helping improve operating conditions. However, experts warn that rising inflation, increasing unemployment, and fragile business confidence could slow growth in the months ahead. Treasury projections suggest the UK economy could expand by just 0.9% this year, with growth potentially falling as low as 0.3% by 2027 if energy market disruptions persist. Overall, while the UK has weathered recent economic shocks better than expected, uncertainty remains and the outlook continues to be challenging.

The GBP/USD currency pair last seen trading at 1.3530.

Asia Pacific

Reserve Bank of Australia maintained the official cash rate at 4.35%.

The Reserve Bank of Australia maintained the official cash rate at 4.35% on Tuesday, as widely expected, following three hikes earlier in the year. The RBA, which pointed to rising unemployment and a weak property market, said its policy decision was unanimous. "The disruption to global oil supply is adding directly to inflation and there are indications that higher fuel prices are being passed through to prices of other goods and services, so inflation is likely to remain high for some time," it said. "This inflation impulse is in addition to the effect of capacity pressures in the economy. "The board remains focused on ensuring that high inflation does not become embedded. To achieve this, growth in aggregate demand needs to remain subdued to reduce capacity pressures and bring inflation back to target. Following three increases in the cash rate target since the beginning of the year, financial conditions are now tighter than they were, and the economy appears to be slowing as expected. But inflation is still too high. It is not expected to return to around the midpoint of the target range until late 2027 and there are upside risks to this projection. "With monetary policy judged to be somewhat restrictive, the board decided to leave the cash rate target unchanged while it assesses how the economy is evolving. The board will continue to do what it considers necessary to bring inflation sustainably back to target, including increasing the cash rate target further if upside risks materialise." Speaking to reporters after the announcement, Governor Michele Bullock took a hawkish tone, suggesting that it was "quite possible" rates will be lifted if needed. "Its important people believe that we will act if we need to," she said. "I think personally that it’s quite possible we might need to go but we’ll wait and see what the data tells us."

The AUD/USD currency pair last seen trading at 0.7081.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30725

Rates – August 16th, 2026

	Previous Week Levels				This Week’s Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1548	1.1510	1.1585	1.1569	1.1450	1.1700	1.1610
GBP	1.3479	1.3471	1.3561	1.3530	1.3440	1.3650	1.3535
JPY	157.74	157.60	159.56	159.30	158.50	160.00	158.20
CHF	0.8070	0.8060	0.8146	0.8131	0.8070	0.8200	0.8050