

Weekly Money Market Report

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Lower US Inflation Data Reinforces The Case For September Fed Rates Cuts.

- US Producer Price Index came in at 2.2% annually vs 2.7% previously.
- US Consumer Price Index y/y came in at 2.9% vs expectations of 3.0%.
- US Retail Sales m/m came in at 1.0% vs expectations of 0.4%.
- US Unemployment Claims came in at 227,000 vs expectations of 236,000.
- UK Consumer Price Index y/y came in at 2.2% vs expectations of 2.3%.
- UK Retail Sales m/m came in at 0.5% vs expectations of 0.6%.

United States

US Producer Price Index

The Producer Price Index in the US saw a pullback to 2.2% annually from 2.7% previously. On a monthly basis, prices increased by 0.1%, lower than the previous and expected figure of a 0.2% rise. Core PPI also slowed to 2.4% annually and was flat on the month, indicating that the path towards lower inflation is right on track. Evidence of cooling inflation corresponded to a rally in equity markets, with all three major US stock indices notching over 1% gains. Meanwhile, the greenback also eased following the inflation report last seen trading at 102.65 as markets turned their attention to the upcoming CPI report.

US Consumer Price Index

US headline inflation fell to 2.9% in July, the first drop below 3% since March 2021, boosting expectations for a Federal Reserve interest rate cut in September. Core CPI, excluding food and energy, rose 3.2%, slightly down from 3.3% in June. Whilst concerns about economic contraction remain, markets now assign a 72% probability to a smaller quarter-point cut in September, down significantly from earlier this month. Despite recent market turmoil, the S&P 500 gained 0.4% on Wednesday, reflecting reduced recession fears and bringing US stocks to their first five-day rally in over four weeks.

Retail Sales m/m

US retail sales data significantly exceeded expectations, with overall retail sales rising 1% and core retail sales, excluding volatile items, increasing by 0.3%. While historical data was revised downward, the overall outcome remains stronger than anticipated. This robust performance, driven by significant gains in vehicle sales and other categories like electronics, building materials, and food, outweighs declines in other areas. Given this unexpected consumer spending resilience, which contradicts previous expectations of a slowdown after unusually hot weather, markets are increasingly leaning towards a smaller interest rate hike by the Federal Reserve in September.

Unemployment claims

The number of Americans filing new unemployment claims unexpectedly dropped for the second consecutive week, reaching 227,000, the lowest level since early July. This decline contradicts the recent slowdown in hiring and has surprised economists who predicted a higher figure of 235,000. While unemployment claims have been trending upwards this year, they remain relatively low compared to pre-pandemic levels. Additionally, the number of people continuing to receive unemployment benefits also decreased to 1.86 million. However, some economists and investors remain concerned about a potential faster-than-expected weakening of the labor market.

The Greenback was last seen trading at 102.403.

United Kingdom

UK Consumer Price Index

UK inflation accelerated to 2.2% in July from 2%, exceeding market expectations of 2.3% but still far from the Bank of England's 2% target. Core inflation also rose to 3.3% from 3.5%, a bit lower than forecasts. On a monthly basis CPI has declined by 0.2%. This increase is primarily attributed to a slower decline in gas and electricity prices compared to the previous year. However, the rise was less than anticipated due to an insignificant increase in services prices.

UK Retail Sales m/m

UK retail sales rebounded in July, increasing by 0.5% compared to the previous month. This follows a revised 0.9% decline in June. The boost came from summer discounts and the European football championship, which drove sales in department stores and sports equipment stores by 0.7% and 1.4% respectively. While economists predicted a 0.6% growth, the actual figures met expectations. Capital Economics' economist Alex Kerr said that "if spending off the high street continued to hold up well, overall consumer spending may be more robust than the retail sales data imply".

The GBP/USD currency pair was last seen trading at 1.2944

Asia-Pacific

China Industrial Production

China's industrial production growth slowed to 5.1% y/y in July, missing expectations of 5.2%. Meanwhile, retail sales increased by 2.7%, surpassing forecasts and June's figures. China's three-year property market slump persists, with new and secondhand house prices in the country's largest cities declining 4.2% and 8.8% y/y respectively in July. Despite policymakers' measures to stabilize the market and boost demand, the downturn in property and industrial production has led to recent warnings from major Chinese steel producers. In July, unemployment increased to 5.2% versus 5.0% in June, whilst fixed asset investment also showed a weaker performance coming in at 3.6% versus 3.9% previously.

The CNY/USD currency pair was last seen trading at 7.1644

Reserve Bank of New Zealand

The Reserve Bank of New Zealand delivered the first rate cut in over four years, taking the cash rate down to 5.25% and taking some economists and market participants by surprise. The central bank signaled that more cuts are in the cards as inflation nears the target range of 1%-3%. RBNZ Governor Adrian Orr stated that growth has weakened substantially since May, and the central bank expects the country to tip into a technical recession compromising two consecutive quarters of economic contraction. Markets are pricing in 75 bps worth of cuts until year-end, taking the cash rate all the way down to 4.5%.

The AUD/USD currency pair was last seen trading at 0.6666

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30550.

Rates – August 18th, 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0913	1.0910	1.1047	1.1028	1.0800	1.1200	1.1075
GBP	1.2754	1.2744	1.2945	1.2944	1.2700	1.3100	1.2954
JPY	146.73	146.07	149.39	147.58	144.00	150.00	145.71
CHF	0.8637	0.8617	0.8748	0.8660	0.8400	0.8800	0.8573

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