

# Weekly Money Market Report

5 July 2026



>NBK Treasury  
+965 22216603  
tsd\_list@nbk.com

## Soft Data, Strong Markets, and Fragile Calm

### Market Commentary

The week closing before the July 4 holiday compressed significant macro information into three trading sessions and delivered a clear narrative shift: the worst of the oil shock appears to be in the rear-view mirror, but the inflationary legacy it has left behind is keeping central banks on high alert and fundamentally reshaping the rate outlook for the rest of 2026. In equities, the S&P 500 wrapped a blockbuster quarter, up 14% for Q2 and the Nasdaq up 20%, the best quarterly performance for both since Q2 2020, before retreating in the shortened week as Thursday's soft NFP print of just 57,000 jobs (half the consensus) was interpreted as a signal of genuine labor market cooling rather than a catalyst for optimism. The week's equity direction was therefore counterintuitive: a bad jobs number helped stocks on Friday as it dialed back Fed hike probability to around 50% for September, while mid-week selling had been driven by tech profit-taking and residual ceasefire anxiety. The quarter's gains have been almost entirely an AI story, the SpaceX IPO at \$1.77 trillion briefly added speculative froth before losing a third of its value in two weeks, and the "bubble" debate intensified, but earnings from the Magnificent Seven continued to provide fundamental underpinning. In commodities, Brent crude completed its worst quarter since Q1 2020, down approximately 38% from Q1's 94% surge, settling back near \$72-73, essentially at pre-war levels, as Strait of Hormuz flows recovered toward 75% of pre-war capacity. Weekend exchanges of fire between the US and Iran tested the June 17 interim accord, and Doha talks produced only technical-level dialogue, but the market's baseline assumption has clearly shifted from "prolonged closure" to "fragile but functional reopening." In FX, the dollar held near its strongest levels in over a year, with the DXY settling around 100.85 as the week closed, and with USD/JPY trading near 161 despite remarks from Japanese authorities on their readiness to intervene when needed, as the structural rate differential continues to overwhelm authorities' defense of the currency. Gold suffered its worst quarter since 2013 on the firm dollar and rising real yield expectations, trading below \$4,200 for much of the week before recovering slightly to \$4,174 on Friday as the soft jobs data eased hike expectations. The ECB Flash CPI surprise to the downside at 2.8% and Governor Bailey's explicit warning of further UK inflation from the energy cap mechanism at Sintra captured the central bank paradox of this moment, the same oil price decline that is reducing headline inflation is also suggesting the worst economic damage has passed, creating space for diverging central bank reactions. The week closed with markets heading into the US holiday half-convinced that the macro peak stress of 2026 is behind them, and half-convinced the ceasefire could still unravel in the upcoming days.

### North America

#### US Factory Activity Cools as Input Costs Ease

The ISM Manufacturing PMI eased to 53.3 in June, slightly below the 53.8 consensus, marking a sixth consecutive month of expansion but signaling a clear deceleration from May's four-year high. The moderation reflects the fading of the front-loading effect that had inflated prior months' readings as firms-built inventories ahead of feared supply disruptions; with Strait of Hormuz flows recovering, that urgency has diminished. New orders fell to 56.0 from 56.8, exports contracted, and order backlogs decreased after rising in May. Employment improved to 49.7 from 48.6, suggesting marginal labor market stabilization in the sector. The headline story, however, was the 9.1-point collapse in the Prices Paid index to 73.0, the largest single-month decline since July 2022, as falling oil prices directly reduced energy and fuel input costs. With 15 of 18 industries still reporting higher costs, prices remain structurally elevated above pre-war levels, but the direction of travel is now meaningfully downward.

For the Fed, the combination of easing activity and decelerating input costs is a modest positive, but with prices still running far above the 50 mark, the inflation signal remains hawkish in absolute terms.

### **Weak Jobs Print Softens Fed Hike Pressure**

June Non-Farm Payrolls disappointed significantly, adding just 57,000 jobs, half the 114,000 consensus and the weakest print in four months. Professional and business services, social assistance, and healthcare continued to trend up, but leisure and hospitality declined, reversing part of the prior month's contribution. The unemployment rate fell a tick to 4.2%, a 14-month low, but this was driven by a 0.3 percentage point decline in the participation rate to 61.5%, meaning workers leaving the labor force rather than genuine job creation. The labor force participation decline is a warning sign: it typically signals workers becoming discouraged, which is consistent with the sustained energy cost squeeze on consumer spending power. Average hourly earnings rose 0.3% month-on-month and 3.5% year-on-year, slightly above the prior 3.4%, suggesting wages are not yet disinflating enough to give the Fed comfort. ADP had pre-signaled some softening at 98,000 private hires, and the official print confirmed the labor market is cooling from the exceptional pace seen in Q1. For the Fed, the miss removes some of the urgency around a September hike but does not eliminate it, one soft month against a backdrop of 4.1% PCE and a hawkish new Chair is not enough to shift the committee's direction

The Greenback was last seen trading at 100.857.

### **Canada Rebounds as Energy and Industry Lift Growth**

Canada's economy rebounded strongly in April, posting 0.5% month-on-month GDP growth, the largest monthly expansion in nine months and above the 0.4% consensus, reversing the mild contraction seen in March. Growth was driven primarily by the mining, quarrying, oil and gas extraction sectors, benefiting from the elevated energy price environment, along with manufacturing and the public sector. An advance estimate for May suggests a further 0.1% expansion, led by finance, insurance, and real estate, putting Q2 on track to grow above 2% annualized, overshooting the Bank of Canada's 1.5% forecast for the quarter. The data allays concerns that a tariff-led slowdown was becoming entrenched and provides the BoC with less urgency to ease policy, even as inflation remains above target. For CAD, the beat is constructive at the margin, though the currency remains predominantly driven by oil price direction and the USD/CAD rate differential, which continues to favor the dollar given the divergent monetary policy trajectories.

The USD/CAD currency pair was last seen trading at 1.4198.

## **Europe**

---

### **Eurozone Inflation Falls, Reducing ECB Hike Pressure**

Eurozone headline inflation fell more sharply than expected in June, dropping to 2.8% year-on-year, below the 3.0% forecast and down from May's 3.2%. The deceleration was broad-based, with energy, food, and services all contributing to the softening as the dramatic fall in oil prices from the war's peak flowed through into petrol prices, heating costs, and transport services across the bloc. Core inflation also declined and services inflation eased to 3.2% from 3.5%, an encouraging sign that second-round effects from the energy shock have remained contained for now. Consumer inflation expectations over the 12-month horizon fell sharply from 4.0% to 3.5% according to ECB survey data, further reinforcing the disinflation narrative. The read-across for the ECB is meaningful: having hiked 25bps in June to 2.25%, policymakers indicated no commitment to further action, and this CPI print, combined with ECB President Lagarde's dovish Sintra address describing the shock as "significant but non-permanent", significantly reduced market pricing for a follow-up hike. EUR/USD initially fell below 1.14 on the dovish signals before stabilizing, reflecting the tension between an easing inflation story and the dollar's persistent strength.

The EUR/USD currency pair was last seen trading at 1.1435.

### **Swiss Inflation Undershoots as Energy Relief Deepens**

Swiss CPI for June came in at 0.6% year-on-year, well below the consensus estimate of approximately 0.9% and reflecting the significant relief that lower oil prices have delivered to Switzerland's already low inflation environment. The monthly increase of 0.2% was driven by housing rentals and the hotel sector, with energy prices providing a downside offset as petrol and heating oil fell in response to the oil price correction. Switzerland's structural insulation from energy inflation, through its large hydro and nuclear power base, CHF strength limiting import price transmission, and restrained domestic wage growth, has kept the country as an outlier in a global inflation landscape that remains elevated everywhere else. For the Swiss National Bank, which held rates in June as expected, the benign print provides no pressure to tighten; if anything, any further CHF appreciation from safe-haven flows would bring deflation risk back onto the agenda. The SNB is expected to remain in a patient hold posture for the remainder of 2026. CHF remains bid as a safe-haven currency, particularly given renewed uncertainty around the Iran ceasefire's durability.

The USD/CHF currency pair was last seen trading at 0.8033.

## **United Kingdom**

---

### **Bailey Keeps BoE Cautious as UK Inflation Risks Persist**

Bank of England Governor Andrew Bailey addressed the ECB Forum at Sintra alongside Fed Chair Warsh, ECB President Lagarde, and BoC Governor Macklem, and separately spoke with CNBC, offering the most direct comments on the UK inflation and rate outlook in weeks. Bailey acknowledged that UK CPI currently stands at 2.8% but explicitly flagged that it is expected to rise further toward approximately 3.2% later in the year, driven by the lagged adjustment mechanism of the UK household energy price cap. He was measured and deliberate in tone, neither committing to further hikes nor ruling them out, consistent with the BoE's current data-dependent stance following its hawkish pivot in March. At Sintra, the panel discussion touched on the collective central banking challenge of supply-shock inflation, with Bailey noting that traditional monetary tools are blunter instruments against externally driven energy shocks than against domestically generated demand inflation. His comments on AI-driven equity valuations drew attention, he noted the "noticeable divergence" between bond yield levels and equity markets and raised the question of whether this could trigger broader financial stability challenges, a rare and noteworthy remark from a G7 central banker. For GBP, Bailey's calibrated message left sterling broadly unchanged on the day, with the pound's trajectory continuing to be shaped by the broader dollar and rate differential dynamics rather than BoE-specific guidance.

The GBP/USD currency pair was last seen trading at 1.3351.

## **Asia-Pacific**

---

### **Japan Nikkei Rises on AI-driven Rally**

Japan's Nikkei 225 closed Q2 2026 with a quarterly rise of more than 36%, a record, driven by the AI semiconductor boom, a dramatically weaker yen boosting export earnings, and the broader global risk-on environment as Iran war fears faded. However, the same yen weakness that inflated corporate profits in yen terms is creating a deepening structural problem: USD/JPY touched 162.41 per dollar in late June, its weakest level since 1986, with authorities repeatedly flagging readiness to intervene. Japan's Finance Minister confirmed the government stood ready to act "at any time." The Bank of Japan's 25bp hike to 1.00% has proven insufficient to halt the yen's decline against a backdrop where the Federal Reserve under Warsh is signaling hikes rather than cuts, the rate differential simply overwhelms the intervention toolkit.

The USD/JPY currency pair was last seen trading at 161.37.

## Korean Equities Surge on the AI Chip Supercycle

South Korea's KOSPI delivered one of the most extraordinary equity performances of the year, surging nearly 65% in Q2 2026, its best quarterly gain since the post-GFC recovery, driven almost entirely by the AI chip Supercycle. Samsung Electronics and SK Hynix, the world's two largest memory chip producers, saw their share prices more than double as HBM4 demand from Nvidia's Vera Rubin platform and broader AI data center buildout consumed all available supply. Despite the extraordinary gains, a notable feature of the rally was that foreign investors were net sellers throughout, approximately \$17.3 billion left Korean equities in the year so far according to BNY, as international funds rebalanced to cap their overweight positions. The KOSPI eased slightly on the final day of the week before ending modestly higher, with the broader market finding support from the soft US jobs print which reduced Fed hike urgency and improved the risk appetite backdrop for Asian emerging markets heading into the second half of 2026.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30790.

## Rates – July 5<sup>th</sup>, 2026

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1385	1.1361	1.1472	1.1435	1.1385	1.1530	1.1459
GBP	1.3200	1.3182	1.3384	1.3351	1.3300	1.3460	1.3352
JPY	161.71	160.51	162.83	161.37	160.00	161.65	160.19
CHF	0.8071	0.8008	0.8119	0.8033	0.7910	0.8100	0.7953

© Copyright Notice. The Weekly Money Market Report is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK. While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. This report and other NBK research can be found in the "News & Insight" section of the National Bank of Kuwait's website. Please visit our website, [www.nbk.com](http://www.nbk.com), for other bank publications. For further information please contact: NBK Treasury Group, Tel: (965) 2221 6603, Fax: (965) 2229 1441, Email: [tsd\\_list@nbk.com](mailto:tsd_list@nbk.com)