

Weekly Money Market Report

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Markets Rise on Trump Win & Fed Lowers Interest Rates

- US ISM Services PMI came in at 56.0 vs expectations of 53.8.
- US Presidential Elections ended with Trump winning.
- US Unemployment Claims came in at 221K vs expectations of 223K.
- The Federal Reserve announced a quarter-point interest rate cut to 4.50%-4.75%.
- The Bank of England cut interest rates by 25 basis points to 4.75%.

United States

ISM Services PMI

In October 2024, the US ISM Services PMI rose unexpectedly to 56, the highest since August 2022, up from 54.9 in September and surpassing the forecast of 53.8. This growth was primarily driven by a rebound in employment (53 vs 48.1) and slower supplier delivery times (56.4 vs 52.1). Price pressures slightly eased (58.1 vs 59.4). However, there were slower gains in business activity/production (57.2 vs 59.9), new orders (57.4 vs 59.4), and inventories (57.2 vs 58.1), while the backlog of orders shrank further (47.7 vs 48.3). According to Steve Miller of the ISM, concerns over political uncertainty, hurricanes, and labor issues at ports were highlighted, though the longshoremen's strike had a lesser impact than anticipated due to its brief duration.

Presidential Election

Stocks soared to record highs, with the S&P 500 gaining 2.1% on optimism around Donald Trump's anticipated return to the White House and the potential impact of his policies on the markets. Investors are betting that Trump's administration will introduce pro-growth measures beneficial to corporate America, helping the S&P approach its 48th record this year. Small-cap stocks surged by 5%, bolstered by speculation that Trump's protectionist approach would benefit domestic companies. In addition, expectations of lower taxes and relaxed regulations boosted bank stocks, while Medicare-focused insurers rose on hopes of higher government payments for private Medicare plans. Trump Media & Technology Group Corp. also saw a 6% increase, as investor sentiment tilted toward pro-growth, pro-deregulation, and pro-market themes. Following the news the Greenback rallied, breaching the 105.00 mark as market participants anticipated Trump's policies on immigration, trade and taxation would stimulate growth and inflation.

Unemployment Claims

New applications for U.S. unemployment benefits edged up slightly last week, indicating little overall change in the labor market but highlighting the impact of recent hurricanes and strikes, which slowed job growth in October. Although the labor market shows signs of easing, wage pressures remain strong, raising concerns over the inflation and interest rate outlook. Data from the Labor Department revealed that unit labor costs rose notably in the third quarter, with a sharp upward revision to second-quarter figures, suggesting inflation may struggle to stabilize at the Federal Reserve's 2% target. In response, the Fed lowered interest rates by 25 basis points to a 4.50%-4.75% range. Economist Paul Ashworth of Capital Economics noted that high labor costs are a key factor in labor-intensive service prices and warned that if they don't slow, the Fed may find it challenging to sustain inflation at 2%. The Labor Department also reported that initial unemployment claims increased by 3,000 to 221,000 in the week ending Nov. 2, matching economists' expectations. Meanwhile, continuing claims, which signal hiring trends, rose to 1.892 million for the week ending Oct. 26.

Federal Funds Rate

The Federal Reserve announced a quarter-point interest rate cut to 4.50%-4.75% as it begins to assess how President-elect Donald Trump's proposed policies ranging from tax cuts and tariffs to widespread deportation—might impact the U.S. economy, with Fed Chair Jerome Powell stating that the election results will not affect monetary policy in the short term. Instead, the Fed will continue reviewing data to guide its adjustments as inflation approaches the central bank's 2% target. While the Fed's primary goals of stable inflation and full employment remain, Powell noted that understanding how Trump's fiscal strategies will

influence these areas will take time. Reflecting on past policy impacts, Powell referenced the major spending measures of President Biden's early years, which spurred growth but also contributed to inflation that the Fed later had to manage through rate hikes in 2022 and 2023. Although inflation has since eased, Powell sees a gradual return to a neutral interest rate, acknowledging that exact targets could shift, particularly if the new administration enacts rapid policy changes backed by a Republican Senate and possibly a Republican House. Powell, who had earlier clashed with Trump during his first term, confirmed he would continue as Fed Chair until 2026, affirming his legal authority against removal over policy disagreements. In the meantime, both inflation and rates are trending lower, aligning with the Fed's projections for moderating price pressures amid steady economic growth and a stable job market. With another rate cut anticipated in December, Powell emphasized that the Fed's calibrated approach aims to maintain economic stability, though he noted the process could be complex as it navigates new fiscal policies.

The Greenback closed last week at 104.997

United Kingdom

BOE Monetary Policy Decision

The Bank of England (BOE) lowered its interest rate by 25 basis points to 4.75% in an 8-1 vote by the Monetary Policy Committee, marking the second rate cut this year after initiating its easing cycle in August. This decision, though influenced by easing inflation, came amid a new fiscal backdrop shaped by the Labor government's recent budget, which raised growth and inflation forecasts and complicated the outlook for further policy easing. The BOE now projects inflation will reach around 2.75% next year, up 0.5 percentage points from previous estimates, before easing back to its 2% target, while economic growth is expected to increase by about 0.75% over the next year. Governor Andrew Bailey emphasized that the bank must proceed cautiously with rate cuts, keeping monetary policy restrictive until inflation risks subside further. Despite money markets largely anticipating the rate cut, analysts caution that future reductions may proceed more slowly due to inflationary pressures from the government's expansive budget and rising global risks, such as potential U.S. tariffs.

The GBP/USD currency pair closed last week at 1.2921

Asia-Pacific

New Zealand Unemployment Rate

The unemployment rate in New Zealand rose to 4.8% on Wednesday, missing expectations of 5.0%, while higher than the previous 4.6% figure. Meanwhile, the employment rate was at 67.8%, and annual wage inflation was at 3.8%. The report highlights raising unemployment in the area, rising from 3.2% in September 2022 to its current levels.

RBA Monetary Policy Statement

The Reserve bank of Australia has decided to keep interest rates unchanged at 12-year highs of 4.35%. The decision came in line with market expectations, as more confidence is needed that core inflation is moving towards the RBA's target. It has now been a year since rates have been kept at that level, after a series of hikes that began in May 2022. Currently, annual inflation is at 2.8% in September, while core inflation was at 3.5%.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30675.

Rates – November 10th, 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0858	1.0681	1.0937	1.0718	1.0510	1.0790	1.0760
GBP	1.2969	1.2832	1.3047	1.2921	1.2830	1.3030	1.2916
JPY	152.96	151.27	154.71	152.63	151.25	153.90	150.83
CHF	0.8676	0.8613	0.8774	0.8753	0.8690	0.8920	0.8662

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