PUBLIC

Weekly Money Market Report

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US Labor Report Boosts Bets for Fed's June Cut

Highlights

- **Pointing to a cooler yet resilient labor market, the US jobless rate climbed to a two-year high in February even as hiring remained strong.**
- **The European Central Bank signaled it will lower rates later this year due to good progress in bringing down inflation. Markets now see an 80% probability for a rate cut in June, which would bring the bank's deposit facility rate down to 3.75% from 4.0%.**
- **The Bank of Canada left rates unchanged as expected, however did not provide a potential timeline for cuts, adding that underlying inflation was still too high.**
- **Looking at FX, the dollar index shed 1.25% of its value last week, sending the euro to a 7-week high of 1.0980. The pound saw a similar gain, ending the week 1.7% higher.**
- **Yields on the 2 & 10 year Treasuries did not react very strongly, ending the week at 4.46% and 4.09% respectively.**
- **Markets and especially the US Federal Reserve will now be watching in anticipation for next week's CPI release.**

United States

Job Growth Remains Strong

Nonfarm payrolls advanced 275K in February following a combined 167K downward revision in the prior two months. Economists expected a reading of 198K. The unemployment rate rose and wage gains slowed. Average hourly earnings grew by 0.1% m/m, easing from 0.5% in January and slower than projections of 0.2%. The moderation in pay growth follows an outsize jump in the prior month likely due to extreme weather. The unemployment rate climbed to 3.9% versus expectation of a match to the previous 3.7% figure. The data highlights a resilient jobs market that is beginning to soften. Fed policymakers will keep a close eye on this trend as they consider bringing down borrowing costs this year from a two-decade high.

Recently, officials have been stressing that they are in no rush to roll out rate cuts. Fed Chair Jerome Powell painted a patient and cautious outlook on the Fed's fight to bring inflation back down to the target. He noted that the Fed is "not far" from having the confidence it needs that price gains are sustainably moving towards that goal. "When we do get that confidence…it will be appropriate to begin to dial back the level of restriction so that we don't drive the economy into recession," Powell told lawmakers.

Markets started off the year expecting a reduction by the Fed sometime in the spring, and have since made strong changes to their bets. As of now, the probability for a June rate cut sits at 58%. Meanwhile, treasury yields traded sharply lower.

Europe

ECB Signals Upcoming Cuts

The European Central Bank kept borrowing costs at record highs last week, while carefully signaling it will lower rates later this year due to good progress in bringing down inflation. Policymakers indicated they were preparing for a first cut in interest rates, most likely in June, provided incoming data confirms the trend of lower prices. "We did not discuss cuts for this meeting, but we are just beginning to discuss the dialing back of our restrictive stance," ECB President Christine Lagarde told a press conference. She noted that inflation has been dropping towards the 2% target and is now expected to come in lower over the next two years than the central bank had anticipated just a few months ago. In its latest quarterly economic projections, the ECB cut its forecast for price growth this year from 2.7% to 2.3% and said it now expects inflation to fall to 1.9% in summer 2025 and stay there until the end of 2026.

After declining for nearly 18 months, eurozone annual inflation dipped to 2.6% in February, mainly because of a steep fall in fuel costs which were previously boosted by Russia's war in Ukraine. The decline is also a major result of the ECB's steepest ever increase in borrowing costs. Nevertheless, underlying inflation excluding volatile food and fuel prices was at 3.1%, while an index for the price of services rose by nearly 4%. "There is a definite decline (in inflation) which is underway and we are making good progress towards our inflation target," Lagarde said. "We are more confident as a result, but we are not sufficiently confident." Markets are now pricing in three or four cuts this year, taking the ECB's deposit facility rate down to 3.25% or 3% from its current 4% level.

Canada

BoC Keeps Rates Unchanged

The Bank of Canada left its policy rate unchanged at 5% as widely expected, noting more time is needed for higher interest rates to bring inflation back to target. Governor Tiff Macklem declined to lay out a timeline for rate cuts, adding that he realizes monetary policy works slowly and causes pain to the economy. "We expect to see further progress but we think it's going to be slow, it's going to be uneven .... Fundamentally, we need to see more progress," he told Reuters in an interview after the rate announcement. Macklem reiterated that the central bank expected inflation to start dipping in the second half of the year but expressed concern on stubbornly high core inflation. "If core stays where it is, probably ... our forecast that total (CPI) comes down isn't going to materialize. So that's why we're putting a lot of focus on those core measures," he added. Overall inflation currently stands at 2.9% - still well above the bank's 2% target. The meeting suggests a low chance of a rate cut in April, with markets now pricing in just a 30% probability.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30715.

Rates – 10th March, 2024

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0947	1.0917	1.0980	1.0937	1.0805	1.1105	1.0982
GBP	1.2808	1.2798	1.2893	1.2857	1.2775	1.3070	1.2870
JPY	148.03	146.47	148.11	147.07	144.55	148.05	145.02
CHF	0.8778	0.8728	0.8782	0.8775	0.8730	0.8895	0.8695