

Weekly Money Market Report

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Fed Hawkish Surprise: Global Rates Reprice as FX Markets Track Policy Divergence

Market Commentary

Global markets this week continued to navigate a more hawkish monetary policy environment led by the United States, where the Federal Reserve kept rates unchanged at 3.50%-3.75% but signalled growing support for future tightening as inflation forecasts were revised higher to 3.6% for 2026. Strong US retail sales of +0.9% MoM, resilient labour market conditions with jobless claims at 226K, and firm consumer spending reinforced expectations that policy will remain restrictive. Treasury markets reflected this shift, with short-end yields moving higher while equities rebounded, supported by technology and AI-related optimism. DXY closed the week at 100.849 [+1.10%]. Meanwhile, stronger Canadian retail sales also pointed to resilient consumer demand, with advance estimates indicating sales rose 1.0% MoM in May following a 0.5% MoM increase in April. USDCAD closed the week at 1.4153 [+1.17%]. In Europe, the European Central Bank maintained a hawkish stance as officials defended the recent increase in the deposit rate to 2.25%, while warning that inflation risks could keep price growth elevated through 2026. EURUSD closed the week at 1.1471 [-0.84%]. Elsewhere, the Swiss National Bank maintained rates at 0% while reiterating its readiness to intervene in FX markets as inflation remained subdued at 0.6% YoY. USDCHF closed the week at 0.8071 [+1.24%]. In the United Kingdom, the Bank of England held rates at 3.75% in a 7-2 vote, supported by inflation holding at 2.8% YoY, stronger retail sales of +1.2% MoM, and an unemployment rate of 4.9%. GBPUSD closed the week at 1.3232 [-1.30%]. Across Asia-Pacific, the Bank of Japan raised rates by 25 bps to 1%, its highest level since 1995, while signalling further tightening amid rising inflation risks and continued yen weakness. The Reserve Bank of Australia maintained its cash rate at 4.35%, balancing persistent inflation against slowing economic momentum, while New Zealand reported GDP growth of 0.8% QoQ and 1.5% YoY, supporting hawkish expectations ahead of the July meeting. AUDUSD and NZDUSD closed the week at 0.7012 [-0.50%] and 0.5738 [-1.63%] respectively. Commodity markets remained focused on the evolving US-Iran ceasefire agreement, with Brent crude closing the week at 80.57 [-7.74%], and spot gold at 4155.71 [-1.51%], while yield curve dynamics remained closely monitored through the US 2s10s and 5s30s spreads, which closed the holiday-shortened week at 27.0 bps [-12.4 bps] and 66.3 bps [-9.5 bps], respectively.

United States and Canada

Fed Holds Rates at 3.50%-3.75% and Signals Potential Hikes; US Inflation Forecast Raised to 3.6% in 2026

The Federal Reserve unanimously left the federal funds rate unchanged at 3.50%-3.75% at its first meeting under Chairman Kevin Warsh, while adopting a more hawkish tone centred on restoring price stability. Policymakers revised their 2026 median inflation forecast sharply higher to 3.6% from 2.7%, while core inflation projections were raised to 3.3% from 2.7%. At the same time, growth expectations were trimmed to 2.2% from 2.4%, while the unemployment forecast improved slightly to 4.3% from 4.4%. Although officials remain divided on the policy outlook, with nine members projecting at least one rate hike this year and six anticipating two or more increases, Warsh emphasised the Committee's commitment to achieving its 2% inflation target. Strong labour market conditions, resilient economic growth, and persistent inflationary pressures linked to energy costs and AI-related investment continue to support a restrictive policy stance, with markets now fully pricing in a rate increase by October. DXY last printed at 100.849.

US Retail Sales Rise 0.9% MoM as Control Group Sales Increase 0.7% and Gasoline Receipts Jump 3.4%

US consumer spending remained resilient in May, with retail sales rising 0.9% MoM, marking a fourth consecutive monthly increase despite elevated fuel prices. Excluding gasoline stations, sales still advanced a solid 0.7% MoM, highlighting broad-based consumer demand. Eleven of thirteen retail categories recorded gains, led by a 1.2% rebound in motor vehicle sales and a fifth consecutive increase in online retail spending. Control-group sales, which feed directly into GDP calculations, also rose 0.7% MoM, indicating strong underlying consumption momentum heading into the summer period. While higher gasoline prices contributed to the headline strength through a 3.4% increase in fuel receipts, household spending has also been supported by larger tax refunds, rising equity markets, and continued labour market resilience. The data suggest consumer activity remains a key pillar supporting US economic growth despite persistent inflationary pressures and tighter financial conditions.

Canada Retail Sales Rise 0.5% MoM in April; Advance Estimate Points to 1.0% MoM Growth in May

Canadian retail sales continued to expand in the second quarter, with an advance estimate indicating receipts rose 1.0% MoM in May following a 0.5% MoM increase in April. The data imply retail sales growth of approximately 1.9% in Q2, assuming June is flat, extending the streak of quarterly gains to eight consecutive quarters. April's increase was largely driven by a 5.1% MoM rise in gasoline station and fuel vendor sales, reflecting higher fuel prices, while retail sales excluding gasoline were flat and unchanged in volume terms. Core retail sales, which exclude gasoline stations and motor vehicle dealers, declined 0.7% MoM for a second consecutive month, led by weaker food and beverage (-2.0% MoM) and general merchandise (-1.7% MoM) sales. However, motor vehicle and parts dealers recorded a 1.7% MoM increase, supporting overall consumer spending. USDCAD last printed at 1.4153.

Europe and the United Kingdom

ECB's Lane Defends 25 bps Hike, Sees 2026 Inflation Elevated; Lagarde Warns of AI-Driven Financial Stability Risks

ECB Chief Economist Philip Lane defended the Bank's recent 25 bps rate increase, which lifted the deposit rate to 2.25%, citing persistent inflationary pressures, resilient economic activity, and a stable financial system. Lane reiterated expectations that inflation would remain elevated through 2026 and noted that the upper bound of the ECB's neutral rate is estimated at around 2.5%, suggesting further policy tightening remains possible should underlying price pressures persist. Separately, European Central Bank President Christine Lagarde warned that AI could create new vulnerabilities for financial stability, highlighting the risk of financial crises arising from increasingly interconnected and powerful AI systems. The ECB has already stress-tested financial institutions against scenarios and plans further engagement with bank executives to strengthen resilience and preparedness against AI-related threats. EURUSD last printed at 1.1471.

SNB Keeps Policy Rate at 0%, Maintains FX Intervention Readiness, Swiss Inflation Forecast Raised to 0.6% in 2026

The Swiss National Bank maintained its policy rate at 0% while reiterating its willingness to intervene in foreign exchange markets if necessary to prevent excessive appreciation of the Swiss franc. Policymakers modestly increased their inflation forecast for 2026 to 0.6% from 0.5%, while projections for 2027 and 2028 were set at 0.6% and 0.7% respectively, remaining comfortably within the SNB's 0%-2% price stability range. Although inflation has accelerated, the central bank continues to view medium-term price pressures as subdued, supported by a weaker franc and easing haven demand following the recent Middle East ceasefire. The SNB maintained its growth outlook of around 1.0% for 2026 and 1.5% for 2027, while emphasising that uncertainty surrounding inflation and economic activity remains elevated. The decision reinforces the Bank's preference for an accommodative stance while retaining flexibility to respond to renewed currency appreciation risks. USDCHF last printed at 0.8071.

BoE Holds Bank Rate at 3.75%; UK Inflation at 2.8% YoY, Retail Sales Rise 1.2% MoM, Unemployment Falls to 4.9%

The Bank of England kept Bank Rate unchanged at 3.75% in a 7-2 vote, although two policymakers supported an immediate increase to 4% amid ongoing inflation concerns. Recent economic data provided a mixed but generally supportive backdrop for holding rates steady. UK inflation remained unchanged at 2.8% YoY in May, below expectations of 3.0%, while services inflation rose to 3.7%. In May, retail sales rebounded strongly, increasing 1.2% MoM after a revised 1.0% decline in April, reflecting stronger consumer demand supported by promotional activity and favourable weather conditions. Labour market indicators also showed signs of stabilisation, with payroll employment increasing by 2K in May and unemployment declining to 4.9%. The BoE lowered its projected inflation peak to 3.25% in Q4 2026 from 3.6% previously, citing easing energy price pressures following the US-Iran truce. Nevertheless, policymakers maintained a cautious stance, highlighting continued upside risks to inflation and uncertainty surrounding the durability of the ceasefire. GBPUSD last printed at 1.3232.

Asia-Pacific

BOJ Raises Policy Rate to 1%, Highest Since 1995, as Markets Price 60% Probability of Another Hike by October

The Bank of Japan increased its benchmark interest rate by 25 bps to 1%, marking the highest policy rate since 1995 and signalling a continued path towards monetary normalisation. The decision passed by a 7-1 vote as policymakers highlighted rising risks that underlying inflation could exceed the Bank's 2% target amid elevated energy prices and strengthening inflation expectations. The BOJ also announced that it will cease reducing bond purchases from April 2027, maintaining monthly purchases at approximately JPY 2T (USD 12.5B) and effectively completing a major phase of policy normalisation. Markets interpreted the statement as notably hawkish, with overnight swaps now pricing a 60% probability of another rate increase by October. Meanwhile, the yen remains under pressure near multi-decade lows against the US dollar despite higher domestic rates, increasing the risk of further intervention by Japanese authorities should currency weakness intensify. USDJPY last printed at 161.30.

Australia Holds Cash Rate at 4.35% as Unemployment Reaches 4.5-Year High and Growth Momentum Slows

The Reserve Bank of Australia unanimously left its cash rate unchanged at 4.35%, pausing its tightening cycle as policymakers assess the impact of previous rate increases on economic activity. Governor Michele Bullock acknowledged that inflation remains above the Bank's 2%-3% target range but noted growing evidence that restrictive monetary policy is slowing demand. Recent data indicate weakening economic momentum, with unemployment rising to its highest level in four-and-a-half years, household spending softening, and housing market activity moderating. While the RBA maintained a tightening bias and stressed that further rate increases remain possible should inflationary pressures persist, markets reduced expectations for additional hikes later this year. Policymakers also highlighted the importance of developments in global energy markets, noting that easing oil prices following the US-Iran ceasefire agreement could help alleviate inflation risks, although uncertainty surrounding the outlook remains elevated. AUDUSD last printed at 0.7012.

New Zealand GDP Rises 0.8% QoQ and 1.5% YoY as Markets Lean Towards a July Rate Hike

New Zealand's economy expanded by a stronger-than-expected 0.8% QoQ in the first quarter of 2026, following an upwardly revised 0.5% increase in the previous quarter, while annual growth held at 1.5% YoY. The expansion was driven by gains in manufacturing, agricultural production, services activity, household spending, and investment, while GDP per capita also increased 0.5% QoQ. However, much of the improvement occurred before the Middle East conflict intensified, with subsequent rises in fuel prices weighing on consumer confidence and business sentiment. As a result, economists expect economic activity to have slowed significantly in the current quarter. Despite these headwinds, markets continue to price an 80% probability of a 25 bps rate hike by the Reserve Bank of New Zealand in the next meeting on July 8, reflecting concerns that inflation risks may persist even as growth momentum moderates. NZDUSD last printed at 0.5738.

Kuwait

USDKWD closed last week at 0.30730.

FX Rates – June 21, 2026

Currencies	Previous Week Levels				This Week's Expected Range		3-Month Forward
	Open	Low	High	Close	Minimum	Maximum	
EUR	1.1568	1.1418	1.1622	1.1471	1.1360	1.1530	1.1515
GBP	1.3406	1.3163	1.3461	1.3232	1.3150	1.3325	1.3231
JPY	160.24	159.74	161.81	161.30	160.20	162.50	160.10
CHF	0.7971	0.7910	0.8092	0.8071	0.7980	0.8150	0.7991

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