Weekly Money Market Report

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>NBK Treasury
+965 22216603
tsd_list@nbk.com

The Federal Reserve Warns of Additional Rate Hikes

Highlights

- **US Federal Reserve chair Jerome Powell maintains his stance that additional rate hikes are still possible.**
- **The ECB to maintain high interest rates.**
- **The British economy failed to grow in the July-to-September period barely managing to avoid the beginning of a recession.**
- **Australia's central bank lifts its cash rate to a 12-year high of 4.35%.**
- **China re-entered disinflationary territory with the CPI index coming in at -0.2% in October.**

North America

Fed Speakers

Federal Reserve Governor Christopher Waller lamented the recent surge in treasury yields, describing it as an "earthquake." 10-year treasury yields have climbed over 100 bps since the end of July, breaking through the 5% level for the first time since 2007. Over the past week however, a rally in the bond market eased the 10-year yield to 4.58%, although still remaining elevated from previous levels. "Since the end of July, this thing has gone way up, almost a full percentage point. In central bank terms, in financial markets, that's an earthquake", Waller said. The rise in yields comes at a time when investors are evaluating the state of the US economy and government spending. So far, the labor market and consumer spending remain resilient, adding to inflationary pressures following a 3rd quarter GDP blowout. Meanwhile, the US government keep issuing bonds and borrowing at high interest rates, adding to their deficit while their interest payments surge. Earlier this year, Fitch downgraded the US credit rating to AA+, as multiple credit rating agencies warn about the unsustainable path of spending, and political turmoil prior for decisions regarding the debt ceiling and budget. A month ago, Congress barely averted a government shutdown, approving a stopgap bill that would keep funding until November 17. Furious House Republicans then ousted Speaker Kevin McCarthy for approving the bill, indicating that political turmoil worries still remain as the deadline approaches.

Federal Reserve chair Jerome Powell spoke on Thursday, in what was meant to be a hawkish tone. Powell maintained that the current pause in interest rate hikes is merely a pause and is not the end. Powell stated that "We know that ongoing progress toward our 2% goal is not assured: Inflation has given us a few head fakes," before adding that "If it becomes appropriate to tighten policy further, we will not hesitate to do so." However, it seems that financial markets are generally not buying Powell's claims.

The US Dollar index closed the week at 105.861.

Europe

ECB Speakers

European Central Bank President Christine Lagarde spoke on Friday regarding the current situation in the Euro zone. Lagarde believes that maintaining rates where they currently are should be able to bring down inflation to the ECB's 2% target, and that has been aided by last month's fall in inflation to 2.9%. However, the ECB believes that the 2% target may not be seen until late 2025. Lagarde was quoted saying that "We are at a level where we believe that, if kept long enough, - and this long enough is not trivial - will take us to the 2% medium-term target," signaling that even if inflation does pick up, there might not be a need to hike interest rates again, hinting that the rate hike cycle in the Euro zone might have finally come to its end.

The EUR/USD currency pair ended the week at 1.0681.

United Kingdom

Construction Industry

In Britain, the construction industry suffered a second month of shrinkage as house-builders suffered from higher borrowing costs. The UK construction Purchasing Managers' Index (PMI) improved only marginally to 45.6 from September's 45.0, which had marked the lowest reading since Britain was under COVID lockdown in 2020. Meanwhile the all-sector PMI - which includes surveys for services and manufacturing, inched up to 48.4 from September's 48.2, its lowest reading since January 2021. The data clearly illustrates that the construction sector has suffered the hardest from the Bank of England's run of interest rate hikes.

Gross Domestic Product

The latest GDP news has come in from the UK. On a month-to-month basis, GDP grew by 0.2%, as opposed to the expected 0% growth. On the contrary, the British economy failed to grow in the July-to-September period barely managing to avoid the beginning of a recession. The result of the vicious rate hike cycle has evidently taken its toll on the British economy, meaning that the Bank of England will have to wait further than anticipated in order to start cutting interest rates.

The GBP/USD currency pair closed the week at 1.2222.

Asia Pacific

Australian Cash Rate

Australia's central bank resumed raising interest rates in a widely anticipated move, lifting its cash rate to a 12-year high of 4.35%. The central bank's decision ended a four-meeting pause following stronger than expected inflation data, suggesting there is more room to restrain prices. Currently, annual inflation rate is running at 7%, and the RBA still sees inflation topping its 2-3% target into 2025, keeping the door open to further tightening. The central bank has implemented a slower pace of hikes compared to the US as it attempts a soft landing, remaining mindful of the impact on Australia's borrowers who are mostly on floating rates (unlike the US's fixed mortgages). Expectations for a 25 bps hike in December are currently at 34%.

China CPI

China re-entered disinflationary territory in October according to data that revealed both consumer and producer inflationary figures contracted. The consumer price index came in at -0.2% in October, while it was expected to be at -0.1%. Meanwhile, the producer price index has now shrunk for the 13th consecutive month coming in at -2.6%, slightly better than expectations for a drop of -2.7%. The current weak inflation figures indicates that Beijing will likely have to do more to support local economic activity.

The Chinese Yuan weakened against the U.S Dollar, with the pair closing at 7.2891.

Commodities

Crude Oil

Oil prices fell to the lowest level since July, with Brent Crude last trading around $81.43 per barrel. The fall comes amid worries about China's economy, after data showed that exports declined 6.4% y/y while imports only rose 3% y/y for the world's largest oil importer, in addition to the fact that China's CPI has dropped to disinflationary territory. Russia and Saudi Arabia reinforced that their cuts would remain until year-end, as markets worry more about demand destruction than a supply shortage.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30880.

Rates – 12th November, 2023

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0727	1.0654	1.0756	1.0681	1.0600	1.0850	1.0727
GBP	1.2366	1.2184	1.2428	1.2222	1.2100	1.2400	1.2230
JPY	149.35	149.23	151.60	151.50	150.00	152.00	149.25
CHF	0.8988	0.8952	0.9045	0.9027	0.8900	0.9100	0.8940