

# Weekly Money Market Report

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## **Market Crosscurrents: Higher-for-Longer Pressures Amid a Flurry of Data and Energy Risks**

### **Market Commentary**

Global markets were shaped this week by broadly resilient US economic data, increasingly hawkish Federal Reserve expectations, and persistent Middle East geopolitical risks, which have continued to drive energy market volatility and support broad dollar strength. In the United States, initial jobless claims fell to 209K, manufacturing PMI rose to 55.3, while housing starts declined 2.8% MoM, Fed minutes signalled growing support for further tightening should inflation remain elevated, while Kevin Warsh was sworn in as the 17th Fed Chair; DXY closed the week at 99.239 [-0.05%]. Meanwhile, Canadian CPI rose 2.8% YoY (0.4% MoM), and retail sales increased 0.6% MoM, as USD/CAD ended the week at 1.3818 [+0.49%]. Across Europe and the United Kingdom, euro area business activity contracted further as the composite PMI declined to 47.5 and France's reading fell to 43.5, while UK CPI slowed to 2.8% YoY, services inflation eased to 3.2%, and UK private sector activity fell into contraction at 48.5 alongside a rise in unemployment to 5.0%, reinforcing expectations of slower regional growth as ECB tightening expectations remained intact; EUR/USD closed the week at 1.1603 [-0.19%] and GBP/USD at 1.3433 [+0.80%]. In Asia-Pacific, Japan's core CPI slowed to 1.4% YoY and core-core inflation eased to 1.9%, moderating immediate Bank of Japan tightening expectations despite continued yen weakness, while China's retail sales rose just 0.2% YoY, industrial production slowed to 4.1% and fixed investment contracted 1.6%, reviving stimulus expectations; Australia's unemployment rate rose to 4.5% as employment declined by 18.6K, prompting a repricing of Reserve Bank of Australia (RBA) expectations. USD/JPY closed the week at 159.18 [+0.28%], USD/CNH at 6.7983 [-0.23%], and AUD/USD at 0.7127 [-0.32%]. US Treasury yields remained volatile, with yield curve spreads reflecting shifting policy expectations, while global equities advanced - marked by another DJIA record high and the S&P 500's eighth consecutive weekly gain - amid ongoing uncertainty. Commodities remained reactive to geopolitics, with Brent at 103.54 [-5.24%], WTI at 96.60 [-8.37%], and spot gold at 4509.40 [-0.68%], as volatile sentiment, oil supply risks, and elevated yields weighed on precious metals.

### **United States and Canada**

#### **Warsh Sworn In as 17th Fed Chair as Minutes Signal Potential Tightening Amid Policy Uncertainty**

Kevin Warsh was sworn in as the 17th Chair of the Federal Reserve in a White House ceremony on Friday following earlier Senate confirmation by a narrow 54-45 vote, as policymakers confront elevated inflation risks and a shifting policy outlook. The Fed maintained the federal funds target range at 3.50% to 3.75% at its April meeting, while minutes revealed that a majority of officials signalled that policy firming could be warranted if inflation remains persistently above the 2% target. Swap markets currently fully price one 25bps hike by year-end, reflecting stronger-than-expected inflation and labour market data alongside energy-driven price pressures linked to Middle East supply disruptions. President Trump reiterated support for Fed independence despite prior criticism of the policy stance, while Warsh pledged institutional reform, balance sheet reduction from ~USD 6.7T, and renewed focus on price stability and maximum employment. DXY closed the week at 99.239.

#### **US Jobless Claims Fall to 209K, Manufacturing PMI Rises to 55.3, Housing Starts Decline 2.8% MoM**

US macroeconomic data presented a mixed but broadly resilient picture, with initial jobless claims easing by 3K to 209K, underscoring labour-market stability despite ongoing corporate restructuring, while continuing claims edged higher to 1.78M. Manufacturing activity accelerated sharply, with the S&P Global flash PMI rising to 55.3 from 54.5, marking the strongest expansion in four years as firms accelerated precautionary stockpiling amid supply-chain disruptions linked to the Middle East conflict, although price pressures surged to their highest level since June 2022. Conversely, housing activity softened as total starts fell 2.8% MoM to an annualised 1.47M, led by a 9.0% decline in single-family construction and a 2.6% fall in permits, signalling builder caution under elevated mortgage costs.

#### **Canada CPI Accelerates to 2.8% YoY (+0.4% MoM), as Gasoline +28.6% YoY; Retail Sales Up 0.6% MoM**

Canada's headline inflation rose to 2.8% YoY in April, up from 2.4% in March and the highest since May 2024, driven primarily by a 28.6% YoY surge in gasoline prices amid ongoing Middle East tensions and base effects from prior carbon levy changes. On a MoM basis, CPI increased 0.4%, below the 0.7% consensus. Core inflation measures eased, with the Bank of Canada's trim and median averaging 2.05%, the lowest since January 2021, while CPI excluding food and energy slowed to 1.5% YoY. Excluding gasoline, inflation printed at 2.0%. Price pressures moderated in rent at 3.6% YoY and groceries at 3.8% YoY. Meanwhile, Canadian retail sales rose 0.6% in April, even as higher gasoline prices may increasingly squeeze household budgets. USD/CAD closed the week at 1.3818.

## Europe and the United Kingdom

### **Eurozone Composite PMI Falls to 47.5, France Drops to 43.5 as Inflation Risks Increase**

Eurozone business activity deteriorated sharply in May, with the composite PMI falling to 47.5 from 48.8, marking the deepest contraction since late 2023 and underscoring mounting stagflationary pressures. Manufacturing resilience remained supported by precautionary inventory accumulation, though service-sector weakness intensified as elevated energy costs compressed household demand. France emerged as the key drag, with its composite reading plunging to 43.5 from 47.6, the weakest since 2020, reflecting broad-based contraction across both manufacturing and services. Survey price indicators accelerated to their highest level in more than three years, suggesting upward pressure on inflation in coming months. The deteriorating growth backdrop presents a difficult trade-off for the European Central Bank, as markets continue to price a 25bps hike in June despite increasing evidence that economic momentum across the bloc is weakening materially. EUR/USD closed the week at 1.1603.

### **UK CPI Slows to 2.8% YoY, Services Inflation Falls to 3.2%, PMI Drops to 48.5 and Unemployment Rises to 5.0%**

UK inflation moderated more sharply than expected in April, with headline CPI easing to 2.8% YoY from 3.3%, while services inflation slowed to 3.2%, its lowest since January 2022, reducing immediate pressure for a June Bank of England hike. However, broader macro indicators signalled deteriorating domestic momentum as private-sector PMI fell into contraction at 48.5 from 52.6, retail sales declined 1.3% MoM, and unemployment unexpectedly rose to 5.0%, accompanied by a 100K fall in payroll employment and softer wage growth of 3.4% YoY. While lower utility costs temporarily eased inflation, producer input prices rose 7.7% YoY, signalling pipeline cost pressures from the Middle East energy shock. Markets have meaningfully repriced tightening expectations, though policymakers remain cautious amid growing concerns of stagflationary conditions and heightened fiscal pressure, with April borrowing rising to GBP 24.3B. GBP/USD closed the week at 1.3433.

## Asia-Pacific

### **China Retail Sales Rise 0.2% YoY, Industrial Output Slows to 4.1% YoY, Fixed Investment Falls 1.6% YoY (Jan-Apr)**

China's April activity data pointed to broad-based economic deceleration, strengthening calls for renewed policy support as domestic demand softened sharply despite resilient exports. Retail sales rose just 0.2% YoY, marking the weakest expansion since post-pandemic reopening, while industrial production slowed to 4.1%, its weakest pace in nearly three years. Fixed asset investment unexpectedly contracted 1.6% YoY in the first four months of 2026, reflecting renewed weakness in manufacturing, infrastructure and private-sector capital expenditure. Consumer demand remains notably fragile, with auto sales plunging 15% YoY and discretionary categories including home appliances and jewellery posting double-digit declines. While export-oriented strategic manufacturing remains robust, the breadth of domestic weakness has revived expectations for incremental policy easing, including reserve requirement reductions and potential fiscal top-ups should second-quarter GDP slip toward 4.1% YoY. USD/CNH closed the week at 6.7983.

### **Japan Core CPI Slows to 1.4% YoY, Core-Core Inflation Eases to 1.9% YoY as BOJ Tightening Bets Moderate**

Japan's inflation momentum moderated significantly in April, with core CPI slowing to 1.4% YoY, the weakest pace in four years, while the narrower core-core measure eased to 1.9%, both undershooting expectations and complicating the Bank of Japan's near-term tightening calculus. Softer processed food inflation, lower education costs and continued government energy subsidies restrained headline pressures, though policymakers remain alert to broader inflation pass-through risks stemming from yen weakness and elevated import costs. The yen averaged 159.18 per dollar in April, amplifying imported inflation concerns despite weaker domestic pricing signals. Prime Minister Sanae Takaichi's decision to pursue supplementary fiscal support and reinstate energy subsidies has further complicated the policy mix, with markets increasingly concerned about additional debt issuance and rising term premia, even as consensus expectations continue to favour a June rate increase toward 1.0%. USD/JPY closed the week at 159.18.

### **Australia Unemployment Rises to 4.5%, Employment Falls 18.6K as Rate-Hike Expectations Soften**

Australia's labour market weakened materially in April, with unemployment rising to 4.5% from 4.3%, its highest level since November 2021 and notably above market expectations, while employment declined by 18.6K against forecasts for a 15K increase. The participation rate edged lower to 66.7%, while underutilisation rose to 10.3%, indicating broader labour market softening as households and firms face mounting pressure from elevated borrowing costs and energy-driven inflation uncertainty. The data prompted a sharp repricing of RBA tightening expectations, with markets reducing the probability of a near-term hike and shifting expectations toward later in 2026. While policymakers remain focused on inflation persistence, the weaker employment backdrop raises questions over labour market resilience and suggests policy flexibility may increase should domestic demand weaken further. AUD/USD closed the week at 0.7127.

## Kuwait

USD/KWD closed last week at 0.30680.

### FX Rates - May 24, 2026

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1625	1.1576	1.1662	1.1603	1.1400	1.1700	1.1649
GBP	1.3326	1.3303	1.3463	1.3433	1.3200	1.3500	1.3430
JPY	158.74	158.54	159.34	159.18	158.50	160.50	158.00
CHF	0.7869	0.7838	0.7907	0.7848	0.7750	0.7950	0.7771

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