Weekly Money Market Report
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Navigating Risk and Uncertainty: Central Banks Balance Growth, Inflation, and Volatility

Market Commentary

This week, global markets experienced notable developments, with central banks maintaining cautious stances amidst shifting economic conditions. In the United States, the Federal Reserve maintained the federal funds rate at 4.25%–4.50%, lowered its 2025 GDP growth forecast to 1.7%, and raised its inflation outlook to 2.7%. US retail sales increased modestly by 0.2% in February, whilst core sales rebounded by 1.0%. The US dollar index (DXY) hovered around the 103-104 range. Meanwhile, Canada's inflation surged to 2.6% y/y, potentially delaying rate cuts by the Bank of Canada. In Europe, Germany approved a €1tn spending plan, loosening its debt brake, whilst Eurozone inflation was revised down to 2.3%, strengthening the case for further European Central Bank rate cuts. The Swiss National Bank reduced its policy rate to 0.25%, citing rising global uncertainties, and the Bank of England held rates at 4.5%, citing inflation risks. EUR/USD traded between the 1.080 and 1.096 levels. In Asia, the Bank of Japan maintained its policy rate at 0.5%, flagging trade risks and inflation concerns, whilst the People's Bank of China left benchmark lending rates unchanged for the fifth consecutive month amidst early signs of economic recovery. China's retail sales accelerated to 4.0% y/y, whilst industrial production growth slowed but beat expectations. USD/JPY and USD/CNY were last seen at 149.32 and 7.252, respectively. Global markets responded to the developments with divergent movements across equities, bonds, and foreign exchange markets, underscoring investor uncertainty over the economy and trajectory of monetary policy, whilst gold surged past $3,050 for the first time amidst mounting global growth concerns.

United States and Canada

Federal Reserve Holds Rates, Lowers US Growth Forecast to 1.7%, Raises Inflation Outlook to 2.7%

The Federal Reserve maintained its target federal funds rate at 4.25%–4.5% and revised its 2025 US real GDP growth forecast downward to 1.7% from 2.1%, citing the impact of trade policies, particularly tariffs. PCE inflation projections were raised to 2.7%, up from 2.5%, as policymakers acknowledged persistent price pressures. The Federal Open Market Committee signalled uncertainty regarding future rate adjustments. The Fed also announced a slowdown in quantitative tightening, reducing the monthly roll-off of US Treasury debt from $25B to $5B starting in April. The market reaction was positive, with the S&P 500 rising 1.1% and US Treasury yields declining to 4.25% following the announcement. DXY was last seen at 104.088.

US Retail Sales Increased 0.2% m/m in February, Core Sales Rebounded 1.0%

US retail and food services sales rose by 0.2% m/m in February, following a revised -1.2% m/m decline in January. Vehicle and parts sales fell by 0.4% m/m, while gasoline station sales dropped by 1.0% m/m. However, core retail sales, excluding autos, gasoline, and building materials, rebounded by 1.0% m/m, fully reversing January's decline. Online sales increased by 2.4% m/m, while sales at bars and restaurants declined by 1.5% m/m, marking a third consecutive monthly drop. Year-on-year retail sales showed limited progress, with consumer spending expected to decelerate in Q1 2025, reflecting weaker confidence amidst inflation concerns and trade uncertainties.

US Weekly Jobless Claims Rise to 223,000, Slightly Below Expectations

US initial jobless claims increased by 2K to 223K for the week ending March 15, slightly below the expected 224K but within the 203-242K range observed this year. Continuing claims rose by 33K to 1.892 million, reflecting prolonged job searches amidst hiring caution. Despite low layoffs, policy uncertainty and high interest rates are limiting new employment opportunities. Small business sentiment weakened, affecting capital expenditures and labour demand. The Federal Reserve maintained its policy rate at 4.25%-4.50% but projected a 50bps cut by year-end. Meanwhile, large-scale public sector layoffs led to legal disputes, impacting unemployment data. Treasury yields declined, whilst the US dollar strengthened on the data.

Canada's Inflation Surges to 2.6% y/y in February, Retail Sales Drop 0.6% in January

Canada's Consumer Price Index (CPI) rose to 2.6% y/y in February from 1.9% y/y in January, marking the highest inflation rate in eight months. Month-on-month, inflation increased by 1.1%, driven by the expiry of a sales tax break and broad-based price pressures. Core inflation measures, CPI-median and CPI-trim, both climbed to 2.9% y/y from 2.7% y/y in January. Concurrently, retail sales declined by 0.6% in January to C$69.36 billion ($48.42 billion), with volume-based sales contracting 1.1%. A preliminary estimate indicates a further 0.4% decline in February. Market expectations for a pause in the Bank of Canada's rate-cut cycle in April rose to over 60% following the inflation data release. USD/CAD was last seen at 1.4349.

Europe and the United Kingdom

Germany Approves €1tn Spending Plan, Loosens Debt Brake to Boost Defence and Infrastructure

Germany's parliament has approved Friedrich Merz's €1tn investment plan, securing 513 votes—exceeding the two-thirds majority required for constitutional amendments. The reform aims to modernise infrastructure with a €500bn, 12-year fund and increase defence spending, addressing the estimated €400bn required for military upgrades. Key provisions include loosening the "debt brake" which limits the structural deficit to 0.35% of GDP, allowing Germany's 16 federal states greater borrowing flexibility. The approval, secured before the Bundestag's term ends on March 25, enables fiscal expansion amidst economic stagnation. On Friday, Germany's upper house voted in favour of the landmark bill paving the way for significant reform, and influencing broader EU economic and security policies. EUR/USD was last seen at 1.0818.

Eurozone Inflation Revised Down to 2.3%, Strengthening Case for ECB Rate Cuts

Eurozone inflation was revised down to 2.3% y/y in February from the initial 2.4% estimate, following an unexpected decline in Germany's inflation rate. The downward revision reinforces the case for the European Central Bank to consider further rate cuts, having already reduced its deposit facility rate by 150bps since June 2024 to 2.5%. Wage growth moderation and easing services inflation further support disinflation trends. However, risks remain, including trade tensions with the US and increased defence and infrastructure spending. Markets currently anticipate two additional rate cuts by year-end, though uncertainty persists over whether the ECB will move in April or adopt a more cautious approach.

Swiss National Bank Cuts Rates to 0.25% Amidst Rising Global Uncertainty

The Swiss National Bank reduced its policy rate by 25 basis points to 0.25%, marking its fifth consecutive cut since March 2024. The decision follows subdued inflation, which eased to 0.3% y/y in February, and growing concerns over global trade policies. SNB Chairman Martin Schlegel highlighted "significantly increased" uncertainties, particularly regarding US tariffs and economic policy shifts. The Swiss franc weakened slightly against the euro and dollar post-announcement. Whilst inflation remains within the 0-2% target range, the SNB reiterated its readiness to intervene in foreign exchange markets if necessary. Economic growth forecasts remain between 1% and 1.5% for 2025, with 1.5% projected for 2026, though risks remain elevated. USD/CHF was last seen at 0.8828.

Bank of England Maintains Rates at 4.5% Amidst Inflation Concerns and Economic Uncertainty

The Bank of England (BoE) held its benchmark interest rate at 4.5%, with the Monetary Policy Committee voting 8-1 in favour of maintaining the rate. Swati Dhingra dissented, advocating a 25bps cut. Governor Andrew Bailey reiterated the BoE's cautious stance, stating that rates remain on a "gradually declining path." Inflation is projected to rise to 3.75% later this year, above the 2% target, whilst wage growth remains strong at 5.9% annually. With UK economic growth forecasted at 0.75% for 2025 and weakening employment trends, markets are currently pricing in two rate cuts by year-end, with the probability of a May reduction at 65%. GBP/USD was last seen at 1.2919.

Asia-Pacific

Bank of Japan Holds Rates at 0.5% Amidst Rising Trade Risks and Inflation Concerns

The Bank of Japan (BOJ) kept its short-term policy rate unchanged at 0.5%, citing heightened global trade uncertainty and inflationary pressures. Governor Kazuo Ueda highlighted concerns over US tariff policies, with potential levies on Japanese exports adding risk to the economic outlook. The BOJ noted that domestic inflation remains below the 2% target, though record-high rice prices and wage gains—averaging 5.46% per Rengo, the largest in 33 years—could influence price expectations. The central bank signalled a cautious approach to further rate adjustments, balancing the need for economic stability with the challenge of normalising monetary policy after decades of stagnation. USD/JPY was last seen at 149.32.

China Holds Benchmark Lending Rates Steady for Fifth Consecutive Month

China maintained its benchmark lending rates in March, with the one-year loan prime rate (LPR) unchanged at 3.1% and the five-year LPR steady at 3.6%, in line with market expectations. A Reuters poll showed 88% of respondents anticipated no changes. The decision reflects early signs of economic recovery, including improvements in manufacturing activity, industrial output, and retail sales. The People's Bank of China has signalled further easing measures at an appropriate time, balancing liquidity support with yuan stability concerns. The Chinese currency has remained resilient against the US dollar despite trade tensions, limiting immediate pressure for additional monetary easing. USD/CNY was last seen at 7.2518.

China Retail Sales Growth Accelerates to 4.0% y/y, Industrial Production Slows to 5.9% y/y

China's retail sales increased by 4.0% y/y in the January-February period, up from 3.7% in December, marking the strongest growth since November 2024. This rise was driven by heightened consumer spending during the Lunar New Year holiday and government subsidies for durable goods. However, industrial production growth slowed to 5.9% y/y, above expectations of 5.3%, but down from 6.2% in December, reflecting seasonal factory closures and external trade pressures. Policymakers continue to prioritise domestic demand expansion to mitigate the impact of ongoing US tariffs. Despite these efforts, rising unemployment and weak consumer confidence pose additional challenges. The government has announced fiscal and monetary support measures, including a 300 billion yuan ($41.5 billion) consumer goods trade-in scheme, to sustain growth.

Australian Employment Declines by 52.8K in February, Unemployment Steady at 4.1%

Australia's unemployment rate remained unchanged at 4.1% in February despite a significant decline in employment, with 52.8K jobs lost, contrary to forecasts of a 30K job increase. The labour force participation rate fell to 66.8%, down from 67.3% in January, contributing to employment weakness. The decline was partly attributed to lower workforce re-entry among older workers. The Reserve Bank of Australia (RBA) projects the unemployment rate to average 4.2% by mid-year. Despite the employment contraction, economists expect the labour market to remain tight, with minimal impact on the RBA's monetary policy stance. The Australian dollar saw a modest decline following the data release. AUD/USD was last seen at 0.6273.

Kuwait

USD/KWD closed last week at 0.30795.

FX Rates – March 23, 2025

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0879	1.0798	1.0955	1.0816	1.0740	1.0950	1.0873
GBP	1.2935	1.2888	1.3015	1.2918	1.2810	1.3000	1.2917
JPY	148.64	148.18	150.15	149.32	148.15	150.45	147.79
CHF	0.8851	0.8756	0.8855	0.8832	0.8760	0.8920	0.8733