

Weekly Money Market Report

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Hawkish Data and Unresolved Tensions Reinforce Higher for Longer

Market Commentary

US equity markets entered the week riding a nine-session winning streak, with the S&P 500 pushing to all-time highs on the back of AI-driven earnings momentum and cautious optimism around a potential 60-day US-Iran ceasefire extension. That streak broke on Wednesday when fresh US-Iran military exchanges in the Strait of Hormuz sent oil surging nearly 8%, the 10-year Treasury yield pushed higher, and the Dow falling lower, a reminder that geopolitical fragility remains the market's central vulnerability. Equities closed on Friday marginally lower as the NFP beat with 172,000 jobs against an 85,000 forecast weighs on sentiment by reinforcing the "higher for longer" rate narrative and lifting December Fed hike odds toward a full hike. Both ISM surveys confirmed the US economy is expanding at pace, manufacturing at a four-year high of 54.0% and services accelerating to 54.5%, but price pressures remain deeply embedded in both sectors, with Prices Paid indexes above 70-80%, eliminating any near-term case for Fed easing. Outside the US, the picture is considerably darker: Eurozone CPI surged to 3.2% against GDP growth of just 0.1% in Q1, Australia's economy expanded only 0.3% in Q1 as three consecutive RBA hikes bite, and Japan's Ueda confirmed the BoJ will look through the energy shock while USD/JPY sits stubbornly above well 158 despite nearly \$70 billion in intervention. Oil's Brent-WTI spread and the oscillation between \$92-98 on peace and conflict headlines encapsulates the week: no resolution, no catastrophe, sustained structural pressure. The week closes with equities retreating from highs, yields elevated, the dollar firm, and markets pricing in a Federal Reserve that is more likely to hike before it cuts, a posture that would have seemed unthinkable at the start of 2026.

North America

US Factories Rebound, Inputs Costs Remain Elevated

The ISM Manufacturing PMI surged to 54.0% in May, its highest reading since May 2022, marking the fifth consecutive month of expansion and a clear acceleration in US factory activity. New orders rose to 56.8%, production climbed to 54.3%, and export orders returned to expansion at 50.6% for the first time in several months, pointing to broad-based demand improvement with no evidence of the front-loading that distorted earlier reads. Price pressures remain the dominant concern: the Prices Paid index stood at 82.1%, the second consecutive month above 80, reflecting the ongoing impact of energy costs on manufacturing input inflation, with supplier delivery times also remaining severely extended. Employment improved to 48.6% but stayed in contraction for a 32nd consecutive month, suggesting firms are absorbing higher output through productivity rather than headcount. For the Fed, stronger growth and deeply entrenched input inflation reinforces the case for staying on hold.

US Services Strengthen While Price Pressure Broaden

The ISM Services PMI accelerated to 54.5% in May, above the 53.7% consensus and marking the 23rd consecutive month of expansion in the dominant US economic sector. Business activity jumped to 57.7% and new orders surged to 57.3%, the highest since early 2025, reflecting solid underlying consumer and business demand despite the energy shock. Companies boosted inventories to a near-record high, signaling confidence in sustained demand. The Prices Index intensified to 71.3%, its highest since August 2022, with diesel, gasoline, oil, and petroleum-related products cited as the primary inflationary contributors, and no commodities reported as down in price for the second

straight month. Employment contracted for a third consecutive month at 47.9%, with respondents citing hiring freezes and AI-driven efficiency as contributing factors. The combination of accelerating activity and intensifying price pressures in the services sector significantly complicates any near-term Fed pivot, it is the clearest signal yet that inflation in the US is broadening beyond energy into services, which historically is the stickiest form.

Jobs Surprise Firms US Dollar, Reinforces “Higher for Longer”

May Non-Farm Payrolls delivered another powerful upside surprise, with 172,000 jobs added against a consensus of just 85,000, more than double expectations and nearly matching April's upwardly revised 179,000. Critically, the BLS revised March up by 29,000 to 214,000 and April up by an extraordinary 64,000 to 179,000, leaving the two months combined 93,000 higher than previously reported. This means the three-month rolling average now stands at approximately 188,000, a pace that reflects a US labor market in genuinely robust health, not the gradual softening many forecasters had anticipated. Job gains were led by leisure and hospitality, local government, and healthcare, while financial activities declined. The unemployment rate held steady at 4.3% and the participation rate remained stable at 61.8%. Average hourly earnings rose 0.3% month-on-month, keeping the annual pace at 3.4%, contained enough to avoid immediate alarm but not declining fast enough to remove the wage-inflation concern entirely. The cumulative picture that emerges from the past three months of US employment data is one of an economy that has absorbed the Iran war's energy shock without meaningful job losses, a result that simultaneously undermines the case for rate cuts and amplifies the case for the Fed staying on hold well into 2027. Markets immediately repriced on the print: Fed hike odds for December moved up, Treasury yields pushed higher, and the dollar firmed across the board.

The Greenback was last seen trading at 100.069

Europe

Euro Inflation Reignites the ECB's Dilemma

Eurozone headline inflation surged to 3.2% year-on-year in May, a significant acceleration from January's 1.7% low and the highest reading in over a year, as energy prices driven by the Iran war conflict continued to feed through into consumer prices across the bloc. Core inflation also rose to 2.5%, above the ECB's 2% target, reflecting emerging second-round effects as energy costs ripple into transport, services, and food prices. The reading underscores the acute stagflationary challenge facing the ECB: inflation is rising sharply while Q1 GDP grew just 0.1% quarter-on-quarter, leaving the Eurozone economy simultaneously overheating on prices and stalling on growth. Markets are watching the ECB's June 11 meeting closely, the Bank had been on a cutting cycle before the conflict disrupted the path, and this CPI print makes any resumption of easing highly unlikely in the near term, while simultaneously making a hike economically dangerous given the fragile growth backdrop.

The EUR/USD currency pair was last seen trading at 1.1519

Modest Inflation Keeps the Franc in Demand

Swiss consumer prices rose a modest 0.2% month-on-month in May, keeping the annual rate at 0.6%, confirming Switzerland's continued status as one of the lowest-inflation major economies in the developed world despite the global energy shock. The monthly increase was driven by higher housing rentals and hotel sector prices, with partial offsets from lower air transport fares and heating oil. Crucially, Switzerland's structural characteristics, its significant proportion of domestically produced electricity from hydro and nuclear, its CHF strength limiting import inflation, and its tight social contracts limiting wage-push inflation, continue to insulate the economy from the inflationary forces battering its European neighbors. For the Swiss National Bank, the benign print means there is no pressure to tighten policy; the SNB is expected to hold in Q2 but will likely revise inflation forecasts

modestly higher given global energy dynamics. CHF remains a favored safe-haven currency in the current environment because of this stability.

The USD/CHF currency pair was last seen trading at 0.7962

Asia-Pacific

Australia's Growth Puts the RBA in a Bind

Australia's economy expanded just 0.3% in the first quarter of 2026, below the 0.5% forecast and a sharp deceleration from Q4 2025's 0.9% growth, signaling that the energy shock and three consecutive RBA rate hikes are beginning to constrain economic momentum. Building approvals also fell 3.4% month-on-month in April and company operating profits declined 1.3%, painting a picture of a domestic economy losing traction even as exports benefit from elevated commodity prices. For the RBA, the growth miss creates a genuine dilemma: inflation is running well above target at 4.6% (driven largely by energy), justifying continued tightening, but economic growth is now clearly slowing, the classic stagflation scenario the RBA warned about. Markets are currently pricing very little additional tightening, with consensus building that the RBA may pause after its third hike even as Westpac's forecast of two further increases through August remains a tail risk. AUD has been responding to the competing pulls of higher commodity prices and slowing growth, trading with elevated volatility relative to its longer-term range.

The AUD/USD currency pair was last seen trading at 0.7045

BoJ Stays Cautious as Energy Risks Complicate Normalization

Bank of Japan Governor Kazuo Ueda delivered a closely watched address at the Kisaragi-kai meeting in Tokyo, addressing both Japan's current economic conditions and crucially the BoJ's policy framework for responding to supply shocks, including the energy shock stemming from the Iran conflict. Ueda acknowledged that higher global energy prices have created a complex dual challenge for Japan: pushing up import costs and consumer prices in the near term while simultaneously weighing on real household incomes and growth momentum. He outlined the BoJ's thinking on the appropriate policy response to supply shocks, emphasizing that the central bank looks through temporary, externally driven inflation rather than responding mechanically, while reinforcing that sustainable achievement of the 2% inflation target through domestic demand and wage growth remains the prerequisite for further normalization. The speech was interpreted as broadly cautious and status quo-confirming: no signal of imminent tightening, continued acknowledgement of upside inflation risks from energy, and an emphasis on monitoring how the conflict resolves before adjusting the policy path

The USD/JPY currency pair was last seen trading at 160.29

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30695.

Rates – June 07th, 2026

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1655	1.1516	1.1665	1.1519	1.1400	1.1600	1.1563
GBP	1.3458	1.3327	1.3483	1.3339	1.3210	1.3550	1.3337
JPY	159.30	159.21	160.34	160.29	159.10	161.50	159.15
CHF	0.7804	0.7798	0.7967	0.7962	0.7870	0.8045	0.7886

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