

Weekly Money Market Report

November 24th, 2024



Global Business Activity Mixed As Inflation Accelerates

Highlights

- Annual CPI in Canada increased 2.0% versus 1.6% previously.
- Unemployment claims at 213,000 versus 220,000 forecasted.
- US composite PMI at more than two-year high of 55.3 driven by strong expansion in the services sector.
- Eurozone composite PMI back to contraction territory at 48.1 with both manufacturing and services declining.
- Inflation in the UK increased 2.3% in October versus 1.7% in September.
- UK retail sales fell 0.7%, more than the 0.3% expected decline.
- China maintained the 1-year loan prime rate (LPR) at 3.1% and the 5-year LPR at 3.6%.

United States & Canada

Canada Inflation

Inflation in Canada accelerated in October, with the latest CPI figure showing a 0.4% gain on the month, compared to a 0.4% slowdown in September. On an annual basis, inflation increased 2.0% compared to the previous 1.6% increase, while core CPI rose to 2.2%, up from 2.1%. Gasoline prices decreased by 4.0%, compared to the previous 10.7% decrease, while prices for food purchased from stores rose 2.7%, marking the third month of price growth for groceries outpacing headline inflation. The report comes before the BoC meeting scheduled in December, where the bank is expected to cut interest rates by 25 bps.

The USD/CAD currency pair closed the week at 1.3980.

US Unemployment Claims

The number of Americans filing for unemployment benefits dropped to a seven-month low, indicating a potential rebound in job growth for November after last month's slowdown caused by hurricanes and strikes. Initial claims for state unemployment benefits fell by 6,000 to a seasonally adjusted 213,000 for the week ending November 16, the lowest level since April. This figure came in below the 220,000 claims that was forecasted by economists.

US PMI

The US economy gained momentum in November, driven by strong growth in the services sector. The PMI Services index rose to a 32-month high of 57.0 from 55.0, while the Composite PMI climbed to 55.3, the highest in 31 months, up from 54.1. Although PMI Manufacturing remained in contraction at 48.8, it showed slight improvement from 48.5, indicating some stabilization. Chris Williamson of S&P Global Market Intelligence highlighted growing business optimism, with confidence reaching a two-and-a-half-year high. This was attributed to expectations of lower interest rates and a more pro-business approach from the incoming administration, leading to increased output and stronger order inflows. The survey suggests accelerating economic growth in Q4 alongside easing inflationary pressures, with only a modest rise in prices across goods and services. Following the release of the PMI data, odds of a rate cut in December decreased slightly, with markets pricing in a 54% chance of a 25 bps rate cut versus holding rates steady.

The US Dollar Index closed the week at 107.49.

Europe

Eurozone PMI

Eurozone business activity contracted in November, hitting a 10-month low, as indicated by the HCOB Flash Eurozone Composite PMI Output Index, which dropped to 48.1 from 50.0 in October. Both the services and manufacturing sectors declined, with services contracting for the first time in 10 months. The downturn was driven by weak demand, falling new orders, and low business confidence. The manufacturing sector continued its prolonged slump, with its PMI Output Index falling to 45.1, a two-month low. Manufacturing output has now declined for 20 consecutive months, with new orders decreasing at the fastest rate in 2024 and export demand dropping at its sharpest pace since late 2023. Manufacturing employment saw its steepest decline since August 2020. Meanwhile, the services sector, after two months of marginal growth, also contracted, with the Services PMI falling to 49.2, its lowest since January. Reduced new orders and weaker business confidence, now at a two-year low, contributed to the decline. France experienced its fastest drop in services activity this year, while Germany also showed signs of strain. However, services employment rose, partially offsetting broader job losses. Price pressures increased in November. Input and output prices in services rose sharply due to higher wages, while manufacturing prices continued to fall. These contrasting trends pose challenges for businesses, especially amid weakening demand. The sharp inflation increase in the services sector could raise concerns for the European Central Bank, highlighting risks of stagflation. EUR declined significantly following the release of the figures, falling below 1.0400 at one point.

The EUR/USD currency pair closed the week at 1.0417.

United Kingdom

UK Inflation

In October 2024, the UK's annual inflation rate rose to 2.3%, up from 1.7% in September, reaching its highest point in six months and surpassing both the Bank of England's target and market expectations of 2.2%. The primary driver was a rise in costs for housing and household services, which increased to 5.5% from 3.8%, largely due to the adjustment of the Ofgem energy price cap. Electricity and gas prices, although still negative, saw smaller declines compared to September. Other sectors with increased prices included restaurants and hotels (up to 4.3% from 4.1%) and housing and utilities (rebounding to 2.9% from -1.7%). Service prices rose slightly to 5%. In contrast, food inflation remained stable at 1.9%, and recreation and culture prices saw a decrease in their growth rate (3% from 3.8%). Monthly, the CPI went up by 0.6%, and core inflation edged higher to 3.3% from 3.2%.

UK Retail Sales

British retail sales saw a sharper-than-expected decline in October, highlighting weakening economic momentum ahead of Prime Minister Keir Starmer's first budget. Sales volumes fell by 0.7% from September, versus economists' forecast of a 0.3% drop, according to the Office for National Statistics (ONS). Retailers reported reduced spending as shoppers awaited the new government's tax and spending announcements on October 30. Additionally, the absence of school half-term holidays during October's data reporting period may have further dampened sales. Clothing sales were particularly affected, falling by 3.1% after a modest 0.3% rise in September. Despite the gloomy retail sales data, markets are still expecting the Bank of England to hold rates steady at the upcoming December meeting.

UK PMI

The UK private sector shifted from growth to stagnation in November as output contracted for the first time in over a year, with tax increases in the new government's budget impacting hiring and investment. The preliminary S&P Global Flash Composite PMI fell to 49.9, down from 51.8 in October, marking its first drop below the 50.0 no-change threshold in 13 months. Staffing levels declined for the second consecutive month, with manufacturers cutting jobs at the fastest rate since February. The Manufacturing PMI dropped to 48.6 from 49.9, indicating an accelerated contraction in the sector, while the Services PMI slipped to 50.0 from 52.0, signaling stagnation in service sector activity. Growing pessimism about the economic outlook further weighed on business confidence. The Sterling declined following the release of the data, falling below 1.2500 at one point.

The GBP/USD currency pair closed the week at 1.2531.

Asia Pacific

Chinese Interest Rates

China's central bank decided to keep key benchmark lending rates unchanged, maintaining the 1-year loan prime rate (LPR) at 3.1% and the 5-year LPR at 3.6%, as it evaluates the impact of recent stimulus efforts. The 1-year LPR influences corporate and most household loans, while the 5-year LPR serves as a benchmark for mortgages. This decision follows last month's 25-basis-point reduction to both rates and comes amid weak economic momentum reflected in October's economic data. Industrial production and fixed asset investment grew slower than expected, and real estate investment showed a deeper annual decline. Retail sales, however, exceeded expectations with a 4.8% year-on-year rise, suggesting some sectors are benefiting from recent stimulus measures. Additionally, the Ministry of Finance previously announced a 10 trillion yuan (\$1.4 trillion) fiscal package to address local government debt and hinted at further economic support in the near future. The central bank, led by Governor Pan Gongsheng, reiterated its commitment to supportive monetary policy and signaled the potential for further rate cuts.

The USD/CNY currency pair closed the week at 7.2455.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30750.

Rates – 24th November 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0533	1.0333	1.0609	1.0417	1.0250	1.0500	1.0463
GBP	1.2610	1.2484	1.2714	1.2531	1.2400	1.2600	1.2528
JPY	154.41	153.28	155.88	154.74	154.00	155.50	152.93
CHF	0.8875	0.8799	0.8957	0.8937	0.8850	0.9100	0.8844

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