

# Weekly Money Market Report

## Sep 1, 2024



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## The Fed Shifts Its Focus Towards Supporting The Labor Market

### Highlights

- Consumer confidence in the United States climbed to 103.3 in August.
- The U.S. economy grew at a robust 3% annual rate in the second quarter of 2024.
- In July, inflation in the U.S. edged higher, with the personal consumption expenditures (PCE) price index rising by 0.2% for the month and 2.5% year-over-year.
- Eurozone inflation fell to 2.2% in August, its lowest level in three years.
- Inflation in Australia has dropped to its lowest level since March.
- China's industrial profits grew by 3.6% year-on-year to CNY 4,099.17 billion in the first seven months of 2024.
- Core inflation in Tokyo accelerated for the fourth consecutive month in August, reaching 2.4%.
- WTI crude oil futures continued to decline due to concerns about weaker global demand and economic uncertainty.

## United States

### Consumer Confidence

Consumer confidence in the United States climbed to 103.3 in August according to the Conference Board index, surpassing both expectations and the previous reading. The better-than-expected print is a continuation of a series of positive economic data that showcase lower inflation, a softening market, and improved sentiment. It likely further reinforces and supports the market narrative and Fed signals of an imminent rate cut in September. Markets are currently pricing in 100 bps cut by year-end, and a 25 bps cut in the September meeting by the Fed.

### US Economy and Unemployment

The U.S. economy grew at a robust 3% annual rate in the second quarter of 2024, driven by strong consumer spending and business investment. This marks an upgrade from the previously estimated 2.8% growth and a significant acceleration from the 1.4% growth in the first quarter. Consumer spending, which makes up about 70% of economic activity, increased by 2.9%, while business investment rose by 7.5%, with equipment investment jumping 10.8%. Additionally, unemployment claims slightly decreased by 2,000 to 231,000 last week, indicating a healthy labor market despite high interest rates.

### Core PCE Price Index

In July, inflation in the U.S. edged higher, with the personal consumption expenditures (PCE) price index rising by 0.2% for the month and 2.5% year-over-year, matching expectations. Core PCE, which excludes food and energy prices, also increased by 0.2% monthly and 2.6% annually, slightly below the 2.7% forecast. Core inflation has remained steady, with shelter costs continuing to rise, offsetting declines in other areas. Personal income grew by 0.3%, while consumer spending rose 0.5%, even as the personal savings rate fell to its lowest since June 2022. Goods prices fell slightly, while services prices increased. The Federal Reserve is expected to go ahead with its first interest rate cut in over four years, with markets pricing in a high likelihood of a quarter-point reduction in September. Fed officials, including Chair Jerome Powell, have expressed confidence in inflation returning to the 2% target, shifting focus towards supporting the labor market. The unemployment rate remains low at 4.3% but has been trending upward, with slower hiring expected. Attention now turns to the upcoming August nonfarm payrolls report, which is expected to show an increase of about 175,000 jobs.

The US Dollar Index was last seen trading at 101.698.

## Europe

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### Eurozone Inflation

Eurozone inflation fell to 2.2% in August, its lowest level in three years, largely due to lower energy costs. This drop aligns with expectations and brings inflation closer to the European Central Bank's (ECB) 2% target, following three years of higher-than-target inflation. Core inflation, excluding food and energy, eased slightly to 2.8%. However, services inflation increased, driven partly by temporary factors like the Olympic Games in Paris, which might concern ECB policymakers due to its potential link to wage growth. Despite the decline, the ECB is expected to cut interest rates in September, with ongoing discussions about further easing in October due to moderating inflation, weaker economic growth, and a softer labor market. Markets are anticipating more rate cuts than the ECB's projections, reflecting greater optimism about the inflation outlook. However, rapid wage growth in the services sector remains a key concern for the ECB.

EUR/USD closed last week at 1.1047.

## Asia Pacific

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### Inflation in Australia

Inflation in Australia has dropped to its lowest level since March, largely due to a 5% annual reduction in electricity prices, helped by government rebates. The Australian Bureau of Statistics reported a 3.5% increase in consumer prices for the year to July, down from 3.8% in June. However, this is slightly higher than the 3.4% expected by economists, indicating that interest rate cuts may still be some time away. Despite the overall decrease in inflation, fruit and vegetable prices surged by 7.5% in July, up from 3.6% in June, while alcohol costs also rose by 3.7%, compared to 3.4% in the previous month.

### China's Industrial Profits

China's industrial profits grew by 3.6% year-on-year to CNY 4,099.17 billion in the first seven months of 2024, slightly up from the previous 3.5% increase. The growth occurred despite challenges like weak domestic demand, disinflation risks, and prolonged property sector issues. Profits rose notably in sectors like non-ferrous metal smelting, communications, and food, while declines were seen in non-metallic minerals, coal mining, and machinery. Some industries, including petroleum and ferrous metal smelting, shifted from profits to losses. The Bureau of Statistics highlighted that the recovery still requires further stabilization. On a monthly basis, July profits rose 4.1%, up from 3.6% in June.

### Tokyo Core CPI

Core inflation in Tokyo accelerated for the fourth consecutive month in August, reaching 2.4%, above the central bank's 2% target. This rise, driven by the phase-out of government subsidies on utility bills and increasing rice prices due to extreme heat, suggests more interest rate hikes may be ahead. A broader index, excluding both fresh food and fuel, rose to 1.6%, indicating persistent inflation pressures. Despite the one-time factors boosting inflation, underlying trends are expected to moderate in the coming months. However, anticipated wage growth could sustain inflation, increasing the likelihood of further rate hikes by the Bank of Japan. Meanwhile, Japan's industrial output rose by 2.8% in July, leading to an upgrade in the government's outlook, although future production remains uncertain. The BOJ has already taken steps to tighten monetary policy, ending negative interest rates in March and raising the short-term rate to 0.25% in July. BOJ Governor Kazuo Ueda indicated that further rate hikes are possible if inflation remains on track to meet the 2% target.

USD/JPY closed last week at 146.16.

## Commodities

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### WTI Crude Oil

WTI crude oil futures continued to decline due to concerns about weaker global demand and economic uncertainty. Major banks have lowered their price forecasts, particularly because of reduced fuel consumption in key markets like China and Europe. In China, economic struggles and the shift to electric vehicles are curbing demand, while in Europe, diesel demand is expected to fall below pre-pandemic levels due to weak manufacturing and changes in the car fleet. These bearish factors are outweighing previous gains from geopolitical risks and supply concerns. Additionally, US crude oil inventories dropped by 0.846 million barrels last week, less than the expected 3-million-barrel decline. WTI was last seen at \$73.55.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30480.

### Rates – 1<sup>st</sup> Sep, 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1186	1.1043	1.1201	1.1047	1.0850	1.1140	1.1092
GBP	1.3210	1.3106	1.3266	1.3126	1.3020	1.3200	1.3136
JPY	144.23	143.43	146.24	146.16	145.20	147.40	144.34
CHF	0.8480	0.8398	0.8510	0.8498	0.8400	0.8700	0.8412

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