Weekly Money Market Report
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The Time Has Come: Central Bank Stances and Economic Data Shape Markets

Market Commentary

Global markets saw significant developments this week, driven by central banks and new economic data. Federal Reserve Chair Jay Powell gave the strongest indication yet that US borrowing costs will soon decrease at the Jackson Hole Symposium, with the FOMC's July meeting minutes also revealing strong support for rate cuts. Recent data, including jobless claims of 232,000 and a significant downward revision in job creation for the year to March 2024, further bolster the case for reducing rates. In Canada, inflation moderated to 2.5% y/y in July, while the Reserve Bank of New Zealand's unexpected rate cut to 5.25% surprised markets. The eurozone's composite PMI of 51.2 presented a mixed picture: France's services sector PMI surged to 55.0, largely due to a temporary boost from the Paris Olympics, while Germany's manufacturing sector extended its 27-month streak of contraction, with manufacturing PMI coming in at 41.2. The ECB's July minutes highlighted September as pivotal for reassessing monetary policy, with potential rate cuts on the table amid inflation and uncertain economic signals. Meanwhile, UK business activity improved in August, with the S&P Global Composite PMI rising to 53.4, driven by easing cost pressures and strong performances in both services and manufacturing sectors. In Asia, China's PBOC held rates steady amid weaker industrial growth and a persistent three-year property market slump. Overall, markets are navigating a complex landscape of data and shifting central bank policy stances amidst ongoing volatility.

United States and Canada

"The Time Has Come…" says Powell at Jackson Hole Symposium Amid Labor Market Risks

Federal Reserve Chair Jay Powell signaled that *"the time has come for policy to adjust"*, indicating a potential reduction in borrowing costs as early as September. Powell emphasized, *"the direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks"* and stated that the Fed would do *"everything we can to support a strong labor market as we make further progress towards price stability"*. Powell highlighted the Fed's focus on balancing inflation control with supporting the labor market, and stated "confidence has grown that inflation is on a sustainable path". Equities rallied and Treasury yields fell following Powell's speech.

FOMC Minutes Reveal Strong Support for September Cut Amid Slower Job Growth and Easing Inflation

The FOMC meeting minutes from July also indicated substantial support among Federal Reserve officials for a potential interest rate cut in September, driven by recent data showing slower job growth and easing inflation. Although the Fed maintained rates at 5.25-5.50% during the July meeting, there was broad consensus that a reduction might be warranted if economic conditions aligned with expectations. This view has been since bolstered by weaker-than-expected labor market data, including a downward revision of job growth by 818,000 for the year to March 2024. With inflation showing signs of improvement and the September meeting occurring just six weeks before November's US presidential election, the Fed's decision will be crucial for ensuring economic stability and shaping market expectations. DXY was last seen at 100.602.

US Jobless Claims Increase Slightly to 232,000, Remain at Historically Healthy Levels

U.S. jobless claims increased by 4,000 to 232,000 in the week ending August 17 in line with expectations. The four-week average declined to 236,000. As of August 10, 1.86 million Americans were receiving unemployment benefits, up by 4,000 from the prior week. While claims averaged 213,000 from January to May, they rose to 250,000 in late July, reflecting the impact of high interest rates. Despite this recent increase, claims are stabilizing, suggesting the labor market is cooling gradually rather than deteriorating rapidly. This trend, combined with dampening business activity and falling home loan rates, supports expectations of a US rate cut next month.

US PMI Data: Composite PMI at 54.1, Manufacturing PMI at 48.0, Services PMI at 55.2

In August, the US S&P Global Composite PMI slightly decreased to 54.1 from 54.3 in July, reflecting continued robust expansion in the private sector and surpassing the expected 53.5. Meanwhile, the S&P Global Manufacturing PMI fell to 48.0 from 49.6, signaling ongoing contraction, while the Services PMI rose to 55.2 from 55.0. Economists interpret this data as indicative of strong GDP growth, potentially exceeding 2.0% annualized for Q3, and a normalization of inflation, which eases recession concerns and supports expectations for lower interest rates. Notably, the US services sector sustained its momentum from the first half of the year, marked by significant expansion in business activity driven by increased new orders, resulting in increased hiring and optimistic growth projections.

Canada's CPI Matches Expectations at 2.5%, Supporting Anticipated Bank of Canada Rate Cuts

Canada's annual Consumer Price Index (CPI) rose by 2.5% in July, matching expectations and easing from June's 2.7%. Monthly CPI increased by 0.4%, while core CPI, which excludes food and energy, rose by 0.3%. The Bank of Canada's Core CPI showed a 1.7% y/y increase, slightly down from June's 1.9% rise. The current policy rate in Canada stands at 4.50%, following a recent 25 bps cut. Markets are anticipating additional easing, currently pricing three more 25 basis point reductions by year-end, potentially bringing the target rate down to 3.75%. USD/CAD was last seen at 1.3507.

Europe and the United Kingdom

Euro Hits One-Year High of 1.1211 Against Dollar Amid Fed Rate Cut Expectations

Meanwhile, the euro surged to a one-year high against the dollar driven by expectations that the Fed will cut interest rates faster than the European Central Bank. The British pound also reached its highest level since July 2023 amid a weaker dollar, following the release of Fed meeting minutes. This came as market participants anticipated that Fed Chair Jerome Powell's speech at the Jackson Hole symposium this week would reinforce the case for lowering borrowing costs substantially in the coming months, whilst growth concerns in Europe also support the case for further reductions there. The euro's advance, up 3.6% this month, reflects these shifting monetary policy bets. EUR/USD was last seen at 1.1190.

ECB's July Minutes Highlight September as Key to Reassess Monetary Policy Amid Mixed Inflation Signals

The ECB’s July meeting minutes suggest a potential interest rate cut in September, despite persistent inflationary pressures. Core inflation held steady at 2.9%, and services inflation slightly decreased to 4.0% from 4.1% in June. Officials expressed openness to further rate adjustments, noting that September could be an opportune moment to reassess monetary policy. The ECB kept its deposit rate at 3.75% in July, following a 25bps reduction in June. Eurozone negotiated wage growth slowed to 3.6% in Q2 from 4.7% in Q1, reinforcing the case for easing. Mixed economic data and nascent concerns about stagflation are influencing ongoing discussions about future monetary policy, with the final decision contingent on upcoming data releases.

Eurozone PMI Rises to 51.2; Services Up to 53.3, Manufacturing Down to 45.6; French Olympics Boost

In August, the eurozone experienced stronger-than-expected growth in private sector activity, with the Composite PMI Index rising to 51.2 from 50.2 in July, its highest level in three months. This expansion was primarily driven by the services sector, notably in France, where the Services PMI surged to 55.0 due to the Olympic Games. Despite this, euro area manufacturing continued to contract, with the Manufacturing PMI Output Index falling to 45.6, an eight-month low. Germany’s economic conditions worsened, with its Composite PMI Output Index dropping to 48.5, below expectations, and the manufacturing PMI declining to 42.1, marking the 27th consecutive month of contraction. Weak demand and ongoing economic challenges suggest that underlying issues may persist.

UK Business Activity Improves in August; Composite PMI Rises to 53.4, Cost Pressures Eased

UK business activity showed notable improvement in August, with the S&P Global Composite PMI climbing to 53.4 from 52.8 last month, the highest since April and surpassing forecasts. This uptick suggests steady economic growth moving into the latter half of 2024. Cost pressures on businesses have eased to their lowest level in over three years, contributing to a favorable economic outlook. The services PMI rose to 53.3, its highest since April, while the manufacturing PMI improved to 52.5, marking the best performance since June 2022 and signaling robust job creation. Despite lower inflationary pressures, interest rate cuts are anticipated to be cautious, with one expected in November. GBP/USD was last seen trading at 1.3209.

Asia-Pacific

Japan's Core Inflation Hits 2.7% in July, Driven by Rising Utility Costs; Core-Core Index Slows to 1.9%
In July, Japan's core inflation rate rose to 2.7% y/y, driven by higher electricity costs and exceeding the central bank's 2% target. This marks the third consecutive month of acceleration. However, the core-core index, excluding fresh food and energy, slowed to a gain of 1.9%, versus 2.2% in June. The end of government subsidies for electricity and gas in May, which resumed in August, significantly impacted CPI. Utility costs surged 22.3% y/y, while educational and entertainment expenses increased 5.6%. Although overall inflation showed a slight uptick, the trend is slowing when excluding policy effects. Yen weakness and higher labor costs remain concerns. USD/JPY was last seen at 144.37.

RBA Considered Rate Hike in August Amid Persistent Inflation but Kept Cash Rate at 4.35%
Minutes from the Reserve Bank of Australia's August meeting showed that policymakers considered hiking rates due to high underlying inflation entrenched in the economy but ultimately settled on holding. Policymakers had contemplated raising the cash target rate from its current level of 4.35% due to persistent inflation concerns. The central bank is trying to strike a balance between combating elevated inflation and supporting the labor market. The RBA opted to hold rates steady, citing the risk of inflation not reaching its 2% to 3% annual target by late 2025 and doubts about whether current monetary conditions were sufficiently restrictive. AUD/USD was last seen at 0.6792.

PBOC Maintains Loan Prime Rates at 3.35% and 3.85% Post-July Cuts, Balancing Growth and Stability
The People's Bank of China (PBOC) has kept its one-year and five-year Loan Prime Rates (LPR) unchanged at 3.35% and 3.85%, respectively, following 10bps cuts in July. This decision aligns with expectations as the PBOC aims to balance economic support with market stability. Despite recent mixed economic data, including a modest recovery and improved consumer confidence, lending activity remains subdued. July's rate cuts had spurred a decline in government bond yields, prompting cautious market reactions. The PBOC's current stance reflects its intent to support economic growth toward its 5% target for 2024, while avoiding market overheating. USD/CNY was last seen at 7.1244.

RBNZ Cuts Rate to 5.25% for First Time in Four Years, Signals Further Reductions Amid Weak Growth
The Reserve Bank of New Zealand (RBNZ) delivered the first rate cut in over four years, reducing rates by 25bps and taking the cash rate down to 5.25% and surprising some economists and market participants. The central bank signaled that more cuts are likely as inflation nears the target range of 1.0% to 3.0%. RBNZ Governor Adrian Orr stated that growth has weakened substantially since May, and the central bank expects the country this year to tip into a technical recession, two consecutive quarters of economic contraction. Markets are currently pricing in 75 bps of additional cuts by year-end, which would take the cash rate down to 4.50%. NZD/USD was last seen at 0.6232.

Kuwait

USD/KWD closed last week at 0.30490.

FX Rates – August 25, 2024

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1022	1.1021	1.1200	1.1190	1.1105	1.1280	1.1238
GBP	1.2933	1.2929	1.3230	1.3209	1.3140	1.3300	1.3220
JPY	147.65	144.04	148.05	144.37	143.40	145.00	142.54
CHF	0.8657	0.8469	0.8677	0.8479	0.8400	0.8520	0.8390