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>NBK Treasury
+965 22216603
tsd_list@nbk.com

Global Markets Reprice Inflation Risks as Oil Surges and Central Banks Turn More Hawkish

Market Commentary

Global markets are increasingly repricing inflation and monetary policy expectations as higher energy prices and renewed trade measures raise the risk of persistent inflation alongside softer growth. Brent crude rose above USD 100/bbl before retreating by the close of trading last week, amid concerns over disruptions to key shipping routes, while higher oil prices pushed global bond yields upward and reinforced expectations of central bank tightening. In the US, initial jobless claims fell 22K to 187K, the lowest since 1969, signalling continued labour market resilience, while US tariffs of 10%-12.5% across around 60 economies could add to inflationary pressures and raise business costs. The dollar strengthened alongside higher Treasury yields, with DXY closing the week at 101.468 [+0.70%]. In Canada, CPI eased to 2.8% YoY from 3.2% YoY and fell 0.4% MoM, while average core inflation declined to 1.85%, providing further evidence of moderating underlying price pressures. USD/CAD closed the week at 1.4096 [+0.52%]. In Europe, the ECB held its deposit rate at 2.25% while signalling potential tightening in September, as euro-area inflation remained at 2.8% YoY and the Composite PMI rose to 51.9, indicating a return to private sector expansion. EUR/USD closed the week at 1.1370 [-0.60%]. In the UK, CPI eased to 2.6% YoY, while the Composite PMI rebounded to 52.1, although renewed energy pressures could reverse some of the recent disinflationary progress. GBP/USD closed the week at 1.3325 [-0.94%]. In Asia Pacific, China kept its one-year and five-year LPRs unchanged at 3% and 3.5%, respectively, as broad fiscal spending fell 11.9% YoY in June, while Australia added 76.3K jobs MoM and New Zealand CPI accelerated to 4.1% YoY, reinforcing expectations for tighter monetary policy. USD/CNH closed the week at 6.7718 [-0.08%], AUD/USD at 0.6979 [-0.07%], and NZD/USD at 0.5793 [-0.86%]. Meanwhile, the Japanese yen saw continued weakness, with the currency pair ending the week at 163.83 [+0.87%]. Overall, resilient labour markets, elevated energy costs, and persistent inflation risks are likely to keep major central banks cautious on easing, while tighter financial conditions and higher input costs could weigh on global growth.

United States and Canada

US Tariffs of 10%-12.5% Extended Across 60 Economies as Protectionism Resurges

The US is set to impose new tariffs of 10% to 12.5% on imports from around 60 economies, reinforcing President Donald Trump's protectionist trade agenda following the Supreme Court's rejection of earlier tariff measures. Levies of 10% will apply to selected partners including Mexico, the UK, Canada, and India, while duties on Japan, Switzerland and South Korea will broadly be capped at 12.5%, with EU and Taiwanese goods generally subject to tariffs of no more than 10%. Although exemptions cover fuel, food, fertilisers, and products already subject to sector-specific duties, the new regime introduces renewed uncertainty for global supply chains and US importers. The measures risk adding to inflationary pressures and business costs, particularly if future tariffs targeting excess manufacturing capacity are layered on top, while retaliatory measures from trading partners could further weaken global trade and investment. DXY last printed at 101.468.

US Initial Jobless Claims Fall 22K to 187K, Lowest Since 1969

US initial jobless claims fell by 22K to 187K in the week ended July 18, substantially below the 210K median economist forecast and marking the lowest level since 1969. The data indicate that employers remain reluctant to reduce headcount despite broader uncertainty surrounding economic growth, tariffs, and elevated energy prices. Continuing claims were little changed at approximately 1.8 million, suggesting that the labour market remains broadly resilient. The sharp decline in initial claims reinforces expectations that layoffs remain contained ahead of the July 28-29 Federal Open Market Committee meeting, although the strength of the labour market may partly reflect lower labour-force participation. For the Federal Reserve, the data provide limited evidence of an urgent deterioration in employment conditions, potentially allowing policymakers to maintain a greater focus on renewed inflation risks from higher energy prices and tariffs.

Canada CPI Falls to 2.8% YoY and -0.4% MoM as Core Inflation Drops to 1.85%

Canadian inflation moderated more than expected in June, with the Consumer Price Index rising 2.8% YoY, down from 3.2% YoY in May and below the 2.9% consensus forecast, while prices declined 0.4% MoM. The average of the Bank of Canada's preferred median and trim core inflation measures fell to 1.85%, its lowest level since September 2020 and below the 2% threshold for the first time in almost six years. Gasoline prices declined 10.2% MoM, although they remained 20.5% higher YoY, while shelter inflation eased to 1.5% YoY. The Statistics Canada report supports the Bank of Canada's recent decision to maintain its policy rate at 2.25% for a sixth consecutive meeting, although renewed oil price gains and elevated freight costs could reverse some of the disinflationary impulse in July. The Canadian dollar weakened modestly on release of the data, while two-year government bond yields declined. USD/CAD last printed at 1.4096.

Europe and the United Kingdom

ECB Holds Deposit Rate at 2.25% as Lagarde Signals Potential Further Tightening

The European Central Bank maintained its deposit rate at 2.25% but signalled increasing readiness to resume tightening as renewed Middle East hostilities drive energy prices higher. President Christine Lagarde indicated that some policymakers had considered an immediate rate hike, while emphasising that the Governing Council would assess incoming data ahead of its September meeting. Euro-area headline inflation slowed to 2.8% YoY in June, although the renewed surge in oil and gas prices presents significant upside risks to the inflation outlook and could keep price growth above target into the first half of 2027. Markets are now pricing an almost fully certain 25bp hike in September and another increase by year-end. The 10-year German Bund yield reached 3.21%, its highest level since 2011, while the euro weakened as investors balanced the prospect of tighter ECB policy against growing concerns over energy-driven stagflation and weaker regional growth. EUR/USD last printed at 1.1370.

Euro-Zone Composite PMI Rises to 51.9 as German PMI Rebounds to 51.2 and French PMI Improves to 49.6

Euro-area private-sector activity strengthened much more than expected in July, with the Composite PMI rising to 51.9 from 50.0, moving into expansion territory for the first time since March. Germany led the improvement, with its Composite PMI rising to 51.2 from 49.5 as manufacturing activity strengthened to 52.2, while France's Composite PMI increased to 49.6 from 47.2, marking its strongest reading since February but remaining marginally below the 50 threshold. The data suggest the euro-area economy entered the third quarter with improved momentum, supported by stronger services activity and easing cost pressures. However, the renewed escalation in the Middle East and the associated rise in oil and gas prices threaten to undermine the recovery by intensifying inflationary pressures, disrupting energy supply and increasing borrowing costs. The stronger activity data therefore provide limited comfort as the ECB considers further tightening in September.

UK CPI Eases to 2.6% YoY as Services Inflation Slows to 3.6% and PMI Rebounds to 52.1

UK inflation eased to 2.6% YoY in June from 2.8% YoY in May, below the 2.7% consensus forecast and marking the lowest rate since March 2025, while services inflation moderated to 3.6% YoY from 3.7%. The disinflationary improvement was supported by a 3.1% decline in petrol and diesel prices and food inflation easing to 1.6% YoY, although renewed energy price pressures are expected to lift inflation in the coming months. At the same time, the labour market remained subdued, with payroll employment rising only 3K MoM in May and falling 0.3% YoY, while private-sector wage growth slowed to 2.9% YoY, its weakest pace in five years. Nevertheless, business activity rebounded, with the Composite PMI rising to 52.1 from 49.3 in June. The mixed data leave the Bank of England balancing softer domestic pressures against renewed energy and tariff-related inflation risks. GBP/USD last printed at 1.3325.

Asia-Pacific

Yen Nears 40-Year Low as Markets Price an 80% Chance of Another BOJ Rate Hike by October

Bank of Japan officials are reportedly open to raising interest rates faster than the roughly six-month pace anticipated by most economists, as renewed yen weakness increases upside inflation risks. The BOJ is widely expected to leave its policy rate unchanged at 1% at its July 31 meeting after raising rates to the highest level in 31 years last month, although markets now assign an 80% probability of another hike by October. The yen recently weakened to near a four-decade low, while underlying inflation is approaching the BOJ's 2% target and companies appear increasingly willing to pass higher costs through to consumers. Policymakers are therefore shifting their focus from generating inflation towards ensuring price growth remains sustainably anchored around target. The prospect of faster tightening, alongside potential government intervention, is supporting Japanese bond yields and increasing USD/JPY volatility. USD/JPY last printed at 163.83.

China Keeps Loan Prime Rates Unchanged for 14th Month as Fiscal Spending Falls 11.9% YoY

China kept its benchmark lending rates unchanged for a 14th consecutive month in July, with the one-year LPR at 3% and the five-year LPR at 3.5%, as policymakers maintained a patient approach despite weaker-than-expected second-quarter growth. The economy is facing a structural mismatch between strong supply and weak domestic demand, with subdued household consumption contrasting with resilient manufacturing and exports. Broad fiscal spending also fell 11.9% YoY in June, suggesting a continued drag from fiscal policy, although authorities have pledged to maintain an appropriately loose monetary stance and strengthen financial support to revive domestic consumption. Attention now turns to the end-July Politburo meeting for guidance on second-half economic policy, including potential measures to stabilise household balance sheets and the property sector. While further monetary easing remains possible, policymakers may prioritise targeted support and faster implementation of existing measures. USD/CNH last printed at 6.7718.

Australia Employment Surges 76.3K MoM in June as Unemployment Holds at 4.4%

Australian employment increased by a much stronger-than-expected 76.3K MoM in June following an upwardly revised 44K gain in May, while the unemployment rate remained at 4.4% as the participation rate increased to 67%. Full-time employment rose 29.3K and part-time employment increased 47K, highlighting continued resilience in labour demand despite restrictive monetary policy. The robust employment data have strengthened expectations for further Reserve Bank of Australia tightening, with markets fully pricing a 25bp hike by December and assigning around a 50% probability to a September move. The RBA's policy rate remains at 4.35%, while inflation is not expected to return to the midpoint of the 2%-3% target range until mid-2028. Renewed Middle East tensions and higher fuel prices could reinforce inflation risks, although weak consumer and business confidence may constrain domestic demand. AUD/USD last printed at 0.6979.

New Zealand CPI Accelerates to 4.1% YoY and 1.5% QoQ as Fuel Prices Surge
New Zealand inflation accelerated sharply to 4.1% YoY in the second quarter from 3.1% YoY in the first quarter, exceeding the 4% consensus forecast, while prices increased 1.5% QoQ against expectations of 1.4%. Tradables inflation accelerated to 4.9% YoY, driven by a 27.5% increase in gasoline prices and a 71% surge in other fuel costs, while non-tradables inflation eased modestly to 3.4% YoY from 3.5%. The stronger-than-expected inflation outcome reinforces expectations that the Reserve Bank of New Zealand will deliver another 25bp rate increase in September after raising the Official Cash Rate to 2.5% earlier this month. Markets also anticipate further tightening later in the year, although the pace beyond the neutral level remains uncertain. Renewed Middle East tensions and associated fuel price risks represent further upside risks to the inflation outlook. NZD/USD last printed at 0.5793.

Kuwait

USD/KWD closed last week at 0.30780.

FX Rates – July 26, 2026

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1439	1.1364	1.1450	1.1370	1.1250	1.1450	1.1415
GBP	1.3452	1.3299	1.3481	1.3325	1.3200	1.3400	1.3327
JPY	162.40	162.22	163.99	163.83	163.00	165.00	162.58
CHF	0.8073	0.8061	0.8186	0.8182	0.8100	0.8300	0.8098