Weekly Money Market Report

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Navigating Economic Divergence: Global Markets Reflect Mixed Signals In Growth and Policy

Key Highlights

- ***US Dollar Index Surges to 108.54, While Major Currencies Depreciated.***
- ***US GDP at 3.1% in Q3 of 2024.***
- ***US PCE Index at 2.4% y/y, Core PCE Index at 2.8%.***
- ***UK CPI Rises to 2.6%, Bank of England Holds Rates at 4.75%.***
- ***Bank of Japan Holds Rates Unchanged at 0.25%.***
- ***China 1- and 5-year Prime Loan Rate Unchanged at 3.1% and 3.6% Respectively.***

Market Commentary

In the week ending on the 22nd of December, global markets witnessed major developments, as economic data continues to shape the economic outlook. In the U.S., inflation, as measured by core PCE, increased by 0.1% month-over-month and 2.8% year-over-year in November, maintaining stable inflation expectations. Personal spending rose 0.4%, while disposable income grew 0.3%. The U.S. dollar showed resilience, reaching near 108.54 on the DXY, supported by a hawkish cut by the Federal Reserve and strong economic growth as GDP rose 3.1%. Treasury yields rose, with the 10Y yield climbing past 4.5%. Equities sold off, as the S&P 500 fell 3.0%, the Nasdaq dropped 3.6%. In Europe, the ECB confirmed a 0.25% rate cut as inflation fears abated, with the euro reaching a low of $1.034. While in the UK, the Bank of England has decided to keep policy rates unchanged at 4.75% as inflation is proving to be persistent at 2.6% y/y. Meanwhile, Japan's yen depreciated to 157.9 against the US dollar after dovish central bank commentary. Commodities saw contrasting moves, with gold reaching around $2,600 per ounce, while Brent crude slipped to $72 per barrel, weighed by demand concerns. Global markets continue to react to central bank recalibrations, reflecting cautious optimism tempered by persistent economic challenges.

United States & Canada

US Private Sector Expands at the Fastest Pace Since 2022, Led by a Services Surge

The S&P Global Flash US Composite PMI rose to 56.6 in December 2024, up from 54.9 in November, marking the strongest private sector growth since March 2022. The services sector surged to 58.5 (highest since October 2021), while manufacturing fell further to 48.3 (a three-month low). The increase was driven by strengthening demand, with new orders rising at their fastest pace since April 2022 and employment growing for the first time in five months. Inflationary pressures eased overall, despite rising input costs in manufacturing. Business optimism reached a two-and-a-half year high, supported by positive expectations under the incoming Trump administration.

Retail Sales Beats Expectations, While Core Sales Growth Remains Subdued

US retail sales rose by 0.7% month-on-month, surpassing the forecasted 0.6%. October's figure was also revised upward to 0.5%. However, core sales, excluding automotive and gas, grew only 0.2%, consistent with October but below predictions. Industrial production fell by 0.1%, marking a third consecutive decline but improving on the previous month's 0.4% drop. Manufacturing showed a modest recovery, rising 0.2% after a 0.7% contraction in October.

Federal Reserve Cuts Rates by 25 bps, Signals Slower Pace of Easing in 2025.

The Federal Reserve reduced its benchmark interest rate by 25 bps to a range of 4.25-4.5%, marking the third consecutive cut in its current cycle. However, the FOMC signalled a slower pace of easing next year, with policymakers projecting only two quarter-point rate cuts for 2025 instead of the three previously expected by some economists. Inflation estimates were revised higher, reflecting increased concerns about price stability, whilst Fed officials' neutral rate estimate rose to 3%. Chair Jerome Powell highlighted that the policy stance is now "significantly less restrictive", allowing for cautious adjustments as inflation trends remain "sideways" and labour market risks had "diminished".

US Economy Records 3.1% Growth in Q3, Marking Strongest Expansion in 2024

The US economy grew at an annualized rate of 3.1% in Q3 2024, up from the second estimate of 2.8% and exceeding Q2's 3% growth, marking the strongest expansion this year. Personal spending rose 3.7%, the fastest since Q1 2023, driven by a 5.6% increase in goods consumption and strong service spending (2.8%). Fixed investment grew 2.1%, with equipment investment surging 10.8%, while structures (-5%) and residential investment (-4.3%) declined. Government spending increased 5.1%, and net trade contributed less negatively, with exports and imports revised higher at 9.6% and 10.7% respectively.

Consumer Spending Gains Momentum Amid Stable Inflation Growth in November

Personal consumption expenditures (PCE) rose by 0.4% in November 2024, supported by a 0.7% increase in goods spending, driven by robust demand for motor vehicles and recreational products. Services spending grew modestly by 0.1%, with healthcare and recreation services leading the gains. The PCE price index increased by 0.1% month-over-month, maintaining a steady annual rate of 2.4%. Core PCE, excluding food and energy, also rose by 0.1% month-over-month and 2.8% year-over-year. Personal income and disposable income both increased by 0.3%, signaling resilience in consumer activity amid stable inflationary pressures.

The US Dollar index closed the week at 107.82.

Canada CPI Eases to 1.9%, While Markets Anticipate Further Policy Adjustments in January

Canada's inflation eased to 1.9% year-on-year in November, less than the expected 2%. Core inflation remained flat at 0.0% month-on-month, down from 0.4% previously. This marks further progress toward the central bank's target rate, supporting its current stance on monetary easing. Where markets are currently pricing 52% probability of a cut in their upcoming meeting in January.

The USD/CAD pair closed the week at 1.4368

Europe

Eurozone PMI Shows Mixed Signals as Manufacturing Slumps Further

The HCOB Flash Eurozone PMI for December 2024 reported a composite output index of 49.5, below the neutral 50 mark but slightly higher than November's 48.3. Manufacturing PMI fell to 44.5, marking a 32-month low, driven by sharp declines in Germany and France. In contrast, the services PMI rose to 51.4, a two-month high, indicating modest growth in services activity, particularly in parts of Southern Europe. Persistent drops in new orders and export demand remain key challenges, with Germany and France's weakness overshadowing stronger performances from other Eurozone countries.

Lagarde Signals Clear Path for ECB Rate Cuts as Inflation Eases

In a speech delivered in Vilnius, ECB President Christine Lagarde reaffirmed the bank's commitment to further rate cuts, provided economic data continues to align with projections. Lagarde emphasized that inflation, which stood at around 2.3% in November, is steadily converging toward the ECB's 2% target. Recent monetary policy adjustments have already included four rate cuts this year, with the

ECB's deposit rate currently at 3%. The ECB's deliberate shift in language, removing the term "sufficiently restrictive," has signalled a pivot to a more accommodative stance. As the ECB aims to lower rates gradually to a neutral level of 1.75%-2.5% to support the Eurozone economy while addressing structural challenges and ensuring price stability.

The EUR/USD currency pair closed the week at 1.0429.

United Kingdom

UK Manufacturing PMI Hits 11-Month Low, Amid Export and Demand Weakness

The S&P Global Flash UK Manufacturing PMI fell to 47.3 in December 2024, down from 48 in November, marking the sharpest contraction in 11 months. Production declined for the second consecutive month, and new orders saw a steep drop due to customer destocking and weaker demand from European clients, leading to the fastest fall in export sales since October 2023. Backlogs decreased, while purchasing prices rose at the fastest pace since January 2023.

UK Employment Sees Mixed Trends Amid Payroll Volatility

The UK's payroll data for November 2024 showed a decline of 35,000 employees, a 0.1% drop from the previous month, while rising 76,000 (0.3%) compared to the same period last year. Total payrolled employees stood at 30.4 million. Employment rates for those aged 16 to 64 remained steady at 74.9% for August to October, while unemployment climbed slightly to 4.3%. Job vacancies continued their downward trend, decreasing by 31,000 to 818,000, marking the 29th consecutive quarterly drop. Earnings growth held strong, with total pay rising 5.2% annually, translating to a 2.2% increase in real terms after inflation adjustments.

Retail Sales in The UK Show Modest Recovery in November 2024

Retail sales volumes in Great Britain rose by 0.2% in November 2024, marking the first monthly increase since August. The growth was driven by higher sales in supermarkets and non-food stores, particularly household goods, which rebounded by 7.9%. However, clothing sales fell for the second consecutive month, dropping 2.6%, reaching their lowest levels since January 2022. Online retailing continued to decline, with spending values down by 4.3%, the largest drop since March 2022. Overall, sales volumes remain 1.6% below pre-pandemic levels from February 2020.

UK CPI Rises to 2.6% in November 2024

The UK's Consumer Prices Index (CPI) increased by 2.6% in the year to November 2024, up from 2.3% in October. The rise was driven by upward contributions from transport and recreation, offsetting slight declines in sectors like restaurants and hotels. Core CPI, excluding volatile items such as energy and food, climbed to 3.5%, reflecting persistent inflationary pressures. While inflation remains well below its October 2022 peak of 11.1%, these figures highlight sustained price growth across key sectors.

Bank of England Holds Rates at 4.75%

The Bank of England held its benchmark interest rate steady at 4.75% in December 2024, aligning with market expectations. While inflation and wage growth remain high, raising concerns about persistent inflation, three policymakers advocated for a 25bps rate cut to 4.5% due to weak demand and a softening labor market. The central bank emphasized a cautious approach to easing monetary policy, maintaining a restrictive stance until inflation risks align with the 2% target. Future decisions will be made on a meeting-by-meeting basis.

The GBP/USD currency pair closed the week at 1.2569.

Asia-Pacific

Bank of Japan Maintains Policy Rate, Projects Gradual Inflation Growth

The Bank of Japan (BOJ), in an 8-1 majority decision, announced it will maintain the uncollateralized overnight call rate at around 0.25% as the economy shows moderate recovery. While private consumption and business investment continue to improve, inflation has been rising steadily, with core CPI (excluding fresh food) hovering at 2.0-2.5%. The BOJ expects underlying inflation to gradually align with its 2% target as wage growth and spending accelerate in a "virtuous cycle." Despite this optimism, risks remain due to global economic uncertainties and volatile commodity prices. Following its comprehensive review of monetary policy, the BOJ reaffirmed its commitment to sustainable price stability and accommodative financial conditions.

The USD/JPY currency pair closed the week at 156.41.

China Holds Loan Prime Rates Steady in Efforts to Boost Economic Activity
China's one-year loan prime rate (LPR) remained unchanged at 3.1% in December 2024, while the five-year LPR, used for mortgage pricing, held at 3.6%. Despite the unchanged rates this month, the LPR has seen cuts totaling 35 and 60 basis points for the one-year and five-year rates, respectively, over the year. Analysts believe the current reduced rates will ease financial burdens on businesses and households, stimulating investment, boosting purchasing power, and supporting economic recovery.

The USD/CNY currency pair closed the week at 7.2961.

New Zealand Enters Recession as GDP Contracts Sharply
New Zealand has officially entered a recession after its GDP shrank by 1.0% in the third quarter, following a revised 1.1% contraction in the second quarter. The downturn, described as the sharpest two-quarter decline since 1991, surpassed market expectations of a 0.2% drop. The Reserve Bank of New Zealand has already slashed interest rates by 125 basis points this year, with markets anticipating further cuts, including a potential 50-basis-point reduction in February. Weakness in manufacturing, utilities, and construction, coupled with declining household and government spending, has intensified economic pressures.

The NZD/USD currency pair closed the week at 0.5651.

Kuwait

Kuwaiti Dinar
USD/KWD closed last week at 0.30805.

Rates – 26th May 2024

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0496	1.0341	1.0534	1.0429	1.0220	1.0530	1.0472
GBP	1.2609	1.2471	1.2728	1.2569	1.2330	1.2660	1.2563
JPY	153.61	153.14	157.92	156.41	154.75	159.40	154.70
CHF	0.8924	0.8897	0.9021	0.8930	0.8830	0.9160	0.8839