

Weekly Money Market Report

16 September 2024



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Fed's Rate Cut Path Uncertain Amid Market Volatility

- US Consumer Price Index m/m and y/y came in line with expectations.
- US Producer Price Index m/m came in at 0.2% vs expectations of 0.1%.
- US Core Producer Price Index m/m came in at 0.3% vs expectations of 0.2%.
- US unemployment claims came in at 230,000 vs expectations of 227,000.
- European Central Bank delivered a quarter-point interest rate cut.
- UK GDP m/m came in at 0.0% vs expectations of 0.2%.
- China's CPI rose less than expected in the August figure, with the index at 0.6% y/y.

United States

US Consumer Price Index

In August, inflation fell to its lowest level since February 2021, with the consumer price index rising by 0.2% for the month, putting the 12-month inflation rate at 2.5%. This was lower than the expected 2.6%. However, core inflation, excluding food and energy, rose 0.3%, slightly above the forecasted 0.2%, keeping the 12-month core inflation rate at 3.2%. This complicates the Federal Reserve's decision on a potential interest rate cut. Despite the overall moderation in inflation, housing costs, which make up a third of the index, rose 0.5%, contributing significantly to the overall CPI increase. Other factors, such as rising prices in apparel, airline fares, and motor vehicle insurance, also pushed costs higher, while energy prices dropped 0.8%. Markets are currently pricing a 59% probability of a 50bps cut in the upcoming FOMC meeting.

US Producer Price Index & Unemployment claims

The final inflation data released before the Federal Reserve's anticipated interest rate cut showed wholesale prices rising in August at a pace slightly above expectations. The producer price index, which measures the costs producers receive for final demand goods and services, increased 0.2% on the month, matching the consensus forecast. Core PPI, excluding food and energy, rose 0.3%, slightly hotter than expected, and remained at the same level when trade services were excluded. On an annual basis, headline PPI rose 1.7%, while core PPI excluding food, energy, and trade increased 3.3%. Additionally, initial claims for unemployment benefits rose marginally to 230,000, suggesting that layoffs remained low despite a slowing labor market. This combination of a relatively stable labor market and persistent inflation further reduced the likelihood of a 50-basis-point interest rate cut by the Federal Reserve in its upcoming meeting.

The Greenback closed the week at 101.114

Europe

ECB Press Conference

The European Central Bank, in a widely anticipated move, delivered a quarter-point interest rate cut on Thursday, marking its second such reduction this year, as sluggish economic growth and cooling inflation across the euro zone pushed policymakers to ease monetary policy. This brings the deposit rate to 3.5%. The central bank lowered its 2024 growth forecast to 0.8% due to weaker domestic demand, while reaffirming its commitment to a data-dependent approach to future rate decisions. While market participants were largely expecting the rate cut, uncertainty remained over whether the ECB would provide clues about its future rate path, with economists divided on whether a pause in October or further rate cuts in December would be more likely. The ECB's meeting comes just days before the Federal Reserve is expected to begin its own rate-cutting cycle, adding to the complexity of global monetary policy coordination.

The EUR/USD currency pair closed the week at 1.1076

United Kingdom

UK GDP m/m

In July, the UK economy showed no growth, following a stall in June, according to the Office for National Statistics (ONS). This fell short of the expected 0.2% growth. The services index grew by 0.6% over three months, down from June's 0.8%. Additionally, industrial production and manufacturing production both declined unexpectedly, falling by 0.8% and 1.0% respectively, missing market expectations.

The GBP/USD currency closed the week at 1.3122

Asia Pacific

China Consumer Price Index

China's CPI rose less than expected in the August figure, with the index at 0.6% y/y, missing expectations of a 0.7% increase while higher than the previous 0.5% figure. Declines were seen in costs of transportation, rentals, and home goods. Meanwhile, food prices rose 2.8%, the first positive print since June of 2023. Core CPI rose 0.3% from a year ago, while the producer price index fell by 1.8%, higher than the estimated 1.4% figure.

China Producer Price Index

China's PPI continued to decline, falling 1.8% y/y, worsening from July's 0.8% drop. Meanwhile, China's exports grew by 8.7% y/y, surpassing forecasts, while imports increased by just 0.5%, reflecting weak domestic demand. The economic outlook of the world's second largest economy remains pressured by a persistent property market slump, unemployment concerns, rising trade tensions, and deflationary pressures, prompting calls for more fiscal stimulus.

The CNY/USD currency pair closed the week at 7.0876.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30520

Rates – September 16th, 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1080	1.1001	1.1101	1.1076	1.1075	1.1200	1.1144
GBP	1.3114	1.2999	1.3157	1.3122	1.3100	1.3240	1.3164
JPY	142.22	140.27	143.79	140.82	139.50	141.00	138.37
CHF	0.8433	0.8419	0.8549	0.8489	0.8375	0.8500	0.8374

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