Weekly Money Market Report
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Central Banks Hold Rates as Dollar Weakens and Yen Surges

Market Commentary

An exceptionally dense week delivered central bank decisions on three fronts, a decisive softening in US data and the busiest earnings slate of the quarter and ended with the dollar broadly weaker. The FOMC held the funds target range at 3.50%-3.75% in a rare three-way-debated meeting, with three officials Kashkari, Hammack and Logan dissenting in favour of a 25bps hike, while Chair Warsh kept his options open and pressed ahead with his overhaul of the Fed's forward guidance framework. The hawkish optics were quickly overtaken by the data: the advance estimate showed Q2 GDP slowing to 1.5% annualised, well below the 2.3% consensus, on softer government spending and a wider import drag, while June core PCE rose just 0.1% MoM softer than expected easing to 3.3% YoY, and initial jobless claims picked up to 197K from 187K. The repricing pushed the DXY down roughly 0.8% to close the week near 100.00. The week's most dramatic move came from Tokyo MoF intervention on Thursday drove USD/JPY from above 163.00 to a low of 157.80 a 3% single day yen surge, the largest since late 2022 before the BoJ on Friday held its policy rate at 1.00%, warned that underlying inflation is running above the 2% target, upgraded its growth forecast and kept the door open to further hikes. In Europe, the BoE held Bank Rate at 3.75% in a 6-3 split with the dissenters favouring a hike, as Governor Bailey balanced a “more uncertain and inflationary” global backdrop against more benign domestic conditions, while eurozone Q2 GDP beat expectations at 0.4% QoQ; EUR/USD closed the week at 1.1520 and GBP/USD at 1.3480. Down under, Australia's Q2 CPI undershot forecasts where headline fell 0.1% QoQ with the trimmed mean easing to 3.6% YoY prompting markets to pare RBA hike bets only a day after Governor Bullock said the Board remained “prepared to act”. AUD/USD nonetheless closed higher at 0.7030 on broad dollar weakness. Equities powered through the busiest week of the earnings season. Microsoft surged around 15% and Amazon 10% on results, while Apple fell 7% on soft Services and China revenue, with the four hyperscales guiding to a combined $720-745bn of 2026 capex reaffirming the AI investment cycle and lifting the S&P 500 toward 7,510 into Friday. In commodities, crude retreated sharply from the prior week's Red Sea-driven spike above $100, with Brent easing below $86 and WTI to around $82 as tanker traffic through Hormuz normalized.

United States

Federal Reserve Chair Kevin Warsh Faces Market Backlash and Credibility Strain

Following an FOMC vote of 9-3 to keep interest rates steady at 3.5%-3.75%, Warsh held his second post meeting press conference since taking office in May. Rather than reassuring investors, the event triggered a negative market response long-term Treasury yield spiked to their highest level since 2007, while short-term yields dropped. Meanwhile, market expectations that the Fed would pause rates again at the next meeting jumped significantly to 45%. This dynamic signals that investors fear the central bank is failing to address stubborn inflation which has outpaced the 2% target for over five years and will ultimately be forced into harsher, more aggressive policy shifts later. Ironically, Warsh had previously criticized his predecessor, Jerome Powell, over rising long-term yields, attributing the issue to a lack of credibility. Though Wednesday's context involved a rate pause rather than a cut, and Warsh argued that rising yields could stem from strong business investment, investors largely disagreed. Analyst Jon Hilsenrath noted that Warsh failed to clearly outline what conditions would force him to hike rates against persistent inflation. Furthermore, Warsh has abandoned the traditional Fed practice of "forward guidance," arguing that signalling future moves creates inflexibility and blinds the central bank to authentic market signals. Because he refuses to explain his decision-making process or clarify why the current rate is appropriate, economists were left bewildered. During the briefing, Warsh downplayed a recent drop in the consumer price index while simultaneously calling inflation “elevated.” He also cast doubt on the Fed's long-term commitment to its standard personal consumption expenditures (PCE) price index target of 2%, noting that an internal task force might recommend changing or downplaying the official target next year. This ambiguity regarding his strategy and inflation goals led prominent economists to question Warsh's credibility. Adding to his troubles, three FOMC members dissented from the decision to hold rates steady, raising the unprecedented prospect that Warsh could eventually find himself as the first Fed chair to land in the minority on a rate vote. Just months into his tenure, Warsh finds himself in a precarious position, facing mounting scepticism from both Wall Street and within the central bank itself.

U.S. Economy Grows by 1.5% in Q2 2026, Slowing More Than Expected Amid Trade and Investment Drags

The U.S. economy expanded at a slower than expected annualized rate of 1.5% in the second quarter of 2026, falling short of both the 2.1% growth recorded in Q1 and economists' forecasts of 2.1%, according to the advance estimate from the BEA. The slowdown was driven by a larger drag from net trade (-1.01%), a contraction in government spending (-0.8%) following Strategic Petroleum Reserve oil sales, a negative contribution from private inventories (-0.67%), and a moderation in non residential fixed investment (8.4% vs. 10.6%), which included a tenth consecutive quarterly contraction in structures (-5%). However, the data also highlighted resilient pockets: consumer spending accelerated sharply to 3.2%

led by gains in prescription drugs, new light trucks, furniture, and food services equipment investment remained robust at 15.2%, and residential investment ticked up 1.5% to mark its first increase in six quarters.

The Greenback was last seen trading at 99.914

United Kingdom

Bank of England Holds Interest Rate at 3.75% Amid 6-3 Split Vote and Rising Inflation Concerns

The Bank of England maintained its benchmark interest rate at 3.75%, matching economists' forecasts. The Monetary Policy Committee voted 6-3 to keep rates steady, with Megan Greene, Huw Pill, and Catherine Mann dissenting in favor of a 25 basis point hike. While a hold was widely expected following June's drop in headline inflation to a 15-month low of 2.6%, the growing number of dissenters up from two previously signaled a more hawkish stance than anticipated.

The central bank noted a consensus that energy price risks remain skewed upward. Greene pointed out that inflation has stayed above target for roughly five years and warned that new supply chain pressures, such as AI hardware constraints and a secondary Red Sea energy chokepoint, are impacting markets. She argued that a proactive rate hike could help prevent second-round inflation effects. Pill similarly advocated for an immediate increase to cut through market noise and send a clear signal regarding upside risks stemming from the Gulf, helping insulate the inflation target.

Following the announcement, the pound rose 0.08% against the dollar to $1.3376. Analysts like Felix Feather of Aberdeen observed that the expanding dissent highlights deepening committee anxieties over inflation, keeping future rate hikes on the table if inflation fails to cool further.

The GBP/USD currency pair last seen trading at 1.3480

Aisa Pacific

Japanese Yen Jumps Up to 3% in Massive Rally Sparked by Apparent Intervention and Fed Policy Shift

The Japanese yen surged by up to 3% against the dollar on Thursday, marking one of its most significant single day jumps in recent years and prompting widespread speculation of currency market intervention. The rally violently pushed the currency from around ¥163 to briefly cross past ¥158 per dollar amid a massive spike in trading volumes. Though it later settled up 2.4% on the day, sources revealed that the New York Federal Reserve acting for the U.S. Treasury conducted a dollar-yen rate check, a subtle form of soft intervention that often precedes direct foreign exchange operations. U.S. Treasury Secretary Scott Bessent told Fox Business on Thursday that the yen "seemed very undervalued to me." Meanwhile, the Bank of Japan, Japan's Ministry of Finance, and the New York Fed either declined to comment or did not immediately respond. The dramatic shift follows intense pressure on Japanese authorities to halt the currency's steep decline, especially after previous interventions in April and May failed to yield long-term support. Last week, Japan's finance minister threatened "appropriate and bold action" after the yen breached ¥163 per dollar for the first time in 40 years. Mizuho strategist Masayuki Nakajima noted that the scale of Thursday's move matched past FX interventions, pointing out that previous cycles also kicked off immediately following a Federal Reserve rate decision. According to PGIM head of global bonds Robert Tipp, the Fed's choice to leave interest rates steady which weakened the dollar provided Japanese authorities with an ideal opening to capitalize on greenback vulnerability. EBS platform data indicated an intraday surge of roughly $80 billion in dollar-yen volumes, cementing trader suspicions of state intervention. Traders in Tokyo and London noted that thin summer market liquidity amplified the impact of the move. Over the past year, mounting inflation fears, fiscal policy concerns, and high energy import costs have ravaged the yen and Japan's bond market, driving 10-year yields near 3% for the first time this century. While the Bank of Japan is anticipated to hold its interest rate steady at 1% on Friday, investors are eagerly looking for hawkish hints regarding future rate hikes. Concurrently, the broader dollar index fell 0.9% on Thursday following weaker-than-expected U.S. economic growth data.

Bank of Japan Holds Interest Rate at 1% in 8-1 Vote, Warns Core Inflation Could Exceed 2% Target

The Bank of Japan maintained its policy interest rate at 1% on Friday by an 8-1 vote, with board member Hajime Takata casting the sole dissenting vote in favor of a hike to 1.25%. In its latest economic outlook, the BOJ cautioned that core inflation is expected to climb to a level "clearly above" 2% starting in the second half of the 2026 fiscal year spanning from September to March driven by rising crude oil prices, the recent weakening of the yen, and wage growth being passed onto selling prices. Although Japan's core inflation stood at 1.6% in July and has remained mostly below 2% throughout 2026, the central bank expects inflation to eventually moderate back toward the 2% objective as oil costs drop. The decision arrives immediately on the heels of an apparent currency intervention on Thursday evening, executed alongside U.S. authorities who conducted a "rate check" a classic precursor to direct intervention. The yen, which was previously languishing near the 162-165 comfort zone around 163 against the dollar, rallied sharply to hit a high of 157.96. State Street senior fixed income strategist Masahiko Loo noted that the move proves the Ministry of Finance remains intolerant of excessive yen depreciation. Speculation has intensified regarding whether the BOJ might accelerate its tightening cycle. Bloomberg reported prior to the meeting that BOJ officials are open to moving faster than the current market expectation of one rate hike every six months. While the central bank stopped short of explicitly confirming a speed-up, it affirmed that it will continue raising rates given that accommodative financial conditions and approaching inflation targets risk pushing prices uncomfortably high and harming the broader economy. As a result, analysts like Loo suggest a rate hike in September or October has become a distinct possibility.

The USD/JPY currency pair last seen trading at 157.57.

Kuwait

Kuwaiti Dinar
USD/KWD closed last week at 0.30770.

Rates – August 2nd, 2026

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1369	1.1353	1.1546	1.1527	1.1450	1.1700	1.1569
GBP	1.3316	1.3270	1.3493	1.3480	1.3400	1.3600	1.3482
JPY	163.70	157.57	163.94	157.57	156.00	158.50	156.43
CHF	0.8176	0.8037	0.8206	0.8074	0.7950	0.8150	0.7884