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Weekly Money Market Report
November 5th, 2023

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US Federal Reserve Maintains Rate at 22-Year High

Highlights

- **The US Federal Reserve held interest rates steady in a target range of 5.25-5.5%, marking the second consecutive meeting that the FOMC chose to hold, ending a string of 11 rate hikes.**
- **Nonfarm payrolls increased by 150K versus the 178K expected, leading markets to reduce their expectations of a rate hike in December.**
- **The Bank of England also kept rates on hold while adding that monetary policy will likely need to stay tight for an "extended period of time."**
- **Japan's central bank implements a modest policy tweak, removing the 1% "cap" on 10-year government debt. Just a day after, the BOJ implemented an unscheduled purchase operation as the 10-year bond neared 1%.**
- **Stocks rose and bond yields fell after economic reports reinforced the idea that the Federal Reserve is done with interest rate hikes. In commodities, oil prices dropped to $85 after peaking at $90.15 the week prior.**
- **The dollar index ended the week 1.46% lower, sending the pound and euro above the 1.23 and 1.07 respectively, while the USD/JPY pair dropped below the 150 mark.**

United States

US Federal Reserve Holds Rates Steady

Last week, the US Federal Reserve held interest rates steady as policymakers unanimously agreed to hold the key federal funds rate in a target range between 5.25-5.5%. That marked the second consecutive meeting that the FOMC chose to hold, and followed a string of 11 rate hikes, including four in 2023 alone. "The process of getting inflation sustainably down to 2% has a long way to go," Fed Chair Jerome Powell said in remarks at a news conference. He stressed that the central bank hasn't made any decisions yet for its December meeting, saying that "The committee will always do what it thinks is appropriate at the time." The decision to stay put comes as core inflation runs at 3.7% on an annual basis, and although it has marked a steady decrease this year, it is still well above the Fed's 2% annual target.

The post-meeting statement indicated that "economic activity expanded at a strong pace in the third quarter," compared with the September statement that said the economy had expanded at a "solid pace." The statement also noted that employment gains "have moderated since earlier in the year but remain strong." Gross domestic product expanded at a 4.9% annualized rate in the third quarter, far stronger than expectations, while nonfarm payrolls growth totaled 336,000 in September. Although many officials have said they believe rates can stay where they are as the Fed assesses the impact of the previous increases, essentially none have said they are considering cuts anytime soon. Market pricing indicates the first cut could come around June 2024.

Job Creation Decelerated in October

Nonfarm payrolls increased by 150,000 for the month, according to the Labor Department report on Friday, lower than market expectations for a rise of 170,000. The primary reason for the deceleration was the United Auto Workers strikes which meant a net loss of jobs for the manufacturing industry. Meanwhile the unemployment rate rose to the highest level since January 2022 at 3.9%. Looking at a key measure for inflation, average hourly earnings increased 0.2% for the month, less than the 0.3% forecast. Following the jobs data, markets further reduced the probability of a rate hike in December to just 10%.

United Kingdom

Bank of England: "Much Too Early" to Think About Cuts

Last week, the Bank of England left interest rates unchanged while adding that monetary policy will likely need to stay tight for an "extended period of time." The Monetary Policy Committee voted 6-3 in favor of keeping the main bank rate at 5.25%, with three members preferring another 25 basis point hike to 5.5%. "The MPC's latest projections indicate that monetary policy is likely to need to be restrictive for an extended period of time. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures," the MPC said in its Thursday statement.

Inflation has weakened to 6.7% however remains well above the central bank's 2% target, while economic activity softened and the labor market shows signs of loosening. Bank of England Governor Andrew Bailey said Thursday that despite the progress on inflation, "there is absolutely no room for complacency" and that it is "still too high." Bailey added, "We will keep interest rates high enough for long enough to make sure we get inflation all the way back to the 2% target. We will be watching closely to see if further increases in interest rates are needed, but even if they are not needed, it is much too early to be thinking about rate cuts," In its accompanying Monetary Policy Report, the committee noted inflation has fallen below the expectations provided in the August findings. The BOE now expects CPI to average around 4.75% in the fourth quarter of 2023 before dropping to around 4.5% in the first quarter of next year and 3.75% in the second quarter of 2024.

Asia

Bank of Japan's Modest Policy Tweak

The BOJ announced it would take a more flexible approach to controlling yields on 10-year government debt, saying the 1% level was now a reference point rather than a cap. "Uncertainty is extremely high within both overseas and domestic economies and financial markets," said Governor Kazuo Ueda in a press conference following the decision. "We decided that it's appropriate to increase flexibility so that long-term yields can be smoothly shaped, according to different future scenarios." Despite raising its inflation forecast, the central bank emphasized the need to keep policy easy as it waits for more signs of sustainable wage and price growth. The BOJ continues to be challenged between a weakening yen and rising yields, placing pressure on their stimulus framework. The Japanese yen has lost 14.11% of its value YTD.

Just a day after the central bank's decision, the BOJ implemented an unscheduled purchase operation after the benchmark 10-year bond yield touched 0.97% - marking a fresh decade high but still below the 1% level. The move suggests that even after tweaking its bond-yield cap, the central bank is determined to show that it will remain active when the market moves significantly. Governor Kazuo Ueda said Tuesday after announcing his policy tweak that he didn't expect yields to rise much beyond 1%.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30890.

Rates – 5th November 2023

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0564	1.0515	1.0746	1.0729	1.0605	1.0960	1.0780
GBP	1.2113	1.2088	1.2389	1.2376	1.2280	1.2640	1.2390
JPY	149.53	148.79	151.74	149.37	148.15	151.00	147.17
CHF	0.9020	0.8964	0.9112	0.9899	0.8820	0.9080	0.8901