

Weekly Money Market Report

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Inflation Divergence and Political Uncertainty Cloud the Global Outlook

Market Commentary

Global markets this week navigated a complex backdrop of resilient economic data and persistent inflationary pressures, as policymakers across major economies grappled with the challenge of sustaining growth without entrenching elevated prices. In the United States, upward revisions to Q1 GDP and a surge in manufacturing activity painted a broadly constructive picture, though a notable pullback in consumer spending and PCE inflation running well above the Fed's 2% target reinforced expectations that monetary policy will remain restrictive through the remainder of the year. In the United Kingdom, deteriorating services activity and Prime Minister Starmer's resignation injected fresh political uncertainty into an already fragile economic landscape, even as markets drew early comfort from the prospect of a relatively orderly transition to Andy Burnham. The Eurozone presented a similarly mixed picture, with the ECB striking a measured tone on further tightening despite inflation remaining above target, while Germany's deepening contraction underscored the uneven nature of the bloc's recovery. Across the Asia-Pacific region, Tokyo core inflation ticked higher and the Bank of Japan signaled continued rate hikes, yet the yen remained pinned near multi-decade lows as the wide US-Japan rate differential continued to dominate. Against this backdrop, the divergence in monetary policy trajectories and the resilience of services-driven inflation remain the dominant themes shaping near-term market direction.

United States

US Manufacturing Activity Strengthens

The S&P Global US Manufacturing PMI rose to 55.7 in June, its highest level since May 2022 and above market expectations, signaling a continued strengthening in factory activity. The improvement was driven by the fastest production growth since 2021, a sharp increase in new orders, and stronger inventory building. However, the positive momentum was partly offset by the steepest decline in manufacturing employment since 2020, highlighting ongoing weakness in factory hiring.

US Q1 GDP Revised Higher

The US economy grew at an annualized 2.1% in Q1 2026, revised up from the previous estimate of 1.6%, driven by a smaller drag from net trade and stronger business investment. However, consumer spending was revised sharply lower to 0.5%, reflecting weaker demand for services, while residential investment remained soft. Government spending rebounded following the end of the shutdown, supporting overall growth despite signs of moderating consumer activity.

US PCE Inflation Remains Elevated

US PCE inflation rose 0.4% month-on-month in May, slightly below expectations, while core PCE increased 0.3%, in line with forecasts. On an annual basis, headline PCE inflation accelerated to 4.1%, its highest level since April 2023, while core PCE edged up to 3.4%, the highest since October 2023, highlighting persistent inflationary pressures. The data supports the Federal Reserve's cautious stance, with policymakers recently raising their 2026 inflation forecasts and expecting both headline and core inflation to remain well above the 2% target.

The Greenback was last seen trading at 101.357.

United Kingdom

UK Services Contract While Manufacturing Holds Up

The UK services sector remained in contraction in June, with the Services PMI falling to 48.7, its weakest reading since January 2023, as elevated price pressures and weaker customer confidence weighed on activity. New business, employment, and backlogs all declined, although input cost inflation eased slightly. Meanwhile, the Manufacturing PMI slipped to 53.1, a three-month low but remained in expansion territory. Manufacturing output reached its highest level in 21 months, supported by temporary customer stockpiling ahead of potential price increases. However, slower new order growth suggests this boost may fade, while supply chain disruptions and cost pass-through to customers continued.

UK Political Transition

Following months of growing pressure and a drop in political support, Prime Minister Keir Starmer has announced his resignation, clearing the path for an expectedly smooth transition of power to Andy Burnham, who could become the UK's seventh leader in a decade as early as next month. Starmer acknowledged that he was no longer the right person to lead the Labour Party into the 2029 election, a decision that followed a pivotal weekend of reflection and a significant parliamentary victory by Burnham in northern England. While Starmer's departure could have triggered a divisive leadership battle, the contest is instead looking like a swift coronation, especially after Burnham secured the backing of key rivals like Wes Streeting, a predictability that has already reassured financial markets and boosted the British pound. However, this transition comes at a turbulent time, as the Labour government is grappling with widespread voter anger over unfulfilled promises a decade after Brexit, and Farage's surging Reform UK party is already demanding an immediate general election.

The GBP/USD currency pair was last seen trading at 1.3201.

Europe

ECB President Lagarde on Inflation Outlook

European Central Bank President Christine Lagarde stated that while the current inflation shock facing the euro zone is too significant to ignore, it remains manageable enough that it hasn't pushed up long term price expectations or triggered dangerous wage price spirals. Following a recent interest rate hike after inflation surpassed 3%, investors are closely watching to see if the central bank will tighten policy further to protect its 2% target. For now, Lagarde views the situation as a moderate scenario requiring measured adjustments rather than aggressive action, which aligns with market expectations that interest rates will peak within a neutral range of 1.75% to 2.50% that neither restricts nor stimulates growth. She noted that the current economic strain is less severe than the massive inflation spike of 2021/22, thanks to stronger labor markets, higher incomes, resilient investments in AI, and solid household balance sheets that help cushion the impact of elevated energy costs. However, Lagarde warned against complacency, emphasizing that the ECB will remain agile and data dependent because wages may now be more sensitive to price shifts, leaving the economic outlook clouded by upside risks for inflation and downside risks for growth.

Eurozone Manufacturing Expansion Moderates

The S&P Global Eurozone Manufacturing PMI eased to 51.3 in June, remaining in expansion for a fifth consecutive month but indicating a slower pace of growth. Factory activity continued to benefit from inventory building and a modest recovery in new orders as businesses purchased ahead of expected price increases and supply disruptions. However, employment continued to decline, business confidence remained subdued, and although input and output price pressures eased, inflation remained elevated.

Germany Private Sector Contraction Deepens

The S&P Global Germany Composite PMI fell to 48.0 in June, marking a third consecutive month of contraction and the sharpest decline since December 2024. The downturn was driven by a significant weakening in the services sector, while manufacturing output continued to expand modestly. Weak demand, declining new orders, and ongoing job losses weighed on business activity, although input and output price inflation eased further. Business confidence also deteriorated amid heightened economic uncertainty.

The EUR/USD currency pair was last seen trading at 1.1383.

Asia-Pacific

Australian Inflation Cools More Than Expected in May

Australia's annual inflation rate unexpectedly eased to 4.0% in May 2026 from 4.2% in April, coming in below market expectations of 4.3% and marking the slowest pace since February. The slowdown was mainly driven by softer goods inflation, particularly lower transport and fuel price pressures. Inflation also moderated in health and recreation. However, price growth accelerated for food and non-alcoholic beverages and housing, while services inflation edged higher to 3.7%, indicating underlying price pressures remain. Core inflation measures remained elevated, with both the trimmed mean CPI and weighted median CPI rising 3.6% year-on-year, suggesting persistent inflation above the central bank's 2–3% target range. On a monthly basis, CPI fell 0.7%, its first decline since August 2025 and a larger drop than expected.

The AUD/USD currency pair was last seen trading at 0.6897.

Tokyo Core Inflation Picks Up in June

Core consumer inflation in Tokyo accelerated to 1.6% year-on-year in June, the fastest pace in three months and the first increase since September 2025, matching market expectations. Underlying inflation, which excludes fresh food and energy, also strengthened to 1.9% from 1.6%, signaling broader price pressures. Despite the pickup, headline core inflation remained below the Bank of Japan's 2% target for a fifth straight month, with fuel subsidies and favorable base effects helping contain higher raw material costs linked to the Middle East conflict. The data follows the BOJ's 25-basis-point rate hike in June, its first since December, aimed at preventing higher oil prices from driving sustained inflation.

Japanese Yen Remains Near Multi-Decade Low

The Japanese yen traded near its weakest level since 1986 on Friday at around 161.7, despite Tokyo's core inflation accelerating, reinforcing expectations that the Bank of Japan will continue raising interest rates. Governor Kazuo Ueda and board member Naoki Tamura both signaled support for further rate hikes ahead of the BOJ's July 31 policy meeting. However, the yen remained under pressure as the stronger US dollar and the wide interest rate gap with the US outweighed hawkish BOJ expectations, despite repeated warnings and currency intervention by Japan's Finance Ministry.

The USD/JPY currency pair was last seen trading at 161.73.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30790.

Rates – June 28th, 2026

Previous Week Levels	This Week's Expected Range	3-Month
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Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1465	1.1324	1.1473	1.1383	1.1270	1.1430	1.1427
GBP	1.3192	1.3137	1.3273	1.3201	1.3100	1.3250	1.3202
JPY	161.26	161.06	161.94	161.73	160.60	162.20	160.55
CHF	0.8067	0.8061	0.8139	0.8096	0.8050	0.8200	0.8015

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