

Weekly Money Market Report

June 23rd, 2024



Central Banks Diverge in Monetary Policy Amid Varied Economic Data and Inflation Pressures

Highlights

- US Consumer Price Index at 3.3% y/y in May.
- US Federal Reserve Decides to Keep Rates Steady at 5.25-5.50%.
- US Manufacturing and Services PMI Increase to 51.7 and 55.1 Respectively.
- Eurozone Flash Composite PMI at 50.8 in June Down from 52.2 in May.
- Swiss National Bank Cuts interest rates by 25 Basis Points, Reaching 1.25%.
- Inflation in the United Kingdom Eases to 2.00%, while BoE Keeps Interest Rates Steady at 5.25%
- UK Private Sector Experiences Slowest Activity Growth in seven Months in June, With Flash Composite PMI at 51.7 in June.
- Bank of Japan Keeps Interest Rates Unchanged at 0% to 0.10%

United States

US CPI Shows No Growth in May

The US Consumer Price Index was unchanged in May 2024 on a seasonally adjusted basis after rising 0.3 percent in April. Over the past 12 months, the all-items index increased by 3.3 percent before seasonal adjustment. Shelter costs rose by 0.4 percent, and the food index increased by 0.1 percent, with a notable rise in the food away from home index. Energy prices fell by 2.0 percent, driven by a 3.6 percent decrease in the gasoline index. The all-items less food and energy index rose by 0.2 percent in May m/m.

Federal Funds Rate Unchanged

The Federal Reserve announced that economic activity has continued to expand at a solid pace, with job gains remaining strong and unemployment low. Inflation has eased but remains elevated. Thus, the Federal Reserve has decided to maintain the target range for the federal funds rate at 5.25 to 5.50 percent. As well as continue to reduce their holdings of Treasury securities and mortgage-backed securities to achieve maximum employment and 2% inflation over the longer run.

US Retail Sales Rises in May

Retail sales in the US rose by 0.1% in May as seen in the month-over-month figure, higher than the previous -0.2% figure seen in April, while still lower than expectations of a 0.3% rise. Meanwhile core retail sales were unchanged from the previous month at -0.1%, lower than expectations of a 0.2% rise. The figure indicates that the US economy is losing some momentum in the consumer space even as employment data shows a resilient labor market.

Flash Services and Manufacturing PMI Increase

The S&P Global Flash US Composite PMI rose to 54.6 in June 2024, marking a 26-month high. The services sector led the expansion, with business activity growing at its fastest pace since April 2022. Where the Services PMI increased to 55.1, up from 53.4 in May. Manufacturing output also improved, though at a slower rate at 51.7 up from 51.0. Employment rose for the first time in three months, and input cost inflation slowed to a five-month low. Future sentiment remained optimistic, though

manufacturing optimism hit its lowest level in 18 months amid concerns about the demand environment and election-related uncertainty.

The US Dollar index closed the week at 105.796.

Europe

Flash Eurozone PMI Shows Slowed Recovery

The eurozone's economic recovery slowed in June 2024, as indicated by the HCOB Flash Eurozone Composite PMI dropping to 50.8 from 52.2 in May. Manufacturing output fell sharply to a six-month low, with the PMI at 45.6, while the services PMI also decreased to 52.6, a three-month low. New orders declined for the first time in four months, particularly impacting manufacturing. Employment growth slowed, reflecting reduced business activity. Germany showed slight growth, whereas France saw a contraction in output for the second month.

The EUR/USD currency pair closed the week at 1.0691.

Swiss National Bank Cuts Interest Rates

The Swiss National Bank lowered its policy rate by 0.25 percentage points to 1.25 percent, effective June 21, 2024. This decision was made to maintain appropriate monetary conditions amid decreasing underlying inflationary pressures. The SNB indicated that they are committed to adjusting their policy to ensure inflation remains within the range consistent with price stability over the upcoming period. While inflation in Switzerland is currently driven by higher prices for domestic services, the SNB forecasts average annual inflation of 1.3 percent for 2024.

United Kingdom

UK Headline CPI Hits Bank of England Target

After nearly three years of exceeding its target, UK inflation has finally reached the Bank of England's desired rate of 2%, according to the Office for National Statistics. This marks a substantial decline from the worrying peak of 11.1% recorded in October 2022. Core inflation, which excludes fluctuating items like energy and food, remains stubbornly high at 3.5%. This suggests that underlying inflationary pressures persist within the economy, and the Bank is likely waiting for further signs of price stability before considering a rate cut. This wait-and-see approach stands in contrast to the situations in the eurozone and the US, where inflation currently sits at 2.6% and 3.3% respectively.

Bank of England Keeps Interest Rates Unchanged

The Bank of England's Monetary Policy Committee (MPC) maintained the Bank Rate at 5.25% in its June 2024 meeting. CPI inflation fell to 2.0 percent in May from 3.2 percent in March. Despite stronger-than-expected UK GDP growth, the MPC noted considerable uncertainty in labor market activity and persistent inflationary pressures.

Flash Composite PMI Decreases in June

The UK private sector experienced its slowest activity growth in seven months in June 2024. The S&P Global Flash UK PMI Composite Output Index decreased to 51.7 from 53.0 in May. The services sector growth declined to a PMI of 51.2, down from 52.9 in May, while manufacturing output increased to a 26-month high with a PMI of 51.4, up from 53.4 in May.

The GBP/USD currency pair closed the week at 1.2645.

Asia-Pacific

RBA Keeps Interest Rates Unchanged

The Reserve Bank of Australia (RBA) decided to keep the cash rate target unchanged at 4.35% and the interest rate paid on Exchange Settlement balances unchanged at 4.25%. Although inflation has fallen significantly from its peak in 2022, it remains above the target range of 2%. Headline CPI rose by 3.6% over the year to March, with persistent excess demand and domestic cost pressures continuing to influence inflation.

The AUD/USD currency pair closed the week at 0.6639.

BOJ Policy Rate Unchanged

The Bank of Japan decided to maintain the uncollateralized overnight call rate around 0 to 0.1 percent and will reduce its purchase of Japanese government bonds to ensure better long-term interest rates. While inflation expectations have risen moderately, risks remain high due to uncertainties in overseas economic activity and domestic price-setting behavior. The Bank of Japan will continue to monitor developments and adjust policies as necessary.

The USD/JPY currency pair closed the week at 159.79.

New Zealand GDP Shows Signs of Recovery

New Zealand's economy is showing signs of recovery after a period of sluggish growth. In the first three months of 2024 (Q1), the economy bounced back with a 0.2% increase compared to the previous quarter (Q4 2023), exceeding expectations of economists who predicted no change. This marks a turning point after a series of slowdowns, with Q1 being the second quarter to show positive growth since early 2021. The expansion was driven by several sectors, including utilities like electricity and water, services like entertainment, and retail trade. Interestingly, some sectors continued to struggle, like wholesale trade which saw a slower decline than the previous quarter. Overall, the picture is mixed across industries, with 8 out of 16 experiencing growth, particularly those related to rentals, property, and utilities. Looking year-over-year, the annual growth rate also improved to 0.3% in Q1, reversing a slight decline in the previous quarter. While there's still a way to go, these figures offer a hopeful glimpse of New Zealand's economic recovery.

The NZD/USD currency pair closed the week at 0.6118.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30650.

Rates – 23rd June 2024

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0700	1.0668	1.0720	1.0691	1.0600	1.0730	1.0741
GBP	1.2656	1.2620	1.2676	1.2645	1.2560	1.2680	1.2655
JPY	158.93	158.66	159.79	159.79	159.00	161.00	157.59
CHF	0.8914	0.8903	0.8944	0.8937	0.8900	0.9040	0.8842