

Weekly Money Market Report

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Strong PMI Figures Prompt Calls of Higher For Longer

Highlights

- US Manufacturing PMI rises to expansion territory at 50.3, while the Services PMI rises to 52.9.
- GDP q/q grows 3.3% vs expectations of 2.0% growth.
- For the third consecutive month, the annual increase in inflation remained below 3% in the US.
- ECB keeps rates unchanged at 4.0%, as the ECB maintains that rates cuts are not imminent.
- Business activity in the eurozone declines in January.
- The unexpected strength of growth in the UK could push the BOE to keep interest rates higher for longer.
- The Bank of Japan keeps its short-term rate unchanged at -0.1%.
- China's central bank reveals bigger than expected RRR cuts.

United States

US PMI

PMI figures released out of the United States show improved sentiments and expansion, with composite PMI rising from 50.9 to 52.3. Services PMI accelerated to 52.9 from 51.4 previously. Meanwhile, the manufacturing index moved into expansion territory, with PMI coming in at 50.3 in January from 47.9 in December. The report indicated that firms were optimistic about the outlook and improvement in operating conditions, especially as new orders rose while inflation continues to drop.

US GDP q/q

The US economy stunned the market in the fourth quarter, with the latest GDP q/q growth of 3.3% eclipsing the forecasted growth figure of 2.0%. Economists believe that the ever so resilient labor market is the driver behind the unexpected growth in the economy, exhibited by low layoffs and significant wage gains. That is backed by the fact that personal spending was the economy's main growth engine, rising at 2.8%. Business investment and housing also helped fuel the larger-than-expected advance last quarter. All eyes will be on the Fed's meeting next week, although expectations remain that the Fed will keep its policy rate unchanged at the 5.25%-5.50% range.

PCE Price Index

The latest core PCE price index m/m figure increased 0.2% last month, after dropping by 0.1% in November, in line with expectations. For the third consecutive month, the annual increase in inflation remained below 3%. Additionally, this is the sixth month in the last seven where monthly inflation has printed at a rate equal to or below the Fed's 2% target. On a year-to-year basis, the Core PCE Price Index increased by 2.9%, marking the smallest gain since March of 2021. As the PCE Price Index is seen as the Fed's preferred gauge for inflation, the latest data allows the Federal Reserve to happily start thinking about cutting interest rates imminently.

The US Dollar index closed the week at 103.433.

United Kingdom

UK PMI

The latest PMI data to be released from the UK was better than expected. The Flash Manufacturing PMI came in at 47.3, exceeding the 46.7 forecasted figure. Similarly, The Flash Services PMI, posted at 53.8, was better than the forecasted 53.1 figure. For a third consecutive month, business activity has grown in the UK, and business confidence as a result has increased to the highest since May. The surprising strength of growth in January may push the BOE to keep interest rates higher for longer, despite market expectations of imminent rate cuts, especially amidst fears of inflation in manufacturing as a result of trade being disrupted in the Red Sea.

The GBP/USD currency pair closed the week at 1.2702.

Europe

ECB Monetary Policy Statement

In line with expectations, the European Central Bank kept interest rates unchanged at 4% on Thursday. The ECB stopped its vicious rate hike cycle in September and markets are now anticipating rate cuts, however, ECB President Christine Lagarde boldly stated that "the consensus around the table was that it was premature to discuss rate cuts." Lagarde made it clear that the ECB's future decisions will largely rely on incoming data, and that the fight against inflation continues by adding that "we need to be further along the disinflation process to be confident that inflation will be at target - sustainably so." When asked about the impact of the disruptions to trade because of attacks on shipping in the Red Sea, Lagarde stated that ECB "are observing it very carefully," amidst fears of energy and freight costs adding onto inflation.

Eurozone PMI

Business activity in Europe was seen declining in the month of January, with the euro zone Composite PMI rising to 47.9. While the PMI data shows a slight rise from December's 47.6 figure, manufacturing remains in contraction territory for the 8th consecutive month. A closer look at the PMI figures shows a slight recovery in manufacturing in Germany and France, Europe's two largest economies with the index rising to 45.4 and 43.2 respectively. Meanwhile, the flash services PMI showed a decline for the two economies, at 47.6 and 45.0.

The EUR/USD currency pair closed the week at 1.0852.

Asia Pacific

Japan Monetary Policy Statement

The Bank of Japan decided to maintain its ultra-loose monetary policy settings in its latest meeting in January. Keeping the short-term rate unchanged at -0.1%, and the 10-year bond limit at 1%, maintaining its yield curve control policy. The move made by the BoJ was considered widely expected, as policymakers see a sustainable path to 2% inflation. The news release came amid a surge in Japanese equities to 34-year highs, with the Nikkei index climbing 1%, bringing year to date gains to 9.8%.

China Benchmark Lending Rate

China's benchmark lending rates were held steady as expected, with the one-year loan prime rate remaining at 3.45%, and the five-year rate staying at 4.2%. This comes at a time when consumer demand in the country remains fragile, while the property sector is still facing issues. Moreover, the latest data indicate that China is facing deflationary pressures, as elevated rates are increasing real borrowing costs. Policymakers in China are trying to balance between introducing fiscal stimulus to boost demand and achieve a rebound in prices, while also making sure that the Yuan does not fall behind major currencies, especially the US Dollar, which could result in further devaluation.

The USD/JPY currency pair closed the week at 148.16, while the USD/CNY currency pair ended the week at 7.1763.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30745.

Rates – 28th January 2024

Currencies	Previous Week Levels				This Week's Range	Expected	3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0890	1.0811	1.0932	1.0852	1.0730	1.0915	1.0893
GBP	1.2690	1.2646	1.2774	1.2702	1.2615	1.2790	1.2709
JPY	148.27	146.64	148.70	148.16	147.40	149.20	146.10
CHF	0.8681	0.8605	0.8728	0.8644	0.8520	0.8700	0.8563

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