

Weekly Money Market Report

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Dynamic Markets: Trade, Policy, Data, and Geopolitics Drive Volatile Expectations

Market Commentary

This week saw increased global market activity amidst key economic data releases, central bank signals, trade developments, and geopolitical events. In the United States, July data highlighted mixed macroeconomic trends as retail sales rose 0.5% MoM following an upwardly revised 0.9% gain in June, with nine of 13 categories posting gains, whilst unemployment claims came in at 224K. Inflation remained elevated, with core CPI at 3.1% YoY and headline CPI at 2.7% YoY, whilst the Producer Price Index jumped 0.9% MoM (+3.3% YoY), led by services and goods prices. The Dollar Index was last seen at 97.839. Markets focused on the September FOMC meeting, with a 25bps cut expected in swaps data. In Europe and the United Kingdom, geopolitical developments dominated as the Alaska summit concluded without a ceasefire pact. UK GDP rose 0.3% in Q2, unemployment held at 4.7%, and earnings growth remained at 5%, whilst German ZEW sentiment fell sharply to 34.7 and Eurozone sentiment declined to 25.1; EUR/USD and GBP/USD both edged up on the week. In Asia-Pacific, China's growth softened with industrial output at 5.7% YoY, retail sales at 3.7%, and new yuan loans contracting for the first time in two decades, as USD/CNY reached 7.1845, whilst Japan's Q2 GDP expanded 1% annualised on robust business investment and moderated PPI at 2.6% YoY. The Reserve Bank of Australia cut the cash rate by 25bps to 3.6%, with unemployment at 4.2% and wage growth at 3.4%; AUD/USD ended the week at 0.6507. Equity markets were mixed, Treasury yields experienced volatility amidst inflation numbers, and Brent and WTI crude fell modestly ahead of the Trump-Putin Alaska summit and weaker Chinese data. Spot gold closed the week at USD 3,336.19 per ounce, easing after President Trump stated that gold imports would be excluded from US tariffs.

United States and Canada

Trump Narrows Fed Chair Shortlist; Market Focus on September Rate Decision

President Donald Trump confirmed his shortlist for the next Federal Reserve chair has narrowed to *"three or four"* candidates, with Kevin Hassett, Kevin Warsh, and Christopher Waller emerging as frontrunners. The US Treasury will interview 11 individuals, including long-shot candidates such as David Zervos, Larry Lindsey, and Rick Rieder. Trump has criticised current Chair Jerome Powell, whose term ends in May 2026, for resisting deeper rate cuts, reiterating his preference to lower the federal funds rate from 4.25%-4.50% to 1%. Market focus has shifted to the September meeting, with swaps data now assigning an 85% probability of a 25 bps cut following softer jobs and inflation data, whilst some officials advocate a 50 bps move. DXY was last seen at 97.839.

Alaska Summit Spurs Shift in US-Ukraine Peace Push Ahead of Zelenskiy Oval Office Visit

Following the US-Russia summit in Alaska, President Donald Trump is redirecting his diplomatic focus toward Ukraine, with President Volodymyr Zelenskiy set for an Oval Office meeting on Monday. The Alaska talks, held in secrecy with President Vladimir Putin, did not yield an immediate ceasefire, with Moscow insisting Kyiv cede the Donbas region. Trump signalled Zelenskiy should consider broader peace negotiations, increasing political pressure on Ukraine amidst ongoing European calls for territorial integrity. European officials emphasised that international borders cannot be altered by force and reiterated the need for a trilateral discussion involving Trump, Putin, and Zelenskiy. The Alaska summit outcome is seen as advancing Russia's diplomatic leverage, whilst Zelenskiy's forthcoming engagement in Washington will test Ukraine's willingness to negotiate under intensified US pressure.

US Core CPI at 3.1% YoY, Headline CPI at 2.7% YoY; PPI at 0.9% MoM as Bessent Urges Easing; UoM Sentiment at 58.6

US inflation strengthened in July, with Core CPI rising 0.3% MoM (+3.1% YoY) and headline CPI up 0.2% MoM (+2.7% YoY), driven by the largest services cost increase since early 2024. Preliminary UoM consumer sentiment eased to 58.6, whilst one-year inflation expectations rose to 4.9%. Producer prices rose 0.9% MoM (+3.3% YoY), the strongest in three years, led by a 1.1% jump in services and 0.7% rise in goods. Labour market indicators showed initial jobless claims at 224K and continuing claims at 1.95M, remaining near their highest since 2021, signalling softer hiring and slower re-employment. Treasury Secretary Scott Bessent has called for cumulative Fed easing of 150-175bps, citing labour market revisions and moderating growth. The Federal Reserve, holding rates at 4.25%-4.50%, faces balancing persistent price pressures with growing calls for accelerated policy accommodation.

Europe and the United Kingdom

UK GDP Rises 0.3% in Q2 as Unemployment Holds at 4.7%, Labour Market Shows Resilience

The UK economy expanded 0.3% in Q2, exceeding the 0.1% forecast from both private-sector economists and the Bank of England, with June output up 0.4% following minor contractions in prior months. Payrolls fell by just 8,353 in July - the smallest monthly decline since January - bringing total employment losses since October to 165K, notably below earlier estimates. The unemployment rate held steady at 4.7%, whilst total earning growth excluding bonuses remained at 5%, well above levels compatible with BOE's 2% inflation target. Labour market inactivity fell by 156K to 21%. These trends complicate the BOE's decision on further rate cuts from 4%, with markets now pricing a 3.5% terminal rate for 2026, reflecting a moderate but resilient economic environment. GBP/USD was last seen at 1.3554.

German ZEW Economic Sentiment Falls Sharply to 34.7 in August, Missing Expectations

The German ZEW Economic Sentiment Index declined sharply to 34.7 in August 2025, down from 52.7 in July and below market expectations of 40. The Current Situation Index also deteriorated, falling to -68.6 from -59.5, against an anticipated -65. In the Eurozone, sentiment weakened to 25.1 from 36.1, missing forecasts of 28.1, whilst the Current Situation Index dropped to -31.2 from -24.2. According to the ZEW, the decline reflects disappointment over the recently announced EU-US trade deal, coupled with weaker Q2 performance in Germany. Outlooks for the chemical, pharmaceutical, mechanical engineering, metals, and automotive sectors have worsened. The data signals a broad cooling in investor sentiment, with downward revisions in growth expectations extending beyond Germany to the wider monetary union. EUR/USD was last seen at 1.1706.

Asia-Pacific

China's Industrial Output Slows to 5.7%, Retail Sales Gain 3.7%, as New Loans Contract for First Time Since 2005

China's economy lost momentum in July, with broad-based weakness across production, consumption, and investment. Industrial output grew 5.7% YoY, down from June's 6.8% and the slowest pace since November 2023, whilst retail sales rose 3.7%, the weakest this year and below the prior month's 4.8%. Fixed-asset investment in January-July slowed to 1.6%, reflecting deeper contraction in the property sector. The urban unemployment rate climbed to 5.2%. Credit conditions deteriorated sharply, with yuan-denominated new loans declining by CNY 49.9B (USD 7B), the first contraction since July 2005, as households and corporates focused on debt repayment over new borrowing. Medium- and long-term loans fell, with corporate borrowing down for the first time since 2016. The data signals heightened downside risks, potentially prompting further targeted policy support in coming months. USD/CNY was last seen at 7.1845.

RBA Cuts Cash Rate to 3.6% as Unemployment Falls to 4.2% and Wage Growth Remains Elevated at 3.4%

The Reserve Bank of Australia lowered its cash rate by 25 bps to 3.6% this week, marking the third cut in 2025 as Governor Michele Bullock signalled that *"a couple more"* reductions may be required. July labour data showed unemployment easing to 4.2% from 4.3%, whilst employment rose by 24.5K, driven entirely by full-time positions, and full-time roles surged by 60.5K as part-time jobs declined by 35.9K. Wage growth remained elevated, with the Wage Price Index advancing 3.4% YoY, reflecting persistent cost pressures amidst weak productivity. Labour market participation held at 67%, underemployment declined to 5.9%, and female employment-to-population ratios reached historic highs of 60.9%. The data reinforce the RBA's cautious approach, delaying the likelihood of immediate further easing. AUD/USD was last seen at 0.6507.

Japan Q2 GDP Expands 1% YoY, Surpassing 0.4% Forecast on Strong Business Investment and Steady Consumption

Japan's economy grew at an annualised 1% in the April-June quarter, exceeding the 0.4% market forecast and following an upwardly revised 0.6% expansion in Q1. Growth was driven by a 1.3% QoQ rise in business investment, above the 0.7% consensus, and a 0.2% gain in private consumption, supported by solid wage growth. Net exports added 0.3% to GDP, with export volumes rising 2% despite higher US tariffs, aided by resilient tourism spending, which increased 18% YoY. The data bolsters the case for a potential Bank of Japan rate hike later in 2025, with swap markets currently discounting 17bps worth of hikes by year end. in October. Producer price index inflation eased to 2.6% YoY in July, its slowest in 11 months, signalling moderated upstream cost pressures despite ongoing trade headwinds. USD/JPY was last seen at 147.19.

Kuwait

USD/KWD closed last week at 0.30520.

FX Rates – August 17, 2025

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1641	1.1590	1.1730	1.1706	1.1630	1.1830	1.1770
GBP	1.3452	1.3400	1.3595	1.3554	1.3460	1.3700	1.3561
JPY	147.74	146.21	148.52	147.18	146.40	148.00	145.74
CHF	0.8083	0.8022	0.8132	0.8067	0.8020	0.8130	0.7978

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