NBK MONEY MARKETS REPORT

US Fed delivers 25bps hike

Safe haven metals rally as fears over health of US banks grow

KUWAIT: Ending a chaotic week for financial markets, prices for gold closed just slightly below the all-time high of 2,072. Fears over the health of regional banks added further fuel to the six-month rally in the safe-haven metal. Looking at FX, the greenback gathered strength against its major rivals in reaction to the resilient US jobs data, later ending the week unchanged for the most part at 101.21. The euro and pound broke below their 1.10 and 1.26 levels respectively. Moving to bonds, the two-year Treasury yield, which moves with interest rate expectations, jumped to session highs and ended the week at 3.922 percent.

Fed delivers 25 bps hike

The US Federal Reserve announced its 10th consecutive interest rate hike on Wednesday, lifting its benchmark rate by 25 basis points to a target range of 5-5.25 percent, the highest since August 2007. The decision was widely expected, and markets instead focused on hints of whether or not the Fed will pause amid lingering concerns over economic growth and a banking crisis. Offering some clarity during the news conference, Chairman Jerome Powell said, "a decision on a pause was not made today" but noted the change in the statement language around future policy firming was "meaningful."

Looking at the accompanying policy statement, the bank opted to drop language that said it still "anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time". Replacing that statement with one reminiscent of language used when it halted its tightening cycle in 2006, the Fed added that "in determining the extent to which additional policy firming may be appropriate," officials would take into account how the impact of monetary policy was accumulating in the economy. Powell also pushed back on market expectations for a cut this year, saying such a move was unlikely. Indifferent, markets were still pricing in a 50 percent probability of a cut in September in anticipation that slower growth and the possibility of a recession will force the Fed's hand.

Although the change does not necessarily mean the bank will not hike again in June, Powell now left the question open as to whether future increases are warranted. The Fed's policy rate is now roughly at the level which a majority of Fed officials projected in March would be "sufficiently restrictive" to return inflation to the central bank's 2 percent target. Inflation is currently still more than twice that target.

Baking sector turmoil

Early last week, the Federal Deposit Insurance Corporation announced JPMorgan Chase bought most assets of First Republic Bank after the regional lender collapsed, driven by a steep plunge in its stock after a quarterly earnings report revealed $100 billion worth of first-quarter deposit outflows.

The US central bank meeting occurred just two days after First Republic Bank failed, and Powell led off his comments by addressing the state of the industry. "Conditions in the sector have broadly improved since early March, and the US banking system is sound and resilient," he said. "We will continue to monitor conditions in the sector. We're committed to learning the right lessons from this episode." The week prior, the Fed criticized mismanagement by bank executives as well as shortsightedness by regulators. So far, regulators have shut down and sold three mid-sized US banks since the beginning of March: Silicon Valley Bank, Signature Bank, and First Republic. The failures mark the biggest to hit the US since the 2008 Financial Crisis. Most argue that this is not a system-wide problem similar to what we saw in 2008 as banks were exposed to rotten investments in the housing market. Today, banks are ordered to hold a lot more capital and regulations around risk have been tightened.

Continued resilience in labor market

Despite the banking turmoil and a decelerating economy, job growth was better than expected in April according to the Labor Department report released on Friday. Nonfarm payrolls increased 253,000 for the month, beating Wall Street estimates for growth of 180,000, according to the Bureau of Labor Statistics. However, the previous two months' figures were revised sharply lower. The unemployment rate came in at 3.4 percent versus estimates for 3.6 percent, marking its lowest level since 1969. Meanwhile average hourly earnings, a key inflation indicator, rose 0.5 percent m/m and 4.4 percent y/y, higher than the 0.3 percent m/m and 4.2 percent y/y expected.

Leading job gains was hiring in professional and business services, registering an increase of 43K. That was followed by health care adding 40K jobs, leisure and hospitality adding 31K, and social assistance adding 25K. Surprisingly, despite banking industry troubles, jobs in finance increased by 23K. Government hiring rose by 23K.

Manufacturing still in contraction

As new orders improved slightly and employment rebounded, US manufacturing rose from a three-year low in April. The Institute for Supply Management said its manufacturing PMI increased to 47.1 last month from 46.3 in March, which was the lowest reading since May 2020. Manufacturing has been in contractionary territory for the past 6 months. Details of the report showed the Employment Index rising to 50.2 from 46, while the New Order Index improved slightly to 45.7 from 44.3. Noteworthy, the Price Paid Index, which is the input inflation component, jumped to 53.2 from 49.2.

Meanwhile the services sector, which entails a much broader portion of the US economy, has been pointing to expansion. The ISM's gauge of services edged up to 51.9 last month from 51.2 in March. However, illustrating softer demand for services, the business activity index fell 3.4 points to 52, still indicating growth but at the slowest pace since 2020. Together with the latest report showing manufacturing contracted last month, the services data highlights an economy struggling for momentum in the midst of higher interest rates and elevated inflation.

ECB delivers 25bps hike

The European Central Bank hiked its key deposit rate on Thursday for the seventh consecutive time, opting for a 25 basis point rise as it continues to fight a surge in consumer prices. The bank also said it would likely stop reinvestments under its Asset Purchase Program (APP) in July. Following the decision, the ECB acknowledged that, "the past rate increases are being transmitted forcefully to euro area financing and monetary conditions," however it also noted "the lags and strength of transmission to the real economy remain uncertain." Moving forward, ECB President Christine Lagarde hinted at further rate hikes to come. "We have more ground to cover and we are not pausing," she told reporters, adding that interest rates were not yet "sufficiently restrictive." Markets widely expect the central bank to hike another 25 bps at their next meeting in June, taking their deposit facility rate to 3.5 percent. The decision came after inflation figures revealed an increase in the headline figure to 7 percent y/y for April, while core inflation decreased slightly to 5.6 percent y/y despite consistent rate increases since July 2022. Adding to concerns, estimates published last week by the International Monetary Fund suggest that inflation will not reach the ECB's target until 2025. Recent data also showed the economy grew less than expected in Q1 of this year, registering weak GDP of 0.1 percent q/q. On a bright note, unemployment numbers showed a slight improvement in March from the previous 6.5 percent.

Swiss inflation eases

Consumer prices in Switzerland increased 2.9 percent from a year ago, well below expectations of a retreat to 3.2 percent. Underlying inflation, which strips out volatile items like energy and food, slowed to 2.2 percent after accelerating since October. The slowdown marked the steepest decline in almost three years, and places Swiss inflation at the lowest in the continent. Still, the SNB expects headline inflation to stay at 2 percent or higher through 2025. The central bank pushed through another 50 bps hike just a few weeks ago despite increasing market worries in the wake of the government-brokered takeover of Credit Suisse by UBS. Markets widely expect another 25 bps hike in June, taking the SNB policy rate to 1.75 percent.

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USD/KWD closed last week at 0.30610.

Rates – 7th May, 2023

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1034	1.0940	1.1091	1.1017	1.0940	1.1230	1.1077
GBP	1.2562	1.2433	1.2652	1.2641	1.2545	1.2860	1.2667
JPY	136.29	133.49	137.77	134.83	133.0	136.70	132.98
CHF	0.8937	0.8818	0.8995	0.8910	0.8750	0.9100	0.8824

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WEEK ENDED ON 4 MAY 2023

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Market	M. Cap (KD ml)	Last Close	WTD %	MTD %	YTD %	Quantity Traded	Value Traded	No. of Trades	P/E	P/B	% of Total M. Cap
Premier Market	33,481	7,779.25	-2.0%	-1.7%	-4.1%	408,662,231	175,939,227	32,978	16.3	1.1	78.5%
Main Market	9,163	5,560.32	-0.8%	-0.8%	-0.7%	199,740,414	21,992,360	11,830	13.8	0.7	21.5%
All Share	42,643	7,033.53	-1.8%	-1.5%	-3.5%	608,402,645	197,931,588	44,808	14.4	0.8	100%

Sector	M. Cap (KD ml)	Last Close	WTD %	MTD %	YTD %	Quantity Traded	Value Traded	No. of Trades	P/E	P/B	% of Total M. Cap
Banking	25,863	1,732.82	-1.7%	-1.3%	-3.4%	191,618,989	115,433,874	17,344	21.1	1.3	60.65%
Basic Materials	483	854.90	-4.2%	-4.2%	-1.2%	2,009,078	1,371,548	692	7.9	1.5	1.13%
Consumer Discretionary	968	1,441.77	-1.6%	-1.1%	-3.0%	43,649,368	7,016,060	2,977	13.7	0.9	2.27%
Consumer Staples	137	451.45	-2.0%	-1.2%	-5.9%	4,440,446	1,617,172	275	NM	0.9	0.32%
Energy	205	979.24	-1.9%	0.0%	-14.0%	3,279,575	358,003	453	10.2	0.6	0.48%
Financial Services	4,364	1,211.41	-1.5%	-1.5%	-3.6%	228,369,279	28,481,013	10,016	16.9	0.7	10.23%
Health Care	227	457.01	-1.2%	0.0%	-1.0%	96,457	45,818	19	11.8	1.0	0.53%
Industrials	3,395	979.26	-2.4%	-2.6%	-9.2%	39,671,333	18,796,148	5,870	15.3	0.8	7.96%
Insurance	864	2,110.93	0.0%	-0.1%	36.1%	1,773,558	1,186,108	242	10.7	0.8	2.03%
Real Estate	2,350	1,093.29	-4.3%	-4.5%	-9.5%	62,839,936	8,704,019	3,900	14.0	0.5	5.51%
Technology	8	610.37	4.9%	4.9%	-12.3%	4,925	402	5	NM	0.8	0.02%
Telecommunications	3,584	1,168.32	-1.3%	-0.5%	-1.1%	24,539,967	13,851,497	2,616	12.4	2.0	8.40%
Utilities	196	468.42	1.7%	1.7%	-5.3%	6,109,734	1,069,928	399	13.5	1.7	0.46%

Top Gainers

Stock	last Close	Change %	Volume	Value	Trades
UPAC	205	11.41%	778,830	160,488	85
UNICAP	46.9	9.07%	169,559	7,105	13
SULTAN	122	8.93%	3,212,295	393,977	206
Emirates	32.4	8.36%	42,856	1,319	15
QIC	92	8.24%	2,205	203	1

Top Losers

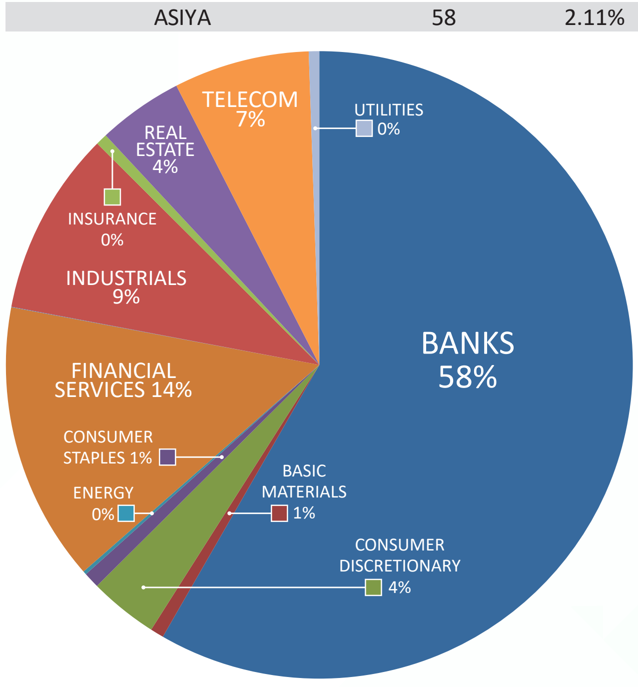
Stock	last Close	Change %	Volume	Value	Trades
EQUIPMENT	26.5	-28.18%	827,735	24,321	90
THURAYA	122	-19.74%	117,532	13,159	20
IFAHR	20	-13.42%	5,732,064	130,656	285
AMAR	52.3	-13.27%	264,135	13,819	6
SANAM	67	-12.53%	10,193	744	17

Top Volume

Stock	Last	Change %	Volume	Value	Trades
KFH	738	-0.81%	96,089,344	71,181,405	8,049
ARZAN	109	3.81%	34,907,885	3,789,707	971
KPROJ	126	-3.08%	26,293,122	3,428,984	762
ZAIN	561	-1.41%	23,561,193	13,218,332	2,078
ASIYA	58	2.11%	22,979,839	1,326,471	653

Top Value

Stock	Last	Change %	Volume	Value	Trades
KFH	738	-0.81%	96,089,344	71,181,405	8,049
NBK	980	-2.29%	16,413,485	16,201,399	3,259
BOUBYAN	640	-5.04%	22,350,404	14,404,655	2,952
ZAIN	561	-1.41%	23,561,193	13,218,332	2,078
AGLTY	605	-1.79%	13,175,072	8,026,658	1,981



VALUE TRADED

Market Summary:

- Premier market volume dropped 2% while value rose 23%. Main Market volume and value dropped by 30% and 13%, respectively.
- Premier and Main indexes hit a resistance level, pushing them down due to the FED's decision to increase interest rates.
- Technically, the All Share index closed at 7033, with support levels at 7000, 6959, and 6918, while resistance at 7041. The Premier index closed at 7779, with support levels at 7748, 7718, and 7701, while resistance at 7784. The Main index closed at 5560, with support levels at 5550, 5526, and 5513, while resistance at 5575.