

Weekly Money Market Report

21 March 2021



Monetary Policy to Remain Stagnant in the US, UK and Japan

Highlights

- The Fed, BOE and BOJ all maintain policy rates
- 10-Year Treasury yield hits 14-month high of 1.75% amid economic recovery expectations
- US retail sales drop by 3% in Feb after a rise of 7.6% in January
- EU starts legal action against the UK over Brexit agreement breach
- Oil prices fall by more than 10% as demand remains subdued and inventories build up

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United States

Fed Maintains a Hold on Interest Rates Till 2023

In its meeting last week, the US Federal Reserve continued to project near-zero interest rates at least through 2023, maintaining its dovish stance even as it significantly upgraded growth forecasts. Estimates are now for 6.5% growth for this year, up from the 4.2% predicted in December. And in regards to the labor market, unemployment is expected to fall to 4.5% by the end of the year instead of 5%. Looking at inflation, the Fed's preferred measure is projected to rise to 2.2%, above the bank's target, compared with a smaller rise of 1.8% predicted in December. While the Fed acknowledges a surge in inflation is likely, the central bank feels it will be short-lived and not a cause for concern. Predictions are for PCE inflation to fall back to 2% in 2022 and 2.1% in 2023, even as unemployment is anticipated to drop further. The market seems to be in line with the Fed's dot plot and is pricing 0 changes in interest rates for the next year through the Federal Funds Futures.

The 10-year US treasury yield reached a high of 1.75% last week, which is a 14 month high. Markets seem to be bullish on global recovery and are selling the safe-haven long-term US Treasury bonds and heading into riskier assets. Moreover, LIBOR rates are moving back-up gradually as 3-months LIBOR reached 0.19% on Friday up from 0.18% on Monday.

Fall in Retail Sales

Retail sales in the US fell by 3% in February following the robust 7.6% rise in January, the Commerce Department reported last week. Meanwhile, the core figure which excludes volatile items such as automobile sales declined 2.7%. The decline coincided with harsh winter weather, overwhelming some areas of the country with sub-freezing temperatures and winter storms. This caused a temporary setback in demand that is expected to accelerate in the coming months with President Joe Biden's \$1.9 trillion stimulus package, an easing of COVID-19 restrictions, and warmer weather ahead.

EU & UK

German Economic Sentiment on the Rise

In Europe, the German ZEW headline which tracks economic sentiment improved to 76.6 in March following 71.2 in February. The figure beat expectations of 74. ZEW President Professor Achim Wambach said following in the release: "Economic optimism continues to rise. Experts expect a broad-based recovery of the German economy. They anticipate that at least 70% of the German population will be offered a vaccine against covid-19 by autumn."

Brexit Saga Continues

The European Union launched legal action against the UK in a major escalation of tensions between the two sides less than three months after Brexit was formally completed. It follows Britain's unilateral decision to delay implementing a key part of the Brexit deal relating to Northern Ireland. The move could ultimately lead to financial penalties or trade tariffs being imposed on the UK.

On the FX front, The UK has been a great model to lead in vaccinations and steady plans to reopen their economy which helped push the Sterling above the 1.40 levels. As for the EU it has been struggling to push its vaccinations across and is lagging behind major economies in vaccination delivery percentage. As such we have seen the single currency fall down from the 1.22 levels to 1.18 levels.

BOE Keeps Policy Unchanged

The Bank of England's Monetary Policy Committee has voted 9-0 to keep rates on hold at 0.10% and the QE target unchanged at GBP 895 billion, as expected by markets. The committee also announced that the pace of government bond buying will remain unchanged at 4.4 billion Sterling Pounds a week until 6 May - the date of the next meeting and Monetary Policy Report. The MPC minutes added that the pace could be increased if market function were to worsen materially. The central bank reiterated its existing direction that "it does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably".

Asia

BOJ Maintains the Status Quo

The bank of Japan met last week and delivered its policy announcement on Friday. As widely expected by markets the central bank and similar to its major economy peers, it did not change its policy rate or bond purchases program. Few tweaks to the existing framework were made which mainly revolved around the yield curve; the 10-year yield is aimed to be at zero percent with a band of +/-25 basis points from the previous +/- 20 basis points. The pair did not move after the announcement as markets were not surprised by the meeting outcome and the USD/JPY pair continued to trade in a narrow range between 108.60 and 109.40.

Commodities

Oil Prices Drop

Demand for oil remains pressured by global restrictions even though some economies have eased their lockdown restrictions. On the inventory side, US crude inventories built by 2.4 million barrels last week and are up 38 million barrel over the last three weeks due to low refinery utilization following the winter freeze-off. Overall, US crude stocks are 30 million barrels which is 6% above their five-year average. These factors played a major role in pushing oil prices down by more than 10% at one point last week. Nevertheless, oil market remains supported by the vaccine rollout and the success globally in containing the pandemic which kept the prices above \$62 for Brent and \$60 for West Texas.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30195.

Rates – 21st March, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1952	1.1874	1.1989	1.1904	1.1800	1.2050	1.1930
GBP	1.1917	1.3809	1.4001	1.3872	1.3800	1.3950	1.3890
JPY	108.97	108.60	109.36	108.88	108.00	109.25	108.40
CHF	0.9290	0.9213	0.9319	0.9291	0.9200	0.9350	0.9266

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