

Weekly Money Market Report

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Strong & Imbalanced Global Recovery Heading into 2022

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Highlights

- As the year comes to an end, a lookback at 2021 provides outlooks for 2022. Supply chain bottlenecks, high inflation, and new Covid-19 variants will remain in theme.
- According to the IMF, the global economy is projected to grow 6% in 2021 and 4.9% in 2022.
- In the US, GDP was revised higher to 2.3% due to stronger consumer spending.
- US durable goods orders exceeded forecasts at 2.5%, partly due to a rise in transportation orders.
- Last week, the greenback ended 0.68% lower, US Treasury yields rose slightly, and oil prices gained 4.5%.

Following 2020's coronavirus-driven downturn, 2021 illustrated hope for global economic growth amid widespread development of Covid-19 vaccines. Today, while substantial progress has been made, the global recovery is facing high energy prices and supply chain disruptions that have spurred record-high inflation. Supply has failed to keep up pace amid a surge in demand for goods following the re-opening of economies. Occasional lockdowns, labor shortages, rising commodity prices, and a decline in key materials have all contributed to price pressures and slower growth. Alongside the higher costs due to bottlenecks, imbalances in the energy market has also contributed largely to driving up inflation in all economies. In Europe, risks are high as we head to the winter season with gas storage levels 28% lower than they would normally be at this time of year.

In the United States, employment is relatively weak, while the Euro area has already recovered higher than its pre-pandemic levels. At this time, US GDP has recovered faster than Europe's. The US labor market recovery is largely imbalanced, with many people struggling to find jobs and businesses facing difficulty in recruiting workers. Meanwhile in China, a potential slowdown may also hinder the global recovery if activity in the property market declined abruptly amid concerns about the legitimacy of some of the largest real estate developers. The risk to the global economy is of generating uncertainty in financial markets while also adding to current bottlenecks in supply.

While global recovery is continuing, momentum has eased due to the continued emergence of new Covid-19 variants. According to the OECD, output in most member countries has now surpassed its late 2019 level and is converging on its pre-pandemic path. However, lower-income economies where vaccination rates are low are at risk of being left behind. Following the emergence of the latest Omicron variant, it appears health risks remain and will continue to jeopardize recovery moving forward. A faster and coordinated worldwide effort for vaccine rollouts would not only prevent the emergence of new variants, it would also help tackle many bottleneck and labor issues that are undermining the strength of the global recovery. According to the IMF, the global economy is projected to grow 6% in 2021 and 4.9% in 2022.

United States

Revised Q3 GDP

The US economy grew at a slightly faster pace in Q3 than originally thought according to government figures released last week. Real gross domestic product increased at a 2.3% annualized rate in the third quarter. The strength stems from stronger consumer spending as well as businesses rebuilding their inventories more than initial estimates revealed. While the figure marked a slight improvement from the previous estimate of 2.1%, it still marks the slowest pace of growth since Q2 of 2020 when the economy suffered a historic contraction. On an annual basis, the economy grew at 6.3% in Q1 and 6.7% in Q2. However, the spread of the Delta variant hindered growth in the following quarter.

Moving forward, the appearance of the omicron variant combined with high inflation and lingering supply issues will be constraining growth heading into 2022. The outlook for the US economy still has uncertainty moving ahead amid worries over Omicron which sent Wall Street on an extremely volatile path in recent weeks. Adding to the uncertainty is Democrat Senator Joe Manchin saying he would not back President Joe Biden's \$1.75 trillion domestic investment bill known as "Build Back Better".

Durable Goods Orders

Orders placed with US factories for durable goods rose in November, exceeding forecasts and suggesting steady demand will help drive growth in early 2022. Orders for all durable goods increased 2.5% from the prior month, partly due to a sharp rise in commercial aircraft orders. Meanwhile, orders that exclude transportation equipment increased 0.8%.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30250.

Rates – 26TH December, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1240	1.1233	1.1343	1.1317	1.1200	1.1540	1.1345
GBP	1.3244	1.3170	1.3437	1.3385	1.3250	1.3500	1.3386
JPY	113.62	113.31	114.51	114.41	112.0	116.0	114.33
CHF	0.9241	0.9165	0.9254	0.9193	0.9150	0.9425	0.9170

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