Weekly Money Market Report
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US Dollar Safe-Haven of Choice

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Highlights

- **The second wave is definitely here, Europe imposes new restrictions.**
- **Flight to safety pressures Wall Street into red terrain.**
- **US central bankers urge further fiscal support from Congress.**
- **Manufacturing sectors on both sides of the Atlantic outperforms Services.**
- **Swiss National Bank ready to intervene in currency markets to minimize franc appreciation.**

United States

Deviation in Covid-19 Restrictions Supports Dollar Rally

The economic calendar last week was exceptionally light, while financial markets trajectory was dictated by fears for a second wave of Covid-19 infections. This has been evident for some time now but is now clearly forcing governments to respond with tighter restrictions. The total number of global coronavirus cases has surpassed 32.1 million and deaths have increased to more than 981,000, according to the Johns Hopkins University. In the US, coronavirus cases topped 7 million, which is more than 20% of the world's total reported cases. In spite of it, the dollar rally seen last week was across the board even against other safe-haven assets (JPY, CHF, & Gold). It seems what's moving markets is not the number of Covid-19 cases, but which countries impose new restrictions.

The UK and France registered daily record-breaking of Covid-19 cases last week, whereas Spain is near record highs. New restrictive measures have been established in the abovementioned countries. Spanish health authorities warned of "tough weeks ahead" for the residents of Madrid and the British government's latest restrictions could be in place for six months. As Europe implements restrictions, the US is not considering any curtailments on freedom of movement and on businesses. The greenback soared to a 2-month high of 94.742 versus a basket of currencies and gained 1.91% on a weekly basis. Back in March when Covid-19 cases surged and nations imposed lockdowns, the dollar soared on the charts. Could this be a replay?

Over at Wall Street, all three main equity indices were mainly trading in the red terrain as the flight to safety dominated market sentiment. Furthermore, investors seem to be giving up hope of a Congressional agreement on further economic stimulus ahead of the US Presidential election, despite US central bankers warning of an economic slowdown without a new round of fiscal support. From this month high of 3,588.11, the S&P 500 is down more than 8% and the Dow Jones has lost around 7% from this month's high.

In the FX sphere, high beta and commodity currencies were the worst performers last week as risk aversion echoed throughout markets. The Aussie and Kiwi depreciated by 3.67% and 3.18% respectively against their dollar counterpart. Aussie also tumbled on increasing expectation of on imminent rate cut in October, while the New Zealand's monetary policy officials further affirmed that they are in the process for more monetary easing, including negative interest rates.

US Economic Fundamentals

Business activity barely edged lower this month in the US with gains in the manufacturing sector was offset by the services industries. The composite PMI slipped only 0.2 points to 54.4 as the services index declined from 55 to 54.6. On the other hand, factory activity jumped to a 20-month high of 53.5. Looking at the big picture, business activity has improved tremendously from the sharp fall in Q2 during the depths of the pandemic and manufacturers continue to outperform service providers. As for growth expectations, GDP is estimated to recover as much as a record 32% annually in Q3 after plummeting at a 31.7% rate in Q2, the worst performance since the government started keeping records in 1947.

Europe & UK

Divergence Between Sectors

Forward looking indicators out of the Euro-zone for the month of September showed a divergence between manufacturing and services sector. Activity in the service sector dropped across the single market into contraction territory from 50.5 to 47.6, while the manufacturing sector shot above a two-year high of 53.7 from 51.7. The composite PMI, which encompasses both of the aforementioned sectors declined from 51.9 to 50.1 as the larger service sector has sunk back into negative growth territory. The chief business economist at IHS Markit mentioned that “face-to-face consumer businesses in particular have been hit by intensifying virus concerns.”

Looking at the German manufacturing sector, the index rose to a 31-month high of 56.8 with factories reporting that production growth was lifted by rising demand, notably from export markets. Overall, the sum of Covid-19 cases in Europe topped five million, with the death count reaching 227,130. It seems like the second wave financial markets were concerned about has reached, with that in mind, the service sector may be subdued below the 50-mark till new Covid-19 cases comes back under control.

Britain’s Dominant Services Sector Decelerates, New Business Restrictions in Place

UK’s economic recovery lost momentum this month as shown by the PMI surveys. The composite PMI index fell to a 3-month low of 55.7 in September from a six-year high seen in August at 59.1. In details, the service index lost 3.7 points to 55.1 and manufacturing index fell 0.9 points to 54.3. The readings are above the 50 mark, indicating expansions in both sectors and the UK’s PMI numbers are better than those seen in the Euro-zone. Despite the somewhat positive readings, the decline in the surveys advocates that the recovery has already started to flatten.

Last week, PM Boris Johnson announced that the UK has reached "a perilous turning point", while announcing the new restrictive measures to curb the spread of Covid-19. The government’s expectation is that the new measures will need to remain in place until March of next year, which may possibly set back the economic recovery and cause the economy to stagnate. Reestablishing restrictions on business opening hours and forcing individuals to work from home again could cause the recovery to stall completely in Q4. However, the main risk is that the government has to go further. For example, a two-week national lockdown. UK’s GDP declined more than 20% in Q2, the largest drop of any G7 economy, and the BoE anticipates Q3 GDP to be around 7% below its level pre-crisis levels.

Negative Interest rates & FX Interventions are Here to Stay

The Swiss National bank maintained its deposit rate of -0.75%, the lowest worldwide, which has been in place since 2014. The Bank portrayed a less gloomy picture on the coronavirus pandemic’s impact on the Swiss economy by upgrading its economic forecast for GDP to shrink by 5% this year, better than the 6% contraction it forecasted in June. The SNB said that a high degree of uncertainty remained over the economic outlook, however it expected a “strong” recovery in Q3 for Switzerland. “The positive development is likely to continue in 2021,” the Bank added. On the inflation front, the central bank expects price growth to turn positive next year with a rate of 0.1% and 0.2% in 2022.

Moreover, it is ready to accelerate huge interventions in FX market as elevated economic uncertainties globally have placed upward pressure on the CHF. The CHF appreciated to a five-year high against the euro back in May and analysts at Credit Suisse last week calculated that the SNB has sold more than $98bn worth of its currency in the first half of this year alone — the SNB’s most aggressive effort in five years to weaken Switzerland’s currency. In conclusion, monetary policy officials remained devoted to their double-tool approach of negative interest rates and interventions in the currency markets to curb the strength of the safe-haven Swiss franc.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30630.

Rates – 27th September, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1846	1.1871	1.1611	1.1630	1.1540	1.1835	1.1652
GBP	1.2923	1.2966	1.2672	1.2745	1.2645	1.2945	1.2751
JPY	104.42	105.69	103.99	105.60	103.55	107.60	105.48
CHF	0.9111	0.9296	0.9084	0.9284	0.9080	0.9485	0.9260