Weekly Money Market Report

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US Dollar Weaker on Fiscal Stimulus Expectations

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Highlights

- **Joe Biden leads Polls & Trump ends fiscal stimulus negotiations.**
- **US Fed calls for fiscal stimulus to support economy.**
- **US trade deficit surges.**
- **Growth in the UK and Europe slows.**
- **Brexit negotiations cautiously optimistic.**
- **Oil prices jump on supply shortages in Gulf of Mexico and Norway.**

United States

U.S. Fiscal Stimulus

The U.S. dollar inched lower for the second consecutive week in a light economic release week but a politically heavy one. The US vice Presidential debates last week still see Joe Biden narrowly leading in the polls against President Trump amid increasing expectations of a fiscal stimulus injection after the elections. Furthermore, Trump abruptly called off negotiations with Democratic lawmakers on coronavirus relief legislation until after the election.

Analysts expect both candidates to offer some type of stimulus package, but say a Biden presidency combined with a Democratic U.S. Senate, would likely result in a bigger one. The fiscal stimulus, estimated between 1-3 trillion dollars, would increase the money supply of the U.S. currency while also adding to the $26 trillion national debt which should theoretically reduce its value.

Still, global central bankers including the U.S., have voiced the importance of renewed government spending to support families and businesses as the battle against the coronavirus-triggered recession enters a newly critical phase. Federal Reserve Chair Jerome Powell told a business conference that health risks and the possibility of a long "slog" of slow economic growth and elevated joblessness means a "recessionary dynamic" could take hold. Wherein which, weak growth feeds on itself through successive rounds of layoffs and business failures. Fiscal stimulus would combat this by bolstering retail spending, rent payments, and mortgages while also recouping some of the 11 million jobs lost during the pandemic.

Rising expectations of a Biden victory has also had a calming effect on market volatility and boosted appetite for currencies which have been hurt by the trade war between Washington and Beijing. The Chinese yuan currency posted its biggest daily rise in more than four years last week. The fact that Chinese policymakers allowed this daily adjustment suggests that China is also betting on a Biden win. A new administration in the White house could lead to a steadier Sino-U.S. relationship and de-escalation of the four year trade war.

Highlighting the importance of trade policy, the Commerce Department said last week that the U.S. trade deficit surged in August to the largest in 14 years with imports climbing once again. The trade deficit jumped 5.9% to $67.1 billion, the widest since August 2006, with imports increasing 3.2% to $239 billion. The figures came back above economist expectations suggesting that trade would be a drag on economic growth in the third quarter.

Europe & UK

EU Fears COVID-19 Resurgence

The euro rose last week mainly due to the U.S dollar's weakness as Europe's economy continues to be burdened by the same COVID-19 related issues. European Central Bank President Christine Lagarde echoed U.S. Fed's Jerome Powell's call last week for further fiscal stimulus. Lagarde stated that increased lockdown measures in Europe pose downside risks to the economic outlook and called on governments to maintain fiscal support. There are real concerns over the implications of a second wave of COVID-19 hitting economic activity through tighter restrictions.

Most recently on Friday for example, Spain's government invoked a state of emergency to forcefully impose a partial lockdown on Madrid. With the story being similar elsewhere in the bloc, there is growing evidence that sectors and countries are struggling as a resurgence of the virus forces the re-imposition of restrictions on activity. Indeed, IHS Markit's final composite PMI, which combines services and manufacturing surveys and seen as a good barometer of overall economic health, fell to 50.4 in September from August's 51.9. It was dragged down by the PMI for services industries, which accounts for around two thirds of GDP, which slumped below the 50 mark separating growth from contraction to 48.0 from August's 50.5.

UK GDP Slows

Growth in the UK also slowed as GDP rose way below expectations at 2.1% in August. Economists also called the increase a "temporary boost" from the economy reopening and government stimulus, rather than proof of a sustained 'V'-shaped recovery. More than half of the economy's growth in August came from accommodation and food, where output surged by 71.4% thanks to a one-month government restaurant subsidy program. The data showed the UK economy, which shrank by more than any other G7 nation in the April-June period, remained 9.2% smaller than its pre-the pandemic level.

Much like other major economies, fiscal and monetary stimuli from the state treasuries and Central Banks are being looked at to support growth. Finance minister Rishi Sunak vowed to introduce a plan to support jobs in businesses that may be ordered to close and Bank of England Governor Andrew Bailey said the central bank was ready to use its policy firepower.

Brexit

Looking at Brexit, Britain and the EU announced "big progress" in talks as the two got closer to an agreement on trade and reciprocal social security rights for their citizens after Brexit, two diplomatic sources said. One source described the talks last week on a trade deal as "one of the most positive so far" and that "we seem to be getting closer and closer to a deal." The European Union diplomats said Brussels was now gearing up to negotiate until as late as mid-November rather than cutting talks off at the start of next month to avoid a damaging "no-deal" scenario.

Asia

Japan Sees Moderate Recovery

Bank of Japan Governor Haruhiko Kuroda said uncertainty over the country's economic and price outlook remained "very high" as the coronavirus pandemic continued to inflict pain on global growth. Kuroda said the world's third-largest economy was emerging from a severe downturn caused by the pandemic and was likely headed for a moderate recovery. "We will closely monitor the pandemic's impact on the economy and markets, and won't hesitate to take additional easing steps as needed," Kuroda said.

Supporting Kuroda's remarks for a recovery, Japan's government upgraded its assessment of the economy last week for the first time since May 2019 after a key indicator improved for August. The 'index of coincident economic indicators', which measures a range of data including factory output, employment and retail sales numbers, rose a preliminary 1.1 points from the previous month to 79.4 in August. Based on the index data, the Cabinet Office said that showed economic activity in Japan had stopped contracting, an upgrade from its previous view that the economy was "worsening" in July.

Commodities

Oil Prices Jump on Supply Outages

Oil prices had their biggest weekly gains since early June at around 11% last week on the back of supply outages caused by a storm in the Gulf of Mexico and a strike of offshore workers in Norway. In the Gulf of Mexico, producers have shut 1.69 million barrels per day of oil, or 92% of the region's offshore oil as they brace for the impact of Hurricane Delta. The strike in Norway is expected to reduce oil production by 966,000 barrels per day until a deal can be reached. Oil firms and labor officials said they will meet with a state-appointed mediator in an attempt to bring end to a strike that threatens to cut Norway's oil and gas output by some 25%.

Gold Prices Rise on US Stimulus

Gold rose by more than 1% on Friday and was on course for a second straight weekly gain as the dollar weakened and renewed negotiations for U.S. stimulus prompted investors to buy bullion as a hedge against inflation resulting from new money added into the system.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30605.

Rates – 11th October, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1714	1.1831	1.1705	1.1824	1.1725	1.2015	1.1850
GBP	1.2931	1.3049	1.2843	1.3046	1.2945	1.3240	1.3055
JPY	105.28	106.10	105.27	105.59	103.65	107.65	105.48
CHF	0.9207	0.9207	0.9091	0.9101	0.8910	0.9290	0.9077