Weekly Money Market Report
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Central Banks Maintain the Status Quo While Investors Dump The Dollar

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Highlights

- **Federal Reserve holds it rate unchanged and commits to continue buying bonds.**
- **A hurdle to the US stimulus package extends its deadline.**
- **Several senior Republicans acknowledged Joe Biden would be the next US president.**
- **The Swiss National Bank pledges to continue its expansive monetary policy.**
- **Bank of England keeps its monetary policy unchanged.**
- **Brexit talks reach their final hours.**
- **Bank of Japan launches an overall review of its monetary policy**

United States

The Fed Extends Debt Purchases While Keeping Rates Unchanged

The US Federal Reserve committed to continue buying bonds until "substantial further progress has been made." The guidance from the Federal Open Market Committee came at the end of a two day meeting; where Fed officials upgraded their economic projections that they will keep interest rates close to zero until at least the end of 2023. While the pace of at least $120 billion a month in purchases will continue, the Fed fell short of calls for more forceful monetary stimulus in a plea to tackle the waning recovery by lengthening the average maturity of its bond purchases or increasing the aggregate size. The language on debt purchases mirrored the Fed's pledge to keep interest rates close to zero until the economy reaches full employment and inflation is on track to exceed its 2% target for some time.

The guidance set a longer horizon for the Fed's bond purchases program, following a previous statement where they said they would only continue over the "coming months." Finally, Fed chairman Jerome Powell once again stressed the need for fiscal stimulus as the central bank's set of tools are not well-suited to the most pressing needs faced by households and businesses today.

US Stimulus Package Faces a Hurdle

Top US congressional leaders began a meeting on Tuesday to finalize a $908 billion stimulus package. In an effort to put end on a standoff of coronavirus relief, the package was then slimmed down to be worth $748 billion, championed by a bipartisan group of senators who were hoping to agree on the package by Friday. The proposal includes aid to small businesses and funding for unemployment benefits, and represents a last chance before the holiday recess for an agreement on government support as the US struggles with surging coronavirus infections. The moderate lawmakers had stripped out highly contested provisions regarding liability protections for businesses and assistance for states and local governments, in an effort to make it more palatable to both parties on Capitol Hill.

On Thursday, a political flare up over the Federal Reserve's pandemic crisis lending programs has emerged, threatening to block the stimulus package that US congressional leaders had hoped to close-on by Friday. Republican senator Pat Toomey sought to insert a provision in the legislation that would prevent the Fed from reviving several emergency credit facilities that are due to expire at the end of the year. "I think we have very, very broad agreement among Republican senators that this is the right approach, and secretary Mnuchin shares that view," Toomey told reporters. The republican move saw opposition from Mark Warner, a Democratic senator and a crucial player in the stimulus negotiations, who said it would limit the US policymakers' ability to fight the economic fallout from the coronavirus pandemic.

Fed chairman Jerome Powell and the incoming Biden Treasury secretary Janet Yellen were expected to be able to revive the facilities without congressional approval if needed, but Toomey's proposal would require a greenlight from lawmakers that could be difficult to secure. In addition to the dispute over Fed lending, disagreements persisted over the final terms of unemployment benefits and direct payment cheques to US individuals, as well as the inclusion of disaster relief aid for cities and states.

The unexpected hurdle forced congressional leaders to say that they might have to extend the Friday deadline by a few days to allow more time for negotiations, working into it through the weekend. "Our citizens can't afford for us to get bogged down in the back and forth. Let's finish up our bipartisan framework. Let's make law as soon as possible," said Republican Senate majority leader Mitch McConnell.

The US dollar index has been slipping throughout the week, as investors took the risk on sentiment with vaccine rollouts, while the FOMC held on to its path and stimulus hopes remained viable. The US dollar Index closed the week 1.27% lower to close at 90.02. The euro saw the benefit of the shift in sentiment in addition to the hopes of the end of the negotiations on the Brexit deal, closing the week up 1.04% at 1.2255.

Senior Republicans Accept Biden's Victory
On the presidential frontier, several senior Republicans acknowledged Joe Biden would be the next US president in a decisive break with Donald Trump, after the president-elect secures the majority of Electoral College votes required to win the White House. The acknowledging Republicans told reporters on Monday that it was time to accept Biden to be sworn in as the 46th US president on January 20. The announcement came after most Republicans declined, for weeks, to contradict Trump's allegations that he would have won the November 3rd election were it not for widespread voter fraud.

A Surge in Jobless Claims
Data on Thursday showed another 885,000 Americans filed for first time unemployment benefits last week, the highest level in three months. The figure comes as fresh restrictions to combat the resurgence in coronavirus cases continue to strain the job market. The reading surpassed economist expectations of a moderate 800,000 claims, and comes alongside a rise of 40,000 in claims for Federal pandemic unemployment assistance. The highest single weekly tally before the pandemic surge was at 695,000 back in 1982.

Switzerland Labeled As Currency Manipulator
The Trump administration labeled Switzerland and Vietnam currency manipulators on Wednesday, complicating matters for US President-elect Joe Biden's incoming team. The report from the US Treasury also added India, Thailand and Taiwan to a list of countries it says may be deliberately devaluing their currencies against the dollar. Being labeled a manipulator comes with various repercussions including potential trade tariffs. Switzerland and Vietnam denied the claims.

Europe & UK

Swiss National Bank Stays on its Expansive Policy
The Swiss National Bank dismissed, or rather paid no attention to the label of being a currency manipulator by the Trump's administration. The Swiss regulator promised on Thursday to continue an expansive monetary policy, and on forex interventions it said that they were a vital cushion to the impact of the coronavirus pandemic. The central bank kept its policy rate unchanged at the world's lowest minus 0.75%, remaining willing to buy foreign currencies "more strongly." The SNB said that the forex interventions were necessary to relieve pressure on the franc, a currency that shined and attracted safe haven inflows during the coronavirus pandemic. To put the level of interventions into perspective, the regulator had bought 90 billion Swiss francs worth of foreign currencies during the first half of 2020, dwarfing the levels of its interventions in previous years. SNB Chairman Thomas Jordan declined to give details on the level of interventions during the second half of the year.

The Bank of England Holds Onto its Course

On Thursday, the Bank of England announced that it is keeping its monetary policy unchanged, citing an "unusually uncertain" outlook for the UK economy due to the spread of the coronavirus, the Brexit situation and public attitudes on both. The regulator's Monetary Policy Committee is facing difficulties in assessing whether the economic prospects had improved or deteriorated, leading it to decide on leaving interest rates at 0.1% and the target for its asset purchase program at £895 billion by the end of 2021. The BoE made no comment on its review of the feasibility of introducing negative interest rates in the months ahead, while it extended its cheap funding scheme for banks that lends to small businesses. The decision to leave monetary policy unchanged came unanimously after the MPC judged that the economic developments since its last meeting in November had not changed the outlook significantly.

The MPC also said that it would print money and buy government bonds at a similar pace at the start of 2021 to the current rate, allowing itself the flexibility to slow purchases later in 2021 if economic conditions brighten significantly. It also pledged to "take whatever additional action was necessary" if the economic outlook deteriorated and not to consider raising interest rates until there was "clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably."

Brexit Talks See their Final Hours

EU chief Brexit negotiator Michel Barnier warned on Friday that trade talks with the UK had reached a "moment of truth," as only hours was left to determine whether or not there is a deal. Speaking before the European Parliament on that morning, Barnier said he believed an agreement was possible but that difficult sticking points remained, notably the issue of fisheries. "Very little useful time, some hours, is left to us, if this agreement is to take effect on January 1st," the date at which the UK's post Brexit transition period ends, he said continuing to add that the two sides would make "a last attempt to find an acceptable agreement."

UK Prime Minister Boris Johnson spoke later on the day, warning that Brexit talks remained "difficult" and urged the EU to "see sense" and improve its terms for a future trade deal. He continued to say "our door is open, we'll keep talking. But I have to say that things are looking difficult and there's a gap that needs to be bridged."

The sterling pound had enjoyed a stellar week reaching a high of 1.3624, its strongest level since May 2018 against the struggling dollar. The gains were growing due to the weakening dollar, upbeat data on Eurozone economy, and hopes for fresh US stimulus. The pound then started to shed its gains from Thursday and continued into Friday, dropping 0.76% from its two year high and closing at 1.3520, clocking an overall gain of 1.81% against the dollar throughout the week.

Asia

Bank of Japan Launches a Review

For the first time since 2016, the Bank of Japan launched an overall review of its monetary policy. The decision by the regulator came after the coronavirus shock crushed its hopes for achieving the 2% inflation target. The review is now expected to be reported in March 2021 and will consider the potential for "further effective and sustainable monetary easing," beyond the large scale asset purchases and negative interest rates used since 2013 and 2016 respectively. There was no signaling from the central bank on whether it hoped to ease policy further or simply sustain it current trajectory for the long term. It said that there would be no change to "yield curve control," under which it purchases government bonds as needed to keep 10-year yields around the 0% level. The launch of the review came as the regulator said it would extend its special coronavirus programs by another six months to September 2021 and adjust the terms to make them more flexible. The BoJ is also extending its offer of cheap loans to help banks finance small and midsized companies through the pandemic and removing an upper limit of ¥100 billion per institution to encourage uptake of the scheme. Overnight interest rates stayed on hold at minus 0.1%.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30370.

Rates – 20th December, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2129	1.2273	1.2114	1.2255	1.2410	1.2420	1.2286
GBP	1.3279	1.3624	1.3272	1.3520	1.3430	1.3710	1.3532
JPY	103.99	104.14	102.86	103.31	101.25	105.10	103.14
CHF	0.8886	0.8900	0.8819	0.8832	0.8640	0.9010	0.8803