Weekly Money Market Report
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US Fed: No Rate Hikes Until 2023

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Highlights

- US consumer spending appeared to have slowed in August alongside a struggling labor market.
- The US Fed will likely hold interest rates near zero for the next three years.
- BOE to study the ECB & BOJ when considering moving into negative interest rates.
- UK inflation registered near a 5-year low.
- BOJ voices a more optimistic tone among its peers.
- Oil prices recover slightly from the slump seen in the prior two weeks.

United States

Federal Reserve to Maintain Dovish Stance
The US Federal Reserve "expects to maintain an accommodative stance", likely holding rates near zero for at least the next three years. Tightening will be delayed until the US gets back to maximum employment and 2% inflation, with the central bank continuing to buy Treasuries and mortgage-backed securities. The vote was not unanimous, with two out of nine voting policy-makers dissenting. The dot plot revealed that 13 out of 17 policy members predict rates will remain on hold through 2023, with one member seeing a rate hike in 2022 and three seeing rates above zero in 2023.

The Fed does not expect inflation to exceed target until 2023, with Chairman Jerome Powell stressing the need for fiscal support to avoid downside risks. Following surprising employment gains in May and June, it appears the labor market is losing steam. The $600 weekly unemployment subsidy expired in July, and was replaced by a $300 weekly support only available in some states. Job growth slowed in August, and applications for unemployment benefits remain at high levels today at 29.6 million individuals. The reports are a worrying signal of a struggling labor market, with pre-pandemic levels far from sight. This reality may add pressure on the White House and Congress to restart stalled negotiations for another fiscal package.

Consumer Spending Slows in August
As unemployment benefits for millions of Americans were cut, consumer spending understandably slowed. Core retail sales, looked at closely as a gauge of consumer spending, fell 0.1% last month following a 0.9% increase in July. Overall retail sales increased 0.6% in August following 1.1% in the previous month, supported heavily by higher gasoline prices. Figures missed expectations considerably, considering estimates for retail sales and core retail sales came in at 0.9% and 1.3% respectively.

Markets React
The US-dollar index was unable to recover from prior losses, losing considerable ground against the Japanese yen in particular. The sterling, which had previously fallen to a low of 1.2761 on hard-Brexit news, recovered slightly closing the week above 1.29. On Wall Street, the tech sector continues to support equities. Even with the losses seen in the past two weeks, the S&P 500 Index and Dow Jones Industrial Average are continuing to trade near all-time highs.

Europe & UK

BOE Opens the Door for Negative Interest Rates

The Bank of England's monetary policy committee announced the possibility of turning interest rates negative in 2021 if the economy stalls facing high unemployment and continuing COVID-19 risks. In the latest meeting last week, the central bank chose to hold interest rates at 0.1% while warning the outlook for England was "unusually uncertain." Until recently, the prospect of negative interest rates seemed unlikely with members of the MPC arguing that it would create financial complications. The rhetoric proves Britain's economy is facing unparalleled difficulties with rising COVID-19 cases, higher unemployment, and now the possibility of a hard Brexit. Among the Group of Seven nations, Britain suffered the biggest economic contraction slumping by 20% in Q1 of 2020. On a positive note, the bank mentioned that the economy was recovering faster than they had thought just last month. The pound experienced a sell-off in reaction to the announcement, dropping 1% against the USD.

UK Inflation Near 5-year Low

Consumer prices in the UK rose 0.2% on a yearly basis in August, marking the smallest increase since 2015 and followed a 1.0% gain in July. The "Eat Out to Help Out" restaurant discount scheme provided by the UK government resulted in 50% discounts on more than 100 million meals. Prices in restaurants and cafes were down 2.6% compared with August of last year, their first fall on record. Cost of clothing and air fares fell significantly as well, unprecedented for August which is usually the peak month of the holiday season. Additionally, Britain slashed value-added tax on the hospitality sector from 20% to just 5%. The tax cut and restaurant scheme were launched by finance minister Rishi Sunak in an attempt to kick-start the pandemic stricken economy.

Asia

Bank of Japan Takes a Less Pessimistic View

Just a day following the appointment of Yoshihide Suga as prime minister, the BOJ kept its key interest rate at -0.1% while leaving asset purchases unchanged. Suga has indicated he sees no need for any immediate changes in BOJ policies, with the central bank claiming the economy has started to pick up with activity resuming globally, illustrating that the worst may be over for the Japanese economy. Kuroda assured that the BOJ would work closely with new PM to shield the economy from the pandemic's harsh effects including looser policy. Kuroda added that "just because inflation isn't moving much, that does not mean we will not deploy additional monetary steps. We will of course consider additional easing steps if factors, such as jobs and demand, affect price moves negatively."

Commodities

Oil Prices Recover Slightly

US crude inventories decreased by 4.4 million barrels last week, sitting at a total of 496 million barrels. The inventories are around 14% above the five-year average for this time of year. The Organization of the Petroleum Exporting Countries along with other producers have cut output by 7.7 million bpd and stressed that it would take action against members who won't comply. Brent crude gained around 8.5% last week, recovering from the 13% drop seen the prior two weeks. YTD, prices are down around 35%.

Kuwait

Kuwaiti Dinar at 0.30585

The USDKWD closed last week at 0.30585.

Rates – 20th September 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1838	1.1899	1.1735	1.1837	1.1740	1.2035	1.1860
GBP	1.2801	1.3006	1.2773	1.2915	1.2815	1.3120	1.2920
JPY	106.15	106.19	104.25	104.55	102.60	106.55	104.42
CHF	0.9093	0.9138	0.9049	0.9116	0.8920	0.9215	0.9089