Weekly Money Market Report
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Reasons to Short US Dollars Mount

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Highlights

- **US Dollar tumbles across the board; risky assets soar.**
- **Divergence in COVID-19 cases across the Atlantic pressures dollar lower.**
- **US stimulus talks resume for the first time since November 3.**
- **US jobs growth slows for a fifth consecutive reading.**
- **EU-UK Brexit talks fail to achieve consensus as deadline nears.**
- **Reserve Bank of Australia maintains rates at record low.**
- **A resilient Chinese economy; the only G20 nation projected to see positive growth in 2020.**

United States

Major FX Levels Have Been Breached

It has been another sour week for the greenback after depreciating 1% last week and 2.4% in November. US government bonds sold off heavily, pushing the 10-year yield to a high of 0.97%. Significant FX levels have been shattered recently, the EUR/USD 1.20-level, the 1.30-level for USD/CAD and the USD/CHF plummeting to the lowest level since January 2015 when the Swiss central bank abandoned its floor to the Euro. The bearish technical developments have reinforced bearish sentiment towards the US dollar. A Reuters poll of currency strategists revealed that 51 of 72 analysts expect the descending dollar trend to remain intact till mid-2021. The aforementioned results coincide with findings from a November global equity poll where a majority of analysts alleged that the current equity “Bull Run” would continue for six months or more. There is a negative correlation between global stocks and the US dollar. EM currencies have tumbled drastically this year, but rebounded last month after foreign investors returned. Since the results of the US election, the Institute of International Finance EM tracker showed the 28-day daily average inflow to EM at USD 1.28bn, a record since the data series began in 2005. The rebound in China, rise in commodity prices and vaccine optimism have driven investors in search of higher returns.

New COVID-19 cases are spiraling out of control in the US with triple new troubling records. In a single day, 200,000 new infections, more than 100,000 patients hospitalized and 2,804 record deaths. At the same time, expectations for a fiscal stimulus support with vaccine optimism caused investors to strongly short US dollars, shift towards riskier currencies and higher yielding assets outside the United States. Federal Reserve Chairman Jerome Powell’s promise to keep interest rates low until there are actual signs of inflation, gives investors another reason not to buy US dollars. Investors’ net short US dollar positioning jumped to the highest level since late October, according to calculations by Reuters and US Commodity Futures Trading Commission data. The position hit $24.31 billion in the week ended November 24, up from $21.83 billion in the previous period.

Looking at the latest developments towards a fiscal stimulus, treasury Secretary Steve Mnuchin and House of Representatives Speaker Nancy Pelosi held bipartisan stimulus talks for the first time last week since the Nov. 3 election. The proposal included $908 billion worth of coronavirus relief measures plus assurances that vaccinations are free and accessible to everyone. Investors expect lawmakers to reach a deal eventually with the two parties facing a Dec. 11 deadline to pass a $1.4 trillion budget or risk a shutdown of the government.

US Jobs Market Loses Steam

The US economy added the least number of jobs in six months. Non-farm payroll came at 245,000 in November, way below expectations of 480,000 and is down from the 610,000 seen in October. The fifth consecutive monthly slowdown in jobs added. The unemployment rate declined from 6.9% to 6.7%, however the explanation for the drop was not promising since the decline was mainly triggered by 400,000 individuals leaving the labor force. On a more positive note, wages rose by 0.3% m/m versus expectations for a 0.1% reading, taking the annual wage rate to 4.4%. This month could also be a challenging month for the labor market with the virus still spreading rapidly. Several states are considering increasing restrictions on activity. Overall, the disappointing jobs report could influence the FOMC meeting on December 16 by further increasing the Bank's balance sheet to support the economy through quantitative easing.

US Manufacturing and Service Sectors

The US manufacturing PMI index dipped to 57.5 last month from 59.3 in October, ending a 6 month upward streak. New orders and production grew more slowly. The US is facing a fresh wave of COVID-19 infections, with more than 4 million new cases recorded in November alone. The virus is likely to disrupt production at factories. Manufacturing output is still about 5% below its pre-pandemic level, according to the Federal Reserve. The services sector, where most Americans work, slowed to a six-month low of 55.9 in November from 56.6. Overall, both sectors seem to be enduring another round of virus outbreaks fairly well, with the PMIs' above 50, indicating growth. However, the outlook is uncertain with the latest restrictions in the US, probably disrupting activity and demand. Record number COVID-19 infections and absence of additional stimulus have left some economists anticipating a contraction in the first quarter of 2021.

Europe & UK

The euro was the best performing major last week versus the buck and surged to the highest level since April 2018 at 1.2177. EUR/USD gained 1.30% in the past five trading sessions. As a high beta currency, the euro will likely rise as long as global stocks rally and improvement in risk taking persists. Divergence in COVID-19 cases between EU and the US has become evident. Aggressive lockdowns in Europe are finally bearing fruit; new cases in France fell to around 4K last week from a peak of 86K in November. In Spain, cases are just above 10K, down from more than 25K in late October. The figures are also better in Germany.

Manufacturing Expands on Brexit Fears

Britain's manufacturing sector grew at the fastest pace in nearly three years last month even as lockdown measures were in place. Growth was propelled by firms increasing production and bringing forward orders just in case Brexit trade talks with the EU ended in failure. The IHS Purchasing Managers' Index jumped to 55.6 from 53.7 recorded in October and above an earlier flash reading of 55.2. Despite growth in the sector, job losses are evident when factories cut staff numbers for a tenth consecutive month, the longest streak since the Great Financial Crises. The sustainability of growth in manufacturing output is highly uncertain, especially once the temporary boosts from Brexit stockpiling wane and the EU-UK have so far failed to agree a deal to allow tariff-free trade from January 1.

On the Brexit front, EU-UK negations took a step backwards last week after pressure from French President Macron for additional assurances for the so-called level playing field (equal chance of succeeding). European Union officials have been demanding that if the UK desires tariff and quota-free access to its single market it cannot unfairly subsidize its companies when it leaves the EU market. Furthermore, the EU also wants both parties to comply with similar standards when it comes to the labor rights, taxation and environmental regulation. Nevertheless, the Netherlands, Belgium, Denmark and France have all specified to EU negotiator Barnier that he endangered drifting too far from his mandate in order to secure a deal. A source within the UK government said: "At the eleventh hour the EU is bringing new elements into the negotiation. A breakthrough is still possible in the next few days but that prospect is receding."

Asia

No Rates Change in Sight

Australia's central bank maintained the official interest rate at a record low of 0.1% at their last meeting of the year as anticipated and the RBA board expects the rate to remain unchanged for at least three years. The outcome of the meeting had little impact on the Aussie dollar. Improving risk sentiment and US dollar weakness across the board had seen the AUD/USD gain more than 4% in November. The rebound seen in AUD/USD occurred even as the central bank on November 3 lowered the official cash rate with the 3-year yield target by 0.15% and injected a new AUD100 billion QE programme in the economy through buying long-term bonds. Given that the official rate is now at 0.1% and the Bank does not want to take it negative, the next move on rates could likely to be a hike. Price growth is unlikely to meet RBA's objective of 2% to 3% range for another three years or so as per the Bank's forecast. As a result, the first rate hike is unlikely to occur in the next three years.

A Resilient Chinese Economy

China's manufacturing activity expanded at its fastest rate in over three years in November alongside significant growth in the services sector. The official manufacturing Purchasing Manager's Index rose to 52.1 from 51.4 in October – above the expansion mark and at its highest reading since September 2017. The employment component soared to its highest level since 2011, indicating that a strong labor market could further drive a recovery in consumption in the months ahead. In Q3, GDP expanded 4.9% y/y with China the only G20 nation projected to see positive growth in 2020, mainly supported by state-led infrastructure investment and a property boom. The world's second largest economy is on track for a robust recovery as it continues to rebound from the depths of the pandemic.

Commodities

OPEC and Russia concluded a deal to raise oil output by 500,000 barrels a day starting next month, way below 2 million BPD originally agreed on. Saudi Arabia's oil minister stated that OPEC would alter the deal "whenever it is necessary". Oil prices rose after major producers agreed on a compromise and prices gained for a fifth week. On a weekly basis, Brent crude jumped more than 8% and is last seen trading at $49.28 a barrel.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30445.

Rates – 6th December, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1957	1.2177	1.1922	1.2120	1.2015	1.2325	1.2149
GBP	1.3312	1.3539	1.3286	1.3437	1.3240	1.3650	1.3449
JPY	104.05	104.74	103.65	104.14	102.15	106.15	103.99
CHF	0.9048	0.9093	0.8882	0.8921	0.8720	0.9125	0.8895