Weekly Money Market Report

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Higher Bond Yields Support USD

Highlights

- **US Dollar reaches 4-month highs.**
- **$1.9tn Covid-19 relief package passes Senate.**
- **U.S. economy adds a robust 379,000 jobs in February.**
- **UK Budget adds new taxes on corporates.**
- **China targets 6% growth and introduces new 5 year plan.**
- **OPEC+ leaves supply curbs in place supporting oil prices.**

United States

US Dollar Reaches New Highs

The US dollar rebounded last week reaching fresh four-month highs after Federal Reserve Chairman Jerome Powell did not express concern about the recent sell-off in bonds. Speaking at a virtual event, Powell maintained his dovish rhetoric and said the sell-off in Treasuries was not "disorderly" or likely to push long-term rates so high that the Fed might have to intervene more forcefully. He also reiterated a commitment to maintain ultra-easy monetary policy until the economy is "very far along the road to recovery." The comments reignited Treasury selling, pushing yields higher.

The rise in yields has been picking up pace since the start of the year with Treasury trading being particularly volatile in the past two weeks as the U.S. 10-year yield briefly surpassed 1.6% last Thursday. The move to sell treasuries boils down to inflation. The impending U.S. fiscal stimulus package is adding fuel to expectations of higher inflation as the accelerating roll-out of COVID-19 vaccines boosts confidence in an economic recovery. Powell’s dovish tone sent messages to markets that the Fed will tolerate inflation for a longer time before hiking rates. And because higher inflation makes bonds less attractive by eroding the value of their income payments, bond selling has been on the rise.

Higher U.S. bond yields also make the U.S. dollar more attractive in carry-trades where traders try to take advantage of interest rate spreads between financial instruments. In the case last week, most major currencies were sold in favor of the U.S. dollar supporting the rebound.

Biden’s Stimulus Package Passes the Senate

President Biden’s stimulus package dubbed the American Rescue Plan, passed through the House of Representatives in February and had just passed the Senate debate Saturday. The democrats faced heavy opposition from Republicans who called the bill “partisan and excessive.” Indeed, all republicans in the House voted against it and the bill narrowly passed through the initial stages of the Senate where members vote whether to debate new legislation. Vice President Kamala Harris had to break the tie of 50-50 and voted with the democrats to allow the bill to be deliberated. The vote on the final passage came back 50-49 in favor of the Democrats. The bill will now need to return to the House a second time to approve some amendments before heading to the President for ratification.

Non-Farm Payrolls

U.S. employers added a robust 379,000 jobs last month, the most since October and showed that the economy is strengthening as confirmed viral cases drop, consumers spend more and states ease business restrictions. The February gain marked a sharp pickup from the 166,000 jobs that were added in January and the loss of 306,000 in December. Yet it represents just a fraction of the roughly 9.6 million jobs that the economy needs to regain to return to pre-pandemic levels.

Still, the report showed that the nation's job growth is being driven by a steady recovery of bars, restaurants and other leisure and hospitality establishments. Bars and restaurants, in particular, snapped back last month, adding 286,000 jobs as business restrictions eased in California and other states. That trend will likely continue as Texas recently joined other states in announcing that it would fully reopen its economy with no restrictions.

Europe & UK

UK Budget

In the UK, Finance minister Rishi Sunak said in the annual budget speech that the economy would return to its pre-pandemic size by mid-2022, six months earlier than previously forecast, helped by Europe's fastest coronavirus vaccination program. The budget will bring some relief to the country in terms of pandemic support remaining in place for many months to come and job protection for affected workers. The chancellor will spend GBP 65 billion in the next two years supporting jobs, investment and the recovery as the country tries to come back from the Covid-19 crisis.

To cater for the increased spending, Sunak also announced the first corporate tax hike in the UK since 1974. Britain will raise its tax on big companies to 25% from 19% starting 2023 but will temper the burden with a two-year "super deduction" for investment to spur a fast recovery from the COVID-19 crisis. "The government is providing businesses with over GBP 100 billion of support to get through this pandemic so it is fair and necessary to ask them to contribute to our recovery," Sunak told parliament.

ECB Concerned with Rising Bond Yields

In contrast to the Fed, the European Central Bank has expressed more concern over rising European yields. ECB President Lagarde and Chief Economist Lane have signaled that they will watch long-term yields closely and could use the flexibility of the PEPP to dampen upward pressure on yields. It was reported last week that the ECB PEPP purchases slowed to EUR 12 billion in the latest weekly data from EUR 17 billion in the previous period. However, the latest ECB figures cover only the period up to and including last Wednesday, and not the sharp bond market sell-off on Thursday or following days. The next report will provide clearer evidence of whether the ECB has since stepped up PEPP purchases. The price action seen on Thursday suggests that it could be the case. The developments are offering more support for the US dollar in the near-term.

Asia

China Targets 6% Growth

China is targeting at least 6% growth this year, reflecting the government's confidence in the wake of its successful containment of the coronavirus pandemic in the world's second-largest economy. Premier Li Keqiang unveiled the goal at the National People's Congress in Beijing last week. Delegates at this year's week-long session will also formally pass a new five-year economic plan focused on "self-reliance" in critical technologies. The five-year plan aims to increase R&D spending by at least 7% each year through 2025, to reduce China's reliance on US companies for semiconductors and other technologies. Li also added that the government wanted to create a further 11 million jobs, noting the 11.9 million urban jobs created last year. Most economists believe that Beijing will comfortably exceed its growth target, given last year's low base of 2.3% growth in 2020.

Australia GDP Expands

The Reserve Bank of Australia said their economy remains on a steady path in terms of recovery, as forecasts continue to improve due to faster vaccine rollouts. A strong labor market, rising wages, and rising private capital expenditure data painted a rosy picture for the economy moving forward this year. GDP expanded 3.1% in the 4th quarter of 2020 bringing the annual growth rate to a better than expected -1.1%. The bounce in private capital expenditures also reflects growing local optimism, and as a result, the trend has provided upward pressure to the Australian dollar.

Commodities

Oil Prices Reach New Highs

The move higher in long-term U.S. rates and inflation expectations has been supported as well by the further jump in the price of oil last week. It rose to a new high of USD 69.69 per barrel after climbing by around 8.7% following Thursday's OPEC+ meeting. Oil producers surprisingly agreed to hold output steady in April, while Saudi Arabia said it will maintain its 1 million barrel-a-day voluntary production cut. No additional supply from OPEC+ in April means lower oil inventories throughout 2021 while demand is expected to increase as the global economy recovers.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30195.

Rates – 07th March, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2077	1.2112	1.1892	1.1917	1.1740	1.2115	1.1941
GBP	1.3937	1.4016	1.3777	1.3841	1.3630	1.4035	1.3845
JPY	106.56	108.63	106.35	108.34	107.15	110.52	108.23
CHF	0.9096	0.9318	0.9069	0.9309	0.9200	0.9495	0.9285

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