Weekly Money Market Report
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Brexit Eve: “The Long and Winding Road” Comes to an End

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Highlights

- **The EU & UK have agreed to a Brexit trade deal following 4 years of deliberations. The first comment made by EU’s chief negotiator Michel Barnier following the announcement of a sealed trade agreement was: “The clock is no longer ticking.” The sterling rallied to a 2.5 year high in response, though gains are limited as investors await official parliamentary procedure.**
- **The EU has claimed the deal was fair and balanced for both sides, claiming uncertainty and fears of a “no-deal” scenario ceases to exist.**
- **In the US, the COVID-19 relief bill was rejected by President Donald Trump, with objections regarding the amount paid out to Americans and sending relief to other countries.**
- **Prices for Oil and Gold have seen record rally’s this year. The dollar has continued to decline as risk appetite increases. Moving ahead, 2021 paints an optimistic picture for the global economy alongside vaccine rollouts.**

United States

Americans Await a Relief Bill

The $900bn coronavirus aid relief bill which overwhelmingly passed the House of Representatives and Senate has been rejected by US President Donald Trump who issued an implied veto threat, describing the package as “disgraceful” and full of “wasteful” items. One of his main objections regarded the annual aid money for other countries in the federal budget, arguing those funds should go to struggling Americans instead. Trump also claimed Congress needs to increase the amount paid to Americans from $600 to $2,000, placing him in a rare position of agreement with some liberal Democrats. The president’s economic advisor Treasury Secretary Steven Mnuchin had proposed the $600 payments earlier this month, leaving many to question why the President waited this long to object after remaining uninvolved for the most part.

Additional fiscal support is vital to keep the economic recovery on track, especially as COVID cases increase and cities consider new shutdowns. Weekly jobless claims declined by 89,000 to 803,000 last week compared to the previous, while expectations expected a dip to 880,000. Putting this into perspective, prior to the pandemic claims averaged about 225,000 a week, and the highest single weekly tally was seen in 1982 at 695,000. Nine months after the start of the pandemic, approximately 20.4 million people continue to receive some kind of employment benefits.

For the most part, investors shook off Trumps rejection with a broader hope of a package arriving soon. Stocks climbed while Treasuries slid. The S&P 500 index and Dow Jones Industrial Average closed 0.51% and 0.14% higher for the week. Treasury yields remained near record lows with the 2 & 10 year yields closing the week at 0.1210% and 0.9264% respectively.

Europe & UK

Brexit: An End to 47 Years of Economic and Political Alliance

The United Kingdom has finally secured a historic trade deal with the European Union, bringing an end to more than four years of acrimonious separation proceedings. Still, the agreement needs to pass a vote on December 30 by Britain’s parliament, though it is near certain to become law with the opposition Labor Party promising to back it. The hope is that the negotiation of a divorce should help alleviate potential chaos at the border on January 1st – the date at which trade will become subject to customs declarations and checks. Starting the first day of 2021, the trade deal will have taken “provisional effect”, still pending the full approval from the European Union which is likely to be seen in February.

For Europe, Brexit marks a big loss for the bloc illustrated by the more somber tone heard by EU members. As Finland's Europe minister summed up, the process has been a "damage limitation exercise" for the EU. Ursula von der Leyen, the European commission president, said: "We want to have the best possible relationship with the United Kingdom, but it will never be as good as membership. Our experience has taught us that strength does not lie in splendid isolation, but in our unique union." The statement may be seen as a warning for those who may wish to follow in the UK's footsteps.

On the other side, UK's Boris Johnson views Brexit as a new beginning and a delivery on a personal promise made back in 2016 when he became the leading spokesman for the exit. Boris Johnson acknowledged that "there are many who feel a sense of anxiety and loss" but promised it would bring about the revival of the UK's "power of independent thought and action" and would usher in "real national renewal and change".

Summarized: Major Points of the Deal

Trade: The deal symbolizes what is likely the largest trade agreement the UK will ever conclude. In 2019, Britain sold 43% of its exports worth £294bn of goods and services to the EU, while more 50% of imports worth £374bn came from the European Union which is comprised of 27 countries. The agreement insures that most goods traded between the EU and UK will not face new tariffs or quotas. However, British exporters will still struggle with new regulatory hurdles, making it more complicated and costly to do business in Europe.

Financial services: The deal offers little clarity as there is so far no decision on equivalence (which would allow firms to sell their services to the EU from the City of London). So far, only standard provisions on financial services are in place, not including commitments on market access. The European Commission claimed it needed more information from the UK before adopting any more equivalence decisions.

Level playing field: Both sides have committed to upholding environmental, social, labor and tax transparency standards to ensure one party will not undercut the other. In this regard, the British have summarized that both sides must be transparent about subsidies, meaning each party will need an independent authority to assert checks. The UK is free to set its own standards in areas such as environmental standards and labor law as long as it does not stray too far, in which case access to European markets may be restricted. Most importantly for Britain, the system now has no reliance on EU law or the European Court of Justice.

Fishing grounds: Possibly the most quarrelsome area of dispute regarded control of British fishing grounds, marking a major hurdle seen in the final days of negotiations. According to the agreement, EU fishing fleets will have a 5.5 year transition period with guaranteed access to UK waters. During the transition, EU fishing rights in UK waters (worth €650m per year) will be reduced by 25% while British quotas increase by the same amount. The UK initially called for an 80% decrease, revealing a significant compromise on their part. The shift is meant to increase Britain's fishing rights from about a half to two-thirds. Once this period ends, access will depend on annual negotiations.

Break clauses: If a case arises where the two sides cannot resolve a dispute or would like to change the terms of the agreement, the trade deal can be reopened. The issue of settling disputes caused many hurdles in negotiations, with a final mechanism approved. Basically, each side may hit the other with tariffs in particular areas if they feel it is justified under the terms of the agreement. A nuclear option is available which is to terminate the whole trade deal – though the security agreement would stay in place.

Markets React

Though the conclusion of a deal brings relief following years of conflict, Europe's second largest economy will be quitting the EU's single market of 450 million consumers and will likely face a tough road ahead. Stocks in Europe and the UK recovered slightly following their decline earlier in the week when uncertainty edged higher regarding a conclusion of a deal, though for the most part equities remained unaffected. For the week, Europe's EURO STOXX 50 index and the UK's FTSE 100 index were unchanged for the most part after fully recovering from the 1.83% and 1.73% decline seen at the beginning of the week.

Looking at FX, the latest optimism has provided a boost for the sterling as the bullish sentiment kept downward pressure on the safe-haven US dollar. The GBP/USD pair saw a volatile week, seeing a high of 1.3619 and a low of 1.3187 as mixed news fluctuated the currency. The pair is now trading near a 2.5 year high, though gains are limited as it appears bullish investors are awaiting for an official announcement.

Commodities

This year has marked historic moves for commodities such as gold and oil as they recovered from the pandemic-struck declines. Record rallies were seen since March as markets were flooded with stimulus and hopes for a strong end to 2020. The question moving forward is whether or not the robust uptrend can be sustained in 2021.

Bullion's Uptrend
Looking at gold, prices initially rallied mid-2019 when trade frictions specifically between the US and China began to hurt economic growth and global sentiment. Fast-forward to 2020 as tensions eased, gold found new support as a global round of monetary easing was underway as a reaction to the global pandemic. Such factors only grew more prominent and sent the safe-haven metal to its all-time high of $2,072 in August of 2020. This year, interest rates around the world were slashed near zero and massive bond buying programs depressed yields – factors which maintained golds attractiveness even as panic reduced and risk appetite rose. And of course, the greenbacks continuous depreciation naturally increases the demand for gold which is priced in US dollars.

Oil & OPEC
This April, the price for brent crude fell to $15.98 while WTI oil futures fell into negative territory for the first time in its history as the first wave of COVID-19 infections came into play and tensions between Saudia Arabia and Russia increased. The two countries were in the midst of a standoff in their price war when the pandemic forced a reassessment and a rush to ensure oil prices bounced back. Production cuts have so far proved successful with Brent crude now back above $50. Though still far from the $60+ levels seen prior to the pandemic, expectations for further gains are justified heading into 2021 should the global economy recover as expected.

Still, risks remain as Europe entered a second lockdown in November and restrictions tightened in other parts of the world such as Australia and the US. Such factors may risk further delays in rising demand. Looking at OPEC, so far the plan in December was to hold monthly meetings to fix new production levels. There has been growing reluctance among members to commit to the tough quotas, creating a fear of over supply which would send oil on a downward path. However looking at the big picture, stimulus and vaccine euphoria should help maintain a bullish stance.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30360.

Rates – 27th December, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2240	1.2256	1.2128	1.2204	1.2105	1.2380	1.2230
GBP	1.3473	1.3619	1.3187	1.3548	1.3440	1.3710	1.3561
JPY	103.37	103.88	103.23	103.48	102.00	104.90	103.30
CHF	0.8850	0.8918	0.8839	0.8889	0.8720	0.9050	0.8864