Weekly Money Market Report
08 August 2021

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Hawkish Signals from Central Banks

Highlights

- **Several US central bankers signaled their readiness to start tapering QE.**
- **Reserve Bank of Australia commits to begin tapering bond purchases in September.**
- **Reserve Bank of New Zealand interest rate hike expectations reaches 100%.**
- **Bank of England keeps policy steady while signaling a "modest" amount of tapering.**
- **US job growth powered ahead amid high demand for workers.**

Central Banks

Hawkish Signals from Central Banks

After a year of COVID-19 related stimulus, markets are now looking at central banks for tightening signals as the global economic recovery remains robust. While the US Federal Reserve updated their policy guidance in June indicating future rate hikes, there has been a of lack clarity on their plans in regards to quantitative easing. If anything is for certain, the Fed is highly dependent on the US labor market improving before clearer signals are made.

Although the Fed as an institution refrained from commenting on QE, several US central bankers spoke up last week independently bringing the issue into the spotlight. Federal Reserve vice Chair Richard Clarida said in a webcast discussion that he could "certainly" see the Fed announcing a reduction in its $120-billion-a-month asset purchase program later this year, given the surprising pace of the economic recovery from the pandemic. Three other policymakers also signaled their readiness to start reducing the Fed's bond-buying program, though their views on timing differed.

On the other hand, the Reserve Bank of Australia stuck to their guns last week and committed to begin tapering bond purchases in September. The decision came as a hawkish surprise to market participants who had anticipated that the RBA might delay taper plans in response to the negative impact from the latest round of lockdowns hitting Australia's economy. In its policy statement, the RBA highlighted that the economic recovery has been stronger than expected and that it is not overly concerned by the temporary disruption from the latest COVID outbreak. The RBA also sees the economy continuing to grow strongly again next year as it benefits from significant policy support and increased vaccinations.

The hawkish comments from the RBA have markets now looking towards the Reserve Bank of New Zealand's policy meeting next week for similar announcements. Following a record breaking release in New Zealand's latest employment report, interest rate expectation polls are now fully pricing in a rate hike in the upcoming meeting.

The Bank of England continued the common-wealth trend when it said a modest reduction in policy support could be needed. The statement read, "the Committee judges that, should the economy evolve broadly in line with the central projections in the August Monetary Policy Report, some modest tightening of monetary policy over the forecast period is likely to be necessary to be consistent with meeting the inflation target sustainably in the medium-term." The hawkish policy signal reflects the BoE's optimism that the UK economy will continue to recover strongly from the COVID shock in the coming years. The BoE is expecting the UK economy to expand robustly by 7.25% this year and 6.0% next year. At the same time the BoE displayed more concern that the inflation overshoot could prove more pronounced in the near-term. It now sees inflation rising to a peak of around 4.0% later this year before falling back to their 2.0% target over the following 2-3 years.

Economic Indicators

US Non-Farm Payrolls

US job growth came back strong in July suggesting the economy maintained its momentum at the start of the second half of this year. Nonfarm payrolls increased by 943,000 jobs last month after rising 938,000 in June and unemployment rate fell to 5.4% from 5.9%. Economists polled by Reuters had forecast payrolls increasing by only 870,000 jobs. The Labor Department's closely watched employment report also showed strong wage gains, as employers competed for scarce workers quashing fears of a hiring slowdown.

The growth came as labor-intensive service businesses continued to hire given strong pent-up customer demand. Furthermore, educational employment boosted the numbers as summer school programs increased in demand as students looked to catch up on lost time. The release will weigh heavily on the Federal Reserve's next monetary policy steps. If the strong readings persist over the next couple of months, then it might the Fed the green light for early QE tapering.

German Retail Sales

German retail sales increased much more than expected in June following an easing of COVID-19 restrictions, supporting hopes for a consumer-driven recovery in Europe's largest economy over the summer months. The Federal Statistics Office said retail sales rose 4.2% on the month in real terms after an upwardly revised increase of 4.6% in May. The June reading was more than double a Reuters forecast for a rise of 2.0%. Annually, retail sales jumped 6.2% in real terms following an upwardly revised drop of 1.8% in the previous month.

Euro zone Business Activity

Euro zone business activity roared in July, expanding at its fastest pace in 15 years, as the lifting of more coronavirus restrictions and an accelerated vaccine drive injected life into the bloc's dominant service industry. IHS Markit's final composite PMI climbed to 60.2 last month from June's 59.5. IHS Markit's final services PMI for Germany rose to 61.8 in July from 57.5 in June, the strongest since the survey began more than 24 years ago.

UK Construction

Activity in Britain's construction industry grew last month at its weakest pace since February due to shortages of building materials and contractors, adding to signs of post-COVID bottlenecks in the economy. The IHS Markit/CIPS construction PMI fell from June's 24-year high of 66.3 to 58.7 in July. This was the PMI's lowest reading since February and the sharpest single-month drop since April 2020, Britain's first full month of COVID lockdown. While the PMI still points to solid growth in the sector, economists polled by Reuters had expected a much smaller slowdown to a reading of 64.0. The construction PMI pointed to big inflation pressures in the pipeline, as construction firms' costs grew only slightly less than the 24-year high recorded in June.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30045.

Rates – 8th August, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1862	1.1899	1.1752	1.1760	1.1605	1.1945	1.1780
GBP	1.3899	1.3957	1.3859	1.3871	1.3685	1.4010	1.3873
JPY	109.68	110.34	108.71	110.25	108.70	111.60	110.17
CHF	0.9061	0.9156	0.9016	0.9144	0.8975	0.9220	0.9122