Weekly Money Market Report
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US Dollar Adjusts Higher from Post-Election Lows

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Highlights

- **Biden administration is still not in command.**
- **Fed Chair Jerome Powell urges fiscal support.**
- **Inflation still subdued in the U.S.**
- **Negative interest rates in the UK seem less likely.**
- **ECB President Lagarde encourages loose policy.**
- **Oil and Equity prices supported by COVID-19 vaccine.**

United States

US Dollar Support

The U.S. dollar rebounded slightly higher last week as markets consolidated a Biden presidency with the prospects of an impending COVID-19 vaccine. The post-election slump in the dollar was due to expectations that a Biden administration would be less supportive for the USD than President Trump. Markets digested two pieces of information aiding the slight dollar correction. One, the Democratic Party is currently losing the Senate majority, which reduces Biden's power to change policies including the size of further fiscal stimulus. And two, the Biden administration has yet to take over with people questioning the hand-over process from incumbent President Trump. Essentially, markets did not expect major policy changes from the U.S. until Q1 of next year.

Speaking at a forum at the European Central Bank however, US Federal Reserve Chairman Jerome Powell tried to temper market expectations by stressing policy makers to address the here and now rather than looking forward towards the next administration. The message was clear – it is the near-term that remains "challenging" and elevated downside risks due to COVID will mean more fiscal and monetary policy support is going be required. With little action coming from the U.S. Senate, the burden will again fall on the Federal Reserve to act. The Fed "will need to do more" Powell concluded at the meeting.

The US dollar still saw some support as safe-haven currencies such as the Japanese yen and the Swiss franc weakened after optimistic news of a promising COVID-19 vaccine broke. American pharmaceutical company Pfizer said that preliminary results of their vaccine showed an effectiveness of more than 90%. The results were much higher than the 60-70% effectiveness experts were expecting from early vaccines. The positive developments have increased the likelihood of a return to normality next year which should help to accelerate the global economic recovery.

US Inflation

Inflation in the U.S. came back unchanged in October, missing forecasts that called for a modest gain. The reading on the consumer price index was 0% following a 0.2% advance in September, Labor Department data showed. Compared with a year earlier, the gauge rose 1.2% falling from 1.4% in the previous month. The core index, which excludes volatile food and energy costs, was also unchanged from the prior month at 0% and up 1.6% from a year earlier. The data signaled inflation remains subdued as the pandemic continues to weigh on demand in some parts of the economy. While inflation stabilized as the U.S. economy picked up in the third quarter, risks of a broad acceleration are low given weakness in services activity.

With inflation subdued and many Americans still unemployed, the Fed may seek to act in some manner faster than expected following Jerome Powell's recent comments at the ECB forum.

Europe & UK

Negative Interest Rates Less Probable

The British pound acted in a more volatile manner than the marginal rise the U.S. dollar saw last week. Expectations of negative interest rates from the Bank of England had weighed on trader's behavior over the past few weeks. Those expectations however, have been scaled back as the BoE seems reluctant to go down the negative rate route especially with hopes of an economic recovery from a vaccine now coming into play. Indeed, BoE Governor Andrew Bailey recently told the UK House of Lords that the bank is still not in a position to implement negative interest rates.

The UK economy still has a big hole to climb out of once the vaccines arrive. The UK economy remained almost 10% smaller at the end of Q3 compared to the end of 2019. It follows a record rebound in growth of 15.5% in Q3. The monthly GDP revealed that the UK was already losing some upward momentum in September, and will have slowed sharply this month after the government decided to re-impose a national lockdown until at least 2nd December.

Brexit

Brexit also remains a main fixing point on the British pound's performance. There is still a lack of progress in trade talks with EU Chief Brexit negotiator Michel Barnier warning that "serious divergences" remain over fishing and competition rules. It has dampened expectations for a trade agreement earlier this month. It is possible though, that the trade talks have just been held up until there is more certainty over the US election result. A Biden presidency could make a WTO-type Brexit less attractive to the UK government by complicating a fast tracked UK-US trade deal compared to dealing with the current Trump administration. Therefore, the UK might be pressured to finalize a trade agreement with the EU before the end of the year. That prospect is likely helping to dampen current downside risks for the GBP.

ECB Governor Christine Lagarde Speaks

In Europe, the story was slightly different than the UK. Instead of a slightly hawkish sentiment from the central bank over last week's developments, the central bank in Europe reiterated its dovishness. ECB President Lagarde signaled that recent positive developments have not altered the ECB's dovish policy stance. She confirmed that the ECB's pandemic quantitative easing program PEPP and bank funding TLTRO programs will be at the core of the package of easing measures that will be delivered at their next meeting in December.

President Lagarde also emphasized the need for close fiscal and monetary cooperation in Europe to support the recovery. The euro-zone economy is expected to contract again Q4 in response to renewed lockdowns this month. Both types of policies will likely keep the euro currency pressured going into 2021.

EU Introduces Tariffs on US

The European Union will "regrettably" impose tariffs on imports of $4 billion U.S. goods this week, EU Trade Commissioner Valdis Dombrovskis said, while also hoping that President-elect Joe Biden will improve transatlantic ties. The bloc will exercise the right to retaliate against U.S. tariffs after winning a case at World Trade Organization against U.S. plane maker Boeing. This comes as a part of a long-running, 16 year, U.S.-EU battle over civil aviation subsidies. "We have made clear at every stage that we want to settle this long-running issue," Dombrovskis told a news conference. However, "due to a lack of progress on the U.S. side, we can confirm that the EU will exercise its rights and impose counter-measures awarded to us by the WTO."

Dombrovskis said the Commission, which coordinates trade policy for the 27 EU nations, had made some informal contacts with Biden's team, and there was a host of things to do, ranging from coordinating work to reform global trade rules to incorporating climate change goals into trade. Furthermore, Dombrovskis repeated an EU offer that the bloc was ready to suspend its measures at any time if the United States did the same, "whether under the current or the next administration."

Asia

China's Exports Expected Higher

China's foreign trade is expected to have grown rapidly in October due to a recovery in global markets and the domestic economy, a Reuters poll showed, but there are fears that the coronavirus resurgence overseas could slow trade in coming months. In October, exports are expected to have risen 9.3% from a year earlier, according to a median estimate of a Reuters poll of 20 economists, down slightly from the 9.9% gain in September. Imports likely rose 9.5% annually, which economists regarded as a solid increase though it would be slower than in September, when imports rebounded 13.2%. China's trade surplus is expected to have widened to $46 billion in October from $37 billion in September, according to the poll.

Japan's Economy Seen Rebounding

Japan's economy likely rebounded in the third quarter as global demand picked up, another Reuters poll showed, but the effects of the coronavirus crisis will delay the return to pre-pandemic levels. GDP is forecast to have grown an annualized 18.9% in Q3, the fastest pace of growth on record since 1980. Private consumption, which accounts for more than half of Japan's economy, was seen rising 5.1% for the quarter, the poll showed, after it fell 7.9% in Q2. External demand - or exports minus imports - likely contributed 2.6% to GDP growth for the quarter, as global economic activity started to pick up with the easing of coronavirus lockdowns.

Commodities & Equities

Oil and Equities Supported by Vaccine

Oil prices continued to recover this week as hopes for a vaccine renewed global oil demand. OPEC said "an effective and widely distributable vaccine" could support the economy as early as the first half of 2021. Until then however, OPEC expects oil demand to rebound more slowly in 2021 than previously thought because of rising coronavirus cases and the reintroduction of lockdowns in some countries.

Global equities were up around 1.4% for the week reaching record highs when Pfizer announced its vaccine had been effective in 90% of cases during trials. Russia quickly followed up by reporting its own vaccine trials had also shown promise. The Dow Jones, S&P 500 and NASDAQ indices all reached new all-time highs before edging lower as rising U.S. and European COVID-19 hospitalizations tempered market's optimism.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30580.

Rates – 15th November, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1882	1.1920	1.1746	1.1834	1.1730	1.2015	1.1865
GBP	1.3150	1.3312	1.3106	1.3189	1.3085	1.3375	1.3220
JPY	103.35	105.67	103.19	104.61	102.65	105.55	104.40
CHF	0.8990	0.9192	0.8984	0.9126	0.8925	0.9235	0.9098