

# Weekly Money Market Report

31 January 2021



## US Equity Market Frenzy Halts Risk Sentiment

### Highlights

- Fed meeting reinforces stagnant interest rates prospect
- Retail-traders create a frenzy in US equity markets
- IMF report revises GDP growth expectations for the US higher
- ECB President Lagarde speaks on recovery prospect in the Eurozone
- US GDP grew in Q4, but for 2020 the US economy shrank by 3.5% which is the worst since 1946

>NBK Treasury  
+965 22216603  
tsd\_list@nbk.com

## United States

### The Federal Reserve's Meeting

In its first monetary policy meeting of the year, the US Federal Reserve delivered a slightly dovish tone as it held its main interest rate close to zero and kept its asset purchases steady. The central bank described a waning in the recovery evident by weakness in economic data. In its statement, the FOMC said: "The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic." The moderation in activity led Powell to state it is now "too early to focus on tapering dates" as the economy is still far from its inflation and employment goals.

Markets are expecting interest rates to be stagnant near the 0% levels until 2023. If we took a look into the Fed Funds Futures it is pricing 0 hikes and/or cuts until January of next year. Nevertheless, economic recovery especially when it comes to the labor market and inflation targets will be main catalysts for changes in monetary policy, as Fed Chairman Powell keeps reiterating in his remarks.

The US dollar rose as a "short squeeze" led to an unwinding of risky positions as investors worry massive losses by hedge funds could force liquidation of other investments. The retreat in stocks and rise in US dollar saw the Dow Jones drop to a 3-month low while the S&P 500 index lost 2.24% of its value.

Looking at Treasuries, the yield on the US 10-year note declined though remained above the 1% mark as its safe-haven appeal attracted investors after the growing concerns of retail-traders speculations in the equity market in certain stocks.

### IMF Report

The IMF released its updated projections for real GDP growth last week. From the last release in October, there has been a substantial upward revision to the US GDP forecast with most of Europe downgraded. The US is now forecast to grow by 5.1% in 2021 with the USD 900bn fiscal stimulus package agreed in December explaining much of that revision. President Biden's latest package that is being negotiated in Congress (USD 1.9trn) is not at all incorporated into the IMF projections implying a further substantial upward revision is possible. The IMF estimates that package if passed in full could add a further 1.25% to US GDP growth this year and 5.0% over the next three years.

The IMF does make some very crucial assumptions - one that is widely shared amongst market participants and one that is much more debatable. The first is that the vaccination roll-outs accelerate and importantly is quicker than any further developments of mutated variants that could cause the COVID crisis to worsen again. This is certainly what is currently priced into asset prices.

## US GDP Rebound

Despite increased restrictions and lockdowns and hence significant drop in economic activity, real GDP grew at a solid pace in the fourth quarter of 2020 in the United States. Real GDP rose 4.0% on quarterly annualized basis in Q4 2020, a touch below consensus expectations. The recovery still didn't make up for a bad first quarter and a historically awful second quarter. For 2020 as a whole, GDP decreased by 3.5% from the prior year. That was the worst decline since 1946. It was the first time US GDP declined since 2009, when it fell 2.5% during the financial crisis.

## US Consumer Confidence

Consumer confidence in the US rose slightly in January to a reading of 89.3 from 87.1 in December. The gain reflects optimism following the release of vaccines as well as the \$900 billion in additional pandemic relief provided by the government. So far in the US, more than 25 million people have been infected with COVID-19 while about 6% have been vaccinated. President Joe Biden has vowed to conclude 100 million doses during his first 100 days in office

## Europe & UK

### Lagarde's Speech

ECB president Christine Lagarde said last Monday that 2021 could be a year of recovery, but that would most likely be accompanied by a "very high level of uncertainty" before achieving the transition to a "new economy". In an online panel discussion for the World Economic Forum, Lagarde said that data from the fourth quarter of 2020 indicated that the "journey to recovery" in the Eurozone has been "somewhat delayed but not derailed" as a series of lockdown measures and restrictions have had to be rolled out despite the positive progress in vaccinations.

The euro showed no immediate reaction to the comments as it kept trading in a narrow range throughout the week from 1.2060 to 1.2180.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30285.

## Rates – 31<sup>st</sup> January, 2020

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2170	1.2183	1.2059	1.2136	1.2040	1.2335	1.2170
GBP	1.3670	1.3759	1.3610	1.3708	1.3600	1.3900	1.3731
JPY	103.79	104.94	103.55	104.72	102.70	106.655	104.48
CHF	0.8855	0.8918	0.8847	0.8907	0.8710	0.9105	0.8880

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