Weekly Money Market Report
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Booming US Economic Data

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Highlights

- **The delivery of over $280bn in economic impact payments to households following the American Rescue Plan's enactment resulted in positive economic figures for the US in March.**
- **Both retail sales and jobless claims figures beat expectations just days after reports revealed a 2.6% y/y gain for inflation. The economic reopening and unprecedented levels of support provided by the government are contributing to the inflationary setting.**
- **China has maintained its robust path towards an economic recovery from the depths of the pandemic as it surpasses its peers with an 18.3% y/y gain in GDP.**
- **Australia's unemployment rate of 5.6% beat expectations as the labor market's recovery continues to beat forecasts.**
- **US equities reached record-high levels, while Treasury yields and the USD declined.**

United States

Retail Sales Surge, Jobless Claims Ease

According to the Commerce Department, retail sales rose 9.8% in March following a 2.7% decline in February. The figure far exceeded expectations of a 5.8% gain and represented the best month for retail sales since the May 2020 gain of 18.3% which followed the first round of stimulus checks. Looking at the core figure which excludes automobiles, gasoline, building materials and food services, sales rose 6.9% in March following a 3.4% decrease in February. The surge came as Americans received additional pandemic relief checks from the government while increased COVID-19 vaccinations allowed broader economic recovery. The report detailed that all categories within retail sales are above where they were in February of last year, excluding restaurants.

A separate report from the Labor Department revealed that the total number of Americans applying for unemployment benefits tumbled to 576,000 last week, a post-COVID record low. The figure is far below the peak of 900,000 seen in early January and has dropped below the 700,000+ level where it had been stuck for months. A total of 16.9 million people are continuing to collect unemployment benefits, down from the 18.2 million in the previous week. Nevertheless, employment in February 2021 was 8.5 million less than in February 2020 - leaving many to estimate that it could take the labor market more than three years to recover. The 576,000 increase is still high relative to history, but the drop does provide an encouraging sign that the pandemic's blowback on labor is fading.

Consumer Prices Rise

Inflation shot higher in March, boosted by the year-over-year comparisons as around this time last year COVID-19 sent prices plummeting. The consumer price index rose 0.6% on a monthly basis and 2.6% on a yearly basis, representing the highest y/y gain since August 2018 and well above the 1.7% recorded in February. Gasoline played the largest role here and is responsible for about half the overall CPI increase as prices are up 22.5% from a year ago. The core CPI figure which excludes the volatile food and energy costs increased 0.3% monthly and 1.6% y/y.

While inflation figures appear high, policymakers at the US Federal Reserve expect the increase to prove only temporary. Figures are likely to decrease once data comparisons stop reflecting the sharp drops seen last year. Fed officials have indicated several times that policy would not be adjusted on short-term jumps in inflation readings. In an interview last week, Fed Chairman Jerome Powell told CBS that he does not expect any interest rate hikes this year. The central bank predicts GDP growth of 6.5% this year following the 3.5% contraction in 2020, a sharp rise from the 4.2% forecast given in December.

Markets: Risk-on Mode

The US dollar continued to weaken against the majority of its peers despite the abundance of optimistic economic data revealed towards the end of the week. The best performers against the USD were the AUD and NZD, suggesting the risk-on mode took hold. Surprisingly, bond prices rose with the yield on the 10-year Treasury pushing below the 1.6% despite the positive data specifically in retail sales. This may be attributed to the fact the investors have been anticipating the strong recovery in March/April and have already positioned themselves as such.

Looking at equities, rallies were seen in the US and Europe with the S&P 500 reaching record-high levels. Earnings reports from the largest US banks revealed profit surges in the financial sector, solidifying optimism. Morgan Stanley reported a 150% jump in quarterly profit. Similarly, JPMorgan Chase, Goldman Sachs Group Inc, and Bank of America all recorded high earnings which have reinforced hopes of a swift economic recovery.

Asia

China's Record GDP

China's economic recovery has led to an 18.3% y/y gain in GDP for the first quarter of 2021, the fastest rate on record. The high figure was anticipated given the sharp contraction seen in the Chinese economy when the country went into lockdown during the first quarter of 2020. On a quarterly basis, the economy expanded just 0.6% according to the National Bureau of Statistics. The gain was powered by the fastest rate on record for industrial production at 7% y/y while retail sales rose by 5% y/y. The Bureau also sounded a note of caution: "We must be aware that the Covid-19 epidemic is still spreading globally and the international landscape is complicated with high uncertainties and instabilities." The comeback has also allowed China to gather pace in global trade with exports rising 21.1% in November, the biggest rise since February 2018 which has pushed China's trade surplus to its highest level on record.

Australia

Economic Recovery Led by Employment

Australia's economic recovery is strengthening, illustrated by the 71,000+ jobs added in March which further lowered the unemployment rate to 5.6%. Australia's recovery from the COVID-19 pandemic has consistently outpaced forecasts, with unemployment already exceeding the central bank's previous estimate of 6% by the end of this year. In response to the pandemic, the Reserve Bank of Australia cut its key interest rate to a record-low 0.10% and set the same target for the three-year bond yield as it intends to keep borrowing costs low across the economy. RBA Governor Philip Lowe's main goal is to drive unemployment down below 5% in an effort to spark wages growth and revive inflation. Regarding rising rates, Lowe has said rates won't rise until inflation is sustainably back in the RBA's 2-3% target, while the latest data revealed annual inflation at 0.9%. The Aussie rallied 1.5% last week, touching a 3-week high of 0.7761 against the USD.

Commodities

Positive Data Supports Oil

Crude oil prices have rallied alongside the positive economic data and weakness in the USD. The price for brent crude gained 5.93% last week, reaching a high of $67.38 before retreating. Moving ahead, the risks for oil remain on the pace of the global economic recovery as COVID-19 cases are still rising globally. Looking at inventories, US crude oil inventories as of April 9th were 1.6% above the seasonal 5-year average. Meanwhile, gold prices were also supported by the lower dollar and lower long-term Treasuries, making the safe-haven metal an attractive hedge against inflation.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30145.

Rates – 18th April, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1889	1.1994	1.1869	1.1983	1.1880	1.2185	1.2006
GBP	1.3708	1.3842	1.3667	1.3830	1.3720	1.4030	1.3835
JPY	109.67	109.76	108.60	108.77	106.80	110.75	108.67
CHF	0.9262	0.9267	0.9178	0.9200	0.9005	0.9395	0.9177