

Weekly Money Market Report

06 June 2021



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U.S. Non-Farm Payrolls Miss Expectations

Highlights

- **Mixed U.S. labor data revealed non-farm payrolls rose by only 559,000 versus expectations for a 671,000 increase.**
- **Markets await the upcoming ECB meeting with no changes to monetary policy expected.**
- **RBA leaves policies unchanged leaving the benchmark rate at 0.10%.**
- **China recovery loses momentum with lower than expected services data.**
- **Oil prices still supported by OPEC+, with the price for brent crude reaching a two-year high of \$72 last week.**

United States

U.S. Labor Market

The U.S. dollar rallied at the end of last week on signs of an improving labor market. The Unemployment Claims figure, released on Thursday, sparked the rebound when it showed Americans filing new claims for unemployment benefits dropped below 400,000 for the first time since the COVID-19 pandemic started more than a year ago. It was also supported by other data on Thursday showing private payrolls increased by the most in 11 months in May, fueled by robust demand amid a rapidly reopening economy. The data supported expectations that job growth accelerated last month, though shortages of workers and raw materials continue to loom over the labor market recovery.

Market optimism on the data saw the dollar rally even before the release of Friday's Non-Farm payrolls. The dollar index rose further above last month's low of 89.209 and closer to the 90.500-level, and had its largest daily percentage increase since the middle of May. Dollar gains were broad-based but most evident against the commodity-related currencies – the Australia and New Zealand dollars which both declined by just over 1%.

The dollar reversed course however, and lost most of its gains after the non-farm payroll report failed to meet expectations. Friday's report showed 559K new jobs in May following last month's dismal 277K jobs. The report was also less than economists' expectations for a 645K increase. The unemployment rate fell to 5.8% from 6.1% and was better than the estimate of 5.9%. The increased hiring came as the easing pandemic, helped by vaccinations, pulled more people back into the labor force, offering assurance that the economy's recovery from the COVID-19 recession remained on track. Heading into May, the U.S. economy had recovered about 14.3 million of the 22 million jobs lost in the early days of the pandemic.

Europe

European Central Bank

Market focus will now shift to the European Central Bank monetary policy meeting taking place this week. In particular, the focus will be on the guidance of the pandemic emergency purchase program.

According to a Reuter's poll, the ECB will not change the total size of its asset purchase program at its June 10 meeting but will start tapering its PEPP later in the year. With an economic recovery underway and price pressures rising, calls for winding down the emergency purchases have increased in recent weeks. But several ECB members have said a decision to reduce purchases at the June 10 policy meeting was unlikely.

Still, since the last meeting, the flow of economic data has been positive and that flow of data is likely to mean some modest upward revision to the real GDP estimate for 2021 from the current 4.0%. Euro zone business activity also surged in May as the easing of some coronavirus related restrictions drove a recovery in the services industry. The data comes soon after factories also had their best month on record. That meant IHS

Markit's final composite PMI jumped to 57.1 last month from April's 53.8, its highest level since February 2018. Separately, Germany's final composite PMI rose to 56.2 in May from 55.8 in the previous month.

UK Composite PMI

Meanwhile, Britain's services sector recorded the biggest jump in activity in 24 years last month. Resurgent business and consumer spending in response to looser pandemic restrictions led the rebound. Service providers indicated a sharp and accelerated rise in new order volumes during May, with the speed of recovery the fastest since October 2013. This reflected a swift turnaround in domestic demand due to the reopening of the UK economy. The IHS Markit/CIPS PMI rose to 62.9 in May from 61.0 in April.

Asia

Reserve Bank of Australia

The RBA decided to maintain the current policy settings with the official cash rate at the historic low of 0.10%. The board reiterated that it had no plans to increase the cash rate until the actual inflation rate is sustainably within the 2%-3% range, which it again said was not likely to occur until 2024 at the earliest.

Still, RBA Governor Philip Lowe said the global economy was continuing to recover from the pandemic and the outlook for the remainder of this year and 2022 was for strong growth. He said that global trade in goods has picked up strongly, and commodity prices are mostly higher than at the start of the year, but noted inflation in underlying terms remained low and below central bank targets.

China Services PMI

China's Caixin services PMI fell to 55.1, as the momentum in services activity softened in May. The gauge remains at a healthy level of expansion, and is higher than the pre-pandemic average of 52. This shows that the services recovery is continuing, though the pace is more gradual now. This echoes the softer reading in the official National Bureau of Statistics services PMI released earlier last week. To support a continued recovery the People's Bank of China will likely keep its policies accommodative.

Commodities

Oil Prices Supported

Oil rose towards \$72 a barrel last week, trading close to a two-year high as OPEC+ supply discipline and recovering demand countered concerns about slow COVID-19 vaccination rollouts around the globe. OPEC and its allies said they would stick to their agreed supply restraints just as the weekly supply report showed U.S. crude inventories dropped more than expected last week. Further boosting oil was a slowdown in talks between the United States and Iran over Tehran's nuclear program which reduced expectations for a rapid increase in supply of Iranian oil to the market.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30075.

Rates – 06th May, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2190	1.2254	1.2102	1.2165	1.2060	1.2360	1.2186
GBP	1.4178	1.4248	1.4081	1.4154	1.4055	1.4370	1.4152
JPY	109.82	110.33	109.31	109.49	107.50	111.50	109.41
CHF	0.8999	0.9053	0.8945	0.8992	0.8795	0.9095	0.8970

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