Weekly Money Market Report
28 February 2021

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Powell: "The Economic Recovery Remains Uneven and Far From Complete"

Highlights

- **Powell signals "hope for return to more normal conditions" but remains careful.**
- **The House of Representatives passes the $1.9tn Covid-19 relief package.**
- **Initial jobless claims report showed new US unemployment filings fell last week to their lowest level in 12 weeks.**
- **Data from the UK showed jobless rate rose 5.1%, the highest reading in nearly five years.**
- **European Central Banks indicates that it will increase the pace of its emergency bond purchases.**

United States

Powell's Testimony

In his testimony before the US Senate Banking Committee on Tuesday, Federal Reserve Chair Jerome Powell said that the central bank would keep its attention focused on getting Americans back to work as vaccine related recovery proceeds. Powell pushed back on suggestions that loose monetary policy risked unleashing inflation and financial risks in what may be an emerging economic boom. He told Congress there was "hope for a return to more normal conditions" this year but signaled that the central bank intended to maintain its heavy support to the economy.

When asked about whether a faster than expected recovery still required crisis-level assistance, Powell replied "Monetary policy is accommodative and it continues to need to be accommodative ... Expect us to move carefully, patiently, and with a lot of advance warning before any changes." He continued to acknowledge the potentially fast growth to come as the coronavirus crises eases and vaccinations expand, saying that coming updates to the Fed's outlook may show the economy expanding "in the range" of 6% this year, and overall output returning in the next few weeks to the pre-pandemic level.

Powell's testimony offered one of his more optimistic assessments of economic conditions since the start of the pandemic, but stressed that there were still big downside risks to the recovery that justified the central bank's ultra-easy stance. "In recent weeks, the number of new cases and hospitalizations has been falling, and ongoing vaccinations offer hope for a return to more normal conditions later this year. However, the economic recovery remains uneven and far from complete, and the path ahead is highly uncertain," Powell said in his opening remarks. He then hinted to an improved outlook for later in the year.

Some economists have warned earlier that a burst in economic activity could trigger an unhealthy jump in inflation, which would force the Fed to start tightening its monetary policy sooner and more abruptly than expected. The Nasdaq Composite reacted to the warnings and was down 3.9% early on Tuesday prior to Powell's testimony, but it recovered after Powell spoke and closed 0.5% lower.

During the question and answer period with the senators, Powell said "Inflation dynamics do change over time, but they don't change on a dime," he added "we don't really see how a burst of fiscal support or spending that doesn't last for many years would actually change those inflation dynamics." Despite of the hope for a return to more normal conditions expressed by the Fed, Powell stressed how far away the US economy remained from reaching full employment.

The Fed has said it would not raise interest rates from their current level close to zero until it achieved full employment, inflation hit 2% and was "on track" to exceed that target. It also said it would not begin to wind down its bond buying program until “substantial further progress” was made toward its objectives.

During the testimony, Powell was repeatedly pressed by senators on the merits of Biden’s $1.9tn stimulus plan, but he declined to take a position. Powell had publicly pushed Congress to approve more government stimulus to support the recovery and complement the regulator’s easy money policies as the pandemic ravaged the US economy in 2020. But in recent weeks, the Fed chair has switched to a more neutral stance on the need for more fiscal support, just as US President Joe Biden and Democratic lawmakers are trying to approve the additional $1.9tn in government spending.

Powell’s shift was apparent as he repeatedly refused to take a position on Biden’s legislative priority. “It’s not appropriate for the Fed to be playing a role in these fiscal discussions about particular provisions in particular laws,” Powell told John Kennedy, a Republican senator from Louisiana. And as Kennedy pressed him further asking if he would find it “cool” or “uncool” if Congress failed to pass the stimulus bill, Powell did not flinch. “I think by being either cool or uncool, I would have to be expressing an opinion,” he said. But he did dismiss concerns that the $1.9tn package might lead to an unwanted jump in inflation this year. Although as he spoke to Congress he suggested that his preference would be for lawmakers to consider longer term investments at this stage, rather than an instant cash injection into the economy.

Powell’s impartiality on the stimulus package marks a return to form for the Fed, whose top officials are averse to wade into tricky political terrain unless a crisis requires it, as it did in 2020 or during the last financial crisis. Powell’s neutrality on the next round of stimulus means he is not actively endorsing Biden’s plan, but it does not mean he disapproves either, just that he is trying to keep the Fed out of political tangle.

House of Representatives Passes Biden’s Stimulus Package

In a significant milestone for president Joe Biden, the House of Representatives passed the $1.9tn Covid-19 relief package. Biden has made the stimulus package his top legislative priority for his first 100 days in the White House. The package, which was passed early Saturday by the Democratic controlled House, includes $1,400 direct payments, an extension of federal top-ups to unemployment insurance, and another $350bn for state and local governments. Biden last week said that the US economy would come “roaring back” if Congress approved his proposals, while Treasury secretary Janet Yellen this week told G20 finance ministers that they should also “go big” with fiscal support to help the pandemic ravaged global economy.

The stimulus package needs to pass both the House and the Senate -which Democrats control by a small margin- if it is going to be sent to Biden’s desk to be signed into law. Democrats have set themselves a deadline of mid-March when the current round of emergency unemployment benefits runs out.

Market Movements

Growing inflations concerns combined with some technical factors drove interest rates higher as the market went on a bond selloff. The developments intensified on Thursday as the 10-year US Treasury yield spiked higher by 23 basis points from the open to an intra-day high of 1.61% which fully reversed all of the move lower from February and March of last year when the negative Covid-19 shock first hit financial markets. But then the market started to question how long the Fed can stay on hold when the economy could come thundering back, and the 10-year US treasury retreated below 1.5%. Bond yields have been rising with each positive development on the vaccine front and decline in Covid-19 spread rates.

The dollar went back to gain some ground in light of the developments and closed the week at 90.879. While sterling, the best performing currency in February started to retread its gains against the dollar, coming down from a near three year high at $1.4237 to close the week at $1.3932.

New US Jobless Claims Fall to Lowest in 3 Months

Initial jobless claims report showed new US unemployment filings fell last week to their lowest level in 12 weeks. The figure gave a hint that pressure on the jobs market is easing as Covid-19 infections slow. The figure dropped to a seasonally adjusted 730,000 claims from 841,000 during the previous week, below economists' expectations of an 838,000 reading.

Europe & UK

UK Unemployment Rise as Hiring Slows Down

Data from the UK showed jobless rate rose 5.1% in the last three months of 2020, the highest reading in nearly five years but still lower than it would have been without the huge coronavirus jobs support scheme that finance minister Rishi Sunak is looking to extend next week. The data showed UK labor market had begun to stabilize by the end of 2020, but unemployment edged up and a previous pick up in hiring slowed as the surge in Covid-19 infections put reopening on hold. The employment rate of 75% was 1.5% lower than a year earlier.

However, some signs of improvement were apparent. The number of payroll employees increased in January for a second consecutive month, the rate of redundancies has slowed, the number of vacancies continued to increase, albeit more slowly, and the Office for National Statistics said pay was growing in real terms in all sectors at the end of the year. “Throughout the crisis, my focus has been on doing everything we can to protect jobs and livelihoods,” said chancellor Rishi Sunak in response to the data, adding that he would set out measures to support jobs through the remainder of the pandemic and recovery in his March 3 budget. He is expected to use the budget to extend the government's furlough scheme, which is currently due to expire in April, until June, according to people briefed on the plan.

The UK is now preparing to start easing. Prime Minister Boris Johnson declared that the end of the pandemic is "in sight" for England as the government is set out to ease restriction rules in a four-step plan. Schools will reopen March 8th while outdoor activities from mid-April and sports stadiums by mid-May. The Prime Minister aims to reopen all remaining businesses by June 21st.

ECB Keeps an Eye on the Bond Market

European Central Bank President Christine Lagarde claimed the bank is “closely monitoring” the bond market amid gains in yields which have recently sparked concern. Across the world, yields are on a rally as investors assess vaccination rollouts and the subsequent end to Covid-19 restrictions which could boost consumer spending and inflation. Though the higher trend suggests optimism regarding the economic recovery moving forward, it may also prove to be a costly risk as it boosts the cost of the public and private-sector debt burden. The ECB has pledged to keep financing conditions favorable until the crisis is past. European yields dropped following Lagarde's comment, with the 30-year German bond dropping to 0.15%, up from its -0.20% level at the start of the year.

Later on in the week, the ECB indicated that it will increase the pace of its emergency bond purchases, in a bid to counter the recent sell off in Eurozone sovereign debt markets if borrowing costs for governments, companies and households continue to rise. On Thursday, ECB chief economist Philip Lane said that the central bank was “closely monitoring the evolution of longer term nominal bond yields” and its asset purchases “will be conducted to preserve favorable financing conditions over the pandemic period.”

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30185.

Rates – 28th February, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2115	1.2060	1.2242	1.2074	1.2041	1.2267	1.2101
GBP	1.4013	1.3886	1.4237	1.3932	1.3740	1.4238	1.3940
JPY	105.40	104.91	106.69	106.58	105.113	108.56	106.49
CHF	0.8962	0.8947	0.9102	0.9082	0.8818	0.9291	0.9061