

Weekly Money Market Report

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>NBK Treasury
+965 22216603
tsd_list@nbk.com

Fed: Tapering Possible in 2021

Highlights

- Fed Chair Jerome Powell reveals tapering possible in 2021 at Jackson Hole.
- US economy expands to a 6.6% annualized rate in Q2.
- German economy expands 1.6% in Q2.
- British retailers report the biggest surge in spending in almost seven years.
- Japan's government maintains its economic assessment for the fourth month in a row.
- Oil prices supported by strong demand and potential supply disruptions.

United States

Jackson Hole Symposium

Currency markets treaded carefully this week as all eyes fixated on the central banker's Jackson Hole Symposium over the week's end. Traditionally a non-event, the conference was used to get global policymakers together in an informal environment. Over the past three years however, it was used to deliver major policy changes that had global implications. Federal Reserve Chair Jerome Powell in 2018 questioned the usefulness of the natural rate of unemployment. In 2019, he foreshadowed a cut in interest rates. And in 2020, he rolled out a radical revision of the Fed's monetary policy framework.

The big issue markets were concentrating on is of course, Fed tapering. The Fed had historically given a few months' notice via strong signals that a form of monetary policy tightening was coming. With the COVID-19 rebound and increased talks of tapering among central bankers, markets believed this meeting would shed light on the Fed's forward guidance.

In typical Fed fashion however, Jerome Powell spoke carefully highlighting the pros and cons of acting too fast during "transitory" periods. It was a clear signal that they are in no rush towards rate hikes. He did mention however, that during the Fed's July policy meeting, he was of the view that if the economy "evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year." Still, Powell signaled the US central bank will remain patient as it tries to support the economy back to full employment, repeating that he wants to avoid chasing "transitory" inflation and potentially discouraging job growth in the process. In conclusion, he expects strong job creation to continue and that "for now, policy is well positioned." The US dollar dropped around 0.40% after the meeting.

USD GDP

US GDP increased at a 6.6% annualized rate for the April-June period, the government said. Economists polled by Reuters had expected that second-quarter GDP growth would be raised to a 6.7% pace. The level of GDP is now 0.8% higher than it was at its peak in the fourth quarter of 2019. The upward revisions to last quarter's GDP growth reflected a slightly more robust pace of consumer spending and business investment than initially estimated. Demand however, was driven by one-time stimulus checks from the government to some middle- and low-income households.

Europe & UK

Eurozone GDP & PMI

Q2 German GDP revealed a marginally stronger growth rate of 1.6% than the preliminary estimate of 1.5% with the outlook ahead also looking positive following solid PMI data readings for August. The modestly stronger than expected figure reflected strong household consumption, which jumped 3.2% and government spending which gained 1.8%.

The impressive data came just after the Bundesbank warned that the recovery may not be as strong as expected going forward. The Delta variant and supply chain issues could weigh on economic activity in the current quarter and in Q4. The Bundesbank currently assumes GDP growth of 3.7% this year. But the PMI data still offers hope that the services rebound could surprise on the upside. While the Manufacturing PMI for the euro-zone fell 1.3pts, the Services PMI dropped just 0.1pt, remaining elevated just below the 60-level. The resilience of the services sector going forward will certainly be helped by the considerably higher vaccination rates across key euro-zone countries that will reduce the need for added restrictions. The opening up to some degree of travel is also helping tourism in certain countries as well.

UK Retail Sales

British retailers reported the biggest surge in spending in almost seven years this month and orders hit a new high but inventories fell to the lowest levels on record, putting pressure on prices, industry data showed. The Confederation of British Industry's measure of the volume of sales compared with a year earlier soared to 60, from 23 in July. A Reuters poll of economists had pointed to a fall to 20. The CBI said retailers reported that selling prices in the three months to August increased at the fastest pace since November 2017 and the picture for the next quarter looked similar. Separately, Britain's tax office said 73,740 homes were sold in July on a seasonally adjusted basis after the scaling-back of a tax break designed to encourage home purchases during the coronavirus crisis.

Asia

Japan Economic View

Japan's government maintained its economic assessment for a fourth straight month in August but offered a slightly bleaker view on the outlook than in July, as resurgence in COVID-19 infections weighed on consumer spending. On the outlook, the August report warned of the need to pay attention to "heightening downside risk caused by the pandemic." The government cut its assessment on imports for the first time in 10 months. But it revised up its view on corporate profits for the first time in six months due to solid second-quarter earnings among manufacturers. Separately, the services producer price index rose 1.1% in July from a year earlier after a revised 1.3% gain in June, Bank of Japan data showed.

Commodities

Oil Prices Rise

Oil prices rose last week as demand continued to increase despite the spread of the Delta variant. Prices were also supported on worries about supply disruptions as energy companies began shutting production in the Gulf of Mexico ahead of a possible hurricane forecast. Gulf of Mexico offshore wells account for 17% of US crude oil production and 5% of dry natural gas production. Over 45% of total US refining capacity lies along the Gulf Coast as well.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30090.

Rates – 29th August, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1692	1.1802	1.1690	1.1793	1.1700	1.1950	1.1814
GBP	1.3631	1.3780	1.3610	1.3757	1.3600	1.3900	1.3768
JPY	109.80	110.26	109.40	109.82	109.00	111.00	109.74
CHF	0.9167	0.9199	0.9105	0.9111	0.9000	0.9150	0.9094

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