Weekly Money Market Report
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>NBK Treasury
+965 22216603
tsd_list@nbk.com

Economies Rebound Amid Easing Restrictions

Highlights

- **Some Fed officials talked about tapering, while most held their ground.**
- **Business activity in the US manufacturing sector continued to expand at a robust pace.**
- **Annual rate of inflation in the UK more than doubled in April to 1.5%.**
- **UK's composite purchasing manager's index reaches its highest reading since records began in 1998.**
- **The Eurozone has started to build momentum in its recovery from the pandemic and lockdown measures to contain it.**

United States

The Fed Talked About Tapering

Although the general stance by most of the Fed officials was that the US economy remained "far" from its twin goals of full employment and price stability, and still required a very loose policy. Minutes of the Federal Open Market Committee's late April meeting showed some of the regulator's officials wanted to talk sooner than expected about a plan to pull back some regulatory support for the economy if "rapid progress" persisted. "A number of participants suggested that if the economy continued to make rapid progress toward the committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases," the minutes said.

The late April FOMC meeting was held just before a relatively weak jobs report and data showing a jump in consumer prices, which raised concerns about labor mismatches and rising inflation, and complicated predictions for the trajectory of the US recovery from the pandemic. But the tone of most policymakers remained positive toward to approach to inflation as mentioned in the minutes. The "surge in demand as the economy reopens further" would make consumer price inflation run "somewhat above" 2%, but "after the transitory effects of these factors fade, participants generally expected measured inflation to ease" said the minutes. "Looking further ahead, participants expected inflation to be at levels consistent with achieving the committee's objectives over time."

The general stance of the meeting showed policymakers saying that they need to see "substantial" further progress toward their goals of inflation that averages 2% over time and full employment before slowing down their $120bn in monthly bond purchases. The minutes showed that the Fed is committed to handle any policy transition with care.

It is worth noting that when Chair Jerome Powell was faced with a question if the Fed had considered beginning a serious conversation about pulling back monetary help, Powell said at a news conference, "No, it is not time yet. We have said we'll let the public know when it is time to have that conversation, and we've said we'd do that well in advance of any actual decision to taper our asset purchases and we will do so." That could mean that although a number of individual policymakers are beginning to think out loud about when to begin discussing the policy shift, the full committee has yet to decide to start the conversation.

What is clear so far is that the Fed is planning to slow down its bond buying program first, while leaving interest rates at rock bottom until the annual inflation rate has moved above 2% and the labor market has returned to full employment.

"Spectacular Acceleration of Growth"

The Flash PMI reading of the HIS market US composite purchasing managers index was released on Friday showing an increase to a record high reading of 68.1 in May, up from 63.5 in April. The report showed business activity in the US manufacturing sector continued to expand at a robust pace with the Manufacturing PMI rising to a new high of 61.5 from 60.5 in April, moreover the Services PMI also hit a new record high of 70.1, improving from 64.7 in April.

Commenting on the data, "the US economy saw a spectacular acceleration of growth in May, the rate of expansion of business activity soaring well above anything previously recorded in recent history as the economy continued to reopen from Covid restrictions," noted Chris Williamson, Chief Business Economist at the IHS Markit.

Europe & UK

UK: High Hopes for Recovery

Data released on Wednesday showed the annual rate of inflation in the UK more than doubled in April to 1.5%, its highest level since the start of the pandemic. Backed by higher petrol prices, gas and electricity bills, the figure rose from a reading of 0.7% in March, matching expectations from both economists and the Bank of England, who see the move as a step on the path towards inflation exceeding the 2% target by the end of the year.

The figures showed that the inflation rate was only kept as low as it was due to the temporary 5% rate of value added tax on hospitality which will last until the end of September. If taxes were at their normal levels, inflation would have risen to 3.2%, the highest rate for nine years.

Most economists thought that the UK figures did not show signs of a sustained overshoot in price rises, unlike the sentiment in the US when headline inflation hit 4.2% in April. Prices of eating out in restaurants, staying in hotels, and clothing all increased sharply in April, after non-essential shops reopened and hospitality venues were allowed to serve customers outside.

The core inflation rate, which excludes the volatile categories such as energy bills and food, rose from 1.1% in March to 1.3% in April.

BoE governor Andrew Bailey had said on Tuesday prior to the release of the figures that he was watching the data "extremely carefully" for evidence of a persistent overshoot in the bank's target and would not hesitate to act by tightening monetary policy if risks became apparent.

Data also showed that pay growth at large UK employers picked up sharply in April as the easing of lockdown restrictions boosted business confidence in the economic outlook. However, economists said there was little evidence suggesting wage growth will accelerate to a point where it could drive inflation persistently above the BoE's 2% inflation target.

A separate report released on Friday showed flash composite purchasing managers index rose to 62 in May, up from 60.7 in the previous month, marking the highest reading since records began in January 1998. Businesses reported the strongest pace of growth and official figures showed shoppers heading to newly opened stores in masses. Meanwhile, the volume of retail sales in Britain grew 9.2% in April compared with the previous month, more than double the 4.5% expansion forecast by economists.

Chris Williamson, chief business economist at IHS Markit, said: "The UK is enjoying an unprecedented growth spur as the economy reopens." He added that "the output and order book growth seen in May, and record level of business optimism, are consistent with GDP rising sharply in the second quarter".

Eurozone business activity rebounds

The Eurozone has started to build momentum in its recovery from the pandemic and lockdown measures to contain it. The IHS Markit's report released on Friday showed businesses have expanded at the fastest pace for more than three years, boosting order books and job creation but also creating widespread capacity constraints and driving up prices.

The composite Eurozone flash purchasing managers' index rose to 56.9 in May, up from 53.8 in April and the highest reading since February 2018, overshooting economists' expectations of a reading of 55.1. "Demand for goods and services is surging at the sharpest rate for 15 years across the Eurozone as the region continues to reopen from Covid-related restrictions," said Chris Williamson, chief business economist at IHS Markit.

The survey showed several signs that the rebound in activity is creating capacity constraints and disrupting supply chains. French companies said they had struggled to hire enough staff to meet demand, while German companies reported "severe supply chain bottlenecks" and the fastest rise in output prices since records began in 1997, IHS Markit said. New order growth was the highest since 2006, while backlogs of uncompleted orders rose at the fastest pace since records began in 2002. "This imbalance of supply and demand has put further upward pressure on prices," said Williamson. "How long these inflationary pressures persist will depend on how quickly supply comes back into line with demand."

FX Movements

The US dollar started the week in a downward slope as markets were concerned due to inflation fears, it had then gained some ground after the release of the Fed meeting minutes but investors quickly started to rethink on the subtle hints that the Fed would taper bonds at some point. Friday came and robust PMI data supported the greenback. The US dollar index closed the week at 90.017 dragging down the EUR/USD and GBP/USD down from their respective highs of 1.22 and 1.42.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30080.

Rates – 23rd May, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2138	1.2244	1.2124	1.2179	1.2080	1.2375	1.2201
GBP	1.4088	1.4233	1.4075	1.4147	1.4050	1.4350	1.4150
JPY	109.27	109.49	108.56	108.94	106.95	109.90	108.86
CHF	0.9019	0.9047	0.8952	0.8976	0.8775	0.9080	0.8955