# Weekly Money Market Report
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## US Dollar Takes Pause

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Highlights

- **US politicians negotiate stimulus and government budget.**
- **Bank of Canada leaves policies unchanged.**
- **Brexit talks go down to the wire.**
- **European Central Bank injects EUR 500 billion.**
- **EU approve EUR 1.8 trillion seven year budget.**
- **Japan introduces JPY 73.6 trillion fiscal stimulus package.**

## United States & Canada

### US Dollar Support

The US dollar's three month decline took pause last week as market participants weighed their risk appetites in lieu significant economic developments. US politicians restarted stimulus talks, US government faced a government shutdown, Brexit negotiations approached a make-or-break moment, and the EU pumped new money while also debating the bloc's own budget.

US Senate Majority Leader Mitch McConnell said that lawmakers were still striving for agreement on COVID-19 aid, as a bipartisan group released details of their proposal and the US House of Representatives prepared to vote on a one-week funding bill to provide more time for a deal. With agreement elusive, the House was poised to vote on a measure to prevent federal programs from running out of money on Friday by extending current funding levels until December 18. The move gives Congress seven more days to enact a broader, $1.4 trillion "omnibus" spending measure, to which congressional leaders hope to attach the long-awaited COVID-19 relief package. The $916 billion COVID-19 plan included agreements, in principle, on two divisive issues: liability protections for businesses desired by Republicans and $160 billion in aid to state and local governments sought by Democrats.

Still, House Speaker Nancy Pelosi told reporters that Congress could work on COVID-19 relief until December 26 when a range of emergency aid programs are set to expire. Treasury Secretary Steven Mnuchin said that his discussions with Republican and Democratic senators have made "a lot of progress" with further discussions expected later. A plan confirmed just ahead of the FOMC on December 16 would be significant by potentially setting the markets up for a double injection of fiscal and monetary stimuli. The FOMC will be under pressure to act given the escalation of COVID and the restrictions that go with it. A confirmed stimulus plan and the FOMC announcing an increase in purchases of bonds would be a recipe for the US dollar to continue weakening into the year's end.

### Bank of Canada

The Bank of Canada left its key policy rate unchanged at 0.25%. It also reiterated that the policy rate would remain intact until economic slack is absorbed and the 2% inflation target is achieved. Consistent with the October Monetary Policy Report, the BoC again stated that the conditions to raise the policy rate are not projected to be in place until "into 2023."

The Bank also left its quantitative easing program unchanged with plans to purchase at least CAD 4 billion of Government of Canada bonds per week until the recovery is "well underway." However, the BoC did say that it could adjust the QE program "as required" to help get inflation back to target on a sustainable basis.

## UK & Europe

### Brexit

The British pound saw increased volatility last week as talks of a disruptive British split from the EU grew with just three weeks left to break a deadlock in trade negotiations. Both sides of the isle issued warnings and called for preparations to be made for a no deal scenario. UK Prime Minister Boris Johnson stated that there was “a strong possibility” talks would fail and EU chief negotiator Michel Barnier told the bloc's ministers that he believed a no-deal scenario was now more likely than a deal.

In a last ditch effort, PM Johnson went for a crisis meeting in Brussels with the EU's chief executive Ursula von der Leyen. Both sides have now given negotiators until Sunday to try to engineer a breakthrough with Johnson instructing UK’s David Frost to go the “extra mile” in talks with his counterpart Michel Barnier. While the mood was turning pessimistic, consensus among analysts and investors is that a last-minute deal can still be reached. Without one, the pound sterling is likely to drop.

### UK GDP

In the meantime, UK’s GDP rose 0.4% m/m in October beating expectations of a 0.0% reading. This means that UK GDP is now 7.9% lower than its pre-pandemic level, having regained about 70% of its losses. Almost all sub-sectors grew in October with manufacturing taking the lead at 1.7%.

However, the relative strength in GDP for October is in line with more upbeat news from around the world, particularly on manufacturing. PMIs in October also signaled part of the strength in manufacturing may be driven by pre-Brexit stockpiling. Furthermore, November is likely to see a significant fall due to the reintroduction lockdowns. With a potential no-deal Brexit scenario looming, the UK's manufacturing sector is going to be tested in 2021 with the potential loss of its biggest customer.

### European Central Bank

The European Central Bank delivered on its promise to offer a new round of stimulus in response to a second wave of Covid-19 infections in the euro-area. The ECB will deploy its two main policy tools again — the Pandemic Emergency Purchase Programme and the Targeted Long-Term Refinancing Operations. The PEPP was expanded by EUR 500 billion while the TLTRO was given a 25bps discount and increased the borrowing allowance from 50% to 55%. Both programs were also extended to March 2022 for PEPP and June 2022 for TLTRO. The deposit facility rate was left unchanged at -0.5%, as widely expected.

Finally, the ECB revised its growth forecasts higher indicating policy makers are confident the post-COVID recovery remains on track despite the near-term shock of a resurgence. The PEPP extension to March 2022 is designed to allow a vaccine to be attainable by people, enabling activity to return to ‘normal’. As such, this extension will probably be the last.

### EU Budget Approved

Despite the lack of breakthrough in Brexit trade talks, there was some good news for the EU when it announced that Hungary and Poland have lifted their veto over the unprecedented EUR 1.8 trillion EU budget. The agreement follows weeks of uncertainty, as the historic economic recovery package agreed by leaders in July was overshadowed by vetoes threatened by Budapest and Warsaw. It removes a key barrier to the implementation of the EUR 750 billion recovery fund, under which Brussels will gain unprecedented powers to borrow hundreds of billions from markets and hand it out as budgetary support to member states. The deal means the EU can now push forward legislation aimed at enacting the fund, which should start paying out to afflicted member states in the second half of next year.”

## Asia

### New Fiscal Stimulus in Japan

Japan’s Prime Minister Yoshihide Suga announced his first stimulus package worth JPY 73.6 trillion (13.9% of GDP), adding to the two packages from his predecessor in response to the COVID-19 outbreak totaling JPY 234.2 trillion. According to the cabinet, the package includes JPY 32.3 trillion in fiscal measures. JPY 30.6 trillion will be financed from the central government and the remainder from local governments.

Among the central government expenses, JPY 20.1 trillion will be funded from a third supplementary budget for 2020 and the remaining JPY10.5 trillion from an initial budget for 2021.

The majority of the fiscal program is focused on promoting economic growth and building contingency reserves for COVID-19 responses. The government plans to promote economic growth on two fronts. One, Promoting supply-side innovation through digitalization and investment towards carbon neutrality and two, promoting domestic demand by extending “Go to Travel” campaigns to continue subsidizing domestic travel and restaurant dining until June 2021.

## Commodities

### Vaccine Optimism

Oil prices rose for the sixth consecutive week as progress towards COVID-19 vaccination programs fed hopes that demand for fuel would rebound next year. The optimism was strong enough to overshadow last week’s increased US stock piles and OPEC’s to increase production. Benchmark Brent crude broke the $50 mark which was the level it was last at before the pandemic.

That same market optimism has helped pressure gold prices at the other end of the spectrum. As FDA approvals on vaccines start coming in and more countries begin inoculations, gold’s “safe-haven” demand starts losing appeal. Gold, seen as a hedge against inflation and currency debasement, has risen 21% this year amid massive amounts of stimulus measures aimed at reviving pandemic-hit economies. Prices reached a high of $2072 in August but has since been pressured lower to its current levels around $1840.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30435.

## Rates – 13th December, 2020

| | Previous Week Levels | | | | This Week’s Expected Range | | 3-Month |
|---|---|---|---|---|---|---|---|
| Currencies | Open | High | Low | Close | Minimum | Maximum | Forward |
| EUR | 1.2128 | 1.2166 | 1.2057 | 1.2111 | 1.2050 | 1.2200 | 1.2140 |
| GBP | 1.3447 | 1.3477 | 1.3133 | 1.3223 | 1.3150 | 1.3375 | 1.3235 |
| JPY | 104.12 | 104.57 | 103.81 | 104.01 | 102.90 | 104.00 | 103.84 |
| CHF | 0.8897 | 0.8946 | 0.8848 | 0.8893 | 0.8800 | 0.8900 | 0.8868 |