

Weekly Money Market Report

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Inflation Worries Echoe in Global Markets

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Highlights

- Consumer prices in the US revealed a 4.2% y/y growth in April, fueling prior concerns that the US Federal Reserve may be forced to intervene earlier than predicted. The inflation report initially sent worldwide stocks tumbling, later recovering as assurances came from the US central bank.
- While the number of weekly unemployment claims fell below 500K, US employers are struggling to hire workers as seen in April's far fewer than expected hiring.
- The European Commission raised its growth forecast for the euro area to 4.3% this year and 4.4% in 2022.
- In the UK, the economy contracted by 1.5% during Q1 of 2021. Moving ahead, expectations are for a strong recovery already evident by the 2.1% growth in March.
- Oil prices reached new highs last week as OPEC maintains its demand growth forecast of 6.6% for the year. Brent crude reached a high of \$69.32 per barrel last week.

United States

Higher Inflation Readings

US consumer prices surged 4.2% y/y in April following a 2.6% gain in March, marking the largest increase since 2008 according to the US Labor Department. The core price index which excludes volatile food and energy costs increased 3% on a yearly basis and 0.9% m/m, also far above forecasts. The higher inflation readings are a reflection of the combination of heavy fiscal support and increased spending as economic activity picks up following the rollout of COVID-19 vaccinations. The data is also reflecting surges in comparison to the relatively low levels of inflation at the start of the COVID-19 outbreak, which US Fed Chairman Jerome Powell had formerly warned of.

Nevertheless, the higher than expected data fueled prior concerns that higher inflation could force the central bank to raise interest rates earlier than expected. The Fed had repeatedly insisted that such increases would prove only temporary as the economy needs time to level out after reopening. Reacting to the report, the White House council of economic advisers stated that the US economy was experiencing a "normalization" of prices as it recovers from the COVID-19 pandemic. "There will be months that come in below or above expectations as strong demand meets recovering supply. Recovery from the pandemic will not be linear. The Council of Economic Advisers will continue to monitor the data as they come in," the council said. Off the back of the report, stocks on Wall Street fell and the movements were echoed in stock markets across the globe.

Unemployment Claims Fall to Pandemic Low

Looking at the labor market, the number of Americans seeking unemployment benefits fell last week to a pandemic low of 473,000. Weekly jobless claims are now significantly below January's peak of 900,000, though is still far from the under-200,000 pre-pandemic levels. According to the report, the government said nearly 16.9 million people were receiving unemployment benefits during the week of April 24 (the latest available data), up from 16.2 million in the previous week. In April, employers' added just 266,000 jobs, far fewer than expected and a strong sign that businesses are struggling to find enough workers. President Joe Biden disputed that the stimulus payment is to blame for the drop in hiring last month, urging the Labor Department to work with states on renewing requirements that recipients of aid must search for jobs and take a position if offered. "Anyone collecting unemployment, who is offered a suitable job must take the job or lose their unemployment benefits," Biden said.

Retail Sales Stall in April

US Retail Sales unexpectedly stalled in April, with the Commerce department reporting an unchanged monthly reading following an upwardly revised 10.7% surge in March. Looking at the core figure which excludes volatile items and is most closely associated with the consumer spending of GDP, retail sales dropped 1.5% following an upwardly revised 7.6% increase in March. The data adds further to the anxiety following worrying inflation and employment data. Those qualified had received an additional \$1,400 in checks in March as part of the White House's \$1.9 trillion pandemic rescue package. Reports suggest households have accumulated at least \$2.3 trillion in savings during the pandemic which should reflect on spending later this year.

Europe & UK

European Commission Upgrades Economic Forecast

The European commission raised its growth forecast sharply for the next two years due to an accelerating vaccination campaign and improving export demand which should help the Eurozone recover from the historic pandemic hit to the economy. According to estimates, the euro area will expand by 4.3% this year and 4.4% in 2022 compared to previous forecasts for 3.8% growth for both years. Following the historic 6.6% slump in 2020, all member states are expected to return to pre-crisis output levels by the end of 2022. The recovery will be driven in part by the Next Generation EU package, which will begin payments in the summer. In total, the 6-year program will provide approximately €140bn of grants over the next two years, which alone could translate to a 1.2% lift in GDP.

UK Economy Contracts by 1.5% Q1

As nationwide lockdown measures took hold in an effort to contain spiraling COVID-19 cases, the UK economy contracted by 1.5% during the first quarter of 2021. Moving ahead, as lockdowns are lifted and activity picks up, the country is expected to see a sharp rebound. The expected recovery was already illustrated in March, with the economy growing at its fastest monthly growth since August at 2.1%. The International Monetary Fund expects UK GDP to grow 5.3% in 2021, recovering from last year's largest annual contraction since the Great Frost of 1709. According to the Office for National Statistics, GDP currently sits 8.7% below pre-pandemic levels. Prime Minister Boris Johnson announced the next stage of lockdown easing will go ahead as planned on May 17, with hospitality and travel opening up and supporting the country's dominant services industry.

Commodities

OPEC Expects Higher Demand for the Second Half of 2021

Last week, oil prices rose to highs of \$69.32 per barrel for Brent crude and \$66.08 per barrel for the West Texas Intermediate, the highest close for the commodity since March. Last week's data revealed US crude exports fell to around 1.8 million barrels per day, the lowest since October 2018, while inventories declined 0.4 million barrels versus an expected 2.87 million-barrel draw. The International Energy Agency said in its monthly report that oil demand is already outstripping supply. Holding a similar view, the Organization of Petroleum Exporting Countries stuck to its forecast of a strong recovery in oil demand in 2021 with the current growth in China and the US outweighing the impact of the COVID-19 crisis in India. Iran, exempt from making voluntary cuts due to US sanctions, pumped more oil in April driving a mere 30,000 bpd rise in the groups output.

OPEC predicts demand will rise by 5.95 million bpd this year, or 6.6% - a forecast unchanged from last month. However, it highlighted that most of the growth will be seen in the second half of the year. The group estimates the volume needed to balance global demand and supply will rise to 27.65 million bpd in 2021 compared to the 25.08 million bpd of production seen in April. Voluntary production cuts from OPEC and its allies are being gradually rolled back in anticipation of the higher demand.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30085.

Rates – 16th May, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2159	1.2180	1.2049	1.2140	1.2044	1.2203	1.2162
GBP	1.3978	1.4165	1.3976	1.4096	1.4007	1.4156	1.4102
JPY	108.65	109.78	108.34	109.34	108.91	109.85	109.26
CHF	0.9014	0.9096	0.8984	0.9011	0.8976	0.9085	0.8990

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