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

Lagarde: The Bloc's Economy is Still "On Crutches"

Highlights

- **President Biden prepares to propose his tax increase.**
- **ECB Chief Lagarde says the bloc's economy is still in need of support.**
- **ECB keeps its deposit rate at -0.5% and maintains its bond buying program.**
- **UK's economy starts to see benefits of lockdown ease.**

United States

Biden's Tax Hike

Last week in the US was relatively slow in in terms of economic data, with more focus directed to the political side of the equation. President Joe Biden is preparing to announce a string of tax increases on wealthy Americans, including a near doubling of levies on capital gains for people earning more than $1m, to pay for a massive increase in funding for childcare and education.

The proposed economic package from the White House is worth more than $1tn, and could be announced as early as next week according to people familiar with the matter, when Biden is scheduled to address a joint session of Congress for the first time since becoming US president. The proposed tax increases would reverse some the tax cuts passed in 2017 by Donald Trump.

The rates proposed by Biden would hit private equity and hedge fund managers by effectively eliminating the preferential tax treatment of their profits — or "carried interest". At the moment, carried interest is taxed at the lower capital gains rate rather than ordinary income, but Biden would equalize their tax treatment.

The US president is planning to use the revenue from the tax rises to fund what the White House is expected to call the "American Families Plan", which will extend more generous child support until 2025, and provide extra funding for universal pre-kindergarten schooling and community colleges. The White House declined to comment on the specific details of the plan.

The American Families Plan would be the third big economic package floated by Biden since he took office. In March, he enacted a $1.9tn fiscal stimulus plan, and later proposed a $2tn infrastructure bill that faces an uncertain fate on Capitol Hill.

The proposals prompted a sell-off in equity markets, where the S&P 500 index fell 1%, having been flat before reports of the potential tax rises. The tech-heavy Nasdaq Composite followed the blue chip benchmark lower. The sell-off was then subdued where the tickers turned to be slightly positive.

Europe & UK

Patient Lagarde

European Central Bank chief Christine Lagarde on Thursday said the bloc's economy was still "on crutches" and in need of support from both the central bank and government spending as the Eurozone undergoes extended coronavirus lockdowns. Lagarde says that talk of tapering the European Central Bank's emergency bond purchases is "simply premature," even though the bank's officials are confident the Eurozone economy will rebound strongly later this year. She continued to say "We still have a long way to go for the economy to become sustainable… we have to cross the bridge of the pandemic and be able to walk on solid ground.”

Lagarde’s speech on Thursday followed the ECB’s latest monetary policy decision, where the central bank kept its deposit rate at minus 0.5% and reiterated its stance that its €1.85tn emergency bond-buying program could be further expanded or not used in full, depending on its progress in stimulating a recovery in output and inflation.

The Eurozone economy continues to suffer from the containment measures employed in order to curb the bloc’s high COVID-19 infection rates. But is finally seeing an uptick in the pace of vaccinations, kindling economists’ hopes of a chance in ease of restrictions next month, a move that has the potential to trigger a sharp rebound. Lagarde commented on the situations saying “Progress with vaccination campaigns and the envisaged gradual relaxation of containment measures underpin the expectation of a firm rebound in economic activity in the course of 2021.”

However an “ample degree of monetary accommodation” is still necessary and an “ambitious and coordinated fiscal stance” from Eurozone governments “remains crucial”, she added.

European bond markets strengthened after the ECB decision. Demand for Germany’s benchmark 10-year Bunds rose, with yields moving 0.02 percentage points lower to minus 0.28%. Italian government debt followed suit.

Eurozone Economy in Expansion

In a breath of fresh air to its economy, Eurozone services sector returned to growth in April for the first time since last summer, the growth comes in despite of continuing restrictions aiming to limit the spread of coronavirus, with factories reporting record expansions.

The IHS Markit Eurozone flash purchasing managers’ index for services rose to 50.3 in April, up from 49.6 in March and shattering economists’ expectations of 49.1. This is the first time in eight months that the reading have risen above the 50 mark, which indicates a majority of businesses reported an expansion in activity compared with the previous month.

The significance of the reading for the Eurozone economy comes from the fact that the services sector accounts for almost three-quarters of Eurozone private sector activity and businesses that depend on face-to-face contact with customers. Who have borne the brunt of measures to contain COVID-19. However, the data suggest that the sector has become more resilient to lockdowns.

For the same period, the PMI for manufacturing rose to 63.3, its highest reading since records began in 1997, as “pent-up spending, restocking, investment in new machinery and growing optimism about the outlook have all helped fuel a further record surge in both output and new orders”, according to IHS Markit.

The composite PMI, an average of the two sectors, rose slightly to an eight-month high of 53.7, suggesting the Eurozone private sector as a whole has returned to growth.

UK in Recovery Mode

The UK’s Office for National Statistics said that the job market in the country had been broadly stable over the past few months of lockdown. Additionally, UK employers began hiring in March as they looked forward to the reopening of the economy. The unemployment rate averaged 4.9 per cent over the three months to February, edging down from 5 per cent the previous month. The ONS said that vacancies increased by 16% month on month in March, although hiring had slowed in the period before that as lockdown measures took hold.

A separate survey from the ONS showed consumer prices rose at an annual rate of 0.7% in March, up from 0.4% the previous month. The rise was led by an increase in the cost of transportation and clothing, driving prices up and beginning what most economists expect will be a return to normal levels of inflation as lockdown comes to an end. Another survey by the ONS showed the UK's consumer confidence index rose on point to be now at minus 15, its highest level since the first lockdown.

In a continuation of the surveys released by the ONS, a survey showed retail sales in Britain grew more than expected last month as shoppers bought food for Easter and clothes and gardening products ahead of the relaxation of some COVID-19 restrictions. Retail sales rose 5.4% in March compared with the previous month. A reading that far exceeded economists' expectation of a rise of 1.5%, and followed an expansion in February, even though non-essential stores have been shut since early January.

Market Movements

FX Movements

The US dollar had dropped on Monday, but since then stayed mostly flat moving in a tight range, to end the week down 0.94% at 90.832. The euro is reaping benefit from the sliding dollar in addition to Lagarde's comments to close the week 1.1% up at 1.2099, while the sterling stayed in range trading for the past few days to close at 1.3874.

Commodities

The global benchmark Brent crude fell 0.2 per cent to $65.19 a barrel after India, one of the world's major oil importers, reported a record of 315,000 new daily infections, surpassing the US peak hit earlier this year.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30110.

Rates – 25th April, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1982	1.2099	1.1941	1.2099	1.1970	1.2125	1.2122
GBP	1.3825	1.4008	1.3808	1.3874	1.3725	1.3950	1.3874
JPY	108.77	108.83	107.46	107.91	107.00	108.20	107.82
CHF	0.9193	0.9215	0.9126	0.9134	0.9080	0.9150	0.9110