Weekly Money Market Report
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Dollar Rises Amid Testomies From Powell and Yellen

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Highlights

- **Yellen emphasizes that encouraging economic data should not distract from the progress still to be made**
- **Powell reiterated the Federal Reserve's strong stance in supporting the US economy for as long as it takes**
- **US unemployment claims reached their lowest number since the start of the pandemic**
- **US GDP grew 4.3% on an annualized basis at the end of last year**
- **Eurozone business activity grew for the first time in 6 months**
- **UK services sector outpaces the manufacturing sector**
- **Vaccine supply tensions rise**

United States

The Fed and Treasury Joined in Testimony

In their first joint appearance, US Federal Reserve Chairman Jerome Powell and Treasury Secretary Janet Yellen spoke regarding the recovery from the depths of the economic crisis on Tuesday. Yellen emphasized that encouraging economic data should not distract from the progress still to be made. Meanwhile, Powell reiterated the Federal Reserve's strong stance in supporting the US economy for as long as it takes.

On Wall Street, equities slid following testimonies from Treasury secretary Janet Yellen and Federal Reserve chair Jerome Powell before the House of Representatives financial services committee. Looking ahead, the economy is broadly expected to surge in the coming months, thanks to widespread vaccinations and President Biden's $1.9 trillion stimulus package. In regards to the passing of President Joe Biden's $1.9 trillion stimulus plan, Yellen claimed it is possible that the US would return to "full employment" in 2022. Powell supported the rhetoric, adding that "the recovery has progressed more quickly than generally expected and looks to be strengthening". He also dismissed mounting concerns that a burst in spending this year could trigger an unhealthy jump in inflation that would be hard to control saying "Our best view is that effect on inflation will be neither particularly large nor persistent."

Powell also reiterated that the Fed would not suddenly move towards tighter policy and was far from starting to remove its monetary support for the economy by slowing its asset purchases, despite projections by Fed officials for a 6.5% rise in GDP this year.

Nevertheless, the two most powerful economic authorities in the US warned that there is more work to be done and that risks remain high on the path to economic recovery. Extended European lockdowns has sapped confidence in the global rebound, while inflation fears in the US remain center focus.

Powell and Yellen went on to their second joined testimony to the Senate banking committee on Wednesday. In his testimony, Powell dismissed fears that the recent rise in long term borrowing costs could be unhealthy for the US recovery, saying markets had adjusted in an "orderly" manner to a brighter economic outlook. The testimony was a reiteration of their testimony before the House of Representatives.

Additionally, Powell rebutted warnings that the rise in yields has been so stark that it warranted alarm or intervention by the regulator. "There's been an underlying sense of an improved economic outlook, and that has to be part of why rates would move back up from the extraordinary low levels that we're at, back up towards levels that we're more likely to see, and that has been an orderly process," said Powell. He then added, "I would be concerned if it was not an orderly process or if conditions would have tightened to the point where they might threaten our recovery."

Long term US debt yields have risen since the start of the year, with the benchmark 10-year note trading at around 1.66%, far above the 0.9% level seen in January. However, after hitting a 14 month high of 1.75% last week, the market has stabilized in recent days. The stability is aided by a recent string of Treasury auctions; the Treasury department was able to offload $61bn of five-year notes on Wednesday at a yield of 0.85%.

Positive Figures in Both Employment and GDP

In its lowest number since the start of the coronavirus pandemic, new claims for unemployment benefits in the US fell to 684,000 last week, showing that the labor market recovery from the pandemic has gathered pace. The number of initial jobless claims filed for regular state programs decreased by 97,000 in the week ending March 20, the US labor department said on Thursday. The figure was better than economists' expectations of a drop to 730,000 new claims and the lowest level reported in a year. It also marked the first time since the start of the pandemic in the US that claims fell below a pre pandemic peak of 695,000.

A separate report released on Thursday showed US GDP grew 4.3% on an annualized basis at the end of last year, a 1.1% increase compared with the previous quarter, and slightly higher than initial estimates.
The figures were aided by declining infections and hospitalization rates, along with a rapidly expanding rollout of coronavirus vaccines. President Joe Biden has pledged enough doses for all adults by May. Additionally, he doubled his goal of 100m vaccinations in his first 100 days to 200m vaccinations. The President also prompted some US states to further loosen their lockdown curbs, while others have removed all limits on businesses. Not to forget the passing of Biden's $1.9tn stimulus plan.

EU & UK

Eurozone Business Activity Grows

Eurozone business activity grew for the first time in 6 months, with the gauge for manufacturing and services activity hitting 52.5 in March versus 48.1 in February. The above 50 level represents a far better economic expansion than expected, mainly due to a surge in manufacturing output. Germany's manufacturing flash composite output index rose to 56.8 from 51.1 in February, representing a 37-month high. The services sector - which was hit hardest by the pandemic – also rose and reached a seven month high.

However, the outlook has deteriorated as Germany imposes lockdowns and extends stricter restrictions. This year, the European Central Bank expects a GDP rate of 4% for the euro area and 4.1% for 2022. However with the recent bumps on the road to recovery, the forecast will depend on the evolution of the pandemic and the pace of vaccine rollouts.

UK Businesses Ramp Ahead of Lockdown Eases

Data released in the UK showed that the services sector had outpaced the manufacturing sector in March for the first time since the start of the pandemic, showing recovery in activity as orders started flowing ahead of the easing of lockdown rules. The flash composite purchasing managers index rose to a seven months high of 56.6, the services sub index showed a reading of 56.8, also a seven month high, while the manufacturing sub index resulted in a reading of 55.6, a three months high.

The expansion was mainly driven by a surge in new orders, as service providers received advance bookings from consumers, while manufacturers cited advance orders from hospitality businesses and retailers preparing to reopen. Businesses said they were hiring in order to rebuild their capacity.

Inflation data released separately on the same day showed consumer price inflation had slowed to 0.4% in February from 0.7% in the previous month, an unexpended drop due largely to an unseasonal fall in prices for clothes, second hand cars and toys. Core annual inflation, the measure that excludes volatile and seasonal prices such as energy and food, slowed to 0.9% from 1.4% in the previous month, its lowest reading in six months. The figures reflected the effects of lockdown; with non-essential retail closed and little demand for clothes from people stuck at home, but economists do foresee an increase in the spring as social restrictions start to ease. The Bank of England expects inflation to rise closer to its target of 2% this year because of higher energy prices and strong demand for services such as hairdressers as lockdown measures are lifted.

Vaccine Tensions

Vaccine supply tensions are mounting around the world, the European Union will likely reject export authorization of AstraZeneca COVID-19 vaccines to the UK until the producer fulfills its delivery obligations to the bloc. The battle between the EU and the UK has been mounting since AstraZeneca informed the EU it wouldn't deliver the number of shots it had promised for the first quarter. The conflict has both sides blaming each other for export curbs and nationalism, risking the fragile post-Brexit transition. Talks are continuing between London and Brussels over Britain's claims that it is entitled to millions of AstraZeneca doses made at a Netherlands plant.

UK health secretary Matt Hancock argued this week that the British government took priority because the EU had a "'best efforts' contract and we have an exclusivity deal". But EU officials point out that the British contract with AstraZeneca uses the same "best reasonable efforts" language to define the company's delivery responsibilities. EU leaders has also clashed between themselves over vaccine distribution, during a video conference that ended with no resolution to demands from predominantly poorer eastern member states for part of 10m in additional BioNTech/Pfizer vaccines.

India joined and added fire to the tensions when it announced a de facto ban on vaccine exports in an effort to priorities local vaccinations amid a second wave of coronavirus infections. The Serum Institute of India, the largest manufacturer of vaccines in the world, said it had been told to halt exports and that the measures could last as long as "two to three months".

Asia

People's Bank of China

In Beijing, the People's Bank of China Governor Yi Gang said the country still has more room to pump cash into the economy while keeping its debt ratio stable. "This will not only provide positive incentives for economic players, but also help create an environment less likely to spawn financial risks." he said at the China Development Forum.

Market Movements

A Higher Dollar

Markets reacted to the testimonies of Powell and Yellen with a flight to safety, sending the greenback to up to close the week at 92.72 against a basket of currencies. The euro dropped to close at four month low of 1.1760 as Germany extended its lockdowns and tensions grew over vaccine distributions. The vaccine tensions also affected the sterling pound but not as severely as it saw some support from the economic figures, closing the week at 1.3787.

Oil Volatility

In the commodities complex, US commercial crude oil inventories increased by 1.9 million barrels compared to the previous week. At 502.7 million barrels, inventories are about 6% above the five year average for this time of year, according to the EIA. Prices saw volatility throughout week as traders monitored a massive ship blocking the Suez Canal, with prices of Brent crude declining more than 6% before recovering to close the week at 64.57.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30210.

Rates – 28st March, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1897	1.1946	1.1760	1.1796	1.1675	1.1875	1.1819
GBP	1.3864	1.3876	1.3668	1.3787	1.3600	1.3850	1.3790
JPY	108.86	109.84	108.39	109.64	108.75	110.25	109.54
CHF	0.9295	0.9417	0.9221	0.9389	0.9275	0.9400	0.9364