

# Weekly Money Market Report

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## U.S. on Path to Recovery

### Highlights

- President Biden Proposes \$2 trillion infrastructure plan.
- U.S. consumer confidence and employment numbers surge in March.
- Euro zone bogged down with slow vaccine roll-out.
- UK jabs over 50% of population.
- Japan optimistic with future.
- OPEC+ agrees to reduce production curbs.

## United States

### Biden Proposes New Fiscal Policy

U.S. dollar held firm last week as markets continued to bet on a faster recovery in the world's largest economy. Sentiment for the dollar has improved in recent weeks as the Biden administration's planned stimulus of over \$2 trillion and a rapid COVID-19 vaccine roll out spurred economic optimism. The dollar index closed the month off with a 2.5% rise over February.

President Biden's \$2 trillion infrastructure plan, dubbed The "American Jobs Plan," will create millions of jobs building roads, expanding internet coverage, tackling climate change and boosting human services like care for the elderly. To pay for it, the plan would also increase the corporate tax rate to 28% from 21% and change the tax code to close loopholes that allow companies to move profits overseas. The cost would be spread over an eight-year period and intends to be completely paid off in 15 years.

This would be Biden's second multitrillion-dollar legislative proposal after only two months in office setting the stage for a partisan clash in Congress. The "American Jobs Plan" plan is very different from the previous \$1.9 trillion American Rescue Plan in two main ways. First, because the cost is spread over eight years, annual spending associated with the program will be under \$300 billion a year. Second, the program will be mainly financed through new tax revenues rather than debt. Biden explained in a statement that the latter would not only pay for the program, but reduce the debt burden on the U.S.

The tax inclusion has upset Republican representatives who just recently passed massive tax breaks during the Trump administration. Senate Minority Leader Mitch McConnell has already warned the president not to turn the program into "a massive effort to raise taxes on businesses and individuals."

### Confidence and Jobs Surge

The passing of the USD 1.9 stimulus package earlier last month helped consumer confidence in the U.S. race in March to its highest level since the start of the COVID-19 pandemic, supporting views that economic growth will accelerate in the coming months. The Conference Board's consumer confidence index jumped 19.3 points to a reading of 109.7 this month. The increase was the largest since April 2003.

Further cementing the U.S. recovery was the non-farm payroll employment report released on Friday. 916,000 jobs were added in March against an expected 652,000 increase; more than double February's reading. The unemployment rate also edged down to 6.0% from 6.2%. The data is consistent with the return to normalcy from increased vaccinations and more pandemic relief money from the government. Economists now expect job growth will average at least 700,000 per month in the second and third quarters. That, combined with the fiscal stimulus and about \$19 trillion in excess savings accumulated by households during the pandemic, is expected to unleash a powerful wave of pent-up demand.

## Europe & UK

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### **Euro Pressured by Slow Vaccine Response**

Unlike the remarkable vaccination roll-outs in the UK and the US, the EU remains in shambles as it tries to find the proper course of action. Mixed messages and confusion from health officials are dealing heavy blows to their vaccination programs pressuring the EUR/USD lower. At one point last week, the pair fell to a low of 1.1702 extending further below the 200-day moving-average that was breached in the previous week. Poor vaccine roll-outs combined with renewed restrictions have been fuelling the worsening outlook for the bloc and its currency.

### **UK Eases Restrictions**

The UK vaccination rate now stands at 50.9% of the population in contrast to 16.2% in the EU. The successful roll-out is reflected in lower infections, hospitalizations and deaths leading to an easing of restrictions. Furthermore, the UK Composite PMI advance reading for March was 56.6, up from 49.6 in February indicating a strong rebound is likely underway in Q2.

Nevertheless, there are still downside risks when looking at the pace of recovery. Trade frictions with the EU remain an uncertainty that could drag on growth going forward. Separately, the Biden administration threatened the UK with trade tariffs in retaliation to the UK decision to implement a digital sales tax on tech companies.

## Asia

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### **Kuroda Optimistic**

Bank of Japan Governor Haruhiko Kuroda yesterday offered a cautiously optimistic view of the economy, saying global and Japanese growth are picking up from the damage caused by the coronavirus pandemic thanks to aggressive stimulus measures. Kuroda said Japan's economic growth will be "clearly positive" in the country's new fiscal year, beginning in April, thanks to solid global trade and domestic demand for durable goods.

During March, the yen weakened versus the U.S. dollar 3.55% as the rising U.S. Treasury bond yields fuelled greater speculative yen selling. However, with expectations of a global demand recovery this year, Japan's export driven economy should benefit from a less expensive currency.

## Commodities

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### **OPEC+ to Reduce Curbs**

OPEC and its allies agreed on Thursday to gradually ease oil output cuts starting from May. Production would increase by 350,000 bpd in May, another 350,000 bpd in June and further 400,000 bpd or so in July. In addition, Saudi Arabia said it was phasing out its extra voluntary cuts in similar stages from May to July, adding a further 1 million bpd to the market. In total, production in July should increase by 2.1 million bpd.

Saudi Energy Minister Prince Abdulaziz Bin Salman described the agreement to increase output as a "very conservative measure" and that output levels could still be adjusted at the next meeting on April 28.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30230.

### Rates – 04<sup>th</sup> April, 2021

| Currencies | Previous Week Levels |        |        |        | This Week's Expected Range |         | 3-Month |
|------------|----------------------|--------|--------|--------|----------------------------|---------|---------|
|            | Open                 | High   | Low    | Close  | Minimum                    | Maximum | Forward |
| EUR        | 1.1793               | 1.1795 | 1.1702 | 1.1762 | 1.1560                     | 1.1965  | 1.1784  |
| GBP        | 1.3791               | 1.3852 | 1.3704 | 1.3829 | 1.3630                     | 1.4030  | 1.3834  |
| JPY        | 109.64               | 110.96 | 109.36 | 110.71 | 109.70                     | 112.70  | 110.61  |
| CHF        | 0.9388               | 0.9472 | 0.9369 | 0.9421 | 0.9325                     | 0.9620  | 0.9396  |

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