Weekly Money Market Report
14 March 2021

Dollar Dips as Inflation Fears Ease

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- **The historic "American Rescue Package" signed by US President Joe Biden on Thursday may begin sending out payments this weekend. Addressing the nation, Biden announced a new plan to fast-track the vaccination process.**
- **US Inflation figures last week revealed an increase in CPI led by gains in gasoline prices. The core figure on the other head revealed a slight 0.1% gain. Overall, the data revealed steady inflation which eased prior concerns of a steep rise.**
- **ECB President Christine Lagarde announced the central bank's plans to purchase bonds at a "significantly higher pace" over the next quarter. The announcement led to a rally in eurozone bond markets.**
- **For the EU, vaccination issues remain a substantial subject for the bloc's recovery as it continues to struggle with supply.**
- **The USD declined against major peers as markets moved to a more risk-on approach.**

United States

Biden Signs Relief Package & Pushes for Vaccine Eligibility

President Joe Biden signed the highly anticipated $1.9 trillion coronavirus relief package into law, representing a drastic measure by his administration with one of the largest stimulus packages in US history. It was reported that the first round of payments of up to $1,400 may begin delivery as soon as this weekend. Among the benefits in the "American Rescue Package" bill is the authorization of a third round of one-time stimulus payments of up to $1,400, an extension of unemployment support to those still jobless, and changes to the tax code benefiting families with children. The benefits including federal unemployment insurance payments will remain at $300 per week and will continue through September 6 — down from $400 per week. More than 19 million were still receiving jobless benefits as of mid-February.

Republicans have heavily criticized the bill, notably arguing that only 9% of the funds go directly toward COVID-19 relief. In response, democrats argued that the bill takes a more well-rounded look at the entire economy and the pandemic's affect on it. Nevertheless, the plan has voter approval ratings of around 60% and was celebrated by the IMF which sees the package expanding US GDP by 5-6% over the next three years. The recovery, according IMF spokesman Gerry Rice, can lead to "potentially significant positive spillovers in terms of global growth." He explained, "Most countries should benefit from stronger US demand… so this will help global growth and recovery."

Addressing the country a year after COVID-19 halted the US economy, President Biden announced he will order states to allow all adults to receive vaccines by May 1st, adding Americans can again celebrate Independence Day together by July 4th. He announced his goal of vaccinating 100 million Americans within his first 100 days in office would now be met on day 60.

Steady Inflation

Consumer prices in the US increased solidly in February alongside a rise in prices of gasoline, however underlying inflation remained tame amid weak demand for airline travel and hotel accommodation. The consumer price index increased 0.4% last month following a 0.3% gain in January, boosted by a 6.4% advance in gasoline prices which accounts for more than half the gain in CPI. On a yearly basis, CPI climbed to a 1-year high of 1.7% after rising 1.4% in January. Looking at the core figure which excludes volatile food and energy items, CPI nudged just 0.1% after remaining unchanged for two straight months, and 1.3% on a yearly basis. Looking forward, what is called the “base effect” has come into play which means the headline rate will be pushed up due to sharp declines at the start of the pandemic which will now influence year-on-year calculations.

The US Federal Reserve tracks the core personal consumption expenditure price index for its inflation target, which currently sits at 1.5%. Recently, the US central bank signaled it would tolerate higher prices on the road to economic recovery. However, the fear moving ahead is that the central bank would be forced to act sooner than expected. The expansionary monetary policy illustrated by President Joe Biden’s $1.9 trillion relief package is a primary concern for fueling inflation. This, coupled with the Fed’s monthly bond purchases and a spike in Treasury yields are all worrying indicators for the market. However, plenty of slack remains with around 19 million Americans on unemployment benefits. Fed Chair Jerome Powell has attempted to calm markets from such inflationary fears, indicating policymakers have no intention in reducing stimulus or raising rates until the economic recovery and more specifically employment has recovered. The central bank will allow inflation to run its course, acknowledging the rise in inflation we are likely to see this year is to be expected and is merely “transitory” due to the severe drops in 2020.

Market Reaction

Tame inflation readings out of the US eased prior concerns of rising prices, sending the dollar on a slight decline marking its first weekly dip after rallying a total of 1.81% the two weeks prior. The safe-haven metal gold fell below the $1,700 mark though later recovered, while prices for 10-year Treasury bonds continued to decline sending the corresponding yield above 1.60%. On Wall Street, the S&P 500 ended the week 0.48% higher after reaching new record highs. Tesla shares gained over 4.7% while Apple and Amazon rose over 1.5%, sending the Nasdaq on a rally for the week.

EU & UK

ECB Surprises with Faster Bond Buys

The European Central Bank announced plans to purchase bonds at a “significantly higher pace” over the next quarter during its meeting last week. According to ECB President Christine Lagarde, the move was motivated by the recent rise in yields and worries that “headline inflation is likely to increase in the coming months.” The decisions reveal the difference in strategies between the ECB and the FED, with the FED currently not concerned with rising bond yields and inflation. This year, the ECB expects the annualized CPI rate to hover near 1.5%, adding that it may rise to 2% on a temporary basis. As expected, the central bank left its deposit rate at -0.5% and reiterated that changes to its €1.85tn pandemic emergency purchase program will depend on its progress in stimulating a recovery in output and inflation.

Vaccine rollout setbacks are still a major struggle for the euro-area, lagging well behind the US and the UK. Multiple factors including lower supplies, production issues, and a row with AstraZeneca have lead to the EU receiving far fewer vaccines than it initially ordered. China and Russia have now stepped in, with the Prime Minister of Hungary ordering 5 million doses of China's Sinopharm vaccine and 2 million doses of Russia's Sputnik V vaccine, fast-tracked their approval, and began administering both last month.

Commodities

Oil Signals Recovery in Consumption

So far this year, oil prices have rallied more than 30% amid output cuts from OPEC+ members and a steady global economic recovery. Even the more recent reports of a build up in crude inventory have done little to send prices lower. US commercial crude oil inventories increased by 13.8 million barrels from the previous week. At 498.4 million barrels, inventories are about 6% above the five year average for this time of year. Additionally, the American Petroleum Institute reported an estimated crude oil inventory build of an astounding 12.79 million barrels for the week to March 5, versus expectations of just 816,000 barrels. Nevertheless, the recent rally spurred by OPEC+’s decision to delay production cuts for another month was maintained alongside a global pickup in demand. The price for brent crude touched a high of $71.38 last week.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30220.

Rates – 14th March, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1920	1.1989	1.1834	1.1952	1.1750	1.2150	1.1975
GBP	1.3835	1.4004	1.3798	1.3922	1.3725	1.4120	1.3926
JPY	108.40	109.23	108.29	109.00	108.00	111.00	108.90
CHF	0.9294	0.9375	0.9233	0.9297	0.9200	0.9495	0.9272