

Weekly Money Market Report

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Treasury Yields Surge Amid Growth Expectations

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Highlights

- Positive data fueled the Reflation Trade
- US 10-year Treasury yield reached 1.33%
- GBP/USD broke the 1.40 level on the back of economy reopening expectations
- EU lags behind in the vaccine race
- Brent Crude break the pre-pandemic level and hits \$65 per barrel

United States

Reflation Trade

Last week markets were taken by surprise as positive US economic data flooded the market and pushed yields higher. The major push in investors' sentiment came from a better-than-expected retail sales figure. Vaccine rollouts combined with a slower pace of daily covid-19 cases, fuelled the so-called "reflation trade". The term reflation trade refers to a time when investors expect higher than expected growth in economic activity, fuelling demand for riskier assets at the expense of safe-haven assets such as treasuries.

The 10-year US Treasury yield fell back towards 1.28% after hitting an intra-day high of 1.33% last week. While the 10-year US Treasury yield rose by around 43 basis points since the start of December, the dollar index has fallen by around 1.0% highlighting that the relationship between higher long-term US yields and a stronger US dollar has been weak recently. Nevertheless, market participants remain nervous that a sharp move higher in US yields will trigger a larger rebound for the US dollar which could be worsened by still elevated short US dollar positioning.

Upbeat Economic Data

Retail sales data took the market by surprise with a 5.3% increase in January over December of 2020 when economists were expecting 1.1% increase. Core retail sales flourished as well with a 5.9% reading versus the market consensus of 1.1%. Industrial production grew more than had been expected in January, growing by 0.9% on monthly basis, compared to expectations of 0.4%. It's worth mentioning that industrial production grew by 1.3% in the previous month.

Markets React

US stocks remained stagnant throughout last week with minimal movement in all 3 major indices as investors weighed in the effect of the steepening yield curve on risky assets. In Asia however, Japanese shares led the gains with the Nikkei Index hitting 30,000 for the first time since 1990. Data released last week showed Japan's economy grew by 3.00% in the fourth quarter of 2020 and beating expectations of 2.4% growth.

Europe & UK

UK Economy Reopening Optimism

The UK government is expected to set out its plans to begin easing COVID-19 restrictions on Monday, although markets are expecting a cautious approach by the government, the positivity showed on the Sterling Pound levels. With more than 16.5 million vaccines delivered, 23.4% out of the total population

have received at least one dose of the vaccine which ranks the country 3rd globally in vaccine rollout percentage.

Data published last week on yearly headline inflation were above expectations at 0.7% versus the consensus of 0.6%. In addition, the fading risk of Brexit along with Bank of England dismissing the negative rate expectations, the Sterling pound reached the 1.40 level which was last seen in April of 2018.

Eurozone Mixed Data

The EU economy has been under the scrutiny of the pandemic and the slower than expected pace of vaccine rollouts. Nevertheless, manufacturing PMI in the European Union continued to surge and reached 57.7, mainly due to a major pickup in Germany's reading which came at 60.6. On the other hand, services PMI remained in the contraction zone at 44.7 and down from 45.4 in the previous reading.

The single currency has been moving in a narrow range in the past few weeks between 1.20 and 1.22 which is marginal compared to the movements in the sterling and other commodity linked currencies.

Commodities

Oil Prices Surge

Oil prices continued to climb with Brent crude reaching a high of \$65.52 on Thursday, wiping out all of the losses of the pandemic. While in the US, the cold blast in the states disrupted oil output and held West Texas crude at \$62.26 before retreating on Friday. Global optimism on the vaccine rollout and the expectation of higher economic activity fueled the commodities complex.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30240.

Rates – 21st February, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2120	1.2023	1.2169	1.2119	1.2015	1.2315	1.2150
GBP	1.3846	1.3830	1.4036	1.4016	1.3915	1.4220	1.4055
JPY	105.01	104.88	106.22	105.43	103.40	107.40	105.20
CHF	0.8917	0.8817	0.8995	0.8965	0.8560	0.9160	0.8940

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