Weekly Money Market Report
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Markets Ignore US Stimulus Stalemate

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Highlights

- US inflation sees largest gain since 1991 in July: 0.6% on a monthly basis, 1% on a yearly basis. Earlier concerns of deflation associated with the recession have diminished for the most part.
- Republicans and Democrats reached no conclusion on another stimulus package last week. Meanwhile over 30 million people are depending on unemployment benefits.
- UK economic activity suffered the greatest quarterly contraction among European economies and the US. On a monthly basis, GDP rose 8.7% in June. Looking at Q2 of 2020, GDP declined by 20.4%.
- Oil inventories declined, sending prices slightly higher though gains are continuously limited by the subdued global demand.
- Gold prices retreat from record highs, prices fall below $2,000.

The greenback ended last week unchanged for the most part as investors weigh between the stalemate in Congress regarding a stimulus package and the ongoing economic recovery. The 10 and 2-year Treasury yields rose last week, with the 10 year yield rising to 0.7% for the first time in 5 weeks. The euro and sterling remain 11.34% and 14.75% higher respectively than their March lows, while the safe-haven yen maintains its demand with the pair trading below the 107 level for around 4 weeks. In New Zealand, the local currency fell sharply as the Reserve Bank delivered dovish comments and increased asset purchases. Looking at equities, US stocks ended the week slightly higher, the S&P 500 index and Dow Jones Industrial Average rising 0.5% and 1.61% respectively.

United States

Prices of Goods and Services See Record Rise

US inflation has increased by the most in almost 30 years amid broad gains in the costs of goods and services. The consumer price index rose 0.6% last month, the largest gain since 1991, with gasoline representing a fourth of the gain. On a yearly basis, the CPI rose 1.0% in July following a 0.6% climb in June. The drastic jump in prices represents an unwinding of the sharp declines seen when businesses were shut down in March to slow the spread of the coronavirus. The figures somewhat dismiss earlier fears of deflation, characterized as the decline in general price levels due to a lack of demand. Looking at the numbers, auto and apparel costs have risen as expected, while energy prices fell massively in-line with the collapse in oil prices.

The US Federal Reserve has reacted to the global pandemic with extraordinary easing of monetary policy, sending interest rates to near zero as well as introducing large-scale asset purchases and providing loans to firms, among other measures. The economy officially entered a recession in February, suffering the biggest blow since the Great Depression in Q2 of 2020. More than 30 million people are depending on unemployment benefits.

Weekly Jobless Claims Fall Below 1 Million for the First Time Since March

Last week, unemployment claims totaled 963,000 versus estimates of 1.1 million. Jobless claims have been reported above 1 million for 20 consecutive weeks, and the recent data has provided an image of a continuous recovery to the labor market from the coronavirus pandemic. Nevertheless, figures are well above pre-pandemic levels and the effect is far beyond that seen during the financial crisis. The US has regained more than 9 million jobs in the past three months - about 43% of the over 21 million jobs lost in March and April.

Stimulus Stalemate

Investors continue to await news on another economic stimulus package as Republicans and Democrats reach no resolution. According to various statements, Democrats claimed Treasury secretary Steven Mnuchin would not agree to a package larger than $1 trillion, while Mnuchin accused Democrats of insisting on a $2 trillion threshold for any agreement. Weeks of daily meetings have failed to produce an agreement on the overall cost, though an eventual agreement and package is expected. This sense of assurance has kept the greenback in demand.

Europe & UK

UK Economy Suffers Greatest Hit Among Peers

The UK economy suffered a GDP drop of 20.4% q/q, with severe contractions across all sectors. This was greater than any slump recorded in major European economies, and double the decline seen in the US. The figures confirmed that the UK has been hit by the pandemic harder than other developed economy. Analysts claim the severity of the drop is due to the longevity of the lockdown, and the hit to consumer-facing services which account for 80% of the economy. The Q2 decline was followed by a recovery in June, with output growing 8.7% m/m – in line with the BOE's predictions. The recovery leaves UK GDP 11.3% higher than its April low, but remains 17.2% beneath its pre-crisis level.

Tariff Threats Fail to Materialize

The US had previously threated to increase the tariff rate on EU products from the current 15-25% levels to a shocking 100%, while increasing the amount of products targeted. The threats failed to materialize with the US Trade Representative's office announcing it was instead making "modest" changes to the list of products subject to tariffs, while leaving the overall amount of goods unchanged.

The EU "acknowledges the U.S. decision not to exacerbate the ongoing aircraft dispute by increasing tariffs on European products," according to a European Commission post on Twitter. "Both sides should now build on this decision and intensify their efforts to find a negotiated solution to the ongoing trade irritants."

Commodities

US Oil Inventories Drop, Demand Remains Subdued

Brent crude rose more than 2% last Wednesday after data revealed US oil inventories fell across the board. Still, the demand impact of the coronavirus pandemic continues to limit price gains. Crude inventories fell by 4.5 million barrels during the week ending August 7th according to the EIA, compared with expectations for a 2.9 million barrel drop. Still, at 514.1 million barrels, US crude oil inventories are about 15% above the five year average for this time of year.

According to the Organization of Petroleum Exporting Countries, global oil demand is expected to fall by 9.06 million bpd this year, higher than the 8.95 million bpd expected last month. Meanwhile, the International Energy Agency also cut its forecasts for global oil demand, and linked the decline to the damage on air travel. "The outlook for jet fuel demand has worsened in recent weeks as the coronavirus has spread more widely," said the agency. Despite the downgrades, the EIA still expects a recovery in consumption from the depths of the pandemic.

Gold Investors Take Profits, Halting Record Rise

Gold prices have retreated significantly from last week's record price of $2,072.50 per ounce. Many found the retreat inevitable, leading investors to take profits as many believe that the safe-haven metal had been overbought for a while.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30580

Rates – 16th August, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1786	1.1709	1.1864	1.1841	1.1740	1.2040	1.1867
GBP	1.3041	1.3003	1.3142	1.3084	1.2980	1.3285	1.3095
JPY	105.94	105.69	107.04	106.59	104.60	108.55	106.50
CHF	0.9128	0.9080	0.9198	0.9090	0.8895	0.9290	0.9071