Weekly Money Market Report
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U.S. Dollar Pressured

Highlights

- **Federal Reserve offers little guidance.**
- **President Biden pitches new fiscal plan.**
- **GDP in the U.S. expands.**
- **GDP in Europe negative, but better than expected.**
- **Bank of Japan maintains policies while updating forecasts.**
- **Oil demand seen continuing to grow in 2021.**

United States

Federal Reserve

The U.S. dollar continued to decline throughout last week as the Federal Reserve maintained their dovish policy stance despite acknowledging the robust U.S. recovery at the start of this year. The combination of improving global growth and Fed's commitment to maintain loose monetary policy remains supportive for risk assets and encouraged the bearish dollar trend. The dollar did manage a rebound late on Friday however, after solid economic indicators showed healthy recovery in the U.S.

In the policy report, the committee acknowledged that activity and employment have "strengthened" driven by "progress on vaccinations and strong policy support." Inflation has also risen but "largely reflecting transitory factors." This is in-line with the Fed's strategy of tolerating a slight overshoot of inflation while focusing on the labor market for policy changes.

Markets however, were hoping for an update of the bank's forward guidance and tightening indications. Instead, the Fed remained vague saying it will "likely take some time for substantial further progress to be achieved" towards their goals to justify tapering quantitative easing. The result was a slight pull back in treasury yields, rebound in global equities, and U.S. dollar downward pressure in general.

American Families Plan

At the same time, U.S. President Biden had his first speech to Congress where he expressed his optimism over the outlook for the US economy. Vaccinations have been progressing well with the U.S. population now 29.1% fully vaccinated and 42.7% with at least one dose. The COVID relief packages alongside re-openings helped accelerate growth this year. Biden however, claimed there was still more to be done and pitched a new USD1.8 trillion social safety plan called the "American Families Plan" aimed at helping middle-income families. President Biden hopes to combine this is new fiscal package with his USD 2.3 trillion "American Jobs Plan," which was focused on improving infrastructure. Just like the "American Jobs Plan," the "American Families Plan" is to be funded by taxes on the rich.

US GDP

The U.S. economy expanded at an annual rate of 6.4% in the first quarter of 2021 up from 4.3% in the fourth quarter of 2020. The increase reflected the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic.

Robust demand for goods supported by two massive waves of fiscal stimulus saw consumer spending rise at a 10.7% annualized pace. The stimulus checks and growth in domestic demand did have a drawback as it lead to a widening in the U.S. trade deficit to a record USD 90.6 billion. Exports of goods and services ticked down as the imports of goods and services jumped higher. This widening of the trade deficit is another weight that will pressure the U.S. dollar as most importers sell their domestic currency to pay in exporter's currency.

Europe

Eurozone GDP

The euro-area economy slid into a double-dip recession at the start of the year as strict coronavirus lockdowns across the region kept many businesses shuttered and consumers wary to spend. Reports from the blocs biggest members show how far behind the EU was in recovering from the pandemic amid a slow vaccine rollout.

There is improvement however, as output in the 19-nation euro area was -0.6% in Q1 against an expected -0.8% helped by a modest increase in France. The reading was also markedly better than 2020 Q4's reading of -1.4%.

There is still optimism as vaccination rates start to pick up. The European Commission Economic Confidence Index jumped to its highest level since 2018 and Germany reached a new record of administering 1.1 million vaccine shots in a single day. These developments will limit the negative fallout from the Q1 GDP contraction for the Eurozone as a whole.

Asia

Bank of Japan

The Bank of Japan kept its policies unchanged last week as widely expected but updated its economic projections. The projections revealed that inflation is expected to remain well below the BOJ's 2.0% target over the forecast horizon signaling that loose monetary policy will have to be maintained. The core inflation forecast for the current fiscal year was lowered to 0.1% from a previous forecast of 0.5%, and the forecast for 2023 was shown to be at just 1.0%.

While the BoJ presented a more subdued outlook for inflation, it did upgrade the outlook for growth in Japan. The BoJ now sees the economy expanding faster in the current and next fiscal year by 4.0% and 2.4% respectively before slowing back towards long-term potential growth in 2023 when GDP is expected to expand by 1.3%.

Commodities

Demand Expected to Rise

OPEC, Russia and their allies said they will stick to plans for a phased easing of oil production restrictions from May to July amid upbeat forecasts for a recovery in global demand and despite surging coronavirus cases in India. The group maintained its forecast of a demand growth of 6 million barrels per day for 2021.

Reuters last week also published a survey that forecasted a revival in oil demand that would support prices. The survey said that Brent Crude would average $64.17 in 2021, up from last month's consensus of $63.12 per barrel and the current $62.3 average for the benchmark so far this year. Both forecasts show that analysts believe that vaccine rollouts will outpace the recent surges seen across the globe.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30100.

Rates – 02th May, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2092	1.2149	1.2015	1.2018	1.1900	1.2150	1.2041
GBP	1.3871	1.3976	1.3800	1.3814	1.3700	1.4000	1.3816
JPY	107.97	109.36	107.63	109.27	108.00	109.50	109.18
CHF	0.9134	0.9182	0.9077	0.9133	0.9025	0.9150	0.9111