

Weekly Money Market Report

27 June 2021



>NBK Treasury
+965 22216603
tsd_list@nbk.com

Global Recovery Spurrs Markets

Highlights

- US Manufacturing PMI at fastest expansion pace since 2007
- US GDP growth for Q1 2021 at 6.4%
- Fed Chair reiterates that inflationary pressures are temporary
- BoE maintains the Status Quo

United States

Fed Chair Remarks

The past week we saw the beginning of tapering talks in major central banks, with many reservations of course. Fed Chair Jerome Powell testified in front of a committee in which he stated that “the inflation was bigger than expected, however they will probably balance out”. Additionally, a major part of the inflation was directly impacted by used cars and trucks and that these prices will likely stop increasing. The impact of Powell’s testimony has bolstered investor sentiment and correlated in a rise for the equities market. If we take a look at interest rate probability in the US through the Federal Funds futures, we see that a 50% chance of a hike is priced in for July 2022 and around 84% chance for November of 2022. Hence, we have seen the bull-run of the US dollar index as it gained 2.59% in the past month.

US Data

Manufacturing PMI illustrated the fastest pace of expansion since 2007. These figures are fueled by the loosening Covid-19 restrictions and an economy picking up its weight with the help of the Fed’s support. The manufacturing PMI reading for June came at 62.6 and the services PMI at 64.8 for the same period. If we take a look from a macro level on the US economy, the final GDP reading for Q1 2021 was firm at 6.4% showing the resilience of the world’s largest economy and the effectiveness of fiscal and monetary policies taken to support the US economy during the pandemic. Equities rallied last week after data showed that the economy is pushing ahead and brought a sense of calm to markets that was whipsawed by the Fed’s hawkish pivot.

Core PCE price index was released on Friday and showed an increase of 0.5%, just below market expectations of 0.6%. This index is closely monitored by markets and the Fed as it gauges consumer expenditures. The figure gave some relief to markets on inflationary pressure worries.

Europe & UK

EU and UK’s PMI

The services PMI in the Eurozone showed that the private sector is growing at the fastest pace in 15 years at a reading of 58. On the other hand, Europe has been facing a rise of inflation and an increased demand that has been difficult to satisfy. Finally, the UK manufacturing PMI illustrated soaring input prices that manufactures are not able to absorb. There are speculations that the pace of expansion may have peaked in the UK, however with the easing of Covid-19 restrictions and the summer season ahead this may well push for more growth.

Lagarde’s Speech

The European Central Bank’s (ECB) President Lagarde proposed a new strategy for the role of central banks in climate change and monetary policy. Additionally, Lagarde stated that the inflation goal is set for “below

but close to 2%” and that alternative measures will be taken to counter the rising housing costs for household.

BoE meeting

The MPC voted unanimously to keep the Bank Rate on hold at 0.10% in its June meeting. There was an 8-1 vote to keep the QE target unchanged at GBP895bn (GBP875bn gilts, GBP20bn corporate bonds). Similar to Mays meeting, Chief Economist Andy Haldane voted to reduce the target to GBP845bn (GBP825bn gilts, GBP20bn corporate bonds). Today marks Mr Haldane's final policy meeting. On economic developments, the MPC noted upside news in the activity data since the May Monetary Policy Report. It highlighted stronger-than-expected global and UK growth, including a particularly pronounced recovery in the consumer-facing services which were reopened in April. Regarding the policy outlook, the minutes pointed out that, while downside risks were judged to have fallen, policy should still 'lean strongly against downside risks... and ensure that the recovery was not undermined by a premature tightening in monetary conditions'.

Market Movements

FX Movements

The US dollar lost momentum the past week and dropped from the 92.313 level to 91.605 towards Friday and the cable managed to reach a high of 1.4001 before retreating towards the 1.39 level as investors digested the BoE policy meeting.

Commodities

Higher demand and normalized oil inventories pave the way for higher OPEC+ output. Oil prices are well above \$70 mark as economies reopened and activity returned back to normal levels globally.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30105.

Rates –27th June, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1883	1.1848	1.1975	1.1935	1.1740	1.2135	1.1950
GBP	1.3824	1.3787	1.4001	1.3879	1.3680	1.4075	1.3900
JPY	110.24	109.71	111.11	110.79	108.75	112.70	110.56
CHF	0.9212	0.9142	0.9237	0.9170	0.8980	0.9375	0.9144

© Copyright Notice. The Weekly Money Market Report is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. This report and other NBK research can be found in the “News & Insight” section of the National Bank of Kuwait’s website. Please visit our website, www.nbk.com, for other bank publications. For further information please contact: NBK Treasury Group, Tel: (965) 2221 6603, Fax: (965) 2241 9720, Email: tsd_list@nbk.com