Weekly Money Market Report
19 July 2020

Markets Practice “Controled Optimism” Amid Positive Figures

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- US consumer prices rebounded in June increasing 0.6% m/m - the biggest gain since 2012.
- US retail sales in June were up 7.5% compared to May.
- Equity markets rally amid vaccine hopes.
- The European Central Bank leaves its key rates unchanged.
- UK’s GDP edged higher in May rising 1.8%.
- The Bank of Canada decides to keeps its key interest rates held at the same level.

United States & Canada

Uplifting figures

Economic data from the US are starting to show signs of a recovery for the world’s largest economy. Consumer spending and homebuilders’ confidence had returned to levels last seen before the pandemic struck. US consumer prices rebounded in June increasing 0.6% m/m - the biggest gain since 2012. The rise follows three months of declines and was driven by a 12.3% jump in gasoline prices. The recovery is painting signs of an economic improvement even with a reversal of reopening plans as some states saw a second wave of coronavirus cases.

The retail sales figure released last Thursday showed that June sales were up 7.5% compared with the preceding month, exceeding economists’ estimates of a 5% growth and following a rise of 18.2% in May. The figure in June is less than 1% from levels recorded before the crises and comes as more Americans return to work and retailers emerging from pandemic related shutdowns. The National Association of Home Builders’ Housing Market Index also showed a surge, climbing to 72 in July from 58 in the previous month and exceeding the 60 figure forecasted by economists. This jump has coincided with a decline in mortgage rates, which have slipped to their lowest on record.

The number of Americans collecting unemployment has also shown improvement, with the figure easing for the sixth week in a row, dropping to 17.3m from 17.8m. The ease comes as businesses rehired workers, even as lay-offs continued for the fourth month in a row. Employers had added a combined 7.3m payrolls in May and June, following a record loss of 20.5m in April.

It is yet to be seen if the V-shaped recovery picture being painted by the figures can be sustained. For that to happen the momentum needs to continue despite several states rolling back reopening by ordering dine-in restaurant services and other indoor activities to shut down again.

Stocks rally while the dollar losses momentum

The equities market showed gains over most of the weeks as investors shrugged off coronavirus worries. Corporate earnings, new virus cases and vaccine hopes were the main movers of markets during the week. Optimism was driven by reports Pfizer and Germany’s Biontech Se gained FDA fast-track approval for two of their four vaccines. The approval meant that they’ll be able to speed up the go-to-market process, allowing them to enroll up to 30,000 patients for trials by the end of the month, and potentially developing a vaccine by the end of the year. The S&P 500 closed the week 0.58% higher at 3,224.73 while the Dow Jones Industrial average showed a rise of 1.70% closing the week at 26,671.95.

With that, investors have shown that they are practicing “controlled optimism” as they see the resurgence in cases throughout the US. Their caution led the 10-year Treasury yield to slip by 0.3% coming close the 0.6%, as investors sought haven assets. The greenback showed a decline as it sold off against most major currencies, dropping 0.70% and closing at 95.942.

Bank of Canada holds its interest rates

The Bank of Canada predicts economic activity will not return to pre-pandemic levels until 2022 and interest rates will remain low for at least two years. In its meeting on Wednesday, it again held its key overnight rate steady, mentioning it will remain so until the 2% inflation target is sustainably achieved. “We recognize that households and businesses are facing an unusual amount of uncertainty. Against that background, we are being unusually clear that interest rates are going to be low for a long time,” BOC Governor Tiff Macklem said. Canada will also face fallout as its largest trading partner, the US, faces a rapid rise in coronavirus cases. GDP is projected to fall 7.8% in 2020, then rise 5.1% in 2021, and reach pre-pandemic levels in early 2022.

Europe & UK

European Central Bank enters a “wait and see” period

In its monetary meeting held on Thursday, the Governing Council of the European Central Bank decided to leave its key rates unchanged, while keeping its Pandemic Emergency Purchase Program steady at 1.35 trillion Euro. ECB president Christine Lagarde states that the Eurozone’s fresh recovery from the economic damage done by the coronavirus pandemic faces several threats. The ECB has now hit a pause after four months of ramping up its monetary stimulus and has entered into what investors are calling “a wait and see” period, aiming to assess the speed of economic recovery before launching new measures.

Although there had been a “significant but uneven recovery” since the economy bottomed out in April, Lagarde said that “exceptionally elevated uncertainty” was still weighing on consumer spending and business investment. She continued to say, “price pressures are expected to remain very subdued” and this meant “ample monetary stimulus remains necessary to support the economic recovery and to safeguard medium-term price stability.”

The outlook for the Eurozone economy has tentatively brightened since the ECB’s last meeting in early June. Consumers went on a spending spree after shops reopened in May, helping retail sales to rebound from record falls in March and April, while industrial output also recovered, albeit at a slower rate.
After assessing the impact of the multiple stimulus measures it has launched in response to the pandemic, Lagarde said they would add 1.3% to the Eurozone’s GDP and 0.8% to inflation by 2022.

The Euro has been one of the best performing currencies over the past few week, due to the brighter picture in the Eurozone compared to other parts of the world and aided by the decline of the greenback. The single currency closed the week up 1.13% higher at 1.1428.

UK’s GDP edges hire, retail sales show growth

The UK’s GDP edged higher in May rising 1.8% following the record 20.4% plummet in April and 6.9% contraction in March. In the three months to May, GDP fell by 19.1% as government restrictions in response to the coronavirus outbreak dramatically reduced activity. The data leaves the economy nearly a fifth below pre-lockdown levels. This compares to the 2008 recession where GDP shrunk by just 2.1% in a single quarter.

Retail sales in the UK returned to growth in June, boosted by online, food and furniture spending. The figure indicates that the piled-up demand from the pandemic lockdown could help struggling stores as they reopen. Data showed retail sales increased by 3.4% in June compared with the same month last year, its first expansion since the lockdown and fastest pace of growth since May 2018.

Asia

China's economy shows gradual recovery

China's exports unexpectedly rose in June as economies around the world began reopening. Imports also grew for the first time this year, adding to hopes of a swift recovery from the pandemic in the world's second largest economy. Exports edged 0.5% higher while imports rose 2.7%, both figures beating the expected declines of 1.5% and 10% respectively. China's trade surplus with the US widened to $29.41 billion in June from $27.89 billion in May. The country's total surplus stood at $46.42 billion following a surplus of $62.93 in May. The economy appears to be gradually recovering from its sharp 6.8% contraction in the first quarter of 2020, though risks of coronavirus-related slowdowns remain.

In addition, China's economy returned to growth during the second quarter in an early sign of recovery from the coronavirus pandemic. GDP grew 3.2% in Q2 of 2020, exceeding forecasts of a 2.2% growth and follows a record 6.8% decline. However, retail sales fell by 3.9% in the same quarter, signaling continued pressure on consumption. The unemployment was at 5.7%, only a slight improvement from May's 5.9% figure.

Kuwait

Kuwaiti Dinar

USD/KWD closed the week at 0.30715.

Rates – 19th July, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1299	1.1451	1.1295	1.1428	1.1335	1.1625	1.1449
GBP	1.2610	1.2666	1.2478	1.2565	1.2465	1.2765	1.2566
JPY	106.89	107.42	106.65	106.99	105.10	108.95	106.86
CHF	0.9415	0.9467	0.9369	0.9384	0.9180	0.9590	0.9356