Weekly Money Market Report
21 November 2021

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Inflation Haunts Global Economic Recovery

Highlights

- **Biden signs $1 trillion bipartisan infrastructure bill aiming to boost labor and fuel the economy**
- **Robust retail sales and strong earnings figures support the US dollar and equities**
- **Treasurer Janet Yellen is due to comment on US debt ceiling to Congress**
- **Euro area witnesses some countries reintroducing pandemic restriction, further haunting the Eurozone economic recovery**
- **UK inflation at a 10-year high, leaving BOE Governor Andrew Bailey with limited options**
- **The potential release of strategic petroleum reserve (SPR) from USA and China is expected to ease the crude market**

United States

The theme for this week is a rise of inflation figures in developed economies that might force central bank policy makers to hike interest rates sooner than expected. Therefore, markets are pricing in the hikes amid a rally in energy prices, supply-chain bottlenecks and a surge in Covid-19 cases.

Biden Sign $ 1 Trillion Bill

In the United States, President Biden signed the $1 trillion bipartisan infrastructure bill. After years of failed debates in Washington to improve physical infrastructure Biden was finally able to persuade and settle the differences of both parties. For President Biden, the signing of the bill fulfills one portion of Biden's economic vision, primarily since the plan aims to boost the labor market and fuel the economy. Such a massive project will require time, since the funding is spread out over a five-year period. Therefore, it could take months or years for many of the planned projects to begin.

The plan will place $550 billion of new money into transportation, broadband, and utilities. From the $ 550 billion, $65 billion will be invested in expanding broadband, which became a priority after the pandemic left millions of Americans at home without internet access. The legislation will allocate $110 billion into roads and bridges, $66 billion in freight and passenger rail, and $49 billion into public transit systems. The bill will place $ 55 billion into improving water systems and replacing lead pipes.

Retail Sales

In the United States, retail sales rose by 1.7% in October and surpassed the expected 1.2% increase. The core retail sales, which exclude volatile items, also rose by 1.7% versus a 1% gain the month prior. The three month surge in retail sales suggests that households are continuing to spend despite rising inflation. The spending data shows US prices rising at their fastest pace in 30 years as the increase in purchasing power forces businesses to pass growing costs on the customers. However, it would be difficult to gauge the impact on demand without the inflation-adjusted consumer spending data (PCE), which will be released next week. Nonetheless, such a pace in US prices has fueled speculation that the US Federal Reserve may raise interest rates sooner than expected.

According to the Commerce Department's report, 11 of the 13 categories witnessed an increase in sales. The main gainers are electronics and appliance stores, as well as building material stores and e-commerce businesses. Petrol stations receipts have jumped 3.9%, which shows that Americans are paying some of the highest prices at the petrol pump since 2014. This rise in retail sales comes just before the holiday season, therefore this could reflect a pulling forward as gift-buyers attempt to avoid shipping delays. Nonetheless, the solid retails sales report has benefited the US dollar and equities.

Market Movement
On the forex front, the greenback was at the highest level in more than 12 months, with the US dollar index flirting with a high of 96.0. Throughout the week, the US dollar was trading slightly lower, however it remains supported above the 95-mark. The strong US dollar has kept the euro on the back foot, as the pair dropped around 1.41% this week and closed at 1.1288. Alternatively, the cable has posted a 0.31% gain this week and closed at 1.3446.

Moving to Wall Street, equities continue to rally with the S&P reaching its 66th all-time high of 2021 peaking at 4,704.54. Following robust US corporate earnings growth, the tech-heavy NASDAQ 100 is flirting with its highest level around the 16K-mark. Futures on the S&P 500 and NASDAQ 100 have risen around 0.3% and 0.4%, respectively. The rally in equities is buoyed by expanding retail sales and solid corporate earnings reports.

Shifting to the debt market, US Treasurer Janet Yellen has stated that she will be updating Congress on how much time lawmakers have to either raise or suspend the debt ceiling before the US government runs out of cash. The Treasury has stated that $182 billion has been used this month alone from the $369 billion available cash. Therefore, the yield on treasury bills maturing by the end of the year have risen, and bond prices have fallen after Yellen's comments. Additionally, the yield on 10-year treasuries advanced two basis points to 1.60%.

EU & UK

Europe
In Europe, European Central Bank President Christine Laragrde reiterates that inflation in the Eurozone will ease as economies rebound and inflation will fall below the 2% target. However, some European countries have reintroduced pandemic restrictions due to a surge in Covid-19 cases. Therefore, it would be difficult to assess the euro area's economic rebound. Nonetheless, Lagarde believes that the economic recovery is inevitable when she stated "as the recovery continues and supply bottlenecks unwind, we can expect the price pressure on goods and services to normalize". Additionally, Lagarde emphasized that a tightening approach to the current situation is more likely to damage the economy rather than to benefit it and such impact would be witnessed when inflation inevitably returns to lower levels.

The ECB's monetary stimulus of $2.1 trillion bond-buying program is expected to end in March. Lagarde stated, "Even after the expected end of the pandemic emergency, it will still be important that monetary policy -- including the appropriate calibration of asset purchases -- supports the recovery throughout the euro area and the sustainable return of inflation or our target". In terms of interest rates, Lagarde reiterated that it is extremely unlikely for an interest rate hike next year.

United Kingdom
The United Kingdom's government has been paying up to 60% of wages for furloughed employees for an amount of up to 1,875 sterling pounds. A furloughed employee is an individual that is temporarily laid off or in other words, it is an unpaid leave of absence. However, the employees technically retain their jobs. Since it is an unpaid leave the government has been compensating such furlough employees. Employment in the United Kingdom has risen in the month after the closure of the government's furlough scheme. The rise in employment serves as the first hard evidence that the labor market is tight and was able to withstand the ending of the wage subsidy scheme. Between September and October, there was a rise of 160,000 employees that helped to increase the total employment to 29.3 million. The labor market conditions will serve as a crucial factor in guiding central bank policymaker's interest rate decisions this upcoming December.

Bank of England Governor Bailey reiterated that the decision not to raise interest rates in November was extremely close, which places pressure on the next BOE rate statement. BOE's governor Bailey and chief economist Huw Pill have both stated that the suspension of the furlough scheme was a key reason the Monetary Policy Committee did not hike interest rates.

Following the release of the rate statement, Governor Andrew Bailey commented that he is "very uneasy about the inflation situation" as the central bank expects inflation to peak around 5 %, more than double its target. The UK's inflation registered a 10-year high due to surging energy costs, shortage of workers and supply-chain bottle necks. The consumer price index rose by 4.2% in the 12 months to October, up from the 3.1% recorded in September. The data reinforces expectations that the Bank of England will raise interest rates in December after is shocked markets by keeping rates on hold.

The United Kingdom's economy continues to emerge past pandemic disruptions, however, Brexit complications continue to linger. Business owners and politicians have urged Prime Minister Boris Johnson against suspending the Brexit agreement with the European Union, many are warning that it could lead to a trade war that would damage British exports. That would further disrupt the supply chain and freeze certain investments. The possibility of a trade war opens the door for the EU to take retaliatory measures like stopping the fishing in EU water or putting tariffs on UK fish sold to the EU and finally tariffs on other goods exported to the EU.

Australia

RBA

In Australia, central bank governor Philip Lowe stated that "we are using wages growth as one of the guideposts in assessing progress towards our goal and whether inflation is sustainably in the target range". Governor Lowe expressed that in order to meet the central bank's 2-3% inflation target, Australian wages will need to grow around the 3% rate. Additionally, Governor Lowe reiterated that interest hikes will not occur until inflation is within the RBA's 2-3 % target, which Lowe forecasts will not be met before 2024. Furthermore, the RBA reaffirmed the continuation of its 4 billion AUD bond-buying program until February 2022.

Commodities

Energy Crisis

On the commodities complex, the tight energy market witnessed in the last couple of months has fueled crude prices to a seven-year high. OPEC+ has maintained its daily increase of 400,000 barrels and such action has helped to keep the surge in crude prices less volatile. Nonetheless, major world powers are not impressed with OPEC+'s actions to counter the surge in crude prices. Therefore, President Biden is expected to tap the United States strategic petroleum reserve (SPR), the world's largest crude supply of petroleum, in order to ease the crude market domestically. The West Texas Intermediate has dropped below the $80 a barrel mark, following news that China might also tap into its strategic petroleum reserve to offset some of the price pressures on its economy.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30160.

Rates – 21st November, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1453	1.1250	1.1464	1.1290	1.1100	1.1400	1.1330
GBP	1.3417	1.3397	1.3514	1.3451	1.3300	1.3575	1.3460
JPY	113.91	114.97	113.59	114.02	113.00	115.00	113.70
CHF	0.9222	0.9187	0.9329	0.9287	0.9100	0.9400	0.9250

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