Weekly Money Market Report

09 August 2020

A Dollar Selloff Fueled by a Cloud of Uncertainties

Highlights

- US Labor market shows its resilience
- Unemployment rate in the US drops to 11.1%
- US manufacturing PMI jumps to 15-month high of 54.2
- US services PMI reaches a 17-month high of 58.1
- Oil prices continue their momentum

United States

The US in Crossing Roads

The United States economy is facing multiple major uncertainties. The Presidential elections due in November, mounting US Covid-19 cases, falling yields, domestic political turbulence and the expiration of additional unemployment benefits offered investors sufficient reasons to abandon the dollar. Additionally, the labor market surprised economists as the private sector added 167K jobs in July when the expectations were for 1.2 million. While non-farm payroll was expected to add 1.48 million jobs, the data released on Friday by the Labor Department were higher than expectations at 1.763 million jobs and sent the unemployment rate to 10.2% from June's 11.1% reading.

US Manufacturing and Services Sectors Rebound

The US ISM Manufacturing PMI rose from 52.6 to 54.2 last month, the highest reading in nearly 1.5 years. The forward-looking indicator on the manufacturing sector portray an improving image after the frail April-May figures, elevating hopes that the global manufacturing sector is emerging from the hit of the coronavirus pandemic. However, the risk of additional restrictions and lockdowns will remain a massive cloud of uncertainty for many industries and will depend on Covid-19 containment efforts.

The services sector PMI rose to a 17-month high in July. The Institute for Supply Management revealed that its services sector index increased to 58.1 from June's 57.1. June had been the largest gain in the history for the services index, which dates to 1997, following the biggest drop on record in April. However, the PMI report showed that the employment index edged down to 42.1, indicating employers are not hiring even as new orders soared to 67.7.

Equities, Foreign Exchange and Fixed Income

Equities continued their momentum in the states led by technology companies in the Nasdaq index which has a year-to-date performance of +20%. The S&P have left the red zone and ended the week in the green with 3.73% gain since the beginning of the year.

In the fixed income complex, the US bond yields have fallen across the board lately, particularly at the front end of the curve where the 5-year hit an all-time low of 0.1870. That in turn fed through the FX market, enhancing the US dollar sell-off for second consecutive week.

In the FX sphere, the US dollar dropped by 3.18% since the beginning of the year against a basket of currencies and lost more than 10% from the highs of March this year. Lower interest rate differentials between the US and major economies and the uncertainties revolving around the world's largest economy had investors fleeing to rival currencies.

Europe & UK

Bank of England Meeting

The Bank of England's Monetary Policy Committee (MPC) has voted unanimously to keep Bank Rate on hold at 0.10% and the asset purchase target at GBP 745 billion. The minutes of the meeting include the new forward guidance that "the Committee does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably". No surprises from the BOE's side which affirmed the Sterling's rally at the 1.31 level and near the highs of March this year. Indeed, the Brexit situation is yet to be clear and that is what could be holding the Sterling from reaching the 1.40 levels.

EU PMI Flourish

For the first time since January 2019, the EU's manufacturing activity broke the 50 mark, which separates growth from contraction. The index increased from 47.4 to 51.8 in July as major EU economies opened businesses and have better control over the COVID-19 pandemic situation.

The single currency had a strong rally in the past two weeks and accelerated to reach the highs of May 2018 of 1.1916 fueled by a weaker dollar and decreasing interest rate differentials between the greenback and the single currency.

Commodities

Oil Prices Find their Equilibrium

Oil prices were supported this week as positive economic news earlier in the week offset concerns that a fresh wave of COVID-19 infections will hamper global demand recovery just as major producers ramp up output. Both Brent and WTI futures climbed almost 3% on weekly basis on better than expected data on manufacturing activity in Asia, Europe, and the United States. As for the yellow metal, gold soared to a new record high of $2,030.72 an ounce. A weaker greenback and falling bond yields contributed to a stronger gold as the opportunity cost of holding the safe-haven metal has diminished considerably.

Kuwait

Kuwaiti Dinar at 0.30545

The USDKWD closed last week at 0.30545.

Rates – 9th August, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1784	1.1916	1.1696	1.1787	1.1690	1.1990	1.1815
GBP	1.3079	1.3186	1.2982	1.352	1.2940	1.3245	1.3065
JPY	105.80	106.47	105.30	105.92	103.95	107.95	105.77
CHF	0.9134	0.9241	0.9051	0.9124	0.8920	0.9325	0.9095