Weekly Money Market Report
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Markets Dive in Uncertainty As Donald Trump Quarantines

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- **US presidential debate was "chaotic" at best.**
- **US House of Representatives approves a new fiscal stimulus package worth 2.2tn US dollar.**
- **Donald Trump goes into quarantine after being diagnosed positive with coronavirus.**
- **US economy added 661,000 jobs and unemployment rate fell to 7.9%.**
- **ECB considers allowing inflation to exceed its target.**
- **Brussels launches legal action against the UK over Brexit issues.**

United States

A Turbulent Week

The US week had started somewhat slow but then proceeded to pick up with what was described as a "chaotic" presidential debate at best. Trump was seen to be intentionally talking over anyone else on stage, as he faced his Democratic rival Joe Biden and the moderator Chris Wallace.

Later in the week, Democratic-controlled US House of Representatives approved a new fiscal stimulus package worth 2.2tn US dollar. This close vote which came at 214-207 has marked the second time since May that the lower chamber of Congress has passed legislation to support the US economy without the backing of Republican lawmakers and the Trump administration.

Democratic House speaker Nancy Pelosi, and Treasury Secretary Steven Mnuchin have been trying to conclude an agreement in recent days and were expected to continue talks after the House vote. The negotiations at Capitol Hill are being closely watched by economists, including the Federal Reserve, who fear the withdrawal of fiscal support could stunt the US recovery. Data released on Thursday heightened the alarm after it revealed a 2.7% drop in personal income in August, which was largely caused by the lapse of emergency jobless benefits included in the 3tn first round of coronavirus pandemic related fiscal stimulus.

The bill contains new direct payments to US households as an extension of emergency jobless benefits. It also includes aid to businesses and state and local governments, which has been one of the biggest sticking points in the talks.

Then Friday came and President Donald Trump announced on Twitter that him and Melania Trump had tested positive with coronavirus, he tweeted "Tonight, @FLOTUS and I tested positive for COVID-19. We will begin our quarantine and recovery process immediately. We will get through this TOGETHER!"

The positive result injects a new level of uncertainty into an already turbulent presidential campaign, as it is not yet clear if Trump's quarantine would be over by the date of the next presidential debate on October 15, and how his quarantine would affect his ability to campaign in the final 32 days of the race.

His doctor, Dr Sean Conley said, "The President and First lady are both well at this time, and they plan to remain home at the White House during their convalescence." He added "Rest assured I expect the President to continue carrying out his duties without disruption while recovering." But looking at the facts, virus experts stated that Trump is among the "vulnerable" population. Coronavirus patients between the ages of 65 and 74 are five times more likely to be hospitalized and 90 times more likely to die, compared with patients aged between 18 and 29, according to the CDC. Trump's body mass index may also be a hazard, with research linking obesity to higher mortality rates in coronavirus patients.

Market Movements

The news added pressure on the already pressured Wall Street due to the uniquely turbulent US election. The NASDAQ Composite Index closed the day down 2.22% at 11,075.02 while the S&P 500 Index dropped 0.96% to close at 3,348.44, Dow Jones Industrial Average closed at 27,682.81 down 0.48%. European markets were also affected with the Euro Stoxx Index dropping 0.10% to close at 3,190.93.

The forex markets remained volatile throughout the week, with the risk off sentiment controlling the movements with the US dollar suffering from the turbulent week, the index closed down 0.46% at 93.844. The Japanese yen closed the week 0.14% higher against the US dollar at 105.36, while the Swiss franc closed 0.86% up against the US dollar at 0.9214. The cable closed the week at 1.2936 up 1.35%, while the Euro ended up 0.77% against the dollar at 1.1718.

On the Commodities side, the yellow metal reaped the benefits of the risk off sentiment, with gold closing the week up 2.11% at 1898.70. Oil prices on the other hand were dragged below 40 a barrel to hit the lowest level since June as traders bet the recovery in a market hammered by the coronavirus pandemic has run out of steam.

US Jobs Growth Slows its Pace

Data released on Friday showed the US economy added 661,000 jobs last month down from 1,371,000 in the previous month and missed the forecast of 900,000. The unemployment rate on the other hand, fell to 7.9% down from 8.4% in the previous month beating the forecast of 8.2%.

This set of data is the final monthly update before the November election, and means that Donald Trump will be shouldering the worst September jobless rate of any US president in postwar history.

The figures showed that American employers continued to restore some of the jobs they lost during the initial pandemic related shutdowns, but at a significantly weaker pace compared to the summer months. In July and August, the US economy created an average of 1.6m jobs per month, compared to the 661,000 in September. The US has now recovered just 11.4m of the 22.2m positions it shed between February and April.

The change in unemployment rate, which is measured by a separate survey of households, was accompanied the decrease in the labor force participation rate, in a discouraging sign for the recovery. Although the US economy has bounced back more rapidly than expected from the initial pandemic shock, many economists are concerned that the outlook in the coming months could be darker due to fading fiscal stimulus, fears of new waves of the virus, and possibly tensions over the election result.

Europe & UK

ECB to Consider Allowing Inflation to Exceed Target

In her speech last Wednesday, European Central Bank president Christine Lagarde said that the regulator will consider following the lead of the US Federal Reserve, by committing to let inflation overshoot its target after a period of sluggish price growth. The announcement came after US Fed chair Jerome Powell announced last month a strategic shift in the central bank's policy to an average inflation policy, which would tolerate inflation overshooting its 2% target for a period. Analysts believed that this shift by the Fed put pressure on the ECB and other regulators to follow suit.

Lagarde said during the conference in Frankfurt that "the usefulness of such an approach could be examined" as part of the central bank's strategy review. "The wider discussion today…is whether central banks should commit to explicitly make up for inflation misses when they have spent quite some time below their inflation goals," she continued.

The ECB launched a review of its strategy in January, but it was put on hold in March due to the coronavirus pandemic and is now only due to be completed in September. Lagarde said that the strategy review would consider including weather to change from the current inflation target of below, but close to 2% to more “symmetric” one that is as concerned about undershooting its target as overshooting it.

She added that the way inflation was measured could be changed to take greater account of owner-occupied housing prices and called for greater emphasis to be given to underlying inflation, which excludes more volatile elements such as energy and food prices.

It is worth noting that the regulator has failed to achieve its target over many years and the eurozone has fallen into deflation since the coronavirus pandemic hit, although the ECB expects this to only be temporary.

Brussels Launches Legal Action Against UK

The UK is sailing through choppy waters after Brussels sent a “letter of formal notice” as it is suing the UK over plans to violate last year’s Brexit withdrawal agreement, which could lead to Britain being hauled before the European Court of Justice. The announcement came from the European Commission president Ursula von der Lyen, as the commission decided to act even though the UK bill is not yet law because it believes that Prime Minister Boris Johnson has breached “good faith” provisions in last year’s treaty by even tabling the draft legislation.

“this draft bill is by its very nature a breach of the obligation of good faith laid down in the withdrawal agreement, moreover, if adopted as is, it will be in full contradiction to the protocol on Ireland/Northern Ireland,” said Ursula von der Lyen, noting that Britain had one month to send its observations before Brussels escalates the process.

The move comes after the UK government ignored an end of September deadline issued by the EU for the offending articles of the bill to be removed. The bill would allow the UK to override crucial parts of the delicate compromise Johnson had negotiated with the EU last year on Northern Ireland.

Asia

China Continues to Show Recovery

China’s manufacturing and services industries continued to show recovery in September, according to data released on Wednesday. The data showed China’s manufacturing purchasing managers index stood at 51.5 in September up from a reading of 51.0 in August and above the forecast of 51.3. The Caixin Markit manufacturing PMI which focuses on more small, private firms unlike the official index which focus on larger state-owned firms, fell slightly to 53.0 in September from a reading of 53.1 in August. The official non-manufacturing PMI, which measures the sentiment in services and construction sectors, stood at 55.9 in September surpassing the reading of 55.2 in August, showing positive economic activity for seven consecutive months.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30620.

Rates – 4th October, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1636	1.1613	1.1769	1.1713	1.1540	1.1930	1.1740
GBP	1.2745	1.2740	1.2978	1.2931	1.2740	1.3160	1.2939
JPY	105.50	104.92	105.80	105.33	103.20	106.20	105.18
CHF	0.9282	0.9161	0.9295	0.9209	0.9050	0.9350	0.9183