Weekly Money Market Report
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Yield Curve Steepens Amid Biden's Stimulus Push

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Highlights

- **President Joe Biden moves to push a $1.9tn stimulus plan without Republican support**
- **US nonfarm payrolls increased by 49,000 while unemployment rate fell to 6.3%**
- **The Bank of England believes that the economy will rebound due to vaccines**
- **Eurozone inflation shoots up to its highest level since the coronavirus pandemic hit last year**
- **The Reserve Bank of Australia holds its rate at near-zero**

United States

Biden's Stimulus Push

Since taking office two weeks ago, President Joe Biden's top legislative priority has been to enact his sweeping fiscal stimulus plan to prop up the US economy as it struggles through the coronavirus pandemic. The plan as it stands is to pass a $1.9tn economic relief package without significant support from Republican lawmakers, even if it comes at the expense of ditching the bipartisanship pledged by the new administration. Biden is presented with a dilemma right now, moving ahead with a larger plan backed by Democrats, or a watered-down version that comes with some Republican support and matches his frequent calls for greater unity in American politics.

On Monday, a group of Republican senators met President Joe Biden in his first big negotiating session with political rivals since becoming US President, where they discussed an alternative $600bn COVID relief package. Their argument for the less ambitious injection was that it could gain bipartisan support. The proposal falls very short of Biden's own $1.9tn economic relief package. The meeting was with a group of 10 mostly moderate Republican lawmakers led by Senator Susan Collins, it lasted for two hours and was called to be "a very productive, cordial two-hour meeting with the President" by Senator Collins. The White House and many Democrats quickly dismissed the rival plan as insufficient.

On Tuesday, Democrats took their first step in advancing Biden's $1.9tn plan in the US Congress, where they went ahead in their plan to push it through without Republican support. The plan is to use a budgetary maneuver that could eventually allow the measure to become law bypassing the need for Republican support. The Senate voted along party lines, with Democrats edging over Republicans 50-49, bidding to open debate on a fiscal 2021 budget resolution with coronavirus aid spending instructions. The strategy unlocks a legislative tool needed for Democrats to enact Biden's package in the face of Republican opposition. Once the budget resolution is passed, Democrats will still have to write a separate detailed COVID relief bill.

On Wednesday, The House of Representatives approved a budget plan that would allow President Joe Biden to pass his COVID relief package without a single republican vote if necessary. Biden had told Democrats he would consider tighter limits on who would qualify to the proposed $1,400 checks, although he would not compromise on the size of the payments, possibly narrowing the gap between his package and the $600bn Republican proposal.

Friday saw Biden's plan gain momentum when the US Senate narrowly approved a budget blueprint allowing Democrats to push the legislation through Congress in the coming weeks with or without Republican support. The vote followed 15 hours of debate and votes on dozens of amendments; the Senate found itself in a 50-50 bipartisan deadlock over the budget plan, the deadlock was then broken by Vice President Kamala Harris's "yes" vote providing the win for democrats.

One of the reasons that the Biden administration has so quickly moved away from a bipartisan agreement in Congress is the memory of Obama's first term in office, when he spent much time and political capital trying, in vain, to secure Republican support for his healthcare overhaul and additional stimulus measures.

The developments saw a sell-off in 30-year Treasuries pushing the US yield curve to its steepest level in five years. The difference between yields on the 30-year Treasury and the shorter term 5-year note reached 147.3 basis points on Thursday, the widest point since October 2015. The gap between the benchmark 10-year and 2-year Treasury yields reached its widest point since 2017.

The prospect of aid saw US stocks hit new records on Thursday following a consecutive four day rise, as investors shifted their attention to Washington looking for signs of progress from Biden's administration. The blue-chip S&P 500 index closed 1.1% higher, and the tech heavy Nasdaq composite finished 1.12% up.

US Employment

In its first employment report of the Biden administration, the US Labor Department said on Friday that nonfarm payrolls increased by 49,000 while the unemployment rate fell to 6.3%, showing that job growth returned to the US in January. Polls of economist had forecasted unemployment rate to remain unchanged at 6.7%. The sharp drop in unemployment came as the labor force participation rate edged lower to 61.4% and 406,000 left the labor force. Though the employment picture remains challenging, 2021 marked a return to gains after a one month pause in December that saw the first negative number since the recovery began in May. Vaccines have provided hope that the US economy can be returning at full speed in the second half of the year, though the months ahead are likely to remain challenging.

The greenback had continued to trade higher against most major currencies following better than expected data throughout the week, but then started to shed some of its gains following the report. For the week, the euro has fallen 0.80% breaking the 1.20 mark but bounced back as the dollar dropped to close at 1.2042. The sterling was more solid as it gained 0.53% to close the week at 1.3733.

Europe & UK

Bank of England Sees a Vaccine Led Rebound

The Bank of England said in its quarterly monetary report that the UK economy is in for another tough few months, but it believes that the impact of coronavirus restrictions will not be as bad as last year's lockdown, and the rollout of the vaccines will help the economy bounce back. The regulator said GDP is expected to shrink by 4% during the current first quarter, holding back the UK's recovery from the coronavirus crisis in light of recent lockdown measures. The report then goes on to suggest a sunnier outlook for much of the rest of the year saying "GDP is projected to recover rapidly towards pre-COVID levels over 2021, as the vaccination program is assumed to lead to an easing of COVID related restrictions and people's health concerns." For 2022, the BoE predicts growth of 7.25%, up from a previously forecast 6.25%.

The Bank notes that recovery in spending could be stronger if consumers who have built up savings during lockdowns splash out more than the current projections, which suggest they will only go through 5% of them. It also added that "The current environment is clearly highly unusual historically, and there are reasons to think that households may choose to spend more of their recently accumulated savings."

Looking back at last years developments, officials now think the collapse in the economy was not quite as bad as they had thought, calculating that it contracted by a still hefty 10% versus the 11% expected at the time. They also believe that the UK has avoided a "double dip" recession.

In the light of the report, the Bank of England left its interest rates on hold at 0.1%, and left their asset purchasing program unchanged at £895bn. The regulator said that it is ordering banks around the country to get ready for the possibility of negative interest rates within 6 months. It said that this should not be taken as a sign that negative interest are in any way imminent, but it wants the financial system to be ready for it just in case they are needed within the coming 6 months.

Eurozone Inflation

Eurozone inflation shot up to its highest level since the coronavirus pandemic hit last year, as it ended a five month spell of falling prices, and fueled investor's doubt about whether the European Central Banks needs to use more stimulus measures. A flash estimate published by Eurostat on Wednesday showed headline consumer price inflation hit an 11 month high of 0.9% in January, up from the 0.3% clocked in December, and shooting above the 0.5% polled by Reuters. The fastest jump in more than a decade was driven by a combination of one-off factors rather than a revival in underlying demand, as many of the bloc's shops and leisure venues remain closed in light of the lockdowns aimed at stemming the spread of COVID. One of the players in the uptick is a temporary reduction in German value added tax at the start of the year, in addition to higher energy cost and supply chain disruptions leading to higher container shipping process for both retailers and manufacturers.

Core inflation, the measure that strips out the more volatile energy and food prices, rose from 0.2% in December to 1.4% in January. An annual revision in the weightings used to calculate inflation also pushed average prices, as more weight was given to products of which demand has increased, such as food, and less to products hit by the pandemic, such as packaged holidays. Analyst do not expect the sharp rise to be sustainable into 2022, even if there is a vaccination fueled economic rebound in the second half of the year.

Asia

Reserve Bank of Australia

Australia's central bank held its rate at near-zero in a widely expected decision. Additionally, the regulator said that it would expand its bond buying program by 100bn Australian dollars from mid-April to help support jobs and boost inflation. The RBA left its cash rate and the three-year government bond yield target at 0.1% while it reiterated its commitment to not raise rates until actual inflation is within its 2-3% target range.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30295.

Rates – 7th February, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2138	1.2144	1.1950	1.2042	1.1975	1.2150	1.2065
GBP	1.3711	1.3757	1.3564	1.3733	1.3600	1.3800	1.3739
JPY	104.66	105.76	104.59	105.36	104.75	106.80	105.26
CHF	0.8901	0.9046	0.8896	0.8988	0.8900	0.9050	0.8964