Weekly Money Market Report
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US Dollar Rebounds on Weaker Majors

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- **Fed members comment on new strategy.**
- **U.S. manufacturing rebounds while employment misses target.**
- **ECB hints at currency weakening policy.**
- **UK economy output to be 1.5% less than expected.**
- **Global equities tumble led by technology stocks.**

United States

The U.S. dollar rebounded last week after falling around 1.3% in August. Some of that loss came after the Federal Reserve outlined a change in monetary policy strategy that suggested loose policy to continue for a longer period of time. Last week however, it was concerns from other central banks that weakened their respective currencies allowing the dollar a slight rebound despite the release of mixed economic figures.

Offering support and further clarity to the Fed's new framework, New York Fed President John Williams said that lower interest rates around the globe make it more difficult to use monetary policy to stimulate the economy, but the new framework leaves the U.S. central bank better positioned to hit its goals on inflation and employment. Fed Vice Chair Richard Clarida also commented, this time trying to offer some forward guidance. Clarida said policymakers "will be returning to a discussion of potentially refining guidance and our balance sheet communication." The question markets are asking now is whether the Fed will announce those anticipated next steps at its September policy meeting, or wait until after the November presidential election.

Mixed U.S. Figures

U.S. manufacturing activity increased more than expected in August as new orders surged to their highest level in over 16 years, but employment at factories continued to lag amid safety restrictions intended to slow the spread of COVID-19. The Institute for Supply Management said its index of national factory activity increased to a reading of 56.0 last month from 54.2 in July. Economists polled by Reuters had forecast the index would rise to 54.5 in August.

U.S. private employers hired fewer workers than expected for a second straight month in August, suggesting that the labor market recovery was slowing as the COVID-19 pandemic persists and government money to support workers and employers dries up. The moderation in job growth was also flagged by another report from the Federal Reserve showing furloughed workers increasingly being laid off permanently in some parts of the country. The bulk of hiring last month was by large businesses, with small enterprises posting a modest increase. Private payrolls increased by 428,000 jobs last month, the ADP National Employment Report showed.

The U.S. nonfarm payrolls on the other hand, came in close to expectations and increased by 1.37 million in August. Also, the unemployment rate fell to its lowest level since the March lockdown at 8.4%. The figures were promising, though the U.S. labor market has a long way to go before they are back to pre-pandemic levels.

Europe & UK

ECB Concerned over Stronger Euro

The euro has advanced notably over the last three months fueled by a relatively better COVID situation and a quicker policy response. However, the COVID situation in the euro-zone has deteriorated with the weekly average of new COVID cases reaching 17,239, the highest total since mid-April. This coupled with a strengthening euro, has the European Central Bank concerned for a steady economic recovery. Members of the ECB were reported as saying that a stronger euro will hold back the eurozone's economic recovery "especially as the euro area is the most open economy in the world and unusually dependent on global demand." The rising euro is seen as a "growing concern," and "if the trend continues it will be a concern that we will have to watch," continued the report. Overall, the comments suggest that the ECB is preparing backup policy responses to weaken the EUR should the strength persist.

Germany's Economy Minister Peter Altmaier did little to reassure investors on Europe's recovery while presenting the government's updated forecasts, Altmaier said "the recession in the first half of the year turned out to be less severe than feared." However, sluggish foreign demand is likely to weaken the economic rebound next year. The second statement echoes the ECB's concerns that a stronger currency will only exasperate slowing demand for European products. Furthermore, German retail sales fell unexpectedly in July dashing hopes that household spending in Europe's largest economy can drive a strong recovery in the third quarter from the coronavirus shock.

Last week painted a dim picture of the eurozone and effectively the local currency. In return, investors trimmed bets against the USD and sold the EUR.

UK Economy to Recover Slower than Anticipated

Bank of England Deputy Governor Dave Ramsden warned of risks that Britain's economy could suffer more damage from the coronavirus crisis than mentioned by the central bank last month. The BoE said in August it expected Britain's economy to recover to its pre-COVID-19 size by the end of next year. Ramsden now tells lawmakers that the level of Britain's economic output would permanently be about 1.5% lower than it would have been without the pandemic. He reiterated that the BoE had "headroom to do materially more QE if we need to", referring to a possible fresh expansion of the central bank's bond-buying program which already stands at $991.37 billion. The British pound fell against the safe-haven dollar as a result.

The comments overshadowed news that British factory activity was picking up. British factory output recovered some ground lost to the COVID-19 pandemic as output rose in August at the fastest pace in more than six years, albeit from a low level. The IHS Markit/CIPS manufacturing PMI rose to 55.2 in August from July's 53.3, in line with an earlier flash estimate of 55.3 and the highest since February 2018. However, 58% of manufacturers surveyed in late July and the first half of August by the Confederation of British Industry said they considered their order books to be "below normal."

Asia

Japan Factory Activity

Japan's factory output rose in July at the fastest pace on record, driven by automobiles and car parts, signaling a gradual recovery from the blow delivered by the coronavirus pandemic. But retail sales fell for a fifth straight month and at a somewhat faster pace, a worrying sign for private consumption, which accounts for more than half of the world's third-largest economy. Ministry of Economy, Trade and Industry data showed Japan's industrial output grew 8.0% in July from the previous month, versus economists' median estimate of a 5.8% gain and following a 1.9% increase in June. Manufacturers surveyed by METI expect output to increase 4.0% in August and grow 1.9% in September.

China Factory Activity

China's factory activity grew at a slower pace in August as floods across southwestern China disrupted production, but the services sector expanded at a solid rate in a boost to the economy as it continues to recover from the coronavirus shock. The official manufacturing PMI fell slightly to 51 in August from 51.1 in July, data from the National Bureau of Statistics showed. It remained above the 50-point mark that separates growth from contraction on a monthly basis. Analysts had expected it to pick up a touch to 51.2. The official non-manufacturing PMI, which includes services and construction sectors, rose to 55.2 from 54.2 in July, the NBS survey showed.

Commodities & Equities

Oil Prices Fall

Oil futures slipped 1% on Friday, with prices on both sides of the Atlantic heading for their biggest weekly drops since June, as weak demand and ample fuel supplies offset support from a weaker dollar. Indeed, according to a report from Reuters, the volume of crude arriving in China, the world's largest crude importer, is set to slow in September due to bloated inventories after rising for five straight months.

Equites Tumble

Global equities tumbled last week after the record rally this year was thrown into sharp reverse by a sell-off of technology stocks. Apple, Amazon, Microsoft, Alphabet and Facebook, who have a combined value of almost $8 trillion, all fell more than 4%. Analyst call the move a “correction” after growing concerns that monetary and fiscal stimulus have pushed stocks to unsustainable levels.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30570.

Rates – 06th September, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1897	1.1779	1.2011	1.1838	1.1640	1.2035	1.1861
GBP	1.3340	1.3174	1.3482	1.3282	1.3090	1.3485	1.3292
JPY	105.34	105.28	106.55	106.23	104.30	108.25	106.11
CHF	0.9040	0.8997	0.9163	0.9131	0.8925	0.9340	0.9106