

Weekly Money Market Report

22 August 2021



Taper Talk sends Greenback to a 9-month High

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- US Federal Reserve meeting minutes indicated policy makers will begin tapering in 2021.
- American shoppers curbed their spending in July, sending retail sales on a 1.1% decline led by auto.
- The US labor market continues to show improvement with unemployment claims falling to a 17-month low.
- In the UK, shoppers also curbed their spending amid rising Delta variant cases and reports of bad weather, sending retail sales on a 2.5% m/m decline.
- Looking at commodities, Brent crude declined nearly 6% this month alongside a rising dollar. Gold prices were also pressured though remained supported by the safe-haven appeal.
- The US dollar index has gained 1.65% so far this month, sending the euro and sterling below the 1.17 and 1.37 marks respectively.

United States

Fed Sees Tapering in 2021

In their latest meeting, US Federal Reserve officials indicated plans to pull back the \$120 billion in monthly asset purchases before the end of this year. Stressing that tapering is not a precursor to an imminent rate hike, minutes from the meeting even noted that some members preferred to wait until early 2022 to start tapering. Both the delta variant and inflation fears will present difficult challenges moving ahead. Meeting minutes also added that members felt the economy had reached its goal on inflation and was “close to being satisfied” with the progress of job growth. To consider raising rates, the Fed believes employment has not met the “substantial progress” benchmark the central bank has set.

Retail Sales Decline in July

With consumers making up nearly 70% of activity in the US, retail sales fell 1.1% in July following an upwardly revised 0.7% increase in June. Sales from motor vehicles and parts dealers led the decline, leaving the core figure of retail sales just 0.4% lower. Despite the monthly decline, the \$617.7 billion in sales represents a 15.8% gain on a yearly basis. Spending growth is expected to shift from goods to services over the next couple of years.

Jobless Claims Hit Pandemic-era Low

Moving to the labor market, the number of Americans filing new claims for unemployment benefits dropped to a 17-month low. The figure represents the fourth straight weekly decline, dropping 29,000 to 348,000 for the week ending August 14th. Although claims are now far below the record 6.149 million seen in April of 2020, they remain above the 200-250K range that is considered a healthy level for labor market conditions. Data is pointing to an overall recovery in the labor market with the unemployment rate falling back to 5.4% from the 6.3% seen at the beginning of 2021.

However, a large gap remains in the job market. In July, there were around 8.7 million workers looking for a job out of the nearly 10 million openings. Many reasons may continue to contribute to the inability to get back to full employment. Not only are there ongoing fears regarding the pandemic, employees are now pushing for higher wages. Meanwhile, enhanced government benefits fail to incentivize people to take jobs. In response, average hourly earnings rose 4% in July on a yearly basis.

United Kingdom

Consumer Spending Loses Momentum

British retail sales unexpectedly declined 2.5% m/m in July, marking the biggest drop since January's lockdown and far worse than the 0.4% rise expected. Analysts suggest that the size of the fall likely reflects the impact of the Delta variant amid rising cases and bad weather which forced many workers into quarantine. Still, overall sales are now 5.8% higher than February of 2020. Moving ahead, retailers have warned that a combination of the pandemic and Britain's exit has weighed on staff and goods availability.

Alongside weak inflation readings, the data helps ease pressure on the Bank of England to discuss any pull back on its stimulus program. The central bank has warned of consumer prices possibly doubling its 2% target by the end of this year, however a slower pace of retail sales eases such concerns. The UK economy has now recovered most of its 10% plummet in 2020 as the country suffered high death tolls and extended lockdowns.

Commodities

Demand for Oil Slides as Production Rises

Oil prices have declined around 12% since July due to growing concerns regarding the Delta strain and a rallying US dollar. Just as more supply hits the market, rising cases sapped demand across Asia and especially in China. More supply has also hit the market after OPEC and its allies agreed on a new output deal to increase production by 400,000 barrels per day. The group announced this will continue until it has reversed all of the production lost due to the pandemic. Still, prices are up almost 30% this year.

Greenback Weighs on Gold Prices

Moving to gold, prices also eased alongside a stronger dollar and taper talk by the US Fed. However, losses were limited as the safe-haven remains supported by concerns of rising Covid-19 cases which may slow global growth. As the greenback reached a 9-month high, gold prices are down nearly 6% year-to-date. The commodity was last seen trading near \$1,781 after reaching a high of \$2,070 in September of 2020.

Kuwaiti Dinar

USD/KWD closed last week at 0.30110.

Rates – 22 August, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1792	1.1662	1.1800	1.1696	1.1575	1.1725	1.1718
GBP	1.3738	1.3600	1.3877	1.3621	1.3500	1.3800	1.3630
JPY	109.69	109.10	110.22	109.80	109.00	110.00	109.75
CHF	0.9160	0.9098	0.9206	0.9171	0.9100	0.9275	0.9151

© Copyright Notice. The Weekly Money Market Report is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. This report and other NBK research can be found in the "News & Insight" section of the National Bank of Kuwait's website. Please visit our website, www.nbk.com, for other bank publications. For further information please contact: NBK Treasury Group, Tel: (965) 2221 6603, Fax: (965) 2241 9720, Email: tsd_list@nbk.com