Weekly Money Market Report
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Higher Dollar as Yields Soar

Highlights

- **US Treasury Department announces default if debt ceiling is not raised and approved by the Senate**
- **President Joe Biden's infrastructure plan is tested amid an important governmental debt ceiling decision**
- **ECB President Christine Lagarde holds a dovish stance amid rising inflation and worries of global growth**
- **BOE Governor Andrew Bailey announces a potential hike in interest rates by as early as May 2022**
- **A strong US dollar shocks the forex market and fuels a volatile week**
- **An energy crunch worldwide sent Brent crude to a high of $80 not reached since 2018**

United States

In the United States, higher interest rate expectations dictated the market last week, evident in the rise of treasury yields, a drop in equities and a strengthening US dollar benefiting from both its safe haven status and interest rate differentials. The concerns of rising inflation coincided with an extremely impactful policy decision to increase the debt ceiling as the government is expected to default by October 18, 2021 if a bill is not passed.

Market Reaction

The anticipation of a Federal Reserve tapering this year has helped push yields higher across the curve; the US 2-year yield reached 0.318% its highest level since early 2020. While, the 10 and 30-year yields surged to 3-month highs at 1.56% and 2.10% respectively. The equities market witnessed an extremely volatile week with the S&P 500 starting the week at around 4,357.73, followed by a rally of around 2.24% and reaching a weekly high of 4,455.48. However, the blue-chip S&P 500 shaved off around 2.31% of those gains and dropped to around 4,352.63. The tech-heavy NASDAQ was the worst performing index of the week shedding 3.2% as higher interest rates expectations weighed heavily on the highly leveraged nature of the tech industry.

On the forex front, the US dollar index started the week at the 93.300 level and gained around 1.19% to reach a 1-year high of 94.435. The euro dropped to a low of 1.1563 against the greenback, marking the lowest level since July 2020. Similarly, cable dropped around 1.99% and reached a weekly low of 1.3412. The US Dollar also gained against the Japanese Yen and Swiss Franc on the back of widening interest rate differentials.

On Friday, the dollar lost some of its gains against its major counterparts as prospects of a pick-up in growth overshadowed concern over inflation pressures. Equity markets recouped some of its losses but still the advance was not enough to prevent weekly declines. Finally, treasuries climbed, taking 10-year yields down to 1.47%.

Debt Ceiling

The United States has long been known for its massive economy combined with massive amounts of debt. Therefore, the announcement that the world's largest economy would default if it did not raise its debt ceiling raises concerns amongst investors and traders worldwide. US Treasury Secretary Janet Yellen has stated that a ceiling-related default would undermine the greenback's safe-haven status. The US Treasury department has announced that it will run out of cash by October 18 of this year unless Congress suspends or increases the debt limit. The timeline for such a decision is sooner than what analysts have anticipated, and such consequences have not been priced in. Additionally, the possibility of a default raises the question as to whether this is a suitable time for Biden's infrastructure plan.

Infrastructure Plan

President Joe Biden's ambitious bipartisan infrastructure bill had been set for this past Thursday, though postponed in order for democratic leaders to gain more support. The infrastructure plan aims to enhance the United States' infrastructure, with Biden stating that the transformational effort is set to create "the most resilient, innovative economy in the world". President Biden's proposal is the second major initiative, which he labeled as the "American Jobs Plan" with a total cost of roughly $4 trillion spread over a decade. The first major initiative on the president's ambitious agenda was the $1.9 trillion pandemic relief bill that labeled the "American Rescue Plan". However, there are alarming layers to the "American Jobs Plan" which is being challenged by an opposing Republican Senate due to expense concerns. President Biden plans to offset the costs by increasing corporate tax revenues over 15 years. Such a decision could negatively affect the equities market. However, it would benefit the US labor market through the creation of jobs and would help the country's long-term infrastructure. The unemployment in the United States has been recovering from a pandemic high in April 2020 at around 23.11 million unemployed people versus 8.384 million unemployed in August 2021. Nonetheless, this number remains high and should be challenged.

EU & UK

ECB President Christine Lagarde Speaks

In Europe, ECB President Christine Lagarde reiterated her view that inflation is transitory and is not getting out of control in the euro area. Lagarde stated, "The key challenge is to ensure that we do not overreact to transitory supply shocks that have no bearing on the medium term." President Lagarde justifies the rise of inflation beyond the ECB's goal by blaming the surge in energy prices amid supply-chain bottlenecks. Although other central bankers are reiterating that inflation is transitory, Lagarde's position is particularly dovish. The Federal Reserve and the Bank of England have both shifted to a hawkish tone in response to inflation. The Federal Reserve hinted at a gradual reduction in bond-buying while the Bank of England suggested a potential rise in interest rates.

German Elections

Germany was known as the "sick man of Europe" during the late 1990s and early 2000s. However, under the leadership of Angela Merkel the country was able to become Europe's largest economy and the world's fourth largest economy in 16 years. There were always worries as to what would happen if Angela Merkel left the helm of Europe's largest economy. Olaf Scholz will replace Angela Merkel as Germany witnesses a greener and more left-leaning German government. A left government run by Social Democrats would hurt major corporations due to tighter labor market regulation and higher wages. Additionally, markets have not priced in such a period of political uncertainty in Germany, therefore this could fuel sudden movements in the equities and the euro.

BOE Governor Andrew Bailey

In the United Kingdom, the Bank of England Governor Andrew Bailey has stated that every member within the monetary policy committee was ready to hike interest rates as close as May 2022. The BOE expects the rise in inflation to double above its 2% target by the end of the year, primarily driven by the rise of energy prices. Therefore, the BOE will be very cautious to tighten policies as the economy remains fragile.

Commodities

Global Energy Crunch

A global energy crunch is threatening global growth and has fueled oil prices to high levels. Brent crude reached $80 a barrel this week, a level that has not been reached since 2018. However, a surprise buildup in US inventories has weighed on crude prices, which sent Brent crude to $77.91 a barrel.

In the United Kingdom, a shortage of lorry drivers to transport petroleum has led to a shortage of petroleum. Additionally, the rise of commodities prices does not help the UK's position. This has fueled many people to panic buy and some cities witnessed dry gas stations. Prime Minister Boris Johnson stressed that the necessary work is being done to offset both the labor and crude shortage.

In Europe, the rapid shift to renewable energy has put the continent in a position to be extremely dependent on heavy winds. Forecasts suggest that if the continent does not get extremely heavy winds this might cause blackouts in cities and could potentially push factories to temporarily close.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30165.

Rates 3rd October 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1723	1.1726	1.1561	1.1594	1.1400	1.1700	1.1619
GBP	1.3678	1.3728	1.3410	1.3545	1.3400	1.3600	1.3548
JPY	110.68	112.07	110.52	111.05	110.5	112.75	110.93
CHF	0.9244	0.9368	0.9236	0.9309	0.9200	0.9400	0.9285