Weekly Money Market Report
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Victory for Joe Biden: Dollar Drops on Anticipation

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- **Democratic nominee Joe Biden wins the US Presidency with a 290-214 lead.**
- **US Dollar tumbles across the board, risky assets soar.**
- **A "Blue Wave" Victory in the Senate failed to materialize.**
- **Fed remains in a neutral stance.**
- **US Jobs growth continues to slowdown.**
- **Bank of England expands its balance sheet by GBP 150 billion.**
- **Australian central bank slashes rates to all time low.**

United States

Widespread "Blue Wave" Control Unlikely, Pushing Yields & Rate Hike Expectations Lower

Last week, poles anticipated Joe Biden to take the White House and Republicans to stay in control of the Senate. In what proved to be a historically tight race, Joe Biden was declared the winner of the Presidential election on Saturday with a 290-214 lead - according to the Associated Press. Looking at the Senate, Republican control will limit Democratic prospects for any fundamental changes to fiscal stimulus support and tax hikes. The result is that Congress is set to remain divided following the election. Optimism for a widespread Blue Wave has dissipated and caused long-term US yields to drop sharply in response to the paring back of fiscal stimulus expectations. Falling US yields makes the dollar less attractive for investors. As polling results favored Joe Biden, the 10-year US bond yield declined from a high of 0.9197% to last week's low of 0.7178%.

In the FX Sphere, the buck weakened across the board with the dollar index moving towards the bottom of its recent trading range between the 92.000 and 94.000-levels. Views that a Biden presidency would lessen or diminish Trump's confrontational trade policy boosted risky assets. To simply put it, Biden is less controversial for the rest of the world. The dollar index hit a 2-month low of 92.184 and is closing in on its weakest level in two-and-a-half years. On a weekly basis, the AUD/USD +3.39, NOK +4.32% and NZD +2.61% have been the best performing G10 currencies that have benefited from the improvement in risk sentiment. As for the Chinese Yuan, the currency is trading at the strongest level since July 2018 versus the dollar at 6.6023 and gained 1.25% last week.

Over at Wall Street, huge gains were posted among the three main indices. Rising predictions of a divided Congress make a rise in US interest rates an even more distant prospect, which equities cherish. The S&P 500 has soared around 6.5% last week, placing the benchmark index on track for its best election week performance since 1932. The Dow Jones wasn't far behind, gained 6.11% in weekly terms. Looking at equities worldwide, the MSCI ACWI, which covers approximately 85% of the global investable equity opportunity set, has increased by just over 7% since the end of last month.

Fed Maintains Status quo

Federal Reserve policy makers adopted a wait-and-see approach at their latest meeting as they shunned away from inserting the Fed into the election storyline. Hence, the federal funds rate remained at rock bottom between 0% and 0.25%, while the Bank signaled it will stay that way at least through 2023. That leaves its balance sheet the most likely play to support the economy through bond buying. Powell stated "The recent rise in new Covid-19 cases both here in the United States and abroad is particularly concerning." "Even in the absence of widespread lockdowns there could be a hit to economic activity from consumers retrenching after they had just started returning to bars, restaurants and hotels."

Chairman Powell also focused on the importance of fiscal aid from the Government to support the economy, now that prior rounds of fiscal stimulus have largely run out. “I think we’ll have a stronger recovery if we can just get at least some more fiscal support.” Monetary policy officials kept the door open to a possible shift in the central bank’s bond purchases in coming months and are expected to meet again on December 15-16. Joe Biden now has control of the White House, whereas Republicans seem on track to preserve control of the Senate. If that happens, Congress will be divided, forcing the Fed once again to bear more than its fair share of the burden of stimulus.

US Labor Market Growth Continues to Slowdown Consecutively since June

The US labor market hired the least number of employees in five month in October. Signs of a slowdown in job growth are evident as benefits from the previous fiscal stimulus expired alongside with exploding new Covid-19 cases are draining the economic recovery. In details, Nonfarm payrolls grew by 638,000 jobs last month after rising by 672,000 in September. However, the good news is that unemployment rate has been on a downward trajectory for the past 7 readings. The unemployment rate fell to 6.9% from September’s 7.9%. The US has recovered more than half the number of jobs that were lost early in the pandemic, yet there are more than 12 million unemployed Americans in the labor market.

Resilient US Manufacturing Sector

The US manufacturing sector continues to show its resiliency in facing the Covid-19 induced recession, constantly outperforming the dominate US service sector. "The manufacturing sector continued its recovery in October," ISM said. "Survey committee members reported that their companies and suppliers continue to operate in reconfigured factories; with every month, they are becoming more proficient at expanding output." October’s ISM manufacturing PMI report soared to more than a 2-year high of 59.3 from 55.4 registered in September. The aforementioned PMI index hit a low of 41.5 back in April, since then, it has been in an upward trajectory with no declines. As for the sub-components of the manufacturing index, new orders index rose 7.7 points to 67.9, while the production index increased from 61 to 63. Employment also did not disappoint, breaking the 50 threshold which separates growth from contraction. The employment index improved from 49.6 to 53.2 and its first expansion since July 2019. The PMI index is based on 5 sub-components with equal weights: new orders, production, employment, supplier deliveries and inventories. All of the sub-components have improved from September’s reading.

Europe & UK

The EUR & GBP have both risen against the USD to the highest level since October 21 last week. The euro gained nearly 2%, whereas the pound appreciated around 1.50%. However, there are major resistance barriers for the EUR & GBP that could cause some reversals especially with the Atmosphere in Europe is not exactly a place where we are going to see a lot of confidence shown. The rise in EUR & GBP is probably more about the US dollar weakness at this point.

BoE Expands QE as Nationwide Lockdown Resumes

The UK entered into a second national lockdown till December 2 with daily Covid-19 cases spiking and a still-uncertain outlook on Brexit impelled the Bank of England to support the economy with unconventional monetary policy tools. At their most recent policy meeting, the Bank publicized a justifiable GBP 150 billion expansion to its already huge bond-buying stimulus, which will lift total purchases to GBP 875 billion. The latest bond purchases will take place from January until the end of 2021. The size of the QE expansion exceeded expectations by GBP 50 billion. On the interest rate front, no change was witnessed on the Bank’s lending rate at 0.10%.

Looking at the British economy, which underwent an unprecedented 19.8% contraction in Q2 during the height of nationwide lockdown measures with a second national lockdown at the moment, puts the economy in a gloomy road ahead. That has forced the BoE to downgrade their outlook for the economy. Monetary policy officials see the economy shrinking by 2% in Q4, resulting in a deeper contraction this year of 11% and will only exceed its size before the COVID-19 pandemic in Q1 of 2022. Inflation expectations remain weak and if the negativity on price growth continues, would pressure the BoE to do more. Therefore the likelihood of negative rates in the second half of 2021 is mounting. "If the outlook for inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit," the BoE said.

Asia

Governor Lowe "We're in a Recession"

The Australian central bank slashed rates (official cash rate, bank lending facility rate & yield-curve target) from 0.25% to 0.10%, the lowest on record. Monetary policy officials did not stop there; the board will also purchase 100 billion Aussie dollars of government bonds with maturities of around 5-10 years over the next six months. Governor Philip Lowe hinted that the cash rate should not rise in the next three years, while stating "I don't know how anyone concluded that we're not in recession," said Lowe, referring to current media reports that the recession had ended. "On any reasonable definition we're in a recession."

With last week's easing, the Bank is running low on interest rate ammunition and the Governor's tone sealed the deal. Lowe cited the RBA could and would buy more bonds if needed, yet he argued a move to negative interest rates was "extraordinarily unlikely". Overall, the changes in monetary policy framework demonstrate the central bank's desire to quickly drag the economy out of its first recession in almost 30 years. Like other major central banks have shown, the RBA has now hit the bottom end of the barrel in terms of conventional interest rate cuts, yet there is plenty of room it can do in terms of quantitative easing.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30585.

Rates – 8th November, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1656	1.1890	1.1602	1.1872	1.1775	1.2075	1.1898
GBP	1.2944	1.3177	1.2852	1.3156	1.3055	1.3360	1.3164
JPY	104.56	105.34	103.16	103.33	101.30	104.35	103.19
CHF	0.9155	0.9207	0.8978	0.9005	0.8810	0.9100	0.8976