

Weekly Money Market Report

04 July 2021



>NBK Treasury
+965 22216603
tsd_list@nbk.com

A Reassuring June Labor Report

Highlights

- US nonfarm payrolls came in higher than expected adding 850,000 jobs in June. However, overall employment remains choppy as the unemployment rate ticked higher to 5.9% from 5.8%.
- US consumer confidence came in above expectations at 127.3 following a 120 reading in May. Current and short-term outlook improved.
- Manufacturing activity in the US recorded a slight decline though remained above the 50 expansion mark. In China, factory activity dipped due to an outbreak in the export capital.
- BoE Governor Bailey warned against an over-reaction to inflation which the bank believes will only prove transitional.
- The greenback gained ground against major counterparts, with the index rising to a 3-month high of 92.741.

United States

Positive Non-Farm Payrolls Report

US job growth has picked up speed following two consecutive months of disappointing data. The Labor Department released its report on Friday which revealed nonfarm payrolls rose by 850,000 versus the 720,000 expected and follows an upwardly revised 583,000 in May. Dissecting the data, it appears the biggest contributors to payroll gains in June were leisure and hospitality industries – those hit hardest in the early stages of the pandemic.

Despite the large increase, the unemployment rate disappointed and rose to 5.9% versus the 5.6% expected, largely due to over 150,000 people entering the labor force. Still, the jobless rate appears to be understated as people misclassify themselves as “employed but absent from work”. Apart from the misclassification, unemployment would have reached 6.1% in June. Finally, average hourly earnings rose 0.3% as expected in June after gaining 0.3% last month. Yearly, wages gained 3.6% from 1.9% in May, largely due to yearly changes given the big drop last June.

The economy still has nearly 6.8 million total jobs lost from the pandemic to recover, and many economists have blamed federal enhanced unemployment benefits as a contributing factor weighing on labor force reentry. Nevertheless, the strong jobs report adds to the hawkish Federal Reserve’s consideration of withdrawing its monetary policy support as it nears full employment and sees substantial gains in inflation. However, Fed chair Jerome Powell and other members of the FOMC have urged investors to remain patient.

Consumer Confidence at 16-month High

Adding to bullish economic readings, the Conference Board’s consumer confidence reading for June came in higher than expected at 127.3 versus 119, following a 120 reading in May. The Present Situation Index, which reads consumers’ assessment of current business and labor market conditions, rose from 148.7 to 157.7. Looking at the short-term outlook, the Expectations Index improved to 107, up from 100.9 last month. It appears that although inflation expectations have increased, consumer confidence and purchasing appetite remains robust and will continue to support economic growth in the short-term.

Manufacturing Activity Grows

Looking at economic activity in the manufacturing sector, the PMI reading recorded a decline to 60.6 in June from 61.2 in May. The ease in growth is attributed to supply chain problems while some businesses are struggling to find workers to keep up with demand. Despite the drop, the figure still indicates strong expansion in the manufacturing sector for 13 months in a row after contracting in April 2020.

Europe

Bailey Warns Against an Over-Reaction to Inflation

In his latest speech, Bank of England Governor Andrew Bailey reaffirmed the June policy meeting message which indicated rises in inflation are only transitory. Bailey insisted it was important not to over-react to these rises which will likely prove temporary as Britain recovers from the COVID-19 crisis, adding that the central bank's prediction on inflation is "well-founded". Bailey noted at least three reasons why the increase would likely prove temporary. The first and obvious reason is that prices are distorted due to yearly comparisons when Britain had experienced its first lockdown. The second is a shortage of supplies due to a rush of pent-up demand and pandemic-linked bottlenecks. The third is a return to spending on services which may smooth out demand which had been concentrated on goods.

Just a week earlier, markets were surprised by a hawkish US Federal Reserve that signaled its first rate hike in 2023, a year earlier than prior projections. Looking at Britain's data, consumer price inflation jumped to 2.1% in May, surpassing the BoE's 2% target sooner than the bank had previously forecast. Last week, the bank revealed most policymakers are in favor of keeping stimulus at full throttle. Only Andy Haldane voted to scale back the BoE's \$1.2 trillion bond-buying program at his last policy meeting before leaving the central bank.

Asia

China's Factory Activity Dips

Weighed by higher raw material costs, a global shortage of semiconductors, and a resurgence of COVID-19 cases, China's factory activity fell to a four-month low in June. The official manufacturing PMI eased to 50.9 versus 51.0 in May, remaining above the 50-point expansion mark. As a major exporter, the world's second largest economy has recovered from COVID-19 interruptions for the most part. However, manufacturers are still struggling especially after the major export province of Guangdong saw an outbreak of infections which added to shipment disruptions. As countries around the world ramp up their vaccination programs, global demand is expected to start recovering fast. On the other hand, the pandemic-driven stimulus efforts may ignite inflation and add to manufacturers struggles.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30120.

Rates -04 July, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1933	1.1805	1.1944	1.1864	1.1665	1.2060	1.1880
GBP	1.3882	1.3730	1.3939	1.3821	1.3625	1.4015	1.3827
JPY	110.74	110.41	111.65	111.04	109.10	113.00	110.99
CHF	0.9176	0.9164	0.9274	0.9206	0.9010	0.9410	0.9188

© 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