Weekly Money Market Report
01 November 2020

الوطني
NBK

US Dollar Rises Amid Positive GDP Figure

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- **US GDP accelerates at a 33.1% annualized pace in Q3 2020.**
- **New orders for US-made capital goods rose 1.9% last month while the core figure rose 0.8%. Meanwhile, new home sales dropped following four straight months of gains.**
- **Consumer confidence fell this month, reinforcing fears of an economic struggle in the fourth quarter.**
- **ECB President Christine Lagarde provided a gloomy outlook for the Eurozone, and hinted at further monetary stimulus.**
- **Hopes renewed for a Brexit deal.**
- **BOJ kept monetary policy on hold, while lowering its growth forecasts for 2020.**
- **Oil prices decline ahead of US Presidential Election.**

United States

GDP Accelerates in Q3

US GDP rose at a 33.1% annualized pace for the third quarter of 2020, greater than the 32% expected. The data followed the worst quarter in history as the economy plunged 31.4% in Q2, battered by an unprecedented global pandemic. Though the news was positive and offered a boost to stocks on Wall Street, the US faces a tougher recovery ahead with resurgences in COVID-19 cases. The country still has 12.6 million Americans out of work following the 22 million jobs lost in March and April, while unemployment remains at 7.9%.

The US dollar reacted positively to the news, with the index rising 1.2% to close the week at 93.89. The euro and sterling both lost ground against the US dollar, closing the week at 1.1647 and 1.2941 respectively.

Unexpected Rise in Purchase Orders

New orders for US-made capital goods rose by 1.9% in September versus expectations of a 0.5% increase, and followed a 0.4% rise in August. The core figure, which excludes transportation items, rose 0.8% versus predictions of a 0.6% gain. The over $3 trillion government stimulus package released earlier this year provided much needed support for many businesses and those unemployed, which has helped boost consumer spending. However more recently, funding has dried up alongside a surge of COVID-19 cases. Though the economy has seen an impressive recovery in the third quarter, fears are that the recovery will stall in the fourth quarter.

New Home Sales Drop

Sales of new US single-family homes fell in September following four straight months of increase. Still, the housing market remains supported by record low mortgage rates and higher demand due to the ongoing pandemic. New home sales fell 3.5% to an annualized 959K figure, following 994K units in August.

Consumer Confidence Signals Fears Ahead

Expectations for an economic struggle in the fourth quarter were reinforced by a dip in consumer confidence this month. The Conference Board said last week its consumer confidence fell in October to a reading of 100.9 from 101.3 in September. Economists forecasted a rise to 102 instead. The Conference Board said “there is little to suggest that consumers foresee the economy gaining momentum in the final months of 2020, especially with COVID-19 cases on the rise and unemployment still high.”

Europe & UK

ECB Hints at More Stimulus

The European Central Bank decided to keep its rates and wider monetary policy unchanged in its latest meeting last week, though hinted at more monetary stimulus ahead. Speaking at a press conference following the announcement, ECB President Lagarde said the euro area economic rebound was “losing momentum more rapidly than expected.” She added that “The rise in Covid-19 cases and the associated intensification of containment measures is weighing on activity, constituting a clear deterioration in the near-term outlook.” Europe has now recorded more than 6 million infections as it manages a second wave of cases. The developments have shattered expectations of a significant economic rebound in the second half of 2020.

Hopes Rekindle for a Brexit Deal

Back in mid-October, the EU summit has failed to produce the results that the UK and the EU were hoping for. Both sides were expecting to unveil their deal in the summit, but due to some fairly major issues in the proceeding negotiations, no deal was reached. Following the summit, things were not looking great. The EU had published a statement, saying that for the negotiations to resume, the UK had to make the necessary moves to make an agreement possible. The UK responded with a no, asking the EU to change their strategy, and said that if the EU did not fundamentally change their strategy, negotiations were off. However, recent days have sparked the possibility that it might not be over just yet. Negotiations restarted in London on the 22nd of October lasting for a week and then UK negotiators headed to Brussels for another round of negotiations.

Both sides issued a 10 point plan saying that the parties have agreed to intensify negotiations, which will take place across all negotiation tables concurrently, on daily basis including weekends. A deal is still possible with the EU saying that despite the mid-October EU summit deadline, at the very latest, a deal could be reached is mid-November, any later and it might struggle to be ratified on time.

Asia

BOJ Trims Growth Forecast

In its latest meeting, the Bank of Japan chose to keep its monetary policy on hold at -0.1% with an 8-1 majority vote. In its statement, the BOJ said for the time being it would “closely monitor the impact of the novel coronavirus (COVID-19) and will not hesitate to take additional easing measures if necessary, and also it expects short and long-term policy interest rates to remain at their present or lower levels”.

The BOJ lowered its growth forecast for 2020 though predicted a stronger economic rebound in 2021. The economy is expected to contract by 5.5% in the fiscal year to March 2021, compared with earlier forecasts of a 4.7% contraction. For the following year, the central bank now expects a rebound of 3.6% followed by 1.6% the year after. Even with COVID-19 in control for the most part, Asia’s largest economy is expected to see sluggish growth due to consumer and business caution.

Commodities

Oil Prices Decline

The outcome of the US Presidential election is weighing heavily on oil markets. Democratic nominee Joe Biden, currently leading in most polls, has said he would seek to bring Iran back into the 2015 nuclear accord. In that case, economic sanctions imposed by President Trump could eventually be eased which would allow for more than 2 million barrels a day of Iranian crude exports. So far, OPEC and allies agreed in April to withhold 9.7 million barrels a day, which represents around 10% of global supply. Cuts were eased in August, though the group will re-visit the plan in January. The price for Brent crude fell around 11% last week to a low of $36.64.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30565.

Rates – 01st November, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1856	1.1859	1.1638	1.1647	1.1450	1.1830	1.1672
GBP	1.3046	1.3079	1.2879	1.2941	1.2740	1.3120	1.2946
JPY	104.73	105.05	104.01	104.64	103.20	106.10	104.49
CHF	0.9046	0.9173	0.9037	0.9167	0.9000	0.9350	0.9140

© 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