

Weekly Money Market Report

18 October 2020



Eurozone Hit by a Second Wave of COVID-19 Amid Worries of a No-Deal Brexit

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- US consumer and producer prices rose in September. Still, overall inflation remains subdued.
- Chances for an agreement on a stimulus package prior to the US elections are slim, as voiced by the House Speaker and Treasury Secretary last week.
- Joe Biden maintains a lead on Trump according to polls ahead of the November 3rd election date.
- Eurozone economy likely to suffer with a second wave of COVID-19 and a new round of restrictions. In the UK, Brexit uncertainty is back in focus.
- China is heading towards a smooth economic recovery. New bank loans grew more than expected.

United States

Softer Overall Inflation

The US Labor Department revealed US consumer & producer prices accelerated in September, though overall inflation is trending weaker. Consumer prices increased 0.2% in September mainly supported by a 6.7% jump in prices for automobiles. Producer prices on the other hand rose 0.4% last month following a 0.3% advance in August, marking the first y/y gain since March. Though supply chain disruptions have eased, weak demand and a suffering labor market have limited the ability to raise prices. Currently, at least 25.5 million people are relying on unemployment benefits. The US Federal Reserve has shifted its focus more towards the struggling labor market and has a new flexible approach to inflation targeting. Looking at the Fed's preferred measure of inflation, the PCE (core personal consumption expenditures) rose 1.6% in the 12 months through August.

Stimulus Hopes Diminish

With the US Presidential election less than three weeks away, investors are beginning to worry. Over the past few weeks equities and currencies rallied on hopes for an approval to a stimulus package prior to elections. However, House Speaker Nancy Pelosi has frequently declined President Trump's stimulus offer which she described as "grossly inadequate", while just last week Treasury Secretary Steven Mnuchin expressed the difficulty of agreeing on a package prior to the elections. US President Trump has refused to go any higher than \$1.6 trillion, while the Democrats initial offer sat at \$2.2 trillion. In recent days however, Trump upped his offer to a new \$1.8 trillion package even as the Democratic-led House of Representatives appear unlikely to accept any deal below \$2 trillion. Pelosi labeled the latest offer as "insufficient" and claimed that it "amounted to one step forward, two steps back" in negotiations.

Europe & UK

Eurozone Faces a Second Wave of COVID-19

Europe is now confronting a surge in coronavirus cases which has prompted lockdowns once again as an average of 100,000 new cases were reported per day over the past week. Europe now accounts for over one-third of new cases reported worldwide, with Italy and Germany reporting record-high numbers. In France, President Macron imposed a curfew as he declared a state of emergency. It appears evident that the Eurozone economy will be hit hard by the second wave.

Investor Morale Falls

A survey of German investors revealed that sentiment fell far more than expected in October amid a rise in COVID-19 cases, the risk of a no-deal Brexit, and US presidential elections. Europe's largest economy saw investor sentiment fall to 56.1 from 77.4 in the previous months, well below expectations of a fall to

73. Germany's economy contracted by 9.7% during Q2 as the economy shut down at the height of the pandemic. The robust recovery in Q3 is now threatened by the spike in coronavirus cases which may cause a slowdown in activity once again. Chancellor Angela Merkel announced stricter anti-coronavirus measures will take hold if infections exceed a certain threshold.

Brexit Deal Not in Sight

The Brexit deadline set by Boris Johnson of October 15 has passed. Negotiations between Britain and the European Union are set to continue next week even after Prime Minister Boris Johnson said he believes a trade deal is now unlikely. The PM said that the UK will prepare to leave the EU's single market and customs union at the end of the year without a new agreement in place. He iterated that the EU is to be blamed for refusing to "negotiate seriously" in the recent months.

There remain three main obstacles regarding a finalization of a Brexit deal. The first is how to decide the EU's access to the UK's fishing waters, with the EU insisting on remaining in line with the common fisheries policy. The second issue pertains to level playing field provisions, with the EU asserting neither side should be able to undercut standards or overly subsidize parts of the economy to allow for a competitive advantage in the market. The UK on the other hand does not want to be tied to EU law. Finally, there is the issue of governance, or how either side will keep their word. The EU wants to be able to suspend parts of the trade deal if the UK breaks their word on obligations in the final agreement.

The cable had a volatile trading week, thanks to the never-ending Brexit saga. The sterling lost as much as 1.68% last week from the highest level reached on Monday of 1.3083 all the way down to 1.2863 on Wednesday. Investors and traders are evaluating the prospect of a no-deal- Brexit and the recent surge in COVID-19 cases along with the fears of possible economic slowdown.

Asia

China's Economic Outlook Positive

Aided by aggressive government stimulus, recent data out of China points to a steady improvement from the COVID-19 crisis. New bank loans grew more than expected, with lenders issuing 1.9 trillion yuan (USD 282.3 billion) in new loans according to the People's Bank of China. The data exceeded expectations and reveals loans are up 48.4% from August. PBOC Governor Yi Gang wrote last week that China will maintain "normal" monetary policy for as long as possible, and promote a reasonable increase in household savings and incomes. China has shown robust import and export growth in September, in-line with the strong appetite for corporate loans. Meanwhile, third-quarter GDP is expected to improve following the 11.5% growth in Q2 and -10% contraction in the first quarter of the year.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30595.

Rates – 18th October, 2020

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1812	1.1689	1.1827	1.1718	1.157	1.1850	1.1750
GBP	1.3016	1.2863	1.3083	1.2915	1.2700	1.3100	1.2940
JPY	105.80	105.03	105.87	105.39	104.40	107.50	105.20
CHF	0.9103	0.9087	0.9162	0.9148	0.9075	0.9200	0.9110