

# Weekly Money Market Report

11 April 2021



## The US Dollar Retreats Amid Dovish Fed

### Highlights

- The Fed maintains a dovish stance
- IMF revises GDP projection globally to 6%
- The US dollar dips to a 2-week low
- RBA holds interest rates steady

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## United States

### FOMC Meeting Minutes

The minutes from the FOMC meeting, released last Thursday, failed to offer inflation hawks any evidence that the upgraded economic outlook ahead has altered the potential reaction function of the Federal Reserve going forward. Despite projections of the strongest economic growth seen in nearly 40 years, the Fed maintained a message more consistent with economic projections around trend growth. The FOMC repeated that “it would likely be some time” before conditions improved enough for the Fed to consider a shift in its monetary stance. This was due to the economic conditions being “far from the longer-run goals” and given that “the path ahead remained highly uncertain”. Consistent messaging will be a crucial strategy for the Fed as it communicates to the market the change in how it responds to incoming economic data consistent with its new monetary policy strategy outlined in the statement released in August of last year.

The market response to the minutes was muted but the degree of unity in our view underlines once again the determination of the FOMC to follow through with its promise made in regard to altering its “reaction function” to allow for higher inflation over time. It implies that yields and the level of the US dollar will be somewhat lower than what can be assumed based on the incoming US economic data.

### IMF on Global Growth

The IMF has revised its projection for global GDP growth upward in 2021 to 6% according to the fund's latest World Economic Outlook. That compares with an initial projection of 5.5% for this year. All major economies received upgrades to their growth forecasts with the US projections of 6.4% growth representing a 1.3ppt increase on the prior estimate. China's outlook was also upgraded by 0.3ppt to 8.4% while India received a boost of 1ppt to expected growth of 12.5%.

Jerome Powell worries more about rising infections than rising prices. The Fed chief told a virtual IMF panel he aims to restore a “great economy,” but first the virus needs to be contained everywhere, so people should get vaccinated. Powell reiterated that there will probably be a temporary spike in inflation and officials have ample tools to cope if needed.

### FX, Equities and Fixed Income

The US dollar had a weak performance last week, shedding 1% of its value against major peers. The greenback opened the week at 93.034 and reached 91.999 on Thursday following the release of FOMC meeting minutes for March. Equities continued to rally near record highs. All three major US indices have 7%+ YTD gains with Dow Jones leading the indices with an increase of 9.47%. As for the bond market, US 10-year Treasury yield was supported at 1.65% despite a dovish Fed tone in March's meeting minutes.

## EU & UK

### Eurozone PMI shows Progress

Final estimates of March composite PMI for the Eurozone showed the index rising to 53.2, its highest level in the past eight months. For the individual economies, PMI levels were revised upward from flash estimates to all show expansion in their composite PMIs.

The single currency had a strong week appreciating by 1.32% against the US dollar and breaking the 1.19 level for the first time in two-weeks. The euro has been subdued recently as major European economies struggle in vaccine rollouts and hence pressurized medical body which forced some economies back into lockdown. The research and casted doubts on AstraZeneca's vaccine surely didn't help as the EU is searching for alternative vaccines to administer to the population. Nevertheless, a dovish Fed is all it takes to push markets away from the US dollar and into rival currencies.

### The Sterling Pound Slips

In the UK, the final March composite PMI came in slightly slower than previously estimated at 56.4 but nevertheless is showing the UK's economy ending a soft Q1 with some momentum. The Sterling pound lost momentum against the US dollar last week and lost 1.65% of its value, contrary to other US dollar rivals which had positive performances. The cable dropped to a low of 1.3671, a 3-week low last Friday.

## Australia

### RBA Maintains the Status Quo

The RBA held policy steady as expected and reiterated it will continue to stand still until CPI returns to its target range of 2%-3%, which it estimates will take a few years. The central bank is monitoring the housing market after prices jumped the most in more than three decades last month, and it foresees above trend economic growth both this year and next. The Aussie was little changed following the meeting.

## Commodities

### Oil Prices Drop

Demand for oil remains a question without a clear answer yet. Markets seem to be more bullish on global recovery especially after the IMF revised its GDP growth estimate higher last week. Brent crude remained around the \$63 per barrel while West Texas traded around \$59 per barrel.

## Kuwait

### Kuwaiti Dinar

USD/KWD closed last week at 0.30180.

## Rates – 21<sup>st</sup> March, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1759	1.1738	1.1927	1.1899	1.1750	1.1950	1.1927
GBP	1.3832	1.3671	1.3919	1.3707	1.3575	1.3750	1.3720
JPY	110.63	109.00	110.75	109.66	109.25	110.00	109.55
CHF	0.9426	0.9232	0.9439	0.9245	0.9025	0.9375	0.9222