

Weekly Money Market Report

25 July 2021



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Volatility Increases Amid Global Growth Concerns

Highlights

- **Global stocks rallied back towards record highs, the dollar index remained largely unchanged, and Treasury yields gained traction**
- **Interest rate hike probabilities for US benchmark rate eases**
- **ECB shifts its forward guidance while keeping rates intact**
- **UK PMI disappoints while Eurozone PMIs flourish**

United States

The Move to Safe Havens

Last week was light for the US economy in terms of economic releases. Nevertheless, the major inflows into the US government 10-year treasury bonds sent yields tumbling to 1.126%, a level not reached since February of this year. Global growth worries continue to intensify and boost demand for safe-haven assets as the spread of the Delta variant is casting worries on investors and their sentiment. Interest rate hike probabilities in the US have declined since the beginning of July when the market was pricing at least 1 hike towards the end of 2022. However, the market became more hesitant amid continued developments of the global health condition in the pace of the recovery for the world's largest economy and is currently pricing an 81% chance of a hike in February of 2023.

Markets React

Volatility was the theme of last week with treasuries fluctuating from a low of 1.126% to a high of 1.313% reacting to global growth concerns and investors' sentiment. Equities had a similar movement with between reaching 4-week lows and then recouping the losses to end the week on par as earnings optimism pushed global stocks back towards record highs despite mixed data.

Europe

ECB Policy Meeting

The European Central Bank has made significant changes to the working of its forward guidance in last week's policy meeting. The changes reflected revisions to its monetary policy framework announced earlier this month. The general council "expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon and it judges that realized progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilizing at two per cent over the medium term".

During the press conference, ECB president Christine Lagarde clarified that the new guidance has three legs: that 2% has to be reached "well ahead" of the end of the forecast horizon, that inflation should remain there "durably" for the rest of the forecast horizon, and that the Governing Council (GC) will have to decide whether the progress towards the new 2% aim is "sufficiently advanced." She then went on to clarify that "well-ahead" can be interpreted as the mid-point of the inflation forecast.

The single currency fluctuated throughout the week from 1.1750 to 1.1830 before closing the week lower at 1.1771.

Eurozone PMIs

The Eurozone composite PMI showed a sharper-than-expected increase in July, rising from 59.5 to 60.6 with economists expecting a reading of 60.0. That represents the strongest reading since July 2000. The manufacturing PMI fell from 63.4 to 62.6, broadly in line with consensus of 62.5. Hence, the upside surprise came in services, where the activity index jumped from 58.3 to 60.6 beating expectations of 59.3.

UK PMI

UK PMIs saw a sharp slowdown in July, with the manufacturing index down from 63.9 to 60.4 and below expectations of 62.4 and the services index down from 62.4 to 57.8 which was also lower than the consensus of 62.0. Both the manufacturing and services headline readings were the weakest since March 2021, while an optimism index for the composite PMI (of all sectors) fell to its lowest in nine months, as the delta variant took hold in the UK. Of all firms surveyed, 32% mentioned an increase in output while 16% reported a drop. Of the latter group, this was attributed to "severe shortages of raw materials and the impact of COVID-19 isolation on staff availability".

UK Retail Sales

Retail sales figures released last week in the UK indicated solid gains of 0.5% versus the expected decline of 0.1% on monthly basis. As plans for the UK economy to resume normally, the spread of other coronavirus variants are casting doubts on the prospect of the timeline required for the country to resume its course normally.

The cable have been resilient this past week as it reached a 3-month low of 1.3572 but was able to reverse the movement and climb back to opening level of 1.3787.

Commodities

Prices remain in range

Oil prices took a dip on Monday and Brent fell below the \$70 mark for the first time since early June. The movement was reversed on Tuesday and Brent prices climbed above the \$70 level and closed the week at \$74.10.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30070

Rates – 25th July, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1803	1.1752	1.1830	1.1771	1.1700	1.2000	1.1796
GBP	1.3780	1.3572	1.3787	1.3748	1.3600	1.4000	1.3770
JPY	109.97	109.06	110.59	110.54	109.50	111.000	110.40
CHF	0.9191	0.9155	0.9232	0.9196	0.9100	0.9350	0.9170

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