Weekly Money Market Report
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US Dollar Maintains Support

Highlights

- **FOMC minutes confirmed that policymakers are talking about tapering quantitative easing.**
- **US services industry activity grew at a moderate pace in June while falling from May.**
- **ECB introduces new inflation target.**
- **UK GDP disappointed and may miss BoE targets.**
- **RBA to gradually taper their QE program from September.**
- **PBoC reduces the required reserve ratio on financial institutions**

United States

FOMC Minutes

The US dollar continued to be supported last week as market participants remain sensitive to monetary policy guidance. The US dollar has strengthened by around 2.5% since the Federal Reserve's hawkish policy update at the June FOMC meeting at which they announced plans for rate hikes into 2023. Last week's release of the minutes from that meeting also confirmed that Fed policymakers began talking about tapering quantitative easing. The minutes revealed that "various participants" felt conditions for reducing the central bank's asset purchases would be "met somewhat earlier than they had anticipated."

The Committee as a whole agreed to begin the taper planning process "in coming meetings" so they could be positioned to move more quickly if needed. The option to move more quickly in tapering QE was to help dampen upside risks to inflation expectations.

Still, market participants' optimism is currently being tested by the ongoing spread of the new Delta COVID variant which has the potential to disrupt economic activity once again. At the same time, economic indicators are starting to signal that the peak pace of economic recovery in the US and China which have been leading the global recovery has already passed, and growth momentum is starting to slow. China's economy has already been slowing throughout the first half of this year, while it looks like Q2 might be the best quarter of growth for the US economy. In light of those concerns, the Fed may have some room to postpone the beginning of their tapering process.

US Services Industry

Signs of a cooling US economy showed up in the latest services industry PMI that showing activity grew at a moderate pace in June while falling from May. This is likely due to by labor restraints and raw material shortages, resulting in unfinished work continuing to pile up. The Institute for Supply Management said its non-manufacturing activity index fell to 60.1 last month from 64.0 in May, which was the highest reading in the series' history. The survey's measure of backlog orders increased to a reading of 65.8 from 61.1 in May while the measure of service employment fell to a reading of 49.3 from 55.3 in May. There is, however, cautious optimism that the worker shortage is starting to ease.

US Labor

US job openings rose slightly to a new record high in May while hiring dipped, a sign that the economy could still be struggling with labor shortages as coronavirus restrictions eased across the country. Job openings rose by 16,000 to 9.2 million on the last day of May. However, the number of Americans filing new claims for unemployment benefits rose slightly last week but continuing claims dropped. Initial claims for state unemployment benefits rose 2,000 to a seasonally adjusted 373,000 while the number of people continuing to receive benefits after an initial week of aid declined 145,000 to 3.339 million. In total, there were 14.2 million people receiving benefits under all programs in late June, a fall from 14.7 million earlier in the month. Though claims remain above the 200,000-250,000 range that is seen as consistent with a healthy labor market, they have dropped significantly from the record 6.149 million in April 2020.

Europe & UK

European Central Bank

The European Central Bank set a new inflation target on last week in the hopes of resetting strategy and bolstering credibility. The bank set its inflation target at 2% in the medium term, ditching the previous formulation of "below but close to 2%", which had created the impression it worried more about price growth above the target than below it. In short, the message derived from the announcement was that the ECB will tolerate a slight overshoot of 2% inflation. This target however, is symmetric, meaning negative and positive deviations of inflation from the target are equally undesirable, the ECB said. But to preserve credibility, the bank acknowledged that long periods of undershoot that required forceful and persistent stimulus might result in a “transitory period in which inflation is moderately above target.”

“We believe the 2% target is clearer, simpler to communicate and a good balance,” ECB President Lagarde told a news conference. “We know that 2% is not going to be constantly on target, there might be some moderate, temporary deviation in either direction of that 2%. And that is OK.” However, the ECB would not be following the Fed’s average inflation-targeting and will be more stringent in trying to rein in excessive price growth.

UK GDP

UK GDP data for the month of May came in a lot weaker than expected at 0.8% from a downwardly revised 2% growth in April. The figure threatens the Bank of England’s upgraded estimate for reaching 5.5% growth in Q2. There is now little chance of achieving the BoE estimate. Manufacturing, construction, and wholesale and retail all declined modestly leaving services as the main engine of growth. The data also supported the current narrative that the global growth outlook going forward will be more mixed underlining the prospect that the post-pandemic rebound may have reached or passed its peak.

Asia

Reserve Bank of Australia

The Reserve Bank of Australia announced last week that they will begin to gradually taper their QE program from September. The RBA plans to purchase AUD4 billion per week of longer-dated securities to at least mid-November after the current round of QE ends in September. It marks a modest slowdown from the current weekly pace of AUD5 billion. The RBA noted that they were responding to a stronger-than-expected economic recovery and improved outlook by adjusting the weekly amount purchased. The RBA will conduct a further review in November, allowing the Board to respond to the state of the economy at that time.

The hawkish QE policy update was partially offset by the RBA’s dovish decision of keeping the key policy rate on hold until actual inflation is sustainably within the 2% to 3% target range. A condition they do not expect to meet before 2024. The updated commitment marks the RBA as one of the G10 central banks that is likely to lag behind when raising rates in the coming years.

Peoples Bank of China

China will cut the amount of cash that banks must hold as reserves, releasing around 1 trillion yuan ($154.19 billion) in long-term liquidity to underpin its post-COVID economic recovery that is starting to lose momentum. The People's Bank of China said it would cut the reserve requirement ratio for all banks by 50 basis points effective from July 15. Part of the liquidity released will help financial institutions repay maturing medium-term lending facility loans and ease liquidity pressure caused by tax payments. The reserve requirement ratio for Chinese financial institutions would fall to 8.9% after the cut.

Commodities

OPEC Undecided

The failure of the OPEC+ to secure a deal on raising oil supplies has propelled crude prices to their highest level in least three years on Tuesday. Prices have since pulled back on fears of deeper divisions within OPEC leading to rogue production increases from members. Without a deal reached as of yet, the default option is to leave production unchanged, meaning a tighter oil market in the second half of this year as demand picks up.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30110.

Rates – 11th July, 2021

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1860	1.1894	1.1780	1.1873	1.1675	1.2070	1.1895
GBP	1.3820	1.3908	1.3740	1.3899	1.3700	1.4100	1.3904
JPY	111.04	111.18	109.52	110.14	108.10	112.10	110.05
CHF	0.9207	0.9266	0.9131	0.9138	0.8940	0.9335	0.9116