

Weekly Money Market Report

24 November 2019



Trade war weighs on sentiment; Eurozone PM dissappoint

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Highlights

- US-China tariff deadline weighs on investor sentiment.
- Equities recede from all-time highs.
- Canada's inflation remains incredibly solid.
- Conservatives take the lead in UK general election polls.

United States

Fed feels little need for further rate cuts

Last month, we saw the most powerful central bank in the world cut its benchmark overnight lending rate a quarter point to a range of 1.5%-1.75%. The meeting minutes released last week confirmed that the bank plans to leave rates unchanged moving forward with only a couple of members wanting to cut rates further and several rejected cutting rates. Most policymakers noted the October cut was appropriate given the current global weakness, and trade was mentioned as a major risk hindering global growth. Moving forward, officials generally agreed there will be no need to cut rates further unless economic conditions change significantly. Chairman Jerome Powell further stated that he does not expect changes unless there is a significant move in inflation, which last posted an increase to 1.8% in October from 1.7% in September. The US economy is in a very strong position, with a healthy labor market and strong spending appetite from consumers whose activity accounts for about 70% of GDP. On the other hand, reduced business investment and exports resulting from "weakness in global growth and elevated uncertainty regarding trade developments" are downside risks which have recently elevated.

Tariff deadline weighs on Wall Street

Investors have turned cautious this past week amid concerns that the world's largest economies will fail to conclude a trade deal before the year is over. Optimism that they were nearing a "phase one" trade deal paved the way for gains in the market seen in recent weeks as major equity indices hit all-time highs. Stocks have now receded from those highs as doubts grow about a resolution, sending the S&P 500 on track for its first weekly drop after six weeks of solid gains. Technology stocks were the biggest losers on Thursday as chipmakers and companies that make tech hardware rely heavily on China for sales and supply chains. The fear is that this hit to consumer goods would pass directly onto retail purchases which have been the foundation of the economy.

Moving forward, markets will search for a sign that there will not be an escalation in the trade war as the December 15 tariff deadline nears. Increased trade tensions between Washington and Beijing have generally been supportive of the dollar as investors view the US to be in better shape than other economies to handle a trade war. The dollar index is up around 1% for the month of November, and is currently around 98.270.

Canada

Solid Inflation

Remarkably stable inflation in Canada has caused many to expect fewer cuts and a slower pace of reduction by the Bank of Canada. Both headline and core readings have hovered near the 2% target in recent months. CPI held steady in October for a third straight month as inflation was unchanged at 1.9% on an annual basis and 0.3% on a monthly basis. The BoC held its key overnight interest rate steady in October at 1.75% but left the door open for a possible cut in the next few months. The central bank has remained on the sidelines in terms of monetary policy since October 2018 even as the Federal Reserve

eased, and recent figures may still give the bank a reason to pause when considering cuts in its meeting next month. BoC governor Stephen Poloz claims he believes monetary policy conditions are “about right” in the country right now driven mainly by housing and services, while inflation is on target. Still, Poloz claimed the bank will be watching to see if “the worst is behind us” as he cautioned the trade wars may have caused serious damage to trend growth, adding that global rate cuts may not have much of a stimulating effect. The USD/CAD pair hovered near a five-week high before the Canadian dollar strengthened following the positive rhetoric by Poloz on Thursday.

Europe & UK

Signs of a rebound in German manufacturing

PMIs across France, Germany, and the Eurozone were released on Friday and many missed expectations. The French flash services PMI came in at 52.9 versus expectations of 53.0, while Germany’s flash services PMI came in at 51.3 versus expectations of 52. In the UK, manufacturing and services came in lower than expected at 48.3 and 48.6 respectively. What stood out was the German flash manufacturing PMI coming in at 43.8 versus expectations of 42.9. The better than expected pickup is a great indicator as German manufacturing has led Europe into its latest weakness as the troubled auto sector and slowing global trade weighs heavy. The euro traded in a volatile manner on Friday following the release of the reports, reaching a high of 1.1085 and a low of 1.1022.

Monetary policy “cannot and should not be the only game in town”

The newly appointed ECB President Christine Lagarde delivered her first major policy speech at the European Banking Congress in Frankfurt on Friday. She stated that there are two main challenges in the global economy today: the changing nature of world trade and domestic growth in advanced economies. Lagarde has called on European governments to boost public investment to rebalance the region’s economy away from exports and towards domestic demand. During the conference she claimed “We have a unique possibility to respond to a changing and challenging world by investing in our future, strengthening our common institutions and empowering the world’s second-largest economy.”, adding that the ECB would “continue to support the economy and respond to future risks”, claiming monetary policy “cannot and should not be the only game in town”.

UK General Elections: Conservatives are in the lead

The vote to choose a government to run the UK is supposed to be held every five years. Yet, as Brexit continues on its unprecedented nature, the general election marks the third since 2015. A total of 650 people will be chosen as MPs to decide laws and policies with Brexit naturally holding the spotlight. In 2015, health and immigration were issues of highest concern for voters. Now, Brexit takes the lead by a large margin as it has been more than three and a half years since the UK voted for Brexit in the 2016 referendum. For PM Boris Johnson, his hope is that an early election will increase the number of conservative MPs needed to pass his Brexit proposal. He told activists he had “no choice” but to hold elections as the Parliament is currently “paralyzed and blocked”. On the other side, Labor leader Jeremy Corbyn said he would be a “very different kind of prime minister” who “only seeks power in order to share power”. Currently, the Conservatives maintain a lead over the Labor Party in the polls while elections are set to take place on Dec 12.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30365 on Sunday morning.

Rates –24th November, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1050	1.1013	1.1096	1.1021	1.0875	1.1095	1.1095
GBP	1.2918	1.2822	1.2984	1.2830	1.2650	1.2930	1.2873
JPY	108.68	108.27	109.06	108.64	107.00	109.95	107.99
CHF	0.9893	0.9866	0.9980	0.9972	0.9805	1.0080	0.9901