Weekly Money Market Report
10 November 2019

US Dollar Climbs as Trade Tensions Recede

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- US-China Truce in the horizon
- US non-manufacturing figures show optimism
- Bank of England leaves the key interest rate unchanged at 0.75%
- Australia's central bank held its interest rates steady at 0.75%

United States

Trade War Ceasefire

In what was seen as a shift in the tone of a 16-month trade war between the world's two largest economies, China and the US have agreed in principle to remove some tariffs. The announcement came from Beijing on Thursday when officials announced that negotiators from both sides had agreed "to remove some of the additional tariffs in phases." The announcement came from the Chinese Commerce Ministry who said that the two countries had agreed to cancel the tariffs in phases, without laying out a timetable. It appears that officials from the two economies are working on the terms of the trade ceasefire to be signed in the coming weeks by Donald Trump and his Chinese counterpart Xi Jinping. The "phase one" move was taken positively by the markets as it marks the first time where the US offers a compromise on tariffs, and China moving back from its statement that trade tensions would only end when all tariffs where lifted from Chinese products.

Reports are showing that the plan is to remove the tariffs that the US imposed on $112 billion of Chinese goods in September. Some economists are suggesting that Beijing might not be satisfied with Washington's offer to only lift on the latest duties it has imposed. But it is obvious that both Beijing and Washington are eager to reach an interim deal. Donald Trump would like to show US voters that his confrontational approach to China has succeeded ahead of presidential elections next year, while Beijing is suffering from an economic slowdown.

White house spokeswoman Stephanie Grisham stated that the US is "very, very optimistic" about completing a deal that would defuse the trade war. But it's worth noting that not all of the White House carry the same positive sentiment, where trade advisor Peter Navarro said in an interview "There is no agreement at this time to remove any of the existing tariffs as a condition of the phase one deal," he then continued to say "They're just negotiating in public, trying to push this in a direction." Experts are warning that the pact could still fall apart while US officials said that a lot of work remained to be done when Trump announced the outlines of an interim deal last month.

The announcement on Thursday saw a rally in US stocks, with three of Wall Street's main indices closing at simultaneous record highs. The S&P 500 closed the day 0.3% higher at $3,085.18, at around seven index points higher than its previous peak close on Monday. The Nasdaq Composite rose 0.3% and the Dow Jones Industrial Average advanced 0.66% to have them extend their record run. Bond markets also saw a selloff driving yields higher, as investors became optimistic that a resolution to the trade deal would revive global economic growth. The yield on the benchmark 10-year US Treasury rocketed 10.7bp higher to 1.919%, while that on the policy sensitive two-year was up 6.6bp to 1.6753%. European and Asian markets were also buoyed by the reports of tariff removal. Though this was not carried on to Friday trading, where the US, Asian, and European Equites retreated from their Thursday highs. The drop was due to markets running to profit taking on worries that the pact could still fall apart. The Greenback also benefited from the overall positivity, where the US dollar index closed the week at 98.401, up 1.21% from the start of the week.

Services Sector on the Rise
The non-manufacturing sector in the US revealed optimistic figures as the headline figure came in at 54.7, up from last month's reading of 52.6. Markets reacted positively to the report as fears of the recent slowdown in manufacturing spilling into other sectors have increased. The manufacturing sector is now in its third month of contraction as investment continues to be vulnerable due to uncertainties in the global economic environment.

Europe & UK

BoE Maintains Its Rate
In its monetary policy summary, the Bank of England showed that it has cut its forecast for the UK economy. The regulator has said that growth will be limited by a weaker global environment and by the new trade barriers that would take effect immediately after Boris Johnson's Brexit deal materializes. The central bank noted that underlying UK growth has "slowed materially" in 2019, with quarterly growth rate at only half the previous three-year average, affected by Brexit uncertainties and global trade wars. Given that inflation is likely to fall sharply in the near term while some leeway is appearing to show in the economy, a majority on the monetary policy committee had voted to leave the key interest rate unchanged at 0.75%. It is however worth noting that there was a split in the vote, with two members voting for an immediate 25 basis point cut on the grounds that Brexit uncertainties would persist and the labor market being at what appears to be a turning point.

The BoE is still expecting a pickup in growth from next year, in an assumption that a Brexit deal makes progress and hoping that lessening uncertainty boosts business investment along with consumer confidence. With that being said, the recovery is not as strong as shown in its previous quarterly forecasts. The regulator now expects the level of GDP to be 1% lower by the end of 2022 than its August forecasts showed. The drop is partly due to changes in the global outlook and in market prices underlying its forecast, with a quarter of the difference being due to changes in government policy. The monetary policy committee has kept its options open on the likely path of interest rates, making sure to be clear that interest rates could move in either direction depending on both external and political developments.

The UK is now in its pre-election phase. Political parties are starting to announce their plans ahead of the election date of December 12. Boris Johnson has announced that if he wins the election, he will take Britain out of the EU "by the end of January." While Labor leader Jeremy Corbyn insisted that the party plans to hold a second referendum. Liberal Democrats, Greens, and Plaid Cymru who are all committed to Britain remaining in the EU, announced a pact to maximize their chances of winning seats at the general election.

The BoE's announcement combined with the election promises took their toll on the Sterling during past week's trading; the cable dropped 1.33% from its weekly high and closed its Friday session at 1.2770.

German Manufacturing Rebounds
In a signal that the Eurozone economy's manufacturing power house could be stabilizing, German industry saw a rebound in orders in September, breaking a long downswing in activity. Provisional figures showed that new German manufacturing orders increased by 1.3% in September compared to August, defeating a poll of a mere 0.1% increase. The positive uptick in factory orders reflected a 1.6% rise in domestic orders and a 1.1% jump in foreign orders. Although demand from other Eurozone countries fell, this was offset by orders from elsewhere.

Germany's economic output shrank in the second quarter and its central bank has warned that it may also decline in the July-to-September quarter. This is due to the country's export-focused economy being hit by the US-China trade war, Brexit uncertainty and a sharp decline in the car industry, with the latter being disrupted by new emissions rules and the shift to electric vehicles. The response from the European Central Bank was to inject more cheap money into the economy, with a cut in interest rates and a restart of its bond buying program.

Asia

Australia's Central Bank

Australia's central bank held its interest rates steady at 0.75% in its latest meeting and made small changes to its economic forecasts, trimming both growth and unemployment. "Given global developments and the evidence of the spare capacity in the Australian economy, it is reasonable to expect that an extended period of low interest rates will be required," RBA Governor Philip Lowe said in a brief statement. The cuts have been effective in improving housing market conditions, though consumer spending continues to suffer. On Monday, data revealed retail sales had slumped to its weakest level since the 1990s. Core inflation remains stuck below the 2-3% target as it has for four complete years, implying stubborn unemployment needs to fall from its current 5.2% level to revive wages and inflation. Hence, the central bank downgraded its economic growth forecast for this year to 2.25% from 2.5%, though expects a pick up to 3% by 2021. The Australian dollar has been rallying for some time now, most recently breaking the 0.69 level and is currently trading at an over 3-month high.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30380 on Sunday morning.

Rates –10th November, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1168	1.1015	1.1174	1.1018	1.0815	1.1115	1.1087
GBP	1.2931	1.2769	1.2942	1.2770	1.2575	1.2875	1.2808
JPY	108.22	108.19	109.47	109.26	107.30	110.30	108.62
CHF	0.9860	0.9850	0.9978	0.9971	0.9775	1.0175	0.9903