Weekly Money Market Report
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US Fed Cuts Interest Rates by 0.25%

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Highlights

- Fed cuts interest rates by 0.25% to a range between 1.50%-1.75%.
- US GDP at 1.9%
- Non-farm payrolls better than expected at 128,000.
- Brexit deadline extended.
- UK general election set for December 12.
- Bank of Japan keeps policies unchanged.

United States

US Fed Cuts Interest Rates

The Federal Reserve cut interest rates by 0.25% for the third time this year to help sustain U.S. growth. The cut was widely expected as market participants remain concerned about a slowdown in the economy while the trade war between the United States and China continues. Despite cutting rates, the Fed was relatively optimistic mentioning an extensive list of reasons the economy is doing well under the current stance of monetary policy including robust consumer spending and strengthening home sales.

The Fed decision and statement now allude to a potential pause in their "mid cycle adjustment" rate cuts implemented this year. The key change in the statement was the removal of the promise to "act as appropriate to sustain the expansion". Now the FOMC will merely monitor developments as it "assesses the appropriate path" for the fed funds rate. Fed governor Jerome Powell stated that risks to their "primary outlook" were "now moving in a positive direction," and that it would "require incoming data to cause a material reassessment of the Committee's primary outlook." In other words, economic data would have to deteriorate notably to cut further or inflation would have to pick up considerably to hike again. Neither looks likely over the short-term, so it is more likely that the Fed is done with policy changes for the time being.

The dollar fell to a 10-day low against its major counterparts after the FOMC meeting as cuts in US rates promote the attractiveness of foreign currencies. Also, as the dollar remains near historically high levels, any improvement in global data is likely to weigh on the dollar as investors bet on improving growth in Europe and other regions. Indeed, after no-deal Brexit risks diminished and positive data came out of Europe, we saw the pound sterling and euro both rebound considerably against the U.S. dollar this month.

GDP Better Than Expected

U.S. economic growth slowed less than expected in the third quarter as a further contraction in business investment was offset by resilient consumer spending, further reducing market fears of a recession. GDP increased at a 1.9% annualized rate in the third quarter down from 2.0% pace in the April-June period. Businesses maintained a steady pace of inventory accumulation, exports rose and the housing market rebounded after contracting for six straight quarters, the government said in its estimate of GDP. Growth in consumer spending, which accounts for more than two-thirds of U.S. economic activity, slowed to a still-healthy 2.9% rate last quarter after surging at a 4.6% pace in the second quarter.

Non-Farm Payrolls Better than Expected
Non-farm payrolls rose by 128,000 in October overcoming an autoworkers' strike and beating expectations. Notable job gains occurred in food services, social assistance, and financial activities. The unemployment rate ticked higher to 3.6%, in line with estimates, but remains around the lowest in 50 years. The pace of average hourly earnings picked up a bit, rising 0.1% to a year-over-year 3% gain in line with expectations.

Along with the better than expected performance in October, previous months' counts were revised considerably higher. August's initial 168,000 estimate came all the way up to 219,000 while September's jumped from 136,000 to 180,000. For the year, monthly job creation now averages 167,000 compared to 223,000 in 2018.

The report helps further quell worries that the U.S. economy is heading towards recession and helps support the Fed's current wait and see stance.

Trade Negotiations
U.S. President Donald Trump said the United States and China would soon announce a new site where he and Chinese President Xi Jinping will sign a "Phase One" trade deal after Chile canceled a planned summit set for mid-November. "China and the USA are working on selecting a new site for signing of Phase One of Trade Agreement," Trump said on Twitter. Chile's decision to cancel the Nov. 16-17 Asia-Pacific Economic Cooperation summit in Chile ruined plans for Trump and Xi to sign a deal on the sidelines. Trump offered no specifics on when a new meeting might be set but the White House said it expected to finalize a deal "within the same time frame."

Europe & UK

Brexit
The 27 EU member states approved an extension to the Brexit deadline to the end of January but also gave the UK the possibility to leave the bloc sooner if its withdrawal agreement has been ratified. UK Prime Minister Boris Johnson, who opposed the delay, urged the EU member states to not allow any further extensions beyond January 2020.

In a "gamble" attempt to defeat the stalemate in parliament and gain majority, Johnson pushed for, and was approved, a general election on December 12. While Johnson's party is seemingly leading in the polls, the decision could go either way leading to further delays. Former PM Theresa May went into her 2017 snap election in an even stronger position but ended up losing seats and her majority in parliament. Still, Johnson has concluded it would be better to hold an election now, rather than try to force his Brexit deal through parliament in the face of strong opposition.

The pound rose above $1.290 on Thursday, heading for its biggest monthly rise in more than a decade as the combination of a weak dollar and the falling risks of Britain leaving the European Union without a deal fuelled demand. A month of fast-moving political developments has prompted sterling to jump from around $1.22 to touch $1.30, but its progress is now complicated by December's election.

Eurozone GDP & Inflation
Euro zone economic growth in the third quarter defied market expectations of a slowdown and was steady quarter-on-quarter, preliminary data showed, while headline inflation slowed because of a sharp fall in energy prices. The European Union's statistics office Eurostat estimated GDP grew 0.2% in the July-September period against the previous three months, the same as in the second quarter. Expectations were for a 0.1% increase only.

Separately, Eurostat said euro zone consumer prices rose 0.7% year-on-year in October, down from 0.8% year-on-year in September. The slower inflation in October was mainly due to a sharp drop in energy prices. Without that volatile component and excluding also unprocessed food prices, inflation was stable at 1.2%. Still, the reading is well below the European Central Bank's 2% target. The ECB's new round of quantitative easing began on the 1st of November and will try to fuel the zone's recovery.

Asia

Bank of Japan

The Bank of Japan held their short-term interest rate target at -0.10% with a 10-year Japanese Government Bond yield target around zero as widely expected. However, the Japanese central bank offered more clarity on its forward guidance for keeping rates low. Prior it was to spring 2020, which was deemed as too short. Now the commitment is simply for "as long as necessary." The more important change was to make reference to rates being at "their present levels or lower" for both short-term and long-term rates which is another change that opens up the prospect of another cut in the deposit rate from the current -0.10%. However, the BOJ will likely follow the US Fed's approach and wait for further noticeable deterioration in the economy before acting.

China Manufacturing PMI

China's manufacturing PMI dropped from 49.8 in September to 49.3 in October. The index has stayed below the critical 50-mark for six consecutive months, pointing to continued downward pressure on China's manufacturing sector and economy. The non-manufacturing PMI – a gauge of sentiment in the services and construction sectors – came in at 52.8 in October, below analysts' expectations for a 53.6 reading. The figure was also down from September's 53.7, dropping to its lowest level since February 2016.

Looking ahead, the Chinese economy is still under downward pressure with the China-US trade disputes lingering and the global economy slowing down. The China Federation of Logistics and Purchasing, who conduct the survey, expect that the central government is likely to introduce more policies to stabilize economic growth. These would come through the form of both fiscal policies such as tax cuts and further easing of monetary policies from the central bank.

Commodities

Oil Lower & Gold Higher

A Reuter's survey showed that oil prices are likely to be pressured this year and next as low demand from a slowing global economy and a surge in U.S. shale output offset support from OPEC production cuts and Middle East supply risks. The poll of 51 economists and analysts forecast Brent crude would average $64.16 a barrel in 2019 and $62.38 next year. Oil prices fell around 3.6% last week down to 59.8 as investors worried about progress in U.S.-China trade talks.

Gold rose last week as the dollar came under pressure after the U.S. Federal Reserve cut interest rates while uncertainty surrounding a U.S.-China trade deal bolstered the metal's appeal as a safe-haven investment. Gold is highly sensitive to any reduction in interest rates, which decreases the opportunity cost of holding non-yielding bullion. Gold rose 1.30% to $1513.55 last week.

Kuwait

Kuwaiti Dinar at 0.30325

The USDKWD opened at 0.30325 Sunday morning.

Rates – 03 November, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1080	1.1174	1.1072	1.1165	1.0980	1.1280	1.1235
GBP	1.2824	1.2975	1.2804	1.2934	1.2750	1.3150	1.2973
JPY	108.66	109.28	107.87	108.17	106.50	109.35	107.52
CHF	0.9942	0.9970	0.9848	0.9854	0.9681	0.9999	0.9785