Treasury Group

Weekly Money Market Report

20 January 2019

Brexit Deal Rejected by UK Parliament

UK & Europe

Brexit

British lawmakers officially rejected PM Theresa May's Brexit deal last week in the worst defeat in modern British history. The 432-202 crushing defeat triggered a confidence vote in May's government which she narrowly secured the next day. This leaves May with an uphill battle to renegotiate another deal with parliament and the EU in only 10 weeks.

The resounding rejection of May's deal has done little to bring clarity over the path ahead for Brexit. All options remain on the table, including the potential of a no deal, a general election and a second referendum. One prospect in the very near term is that Article 50 might need to be extended in order to give time to reach parliamentary consensus. UK Chancellor of the Exchequer Philip Hammond supported this view by not ruling out seeking an extension to the Brexit negotiating deadline.

Bank of England governor Mark Carney said the reaction of financial markets in the wake of the vote showed a degree of confidence that a no-deal Brexit was unlikely to happen March 29th. The pound bounced back against the dollar amid optimism that article 50 would be extended and that the prospect of a disorderly exit from the EU had receded. "Public market commentary, consistent with our market intelligence, is that a rebound appears to reflect some expectation that the process of resolution would be extended and that the prospect of no-deal may have been diminished," said Carney. However, market volatility is still expected to continue until a clear direction from parliament is seen.

Inflation Slows in the UK

British inflation fell to its lowest level in two years in December as fuel prices dropped, leaving the Bank of England under no pressure to carry on raising interest rates as uncertainty over Brexit dominates the economic outlook. Consumer prices rose at an annual rate of 2.1% in December, slowing from 2.3% in November, in line with economist expectations. The rise was also the smallest since January 2017.

The Bank of England has raised interest rates twice since 2017 and had said it planned to gradually increase borrowing costs. Economists said that although inflation remained just above the BoE's 2% target, it is expected to drop below that level soon reducing the urgency for a BoE hike.

The inflation figures could be seen as a relief for British consumers who have been pressured by high inflation since the British pound dropped more than 10% after the 2016 Brexit referendum. Inflation peaked at a five-year high of 3.1% in November 2017 but has since fallen while wages have grown at their fastest in a decade in the same period.

Slowdown in Europe

The euro had been pressured in this period due to two main reasons. First, the continuing uncertainty revolving around Brexit is shaking investor confidence and second, a slowdown is expected in the Euro area for 2019. European Central Bank President Mario Draghi highlighted some of these reasons last week during a testimony in front of the European Parliament. Draghi mentioned two types of causes for the slowdown, some temporary and others permanent. The temporary causes stem from weaker momentum due to temporary factors, and are specific to sectors and certain countries such as the slowdown in the car industry. On the other hand, the effects of the more permanent causes are going continue. One of which, is that 2017 was an exceptional year when compared with historical averages. And so, a return to a lower growth path is natural.

Finally, Draghi cautiously showed his optimism when he stated that this in fact was a temporary slowdown and not the start of a recession. However, he did mention that the period maybe more prolonged and dependent on external factors. The external factors being: geopolitical uncertainties including a global trade war, the slowdown in China, and Brexit.

United States

Government Shutdown & Trade

The US government shutdown is now officially a record breaker past 29 days, and is starting to take its toll on the US economy. Historically, shutdowns have had only short-lived economic effects, but Fed Chair Powell warned last week that a dispute that outlast past deadlocks, has the potential to change the picture for the worse. The most immediate impact will spur from the reduction in work done by federal employees. Recent updates from the White House economists suggest that the effect of work not being done by 380,000 furloughed federal workers will cut 0.08% off real GDP for every week of the shutdown. In addition, and extra drop of 0.05% will come due to the loss of work done by federal contractors. Another impact of the shutdown will be a temporary drop in US employment data, as the furloughed staff will be classified as unemployed in the January jobs data.

Despite this, we saw some strength in the US dollar last week on growing optimism of progress in the China-US trade dispute. A Wall Street Journal report on Thursday said that US Treasury Secretary Steven Mnuchin had considered easing tariffs imposed on Chinese imports. However, a treasury spokesman later denied the report. Despite this, sentiment was still lifted slightly considering China’s chief trade negotiator is planned to visit the US at the end of the month for the next round of talks.

China

China Moves to Support Trade

China’s top lawmaking body has fast-tracked approval of a foreign investment bill, in a sign that President Xi Jinping wants to implement policy moves that will support trade negotiations with the US. China says the law would create administration measures to protect the intellectual property of foreign investors and protect them from forced transfer of technologies. The National People’s Congress Standing Committee has scheduled a special session to consider the bill January 29th, right before China’s trade negotiator is planned to visit the US.

Financial Markets & Commodities

Equities

Global stocks jumped to their highest in more than a month on Friday after the WSJ report suggested progress was being made to resolve the trade dispute between the United States and China. US stocks rose around 0.6% even after the report was denied. This implied that traders still believed there was a degree of credibility to the report. MSCI's broadest index of Asia-Pacific shares outside Japan added 0.75% while the Shanghai Composite index was up 1.4%. European stocks also followed to their highest since early December, with the pan-European STOXX 600 index up over 1%.

Commodities

Oil prices rose by spiked higher on Friday after a report from OPEC showed its production fell sharply last month, easing fears about prolonged oversupply. OPEC said that its oil output fell by 751,000 barrels per day in December to 31.58 million bpd, the biggest month-on-month drop in almost two years. Brent crude and West Texas Intermediate were both up 4% to $62.58 and $53.91 per barrel respectively.

Kuwait

Kuwaiti Dinar at 0.30330

The USDKWD opened at 0.30330 Sunday morning.

Rates – 20 January, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1469	1.1491	1.1350	1.1361	1.1212	1.1570	1.1455
GBP	1.2847	1.3000	1.2668	1.2873	1.2710	1.3080	1.2940
JPY	108.49	109.88	107.97	109.73	107.75	111.40	108.96
CHF	0.9840	0.9959	0.9797	0.9955	0.9790	1.0090	0.9872