

Weekly Money Market Report

17 March 2019

Brexit Date Extended Amid Solid Economic Data in the UK

United States

The US economy is showing more signs of slowing growth amid on-going negotiations with China to strike a trade agreement. US President Donald Trump and Chinese President Xi Jinping are not expected to meet to sign a trade deal until April at the earliest. Trump commented on the negotiations process saying “going incredibly well” and that he is expecting a conclusion in the next three to four weeks. The slowing consumer prices and producer prices in the US have strengthened the market’s view of 0% chance of an interest rate hike in 2019.

Slowing Economic Growth

US producer prices increased in February following three months of decline, rising 0.1% last month. The figure has risen from the 0.1% decline in January however still missed expectations of a 0.2% gain. The year-on-year rate also slowed to 1.9% from the 2% level in January. The data comes just as inflation readings showed consumer prices rising at their slowest pace in two and a half years, and should reinforce expectations that the Federal Reserve will not raise interest rates anytime soon. After raising rates four times in 2018, the central bank held interest rates steady in January and pledged patience moving forward - pointing mainly to the effects of slowing global growth.

New Home Sales Disappoint

Sales of new U.S. homes in January fell to the weakest pace since October, driven by a decline in the Midwest as still-elevated prices keep buyers on the sidelines. In details the single family homes dropped by 607K on annualized basis according to government data which was delayed by two weeks due to the partial government shutdown. The figure comes way below the economists’ expectations of 622K.

Commodities

US oil prices climbed last Wednesday to their highest level in four months at \$58.95 as a surprising decline in crude inventories were revealed by the US. The US Energy Information Administration showed crude inventories narrowed by 3.9m barrels, easing worries of global oversupply as analysts expected a 2.7m increase instead. Brent Crude and the West Texas Intermediate both hit their highest closing values since November 12.

UK & Europe

Lifeline for May’s Deal for the Third Time

On the Brexit front, the UK’s parliament rejected PM May’s deal to leave the EU for a second time last Tuesday, setting up the stage for the worst political crisis the country has witnessed in generations. Political officials voted against May’s edited Brexit deal by 391 to 242 as her last minute dialogues with EU heads to ease her critics’ concerns proved fruitless. The net loss of 149 votes is slightly a better outcome than the initial defeated of 230 votes. However, since May took on the role of PM, she has incurred the first and third largest governmental defeat in modern times. The following day, Wednesday, MPs have rejected a no-deal

All information sourced from Reuters. For further information, please contact NBK Dealing Room on 22462046 (Telephone), 22419720 (Fax) or TSD_LIST@nbk.com . This report is a publication of National Bank of Kuwait. It is designated for information only, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential loss and/or damage arising from its use.

exit from the EU. On Thursday, MPs voted 412 to 202 to endorse May's motion to extend the Brexit deadline to June 30th 2019. Theresa May will now attempt to get her Brexit deal through parliament for the third time, in hopes that she can secure an agreement before the new deadline.

The Sterling Pound moved in a volatile manner last week moving by 3.34% from the low of 1.2949 to the high of 1.3381. The market was reacting to many variables, mainly the vote developments in the House of Commons and the surprisingly upbeat economic data produced by the UK.

Solid Growth Figures in the UK

The UK GDP expanded by 0.5% month to month following a -0.4% drop in the previous reading, and well above the market expectations of 0.2% growth only. The manufacturing production reached 0.8% growth on monthly basis after a contraction of -0.7% in December 2018. Additionally, construction output on monthly basis in January increased by 2.8% following a decline of 2.8% in December of last year as a further proof to a healthier economy. Thus, the market is currently pricing a 54.2% probability, up from 30% before the data were released, of an interest rate hike by the Bank of England in January 2020.

Stagnant Consumer Prices in Europe

Following a dovish ECB last week, the European Union's economy is proving rather difficult to stimulate. The consumer price index reading of February remained constant and in-line with market consensus of 1.5% on yearly basis. A similar story for core CPI which came at a modest reading of 1.0% on yearly basis. This particular index's readings have been almost stagnant since June of 2018 where the readings ranged from 0.9%-1.1%.

Asia

Slowest Growth for China in 29 Years

Bank of Japan Governor Haruhiko Kuroda spoke on Friday after the BOJ meeting and ruled out the chance of additional monetary easing, even after heightening overseas risks forced the central bank to temper its optimism that robust exports and factory output will support growth. Kuroda also brushed aside growing calls from politicians and bank executives to raise interest rates or lighten the BOJ's 2 percent inflation target to ease the strain of prolonged ultra-low rates on financial institutions' profits. "I don't see the need to change the target, or believe that doing so would be desirable," Kuroda told reporters after the BOJ's widely expected decision to keep monetary policy unchanged. As such, cut probabilities for the December meeting dropped from 63.3% to 37% following Kuroda's statement.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30355 on Sunday morning.

Rates – 17th March, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1238	1.1222	1.1344	1.1326	1.2225	1.1525	1.1415
GBP	1.3005	1.2949	1.3381	1.3290	1.3095	1.3490	1.3360
JPY	111.07	110.87	111.90	111.46	109.45	113.45	110.73
CHF	1.0076	1.0011	1.0119	1.0021	0.9875	1.0180	0.9930