Weekly Money Market Report
17 November 2019

Safe Haven Assets Soar on Global Growth Concerns

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- Major economies in a state of weak growth.
- UK and Germany barely avoid a recession.
- Lack of news on trade truce.
- CHF, JPY and gold soar.
- Muted inflationary pressures in America.
- British economic fundamentals weak across the board.
- Sterling rises on election polls.

United States

The geopolitical atmosphere as of the late has cooled down substantially thanks to improved prospects on the trade war dilemma and the possibility of a hard Brexit outcome has become farfetched. However, last week safe haven assets were in demand due to global growth worries and the lack of headlines from the US-China trade amplified concerns. The UK and German economies barely avoided a recession. In Q3, Japan's economy grew by 0.2% per annum, down from 1.8% witnessed in the previous quarter. Data out of China also disappointed after retail sales, industrial output and investment data were weaker than anticipated.

Looking at safe havens, the top performer was the Swiss franc gaining 0.79% against the USD in weekly terms. The Japanese yen wasn't far behind appreciating by 0.43%. In the commodities complex, the safe haven yellow metal (gold) rose 0.58% in the past five days. As safe havens performed well, higher beta commodity currencies were trading in the red zone. The Australian dollar was on a consecutive decline throughout the week, shedding 0.55% of its value to the USD.

It was evident that risk taking receded last week causing US government bond yields to take on a downward path. On Thursday alone, the 10-year Treasury yield fell by about 6 basis points to 1.82%. That's 15 basis points lower than the recent highs. On the other hand, Wall Street has largely ignored those concerns, with the Dow Jones and S&P 500 indices continuing to hold near record highs.

The US dollar has come under renewed and quite moderate selling pressure. The decline in US Treasury yields and the strengthening of the GBP, CHF and JPY all had a hand in driving the dollar lower. The dollar lost upside traction in the second half of the week in response to the re-emergence of trade concerns amidst the utter absence of fresh developments. The DXY is currently trading at 98.001, down by 0.33% for the week.

US Inflationary Pressures in a Muted State

The monthly US inflation readings surprised to the upside, however the annual rate remained somewhat muted. American consumer prices (CPI) slightly accelerated in October from 1.7% y/y to 1.8% y/y, while the core reading fell from 2.4% to 2.3%. The CPI data is well below last year's peak of nearly 3%. The FED's preferred inflation indicator (Core PCE) rose 1.7% on an annual basis in September and has fallen short of its 2% target this year. Chief Jerome Powell stated in testimony to Congress that the Federal Reserve is unlikely to alter interest rates anytime soon so long as the economy remains on its present path. Powell warned that challenges remain, such as weakness abroad, trade tensions and low inflation. Markets are currently not pricing in any significant chance for an interest rate cut for the next six months, especially with trade tensions receding and US economic data in a fairly positive state.

Europe & UK

No Recession, but most definitely a very weak economy

Europe's power house (Germany) has barely avoided a recession in the third quarter thanks to GDP rising by 0.1% q/q. The rise drove the annual rate to 0.5% from 0.3% in Q2. The positive news is that Germany has again avoided a technical recession. Placing that aside however, the economy is evidently in a soft spot with the industrial recession having continued in Q3. Fortunately though, the services sector has been doing the heavy lifting in the economy.

Latest indicators have delivered tentative signs of optimism that the German economy is close to the worst point and could begin to pick up gradually in 2020. The most recent ZEW survey, trade, and factory orders reports have all surprised to the upside. The global manufacturing PMI bottomed in July, reinforcing the case that the global industrial weakness is beginning to ease. However, the improving euro-zone data flow has not been sufficient to encourage a stronger euro for the time being. The central bank's solid commitment to maintain looser monetary policy for longer continues to dampen upside potential for the euro. The Institute for Economic Research lowered its projections for German growth in 2019 from 0.8% to 0.5%.

British Data Frail across the Board

The British economy has avoided a technical recession in the third quarter as growth came in at 0.3% from a -0.2% seen in Q2. A technical recession is defined as two successive quarters of negative growth. Despite a recession being avoided, economic growth has become uncomfortably slow. On an annual basis, the third quarter GDP slackened to 1% from 1.3%, the lowest momentum since 2010. The monthly GDP data publicized that growth contracted for the second successive month in September with momentum clearly slowing down as we head into year end. It's pretty evident that fundamental growth is soft, while the central bank expects a weak fourth quarter. The Bank has noticed that there is swelling evidence of abating demand for labor with employment falling in the latest three months and an expectation that pay growth will soon slowdown further.

On the labor front, the employment sector has been the highlight of the UK economy since the Brexit referendum. However, last week the Office for National Statistics provided evidence that the labor market lost momentum in the third quarter due to Brexit uncertainty. The number of individuals in employment plunged by 58,000 compared with the previous three months, marking the largest fall in four years. Number of job vacancies fell by 11K, the biggest quarterly decline since 2009. Hence, fewer vacancies reduce the pressure on wage growth, which has already cooled down from 3.9% to 3.6% in Q3.

Looking at price growth, consumer prices dis-inflated to its lowest level in three years last month; the drop was mainly due to falling energy prices. The CPI figure revealed that prices last month were 1.5% higher than the same period last year and fell from 1.7% seen in September. Core inflation, which excludes volatile prices such as those of food and energy, was unchanged at 1.7%.

Overall, the GDP figures suggest that the economy failed to regain much momentum after the Q2 contraction. The economy is now expanding below its estimate of potential growth. The loss of growth momentum argues in favor of building disinflationary pressures, which could pave the way for the BoE to lower interest rates next year. As for the past monetary policy meeting, two voting members already voted to lower the Bank Rate. Therefore, more officials could join the bearish club as the negative atmosphere resides.

The Sterling pound traded in a positive manner last week, despite frail economic data across the board. Since the Brexit referendum, economic fundamentals have taken a back seat, while politics has been the main market mover. The GBP ended the week near the 1.29 level and gained 0.88% versus the dollar in the past five trading sessions. The Sterling's positivity reflects increasing optimism that the Conservative Party could win a majority at the upcoming election. Bloomberg has reported that the chance of a Conservative majority has increased by 10% to 50% since last month. The latest opinion polls released last week continue to indicate that the Tories hold a significant lead over the Labor Party of around 10-12%.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30355 on Sunday morning.

Rates –17th November, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1022	1.0987	1.1057	1.1050	1.0850	1.1150	1.1123
GBP	1.2793	1.2783	1.2919	1.2905	1.2700	1.3010	1.2942
JPY	109.24	108.23	109.29	108.73	106.65	110.75	108.11
CHF	0.9972	0.9868	0.9949	0.9897	0.9705	1.0095	0.9832