Weekly Money Market Report
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A fragile sentiment across global economies

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Highlights

- For the third time in just 6 months, the IMF cut its outlook yet again for global growth.
- US Federal Reserve policymakers will likely remain on course keeping rates on hold for the year as investors remain weary over global uncertainty.
- Brexit has been delayed for up to 6 months as pressure mounts on Prime Minister Theresa May.

IMF delivers a gloomy forecast

The International Monetary Fund cut its outlook for global growth for the third time in just six months, delivering a gloomy report on the global economy. The world economy is now expected to grow 3.3% this year, down from the 3.5% previously forecasted in January. As it pointed mainly to the weight of trade tensions, the report also downgraded its estimate of global volume of trade in goods and services to 3.4% from January's 4% estimation. Risks are now skewed to the downside as indicated in the report, with threats ranging from negotiations between the US and China to end their trade war, the Brexit calamity, and the risk of a broad global slowdown.

Starting with the world's largest economy, the fund cut its forecast for US growth to 2.3%, down 0.2% from January's outlook. The downgrade mirrors the partial governmental shutdown which ended in January, lower than expected public spending, and trade uncertainty. For the euro area, outlook for growth was reduced by 0.3% to 1.3%: Italy is now in recession, while Germany barely avoided a recession at the end of 2018. The UK - primarily weighed down by Brexit uncertainty - had its outlook for growth cut by 0.3% to 1.2%.

United States

Federal Reserve points to policy uncertainty

Federal Reserve officials kept their options open in their latest meeting, as the minutes presented a high degree of uncertainty over policy prospects. After raising interest rates four times last year, the central bank adopted a sharp shift in position in early 2019, moving towards a more "patient" standpoint. More recently, talks of rates shifting in either direction based on incoming data and other developments have come into play. Still, most policymakers indicated rates would most probably be kept on hold for the remainder of this year. The release of the minutes edged treasury and equity prices lower, indicating investors had responded with weary to the uncertain tone over future rate rises.

Recent data out of the United States will likely keep the Federal Reserve on course with its previous stance to not raise rates this year as a slight uptick in inflation is unlikely to alter the Feds patient approach. US consumer price inflation rose by 1.9% last month from a year ago, up from the 1.5% recorded in February and slightly higher than the 1.8% expected by markets. Month to month, the figure saw its highest level since January 2018 at 0.4% - still in line with expectations. The gains were largely attributed to the ongoing rally in oil prices, while food prices rose as well. However when looking at core CPI, which excludes volatile food and energy prices, the index was up just 2% compared to the 2.1% in February. Later, a report of the headline producer price index – a scale of industrial inflation – exposed a rise of 0.6% last month in its biggest gain since October 2018. The figure roughly doubled expectations of a 0.3% increase, and follows a 0.1% increase in February. The US dollar advanced across the board on the backdrop of the better than expected data, however later subdued and is currently trading at around the 96.8 level – up nearly 0.7% since the beginning of the year.

Switching gears from China to Europe

On the trade front, it appears that Washington will now steer towards Europe following tensions with China. The new focus on Europe was set in motion after the EU set subsidies to support Airbus, which were judged illegal by the World Trade Organization. The US has threatened tariffs on $11bn worth of EU products, risking the delicate truce made back in July between Washington and Brussels. At the time, commission President Jean-Claude Juncker struck a deal with Trump to refrain from imposing further tariffs, though no formal negation has begun since then. The US continues to criticize the EU's reluctance to take account of agriculture in the talks, while the EU is troubled by US levies on EU steel and aluminum as well as threats for further tariffs on automotive products.

Europe & UK

Brexit's departure date postponed

Brexit has been delayed for up to six months, with the new departure date set on October 31st. The EU's second approval of an extension leaves British Prime Minister Theresa May in familiar ground – facing astounding pressure from Eurosceptic Conservative MPs furious with her leadership and the postponement of Brexit. Adding to the burden, the decision to extend comes just 6 weeks prior to the European Parliament elections in which the UK will have to hold elections or be obligated to leave on the 1st of June.

The Prime Minster announced initiation of talks with opposition Labour leader Jeremy Corbyn, opening the door to a deal that might include a softer exit which would include membership of an EU customs union. With MPs having rejected May's withdrawal agreement three times already, European Council President Donald Tusk said the UK can now rethink its strategy or choose to "cancel Brexit altogether", but urged: "Please do not waste this time." The latest developments attempts to set a compromise between those who were willing to extend the Article 50 for about a year, and others – mainly led by President Emmanuel Macron of France – who urged a shorter deferral. Though the sterling ended in red last Wednesday, it has recently recovered from its December lows. The GBP/USD pair has gained around 4.1% since the beginning of the year, and is currently trading around the 1.3083 level.

Steady pace of growth despite Brexit headwinds

In spite of the seemingly constant Brexit chaos, Britain's economy grew faster than expected during the first quarter of 2019. Gross domestic product was 0.3% higher from the preceding quarter, driven mainly by the services sector which accounts for roughly 80% of the economy. On a monthly basis, GDP rose 0.2% in February after a 0.5% jump in January. Manufacturing production also boomed in March rising to 55.1 from 52.1 in February, marking its highest reading for 13 months.

Nonetheless, economists have warned that the overall boost to economic growth was likely to be minimal and temporary. The record figures reported are in sharp contrast to readings from other EU countries as it appears that manufacturers are rushing to complete work before the UK's departure date. Given that they would face struggles to supply customers with their products following Brexit disruption to borders and supply chains, the hefty pre-Brexit stockpiling is likely an attempt to secure components used in their manufacturing activities. The near-term outlook for the UK economy remains heavily dependent on the outcome of Brexit negotiations.

ECB holds rate steady and delivers cautious message

The European Central Bank has vowed to hold rates steady until "at least the end of 2019" just shortly after the International Monetary Fund report downgraded its economic growth forecast on the euro zone economy. On Wednesday, the bank kept its benchmark main refinancing rate at zero and its deposit rate at -0.4%. ECB president Mario Draghi expressed the banks readiness to "adjust all its instruments" should stronger growth and inflation continue to elude the region, leaving open the possibility of easing monetary policy further.

The ECB halted its most significant measure (the €2.6tn quantitative easing program) back in December, but substandard data since then has pressured policymakers to reveal what they can do to support the now QE absent economy. Last month, the bank had announced what is known as "Targeted Longer-Term Refinancing Operations" to help boost lending in the economy by supporting Eurozone banks. The TLTROs are basically loans provided by the ECB at cheap rates to bank in the Euro area, providing lenders with the ability to provide better credit conditions to customers in hopes of stimulating the economy. The program is set to start in September 2019 and end in March 2021, and will mimic the mechanism which was first introduced in 2014 and later in 2016.

Commodities

Oil prices rose to fresh 2019 high's last week as OPEC-led production cuts and US sanctions on Venezuela and Iran continue to drive up prices. Seemingly ignoring President Donald Trump's plea for more supply to cap prices, overall output by OPEC members fell by 550,000 bpd.

Last week, as the conflict in Libya escalated, so did fears of supply disruption. Brent Crude and the West Texas Intermediate both hit their highest levels since November 2018 at $71.44 and $64.62 per barrel respectively. Prices later subdued slightly, however oil prices are still up for the year. YTD, prices have recovered from last year's fourth quarter lows: Brent crude is up around 30% and the West Texas Intermediate gained close to 31%.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30390 on Sunday morning.

Rates – 14th April, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1216	1.1211	1.1325	1.1300	1.1100	1.1500	1.1390
GBP	1.3034	1.3019	1.3121	1.3081	1.2885	1.3280	1.3142
JPY	111.71	110.83	112.09	112.02	111.05	114.00	111.22
CHF	0.9999	0.9975	1.0046	1.0022	0.9915	1.0215	0.9938