Weekly Money Market Report
14 July 2019

Dollar Falls Amid Rate Cut Expectations

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Highlights

- Fed Chair Jerome Powell's comments paved the way for the Regulator to cut interest rates.
- US core consumer prices rose by the most in a year and a half.
- The Bank of England warned of a no-deal Brexit.
- UK economy saw partial recovery during May.
- Chinese exports declined showing the effects of the trade wars.

United States

The Federal Reserve appeared to be dovish during the semiannual monetary policy testimony to the US Congress. During his testimony, Fed Chair Jerome Powell's comments paved the way for the Regulator to cut interest rates on mounting risks to the US economic outlook, fueling expectations for a rate cut this month. The dovish stance came in despite of the strong jobs report for the month of June, and the new truce in the trade war between US and China. Powell said "uncertainties about the outlook have increased in recent months, particularly internationally." He then continued, "Economic momentum appears to have slowed in some major foreign economies, and that weakness could affect the US economy. Moreover, a number of government policy issues have yet to be resolved, including trade developments, the federal debt ceiling, and Brexit. And there is a risk that weak inflation will be even more persistent than we currently anticipate,"

The Fed did not commit to any timeframe for possible monetary easing, nor did it point to the scale of interest rate cuts that are required to protect the US economy from the growing risks to its expansion. But Powell repeatedly said that the Fed was committed to preventing a slowdown in the US economic expansion.

The shift in the Fed's tone towards the looser monetary policy comes as the Central Bank is under heavy pressure from President Donald Trump. Trump has been openly pushing the regulator to cut rates, but the Fed has insisted that it is fiercely protective for its autonomy. The Fed made it a point to show that it is willing to do whatever it sees fit for the US economy. During the testimony, Powell said he had no intention of stepping down, even if Trump went after firing him, he commented "The law gives me a four-year term and I fully expect to serve it,"

The debate about possible interest rate cuts began at the Fed's last monetary policy meeting in June, although it was decided that it will hold off any move in order to gather more information when it signaled that it would "act as appropriate to sustain the expansion." In reference to the June meeting, Powell commented "Many FOMC participants saw that the case for a somewhat more accommodative monetary policy had strengthened, since then, based on incoming data and other developments, it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the US economic outlook." Powell seemed to have little confidence that a new round of negotiations on trade between the US and China could yield a lasting peace. He said the outcome of the meeting at the G20 in Osaka represented a "constructive step" but did not remove the uncertainty about the dispute between the world's largest economies.

Powell also dismissed the importance of a strong US labor market reading in June that caused some economists to doubt the likelihood of a quick rate cut. He said that the jobs data did not change his outlook and economic data had been generally disappointing. The Feds stance toward a rate cut at a time where the US has exceedingly low unemployment is being described many economist as an "insurance" policy against slowdown, rather than a reaction to sharply worsening data.

In response to the testimony, S&P 500 briefly broke 3,000 for the first time rising 0.8% reaching 3,002.98 before easing back to be 0.5% higher at midday in New York, with the Nasdaq composite and Dow Jones Industrial average also touching new records. The Dollar weakened and Treasury yields took a fall led by the policy sensitive 2-year note of which yield went down 6.9 basis points reaching 1.836%, still above the 1.7% in late June when expectations for a 50 basis point cut in July were rising. At the longer end of the curve, the 10-year yield was flat at 2.061% having hit 2.113% earlier in the day. Both the Euro and Sterling gained momentum due the stance of the Fed. The Euro gained 0.59% closing at 1.1270, and the Sterling started shedding the losses it has suffered due to increasing Brexit uncertainty, the Cable moved up 1.03% since the testimony and closed the week at 1.2572. The yellow metal also reaped some benefits, reaching $1,425.6 and toned down to close at $1,415.2 up 1.77% since the testimony.

Accelerating Consumer Inflation

Data released on Thursday showed that US core consumer prices rose by the most in a year and a half in June from May. The indicator that strips out volatile items like food and fuel prices rose 0.3% m/m, its biggest move since January 2018. On annual basis, core CPI rose 2.1%. The number outran economist expectations of 0.2% and 2% increase respectively. Headline CPI rose 0.1% m/m topping expectations that it would remain flat, and came in line with y/y expectations of a 1.6% rise. The report showed a broad increase in prices including apparel, used motor vehicles, rent, and medical care services. A separate report showed the number of Americans filing for jobless benefits unexpectedly fell to 209,000 against expectations for a slight uptick to 223,000.

The figures resulted in US stock futures trimming their gains, while Treasury yields climbed. The Greenback gained some of its losses after the Feds testimony when it hit a low of 96.799 and closed the week at 96.818.

Europe & UK

Bank of England Warns From a No-Deal Brexit

The Bank of England released its financial stability report on Thursday where it warned that the "perceived likelihood" of a no-deal Brexit had increased, stating that it would bring with it "material risks of economic disruption" and "significant" market volatility. The report noted that the British economy is already feeling the effects of a Brexit related slowdown, with uncertainty hitting both sterling exchange rates and the prices of UK-focused equities.

The risk of a no-deal Brexit has been rising since Theresa May stepped down as Prime Minister, with the two candidates that are likely to succeed her - Boris Johnson and Jeremy Hunt – have both said they are willing to take the UK out of the EU without an agreement.

The report also said that Britain was more prepared for a disorderly Brexit than it was six months ago, although its Governor Mark Carney suggested there could be a significant impact on the economy and markets.

UK Economy Partially Recovers

The UK economy saw partial recovery during May thanks to an upturn in car production while the dominant services industry remained stagnant. Financial services output saw further contraction marking its longest period on record without a rise. GDP grew 0.3% in May compared to the month before, in line with expectations and up from a 0.4% contraction in April. Manufacturing production also expanded in May reaching 1.4% up from a contraction of 4.2% in April when it fell largely as a result of the decision by vehicle manufacturers to bring forward their annual factory shutdowns from August to April to minimize their losses in case of a no-deal Brexit at the end of March. Yet, the rebound in manufacturing was mainly due to a 12.4% expansion in transport equipment over the previous month, a partial bounce back from the 13.8% fall in April. Output in more than half of the manufacturing industries fell in May as pharmaceuticals contracted by 2.8% while the food and beverage industry contracted by 1.4%. In three months the UK economy expanded 0.3%, surpassing the 0.1% growth forecasted by economists. Services output, that amounts to 80% of the British economy remained flat in May in comparison to April. In three months, services output growth slowed 0.3%, down from a peak of 0.8% in the three months leading to August.

Asia

Chinese Exports Declined While Inflation Remained Stagnant

Exports from China declined in June as tensions with the US rose; exports declined 1.3% y/y according to a report by the Chinese customs administration. The soft figure in June came after May showed only marginal growth, providing evidence that the trade war with the US is starting to take its toll. Value of imports also decreased, falling by 7.3%, and reflecting softer commodity prices going into the summer.

Producer prices in China were unchanged in June, putting a halt to almost three years of consecutive growth, while the pace of consumer price increases remained steady. Factory prices did not change from a year ago, marking the first month without an increase since prices fell in August 2016, coming short of the 0.6% growth in May, and the 0.3 increase forecasted by economists. Consumer inflation held in line with the 2.7% y/y increase recorded in the previous month.

Kuwait

Kuwaiti Dinar at 0.30350

The USDKWD opened at 0.30350 Sunday morning.

Rates –14 July, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1223	1.1286	1.1193	1.1270	1.1170	1.1470	1.1353
GBP	1.2516	1.2579	1.2440	1.2572	1.2470	1.2770	1.2639
JPY	108.47	108.99	107.80	107.90	105.95	108.90	107.12
CHF	109.90	0.9951	0.9836	0.9841	0.9640	0.9940	0.9755