Weekly Money Market Report

11 November 2018

Global markets face pressure as the Fed remains on course

United States

The highly anticipated midterm elections

The US midterm election results are in line with market expectations as voters delivered a split Congress on Tuesday. The Democrats regained a majority of seats in the House of Representatives for the first time since 2010, while Republicans increased their majority in the Senate, solidifying their control. Despite numerous retirements by Republican members of Congress, President Donald Trump claimed his party had “dramatically outperformed historical precedents”. Voter turnout was elevated as 35 million early votes were detected compared to the less than 20 million in 2014. Both sides fought vigorously as the campaigns were dubbed the most expensive in US history.

Now that the Democrats won the house, and with it subpoena power, the most likely outcome is a legislative gridlock. Trump promised a “war-like posture” if the Democrats used their control of the House to go after his personal finances or presidential policies. Though a majority Republican Senate would support Trump’s agenda on trade and foreign affairs, he’ll likely face resistance in the House in regards to tax cuts, Obamacare, deregulation and defense spending. Democrats will officially take control in January of 2019, most likely complicating aspects for the President’s agenda over the next two years. Trump will find that some of his staple campaign promises such as a border wall with Mexico are now at risk. He will also likely face numerous investigations on personal finances and misconduct as promised by the Democratic Party. Markets did not have a strong reaction to the outcome as the dollar ended the week at 96.905.

Federal Reserve bullish on US economy

The Federal Reserve left interest rates unchanged on Thursday at 2-2.25% as widely expected by markets. With strong economic growth, higher tariffs and rising wages, the central bank will most likely remain on course to hike rates in December. The economy has recorded two straight quarters of annualized growth well above 3%, wage growth has expanded to its quickest pace in almost a decade, and unemployment is currently at record lows. Strong US labor data reported nonfarm payrolls increased by 250,000 jobs, and average hourly earnings rose 0.2%, leaving the annual increase in wages at 3.1%. This year-on-year figure marks the biggest gain since April 2009.

Producer prices for final demand saw its biggest monthly gain since 2012, rising 0.6% in October according to the Bureau of Labor Statistics. The data followed a 0.2% gain in September and far above market expectations of 0.2%. The rise was mainly attributed to a jump in prices for trade services and gasoline, as the tariff war with China continues to raise concern due to supply-chain disruptions. The data further supports the Federal Reserve’s plan to lift interest rates gradually.

The question remains if there is enough room for the US jobs market to strengthen without creating excessive inflation. The US Labor Department reported annual inflation in the US fell to 2.3% in September from 2.7% in August. With inflation near the 2% target, the central bank made it clear that further hikes remain in prospect as they shift policy to neutral settings. In clear disregard to Trump’s ongoing criticism, Federal Reserve Chairman Jerome Powell insisted that the central bank is “removed from the political process” and will continue to try and do the right thing for the economy. The dollar held its gains, with the index rising 0.2% at 96.884.

As for the commodities complex, oil has toppled over the past month as US crude prices closed in a bear market on Thursday. Weighing heavily on the oil market is the Trump’s administrations restoration of all sanctions previously lifted under Obama’s 2015 nuclear deal with Iran. Over 20 nations had cut their oil intake, and exports fell by around a million barrels a day. However, the Trump administration has granted temporary exemptions with no time frame for 8 countries, including some of Iran’s largest trading partners, China and India. The decision softened the blow as America’s oil production is estimated to produce 12.1m barrels per day in 2019 from 11.8m, according to the US Energy Information Administration. Domestic crude stockpiles expanded the most since June to 432m barrels. The West Texas Crude Intermediate saw a steep decline compared to the four year high of $76 in September, falling to $60.56. Brent Crude was down 1.9% to 70.69 a barrel.

The drop in oil prices weighed heavy on the equities market, with the S&P 500 dropping 0.9% and the Dow Jones Industrial Average following at 0.8%. The Nasdaq took the largest hit as technology shares retreated, losing 1.7%. Markets will now wait in anticipation as President Donald Trump is set to meet his Chinese counterpart Xi Jinping later this month, in an attempt to defuse the trade dispute between the world’s largest economies.

UK & Europe

BoE awaits Brexit confirmation

The Bank of England signaled it would up the pace of interest rate rises in the coming years if Theresa May was able to negotiate a smooth Brexit deal. The central bank announced rate rises would still be “gradual”, but noted that it would need to raise rates to 1.5% over the next three years to maintain control of inflation. While the Monetary Policy Committee left rates unchanged, they noted an increasingly strong labor market, resilient household confidence, and momentum in household consumption. GDP growth is expected to come in at 1.7% annually over the next few years.

Positive data for Britain’s economy

Overall, Britain’s economy has continuously slowed since the 2016 Brexit referendum, with this week taking a turn adding positive GDP and Manufacturing data. Third-quarter UK gross domestic product grew by 0.6% and reported an annual increase of 1.5%, in line with market expectations. The main contributors to the third-quarter GDP were services by 0.33%, followed by construction and production at 0.13% and 0.11% respectively. Net trade also aided GDP growth, with a 2.7% rise in exports of goods and services. Looking at manufacturing production, the Office for National Statistics published manufacturing output arriving at 0.2%, versus the 0.1% expected. Though the economy saw a strong summer, long-term economic growth remains subdued with retail and domestic car purchases falling back. Business expectations for stronger activity over the next year are at the weakest since March of 2016, with costs booming due to higher fuel bills and rising wages combined with a drop in new orders. Nonetheless, data is expected to pick up if the Brexit talks go smoothly.

Prime Minister Theresa May's cabinet ministers have been invited to read an almost complete draft of the Brexit withdrawal agreement. The news follows the timetable set by Theresa May who promised to give a speech on November 19 describing the details of the Brexit deal. Parliament would then vote on the agreement by the month’s end. Year to date, the sterling is down about 4% and ended the week at the 1.2975 level.

Asia

China leans on reserves

China's central bank dipped into their reserves in an attempt to protect the renminbi from the ongoing trade war with the US. Roughly $32bn in foreign exchange reserves were spent, marking the heaviest monthly intervention by the bank in 2 years. The latest sign of China's worries about the economy illustrates the attempt to balance currency stability without exhausting reserves. China's forex reserves were just below $4tn in 2014. For the two years following, the PBoC burnt through around $1tn to support the renminbi until a strong economy eased pressure and the intervention halted. However, pressure in recent months due to a rising US dollar, the Fed's interest rate hikes, a weakening Chinese economy, and rising concerns on US tariffs has forced the central bank to intervene again. The Chinese Renminbi has fallen around 6.45% year to date, ending the week at 6.9553.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30390 on Sunday morning.

Rates – 11th November, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1390	1.1313	1.1500	1.1334	1.1140	1.1530	1.1436
GBP	1.3023	1.2956	1.3174	1.2974	1.2760	1.3180	1.3044
JPY	113.17	112.92	114.08	113.82	111.80	115.50	112.903
CHF	1.0021	0.9949	1.0085	1.0053	0.9855	1.0250	0.9958