Weekly Money Market Report
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US Dollar nears 100 psychological mark as investors rush to haven assets

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Highlights

- Federal Reserve officials remain optimistic regarding the resilient US economy, opting to keep rates on hold though maintains flexibility if conditions change.
- Canada's inflation rises alongside gasoline prices, still near the central bank's 2% target. The bank has kept rates unchanged since October 2018.
- Worrisome investor sentiment in Germany was followed by a positive recovery in Flash Manufacturing PMI.
- An uneasy 2020 beginning for Australia's job market. Lowe has two cuts remaining before unconventional policy kicks in.
- Chinese lenders attempt to aid the recently battered economy. Meanwhile, reports show a decline in the number of coronavirus cases.

The economic impact of the coronavirus outbreak is becoming more apparent worldwide. Apple announced a surprise cut to its sales forecast, Asian governments' downgraded growth prospects, and German investor sentiment is collapsing. The fallout from the outbreak of the virus could not come at a worse time for economies like Japan and Germany, who were just beginning to see recovery after a year of global trade tensions weighed on manufacturing and exports. China insists the rate of infections is stabilizing as the economic damage is most apparent in their local economy and usual activity is halted. Sectors across the board are taking hits as factories deal with worker absences and supply chain shortages, while consumers are limited by travel restrictions and fears of the infection. Europe is starting to worry as well, with automakers fearing additional supply chain disruption. Germany carries the bulk of the burden, following a dismal year for the economy thanks to a decline in its key auto sector. In this past week, the euro was sent to record lows, gold prices climbed to record highs, and Asian stocks retreated. The US dollar advanced touching three-year highs against a basket of major currencies and neared the 100 psychological mark.

United States

Rates are likely to stay in place

The Federal Reserve released minutes from its Jan. 28-29 meeting during which it held interest rates steady at a range between 1.5% and 1.75%. Officials expressed confidence about the state of the US economy even as financial markets are pricing in a near-certainty of at least one cut this year and possibly two. FOMC members noted that the outlook for the economy had gotten "stronger" since its December forecast. There were only few mentions of possible dangers from the virus, though the spread of the disease had only just become an issue at the time of the meeting. "Some trade uncertainties had diminished recently, and there were some signs of stabilization in global growth. Nonetheless, uncertainties about the outlook remained, including those posed by the outbreak of the coronavirus." the minutes said. The FOMC cut rates three times in 2019 but opted to remain unchanged in its previous two meetings. Though trade tensions have eased, many tariffs remain in place and further tensions could flare up. The minutes said policy would remain flexible if conditions change. Looking at inflation, the Fed's preferred price measure rose 1.6% last year, and central bankers have failed to sustain their target of 2% since its announcement in 2012. The minutes revealed several officials might support a slight overshoot of the 2% target. The US economy began 2020 powerfully. The jobless rate is near a half-century low at 3.6%, while average hourly earnings climbed 3.1% y/y. Household consumption - aided by low interest rates - should help sustain growth and lift inflation back to the 2% target. Meanwhile, central bankers are buying $60 billion of bills per month to boost reserve balances and will continue to do so moving into the second quarter of 2020. Funds have raced to the US dollar as the yen headed for its worst week in 2.5 years as worries about the coronavirus spreading in South Korea, Japan, and Beijing drove demand from Asia to the US. As investors continued to head to haven assets, the yield on the benchmark 10-year US Treasury fell to 1.5186%, while the two year fell to 1.3892%.

Canada

Inflation rises alongside gasoline prices

Canada's annual inflation rose to 2.4% y/y in January due to higher gasoline prices, posing a challenge for the Bank of Canada should it decide to ease rates in the commodity-dependent economy. Striping out gasoline, the inflation rate sits at 2% for the month – continuously hovering near the bank's target. Gasoline prices surged 11.2 % y/y early January in reaction to tensions between the US and China and in the Middle East. However, prices later fell as oil demand was crushed due to the spread of the coronavirus leading many believe the effect of gas prices should dissolve.

The central bank has held its overnight interest rate steady since October 2018 even as many counterparts eased, though kept the door open for a possible rate cut. There are many reasons for the bank to avoid a more accommodative monetary policy. The unemployment rate has held near 50-year lows, while wage growth continued to grow faster than the inflation rate. The housing market is strong and the stock market is delivering positive returns. The economy surprisingly grew in November, the trade deficit narrowed in December, and manufacturing activity expanded in January for the fifth straight month. The healthy domestic conditions for consumers might only get better thanks to the recent federal income tax cut. Still, the bank re-iterated that it will leave the door open for rate cuts if domestic growth stalls.

Europe & UK

Investor morale worsens

Investor sentiment in Germany dropped sharply in February, adding to an increasingly worrisome picture for Europe's largest economy. Sentiment for the German economy fell 18 points this month to a reading of 8.7, significantly below January's reading of 26.7 and the 21.5 expected. The feared negative effect of the coronavirus epidemic in China is a leading cause for the decline, although the German economy has been struggling for some time now. Germany's manufacturing sector suffered its worst year for a decade last year following a sharp decline in orders. Figures show the economy flat lined in the fourth quarter, producing zero growth. For the whole of 2019, the economy expanded just 0.4%.

On a brighter note, on Friday German Flash Manufacturing PMI rose to 47.8, up from its 45.3 previous and 44.8 expected. Services remained resilient registering at 53.3, lower than the 53.9 expected and 54.2 seen prior. Despite reports of a slump in both exports and sentiment linked to the impact of the coronavirus, the manufacturing sector has moved closer to stabilization as surveys indicates slower falls in output, new orders and employment. Though the figure still represents a contraction, it is still the highest value seen since January 2019. The euro rose following the release of the data, while European stocks recovered some of their earlier losses.

Australia

A worrisome labor market

The Australian job market has not seen an easy beginning to 2020. The unemployment rate unexpectedly rose from 5.1% to 5.3% in January despite an increase in full-time employment. Part-time workers left 32,700 jobs but 46,200 full-time jobs were added, creating the net increase of 13,500 and a participation rate of 66.1%. The high participation rate (the percentage of the population over 15 either working or looking for work) illustrates an economy where the labor market is struggling to create jobs quick enough. For perspective, the 65.7% seen in March of 2018 was considered a peak figure.

Though the market experienced a three-year run of hiring strength that withstood global volatility offshore and a local slowdown, the health of the job market failed to push unemployment lower and wages higher as it coincided with a growing labor force. This prompted the Reserve Bank of Australia to cut interest rates three times in 2019 in an effort to support investment and drive faster growth and inflation. Still, the easing has seen miniscule results, with Governor Philip Lowe maintaining "long and variable lags" in monetary policy means it will take time for stimulus to work its way through the economy. Meanwhile, investors will continue to assess the impact of the virus outbreak after the People's Bank of China lowered its benchmark lending rates to stimulate the economy.

The central bank's cash rate is currently at a record low 0.75%, with Lowe estimating the lower bound at 0.25% - meaning he has just two cuts before unconventional policy comes into the picture. Still, traders are pricing in a slight change of a rate cut in the next two months, though bets climb in July. The Australian dollar declined following the release of the data, ending the week at near its lowest in a decade.

Asia

China's coronavirus challenge

Chinese lenders have cut a key lending rate in an effort to prop up the economy recently battered by news of the coronavirus. Major lenders reduced their one-year loan prime rate (rate that banks charge their most creditworthy clients) by 0.1% to 4.05%. This follows a widely expected move a week prior by the People's Bank of China lowering the one-year loan prime rate. Governor Chen Yulu said the bank had "ample room for policy interventions", arguing the most likely scenario for China was a "rapid recovery, with the total economic impact relatively contained". Chinese stocks rallied following news of the cut, with the CSI 300 rising more than 2% throughout the day. Elsewhere in Asia, factory activity in Japan suffered its steepest contraction since seven years this month. There is some confidence that the virus count in China would decline. According to China's National Health Commission, there were 349 new cases reported on Wednesday in Hubei – the center of the epidemic. This is a sharp decline from the previous day's 1,693 and 1,807 on Monday.

Commodities

Oil recovers for a second week while Gold hits fresh multi-year highs

Oil prices rose to their highest in three weeks largely in response to China's latest economic stimulus measures. The rebound follows a heavily shorted market in the early weeks of the coronavirus outbreak. Oil had rallied on speculation that the worst economic impact of the virus has been accounted for. A smaller than expected increase in US crude stockpiles was also a positive for the global supply. Still, global investors remained nervous regarding supply chains dependent on Chinese manufacturing.

Gold extended its recent bullish run, climbing to seven-year highs on Friday amid concerns over the spread of the coronavirus. The safe-haven metal rally follows the latest warning by the World Health Organization regarding the outbreak, fueling pessimism about the global growth outlook. Though the coronavirus may be considered a major factor for the rise, prices have also been supported by weaker government bond yields and a Federal Reserve that has kept interest rates low. Low US Treasury yields also make precious metals, which don't offer a coupon, more attractive. Other metals such as silver, copper, and platinum also picked up.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30560 on Sunday morning.

Rates – 23 February, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.0830	1.0863	1.0775	1.0843	1.0750	1.0950	1.1260
GBP	1.3034	1.3054	1.2846	1.2969	1.2850	1.3025	1.3020
JPY	109.77	112.21	109.64	111.57	110.50	112.00	107.85
CHF	0.9815	0.9848	0.9768	0.9780	0.9700	0.9859	0.9623