

Weekly Money Market Report

26 January 2020



US Dollar Surges Following a Dovish ECB

Highlights

- IMF expects world growth to be at 3.3% in 2020.
- BOE is expected to cut interest rates in the upcoming meeting.
- UK's manufacturing and services PMIs shine
- US dollar surges by 0.22% after a dovish ECB meeting

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United States

IMF expects the world economy to grow

The International Monetary Fund predicted a stronger world economy in 2020, though at a weaker pace than previously anticipated amid threats regarding trade and tensions in the Middle East. The fund said global growth will accelerate to 3.3% from the 2.9% in 2019. This marks the first pickup in three years, but is less than the 3.4% projected in October. The 2019 estimate was reduced six times. Positive signs include that the slump in manufacturing and global trade is bottoming out, progress on US-China trade talks, and accommodative monetary policy. The Fund said expansion in 2019 and 2020 would be 0.5% weaker without the impact of central banks' efforts to shore up growth last year.

With the Fed set to meet for the first time in 2020 on the 29th of January, markets expect the FOMC to maintain interest rates at current levels. The Fed should shed some light on their outlook for 2020 after solid manufacturing data and the signing of phase 1 of trade agreement between the US and China.

FX markets and Fixed Income

On the FX front, the dollar index gained some momentum last week and increased by 0.22% reaching a 7-week high of 97.855 following the drop in Euro after a dovish ECB meeting and market expectations of a cut by the Bank of England in its next meeting.

Meanwhile, US 10-year treasury yield dropped from 1.82% to 1.73% while the 2-year treasury yield dropped by 2 basis points to 1.52% narrowing the spread to 21 basis between the two maturities to the lowest since mid December of last year.

Europe & UK

ECB Will Launch its Strategic Review

Almost three months after becoming ECB president, Christine Lagarde revealed the framework for the review that she aims to finalize by December 2020 and which promises to trigger bruising debates on some of the most divisive issues in central banking. The ECB kept its loose monetary policy unchanged last Thursday, and mentioned they will consider the inflation target along with the tools used to achieve the target. Ms Lagarde said on Thursday it would be a "broad exercise" and that the ECB "cannot operate as we did back in 2003" — the only other time it has carried out a review. She also added that the growth outlook in the region is tilted to the downside with less stress on risks after a moderate increase in inflation and the phase one agreement between the US and China.

One cloud over the ECB's rate-setting meeting came from the German constitutional court, which is considering whether the central bank's €2.6 trillion bond-buying programme is legal. The court announced on Thursday that it would give its ruling in the case on March 24. Following the meeting the euro fell to a 7-week low of 1.1023 as market participants digested the dovish stance of the ECB.

EU Manufacturing and Services PMIs

Data on the manufacturing and services sector surfaced last week in the EU. Flash manufacturing PMI came at 47.7, beating both expectations and previous reading of 46.9 and 46.3 respectively. The rebound in the reading is mainly attributed to Germany's manufacturing data, which still remain in contraction zone and well below a reading of 50 at 45.2. On the other hand, the services PMI edged lower to a reading of 52.2 while market consences was at 52.9.

Solid Data Pushed Sterling Levels Higher

The UK economy created jobs at its strongest rally in nearly a year in the three months to November. Tuesday's data showed the number of people employed rose by 208,000 to 32.90 million, the biggest increase since January 2019 and far stronger than the 110,000 expected. Additionally on Friday, services and manufacturing PMIs were released and both readings were solid. In details, the manufacturing PMI came at 49.8, 1 point higher than the expectations of 48.8. The figure is just shy of a an expanrionary reading of 50. The services PMI reading was at 52.9 and surpassed expectation of 51.1 and the previous reading of 50. The Sterling pound gained as much as 1.17% over the last week following the release of robust data. However, the gains were short-lived as the markets are pricing a 50% probability of a cut by the Bankf of England in its meeting on January 30th and the sterling went back to 1.30 levels.

Canada

Bank of Canada Meeting

The Bank of Canada maintained its target for the overnight rate at 1.75% and opened the door to a possible cut should the recent slowdown in Canadian economic growth persist. The central bank has kept rates unchanged since October 2018. In its latest meeting, it noted that while the economy has been resilient, recent economic data has been mixed notably unexpectedly soft indicators of consumer confidence and spending, and weaker business investment. "We're not saying that the door is not open to an interest rate cut. Obviously it is - it is open," Bank of Canada Governor Stephen Poloz told a news conference. The BOC also cut its forecast for fourth quarter annualized growth to 0.3% from 1.3% in October. Canada's currency sold off after the release, losing around 0.5% of its value against the US dollar. Meanwhile, inflation figures revealed Canada's consumer price index was flat in December and the annual rate remained at 2.2%.

Asia

BOJ Meeting

The Bank of Japan monetary policy board opted to keep its monetary policy steady and nudged up its economic growth forecasts. The BOJ revised its growth projection for the year beginning in April to 0.9%, up from the 0.7% estimate made in October, helped by a boost from the government's fiscal stimulus package. The central bank also upgraded its growth estimate for 2021, but largely maintained its price forecasts that show inflation missing its 2% target through early 2022. "Japan's economy is likely to continue expanding moderately as a trend" as the impact of slowing global growth on domestic demand will be limited, the BOJ said in the quarterly report.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30365 on Sunday morning.

Rates –26th January, 2020

Currencies	Previous Week Levels				This Week's Expected Range		3-Month Forward
	Open	Low	High	Close	Minimum	Maximum	
EUR	1.1094	1.1020	1.1118	1.1025	1.0880	1.1110	1.1092
GBP	1.2989	1.2962	1.3173	1.3073	1.2875	1.3270	1.3117
JPY	110.07	109.17	110.22	109.27	108.25	110.30	108.70
CHF	0.9675	0.9661	0.9728	0.9712	0.9540	0.9810	0.9660