Weekly Money Market Report
23 June 2019

Major Central Banks Shift to Dovish Rhetoric

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Highlights

- US Federal Reserve, European Central Bank, and Bank of Japan hint at monetary easing.
- The US-China trade war continues to weigh heavy on the global economy. The next meeting between the US and China is scheduled at the end of the week.
- Economic growth expected to weaken in the UK.
- Oil prices soared on tensions in the Middle East.

United States

Undoubtedly a vigorous economic power, the US is now on track to hit the longest economic expansion ever. Unemployment is near its record 50-year low at 3.6%, while inflation remains subdued just below the 2% target at 1.8%. The combination of the two gauges is known as the "misery index", which now illustrates Americans are less miserable than they've ever been as the figure hit its lowest level in 63 years.

Nevertheless, investors still have reason to distress as the global economy watches the two largest economic powers battle in a trade war that has shaken markets for almost a year. In addition to the $250 billion worth of imported goods from China, Trump is prepared to extend tariffs to the remaining $300 billion. The US President also blacklisted China's Huawei, citing security concerns which effectively banned US companies from doing business with the world's largest telecommunications equipment maker. In retaliation, China imposed tariffs of 25% on $110 billion worth of US goods. Limited in its ammunition given the trade deficit, China has also indicated it would strike back through limiting rare earth supplies to the US. These minerals are important to manufacturers of high-tech consumer goods and China is by far the dominant supplier. After over a month with no contact, some traders say chances for a truce are low. Looking ahead, negotiators have confirmed a meeting at the G20 summit on June 28-29 in an effort to unravel the dispute.

"An ounce of prevention is worth more than a pound of cure" - Powell

The US Federal Reserve held interest rates steady in its meeting last Wednesday, though signaled possible rate cuts of as much as 0.5% over the remainder of 2019. In their statement, Fed officials said US economic activity was rising at a "moderate" rate rather than a "solid rate", and are expecting growth of 2.1% this year and 2% in 2020. The probability of the bank holding rates steady is now minuscule, even as the Fed claims it will wait for a clearer picture on current risks facing the economy. The probability of a cut is now widely anticipated, with Bloomberg pricing a 100% chance of a cut in July. Central banks of Australia, the Philippines, and Indonesia have followed similar paths, hinting at the chance of lower rates.

Increased economic uncertainty and inflation revealing an unexpected drop signaled that an interest rate cut was looming. Still, whether or not the central bank will trigger pre-emptive monetary easing to keep the expansion in good health is still up for debate. The dovish sentiment shaped a positive response from equities and weakened the greenback. The dollar is on course for its biggest decline since late March, down more than 1.4% versus the safe-haven yen.

Fed's dovishness sends stocks and safe havens higher

Thanks to predominantly dovish central banks, equities closed at record highs following the announcements. The US benchmark S&P 500 hit a YTD high of 2,964 last week, reflecting the Fed's dovish tilt prior to the G20 meeting next month where the US and Chinese presidents will meet and discuss a trade deal. Government debt in the US continued to rally, with demand for safer assets pushing the yield on the benchmark 10-year treasury under the 2% mark for the first time since 2016 at 1.9740. Gold prices also reflected the race to safe havens, reaching a five-year high of 1,410 on Friday.

Europe

ECB similarly hints at monetary easing

The European Central Bank's monetary policy has somewhat mimicked that of the US Federal Reserve in supporting their respective economies. Yet the response to the stimulus in Europe has been far more timid than that of the US, with ECB president Mario Draghi pointing to the increase in trade conflicts as an explanation. Draghi claims that these problems remain highly relevant as tensions have created a sharp slowdown in global trade which has spilled over to the Eurozone given its largely export-oriented economies (most notably in Germany). German industrial production fell 1.9% within Q2 of 2019, far worse than expectations of a 0.4% decline. As trade uncertainty may lead business to delay investments, the worry is that the manufacturing weakness will spill over to other parts of the economy. Looking at inflation, the euro-zone figure slowed to 1.2% in May, down from 1.7% in April. The labor market remains sturdy, with unemployment at its lowest level since the financial crisis at 7.6% and noteworthy rises in wages. The euro sank just below the psychological level of 1.12 at 1.1179 initially following Draghi's comments, though has since recovered and is currently trading at around 1.1366.

UK

BOE expects zero growth in Q2 2019

Unlike both the ECB and Fed which have both signaled willingness to lower interest rates unless global outlook improves, the Bank of England struck a less dovish tone. The bank voted unanimously to keep interest rates on hold at 0.75% and stuck to their message that rates would need to rise as long as Britain avoids a detrimental no-deal Brexit. However, economic growth is expected to drop to zero in the second quarter as the BOE claimed, "underlying growth in the UK appears to have weakened slightly in the first half of the year relative to 2018 to a rate a little below its potential".

Still, the UK economy has been remarkably resilient in the face of Brexit uncertainty. With record employment numbers and wage growth largely outpacing inflation, economists feel there are little signs that inflationary pressures are building up to a point that would justify an early rate rise. Financial markets, which are not focused almost entirely on Brexit developments, also have global trade tensions to take in. The next likely candidate for Prime Minister - Boris Johnson - has claimed he will leave the UK with or without a deal by the October 31st deadline, stating his commitment to present an agreement he believes the EU will settle on. However, the EU has repeatedly claimed their unwillingness to renegotiate, leaving a possibly problematic outcome. Relentlessly struggling since the 2016 Brexit referendum, the sterling fell to its near

YTD lows of 1.2504 against the dollar last week and has since recovered to around the 1.2742 level.

Asia

Stubborn inflation

Joining the US and ECB, the Bank of Japan has also dropped hints of additional easing as the trade war mounts pressure on the slowing economy. Governor Kuroda made an effort to dispel rumors that the BOJ has run out of ammunition, saying the central bank would combine interest rate cuts with bigger asset buying if needed. “Downside risks regarding overseas economies are big, so we must carefully watch how they affect Japan’s corporate and household sentiment,” the BOJ said in a statement announcing the policy decision.

Fighting stubbornly weak inflation has forced the BOJ to maintain massive stimulus programs even as dramatically low rates hit financial institution’s profits. With rates already below zero and a huge bond buying program, analysts feel the BOJ has little tools remaining to fight a possible rescission. Despite years of stimulus, annual core inflation hit 0.9% in April, still far from the BOJ’s 2% target.

Commodities

Oil prices soared Friday on tensions in the Middle East after Iran shot down a US military drone. Also adding support to oil prices was the announcement of rate-cut possibilities by the Fed which would stimulate the US economy, the world’s largest oil-consuming country. Tensions have been high in the region, which is the source of more than 20% of the world’s oil output. Strains began with the June 13 attacks on two tankers near the Strait of Hormuz – a crucial passageway for oil supplies in the gulf – which Washington blames Tehran for and Iran continues to deny. The trade war had sent oil prices lower in recent weeks after Brent reached a 2019 high of $75 per barrel in April. It is currently trading at a June high of $65 per barrel. OPEC and its allies look set to extend its deal on cutting 1.2 million barrels per day of production, re-convening on July 1st and 2nd.

Kuwait

The USD/KWD opened at 0.30310 Sunday morning.

Rates –23 June, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1214	1.1377	1.1179	1.1366	1.1270	1.1565	1.1447
GBP	1.2598	1.2748	1.2504	1.2740	1.2640	1.2940	1.2790
JPY	108.44	108.72	107.04	107.30	105.30	108.630	106.58
CHF	0.9985	1.0014	0.9754	0.9762	0.9560	0.9780	0.9682