

Weekly Money Market Report

27 October 2019



Possible General Election in the UK and Dovish ECB Rally the US Dollar

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Highlights

- Boris Johnson wins vote for Brexit Deal, yet not within time to push it for legislation
- General Election is a possibility in the UK
- Mario Draghi delivers his last policy statement ECB President after 8 years
- Risk appetite is growing among investors

United States

Risk Sentiment on the Rise

All eyes were on the trade developments between the US and China in addition to the seemingly never-ending Brexit situation. The economic adviser of the White House Larry Kudlow stated that tariffs scheduled for December could be withdrawn if negotiations continue to go well. The news elevated investors' overall sentiment and risk appetite which pushed 10-year US Treasury yield to a five-week high of 1.804% last Tuesday.

On the FX front, the US dollar rallied on the back of increased volatility due to Brexit and increased risk sentiment. The dollar index opened the week at 97.338 and reached a low of 97.140 before gaining momentum and reaching a one-week high of 97.777.

Looking at commodities, the safe-haven metal Gold was supported by uncertainties regarding Brexit though gains were limited as the markets continues to price in a relatively prompt departure. Investors also awaited the Federal Reserve meeting on October 30th, during which it is expected to cut its benchmark interest rate for a third consecutive time this year.

Mixed US Data

Durable goods orders plunged by 1.1% on month to month basis in the US, much below the market's expectation of a 0.5% drop. The manufacturing PMI rebounded to a 51.5 reading in October, beating market's expectations of 50.7. However, with durable goods orders dropping, the manufacturing sector is expected to endure the costs and shrink.

Europe & UK

ECB maintains status quo

The European Central Bank had its policy meeting last Thursday where Mario Draghi delivered his last statement as ECB President. As expected, the ECB made no changes to the monetary policy and confirmed the commitment to re-start the QE program beginning of November. When it comes to forward guidance, Draghi iterated that rates will remain at their current levels until "inflation outlook robustly converge" to the ECB's target. While inflation has been pressured, the ECB President said, it is expected to fall further before starting to pick up momentum again. He also added that there was full support from the Council on the measures taken in September, re-launching QE and cutting deposit rates by 10 basis points.

On the FX side, the single currency opened the week at 1.1146 and continued to deteriorate to break the 1.11 level to a one week low of 1.1093 on Thursday. The dovish stance by the ECB and vague forward guidance pressured the euro lower.

Eurozone PMI Remains Pressured

Eurozone composite PMI in October had a minor change as it rose from 50.1 to 50.2 just below market consensus of 50.3. In details, service PMI remained resilient and edged up from 51.6 to 51.8. On the other hand, the manufacturing PMI remained at contractionary levels (below a reading of 50) at 45.7. That is the weakest level since October 2012.

Boris Wins Crucial Vote, Loses Timeline Vote

The Parliament in the UK backed PM Boris Johnson's Brexit deal in principle by 329 votes to 299. This win marks the first time the Parliament had approved any Brexit deal, suggesting a possibility to get the deal through. The second vote was to decide on the rushed timeline set by Johnson to go through the entire Brexit document in three days and make it a law. The vote did not pass and raised the market's concern of a possible no-deal scenario if the EU doesn't offer extension until January 31 2020. The PM warned officials that if the EU agreed to the extension, the prime minister will call for an election instead. The cable dropped from 1.30 and continued to deteriorate to a low of 1.2789.

After a meeting of EU diplomats last Wednesday afternoon, officials claimed there was a general agreement to extend the October 31st Brexit deadline. European Council President Donald Tusk urged EU27 leaders to grant the UK's formal request for an extension until January 31st, with the possibility of leaving sooner if the Withdrawal Agreement is ratified by the EU and UK. UK Prime Minister Boris Johnson does not want Brussels to extend the date beyond October 31st and has dismissed any consideration of an extension to pressure British MPs to push through his deal.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30355 on Sunday morning.

Rates –27th October, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1146	1.1073	1.1179	1.1080	1.0875	1.1175	1.1156
GBP	1.2891	1.2789	1.3013	1.2827	1.2625	1.2925	1.2890
JPY	108.46	108.25	108.77	108.67	106.60	110.65	107.95
CHF	0.9852	0.9835	0.9955	0.9945	0.9745	1.0145	0.9860