

Weekly Money Market Report

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Brexit Drags On While Trade War Delivers Vague Progress

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Highlights

- The US-China trade deal was moved until May at the earliest, vaporizing hopes that the presidents of the two countries could hold a summit meeting this month to end their tariff wars.
- Theresa May invited Labor leader Jeremy Corbyn to negotiate a Labor-Conservative Brexit deal.

United States

US-China Trade Deal Delayed

During the past week, markets were looking forward for a trade deal to be struck between the US and China. The deal was supposed to put an end to a year of friction between the two countries and give some rest to a lot of companies that were suffering as a result. Although an agreement was within reach, the two sides remained apart on two key issues. The first issue was the fate of existing US tariffs on Chinese goods, while the second was the terms of an enforcement mechanism demanded by Washington in order to insure that China abides by the deal. Myron Brilliant, executive vice president for international affairs at the US Chamber of Commerce commented on Tuesday saying “We’re getting to the end-game stage, 90% of the deal is done, but the last 10% is the hardest part, it is the trickiest part and it will require trade-offs on both sides.”

After a meeting between president Donald Trump and the Chinese vice-premier Liu He (China’s president Xi Jinping’s top economic advisor) on Thursday, the two economies pushed back the timing of a possible trade deal. The deal was moved until May at the earliest, vaporizing hopes that the presidents of the two countries could hold a summit meeting this month to end their tariff wars. In a comment from Donald Trump, he said an agreement would be reached within four weeks with Beijing, where many of the biggest sticking points had been resolved. Although, Trump refused to set a date for a summit with Xi Jinping in order to sign a possible deal. Trump’s comments expressed positivity and confidence in a positive outcome, “This is an epic deal, historic. If it happens, it is the granddaddy of them all. It has a very good chance of happening,” said Donald Trump.

The extension of the negotiations suggest that both Washington and Beijing are inclined to reach an agreement, yet nervous about the backlash that might occur if they are perceived to have made too many concessions. While Trump said that a lot of the most difficult points had been tackled, including how to enforce and implement a deal to ensure that China complied with its commitments. Peter Navarro, The White House’s advisor on trade and manufacturing and a famous “China hawk”, warned that the “last mile of the marathon” was the “longest and hardest.”

Weaker Durable Goods Orders

US Durable Goods Orders came in weaker last week at -1.6%, only slightly better than the -2.0% expected and overall a negative for the market. Earlier this week, fears of an economic slowdown soothed as positive data from China eased concerns regarding global growth. The trade war between the US and China has still seen no resolve, and an extension to negotiations is now in place.

US PMIs

US manufacturing saw a rebound in March up from its lowest level seen in more than two years. The ISM manufacturing PMI rose to 55.3 in March up from 54.2 in the previous month, when it hit the lowest level

since November 2016. The sub-indices of the report also showed that the manufacturing sector was healthy as new orders, production and employment all rose. The positive data followed disappointing retail sales figures earlier in the day that showed the measure unexpectedly fell in February, raising further questions about a slowdown in the US economy. Headline retail sales fell 0.2% month to month in February, a decline from the revised increase of 0.7% in January. The decline in February was led by drops in grocery and building materials sales. Looking at the ISM non-manufacturing index, the services sector recorded its weakest level since August 2017 falling to 56.1 in March. The figure came in slightly better than expectations of a dip to 58 following the 59.7 level recorded in February. Growth in the sector cooled off in March after strong growth in February, mainly attributed to a slowdown in production and new orders.

After raising interest rates four times in 2018, the US Federal Reserve took a turn and decided to take a halt on further rate hikes this year in response to the signals of slowing global growth. The US dollar has remained strong amidst the uncertainty given its safe haven appeal and widening rate differentials vs its peers.

An Increase in US Employment

US Nonfarm Employment increased by 196,000 jobs in March according to the US Bureau of Labor Statistics. The increase is mainly attributed to notable gains in health care and in professional and technical services. The employment rate remained the same at 3.8%, and the number of unemployed persons was essentially unchanged at 6.2 million. Average hourly earnings increased 3.2% from the prior year, below all estimates. The data indicates that the labor market is sturdy enough to support growth in the coming months even though gains in employment have moderated from last year's pace. Unemployment remaining near historic lows appears promising for consumer spending, though weaker wage gains may suggest softer inflation.

Europe & UK

A Brexit Conundrum

The Brexit debacle has created apprehension all over the world and especially in the UK and Europe. As the drama drags on, so does the growing uncertainty across the continent.

In this week's episode, we will start with the Parliament's indicative votes. Two weeks ago, MPs voted to take control of the Parliament's agenda on Wednesday the 27th of March, they were able to schedule whatever votes and debates they wanted. First thing they did was to play the classic infinite wishes trick "what do you want to do with your one day in Parliament? Ask for more days in Parliament." MPs used their time on Wednesday to give themselves another day of control on Monday the 1st of April. On top of that, they held a series of indicative votes, 16 potential Brexit solutions were suggested and the speaker narrowed those down to 8, a total of zero of them received majority from the house. The votes made it pretty clear that some of the options were very unpopular with the MPs, some were actually even more unpopular than May's deal. None of the options got majority support, but a couple did come close. This is the reason why they held their second round of indicative votes on Monday, and in fact just before the indicative votes there was a business motion like the one on Wednesday, which scheduled parliamentary time on Wednesday the 3rd of April, for another round of indicative votes.

The idea of the second round of indicative votes held on Monday was that with some of the options off the table, and the deadline of the 12th of April becoming even closer, MPs might be more flexible and back more options than before. 8 motions were tabled on this day and the speaker selected 4, and like the time before, Parliament has failed to commit to support any one proposal.

On Tuesday, May invited Labor leader Jeremy Corbyn to negotiate a Labor-Conservative Brexit deal. This has annoyed some of the Eurosceptic wing of her party, because a Labor influenced deal will probably just be a softer Brexit. In fact a couple of ministers have even resigned over this, with speculation of more to come. While it obviously annoyed Brexiters, It is worth looking at what May is actually offering here. She has made it clear that any concessions will only be put in the political declaration, and as such

won't be legally binding. That being said, the Labor party were also worried that this might be some political trap, by associating Corbyn with this deal, and if it fails, May can put some of the blame on him. Or so if they can't agree on anything, then May can say that it's Corbyn's fault that no Brexit deal was agreed. Corbyn went ahead and had the meeting regardless, no one knows exactly what went on, but both Corbyn and May say that it went well.

On Wednesday, instead of having more indicative votes, MPs tabled a business motion on a bill demanding that the government request an extension to Article 50. The bill basically gives the Parliament power to tell the Prime Minister to ask for an extension, and tell her how long will it be, however it doesn't say what to do if the EU rejects her request, and it doesn't force the Prime Minister into asking for the extension immediately. Parliament voted on a business motion to rush the bill through the House of Commons, the vote passed with 312 for it and 311 against it. This meant that the bill was rushed through the house and was sent to the House of Lords for them to pass the bill into a law.

On Thursday, MPs' efforts to prevent a no-deal Brexit on the 12th of April by fast tracking the bill came under attack in the House of Lords. The government argued that the bill was flawed. Natalie Evans, Conservative leader in the Lords, said that it could actually increase the risk of a no-deal Brexit by tying the government's hands. She added that if the bill passed, and the EU agreed an alternative length of Brexit delay to May's proposal, the prime minister would have to come back to parliament the next day to seek MPs' agreement. But the EU summit would be over, meaning any further negotiations with the bloc would have to take place by remote correspondence 24 hours before Brexit day, said Baroness Evans. "I don't believe that is a sensible or desirable process," she added. The bill is not expected to complete its legislative stages in the Lords until Monday at the earliest.

The sterling pound was on a seesaw ride during in the past week, with volatile movement following the wake of Brexit updates. During the week, the cable hit a low of 1.2989 and a high of 1.3193 and ended the week at 1.3048.

UK Manufacturing surge

Amid fears of a no-deal Brexit, the manufacturing sector in the UK boomed in March as companies ramped up output of their products. The IHS manufacturing purchasing managers' index rose to 55.1 in March, from 52.1 in February. The reading recorded its highest level in 13 months as companies increase their output in fears of a no-deal scenario which would likely create a struggle to supply customers with products. Economists have warned that the overall boost is likely to be "minimal and temporary" given that the figure does not truly reflect the strength of demand, but represents producers rush to secure their activities. The surge in UK manufacturing PMI was not reflected in other EU countries as German, French, and Italian manufacturing all recorded declines in output for the month.

Kuwait

Kuwaiti Dinar at 0.30435

The USDKWD opened at 0.30420 Sunday morning.

Rates – 07 April, 2019

| Currencies | Previous Week Levels | | | | This Week's Expected Range | | 3-Month |
|------------|----------------------|--------|--------|--------|----------------------------|---------|---------|
| | Open | High | Low | Close | Minimum | Maximum | Forward |
| EUR | 1.1235 | 1.1253 | 1.1184 | 1.1225 | 1.1035 | 1.1425 | 1.1309 |
| GBP | 1.3043 | 1.3193 | 1.2989 | 1.3048 | 1.2835 | 1.3235 | 1.3105 |
| JPY | 110.97 | 111.78 | 110.86 | 111.74 | 109.75 | 112.80 | 110.94 |
| CHF | 0.9939 | 1.0009 | 0.9935 | 1.0004 | 0.9905 | 1.0195 | 0.9916 |

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