Weekly Money Market Report

10 February 2019

Trade War Worries Dictated the Markets

United States

State of the Union Speech Rattled Investors

President Trump delivered his State of the Union address last week. Trump's speech revealed he would meet with North Korean leader Kim Jung Un at the end of February, send more troops to the US-Mexico border, and also spoke about the investigation into the 2016 presidential campaign. Moreover, Trump said he will not meet Chinese President Xi Jinping before the 1st of March deadline and said that they will "maybe" meet later. In January Trump told reporters that he is planning on meeting President Xi in late February and there was a "good chance" of striking a deal. The clock seems to be running down on both countries and negotiators to reach an agreement before the deadline. The Trump administration is set to double tariffs on USD 200 billion worth of Chinese goods, however an extension to the march 1 deadline is still on the table.

Equities, Fixed Income and Foreign Exchange

Trump's speech in the State of the Union provided very little for markets to lean on, the S&P 500 gained a mere 0.05% and the Dow Jones Industrial Average finished the week flat with 0.17% higher. Companies reported earnings which drew mixed responses. Electronic Arts and Take-Two Interactive – the two biggest fallers for the S&P 500 – shed more than 13% after revealing disappointing sales forecasts. General Motors rose 3.7% after profits fell less than expected for the final quarter. Safe haven US Treasuries were the asset of choice for investors after trade-war rhetoric came back on the table with rising uncertainties. The 10 and 30 year treasury yields both fell by 4 basis points by the end of the week as a result.

Nevertheless, the dollar index had a bull-run last week after opening the week at 95.600 and continued to gain against a basket of currencies on every trading session heading into Friday. The dollar gained as much as 1.15% during the week as weaker data kept surfacing from Europe and the UK.

US Services Sector Expanded by Less than Expectations

US service industries began 2019 on a softer note as a gauge of new orders dropped sharply in January to a one-year low, though a gain in employment signaled support for demand. The ISM-non-Manufacturing PMI index fell to 56.7 in January from a 57.6 reading in December of last year and well below the forecasted reading of 57.2. January's reading is the lowest since July 2018, and economists attribute it to the tax-cut boost fading and the renewed worries of trade wars weighing on business plans.

UK & Europe

BOE Cuts Growth Forecast

The Bank of England held its latest meeting last Thursday where members of the Monetary Policy Committee voted unanimously (9-0) to keep policy unchanged and interest rates at 0.75%. It also kept QE and corporate bond purchases unchanged at GBP 435 billion and GBP 10 billion respectively. The members of the MPC also highlighted their concerns over the looming uncertainty over Brexit, which in their opinion, had intensified since November leading to a hit on investment spending. The committee also noted that despite higher wage growth, UK consumers will act more cautiously as a measure to the development of the Brexit rhetoric.

When it comes to growth forecasts, the Bank of England slashed their outlook on growth this year to the lowest since 2009; the BOE expects growth to be only at 1.20%. The weaker near-term outlook appears to largely reflect two factors. First, the MPC has lowered its forecast for world GDP growth over the next two years. This is unsurprising given the weakness in the data, particularly across Europe, over the past couple of months. Second, the MPC estimates Brexit-related uncertainty - which has shown up in business investment in particular - is restraining demand by more than previously thought.

The Sterling pound had a volatile week opening the week at 1.3109 and started losing ground to the US dollar. The cable depreciated to as much as 1.94% to reach 1.2854 during Thursday trading session after the BOE meeting and closed the week at 1.2944.

A Slide in UK Services Sector

The UK's service sector in January grew at the slowest pace since July 2016 at 50.1, down from 51.2 recorded in December. A reading below the 50 threshold indicates a contraction in the sector. Overall, the data advocates that the British service sector is flat-lining and the recent figure burdened the Bank of England officials as they met last Thursday to decide on their monetary strategy.

Brexit Deadline and the EU

The United Kingdom is moving closer and closer towards its deadline to leave the EU on March 29. Unless Prime Minister May manages to convince the bloc to reopen the divorce agreement she reached in November and finds a way to sell it to the skeptical British lawmakers, the UK seems to be going on the path towards a no-deal Brexit. European Council President Donald Tusk last Wednesday revealed blunt language which showed that European leaders are frustrated over the rejection of May's divorce deal by the British Parliament. Tusk said that he had abandoned the hope he has often expressed that Britain's exit might be stopped, and that his priority now is to avert a "fiasco" when it leaves.

Europe's Weaker Economic Data

After the recent alarming GDP figures from Italy put the economy in recession mode, all eyes were on the economic data of the EU. Europe's composite PMI edged lower to 51.0 in January from 51.1 reading in December. Additionally, activity in France and Italy were at alarming deteriorating levels of 48.2 and 48.8 respectively. Manufacturing was the primary source of output weakness during January. Whilst service sector growth was unchanged since December at around a four-year low, production in manufacturing rose only slightly and at the weakest rate in over five and-a-half years of growth.

Australia

RBA Holds Monetary Policy

The Royal Bank of Australia kept its cash rate unchanged at 1.5% in February's monetary policy meeting (as it has done since August 2016 – a record low for the RBA). The Central Bank also downgraded its GDP growth forecasts over the next two years; citing risks for both domestic and global economies have increased. The RBA expects inflation to eventually return to 2.5% - the midpoint of its 2-3% target – despite a list of indicators suggesting momentum in the economy is slowing. Currently, inflation is at 1.9% compared to 2.1% in the previous month. Financial markets seem unconvinced, pricing in around a 50% chance that the cash rate will be reduced by 25 basis points by the end of 2019.

Last Wednesday, RBA's Philip Lowe delivered comments that a rate cut was likely due to growing concerns over the local economy. For months, Lowe had maintained a lift in the cash rate was the most likely move, and the shift in tone has devastated the Australian Dollar. The AUD saw its largest one-day percentage decline in over 2 years.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30340 on Sunday morning.

Rates – 10th February, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1456	1.1321	1.1466	1.1323	1.1120	1.1430	1.1413
GBP	1.3070	1.2854	1.3103	1.2944	1.2745	1.3050	1.3029
JPY	109.48	109.43	110.62	109.76	108.65	111.65	108.98
CHF	0.9953	0.9934	1.0026	1.000	0.9805	1.0195	0.9905