

Weekly Money Market Report

08 December 2019



US Dollar Weaker over Figures and Trade

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Highlights

- US manufacturing falls for the fourth consecutive month.
- Trump announces tariffs on Brazil and Argentina.
- Non-farm payrolls better than expected.
- British Pound supported by election polls.
- Japan introduces fiscal stimulus.
- OPEC meet to discuss production cuts.

United States

Manufacturing & Trade

The US dollar was noticeably weaker last week as poor manufacturing data tempered growth expectations and the US trade war took an unexpected turn. The Institute for Supply Management's Manufacturing PMI contracted for the fourth consecutive month with manufacturing executives less than optimistic in their responses. Economic uncertainty continues to grow while order books continue to shrink mentioned survey responders. It is clear the manufacturing sector, which accounts to 11% of US GDP, has come under pressure due to weaker global growth and a prolonged trade war between the two largest economies. The ISM index fell to 48.1 in November from October's 48.3 and was significantly below expectations of 49.2. Statisticians at the ISM suggest that this level is consistent with annual real GDP growth of 1.5%.

Moving to trade, US President Donald Trump surprised South American officials last week by announcing tariffs on US steel and aluminum imports from Brazil and Argentina. Trump said the immediately effective tariffs were necessary because "Brazil and Argentina have been presiding over a massive devaluation of their currencies which is not good for our farmers." Officials from both countries are seeking to immediately start negotiations with their US counter parts.

Exacerbating the matter, Trump the next day, signaled no urgency for striking deal with China. "I have no deadline," and "in some ways, I like the idea of waiting until after the election for the China deal," he told reporters. The remarks crushed recent optimism that the "phase one" of their trade deal was to be concluded shortly. The comments by Trump combined with the weak manufacturing data dropped US stocks around 2% mid-week.

Trade Deficit & Labor

Despite deteriorating manufacturing and tense trade environments, the US trade deficit dropped to its lowest level in nearly 1-1/2 years in October, suggesting trade could contribute to economic growth in the fourth quarter. The Commerce Department said the trade deficit tumbled 7.6% to \$47.2 billion as both imports and exports of goods declined. It is clear that the 17-month trade war with China was reducing trade flows, which in the long run is detrimental to domestic and global growth.

Still, consumer spending is likely to remain supported by a strong labor market. Other data on Thursday showed the number of Americans filing claims for unemployment benefits unexpectedly fell last week, hitting their lowest level in seven months. Furthermore non-farm payrolls exceeded expectations

creating 226,000 new jobs in November, well above the 181,000 expected. The unemployment rate slipped to 3.5% from 3.6%, while average wage paid to American workers rose 0.2%.

UK & Europe

Brexit

The British pound was the biggest mover in the FX markets last week reaching a seven month high against the backdrop of broad-based dollar weakness and positive Brexit expectations. UK parliamentary election polls showed Boris Johnson's ruling Conservative Party widening its lead before this week's election. The poll showed support for the Conservatives at 44%, while their main rival Labour was unchanged on 32%. A majority win for Conservatives would effectively end the deadlock in parliament opening the door for an exit in January. Indeed, Johnson pledged that legislation to implement his EU withdrawal agreement would be put back before parliament ahead of Christmas to insure the January deadline.

UK Manufacturing & Services

UK manufacturing degradation continued in November, as businesses responded to October's delay to Brexit and increased uncertainty from the forthcoming general election. New orders fell for the seventh month in a row during November, reflecting tougher conditions in both domestic and overseas markets. Companies attributed this to destocking inventories at clients following the delay to Brexit and the ongoing uncertainty surrounding the political, economic and global trade situations. The decline in new export orders was among the steepest registered over the past seven years. The UK Manufacturing PMI in November was higher than forecast but still below the 50 expansionary mark at 48.9.

The Services PMI came in at 49.3 in November, down from 50.0 in October signaling a marginal reduction in service sector output. Although the index was up from the earlier 'flash' reading of 48.6 in November, it still pointed to the steepest decline in business activity since March. Survey respondents noted that domestic political uncertainty once again led to cautious business and consumer spending.

ECB President Testifies

New European Central Bank President Christine Lagarde had her first hearing before the European Parliament last week where she spoke about the current state of the economy. Euro area growth remains weak, with gross domestic product growing by only 0.2%, quarter on quarter, in the third quarter of 2019. This weakness has been mainly due to global factors she said. The world economy outlook remains sluggish and uncertain. This lowers demand for euro area goods and services and also affects business sentiment and investment she continued. Finally, Lagarde maintained the ECB's accommodative policy stance has been a key driver of domestic demand during the recovery, and that stance remains in place.

Euro Zone GDP & Retail Sales

The euro zone economy grew at a modest pace in the third quarter with a negative impact from trade, while retail sales fell at their sharpest rate this year in October, data showed. GDP in the euro zone was up 0.2% in the July-Sept period, the same figure as the flash estimate released in October and unchanged from the second quarter. Retail sales in the euro zone in October fell by 0.6%, double the amount expected in a Reuters poll, and were up a modest 1.4% year-on-year. The monthly decline was the steepest fall of 2019.

Asia

New Fiscal Stimulus in Japan

Japan's cabinet approved a \$122 billion fiscal package to support stalling growth in the world's third-largest economy. The 26 trillion yen will go towards repairing typhoon damage, upgrading infrastructure and investing in new technologies. It is also expected to push up gross domestic product by 1.4% through fiscal 2021. The headline figure amounts to approximately 1.9% of Japan's gross domestic product over

15 months, significantly more than last year's supplementary budget of 3 trillion yen, and big enough to have an impact on the economy.

China Manufacturing PMI

Manufacturing in China unexpectedly rebounded higher in November for the first time in seven months. The Purchasing Managers' Index (PMI) rose to 50.2 in November versus 49.3 in October, slightly above the 50-point mark that separates growth from contraction on a monthly basis. The private manufacturing survey conducted by Caixin a few days later reflected a similarly upbeat picture edging up 0.1 to 51.8. Temporary factors may partly explain the continued expansion in November as both domestic and external demand continued to increase. As such, the gains could be threatened if the US China trade war continues without resolution.

Commodities

OPEC Meeting

Oil prices were supported last week as OPEC and its allies geared up to approve deeper oil production cuts this week to prevent renewed oversupply and a collapse in oil prices. The group, combining over 20 producers, is considering an extra 500,000 barrels per day in cuts for the first quarter of 2020 to take the total to 1.7 million bpd, or 1.7% of global demand, Russian Energy Minister Alexander Novak said. OPEC member Iraq commented the move was supported by key members.

In related news, Saudi Aramco priced its initial public offering 32 riyals (\$8.53) per share raising \$25.6 billion. At that level, Aramco has a market valuation of \$1.7 trillion, comfortably overtaking Apple as the world's most valuable listed firm. Aramco did not say when shares would start trading on the Saudi stock market but two sources said it was scheduled for December 11.

Kuwait

Kuwaiti Dinar at 0.30340

The USDKWD opened at 0.30340 Sunday morning.

Rates – 08 December, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1012	1.1115	1.1001	1.1057	1.0865	1.1260	1.1125
GBP	1.2916	1.3166	1.2894	1.3135	1.3040	1.3330	1.3175
JPY	109.52	109.72	108.41	108.59	106.55	110.55	107.95
CHF	1.0001	1.0008	0.9852	0.9902	0.9710	1.0195	0.9835