Weekly Money Market Report
09 February 2020

Dollar Shines Amid Trade Progress and an Acquitted President.

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- China announces that it will halve tariffs on some US imports.
- The Republican lead Senate voted to acquit Donald Trump from both articles of impeachment.
- US PMI's show solid figures.
- Nonfarm payrolls showed an increase of 225,000 jobs.
- UK's Services sector shines.
- Japan's central bank is ready to boost the economy with additional stimulus measures.

United States

The Two Giants

Coronavirus and President Donald Trump's Senate impeachment trial, those are the two things that markets were eying during last week. The virus outbreak that has rattled the financial market has increased its death toll to exceed 500, with more than 28,000 confirmed infections.

In an effort to cushion the fallout from the coronavirus epidemic, and moving towards implementing the "phase one" trade deal with the Trump administration, China has announced that it will halve tariffs on some US imports. The Chinese finance ministry said tariffs on some US good would be cut from 5% to 2.5% while others would be cut from 10% to 5% on February 14. According to the Federal Register by the office of the US Trade Representative, Washington also has plans to halve tariffs on some Chinese goods on February 14 from 15% to 7.5%. According to the agreement, China will increase imports from the US by $200bn over two years compared with 2017 levels. Many economists xconsidered this goal to be ambitious even before the coronavirus struck last month. Larry Kudlow, Trump's top economic advisor acknowledged this week that the purchases could be delayed because of the outbreak.

Across the map from China in the United States, after three weeks of debate, the Republican lead Senate voted to acquit Donald Trump from both articles of impeachment. With that being said, Trump was denied the full support of Republicans as Mitt Romney became the first senator in US history to vote to convict a president from his own party. The US president did not shift from his position that he did nothing wrong and that Democrats have simply been engaged in an effort to undo the results of the 2016 election.

The news of China's pledge to halve tariffs along with the acquittal of Donald Trump saw both the dollar and equities rally. China's CSI 300 is up 7.14% from its low in the beginning of the week, while Tokyo's Topix finished 4.30% up. The Stoxx 500, which tracks Europe's largest companies, touched a new record high and closed the week up 4.16%. Wall Street's benchmark S&P 500 has gained 2.84% over the last four sessions, setting itself up for its strongest weekly rise since June. The forex markets saw the US dollar index shoot up 1.40% in two days closing the week at 98.72 strengthening against the sterling and euro by 2.53% and 1.36% respectively. Safe havens lost steam as the Japanese yen was down 1.22% and the Swiss franc lost 1.60%.

US Service and Manufacturing Sectors Boosted
The global rebound in risk assets extended after data showed resilience in the US economy and fears regarding the coronavirus lessened. The US Institute for Supply Management's non-manufacturing index climbed to 55.5 from 54.9 a month earlier. Twelve industries reported growth in January, led by agriculture, management and support, and healthcare. Data also showed US firms added more jobs than economists' forecasts as employment in the private sector increased by 291,000 jobs from December to January. The manufacturing PMI also rose to 50.9 last month from a December reading of 47.8, with strength in new orders, production and exports supporting gains. That lifted the factory survey above the 50 threshold that separates growth from contraction, a level last seen in July and higher than economists' forecast of 48.5.

More Jobs Than Expected
The US labor market started the election year in solid shape, adding more jobs than forecast in January and with wage growth pushing back above 3%. Nonfarm payrolls showed an increase of 225,000 jobs last month up from 147,000 in the month before and surpassing forecasts of 163,000, the report showed that employment at construction sites increasing by the most in a year. Employment gains are expected to slow in February as the coronavirus disrupts supply chains, especially for technology companies such as Apple. The unemployment rate ticked up slightly to 3.6%, from December's 50-year low of 3.5% and forecasts it would remain at that level. Wages increased 3.1% in January from a year earlier; an improvement after the annual rate of wage growth fell below 3% for the first time since 2018 during December driven by an increase of 0.2% in average hourly earnings.

Europe & UK

A Jolt in the UK's Services Sector
The UK's private sector saw increased activity in January at the fastest rate in 16 months. The IHS Markit composite purchasing managers index rose to 53.3 up from the 49.3 clocked in December. Marking the first time since August where survey has risen above the 50 figure, indicating that a majority of managers saying that activity is growing. The driver of the improvement was mainly driven by the UK's dominant services sector, as businesses reported improved order intake and their strongest expansion since June 2018. The Services PMI for January came in at 53.9, its highest level in 16 months and up from the 50 figure clocked in December. Initial indications of an improvement in business sentiment last month had prompted the Bank of England to keep interest rates on hold at 0.75% during last week's meeting.

Asia

Japan's Central Bank Backs the Economy
The Japanese central bank indicated that it stands ready to boost the economy with additional stimulus measures if the economy's recovery is disrupted, Deputy Governor Masazumi Wakatabe said. The aforementioned cautionary statement comes at a time when the coronavirus outbreak could hurt business sentiment and global trade. Moreover, the deputy governor stated "the BoJ won't hesitate to take additional easing steps if there is a greater possibility that the momentum toward achieving its 2% price target will be lost." The Bank of Japan has consistently failed to achieve its 2% target for some time. Consumer inflation is at 0.7% y/y and with the coronavirus depressing global growth could pave the way for additional easing form the Bank. Markets are currently pricing in a 50% probability of a cut by 0.1% in October.

Kuwait

Kuwaiti Dinar at 0.30440

Rates – 09 February, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1091	1.1095	1.0940	1.0943	1.0745	1.1045	1.1004
GBP	1.3214	1.3214	1.2880	1.2891	1.2695	1.2990	1.2923
JPY	108.40	110.02	108.31	109.72	108.70	111.70	109.20
CHF	0.9638	0.9781	0.9627	0.9777	0.9675	0.9980	0.9721