Weekly Money Market Report
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Global Growth Worries Ignites Risk Aversion

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Highlights

- US yield curve inverts.
- German economy contracts and increases worries.
- China's growth slumps and ignites a risk aversion sentiment in the market.
- Trump slams the breaks on imposing additional 10% tariffs on China.

United States

Trump and Yield Inversion

US President Donald Trump has taken a step back in his conflict with Beijing. The Trump administration said it would delay its imposition of 10% tariffs as threatened two weeks ago on a series of Chinese-made consumer goods until December. About $250 billion of Chinese goods have already been hit by 25% duties. The IMF last month cited trade tensions as one of the biggest risks to the global economy as it downgraded its growth forecast for the third time. Following the news, equities shined and risk on mode flooded global markets. Yet the positive move was short lived as data out of China and Germany increased fears over global growth and sent investors fleeing to save-haven assets.

As a result, yields of US and UK 10-year government bond yields dipped below those of shorter-maturity debt – an inversion which has historically preceded a recession. The 10-year US Treasury rate slid below the 2-year for the first time since 2007, while the 30-year yield fell to its lowest level on record and broke below 2%. On the equities side, volatility was the main theme of Wall Street. The Dow Jones gained around 390 points following Trumps announcement of delaying the additional tariffs on China. A short-lived gain as the very next day the index lost 556 points due to global growth worries.

On the monetary policy front, the futures market is pricing in 100% chance of a rate cut by the Fed in the upcoming September meeting. While data out of the US remains upbeat, traders are pricing in a 37% chance of a 50 basis point cut by the Fed, while 63% are expecting a 25 basis point cut. With mounting daily pressure from US President Trump on the Fed to ease their monetary policy fast, FOMC members will be carefully assessing the trade-war implications along with yield curve inversion before making their decision on US interest rates.

US Data Remain Resilient

US retail sales grew more than expected last month in a sign that consumers continued to support the world's largest economy. Headline retail sales grew 0.7% in July, exceeding the previous month's rise, and economists' expectations for a 0.3% rise. Core inflation had a bigger surprise as sales increased by 1%, substantially higher than 0.4% anticipated by markets. The optimistic figures follow a rebound in the manufacturing sector as Philly Fed manufacturing index reading came at 16.8 at a time the market was expecting a reading of 10.1.

The US consumer price index rose 0.3% in July, in line with expectations and higher than the 0.1% seen in June. Core CPI - a measure which excludes food and energy costs – saw its strongest increase since December 2018 at 2.2%. According to the Bureau of Labor Statistics prices were "broad based" and rose in housing, medical care, household furnishing, clothing and personal care. The rise will likely do little to change expectations that the Federal Reserve will cut interest rates again next month amid the worsening trade tensions.

In the FX markets, the US dollar rallied amidst strong retail sales figures and steady CPI readings, while Europe and China were economies struggled to produce positive numbers. The dollar index opened the week at 97.535 and continued its upward momentum and appreciated by 0.63% over the past week reaching a 2-week high of 98.339.

Europe & UK

UK's Upbeat Data overshadowed by Brexit Worries

Consumer prices in the UK rose by 2.1% in July compared to a year ago. The figure was higher than June's figure and is in line with the Bank of England's target. Economist are not expecting the steady course of inflation to last due to a weaker Pound and a recent pick up in wage growth, both of which point to higher inflation ahead. Separate figures also showed that wage growth came at 3.7% and in line with market expectations.

Monthly retail sales data were released last Thursday showed a 0.2% increase, opposite to the market's expectation of -0.3% reading. The unexpected figure pushed the Sterling to last week's high of 1.2175 after the massive drop to 1.2015. Although the UK economy has been producing positive data, the markets are still heavily weighing in the risks of a Hard-Brexit with Boris Johnson leading the administration.

Germany on the Brink of a Recession

The German economy contracted in Q2 and the weak sentiment data suggest negative growth continued in Q3 as well, which would put the German economy in a recession. The outlook for the German economy is worrying. The German economy contracted by 0.1% q/q in the second quarter of 2019 and grew by only 0.4% compared to the same quarter of 2018 (in seasonally adjusted terms). The Q2 contraction of GDP followed an upside surprise of 0.4% q/q growth in Q1, so as a whole the economy still grew clearly in the first half of the year.

The single currency had a 4-day falling streak and broke the 1.11 level last Thursday, with increasing worries on the stealth of the largest economy in the Eurozone being Germany. The currency lost 1.2% of its value against the US dollar last week and it is expected to be pressured as weaker data and inflationary pressures handicap the rise of the currency.

Asia

China's Growth Slumps

China's economy is suffering with industrial production figure slowing down to 4.8% y/y in July compared to 6.3% in June. Retail sales also dipped from 9.8% to 7.6% in July and both figures are worrying to the global economy. Investors have sought safe-haven assets and went to long term government treasuries, mainly US, as riskier assets such as equities are believed to be compromised.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30395 on Sunday morning.

Rates –18th August, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1207	1.1066	1.1231	1.1090	1.0895	1.1190	1.1168
GBP	1.2066	1.2015	1.2175	1.2149	1.1950	1.2250	1.2206
JPY	105.58	105.05	106.97	106.35	104.35	108.35	105.78
CHF	0.9726	0.9659	0.9809	0.9783	0.9675	0.9980	0.9696