

Weekly Money Market Report

03 February 2019

US Federal Reserve Shifts Guidance while Equities Surge

US

Federal Reserve Meeting

Last week the US Federal Reserve left rates unchanged at 2.25-2.5%, pointing to rising risks in regards to global economic growth. New language by Fed chairman Jerome Powell signaled a more patient approach to the rate-hike program, a clear shift from the December rhetoric. Powell argued that a shift in guidance is needed due to “cross currents”. Among them were slower growth in China and Europe, trade tensions, the risk of a hard Brexit, and the recent federal government shutdown. In a statement on Wednesday, the FOMC claimed it “will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support”.

Consumer Confidence Hits 1.5 Year Low

Consumer confidence in the US fell in January to its weakest level since July 2017 from 126.6 to 120.2. Missing expectations of a drop to 124, the measure gauging consumer expectations mirrored American’s weakening views on current conditions. Though the figure had recently hit an 18-year high, it appears that the five-week government shutdown, continuing trade tensions with China, and major swings in US stocks have taken their toll on confidence. During the shutdown alone the index fell 7.8 points, leading many to believe the drop is due to a “shock event” which leads to temporary results. On the bright side, with the shutdown over for now and financial markets stabilizing, a rebound in confidence may be seen in the months ahead.

Looking at the bigger picture, confidence is relatively high and for good reason. The US economy grew at a 3.4% annual pace from July to September after surging 4.2% in the second quarter. The unemployment rate reached its lowest level in five decades at 3.9% in 2018. Still, investors have legitimate concerns. Though the government shutdown has temporarily ended, Trump remains insistent on his border wall funding, setting a deadline of Feb 15 as he continues discussions with lawmakers. Meanwhile, the world’s two biggest economies – the US and China – remain locked in a trade war that threatens global commerce stability.

A Robust Labor Market

The US economy added more jobs than expected in January despite a slight increase in the unemployment rate. Nonfarm payrolls increased by 304,000 during January of 2019 surpassing expectations of 165,000 jobs. The unemployment rate rose by just one-tenth of a percentage point at 4% versus the 3.9% forecast. Looking at average earnings, the figure increased 3.2%, down

from the 3.35% figure seen in December. With worker pay on the rise, consumer spending may add to inflation pressures possibly pushing the case for the Federal Reserve to raise interest rates this year. The US dollar remained relatively stable at around the 95.548 level following the news, dropping less than 1% from last week's high.

Equities Rally

US equities climbed towards their biggest monthly rally in more than 3 years with technology shares leading the way. The S&P 500 Index hit an eight week high as both General Electric and Facebook surged more than 10% due to strong quarterly results. Signals from the Fed that it would be more "patient" on interest-rate hikes helped ease fears of further monetary tightening. The tech-heavy Nasdaq Composite gained 9.74%, mainly boosted by Facebook as the company soared 13% after reporting record profits. Twitter rose more than 2%, and Amazon was up 2.2%, all due to the group's earnings reports. The S&P 500 is up 7.9% for the month, representing an impressive rebound from the previous month's 9.8% fall.

Europe & UK

May Returns to Brussels

Two weeks following the rejection of UK Prime Minister Theresa May's Brexit deal in what was dubbed a historic vote for the House of Commons, May fought yet again to avoid what would be a disastrous no-deal Brexit scenario. Last Tuesday, May won six out of seven Commons votes, sending May back to the drawing board to win concession from the EU on the Brexit agreement.

The Irish backstop remains the major issue at hand as many believe the current layout, which avoids a hard border between Northern and the Republic of Ireland, will trap the UK in the EU indefinitely. The EU has previously claimed they were not open for renegotiation on the backstop issue. President Donald Tusk of the EU Council wrote in a statement on Tuesday: "The backstop is part of the Withdrawal Agreement, and the Withdrawal Agreement is not open for renegotiation". With the March 29 deadline approaching, May will return to Brussels - essentially back to where she started - in an attempt to put together a deal all sides can agree towards.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30300 on Sunday morning.

Rates – 03rd February, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1402	1.1390	1.1512	1.1454	1.1250	1.1650	1.1545
GBP	1.3207	1.3043	1.3211	1.3088	1.2885	1.3290	1.3151
JPY	109.57	108.49	109.72	109.48	107.50	111.55	108.69
CHF	0.9930	0.9904	0.9992	0.9955	0.9750	1.0155	0.9874