Weekly Money Market Report
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US Dollar Trends Lower on Risk Appetite

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Highlights

- UK's Conservative party takes a beating; no-deal Brexit outcome diminishes.
- Risky assets soar as global political tensions cool down.
- US manufacturing sector contracted for the first time since January 2016.
- UK economic fundamentals indicating a recession.
- Canadian central bank resists the global theme of lowering interest rates.

United States

Financial Markets Back in Risk on Mode

Risk aversion was the dominant theme in financial markets for the past months, which spurred demand for safe haven assets. However, last week the negative sentiment took a turn as the global political atmosphere cooled down. Financial markets became more optimistic that the US could find mutual ground with China on trade after agreeing to hold high level talks in October. In addition, the hard Brexit outcome has diminished drastically thanks to the 21 rebellious Conservative members who voted against a no-deal Brexit. Reduced political risk in Italy since the approval of a coalition government and officials in Hong Kong decided to officially withdraw the extradition bill that drove millions of citizens to the streets in protest around 13 weeks ago.

The risk on mode pressured safe haven assets into the red and paved the way for risky assets to trade in the green zone. The Japanese yen lost 0.73% of its value last week versus the US dollar. Over at Wall Street, equity indices rallied throughout the week, while the (VIX) volatility index fell to a two-month low of 15.45. The 2 and 10-year treasury yields skyrocketed around 10 basis points on Thursday when the US and China set trade talks in October.

In regards to the US dollar index, the DXY was descending during the course of the week as demand for safe haven assets lessened. Economic fundamentals also played a role in weakening the USD after the manufacturing sector contracted for the first time in more than three years and the labor market created 33,000 less jobs than expected. In the past five trading session, the dollar index sank 0.72%. The uncertainty stemming from the trade war has weighed down on the US labor market in August, leading to a fall in job creation, currently at a three-month low. Non-farm payrolls rose by 130,000 from a revised 159,000 in July and below economists' expectations of 163,000. On the other hand, average hourly earnings ticked up by 0.4%, raising the annual rate to 3.2%. Unemployment rate remained constant at 3.7%.

Divergence Between Manufacturing & Service Sectors

The US manufacturing sector contracted for the first time since January 2016 as the ISM Manufacturing PMI fell into negative terrain from 51.2 to 49.1. Any reading below 50 suggests that the sector is shrinking. The latest data increased fears of a recession and dragged Wall Street lower. The Dow Jones Industrial Average lost around 300 points and NASDAQ sunk by 1.11% last Tuesday after the data reached markets. The never ending trade war theme between the two largest economies is taking its toll on the manufacturing sector, which was considered one of the winners under the Trump administration, attaining large gains in employment and activity. However, that positivity has been reversed by the trade war theme. On the monetary front, the US central bank lowered its short-term overnight rate by 0.25% in July, due to trade tensions and weakening global growth. Financial markets have fully priced in another 0.25% cut at the Fed's scheduled September 17-18 policy meeting.

On a more positive front, the American services sector rebounded from nearly a three-year low after two consecutive months of downward trajectory. The Institute for Supply Management's non-manufacturing index rose 2.7 points to 56.4 in August. The service industry is the largest contributor to US economic activity; therefore the data reassured markets of continued economic strength. The trade war pressure has been much tougher on the smaller US manufacturing sector than the services so far. However, Anthony Nieves Chair of ISM's services sector survey, said that "successive waves of tariff increases planned by President Donald Trump through the end of the year should hit consumer products, which could affect the service sector more directly." "It hasn't hit them yet. I think September, October will be the tell-tale sign," he said. Businesses in the service sector voiced their worries over tariffs and geopolitical insecurity. In general, the industry appears more resilient so far to have avoided the challenges encountered by the manufacturing zone.

Canada

Bank of Canada Resists Global Theme for Lower Rates

The Canadian central bank resisted the global theme of lowering interest rates last week and maintained its benchmark interest rate at 1.75% for the seventh consecutive meeting. In addition, the Bank stunned markets by declaring that present levels of stimulus are still appropriate in spite of the escalating trade war between the US and China. Official at the BoC said that "Canada's economy is operating close to potential and inflation is on target." "Interest rates also remain stimulative in real terms even with the Bank of Canada on hold, mortgage rates have already fallen sharply in recent months because of the decline in global bond yields." On the other side, the bank is worried about the global trade tensions and officials expect the economy will likely slowdown in the second half of this year because of it. Looking at the Canadian dollar, the USD/CAD declined around 1.26% to 1.3217 after the meeting was concluded. As for the October monetary policy meeting, the probability of a 0.25% reduction in the benchmark interest rate fell to roughly 45% from around 60% prior to the announcement.

Europe & UK

Brexit Outcome Could Be in the Hands of the Public

Prime Minister Boris Johnson suffered a triple defeat last week in the House of Commons and the Conservative party lost 21 members as they voted against a no-deal Brexit. All 21 Conservative rebellious members were kicked out of the party, triggering the Conservatives to lose the upper hand majority in parliament. Looking at the votes, the House of Commons voted 327-299 to block a no-deal Brexit from occurring on October 31. Subsequently, PM Johnson requested a vote on a snap general election, which also was crushed. Boris Johnson has lost his first defeat as PM and it was a big one. Moreover, it is an astonishing moment for the Tories. In one vote, the party has lost several of its veterans and senior figures who worked under Margaret Thatcher, John Major, David Cameron and Theresa May. The government's defeat last week in parliament has significantly reduced the probability of a no-deal Brexit. Overall, the Brexit conundrum is looking more optimistic and former PM May's version of the Brexit bill has never been so alive. Despite the recent optimism for a soft Brexit, the Brexit puzzle is not out of the woods yet.

Eyeing ahead, the bill to halt a no-deal Brexit is expected to return to the Commons on Monday and also to obtain a royal assent later that day. Once in law, it will force PM Johnson to seek a Brexit extension if he can't obtain a deal with the EU in the coming weeks. Even though with Johnson's request for an election was beaten in Parliament, a new election may occur soon and the government plans to resubmit the motion on Monday. Labor party leader Jeremy Corbyn stated he would back a new election if a no-deal Brexit has been ruled out. Hence, it's possible he will support the motion as a no-deal Brexit passes into law. It seems that the public could make the last significant decision on Brexit in the coming months.

Recession Around the Corner?

Extremely frail is the best way to label the UK's manufacturing sector in the month of August. The sector contracted for the fourth time in a row as the manufacturing index tumbled to a 7-year low of 47.4. Great levels of economic and political uncertainty compiled with the never ending trade frictions subdued the manufacturers last month. Britain's economy shrank by 0.2% in Q2 and the manufacturing PMI indices for the last two months signify that the drop continued in Q3. As for the UK's dominant sector, the services segment has weakened considerably since the start of the year and is currently at 50.6, down from 51.4 seen in July. Hence, a recession may just be around the corner for the fifth largest economy.

As for the Sterling pound, the GBP was the leading major currency last week, appreciating to more than a one-month high of 1.2353. Fresh hopes that a no-deal Brexit would be avoided as the Conservative party lost three consecutive votes, which paved the way for the Sterling to rally 1% against the USD.

The euro also rallied versus the USD due to dollar weakness. Gains in the euro were limited as the European manufacturing sector contracted for seven straight months, strengthening expectations that the ECB will ease monetary policy next week. Over the course of the week, EUR/USD gained 0.35%.

Asia

China's Manufacturing Sector Shows Resiliency

A new round of levies were implemented on Chinese goods last week, despite the compounding tariffs, the country's economy is showing signs of slight resiliency. The Caixin manufacturing PMI expanded in August after two months of contractions in June and July. The index entered into positive territory (PMI above 50) last month coming at a five-month high of 50.4 from the previous reading of 49.9. Markets embraced the positive data as US stock futures rose and the safe haven Japanese yen depreciated, easing some concerns over slowing global growth. In spite of the enhanced data in August, the outlook isn't so rosy. The PMI revealed that the outlook for Chinese manufacturers toward the next 12 months was near its lowest levels since the Caixin series began. Overall, the outlook remains overshadowed by the trade war rhetoric, which is curbing foreign demand. A resolution in the trade conflict is far from being resolved and as such Chinese authorities may further support the declining economy with policy easing.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30370 on Sunday morning.

Rates – 8 September, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.0992	1.1084	1.0924	1.1027	1.0830	1.1125	1.1107
GBP	1.2159	1.2353	1.1957	1.2281	1.2075	1.2375	1.2327
JPY	106.11	107.22	105.72	106.90	104.90	108.95	106.24
CHF	0.9888	0.9928	0.9795	0.9872	0.9680	1.0075	0.9805