

Weekly Money Market Report

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Chaos in Global Markets amid Coronavirus Woes

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Highlights

- Double Digit losses in equities worldwide.
- US 10-year treasury yields drop to all time lows at 1.11%.
- Worries on global growth sent cut probabilities to 3 cuts by the Fed in 2020.
- The US dollar plunged amid rate cut expectations as safe-haven yen and Swiss franc surge.

United States

Coronavirus sends markets to risk aversion

Fear has set in markets throughout last week as the spread of the coronavirus sent market sentiment to risk aversion. Investors quickly opted out of risky assets, resulting in a meltdown in equities globally with the FTSE 100 leading the drop in major indices for the year dropping by 12.75%. Last Thursday entailed major drops in Wall Street with the Dow Jones losing 1,190 points, a 4.42% drop in a single trading session. In Europe and the UK, indices had double digit losses year-to-date as equities seem to be the most affected asset class by the current chaos. Treasury yields on the other hand dipped to record lows. The US 10-year treasury yield opened the week at 1.42% and dropped to 1.11%, an all time low.

As for monetary policy expectations, the market has been aggressive in pricing in cuts by the Fed in 2020 in reaction to the expected global growth and the worries from the effect of the coronavirus. The market has priced in 3 rate cuts by November 2020. The Fed's upcoming meeting which will be held in March 18th has an expected cut with a 100% probability as per the Fed Funds Futures. The expectation for major loosening in monetary policy which should result in narrower interest rate differentials have sent the greenback lower against its major rivals.

In the FX sphere, the US dollar lost its momentum this week after the market priced in 3 interest rate cuts in 2020. The dollar index opened the week at 99.855 and continued to deteriorate as coronavirus spread globally and risk aversion set well in markets, finally closing at 98.132. Both CHF and JPY surged by 1.46% and 2.21% respectively against the US dollar as safe-haven assets were sought after by investors.

US Crude oil prices sank below \$45 a barrel reaching a drop of 25% year-to-date while Brent crude dipped below \$50 per barrel for the first time since December 2018. Markets are terrified that current disruption will hit GDP and downgrades to expectations for global growth will keep rolling in and accordingly oil prices suffered. Within parallel commodity linked currencies such as the Norwegian Kroner, reached levels not seen since mid 2001 at 9.43 against the US dollar.

Europe & UK

Cristine Lagarde Downplays Coronavirus Effect

Christine Lagarde has played down the likelihood of the European Central Bank providing an immediate reaction to the spread of the coronavirus, which has encouraged economists to cut their eurozone growth forecasts. Ms Lagarde's comments indicate that the central bank is hoping to keep interest rates on hold when it meets to discuss monetary policy in two weeks, despite calls from the market to cut rates and step up the bond purchase program. The policymaker said the bank would have to determine whether the virus was set to cause a "long-lasting shock" that would impact supply and demand as well as inflation. "But we are certainly not at that point yet," she said. The ECB has kept its policy rates unchanged at negative 0.5% since September of 2019 when it cut the deposit rate by 10 basis points. The cautious stance by the ECB may disappoint investors who are hoping for further stimulus to fight the sell-off in financial markets.

The single currency, opened last week at 1.0846 and reached a three-week high of 1.1032 as the expected narrowing differential between the Fed and ECB played a role in the 1.73% increase on the week.

Asia

Japan's Inflation Below Expectations

Japan's inflation continues to be the main focus of the BOJ, and the recent figure released on Friday shows that core CPI year on year came at 0.5% and lower than market concenses of 0.6% and the previous reading of 0.7%. Moreover, the unemployment rate increased to 2.4% from 2.2% while the retail sales eased by 0.4% on yearly basis. With the current worries on global growth, the BOJ will have a more challenging year to reach its 2% target and maintain growth at the desired levels.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30560 on Sunday morning.

Rates –1st March, 2020

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0872	1.0805	1.1053	1.1026	1.0891	1.1160	1.1090
GBP	1.2970	1.2726	1.3018	1.2823	1.2625	1.3015	1.2871
JPY	111.38	107.51	111.68	108.08	106.95	109.95	106.95
CHF	0.9797	0.9610	0.9816	0.9653	0.9500	0.9841	0.9570