Weekly Money Market Report
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The US Dollar Dips as Risk Aversion Fades

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Highlights

- US treasury yields rebound
- Trump delays imposing tariffs on China by 2 weeks
- ECB cuts its benchmark rate to -0.5%
- UK GDP expanded higher than expectations

United States

Tariffs Postponed

US President Donald Trump agreed to postpone the additional tariffs on Chinese goods by two weeks at the request of China's Vice Premier Liu He last Wednesday. This decision uplifted equity markets globally and sent safe haven currencies (JPY) tumbling by more than 1% last week. This goodwill gesture by Trump suggests a shift in trade war rhetoric and a possible resolution to surface in the near future. With the US manufacturing sector being in contraction mode and the US presidential election race on the doors, Trump needs a win to boost his approval ratings and a resolution to trade-wars is just what he needs.

On the fixed income spectrum, the 10-year US Treasury yield rebounded to a one month high of 1.90% on Friday as risk appetite amongst investors intensified with less trade tensions between the two largest economies pushing riskier assets higher.

US Data and Next Fed Meeting

US core CPI rose by 0.3% on monthly basis in August, beating market's expectations for the third month in a row. On a yearly basis, the rate rose from 2.2% to 2.4% which puts the Fed in a dilemma. Retail sales increased more than expected in August due to strong consumer spending which has continuously supported a moderate pace of economic growth in the US. The figure rose 0.4% last month versus forecasts of a 0.2% gain, and was mainly lifted by spending on motor vehicles, building materials, and healthcare. Core-retail sales climbed 0.3% last month following a strong 0.9% rise the month prior. Consumer spending - which accounts for more than two-thirds of the economy - increased at an annualized rate of 4.7% in the second quarter of 2019, the strongest in more than four years. The sustained increases may drive policy makers to reconsider additional cuts this year, though the bank is still widely expected to make a second reduction next week as the global growth outlook dims.

The futures market is now pricing in a 98.5% chance of a cut at the next Fed's meeting which will be held on Wednesday the 18th of September. With inflation picking up and US-China trade wars cooling down it will be a tough decision to justify an interest rate cut during this time. Trump also took advantage of the ECB's decision to cut interest rates and applied further pressure on the Fed to do the same.

Europe & UK

ECB cuts its interest rate

The European Central Bank has cut its deposit rate by 10 basis points to reach -0.5% as widely expected by the markets, marking the first change since March 2016. Forward guidance on rates was also reinforced, with the ECB expecting rates to "remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2%". Additionally, the ECB will restart its QE program starting November 1st at a monthly pace of 20 billion euros, and it will continue "as long as necessary to reinforce the accommodative impact of its policy rates". Although the QE timeframe was open ended, the policy statement did not mention any change to its technical constraints, mainly the 33% limit on owning public debt of each country.

On the FX side, the single currency had a volatile week. The currency traded in a small range in anticipation for the ECB's policy meeting on Thursday. After the announcement of a 10 basis points cut in deposit rates, the Euro dropped to an 11 day low of 1.0927. Nevertheless, as traders assessed the policy statement the currency rebounded to close Thursday's trading session higher at 1.1065.

UK's Upbeat Data and Hopes of Brexit Deal Lift the Cable

The UK economy grew faster than expected in July mainly due to the dominant services sector, easing fears of a recession prompted by the 0.2% contraction seen in the second quarter of 2019. Output grew 0.3% m/m versus forecasts of a 0.1% rise. Despite the stronger-than-expected figure, growth is seen weakening through 2019 as the economy struggles under Brexit uncertainty and a weakening global economy. The rise in output may be a sign that businesses are increasing activity ahead of the UK exiting the EU. Still, the figure was seen as a relief for a government eager to avoid recession headlines.

Looking at Brexit, Prime Minister Boris Johnson is set to meet with the European Commission president Jean-Claude Juncker in Luxembourg on Monday, marking their first face-to-face talks. Last week, the pound headed for its biggest weekly gain since May following renewed optimism regarding a potential Brexit deal. On Friday, traders reacted to a report in The Times which said the Democratic Unionist Party was willing to compromise its previous hardline stance on Northern Ireland and that pushed the cable to 1.2506, the highest level since late July. Though the stance was later denied, it helped strengthen the pound which was also aided by the dollar's weakness.

The UK labor market has maintained its resilience amid the Brexit chaos as basic pay increased faster than expected. Wage growth including bonuses has accelerated to its highest level since 2008 at 4%, mainly due to the strength seen in construction and financial services. The employment rate stood at 76.1% as the number of people in work rose by 31,000 in the three months to July. Thus, the jobless rate returned to its lowest level since the 1970s and well above inflation at 3.8%. Wages have consistently risen faster than inflation for over a year and a half, granting financial security supporting consumer confidence in the UK. A tight labor market is pressuring employers to increase their salaries; however there were still signs that the jobs market is slightly weary under the global economic pressure.

Asia

China's Growth Slumps

China's CPI has reportedly risen 0.7% in August, up from the 0.4% seen in July. On an annual basis, the figure gained 2.8%, unchanged from the prior month and the largest increase since early last year. The PPI figure – a gauge of corporate profitability – fell to 0.8% y/y, far beyond the 0.3% contraction seen in July. Producer prices are being hit by Beijing's ongoing trade war with the US, illustrated by the sharp drop in foreign direct investment and imports.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30365 on Sunday morning.

Rates – 15th September, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1028	1.0927	1.1109	1.1073	108.75	1.1175	1.1152
GBP	1.2291	1.2347	1.2509	1.2501	1.2410	1.2715	1.2552
JPY	106.85	106.74	108.26	108.10	107.10	110.05	107.37
CHF	0.9874	0.9854	0.9946	0.9902	0.9710	1.0105	0.9817