Weekly Money Market Report

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Trade Tensios Increase Ahead of the G20 Summit

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Highlights

- President Donald Trump is expecting a meeting with his Chinese counterpart.
- The Fed shifts its tone.
- US Inflation disappoints.
- Boris Johnson heads the race to the Prime Minister seat.
- Higher wage growth in the UK.

United States

In the US, President Donald Trump said while speaking at a White House press conference that he expects to meet Chinese President Xi Jinping at this month's G20 summit in Osaka Japan. During the conference, Trump accused China of reneging on a trade deal that according to him, the two largest economies had agreed on last month. He did however assure that he still hoped to sign an agreement with China. "We're going to be meeting, President Xi and myself. And you know we have a very good relationship," said Trump at a briefing with Polish President Andrzej Duda. He later on added, "We will end up making a deal with China. We have a very good relationship, although it's a little bit testy right now… I think they really have to make a deal."

With the comments being a strong signal that the two leaders would have a bilateral meeting at the G20, no confirmations were actually giving from either of the governments. The White House refused to clarify whether a meeting had been agreed or whether Trump was actually referring to the pair meeting as part of the larger group of leaders. The Chinese embassy also declined to comment on the subject.
With that said, Donald Trump repeated his vow to slap 25% tariffs on the $300 billion in imports from China not yet subject to US levies. If the Chinese failed to agree to a deal that would end the trade war between the two countries, Trump seems to be adamant on imposing those tariffs. In a previous comment from Trump he said "We are expected to meet. If we do, that's fine, and if we don't, that's fine. Look, from our standpoint, the best deal we can have is 25% on $600bn, OK?" Trump however refused to say when he would decide on imposing tariffs if China did not strike a deal.

In response to the tension between the two economies, hundreds of US companies and trade associations have written to the US President requesting that he does not impose new tariffs on Chinese goods. The letter that included signatories such as Walmart, Target, Ikea, and J Crew urged Trump not to go ahead with the new tariffs. Titled "tariffs hurt the heartland", the letter cited figures from Trade Partnership Worldwide that claim the new tariffs could result in the loss of two million jobs, add more than $2,000 in costs for the average American family of four, and reduce the value of US gross domestic product by 1 percent.

Moving forward, Fed policymakers will reconvene this week in a meeting to deliberate monetary policy. With no assurance that China and the US will come to a conclusion on the trade dispute at the G20 summit later this month, trade continues to be the core of market uncertainty. According to a Reuters poll of economists, the chances of a Federal Reserve interest rate cut this year have dramatically increased in the past month. After the Fed changed its policy bias away from steady tightening in January, a second sudden shift was delivered by its Chair Jerome Powell last week. The Fed Chair said that the regulator would act “as appropriate” to address risks from the US-China trade war, leaving the door open for a possible rate cut.

Both the US Dollar and the Swiss Franc benefitted from their safe haven status as trade tensions escalated. The Greenback closed the week 0.94% higher at 97.548, while the Swissy closed 0.99% higher at 0.9988.

Weaker Inflation

US consumer price inflation weakened in May as the figure fell to 1.8% y/y last month, compared to the 2% recorded in April and just below expectations of a 1.9% increase. On a monthly basis the index rose 0.1%, a slowdown from the 0.3% rise seen in April. Excluding volatile food and fuel prices, the core CPI also slowed to a 2% y/y rise compared to the 2.1% forecasted. The readings follow the release of the producer price index, which recorded its slowest annual pace in more than two years for the month of May. As officials become increasingly weary over the outlook for both the domestic and global economy, the tame readings are likely to support the view in the markets that the Fed may have room to cut rates to counter the slowing growth. Continued trade tensions coupled with the sharp slowdown in May hiring has increased such rhetoric.

In response to the inflation report, stock prices slumped while treasuries climbed and oil prices fell. Technology shares led the drop, with the tech-heavy Nasdaq 100 declining the most in a week. The S&P 500 fell around 1% to 2,879.84 after recovering from its 2,728 level seen early June while the Dow Jones Industrial Average followed a similar trajectory. But on Thursday, global stocks saw an advance that was led by gains in oil and gas companies, the gain came as an aftermath to the incident involving oil tankers in the Gulf of Oman. The incident resulted in an oil rally as it took center stage with both Brent crude and West Texas Intermediate jumping as much as 4.5%. Both however trimmed back their gains and settled 2.2% higher. Wall Street’s S&P 500 ended the week at 2,886.98.

Europe

Britain’s Path to Choose Its Prime Minister

In the race for Britain’s next Prime Minister, Boris Johnson has emerged as the favorite where he topped the first round of voting in the Conservative leadership contest with the support of 114 Tory MPs. Swiping the field by polling more votes than the next three contenders combined, the Eurosceptic former Foreign Secretary said “I am delighted to win the first ballot, but we have a long way to go.” It is worth mentioning that Boris Johnson is keeping open the possibility that Britain will leave the EU on October 31 in a no-deal Brexit. The next round of voting among MPs will take place on Tuesday the 18th of June where candidates will require 32 supporters to stay in the race. Further rounds will then have to take place until only two contenders remain.

In terms of economic indicators, wage growth data came in higher than anticipated for April as regular pay (excluding bonuses) rose by 3.4% and 0.2% higher than the market’s consensus. The unemployment was stagnant at 3.8% and in-line with the market. The labor market data is providing some relief to the GBP after a poor GDP figure from Monday where the GDP fell by 0.4%. The Sterling had rebounded from a one week low of 1.2653 reached on Monday to a high of 1.2744 following the release of the labor market and despite the weaker GDP. The Sterling however took a stumble on Wednesday after Theresa May’s Government defeated a Labor Party bid to Prevent the UK from leaving the EU, the Cable closed Friday’s session at 1.2590.

European Central Bank

In Europe, President Mario Draghi of the European Central Bank spoke at a press conference following the latest monetary policy. The bank claimed interest rates would remain unchanged at their record lows in an effort to boost inflation and stimulate growth. The ECB said in a statement that the governing council “now expects the key ECB interest rates to remain at their present levels at least through the first half of 2020.” The ECB, along with the US Federal Reserve, have shifted to a more dovish stance as concerns over a cooling global economy persist.

Asia

Chinese Consumer Prices Rise

Consumer prices in China rose 2.7% from a year earlier last month in line with expectations but the fastest rise since February 2018. However, a large part was driven by elevated food prices due to a decline in supplies after the outbreak of African swine fever across the country. Also, producer prices declined from 0.9% to 0.6% in line with downbeat factory activity seen in May. Producer inflation in China is closely tracked by analysts and investors and is seen as an indicator of industrial demand in the economy.

Kuwait

Kuwaiti Dinar at 0.30375

The USD/KWD opened at 0.30375 Sunday morning.

Rates –16 June, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1314	1.1337	1.1205	1.1207	1.1015	1.1405	1.1291
GBP	1.2729	1.2744	1.2580	1.2590	1.2395	1.2795	1.2645
JPY	108.59	108.72	108.19	108.55	106.65	110.55	107.81
CHF	0.9895	0.9989	0.9888	0.9988	0.9785	1.0175	0.9908