

Weekly Money Market Report

28 October 2018

US Dollar Surges amid a Meltdown in Equities

United States

Donald Trump attacked the Fed once again as the US dollar continued to gain momentum for the last two weeks. It seems to be a habit of the President to comment on the Fed in a negative manner in an attempt to influence the monetary policy. In a comment to the Wall Street Journal the President said he “maybe” regrets appointing Jerome Powell as the Fed’s chairman. He added that the Fed is the “biggest risk” to the US economy.

Global stock markets suffered last week after a vast Wall Street sell-off. Weak US earnings combined with geopolitical uncertainty has rattled investors’ confidence as evident by the drop in stocks globally. In the US, the S&P 500 and Dow Jones Industrial Average both ended in negative territory for the year, while European stocks fell sharply and Asian bourses experienced their worst month since the financial crisis. However, towards the end of the week minor corrections in US equities put the YTD performance into positive territory. As a result to the meltdown in equities, 10-year US treasuries yield fell to a 3-week low of 3.08% on Friday.

The US trade deficit has widened to the highest level ever recorded at \$76.04bn in September from \$75.46bn in August according to data released on Thursday by the US Census Bureau. Exports jumped 1.8%, and imports rose 1.5%, sharpening questions about Trump’s effectiveness in dealing with what he refers to as unfair trade practices. The Census Bureau released data on Thursday revealing orders placed with US factories for business equipment declined in September for the second month, while shipments of core capital goods were unchanged. Orders for non-defense capital goods dipped 0.1% last month, disappointing expectations of a 0.5% gain. Overall orders for durable goods rose 0.8% for September following a 4.6% jump in August. Uncertainty over trade has cut into companies’ profits and expansion plans, risking overall economic growth.

Looking at the FX market, the greenback has strengthened on the backdrop of a weakening Euro and Sterling. The slowing Eurozone growth figures coupled with political uncertainty in Britain are continuing to weigh heavily on the single currency. The US dollar reached a 2-month high of 96.732 before closing the week at 96.679.

UK & Europe

ECB is Confident on the EU’s Economy

The European Central Bank stated on Thursday that the benchmark interest rate will remain unchanged at 0%. Despite market turmoil and political concern, it has also confirmed plans to halt its quantitative easing program before the end of this year. The council announced that the bank is buying €15bn of mostly government bonds a month, and “anticipates” that the €2.5tn program will be over by December. During the press conference, ECB president Mario Draghi listed his concerns towards inflation, trade tensions, and

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risk of a disorderly Brexit, however remained hawkish overall. Draghi spoke confidently of the Italian government's ability to reach an agreement with the European commission, while Italy pushed for a budget plan that defies the EU's spending rules. Though the ECB views the escalation of the global trade war between the US and China as the biggest threat to the Eurozone economy, it maintains that it has favorable stimulus to soften the impact of a possible slowdown in growth.

On the FX side, the Euro started the week at 1.1508 and kept losing ground on the dollar amid uncertainty in the Italian budget, softer PMI figures and setbacks in Brexit negotiations. The single currency lost as much as 1.56% hitting a 2-month low of 1.1332.

PM May Trying to Finalize Brexit Talks

Prime Minister Theresa May reportedly gave a "heartfelt" plea on Wednesday for members to back her Brexit plan as she claimed that "the end is in sight". There were overwhelming expectations of the prime minister facing a no-confidence vote before her address to the Tory backbench 1922 Committee. However, Ms. May was met with astounding applause as she calmly criticized those who did not stand up for the "national interest" as she has – poking aim at those who have previously defied her such as Boris Johnson. Exceeding the low expectations placed upon her for this speech, the prime minister delivered one of her best speeches to date, managing to calm nerves regarding her leadership.

However, as Brexit nears its final stage, it is unclear what deal, if any, will be made before the March 29, 2019 scheduled exit. Last week, May announced at the House of Commons the possibility of Britain staying tied with the EU in an extended transition until 2021 as she revealed her offer for a 4-point plan to unblock Brexit talks. May also promised to never divide Northern Ireland from the rest of the UK, a key issue delaying Brexit talks as no agreement has been met on this point. Her four-point plan also includes details of a "backstop" solution to avoid a hard border, which will temporarily commit the UK and EU to a joint customs territory if no trade deal is agreed on.

The sterling continued its bearish momentum this week and fell to a 7-week low of 1.2777 against the US dollar. The uncertainty of the Brexit developments has weighed massively on the cable depreciating by 2% and breaking key technical level of 1.2900. The currency closed the week at 1.2831.

Canada

BOC hikes for the 3rd time this year

The Bank of Canada announced on Wednesday that it has raised its overnight interest rate for the third time this year by 0.25% to 1.75% - the highest level seen since 2008. The move was widely expected and in line with the central bank's tightening cycle plan which began last year. In response to solid economic growth and the resolution of the trade dispute with the US, the bank released a hawkish statement claiming that "the global economic outlook remains solid". A robust US economy and a new US-Mexico-Canada agreement have settled trade policy uncertainty in North America. However, the ongoing conflict between the US and China will continue to weigh heavy on global growth and commodity prices while emerging markets remain under stress. CPI inflation dropped to 2.2% in September, largely driven by a summer spike in airfares and other temporary factors. The BOC claims that the strength of the economy calls for rates to "rise to a neutral stance to achieve the inflation target." Looking forward, the next scheduled announcement for the overnight rate target is on December 5th of 2018. The Canadian dollar rose 0.7% following the release, and closed the week at 1.3105.

Asia

Inflation holds steady in Japan

Tokyo's core consumer price inflation was unchanged in October from the previous month, government data showed on Friday at 1%, offering little encouragement for Japan's central bank as it struggles to reach

its ambitious 2% inflation target. The data comes ahead of the Bank of Japan's rate review next week, where it is expected to set monetary policy steady and maintain its optimistic view on the economy even as global trade frictions and volatile markets cloud the growth outlook.

Kuwait

Kuwaiti Dinar at 0.30355

The USDKWD opened at 0.30355 Sunday morning.

Rates – 28 October, 2018

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1505	1.1550	1.1332	1.1401	1.1370	1.1488	1.1493
GBP	1.3067	1.3090	1.2777	1.2831	1.2780	1.2910	1.2891
JPY	112.48	112.88	111.36	111.89	111.60	112.90	111.06
CHF	0.9960	1.0026	0.9935	0.9968	0.9910	1.0040	0.9880