Weekly Money Market Report
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Safe Haven Assets Trend Lower on Risk Appetite

Highlights

- Trade tensions diminish; Trump to meet with Chinese officials for trade talks.
- Sterling roars on positive remarks from Leo Varadkar and Donald Tusk.
- Risky assets soar as global political tensions cool down.
- US inflation in a muted state.
- UK economic fundamentals remain frail.

United States

Global Geopolitical Tensions Cooling Down

Currencies trajectory seemed liked a rollercoaster last week with the FX market reacting to every positive and negative headline. The continuous shift between risk aversion and risk taking has become a norm, especially with the unlimited geopolitical tensions globally. Overall, the week ended with a positive sentiment thanks to China's optimistic gesture, in spite of Washington blacklisting 28 Chinese companies earlier in the week. The US Agriculture Department data revealed that China has tremendously increased purchases of US agricultural products lately. Moreover, Trump articulated to reporters that his team had a "very, very good negotiation with China," and reiterated his plans to meet with Vice Premier Liu He. On the other side of the Atlantic, a no-deal Brexit outcome keeps on diminishing. The EU Council President said he had seen "promising signals" about the chance of a fresh Brexit agreement between the UK and the EU.

As optimism was the dominant theme last week, safe haven assets were pressured into the red zone and risk taking thrived. The JPY sank by 1.48% versus the dollar in the past five trading days. In regards to the US dollar index, the buck was on the defensive against a basket of currencies. The USD was also pressured by dovish comments from the FED Chairman. On a weekly basis, the USD index fell 0.48%. Currencies of export oriented economies (EUR, AUD, CNY, Mexican peso, & Korean won) rose as trade prospects improved.

Observing the equities market, stock indices rallied globally and energy related stocks soared after reports of damage to an Iranian oil tanker. Hong Kong's Hang Seng Index locked a 2.34% gain on Friday, its biggest daily increase in more than a month. Japan's Nikkei 225 and South Korea's Kospi rose 1.2% and 0.8%, respectively. In Europe, the German DAX index rose 347.45 points to 12,511.65.

In the commodities complex, oil prices were supported on several fronts. Improving trade prospects, turbulence in oil-producing countries (Iraq & Ecuador) raised concerns of supply disruption, OPEC hinted at making deeper cuts in supply and an Iranian oil tanker had been struck by missiles in the Red Sea. The price of a Brent crude barrel rose to an 11-day high of $62.05.

Muted US Inflationary Pressures

Price growth in the American economy remains in a muted state and since the start of the year the central bank has failed to achieve its primary objective to drive inflation to a target of 2%. The FED's preferred inflation indicator (Core PCE) is currently at 1.8%, which was last released on 27th of September. However, the bad news is that since then, producer price momentum has fallen substantially, indicating that the core PCE has more room to fall. On the wholesale front, annual producer inflation tumbled to 1.4%, the lowest reading since November 2016 from 1.8% in August. Excluding volatile products, core producer inflation also fell to 2% from 2.3%. The softness in producer inflation is a reflection of the slump in the manufacturing sector that has seen the frailest activity in 10 years. As for consumer price growth, the annualized CPI rate remained constant at 1.7% versus expectations of 1.8%. The monthly CPI rate was the softest reading this year, coming in at 0%.

Inflation is clearly cooling down and the latest data from both the manufacturing and service sectors indicate that the US economy is losing momentum. Trade tensions are still in the air and banks in America are facing some short-term liquidity issues, which forced the FED to pump billions of dollars in the banking sector. Moreover, just last week, Jerome Powell highlighted that the central bank is ready to further lower interest rates and will expand its balance sheet by buying more Treasury bonds in order to provide short-term liquidity to banks. The case for a third interest rate cut this year on October 30th is strong, while markets are pricing in a 71% chance for a cut.

Federal Reserve Meeting Minutes

At the September meeting, American monetary policy officials have turned out to be more pessimistic when they lowered the overnight rate to a range of 1.75-2%. They blamed their negativity on a global slowdown and President Donald Trump's trade wars that may well drag down hiring and the broader economy with it. Looking at recession prospects, several FOMC members mentioned that models assessing recession probabilities had "increased notably in recent months." Weeks after the FED meeting, the ISM's manufacturing barometer heightened investors' concerns that a significant slowdown could hit the economy, while the services PMI plunged 4.2 points. The "dot plot" revealed that five members favored not approving any additional cuts this year, five more seeing an increase ahead, and seven wanting an additional cut. The dot plot indicates that members are extremely divided on the future path of monetary stance. However, since then, the Chairman Jerome Powell has taken a dovish tone towards interest rate and liquidity. In a speech on Tuesday, Powell mentioned that the central bank will likely begin repurchasing Treasury bills to help the banking sector maintain short-term liquidity and most importantly the Bank is ready to further lower rates.

UK

Britain Can Avoid a Recession

The streak of negative data out of the British economy lingers on as the economy contracted by 0.1% in August. In Q2 2019, the economy also constricted by 0.2%, raising fears of a recession, which is considered as two consecutive quarters of below zero growth. The manufacturing segment is taking a beating due to Brexit and global uncertainty. Manufacturing production on a monthly basis witnessed a decline of 0.7%, way below the 0.1% analysts had predicted. Despite the constant theme of frail readings, the economy may easily avoid a recession. In three months into August, the economy grew 0.3% and the service sector expanded by 0.4%, which roughly accounts to 80% of UK's GDP. The Office for National Statistics stated that GDP would need to dive by at least 1.5% in September for the economy to constrict in Q3. Such falls are considered extreme and rare, with comparable drops recorded only twice in the past 20 years. Overall, the economy has recuperated some positivity but the underlying trend is towards softer growth. The headwinds from a major global slowdown and Brexit uncertainty point to weaker growth ahead.

The Sterling pound is regularly seen as a Brexit barometer, appreciating and falling on Brexit prospects. Last week was no different; the GBP was the best performing currency in the FX sphere after the Prime Ministers of the UK and Ireland declared they saw a chance of a Brexit deal. The Irish Prime Minister claimed that a withdrawal agreement can be agreed before the end of October and that PM Johnson had shifted his red line towards letting Northern Ireland stay in the EU customs union. It seems that PM Johnson is trying to avoid a Brexit extension, which he promised to avoid by stating leaving the EU "do or die" on October the 31st. Concluding a deal with the EU and passing it through Parliament is not going to be a walk in the park, especially with all the parties involved. The Brexit departure date is October 31st and if Boris fails to obtain a deal by the 19th of October, he will have no choice but to extend the Brexit deadline as the Benn act passed into law. Since the news reached markets, the pound has gained more than 3.42% over its dollar counterpart.

Asia

Trade Truce or Stimulus?

The greatest contributor to China's GDP, the services sector cooled down to a 7-month low of 51.3 last month, from 52.1 seen in August. The sector is still expanding as the PMI reading is above 50, however the pace of growth has evidently lessened. Firms were pressured due to operating costs (labor, fuel & raw material expenses) soaring to a one-year high. At the same time, companies refrained from increasing prices on their clients, a strategic move to stay competitive in these uncertain times. Since early 2018, Beijing has implemented a mixture of fiscal stimulus and monetary easing to save the economy from a slowdown that incorporated hundreds of billions of dollars in infrastructure spending and tax cuts for companies. However, the aforementioned provisions have been slow to trickle through the economy. The White House has been persistent on China towards trade issues and tariffs keep on rising. Hence, a further downturn could be inevitable without further policy support or a trade pact between the two largest economies, which have been in an immense trade dispute for the past 15 months.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30370 on Sunday morning.

Rates – 13 October, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.0981	1.1062	1.0939	1.1042	1.0900	1.1190	1.1118
GBP	1.2331	1.2705	1.2193	1.2643	1.2450	1.2880	1.2693
JPY	106.79	108.61	106.68	108.40	107.50	109.51	107.74
CHF	0.9941	0.9990	0.9902	0.9965	0.9900	1.0025	0.9894