Weekly Money Market Report
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US Dollar Still in Demand

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- US dollar index at four month high on strong performance and risk aversion.
- US core inflation above 2% target at 2.3% year on year.
- Euro falls to three year low with slowing economy.
- Fiscal stimulus expected in the UK boosts the pound.
- Oil rebounds with expected OPEC cuts.

United States

US Dollar still in Demand

The US dollar remained in demand last week as the coronavirus epidemic continues to encourage safe-haven demand. The Japanese yen, another popular safe-haven currency, was overlooked as its close proximity and exposure to Asian economies pushed investors to the west. Indeed the US dollar index reached a fresh four month high as a result. Uncertainty about the real extent of the epidemic is likely to discourage investors from taking on excessive risk until there is sufficient evidence that its spread has slowed.

The resulting move towards the US dollar has also led to rising demand for US equities and government bonds. Furthermore, increased expectations of further easing from major central banks continued to support equity purchases through cheap borrowing rates.

Federal Reserve Chairman Jerome Powell gave the latest indication that policies will remain accommodative in his testimony in front of Congress last week. Powell said Treasury bill purchases and repurchase operations would continue into the second quarter of 2020. He also repeated that the central bank’s current view of a target range for short-term borrowing costs, between 1.50% and 1.75%, is “appropriate” to keep the expansion on track. Finally, Powell mentioned that he finds the U.S. economy in a “very good place” with receding trade policy uncertainty and the stabilization of global growth.

Inflation

U.S. consumer prices picked up in January as households paid more for rents and clothing, supporting the Federal Reserve’s contention that inflation would gradually rise toward its 2% target. The Labor Department said on Thursday its consumer price index excluding the volatile food and energy components rose 0.2% last month after edging up 0.1% in December. Year on year, the core CPI maintained a growth rate of 2.3% for the fourth straight month.

Europe & UK

Euro Reaches Four Year Low

The euro currency’s fall continued this week reaching multi-year lows as investors grew more pessimistic about the outlook of the Eurozone economy. The Eurozone’s industrial output fell 2.1% in December, suffering its steepest drop in four years according to official data. Furthermore, Germany’s economy stagnated in the fourth quarter due to weaker private consumption and state spending renewing fears of a recession in Europe's largest economy.

The latest round of disappointing economic data has led to expectations of an interest rate cut by the end of 2020, versus a zero probability seen just a month earlier. Persistently weak growth will keep pressure on the European Central Bank to deliver further easing posing downside risks for the euro which is already weakening in anticipation of potential policy action. The dovish expectations sent the EUR/USD pair down to its lowest levels since 2017.

Potential Fiscal Stimulus in the UK
In contrast, the sterling pound rose on a wave of optimism due to hopes that changes in the British cabinet will lead to more expansionary fiscal policies to support growth. Rishi Sunak was revealed to be the next UK Finance Minister after Sajid Javid's resignation last week. Investors believe that Sunak, a close ally of Prime Minister Boris Johnson, will be more inclined to deliver a big fiscal stimulus at the March budget. Looser fiscal policy is expected to boost growth in the short term, lessening the chance of a reduction in interest rates by the Bank of England.

In the final quarter of 2019, Britain's GDP saw zero growth as high political uncertainty weighed on business investment and manufacturing. The stagnant growth in gross domestic product is down from an upwardly revised 0.5% expansion in the third quarter of 2019. Annual growth increased marginally to 1.4% in 2019, slightly above the 1.3% seen in 2018. Manufacturing production provided the largest upward contribution despite missing forecasts of 0.5%, rising by 0.3%. A fresh fiscal boost by the government should help boost manufacturing further and support growth in 2020.

China

China's Growth Expected to Slow
A poll of 40 economists based in mainland China, Hong Kong, Singapore, as well as Europe and the United States, predicted China's annual economic growth in the first quarter of 2020 will slump to 4.5% from 6.0% in the previous quarter. The coronavirus has since shut down large amounts of the country's supply chain and the extent of the damage China's containment efforts will have on growth is still yet unknown. However, economists were optimistic the economy would bounce back as soon as the second quarter should the virus be controlled and the recent trade tariff reductions from the US take into effect.

Commodities

Oil Prices Rebound
Oil prices rebounded last week on expectations that OPEC and its allies would cut output further as demand looks set to drop due to the outbreak of coronavirus. Reports indicated that China's oil demand has fallen by about 3.2 million barrel per day. However, market sentiment improved as factories in China started to reopen and the government eased its monetary policy. The final decision on an OPEC cut seems to be on Russia who has since been slow to commit.

Kuwait

Kuwaiti Dinar at 0.30480

The USDKWD opened at 0.30480 Sunday morning.

Rates – 16 February, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.0949	1.0957	1.0826	1.0830	1.0635	1.0935	1.0890
GBP	1.2896	1.3069	1.2870	1.3046	1.2840	1.3245	1.3077
JPY	109.84	110.13	109.55	109.74	108.70	111.70	109.22
CHF	0.9772	0.9822	0.9738	0.9820	0.9725	1.0020	0.9762