

# Weekly Money Market Report

31 March 2019



## Global Bond Yields Indicate Uncertainty

>NBK Treasury  
+965 22216603  
tsd\_list@nbk.com

### Highlights

- Global yields have continued to drop sharply over the past week reflecting heightened global growth concerns.
- The Sterling pound continues to be plagued by market volatility over Brexit as UK Parliament rejects Theresa May's Brexit deal for a third time.

## United States

### Economy Slowing Down

Global yields have continued to drop sharply over the past week reflecting in part heightened global growth concerns. It has encouraged market participants to begin pricing in rate cuts from major central banks. The Royal Bank of New Zealand (RBNZ) became the first G10 central bank to explicitly adopt an easing bias reflecting concern over softer global growth and the stronger New Zealand Dollar (kiwi). However, the drop in yields has been more pronounced in the US resulting in yield spreads moving against the US dollar. Yet the US dollar has held up against its major counterparts as ongoing uncertainties continue to pressure non-dollar currencies.

Evidence however, is showing that the US economy is not immune to the growing global slowdown building in 2019. Q4 GDP growth, was revised lower to 2.2% from 2.6% missing expectations and sharply slower from Q3's 3.4%. Consumer confidence, dropped from 131.4 to 124.1 with the expectations and present conditions indices declining. And finally, the influx of US Treasury bond buyers, is sending clear signals of concern for the future.

Federal Reserve Presidents speaking last week also mentioned an expected slowdown this year, but maintained a sense of optimism. New York Fed President John Williams said overnight that the "most likely case" was for US economy to grow only 2% with low unemployment and that the probability of recession this year was "not elevated relative to any other year." St. Louis Fed President James Bullard said that the "spate of weaker data" is "probably mostly temporary," and that it is still "premature to contemplate a rate cut".

### Trade War

US Treasury Secretary Steven Mnuchin said he's looking forward to "productive meetings" as he arrived in Beijing with Trade Representative Robert Lighthizer for another round of trade negotiations. Mnuchin told reporters that "ambassador Lighthizer and myself are pleased to be back here in Beijing, and we look forward to productive meetings." Reuters also reported that China's proposals went further than in the past, which created hope for an eventual trade deal.

Stock markets remained stable after it emerged that negotiators on both sides of the US-China trade talks were edging closer towards a compromise deal. After months of meetings, Reuters reported that Beijing had tabled fresh plans to limit technology transfers and open Chinese markets to foreign competition.

## Europe & UK

---

### EU Sentiment Lower

The Eurozone economy showed fresh signs of weakness last week after a number of confidence indicators came back worse than expected. The European Commission revealed that Eurozone economic sentiment slipped to 106.1 points in February from 106.3 in January marking the lowest level since November 2016 due to “markedly lower confidence in industry.” Another indicator, the Eurozone Business Climate, dropped to 0.53, down from 0.69 and missed expectation of 0.69. All the five components of the indicator worsened while managers’ views of past production, production expectations, and their assessments of both overall and export order books declined significantly.

The loss of confidence is also apparent in the moves of treasury yields where the 10-year Bund yields have broken below zero. As it becomes more likely that the European Central Bank will struggle to hike rates, there is further evidence for yields to remain low.

### ECB Mario Draghi Speech

European Central Bank President Mario Draghi spoke about the state of the Eurozone economy last week reinforcing views that monetary policy would remain easy. Draghi confirmed that the loss of growth momentum in the euro area last year has extended into 2019 driven by widespread uncertainty in the global economy. He continued that the loss of growth momentum could become more broad-based and persistent if two risks were to materialize: first, if external demand were to remain weak, and second, if this were to spill over into domestic demand.

In the meantime, he confirmed that the first risk has been relatively realized. The weakness in world trade has continued, which has significantly affected the manufacturing sector. Global goods import growth in January reached its lowest level since the Great Recession, on the back of rising uncertainty about trade disputes and a slowdown in emerging market economies, especially China.

Draghi believed that so far, the domestic economy has remained relatively resilient and the drivers of the current expansion remain in place. However, the risks to the outlook remain tilted to the downside. The key question now is, if the current monetary policy would help domestic demand remain supported. With inflation projections this year having been revised downwards to 1.6% in 2021, the ECB’s monetary policy will remain accommodative and would respond to any changes in the inflation outlook.

### Brexit

In the UK, the pound continued to be plagued by market volatility over Brexit. The GBP lost about 1% over the week heading into Friday March 29th, the day the UK was supposed to officially leave the European Union. Instead of leaving however, Prime Minister Theresa May put her twice-defeated Brexit divorce deal to a vote in parliament.

The vote was rejected by a majority of 344 to 286. The UK will have until 12 April - the date by which the UK would have to indicate whether it would place candidates in the European Parliament elections - to “indicate a way forward”. The vote leaves the UK with 2 weeks to come up with a solution. It is yet unclear what Theresa May’s government’s next move is, but an emergency meeting with the European Council has been set on the 10th of April.

## Kuwait

### Kuwaiti Dinar at 0.30420

The USDKWD opened at 0.30420 Sunday morning.

### Rates – 31 March, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1292	1.1332	1.1207	1.1217	1.1180	1.1580	1.1312
GBP	1.3205	1.3269	1.2976	1.3031	1.2760	1.3180	1.3103
JPY	109.84	110.94	109.70	110.84	111.35	114.70	110.32
CHF	0.9949	0.9974	0.9904	0.9952	0.9830	1.0170	0.9868

© Copyright Notice. The Weekly Money Market Report is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. This report and other NBK research can be found in the "News & Insight" section of the National Bank of Kuwait's website. Please visit our website, [www.nbk.com](http://www.nbk.com), for other bank publications. For further information please contact: NBK Treasury Group, Tel: (965) 2221 6603, Fax: (965) 2241 9720, Email: [tsd\\_list@nbk.com](mailto:tsd_list@nbk.com)