Weekly Money Market Report

27 January 2019

US Shutdown persists while Brexit remains at a stalemate

United States

Governmental Shutdown Ends Temporarily

US President Donald Trump has agreed to temporarily end the historic 35-day governmental shutdown with no backing for his proposed border wall. On Friday, the president announced that he had agreed towards a measure to re-open the government for three weeks while he discusses funding with lawmakers. The conflict over the Mexican border wall funding had kept 800,000 federal employees without pay as Trump battled for his 2016 campaign promise. Frustration in public opinion grew as a poll by CBS revealed that 7 out of 10 Americans did not believe the border wall issue called for a shutdown. Furthermore, a poll by the Associated Press found Trump's approval rating dropped to 34% from 42% in one month. Nevertheless, Trump reiterated his stance claiming, "If we don't get a fair deal from Congress, the government will either shut down on February 15 again, or I will use the power afforded to me under the laws and the constitution of the United States to address this emergency. We will have great security."

Existing Home Sales Disappoint

Existing home sales - a key pillar of economic growth given that it makes up about 90% of US home sales - fell to its lowest level since November 2015. According to the National Association of Realtors, data on Tuesday revealed existing home sales tumbled 6.4% month-on-month in December to an annualized pace of 4.99m. The data follows a 2.1% increase in November to an annualized pace of 5.33m. The drop is mainly attributed to higher mortgage rates and tight inventory, which has weighed on the housing market despite the strength in the US labor market and improving wages.

Equities

Stocks swung between gains and losses after Secretary of Commerce Wilbur Ross stated that the US and China, the worlds' two largest economies, remain far from any trade resolution. However, he later added that there is still a fair chance of a deal in an effort to calm apprehensions. With fears over the global trade outlook and the health of the US economy, investors now face a rocky month ahead as the governmental shutdown threatens to hinder activity and limits the flow of economic data. The Dow Jones rose 1.36% to 24,737.20, while the S&P 500 gained 1.22% and is currently trading at 2,644.76.

Commodities

Oil prices rose on Thursday heightened by the US threat of sanctions on Venezuela, an OPEC member and major exporter. On Wednesday, US President Donald Trump recognized opposition leader Juan Guaido as interim president of Venezuela. In response, the current president of Venezuela Nicolas Maduro said the country was cutting ties with the US and gave diplomats 72 hours to leave the country. The Trump administration reacted by vowing to impose sanctions if the political turmoil continues. Venezuela still exports about 350,000 barrels to the US a day, though production has fallen sharply over several years due to mismanagement caused by the socialist regime.

However, gains were limited after US data revealed an unexpected build up in crude stockpiles. According to the Energy Information Administration, crude inventories rose by 8 million barrels in the week to January 18 compared to expectations of a 42,000-barrel decline. Historically the US, Russia, and Saudi Arabia have each taken turns dominating the top of the global list of producers. Oil prices remain steady: Brent crude is currently trading at the 61.64 level, and the West Texas Intermediate is at around 53.53.

UK & Europe

Time Runs Short for a Brexit Deal

UK Prime Minister Theresa May unveiled her Brexit plan B last week, which largely resembles the original Brexit deal with just a few added tweaks. Two weeks ago, May's deal was rejected in what was dubbed the biggest defeat suffered by a British government in the House of Commons. In the time since she lost the vote, the prime minister has tried and failed to reach a consensus on a way forward. The UK parliament is now moving closer towards a delay for Brexit to avoid dropping out of the European Union with no deal.

Time runs short and opposition to May's deal remains strong from members of the parliament. If parliament refuses to endorse the exit terms, the UK will be on course to exit the EU with no agreement on March 29th. Consequences may be dire for the British economy: the BOE estimated a 25% hit to the pound and a 30% hit to house prices if Britain exits the EU with no agreement. Imposition of tariffs on goods moving between the EU and UK would begin, igniting jams at ports and shortages of supplies. MPs will vote again on January 29, and plans ranging from tweaks to the existing agreement to calling Brexit off altogether are all possibilities as of now. The main opposition party will likely support a proposal to extend the March 29 deadline if the Prime Minister fails to negotiate a divorce agreement. So far, the pound is down around 13% against the dollar since the UK voted to leave the EU in 2016.

UK Pay Growth Surges

The number of people currently working in the UK has reached a record high of 32.54 million according to data released by the Office for National Statistics. Average weekly earnings excluding bonuses rose to its highest level in a decade at 3.4% in the year to November, as wages continue to outpace inflation currently at 2.1%. Adversely, unemployment also increased by 8,000 to 1.37 million. The rise in both employment and unemployment is explained by two main factors: the UKs rising population, and fewer individuals who have been classified as "economically inactive" (those on long-term sick leaves, students, and those who have given up looking for a job). It appears that the jobs market has brushed off Brexit chaos in its surroundings with a record 24 million jobs in the UK. However, given that job figures trail the rest of the economy, investors will have to wait a few months to know if Brexit uncertainty has hit the jobs market or not.

European Central Bank

The European Central Bank left its policy unchanged on Thursday in the face of weaker momentum across the Eurozone. The benchmark interest rate was left unaffected at 0%, and the rate of bank's deposits at the ECB remained at -0.4%. The bank stated once more that it would keep reinvesting the bonds bought under the €2.6tn QE program which are now maturing.

ECB president Mario Draghi later explained that "risks surrounding the euro area growth outlook have moved to the downside", and pointed to an increase in general uncertainty as the cause. Eurozone growth fell to its lowest level in four years in the third quarter of 2018, and data published since then has proved disappointing. Just last week, the PMI figure fell to 50.7 in January, slipping closer to stagnation. The Fed had also blamed political uncertainty for softer growth, and has said it expects fewer rate rises this year. Expectations are for the key ECB rates to remain at their present levels through the summer of 2019. The euro hit a 2 month-low of 1.1305 as Draghi spoke and later recovered 0.94% to a one week high of 1.1412.

Asia

Slowest Growth for China in 29 Years

China's economy grew at a rate of 6.6% in 2018 according to data released last week, revealing the slowest GDP growth since 1990. Fourth quarter GDP growth was in line with expectations at 6.4%, down from 6.5% in the third quarter of 2018. The Chinese statistics bureau Chief Ning Jizhe told Reuter's reporters that the country's trade dispute with the US has affected the domestic economy substantially, though added that the impact was manageable. Prior to trade tensions, China was already trying to manage a slowdown in the economy as it struggled to balance high debt levels and economic growth.
Due to the trade dispute, export orders and production metrics have fallen, adding to the struggle facing the domestic economy. Manufacturing for the month of December showed factory activity contracted for the first time in 19 months. The PMI index fell to 49.8 in December from 50.2 in December (a reading above 50 indicates expansion while a reading below 50 indicates contraction). Looking forward, policy tweaks such as tax cuts and infrastructure may provide hope for a steady economy.

BOJ Cuts Inflation Forecast

The Bank of Japan kept interest rates on hold last week at -0.1% and reiterated its plan of buying government bonds to maintain yield on the 10 year note at around 0%. After six years of extreme stimulus, it appears the bank has few tools left at its disposal. The BOJ again stated that momentum towards its 2% inflation target is integral, though not yet concrete. The bank's radical program may now widen the gap between itself and global peers given that the ECB and Fed are aiming to return to pre-crisis policies.
Looking at core inflation, the BOJ cut its forecast for the current fiscal year to 0.9% from 1.4%, marking its fourth downward revision for 2019. Outlook appears to be just as grim for 2020 as the BOJ trimmed its view from 1.5% to 1.4%.

The central bank currently faces several setbacks: an escalation of the US-China trade war, a "hard" Brexit, and a slowdown in China which would weigh heavy given that Japan's economy is largely export-dependent. Early Wednesday data revealed that Japan's exports fell 0.7% for the second time in the four months to December. If global political and economic friction persists, the question will be whether the BOJ has the tools to respond to such a shock or even a recession. BOJ Gov Kuroda warned of the growing risks to the economy from trade disputes and faltering global demand, adding that the US-China trade war would significantly harm both economies (China and Japan). However, he added that the BOJ has sufficient policy measures left to choose from in response to these risks, and maintained an overall optimistic tone

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30305 on Sunday morning.

Rates – 27th January, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1364	1.1305	1.1412	1.1412	1.1212	1.1620	1.1503
GBP	1.2890	1.2890	1.3201	1.3201	1.3105	1.3410	1.3265
JPY	109.66	109.36	109.66	109.53	107.50	111.55	112.51
CHF	0.9955	0.9929	0.9970	0.9929	0.9735	1.0125	0.9638