Weekly Money Market Report
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Safe-Haven Theme Still Strong

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Highlights

- Markets expect more Fed Cuts.
- China retaliates over U.S. Tariffs.
- Brexit heading towards October deadline
- UK GDP Falls for the first time since 2012.
- Oil prices fall 5% over future demand concerns.

United States

U.S. Dollar Still in Demand

Last week markets traded sidewise as the global safe-haven theme continued into August. Fears about a global downturn, exacerbated by the trade tensions between China and the United States, had sparked a sharp sell-off in stock markets and stoked a rush into Treasuries, yen, gold and other perceived safe assets. The Japanese yen, which tends to be bought in times of economic uncertainty, was on course for its second weekly gain versus the greenback and the U.S. 10 year treasury fell below 2% for the first time in three years.

The dollar remained in demand even with the complete U-turn in expectations for Fed policy toward easing compared to tightening at the start of the year. Fed funds interest rate traders expect the U.S. central bank to cut interest rates by at least another 50 basis points and probably 75 basis points before the end of the year. It now seems that the Fed's hawkish statement in their last meeting was not enough to deter expectations of further interest rate cuts. Some investors and economists worry that the U.S.-China trade war has entered a new phase that will do even more damage to the global economy. Unless incoming economic data starts to become more positive, or the United States and China manage to de-escalate their conflict, investors believe the Fed will likely have to cut interest rates further to reduce financial stress and keep the expansion going.

Trade Tensions Re-escalate

China has vowed to retaliate after Trump's sudden introduction of new tariffs on Chinese goods. On August 2nd, Trump said the U.S. would place a 10% tariff on $300bn of additional Chinese goods escalating the trade war between Washington and Beijing once again. If the tariffs get implemented September 1st, it would mean that all of Chinese exports to the U.S. would be covered by levies.

In its first move, Beijing has asked its state-owned enterprises to halt U.S. agricultural goods purchases. Agricultural products, especially soybeans, have been at the center of the escalating U.S.-China trade war, with the U.S. insisting that China must make substantial purchases of the crop as part of any trade deal. A Chinese spokesperson said China "will have to take necessary countermeasures" and that "all the consequences will be borne by the U.S."

In its second move, the People's Bank of China weakened its currency by 2% taking the yaun past 7 per dollar for the first time since 2008's financial crisis. The Chinese central bank issued a statement pointing to protectionism and tariffs as a reason for the weaker currency. Senior Bank officials reassured foreign companies that the currency won't continue to weaken significantly and that their ability to buy and sell dollars would remain normal. The PBoC's governor, added reassurance in a statement saying "China acts as a responsible major country, will abide by the spirit of the G20 leaders' summit on exchange rate issues, adhere to a market-determined exchange rate system, and will not engage in competitive devaluation."

In response, the U.S. Treasury has officially named China a currency manipulator. The designation should now technically trigger a process whereby the U.S. could ask the International Monetary Fund to evaluate China's currency policies. However, the designation was seen by analysts as a largely symbolic move that would serve as a political justification for more tariffs.

Europe & UK

Brexit

The pound sterling remained pressured against its peers and reached a two year low against the euro after a media report said new Prime Minister Boris Johnson was preparing to hold an election after the deadline for Britain to leave the European Union on October 31. The statement comes in reaction to expectations of being put to a confidence vote by parliament after the summer break ends. If Johnson loses the vote, the incumbent government must either resign or call a general election. A government official said "We can't stop them forcing an election but we control the timetable so we will force the date after October 31." By having the election after the deadline, Johnson is trying to secure his promise of leaving the European Union in October at all costs.

UK GDP

The rising Brexit uncertainties and weakening global growth led to the UK economy contracting in the second quarter for the first time in almost seven years. Output fell 0.2% in the three months to June, worse than the flat performance expected by economists and down from a 0.5% expansion in the first quarter, according to data from the Office for National Statistics. Britain's economy has not shrunk since 2012. Manufacturing and constructions sectors both weakened after a buoyant beginning to the year. The services sector was the only positive contributor to GDP growth in quarter 2. However, growth in services was still subdued at 0.1%, the weakest rate in this sector since 2016. The figures pushed the pounds below $1.21 and to its lowest levels this week.

Asia

Bank of Japan Reduces Bond Purchases

Japanese government bond yields reached a three-year low of -0.218% on broad concerns about the U.S.-China trade war. To combat the fall in yields, the Bank of Japan cut its purchase of long-dated bonds. The BOJ cut its purchases by 20 billion yen to 160 billion yen ($188.8 million).

The BOJ has said it roughly defines its policy target of "around zero percent" for the 10-year yield as 20 basis points above or below zero percent. As such, the cut in the purchases is considered to be a technical move to keep the 10-year yields in line with the current target. However, the reduction in asset purchases at a time when many central banks in the world are easing their monetary policies highlights lack of the BOJ's ammunition in policy after it has already built up a massive balance sheet and cut interest rates to negative levels.

Commodities

Oil Prices Decline

Mounting signs of an economic slowdown and a ratcheting up of the U.S.-China trade war have caused global oil demand to grow at its slowest pace since the financial crisis of 2008, the International Energy Agency said on Friday. The Paris-based agency said that compared with the same month in 2018, global demand fell by 160,000 bpd in May, the second year-on-year fall of 2019. It is clear that economic concerns and demand are having larger effects on the prices of oil. Supply curbs by OPEC and its allies are still in place and U.S. sanctions drove down Iran's July oil exports to the lowest since the 1980s.

However prices still managed to fall over 9% this month and over 5% this week. Still, OPEC last week vowed to continue supporting prices. Saudi Arabia said it plans to maintain its crude oil exports below 7 million bpd in August and September to bring the market back to balance.

Kuwait

Kuwaiti Dinar at 0.30360

The USDKWD opened at 0.30360 Thursday August 8, 2019.

Rates – 11 August, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1101	1.1249	1.1101	1.1198	1.0829	1.1369	1.1276
GBP	1.2142	1.2209	1.2022	1.2034	1.1590	1.2831	1.2081
JPY	106.58	107.07	105.25	105.66	101.85	113.11	104.99
CHF	0.9827	0.9840	0.9690	0.9723	0.9549	1.0194	0.9649