

Weekly Money Market Report

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Dollar Falls Amid Lack of Guidance and Trade Tensions

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Highlights

- FOMC minutes show diversity of views.
- Trade wars escalate as China retaliates.
- Jackson Hole lacked monetary guidance.
- US manufacturing sector contracts for the first time in a decade

United States

FOMC Minutes

The Federal Reserve released the minutes of its last rate-setting committee meeting that ended on July 31. It showed that most officials saw the 25 basis point reduction in the Fed's main interest rate as a "recalibration of the stance of policy, or a mid-cycle adjustment, in response to the evolution of the economic outlook". During the meeting, Chairman Jerome Powell faced a split among US central bank officials as he pressed ahead with a one-notch rate cut last month. The minutes showed that within the general consensus, there were a few members that said they would have preferred an immediate 50 basis point cut pointing the need for "stronger action against stubbornly low inflation". On the other hand, several officials argued that "the real economy continued to be in a good place," favoring to keep the rates steady. Two members, Esther George and Eric Rosengren, presidents of the Federal Reserve Bank of Kansas City and Boston had voted against the committee's decision.

The diversity of views about last month's reduction, in addition to the confusion and uncertainty growing over the US fiscal policy, after President Donald Trump put down suggestions that he was considering new tax cuts to stimulate economy just a day after confirming that they were on the table, all are issues confronting the Fed's Chair. Investors are expecting a new move by the central bank to cut interest rates in the next FOMC meeting in September to insulate the US economy from the impact of trade tensions and a global slowdown.

The Fed's minutes, accompanied by hawkish Fed remarks from both members George and Harker saying that they saw little reason for additional interest rate cuts beyond the quarter point reduction in July, lead to a third inversion of the yield curve this month on Thursday. The yield on two-year US Treasury bills jumped above that of the benchmark 10-year note during the trading day. Another portion of the yield curve that reflect the difference between the three-month and the 10-year bills, slipped deeper into negative territory, but the inversion flattened out by the end of the day.

Trade Escalation

On the Trade front and in a retaliatory move to Trump's trade war with China, Beijing announced that it will apply additional tariffs of between 5% and 10% on \$75bn of US imports starting September. The news pushed Brent down more than 2% reaching \$58.52 a barrel amid concerns about the impact of tariffs and a slowdown in global trade on crude demand. Donald Trump promised a response to Beijing's latest round of tariffs and instructed American companies to "immediately start looking for an alternative to China". US stocks extended their declines and Treasuries rallied on Friday after Donald Trump's remarks as he promised action in "the same afternoon." Trump announced later at the day that he was raising existing tariffs on \$250bn worth of Chinese imports from 25% to 30% on October 1st, and raising tariffs on \$300bn of Chinese goods, due to start on September 1st, from 10% to 15%.

Markets did not like the sound of that. The S&P 500 fell 1.6%, while the Nasdaq Composite declined 1.7%. The yield on the US 10-year slid 7.3 basis points to 1.535%, while that on the two-year declined 8.7 basis

points to 1.5209%. Trump's response also saw the yellow metal spiking after it had already increased in response to China's tariffs announcement hitting a high of \$1,526.10.

Jackson Hole

On Friday, Jerome Powell gave his highly anticipated speech in Jackson Hole, an event that is closely eyed by investors as it is customary for the regulator to outline future plans. Powell gave no indication about the outlook for interest rates; he repeated a line he has used since June "we will act as appropriate to sustain the expansion." In his comment on the trade situation, Powell said that the central bank is in an unprecedented situation, mentioning that "while monetary policy is a powerful tool that works to support consumer spending, business investment and public confidence, it cannot provide a settled rule book for international trade." He left the issue in the congress and administration's hands, saying that the Fed's assignment is to use monetary policy to foster its statutory goals. In view of the current economic context Powell said that they have seen further evidence of a global slowdown, noting Germany and China, he also mentioned the possibility of a hard Brexit, and the dissolution of the Italian Government. He ended his economic brief mentioning that the US has continued to perform well overall, driven by consumer spending. Powell also marked that inflation has been "highly stable" during the US economic expansion but has run "somewhat below" the Fed's 2% target this year.

Donald Trump has responded to Powell's speech, accusing the Fed of doing "nothing" and making a slightly outlandish comparison between its Chairman and China's premier. Trump asked "who is our bigger enemy, Jay Powell or Chairman Xi?" He also criticized the Central Bank for not consulting with him.

The sudden escalation of trade war and lack of a concrete way ahead by the Fed took its toll on the Greenback, having it slide 0.82% on Friday closing at 97.639. The Japanese Yen and Swiss Franc both benefited from their safe haven status strengthening against the Dollar, The USD/JPY pair slid 1.21% to close at 105.39, while the USD/CHF pair shed 1.34% to close at 0.9745.

US Manufacturing Contracted

Data released on Thursday showed that activity in America's manufacturing sector has contracted for the first time in almost a decade. The US manufacturing purchasing manager's index dropped to 49.9 in August, falling below the neutral level of 50 for the first time since September 2009, and missing economist's expectation of 50.5. The survey showed that growth in new orders cooled to the weakest level in a decade with new export sales dropping at the fastest pace since 2009.

Europe & UK

Time is Short on Brexit

In the UK, a leaked official document suggested that there are some areas of potential disruption the British government cannot mitigate alone in case of a no-deal Brexit. The report covered issues that would affect several factors including shortages in food, medicine and petrol. The document also revealed potential disruptions to cross-channel trade as it expects France to impose controls on goods from day one of a no-deal scenario. Increased immigration checks may kick in resulting in passenger delays at key points of connection between the UK and France. The government expects that protest and counter-protests will take place increasing public disorder. As far as the Northern Ireland issue goes, the government does not expect a hard border to return immediately after a no-deal Brexit, but EU tariffs and regulatory checks would apply overnight disrupting trade with Ireland.

Boris Johnson went to meet with the German Chancellor Angela Merkel following the report. He commented on their meeting saying that he was "powerfully encouraged" by his meeting, where she expressed hope that the UK and the EU could find a solution to the Irish border issue the next 30 days. Johnson is demanding an overhaul to the withdrawal agreement finalized between the EU and his predecessor Theresa May, the overhaul would involve the removal of the backstop. A day after Johnson's meeting with Merkel, French president Emmanuel Macron cast doubt on Johnson's hopes of significant changes to the existing withdrawal agreement, saying that the backstop was an "indispensable" part of the accord. Macron did agree that the two sides should be able to find "something intelligent" but only if changes did not affect the EU's core demands on Ireland and the European single market. On the same

day Merkel provided some clarification on her 30 day commitment saying that she had not given Johnson 30 days to find a solution to the backstop but had just wanted to highlight how little time was left.

The Sterling moved up in response to the meetings after it had struggled to find any hope for the Brexit conundrum. The meetings were seen by traders as a glimpse of hope that moved the Cable 1.63% up from its low this week supported by the weakened Dollar, closing at 1.2277.

ECB Signals Easing

The European Central Bank released the minutes for its July monetary policy meeting where it sent strong signals that they are preparing a package of new easing measures. The ECB saw downside risks persisting, but it was not ready to signal that the growth outlook had deteriorated compared to the June staff forecasts. Regarding longer-term inflation expectations however, members widely shared the view that the recent declines were a matter of concern, which warranted close monitoring. To combat the fall in inflation, the minutes revealed the possibility of a “package” like policy which included various tools such as rate cuts and asset purchases. The inclusion of the package also sought to counteract the concern among market participants that the Governing Council lacked the “ammunition” to further support its inflation target. September’s policy meeting will now be highly anticipated by markets to see if any of the “package” tools are implemented.

Asia

The People’s Bank of China

China’s central bank, The People’s Bank of China unveiled a key interest rate reform on Saturday. The reform is meant to help steer borrowing costs lower for companies and support a slowing economy that has been hurt by a trade war with the United States. The regulator said that it will improve the mechanism used to establish the loan prime rate from this month in a move to further lower real interest rates for companies as part of broader market reforms.

The Reserve Bank of Australia

The Reserve Bank of Australia held rates at the record low rate of 1% in their August meeting while leaving the door open for further easing. In their meeting minutes released this week, the RBA revealed they want to see a lower unemployment rate accompanied by higher wages to fend off further easing on the domestic front. However, actions from other central banks (particularly the Fed) will also impact their policy timing, as to avoid getting left behind in a race for lower rates.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30330 on Sunday morning.

Rates –25th August, 2019

Currencies	Previous Week Levels				This Week’s Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1091	1.1050	1.1153	1.1142	1.0945	1.1245	1.1221
GBP	1.2156	1.2063	1.2293	1.2277	1.2075	1.2380	1.2325
JPY	106.42	105.25	106.73	105.39	104.20	108.15	104.76
CHF	0.9788	0.9733	0.9877	0.9745	0.9550	0.9940	0.9669