Weekly Money Market Report
13 September 2020

Hard Brexit Worries Back at The Table

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Highlights

- Concerns regarding a hard Brexit have resurfaced as PM Boris Johnson scraps major parts of the deal agreed upon in January.
- Wall Street experienced a massive sell-off in the past two weeks following months of sharp rallies. The dollar rose, recouping recent losses and sending both the euro and sterling lower.
- Looking at commodities, oil prices fell sending the global benchmark price below the $40 mark for the first time in 3 months.

United States

Sell-off on Wall Street

US stocks have climbed sharply in the last few months, led mainly by tech stocks while the market was fueled by massive amounts of monetary and fiscal stimulus. Last week however, Wall Street experienced a sharp sell-off which brought the Nasdaq and S&P 500 index well below their record highs. Still, the S&P 500 index is up 8% YTD, and has recovered 60% from its March lows. Meanwhile the NASDAQ has seen an impressive 20+% gain YTD and is 70% higher than the March lows. The question moving forward is whether the recent sell-off is a healthy correction given the sharp climbs in the last few months, or if this is an alarming indication of an upcoming crash.

The dollar sell-off last week was mainly against the euro, as the sterling took a dive toward 1.27 while safe-haven currencies remained steady. The Swiss franc appreciated by around 8% since the beginning of the year and remained between 0.92 and 0.90 levels for the past 2 months almost. With the uncertainty around the presidential elections and the US-China trade agreements, investors fled the US dollar. Analysts expect this to be the theme until markets have a better picture of the political scene in the United States.

Europe & UK

Risks of a hard Brexit are back

Britain officially voted to leave the EU four years ago, though a commitment to a divorce deal has strung on ever since. A major development was made when Britain left the EU on January 31st of this year, though talks on securing a post-Brexit trade deal continued on, with the deadline to secure such a deal ending on October 15th. Meanwhile, the UK will continue to abide by rules set in Brussels during the transition period throughout the end of 2020.

Last week, Prime Minister Boris Johnson was reported to be planning new legislation which would override parts of the Withdrawal Agreement signed in January. The new legislation hinders a previous treaty that protected British-ruled Northern Ireland from a hard border with Ireland to the south. The changes could be detrimental to the 1998 peace agreement which ended thirty years of conflict in the region. European Commission Ursula von der Leyen was quoted saying she was “"very concerned about announcements from the British government on its intentions to breach the Withdrawal Agreement”, emphasizing that this would “break international law and undermines trust." Without a deal, about $900 billion of annual trade between Britain and the EU would be thrown into uncertainty. EU’s chief negotiator Michel Barnier voiced his anxiety, saying “I remain worried...the negotiations are difficult, because the British want the best of both worlds.”

The local currency experienced a volatile week, touching a high of 1.3283 and a 6-week low of 1.2761 against the US dollar as hard Brexit scenario worries resurfaced.

ECB Holds the Fort

No surprises were expected at last Thursday's ECB policy announcement, and that's what the ECB delivered when it kept both its rates and the size (€1.35TN) and duration of its PEPP (Pandemic Emergency Purchase Program) unchanged, both as expected. In her statement, Christine Lagarde stated that the governing council will use all its tools as appropriate and needed to fulfill the council's mandate. And she also stated that the ECB is ready to utilize all the funding power of 1.35 trillion euros to help revive the economy and boost inflation.

The single currency has rallied since the beginning of the year and advanced as much as 7.13% on the US dollar. The past week the euro was testing the 1.20 level and reached a high of 1.1917 on Thursday before retreating to the 1.1850 levels.

Commodities

Oil prices tumble on demand concerns

Last week, news emerged of Saudi Arabia cutting its official selling price for buyers in Asia, the United States, and Europe. This provided insight on the perspective of OPEC's number-one producer, and reveled Saudi Arabia's doubt regarding demand recovery. In China, the oil-buying spree has slowed down after the country took advantage of the cheap prices throughout most of the year.

Meanwhile, COVID-19 flare ups in many parts of the world including China, has damaged hopes for a stable and sustained recovery in normal economic activity. Sending prices even lower, OPEC+ has eased its record production cuts last month from 9.7 million bpd to 7.7 million bpd. The price for Brent crude fell around 7% last week alone, following a 6.86% drop in the prior week. Prices remain more than 35% lower than the beginning of this year prior to the global pandemic, despite the recovery seen following April's plummet.

Kuwait

Kuwaiti Dinar at 0.30580

The USDKWD closed last week at 0.30580.

Rates – 13th September 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1831	1.1916	1.1751	1.1845	1.1740	1.2045	1.1868
GBP	1.3272	1.3283	1.2761	1.2793	1.2695	1.2990	1.2799
JPY	106.26	106.38	105.76	106.14	104.20	108.15	106.01
CHF	0.9129	0.9199	0.9047	0.9086	0.8890	0.9285	0.9061