

# Weekly Money Market Report

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## Coronavirus Outbreak Sends Major Central Banks Into Loosening Mode

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### Highlights

- The US Federal Reserve held an emergency meeting last Tuesday in which rates were cut to a range of 1%-1.25%.
- The Central Bank of Kuwait followed the Fed just a day after, lowering its discount rate by 0.25%.
- The Bank of Canada eases for the first time in four years to 1.25%.
- China's Manufacturing & Non-Manufacturing sectors are in contraction.
- The Reserve Bank of Australia cut its official cash rate to a record low of 0.50%

## United States

### Emergency Meeting

The US Federal Reserve scheduled an emergency meeting last Tuesday in which it slashed interest rates by 0.5% to the 1%-1.25% range. The move comes amid mounting concerns that the coronavirus outbreak may threaten the record expansion currently seen in the United States. "My colleagues and I took this action to help the U.S. economy keep strong in the face of new risks to the economic outlook," Fed Chairman Jerome Powell said during the preceding press conference in Washington on Tuesday. "The spread of the coronavirus has brought new challenges and risks." Wall Street suffered while 10-year Treasury yields sunk to its lowest level in history showing a yield below 0.7%. The emergency cut had failed to deliver the hoped support to the US dollar, sinking against the euro for the pair to go above the 1.1300 level unseen since June of 2019; the Japanese yen is hovering around the 105.00 level against the dollar, and the sterling broke the 1.3000 level. Though the Fed may have aimed for the early and aggressive easing to reassure investors, it instead signified the bank's scale of concern.

### Equities in Seesaw Motion

US stocks saw their weakest performance since the 2008 financial crisis as news of the coronavirus outbreak drained investor confidence. The Fed rate now sits just 1% above 0, while policy is near maxed out in Japan and Europe, leaving major global central banks with little room to act if needed. Markets reacted negatively to the sudden cut by the US Fed, though some recovery was seen after the US House of Representatives passed an \$8.3 billion emergency spending package last Wednesday. The package aimed at strengthening the country's virus response and developing treatments. Unfortunately, that recovery did not last and equities went back to a negative trajectory on Thursday.

### Mixed PMI's

Manufacturing activity in the US grew at a slower than expected pace in February, falling to 50.1 from the 50.9 in January. The slow growth has coincided with the coronavirus spreading throughout China and the rest of the world, denting expectations over global economic growth and corporate profits. The services sector on the other hand showed a pickup, defying the economic fallout from the global spread of coronavirus. The non-manufacturing sector jumped to a reading of 57.3 in February, up from the 55.5 figure clocked in January and slashing economists' expectations of a slowdown to 54.9. The survey showed that most respondents expressed concern about the coronavirus and its supply chain impact, but "they do remain positive about business conditions and the overall economy," said Anthony Nieves, chair of the ISM non-manufacturing business survey committee. Sub-indices for new orders, employment and new export orders grew quicker month to month, while inventories and order backlogs showed growth after contracting in January.

## Positive Jobs Figures

The closely watched figures of nonfarm payrolls and unemployment showed some positive sentiment for the US economy. The figures showed that US employers maintained a robust pace of hiring in February, giving the economy a needed boost as it battles the coronavirus. The report showed nonfarm payrolls increase by 273,000 in February, smashing the expected 175,000. Unemployment also showed a resilient figure falling from 3.6% in January to 3.5% in February, while average hourly earnings rose by 0.3%.

## Europe

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### A Cut in the Horizon

In the UK, investors are betting to see a rate cut from the Bank of England taking interest rates to record lows in response to the economic threat of coronavirus. Following the emergency half point cut by the Federal Reserve, markets moved to price in a quarter point cut to 0.5% by the BoE's next policy meeting on March 26th. BoE's governor Mark Carney has signaled that the regulator would be prepared to cut interest rates and allow banks to use "rainy day" funds to soften the impact of the coronavirus outbreak on the UK economy. In addition, Andrew Baily, who takes over from Mark Carney as governor on March 16th said that he would act swiftly to limit the economic fallout from the spread of the virus.

## Canada

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### "Material negative shock"

Bank of Canada Governor Stephen Poloz has resisted lowering borrowing costs for years, leaving the country with one of the highest policy rates among advanced economies. However as the virus drives economic activity down sharply and lowers commodity prices, the BOC opted to ease policy for the first time in over four years. The bank lowered its overnight rate to 1.25% from 1.75%, with officials adding they would be willing to act again to reduce rates if necessary. The bank said the economy has been "operating close to potential with inflation on target", but that the virus now presented "material negative shock to the Canadian dollar and global outlooks". In its statement, it added domestic growth for the first quarter would probably be weaker than initially expected. Though markets expected the move last week, it illustrates a sharp change from the prior week when odds of just a 25 bps cut sat at 30%. The bank's next meeting is scheduled on April 15.

## Asia

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### China's economy struggles

With supply and demand sides both weakened and supply chains disrupted, China's economy suffered largely by the coronavirus epidemic. Manufacturing PMI came in at 35.7 while the non-manufacturing PMI registered 29.6. A reading below 50 indicates a contraction, illustrating how drastically the world's second largest economy has been hit by the outbreak. The disease has cities locked down for weeks as the government enforced wide-scale quarantines to contain the spread, driving the severe slump in economic activity. On Monday, the Organization for Economic Cooperation and Development said the virus has placed the world economy in its "most precarious position" since the 2008 financial crisis. The organization now sees a slowdown in global growth to 2.4% from the 3% forecasted in November. If the virus spreads, the OECD believes global GDP may fall as low as 1.5% this year.

### Reserve Bank of Australia Cuts its Rate

The Reserve Bank of Australia cut its official cash rate by 25bps to a record low of 0.50% in its meeting as they contemplated coronavirus outbreak risks. This marks the fourth reduction by the RBA in less than a year, as the country's record run of 28 years without a recession may now be challenged. A third of Australia's exports go to China, and a bulk of its trade is done with countries in Asia, placing the country in a position uniquely vulnerable to any slowdown in China. Governor Philip Lowe said further action was likely, claiming "The global outbreak of the coronavirus is expected to delay progress in Australia towards full employment and the inflation target...The Board is prepared to ease monetary policy further to support the Australian economy."

## Kuwait

### Kuwait and Other Regional Central Banks Act Accordingly

In Kuwait, the Central Bank Board of Directors decided to follow the Fed's lead and cut the discount rate from 2.75% to 2.5%. In a statement, CBK Governor Mohammad Al-Hashel announced the move is part of the precautionary measures taken to contain the impact of the coronavirus outbreak. In his concluding remarks he said, "CBK is closely monitoring the developments in the global economy and its impact on local markets and the banking sector, and will not hesitate to take the necessary decisions to ensure monetary and financial stability". Saudi Arabia, the UAE have also reduced key interest rates.

### Kuwaiti Dinar

USD/KWD opened at 0.30510 on Sunday morning.

### Rates –8<sup>th</sup> March, 2020

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1001	1.1001	1.1354	1.1285	1.1100	1.1390	1.1330
GBP	1.2799	1.2736	1.3056	1.3047	1.2900	1.3175	1.3064
JPY	107.38	104.98	108.57	105.30	104.00	106.50	104.93
CHF	0.9661	0.9316	0.9661	0.9372	0.9300	0.9400	0.9332

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