

Weekly Money Market Report

02 September 2018

The Dollar Edges Lower as Trade Tensions Diminish

United States

NAFTA Agreement Reached With Mexico

President Trump announced on Monday that the US and Mexico had reached an agreement on NAFTA (The North American Free Trade Agreement), and suggested that Canada would be excluded from the trade pact if the country did not agree to certain terms. The agreement with Mexico resulted in a revamping of NAFTA, with adjustments made to aspects such as the digital economy, automobiles, agriculture, and labor unions. The main function of the trade pact – to allow American companies to operate in Mexico and Canada without tariffs – remains unchanged. What remains unclear is how Trump will sell the trade deal to Congress, and whether or not Canada will get on board. Meanwhile, US farmers are about to receive \$4.7 billion in government aid in September to compensate for losses due to Trump's ongoing trade war with China.

The Canadian NAFTA deal was planned to come into fruition on Friday, Canadian prime minister Justin Trudeau and US President Donald Trump both said that a deal on revamping NAFTA by Friday was within reach. Talks in Washington intensified to salvage a three-way agreement between the US, Canada, and Mexico, in light of the agreement reached between the US and Mexico. "We recognize that there is a possibility of getting there by Friday, but it is only a possibility, because it will ultimately hinge on whether there is ultimately a good deal for Canada." Mr. Trudeau said, and he added "No NAFTA deal is better than a bad NAFTA deal." Mr. Trump on the other hand said "Canada wants to be part of the deal, and we gave until Friday and I think we're probably on track. We'll see what happens."

Canadian Prime Minister Justin Trudeau and US President Donald Trump failed to reach the Friday deadline set by Congress on a revamped NAFTA agreement. US and Canadian negotiators insist that progress is being made, announcing talks would resume on Wednesday after four days of negotiations ended with no final agreement. Congress has now set a 30-day deadline, placing the administration under pressure to provide a full text of the agreement by then.

The deadline for a deal to revamp NAFTA loomed, as President Trump faces a decision on expanding tariffs on Chinese imports. He threatened to pull the US out of the World Trade Organization saying: "If they don't shape up, I would withdraw from the WTO," during an interview with Bloomberg News on Thursday. Trump had previously demanded better treatment from the WTO, complaining that it infringes on US sovereignty and the US does not always prevail in dispute settlement cases.

In the same interview with Bloomberg, President Trump hinted at pushing ahead with the next phase of tariffs on USD 200bn worth of imports from China, he also accused China again of working to a formula and devaluing its currency. In fact president Trump did not stop with China, he included the EU in his remarks on FX manipulation. In addition, the offer of complete removal of auto tariffs publicly suggested by

the EU on Thursday, does not appear to have made much difference with Trump either, he described the EU as “almost as bad as China, just smaller”.

On the currency front, the US dollar index continued its downward momentum that began on August 23. Since the beginning of the summer, the Dollar was gaining ground due to escalating trade tensions. However, with last week’s theme of cooling down on the trade front, the greenback lost some of its safe haven demand. The US dollar managed to recover some of its losses on the last trading day of the week, supported by strong economic indicators.

Stellar Consumer confidence

The US consumer confidence index soared to 133.4 for the current month, a figure not seen in nearly 18 years. The latest data was broad based as both the Present Situation component and the Future Expectations component rose. In details, the Present Situation Index rose from 166.1 to 172.2, meanwhile the Expectations Index increased from 102.4 to 107.6. The above readings are historically high and may continue to support healthy consumer spending in the short-term. On the labor front, individuals expecting more jobs grew from 21.7% to 22.6%, while the sum of people projecting a job market contraction decreased from 15.2% to 14.1%. Optimism in the US economy is significantly high with economic indicators continuously improving, while some nations around the globe witnessed much weaker readings this year than in 2017.

Rapid GDP Growth supports Interest Rate Hikes

US gross domestic product data revealed a rise of 4.2% in the second quarter, marking its most rapid growth since 2014. Such figures can be linked to massive tax cuts for companies amounting to \$1.5 trillion, creating a considerable stimulus for the economy. The data is likely to support the US Federal Reserve’s plan to raise interest rates next month, in line with its plan for two more hikes this year. The preliminary Q2 PCE rose 1.9%, while the preliminary core PCE price index remained at 2% meeting expectations. However, fears regarding trade tensions may potentially weigh on the economy in the near future.

Declining Oil Inventories

The US Energy Information Administration announced that US crude inventories fell by 2.6 million barrels last week, surpassing analysts’ expectations of a 686,000-barrel decrease. Oil prices climbed as the West Texas Intermediate was up 1.7% to \$69.710 per barrel, and Brent, considered an international benchmark, was up 1.84% to \$77.33 per barrel. The multi-week highs were due to US sanctions targeting Iran along with a larger than expected decline in crude stockpiles.

UK & Europe

Euro English Trade deal in the Horizon

EU’s chief Brexit negotiator Michel Barnier announced on Wednesday that he was close to offering the UK a unique trade deal. He was quoted saying, “We are prepared to offer a partnership with Britain such as has never been with any other third country”. The sterling shot higher in reaction to the news, breaking the 1.30 level for the first time in weeks. However, Barnier added that the UK must respect the core structures of the EU as the single market, insisting that this aspect is non-negotiable. The pound was up more than 1% on Wednesday and it closed the market at 1.2961.

The concerns over Brexit have been affecting the European equity market, where the European equities extended their third-longest streak of net redemptions in the latest week. The outflows are driven by Brexit concerns, investors withdrew \$446m from funds that specialize in UK equities in the week to Wednesday.

Eurozone CPI

In the Eurozone, CPI data has come in weaker than expected. Core CPI rose 1.0% yoy missing market expectations of 1.1%, while headline CPI increased 2.0% yoy also missing the expected 2.1%. These

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releases missed expectations, though the slight easing in inflation is unlikely to change plans at the ECB. The central bank is scheduled to wrap up its EUR 2.6 trillion asset-purchase scheme in December. However, it's unclear when the ECB will raise interest rates. ECB policymakers have been somewhat vague on the issue, saying that rates will not rise until after next summer. German retail sales came in at -0.4%, missing the estimate of -0.1%. This marked the second decline in three months. EUR/USD showed little movement in the Friday session. The pair closed the week at 1.1599.

Asia

Growth in Chinese Manufacturing

The Chinese manufacturing sector growth picked up in August, purchasing managers' index published by China's National Bureau of Statistics inched up by one-tenth of a point to 51.3 in August, and production growth picked up 0.3 points for a reading of 53.3 in August. On the other hand, new export orders contracted at the fastest pace in six months, according to a sub-index which fell 0.4 points to 49.4. At the same time, total new orders edged down only one-tenth of a point from July's level to 52.2. The official non-manufacturing PMI also climbed 0.2 points to 54.2 in August, with a sub-index for the services sector rising 0.4 points to 53.4. For the service sector this marks as a partial recovery from the slowest pace of growth in eleven months seen in July.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30280 on Sunday morning.

Rates – 02nd September, 2018

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1664	1.1585	1.1667	1.1599	1.1395	1.1795	1.1684
GBP	1.3003	1.2946	1.3006	1.2961	1.2760	1.3170	1.3016
JPY	110.75	110.70	111.13	111.02	109.20	113.20	110.35
CHF	0.9660	0.9660	0.9703	0.9686	0.9485	0.9790	0.9613