Weekly Money Market Report
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IMF sends another warning while Brexit fails to pass

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Highlights:

- Brexit deal failed to pass over the weekend.
- US data pointed to weaker consumer sentiment.
- “Phase one deal” reportedly cemented between the US and China.
- IMF releases yet another gloomy report, this time warning major central banks.

Limited Ammunition

Global central banks are wasting scarce ammunition in an attempt to compensate for the waning global economy which is at its weakest since the deep recession, the International Monetary Fund has warned. In another downbeat assessment, global growth is forecast at 3.0% for 2019 - a 0.3% downgrade from its April outlook. Over the past year, broad based weakening has been seen affecting major economies such as the US and especially the euro area and smaller Asian advanced economies. The weakness is mainly driven by a sharp deterioration in manufacturing activity and global trade, with higher tariffs and persistent trade policy uncertainty hindering investment and demand. The IMF warned that with central banks having to spend what little ammunition they have to offset policy mistakes, they may have little left when the economy is in a tougher spot.

Yet, growth is projected to pick up to 3.4% in 2020 as an improvement in economic performance can be noted in a number of emerging markets in Latin America, the Middle East, and countries in Europe that are currently facing strains. However in its official report, the IMF emphasized as follows: “with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize. To forestall such an outcome, policies should decisively aim at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity where needed”.

United States

American Shoppers Curb Spending

US retail sales posted their first decline in seven months, adding to the narrative of weaker consumer sentiment which has been the backbone of the US economy. The value of overall sales fell 0.3% in September from the 0.6% increase seen in the prior month according to the Commerce Department. Looking at core retail sales, the figure also contracted slightly in September by -0.1% from prior growth of +0.2%. We can now see that the manufacturing slowdown is gradually spilling into consumer sentiment. Despite mostly solid income growth and favorable fundamentals for consumers, people have grown increasingly cautious due to daunting headlines regarding the trade war with China. Still, the US economy remains vigorous.

The data bolsters the case for a third straight interest rate cut by the Federal Reserve. Weak business investment and manufacturing, along with the lingering trade war and weaker consumption are factors which may all risk the nation’s longest economic expansion on record, also complicating matters for President Donald Trump who faces re-election prospects in 2020.

US Stocks near All-Time High

Equities in the US climbed towards all-time highs amid mostly positive earnings reports and news that Britain negotiations are nearing an end. Overall, more than 78% of the S&P 500 index companies reported earnings that topped expectations. The S&P 500 fluctuated around the 3,000 level (near its record high of 3,021) while stocks in Europe rose slightly. Strong earnings from UnitedHealth Group, JPMorgan Chase and other companies helped power the broad gains and notched investor sentiment higher.

Europe & UK

Johnson Fails to Secure Historic Accord

An agreement on a new Brexit deal was announced by EU and UK negotiators hours before the start of an EU leader’s summit on Thursday. The main changes from the previous one concern the controversial Northern Irish Backstop which Johnson has agreed to scrap. Under the new deal, Northern Ireland will be in the UK custom territory “forever” but will have a “special arrangement”: there will be no hard border on Ireland. Though EU leaders unanimously endorsed it on Thursday, it still faced opposition in Britain’s Parliament which has so far voted down three previous Brexit deals.

On Saturday, the decision was postponed by Members of Parliament and the Letwin amendment passed with 322 votes in favor and 306 against. The amendment withholds approval of Johnson's deal until the legislation to enact it is passed. Moving ahead, Johnson is required by law to request an extension beyond the October 31 date from the EU, however he still suggested he would not negotiate with the EU on a delay and would get Brexit done before the deadline.

A Strong Rally for the British Pound

The announcement of a deal on Thursday jolted the Sterling higher. However, the Democratic Unionist Party's rejection of the deal and uncertainty about what happens in case parliament fails to pass it limited the pound's gains. The GBP/USD surged to 1.2989, adding an astounding 200 pips on the news of an agreement. Many other major pairs were taken away by the optimism: EUR/USD surged to 1.1172 and held on to those gains while the AUD/USD rose to a one-month high also due to optimistic employment data.

UK Inflation at 2016 Record Low

Consumer prices in the UK rose 1.7% in September - lower than the 1.8% forecasted and at its lowest since late 2016. Core inflation, which excludes volatile items, increased from 1.5% to 1.7%. Inflation has continued supporting consumer spending power as Brexit overwhelmingly clouds the economic outlook. “Motor fuel and second-hand car prices fell, but were offset by price increases for furniture, household appliances and hotel rooms,” said Mike Hardie, ONS head of inflation. Growth in average UK house prices jumped to 1.3% in the year to August, compared with 0.8% in the year to July. The Bank of England’s target for inflation remains at 2.0%.

Worrisome Figures in Employment and Retail

While facing prolonged economic ambiguity in regards to Brexit, the jobs market in the UK has remained mostly resilient even as other areas such as manufacturing and construction suffered. However, an unexpected fall in unemployment and drop in annual earnings illustrates the signs of faltering employment growth. The number of people employed fell by 56,000 in the three months to August compared with the previous quarter. That was down from the 31,000 increase in the

May to July period. The drop is said to be driven by a fall in part-time employment – a more volatile measure and is the first sign of a change in sentiment in the jobs market. Total earnings growth slowed to 3.8% in the three months to August compared with the same period last year, and down from the 4% seen in the three months to July. Looking at retail sales, official data reveals stagnation in September after dropping in the previous month. Quantity of goods bought was unchanged month on month, leaving sales volumes up 0.6% in the three months to September.

Asia

Weakest Expansion Since 1992

China's economy has grown at its slowest pace in three decades at 6% for the third quarter of 2019 compared to a year earlier. The figure follows second quarter growth of 6.2% which was the lowest on record at the time. Headlines make known that the hit to growth reflects the country's trade war with the US which is now on its 18th month, and the consequential effects on manufacturing and investment sentiment. Yet, China's exports to the US make up just 5% of total exports. So while overall exports fell 3.2% in September, the result is not detrimental to the $13.6 trillion economy.

China's economy was already struggling with structural problems that have been building for years, including over-investment, high savings, sluggish consumer spending, and low industrial productivity. Earlier in the year Beijing announced plans to boost spending and cut billions of dollars in taxes in an effort to support the economy, meanwhile providing a liquidity boost by reducing the amount of cash banks must hold in reserve. It appears that President Trump is attempting to seize this era of weakening expansion in China. Nevertheless, it is fair to say there is no need for the markets to panic at this moment as there is little evidence of major direct hit on overall growth.

Phase One Complete

The GDP figures emerged just one week after the US and China reached a tentative trade truce, which includes a "phase one deal" bringing a halt to US tariff increases that were supposed to go into effect earlier this week. They agreed to suspend an increase in tariffs on $250bn of Chinese imports from 25% to 30%. Trump added that intellectual property, financial services, and agricultural purchases are included in the agreement. The trade war between the two largest economies is now on its 18th month, and with the 2020 election coming up a completed deal would give the President a chance to claim progress on an issue he has been preaching since his campaign trail.

Equities & Commodities

Oil Lower on Fears of US Crude Inventory Rise

Crude oil prices fell sharply after the Energy Information Administration reported a 9.3 million increase in crude oil inventories for the week to October 11. The EIA added that the 434.9 million barrels were 2% higher than the five-year average for this season. The report followed a few undesirable reports on the global economy as the IMF revised global growth downwards. Fears are mainly pointed towards a slowing economy with weak import and export data out of China. Prices later nudged higher on reports that the US and Turkey reached a cease-fire pact in Syria. Brent crude fell around 1.65% in last week's trading, far below its September peak of 71.95 as it currently sits at 59.70.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30320 on Sunday morning.

Rates – 20 October, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1042	1.1172	1.0989	1.1169	1.0970	1.1265	1.1246
GBP	1.2623	1.2988	1.2513	1.2971	1.2775	1.3070	1.3014
JPY	108.34	108.93	108.02	108.42	106.45	110.45	107.76
CHF	0.9969	0.9995	0.9838	0.9841	0.9645	1.0040	0.9771