

Weekly Money Market Report

13 January 2019

Dollar Falls Amid Dovish Fed and Continuing Government Shutdown

United States

Shutdown continues

The US governmental shutdown has ended its third week at an inconvenient time for markets given that the Federal Reserve has claimed policy would be predominantly “data dependent” for 2019. Around 800,000 federal employees have been affected, with agencies that produce vital data to market participants now in disarray. On Wednesday, US President Donald Trump used a televised address to warn of a “growing humanitarian and security crisis” at the southern border. The president insisted that the US needed \$5.7 billion in funding for the border security wall, while Democrats hold firm in their position against funding for a wall. Trump blamed Democrats for the shutdown, claiming “The federal government remains shut down for one reason and one reason only: because Democrats will not fund border security.”

On Thursday, Trump had a meeting with Democratic congressional leaders on border security. The meeting came hours after he reiterated his demands for congressional money for the wall, and insisted that he had the “absolute right” to declare a national emergency in order to find funding for his wall. Republican senator Lindsey Graham said during the day that a “congressional path” to funding the border barrier was now virtually closed, and that the time has come for Trump to use emergency powers to bypass Capitol Hill and pay for the proposals. US media reports have mentioned that the Trump administration examined an option where they use funds that had been allocated to the US Army Corps of Engineers to deal with the aftermath. A declaration of a national emergency has the potential to trigger a backlash among the lawmakers as well as court challenges. President Trump had abruptly walked out of a White House meeting.

On Twitter, Trump confirmed he had cut the meeting short and declared it “a total waste of time”. “I asked what is going to happen in 30 days if I quickly open things up, are you going to agree Border Security which includes a Wall or Steel Barrier? Nancy said, NO. I said bye-bye, nothing else works,” he wrote.

Federal Reserve Meeting

The US central bank lifted rates by a quarter-point during last month’s meeting and claimed it would take more time before increasing rates further. According to minutes of the Fed meeting on Dec 18-19 released last week, officials indicated that the central bank “could afford to be patient” about future rate hikes. The minutes also revealed projections of two more hikes in 2019, putting aside President Donald Trump’s demands for a halt and losses in the stock market. After claiming rate-rises in 2019 would be heavily “data-dependent”, volatility in the stock market rose as worries regarding global growth heightened. Fed officials have continued to assure investors that their outlook for higher rates will depend on the economy’s performance going forward. The dovish tone of Powell’s comments along with strong nonfarm payroll

reports in December eased concerns and stocks saw a slight recovery. The US dollar index carried the reaction and was down 2.07% from its December High and closed the week at 95.688.

US stocks regained strength after the Federal Reserve's minutes indicated that the central bank will be taking on a cautious approach. Additionally, the release of strong job reports for the month of December along with optimism regarding trade talks also aided recovery in the equity markets. The S&P 500 index rose around 10.70% since its December lows. The Dow Jones index has also recovered around 10.50% in the same period.

US Services slowdown

The US services sector expanded at a slower than expected pace in December as the non-manufacturing index dropped to 57.6 from the 60.7 level in November, marking the slowest pace of growth since July 2018. This figure follows the manufacturing index revealing a drop to its lowest level since November 2016 at 54.1. The data represents growth in both sectors as a reading above 50 indicates expansion. However, December's non-manufacturing data exposed a sharp decline from November and sent stocks to session lows following the release as they fueled worries of a global economic slowdown.

Commodities

Oil Prices Rise on Trade Optimism

Looking at commodities, oil prices continued their upward momentum and rose to a five week high on Friday amid optimism regarding the US-China trade dispute. The West Texas Intermediate has risen 15.50% since the beginning of the year, while Brent crude followed the trend rising 12%. Oil prices have also risen due to the supply cuts as OPEC and its allies are now pumping 1.2 million less barrels per day since the start of the year. The main driver in the recovery of crude is the resumed talks between the US and China this week, given that the trade stalemate had created a dampening outlook for global growth.

UK & Europe

Brexit Clock is Ticking

Brexit is getting more serious. In the last couple of months, UK Prime Minister Theresa May finally reached a deal with the EU, she planned to put it to Parliament, and then decided that this might not be the best idea. She also faced a vote of no confidence from within her own party, and rescheduled the vote on her own deal to mid-January. And then as a result, Labor Party leader Corbyn tabled a motion of no confidence against the Prime Minister.

At this point, we have 12 weeks left until the day the UK is set to leave the EU, which is not long for May to get her deal through Parliament, and if it fails this week, then there really isn't enough time for a new deal to be reached. Due to the time constraints, some are speculating that Brexit may never actually end up happening.

May will now prepare for a vote on her Brexit deal scheduled Tuesday, January 15. The vote that was previously rescheduled at the end of last year as May acknowledged that she would have been defeated by a "significant margin" as more than 100 conservative members rejected her original deal. With the March 29 deadline approaching, the House of Commons could accept an Article 50 extension if MPs fail to agree. Last week, May spoke about the dangers of a no-deal Brexit saying "We're going to be in uncharted territory. I don't think anybody can say exactly what will happen in terms of the reaction we'll see in the parliament".

A Slowing UK Economy

With factories suffering through global trade conditions and the approach of Brexit, data on Friday showed that Britain's economy grew at its weakest pace in half a year in three months to November. GDP was 0.3% higher than the previous three-month period, down from growth of 0.4% in the three months to October. Manufacturers endured their longest period of monthly declines in output since the financial crisis, feeling the pain of weaker overseas demand. Industrial output dropped 1.5% in November alone, its biggest fall since August 2013.

The sterling pound has continuously struggled since the Brexit vote which took place June of 2016. Dropping around 15% since then, the Cable is currently trading around the 1.2846 level, down from the 1.5 level seen in 2016.

Asia

Trade Deal Talks

After three days of negotiations, US and Chinese officials have concluded their talks on ways to implement a trade deal between the two countries. After the eye for an eye tariff escalation which occurred over the past year, this week's session was crucial, given that the March 2 deadline for an agreement is not far ahead. The Office of the United States Trade Representative claimed China has pledged to buy a "substantial amount" of agriculture, manufacturing, energy and other products from the US in an attempt to balance the trade deficit. Asian markets reacted positively to the news: Shanghai's CSI 300 rose 1.95% on Wednesday after the talks had concluded. Japan's Topix was up 1.1% and Hong Kong's Hang Seng rose 1.99%.

Kuwait

Kuwaiti Dinar at 0.30295

The USDKWD opened at 0.30295 Sunday morning.

Rates – 13 January, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1403	1.1570	1.1403	1.1468	1.1265	1.1665	1.1557
GBP	1.2717	1.2865	1.2704	1.2846	1.2640	1.3045	1.2909
JPY	108.45	109.08	107.76	108.54	106.50	110.55	107.74
CHF	0.9862	0.9868	0.9713	0.9840	0.9645	1.0040	0.9757