

Weekly Money Market Report

21 July 2019



The Sterling Slumps Amid Increasing Hard-Brexit Rhetoric

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Highlights

- Fed Chair Jerome Powell reinforces his stance on US Economy.
- 10-Year Treasury yield drop to 2.04% amid a dovish Fed and lower interest rate environment.
- The Sterling Pound plunges to a 27-Month Low with Hard Brexit rhetoric strengthening.

United States

Fed Chair's Speech in France

The Federal Reserve Chairman Jerome Powell delivered a speech in Paris that reinforced his stance on the US economy, stressing his remark to the US Congress testimony on July 10th. He reiterated that the central bank is "carefully monitoring" the downside risk to US economy growth prospect and "will act as appropriate to sustain the expansion". The Fed Chair also expressed the uncertainties regarding trade developments, with China, and global growth.

The remarks of Powell kept the interest rate cut probabilities supported, with 100% chance of a cut for the upcoming July meeting. The prospect for a 50 basis point cut is at 18.5% and 81.5% for a 25 basis point cut the next time FOMC members meet. Later on the same day, Chicago Fed President Charles Evans spoke to reporters and discussed the merits of cutting 50 basis points. "There is an argument that if I think that it takes 50 basis points before the end of the year to get inflation up, then something right away would make that happen sooner," he said, adding that he was not worried about inflation taking off unexpectedly. Evans also said that policy makers favoring a risk-management approach to lowering borrowing costs might prefer to move more slowly, and he noted that the US economy "is doing well."

On the fixed income front, the 10-year US Treasury yield fell from 2.14% to 2.04% as the Fed is being pressured to shift their stance into taking a more loose monetary policy stance.

US Retail Sales Exceed Expectations

US retail sales grew more than expected last month in a sign that consumers continued to support the world's largest economy in the second quarter. Headline retail sales grew 0.4% in June, matching the previous month's rise, and exceeded economists' expectations for a 0.1% rise. The optimistic figures follow a revelation of weakness in the manufacturing sector. Markets have begun to price in a rate cut by the Federal Reserve as soon as the July 31st meeting. Fed chair Jerome Powell solidified those expectations earlier this month as he pointed to growing risks to the US economic outlook in his dovish testimony to congress.

In the FX markets, the US dollar opened the week at 96.936 and gained as much as 0.63% to reach 97.444 amid escalating concerns in the UK for a hard Brexit rhetoric from the two PM candidates. However as geopolitical tensions between the US and Iran fled investors to safe-haven assets and sent the dollar to a 3-week low of 0.9805 against the Swiss franc.

Europe & UK

Hard Brexit Rhetoric

Sterling pound dipped below \$1.24 for the first time in 27 months last week as the two candidates for Britain's next prime minister began taking harder Brexit stances. Boris Johnson and his rival to be Conservative Party leader Jeremy Hunt, said late on Monday they would not accept the so-called Northern Irish backstop element of Theresa May's Brexit deal. Their positions are supporting expectations of a higher

risk of Britain leaving the European Union on October 31 without a deal. As a result, markets also expect the EU-UK split could potentially force the Bank of England to cut interest rates to stave off an economic catastrophe.

UK's Upbeat Data

Consumer prices in the UK maintained its level rising 2% in June compared to a year ago. The figure was unchanged from May's figure and is in line with the Bank of England's target. Economists are not expecting the steady course of inflation to last due to a weaker Pound and a recent pick up in wage growth, both of which point to higher inflation ahead. Separate figures also showed that the UK housing market prices grew by 1.2% in the year to May, compared to a 1.5% in the year to April. The report noted a general slowdown in house price growth over the past three years.

Monthly retail sales data were released last Thursday showed a 1% increase, opposite to the market's expectation of -0.3% reading. The unexpected figure pushed the Sterling to last week's high of 1.2558 after the massive drop of 1.2397. Additionally, average earnings reading showed an increase of 3.4%, higher than the 3.1% forecasted by the market.

Eurozone Inflation Higher

Eurozone inflation came in slightly higher than initially forecasted. The consumer price index rose 1.3% for the year to June, but both headline and underlying inflation rates remain below the improvement sought by the European Central Bank, rendering it unlikely to dampen expectations of monetary easing from the regulator.

Asia

China's Growth Slumps

China's economy grew at 6.2% y/y in the second quarter of 2019, marking its slowest pace since the early 1990's. The figure was in line with expectations and slower than the 6.4% reported for the first quarter. The softening understandably comes from the ongoing US-China trade spat, which has recently calmed after a meeting between the two countries' presidents. China's industrial output grew 6.3% in June from a year earlier, official data showed on Monday, picking up from May's 17-year low and handily beating market expectations. Analysts polled by Reuters had tipped a 5.2% rise, compared with 5.0% growth seen in May. June retail sales surged 9.8% from a year earlier, compared with the 8.3%. The stronger-than-expected economic data from China indicates that fiscal and monetary policy moves aimed at reviving spending in the world's second biggest economy are having some success.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30360 on Sunday morning.

Rates – 21st July, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1269	1.1200	1.1284	1.1221	1.1120	1.1325	1.1305
GBP	1.2552	1.2382	1.2582	1.2502	1.2295	1.2600	1.2573
JPY	107.95	107.21	108.37	107.73	105.70	108.75	106.91
CHF	0.9848	0.9805	0.9908	0.9817	0.9620	1.0015	0.9751