Weekly Money Market Report
29 December 2019

Quiet Week During the Holidays Amid Trade Optimisim

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Highlights

- Central Bank taking a nuteral stance going into 2020
- US-China trade war will continue till next year, despite phase-one agreement
- 2019 will be a year to remember for risk assets

United States

US-China trade war drags into 2020

This year is best illustrated by major central banks cutting their interest rates to deal with the slowdown driven by a trade war and a subsequent decline in manufacturing. The Federal Reserve started rate hikes before 2019, allowing room to loosen amid the weakest year growth-wise since the 2008 financial crisis. Others, such as the European Central Bank, found themselves in a more difficult position and were forced to cut benchmark rates further below zero. Looking ahead, 2020 seems like a quieter year in terms of monetary policy. Fiscal policies will take time to take effect, and growth prospects are looking brighter since two of the biggest hurdles constraining the world economy have somewhat been cleared: the US-China trade war, and the UK's exit from the EU.

Hammering business confidence for most of 2019, the US-China trade deal finally seems to provide some clarity. Most economists have factored in some kind of phase-one agreement, followed by stability as markets and companies regain confidence. At the very least, an agreement would calm down predictions of dire scenarios which were contemplated just months ago. Still, the phase one deal leaves some complicated issues unresolved. This leaves an open door for further clashes between the world's two largest economies as Trump approaches reelection season in November.

US Federal Reserve Chairman Jerome Powell has left no doubt that interest rates are on a prolonged hold, saying the current stance "likely will remain appropriate" unless the Fed's favorable outlook for the economy sees a need for reassessment. Policy makers kept interest rates steady at 1.5%-1.75% in their last meeting following three consecutive cuts.

FX markets and Equites

On the FX front, the dollar index traded in a narrow range this week as thin trading was the main theme in FX markets. Nevertheless, as the holiday's ended on Friday, the dollar index dipped to one week low of 97.264 as the euro surged to 2-week high of 1.1188.

Equities globally had a great run this year, with Tech rallies bein the leader as Nadaq posted a year-to-date gain of 36% followed by the S&P 500 by 29.24% and Dow Jones 22.69%. European stocks also had a similar move with Euro Stoxx 50 increased by 26.06% while the FTSE 100 of the UK had the least amongst developed markets with political uncertainities throughout 2019 had a modest 13.82% gain.

Europe & UK

ECB expected to stay on hold in 2020

The European Central Bank, with its newly appointed President Christine Lagarde, has pledged to step up stimulus again if needed. Policy makers are continuously pointing to detrimental side effects of the ECB's negative deposit, such as squeezed bank profitability and risks to financial stability. Moving forward, major expectations are for rates to stay on hold and QE to continue through the whole of 2020 and even beyond. Following the trend of major central banks, the Central Bank may be tested again if the economy falters under trade uncertainties or the bloc's manufacturing meltdown fails to improve and spills into the services sector.

Will the UK finally exit the EU in 2020?

The UK's exit from the EU has now dragged on for more than three years, and the possibility for fresh uncertainty may emerge. Prime Minister Boris Johnson secured a sweeping election victory for his Conservative Party, meaning Britain is now set to leave the EU on January 31st. Following the January deadline, the transition period begins and is meant to conclude by the end of 2020 where the UK will officially leave the EU's framework and become truly independent. PM Johnson passed a Withdrawal Agreement Bill which makes it unlawful for the government to extend talks beyond December 2020. This leaves the UK back where it started, with fears of a hard-Brexit resurfacing. The fact that the UK Parliament finally passed the deal should have been considered positive if it were not for Johnson claiming he will deliver at any cost. The GBP/USD pair has traded in extremely volatile nature nearing the end of this year, reaching a high of 1.3514 followed by a steep drop to a low of 1.2894 just within December.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30315 on Sunday morning.

Rates –29th December, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1098	1.1069	1.1188	1.1177	1.1100	1.1300	1.1251
GBP	1.3001	1.2905	1.3117	1.3078	1.2980	1.3185	1.3135
JPY	109.48	109.28	109.68	109.44	108.60	110.60	108.80
CHF	0.9819	0.9730	0.9831	0.9746	0.9695	0.9910	0.9660