

# Weekly Money Market Report

03 March 2019

## Sterling Grasps a Breath Amid Brexit Optimism

### UK & Europe

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#### Brexit Update

The sterling pound was the best performer over the course of last week and had reached its highest level since July 2018 on Wednesday, scoring a high of 1.3336 against the Dollar. The currency started to gain momentum on hopes that PM May could postpone the March 29 deadline, while a series of votes are set for March to unify Parliament's stance on Brexit.

The week has seen major Brexit shifts from both of the UK's main political parties. The Labor Party moved to support a second referendum and PM May shifted direction to allow the option of a delay to the date that Britain leaves the EU. In details, Theresa May highlighted in her speech on Tuesday to the Parliament that the government is working to secure a withdrawal agreement that can command the support of the House. She said that for the two weeks preceding her speech, herself and the Brexit Secretary have been engaging in focused discussions with the EU and are making good progress in that work. They discussed legal changes that are required to guarantee that the Northern Ireland backstop cannot endure indefinitely. May said that she knows what the Parliament needs in order to support a withdrawal agreement, the EU knows what is needed, and that she is working hard to deliver it. She continued to say that discussions are still ongoing and details will be announced before the meaningful vote. The meaningful vote she is referring to is the MP's next opportunity to vote on her deal, a deal they have already rejected before, but she is hoping that with minor changes and little time left, they might be willing to accept it. Her proposal is to have up to three consecutive votes, each depending on the result of the vote preceding it. The meaningful vote is set to be taken by the 12th of March, and if it passes, the UK will leave the EU with the deal she has negotiated. If not, then by the 13th of March at the latest, the UK Parliament will vote on whether or not to leave the EU without an agreement, if the vote passes the UK will leave the EU without a deal on the table, having a no-deal Brexit. If that vote is rejected, then on the 14th of March the House will vote on whether to have a short extension to Article 50's deadline by 3 months, she made it clear that this is an outcome that she does not favor and does not want to happen.

The government also published a paper that outlined the UK's readiness for a no-deal Brexit. The report outlines that the UK's economic growth would be 6.3%-9% lower in the long term in a no-deal scenario. The 15-page document then goes on to state the following. British citizens will be treated as third country nationals by the Bloc's member states, both the EU and the UK would need to impose VAT and customs on goods traveling between the UK and the EU. It stated that 240,000 businesses would need to interact with the customs process for the first time, predicting that this will cost businesses in the UK 13 billion Pounds per year in administrative fees. The document also recognizes that there will be delays in supplies like food, 30% of which comes from the EU but continues to make clear that this does not mean that there will be a food shortage in the UK. The effects of a no deal Brexit will be more severe in Northern Ireland, and those

effects will last longer. A no-deal Brexit will affect the viability of many businesses across Northern Ireland, this is because there are a lot of small and medium enterprises, and many of these businesses rely on cross border supply chains. The service sector, which accounts for 80% of the UK's GDP would also be affected, as there will be an increase on non-tariff barriers.

On the other side of the equation, the Labor Party represented by its leader Jeremy Corbyn stated that the Party is to support a second referendum, provided that their own Brexit plan fails. The Labor party plan did fail in a Parliamentary vote on Wednesday by 323 votes to 240. The result means that at some point in the next 12 days –almost certainly March 12– Labor will formally table an amendment demanding a second Brexit referendum.

The Sterling's gaining streak was subdued by the end of the week, the Cable closed the week at 1.3212.

### US-UK Trade talks

In an aggressive posture from the Trump administration towards the UK on post-Brexit talks, the administration demanded greater access to the UK market for its agricultural products and guarantees that London would not manipulate its currency. An 18-page document was released on Thursday from the office of the US trade representative, the document labeled as “negotiating objectives” for a possible trade agreement with the UK, suggested that Britain is unlikely to get softer treatment than other US allies. The US is looking for the UK to remove “unwarranted barriers” related to “sanitary and phytosanitary” standards in the farm industry. For years US agricultural groups have complained that European countries have unnecessarily limited American exports of meat and grains based on fears they are unsafe for consumers. Other demands also have the potential to be problematic for London. On currency, the US wants to “ensure that the UK avoids manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage”. Currency matters have traditionally been excluded from trade negotiations, but the Trump administration has injected them into talks, including with China and Japan.

## United States

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### A Patient Fed

In a testimony to a US Senate committee, Federal Reserve Chair Jeremy Powell said that slowing growth in Europe and China and “elevated” uncertainty over Brexit is continuing to weigh on the Fed's policy outlook. In his testimony Mr Powell repeated the Central Bank's “patient” approach to interest rate changes, vowing to carefully monitor a host of unsolved questions, including the direction of Brexit talks and ongoing US-China trade negotiations.

### US Growth Loses Stream

The rebound of the US economy lost some of its potency in the final quarter of 2018, as consumers restrained their spending growth and with residential investment shrinking for the fourth quarter in a row. GDP rose at an annualized pace on 2.6% during the fourth quarter of 2018, although a solid reading, it is slower than the robust 3.4% and 4.2% expansions measured respectively in the previous two quarters. The full year growth rate of 2.9% marginally missed the 3% target promoted by President Donald Trump. It looks that the commerce department's report will leave the Federal Reserve determined to keep rates unchanged, as it gauges how heavily slowing growth in China and Europe, combined with diminishing fiscal stimulus that will drag on the US in 2019. Inventory investment, the supporter of growth in the final quarter has the possibility of unwinding in the coming months, pulling down growth early this year. In addition to that, fiscal stimulus approved by the Congress in late 2017 and early 2018 will begin to decline, further weighing on the expansion.

## Rising Consumer Confidence

American consumers felt more confident this month after the end of the longest ever government shutdown, a rally in the stock market, and a solid job market. The consumer confidence index rose to 131.4 up from 121.7 reached in January. The Federal Reserve's pledge to be patient on raising interest rates may have also been a factor in supporting the economic outlook.

## Trump and Kim Fail To Reach a Deal

The last summit between the US and North Korea designed as an effort to revive the path to denuclearization was cut short as President Donald Trump failed to secure a deal with leader Kim Jong Un. The US president said at a press conference following his talks with the North Korean leader that the leaders had made progress since they met in Singapore in June of last year. But he said that the US could not accept a North Korean demand that it lift all sanctions at this point. This outcome came as a disappointment to the White House, which had told reporters that Mr Trump and Mr Kim would hold a signing ceremony on Thursday announcing a deal, this ceremony was canceled after the talks hit turbulence over the question of sanctions.

## Asia

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### A Slowdown in Japanese Economy

The Japanese economy saw a contractionary phase since the beginning of the year, where manufacturing production contracted for the first time in nearly three years in February. Japanese exports declined amid slower sales to China according to the final readings from industry gauges. The Nikkei-Markit PMI fell to 48.9 in February, down from the final reading of 50.3 in January, and dipping below the 50 point line separating expansion from contraction for the first time since August 2016. In addition, Japan's industrial production fell at its fastest pace in a year in January as the motor vehicle and electronics sectors posted declines while retail sales growth missed estimates. According to the Japanese Ministry of economy, Industrial production fell 3.7% y/y in January, coming short of a forecasted drop of 2.5%. Retail sales grew 0.6% y/y in January, a slowdown from the 1.3% growth achieved in December and coming shy of the forecasted 1.1%.

### Contraction in Chinese Factory Activity

Factory activity in China contracted to a three-year low in February as export orders fell at the fastest pace since the global financial crisis, highlighting deepening cracks in an economy facing weak demand at home and abroad. The official Purchasing Managers' Index (PMI) fell to 49.2 in February from 49.5 in January, pointing to a contraction in activity for the third straight month. The figure reinforces concerns that China may be at risk of a sharper slowdown if current Sino-U.S. trade talks fail to relieve some of the pressure.

## Kuwait

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### Kuwaiti Dinar

USD/KWD opened at 0.30345 on Sunday morning.

## Rates – 03<sup>rd</sup> March, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1340	1.1334	1.1416	1.1379	1.1180	1.1580	1.1463
GBP	1.3063	1.3057	1.3336	1.3212	1.3005	1.3405	1.3270
JPY	110.66	110.36	111.99	111.93	110.95	113.85	111.11
CHF	1.0000	0.9929	1.0013	0.9992	0.9885	1.0190	0.9904