

Weekly Money Market Report

18 November 2018

Brexit Turbulence at an All-Time High

United States

Positive Signs For US-China Trade War

In a shift of sentiment, the US and China have intensified efforts to strike a truce at the G20 that would curb their trade war. US President Trump and his Chinese counterpart Xi Jinping have agreed to discuss trade during the upcoming G20 meeting, which starts on November 30 in Argentina.

Since the two trade partners have a lot to work out, markets are managing their expectations. Even if the current tariffs are not rolled back, any signal of trade war ceasefire would be viewed in a positive light.

Meanwhile, reports indicate that US trade representative Robert Lighthizer has told some industry executives that the next tranche of tariffs is already on hold. This would mean the US would hold off on increasing tariffs from 10% to 25% on USD 200 billion of Chinese goods. Moreover, the US administration could also revisit their earlier intention to impose tariffs on an additional USD267 billion of Chinese goods.

Auto Tariffs Summon EU Retaliation

At the same time, the US is also negotiating trade terms with the European Union. Last week, the trump administration hit the brakes on auto tariffs after top US officials expressed skepticism about the plan. The auto tariffs are at the center of the US-EU trade rift. Without delays, the EU's trade chief said Brussels was "ready" to retaliate against US products if Washington slapped tariffs on cars.

US Inflation

US inflation picked up after two months of declines. Consumer prices increased 2.5% from a year earlier, while the core figure came in at 2.1%. With inflation hovering close to the Fed's target, the US central bank is unlikely to change its view and is expected to move ahead with its gradual pace of interest rate hikes. The current probability of a December rate hike reached 71%.

Furthermore, retail sales also bounced back, beating analysts' expectations. Headline retail sales increased 0.8% m/m in October, according to the Commerce Department. This is compared to expectations of a 0.5% increase.

Oil Prices Under Fire

Meanwhile, oil prices came under pressure after the US surprisingly granted waivers to both China and India, Iran's two main oil-buying customers. Initially, the notion of Iranian oil supply disappearing from the

market ignited an oil rally that spurred talk of triple digit oil prices. Turmoil in Venezuela and OPEC production cuts also added fuel to fire. Markets traded oil all the way up to 4 year highs as they priced in supply concerns.

Now however, the tide seems to have shifted as oil prices face the sixth consecutive week of falling prices. The record output in the US is placing significant downward pressure, with oil inventories there soaring 10 million barrels last week. This, coupled with the waivers, has spurred talks of an oversupply in the market. In fact, OPEC is now reported to be considering fresh cuts to support prices. As a result, oil recouped some of its losses towards the end of the week.

UK & Europe

Brexit Fallout

With four months until Brexit day, when Britain will officially exit the EU, political turmoil continues to plague the UK. The British Prime Minister Theresa May, tasked with overseeing the Brexit process and securing the best deal possible for the UK as it exits the European Union, has provisionally agreed a Brexit withdrawal deal with her European counterparts. This may seem like positive news at first, after all- both parties have been working on a deal since the 2016 referendum. However, that was not nearly the case. Both the public and their elected representatives balked at the provisional text. The Remainers and the Leavers have finally found something to agree on: this deal is terrible.

For this provisional deal to pass, it needs to be approved by parliament. This seems extremely unlikely at the moment. On top of the public backlash, members of May's cabinet have started to resign, most notably the Brexit secretary. As has been the case throughout the life of this Brexit dilemma, the future looks bleak for the British economy.

Possible Outcomes

Now, a second referendum might be on the cards, which many believe is needed to see if public opinion has shifted in any way after getting a taste of Brexit. What is also increasing in likelihood is a vote of no confidence for Prime Minister May. This, in turn, could lead to an early general election if the Tories cannot choose a new leader and form a new Government.

Effect on FX Market

As one would expect, the British pound fell sharply during the aftermath. Sterling suffered its worst day in more than two years on Thursday, losing 1.7% of its value against the greenback.

UK Economy

Disappointing UK retail sales figures raised concerns that the economy is losing momentum. This makes it the second consecutive month where retail sales have fallen. Consumer spending is needed to help power the economy as businesses cut back on investment ahead of the final stage of the Brexit negotiations.

Meanwhile, UK inflation remained steady last month as slowdowns in food, clothing and transport price increases were offset by rises in utility bills and the cost of fuel. The Office of National Statistics stated that consumer prices were 2.4% higher than a year earlier. The figure slightly missed analysts' expectations of 2.5%.

EU Economy

Eurozone growth fell to 0.2% m/m, or 1.7% y/y, the lowest figure in more than four years. Nevertheless, ECB president Mario Draghi reiterated the central bank's positive view on the region's economic outlook. Draghi believes that the region's labor market is strong enough to boost growth and leave price pressures at a level where the ECB can consistently hit its inflation target of just under 2%.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30365 on Sunday morning.

Rates – 18th November, 2018

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1330	1.1213	1.1421	1.1418	1.1210	1.1620	1.1517
GBP	1.2958	1.2722	1.3071	1.2837	1.2655	1.3065	1.2902
JPY	113.82	112.62	114.20	112.82	110.75	114.75	111.90
CHF	1.0053	0.9989	1.0128	0.9997	0.9805	1.0185	0.9901