Weekly Money Market Report

09 December 2018

Treasury Yields Flatten & Non-Farm Payrolls Disappoint

United States

Treasury Yields & Trade

US and global markets were clouded in uncertainty last week as US government bonds yields inverted for the first time in ten years and trade war tensions reemerged. US treasuries yields have been steadily declining the past month on expectations the US Fed will cease its rate hiking cycle in 2019. The sentiment was further supported after Fed Chairman Jerome Powell recently declared that US interest rates were close to their neutral levels. The neutral level is where interest rates neither boost nor put the brakes on the economy. Powell did not say whether rate hikes should stop at neutral and stressed that the level was very difficult to estimate. In any case, the statement would make the Fed increasingly data dependent when adjusting its policy.

The trade spat between China and the US was flung back into controversy after Huawei’s global chief financial officer was arrested in Canada for violating US sanctions. The CFO of the Chinese technology giant also happens to be the daughter of the company’s founder. Sources told Reuters in April that US authorities have been investigating Huawei since at least 2016 for allegedly shipping US-origin products to Iran and other countries in violation of US export and sanctions laws. The arrest came literally days after US President Trump and his Chinese counterpart Jinping agreed to a truce that delayed the imposition of new tariffs for 90 days. China had expressed confidence in striking a trade deal with the US within the ceasefire period, while also praising the recent meeting with Trump as highly successful. The shock arrest jeopardizes the resolution of the trade dispute and threatens a more extreme retaliation from China.

The convergence of bad news, risks to growth, and expectations of capped interest rates all played a role in the US treasury yield inversion. While all US yields moved lower, the five year treasury yield in particular had largest effect. It even fell below the two and three year yields leading to the inversion. The concerns lay with the fact that preceding every major US recession in the past 50 years, there had been an inversion in the yield curve where shorter-dated securities yielded more than longer maturities. However, last week’s inversion had only been limited to the short-end of the yield curve rather than the more closely studied recession indicator such as the gap between two and ten year note yields. As it stands, investors and economists are debating whether this warns of economic weakness or if it reflects market’s doubt in the Fed’s ability to raise interest rates next year.

US Labor Disappoints

The US’s latest labor data release supported market’s bearishness on the US economy where job growth slowed in November and monthly wages increased less than expected. The data suggests some moderation in economic activity that could support expectations of fewer interest rate increases from the

Federal Reserve in 2019. Nonfarm payrolls increased by 155,000 jobs last month down from 237,000 and average hourly earnings rose 0.2% in November after gaining 0.1% in October.

UK & Europe

UK Parliament to Vote on Brexit

Prime Minister Theresa May said last week that the parliament's vote on her Brexit deal will go ahead on December 11 despite suggestions from lawmakers to delay that vote to avoid a game-changing defeat. The outcome is uncertain, particularly if May suffers defeat. Some speculate it could lead to a change of prime minister, an attempt to revise the Brexit deal, the complete collapse of government, or even a second vote on whether Britain should leave Europe at all. May has been trying to win over critics of an agreement that would keep close economic ties with the European Union when Britain leaves in March, but her warnings that it's her deal, no deal or no Brexit have fallen flat so far. Some lawmakers have called on May to change the deal, and have suggested she could use an EU summit next week to try to win some concessions from officials to try to ease some of their concerns. However, EU negotiator Michel Barnier said on Thursday that the deal was the best Britain will get. Theresa May's proposal now needs the backing of more than half of the 639 MPs that vote in Parliament to pass.

Eurozone GPD Slows

The euro zone economy grew at its slowest pace in four years in the third quarter of 2018. GDP rose by 0.2% in the euro area compared with the previous quarter's 0.4% increase, according to an estimate published by Eurostat. Year over year, GDP rose by 1.6%. The weak growth and soft underlying inflation means the ECB will struggle to fulfill its policy normalization plans over the next couple of years. As such, no policy or guidance changes are expected from the central bank in their upcoming meeting December 13.

Financial Markets

Safe Havens Rise Equities Fall

Continuing with the risk adverse nature of the markets last week, safe haven currencies and gold were the best performers as financial markets witnessed a demand reduction in risky assets. The Japanese yen, Swiss franc, gold and US government bonds were in high demand as a result. In the past five trading sessions, the JPY and CHF appreciated by 0.84% and 0.90% respectively versus the US dollar. Gold opened the week at $1,223 and reached its highest level in 5 months before closing at $1,247.76 Friday.

US Equites dropped in reaction to the developments last week. Fears surrounding the outcome of the Brexit process, plus wider concerns about the world economy, seem to be weighing on the minds of investors. Furthermore, expectations of decelerated growth, driven in part by higher funding costs and the end of Trump's fiscal tax boost, began to materialize. The S&P 500, Dow Jones and NASDAQ all lost around 5% of their value.

OPEC Agrees on New Production Cut

OPEC and its allies moved closer on Friday towards finalizing a deal that would cut oil production by more than the market had expected despite pressure from US President Donald Trump to reduce the price of crude. The tentative agreement would see OPEC members reducing output by 0.8 million barrels per day while non-OPEC members cutting by 0.4 million bpd. The combined cut of 1.2 million bpd is set to begin in January. Oil prices rallied around 5% after the news to close the week at $61.67.

Treasury Group

Kuwait

Kuwaiti Dinar at 0.30370

The USDKWD opened at 0.30370 Sunday morning.

Rates – 09 December, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1313	1.1423	1.1309	1.1376	1.1175	1.1575	1.1470
GBP	1.2767	1.2839	1.2657	1.2726	1.2525	1.2925	1.2788
JPY	113.46	113.85	112.21	112.72	110.65	114.80	111.80
CHF	0.9965	1.0008	0.9888	0.9903	0.9705	1.0105	0.9812