

Weekly Money Market Report

30 December 2018

US Government Shutdown likely to go into 2019

United States

The US government partial shutdown seems to be heading into 2019 after funding ran out on December 21st. US President Donald Trump is still blaming the Democrats for the partial shutdown and the loss of income for federal employees. There is no sign of progress towards a budget to fund the currently closed nine government departments. The issue remains that Trump is demanding \$5 billion to build the wall at the southern borders while the democrats call such spending wasteful and ineffective. White House Press Secretary Sarah Sanders issued a statement to clarify Trump's view on the matter "The president has made clear that any bill to fund the government must adequately fund border security to stop the flow of illegal drugs, criminals, MS-13 gang members, child smugglers and human traffickers into our communities – and protect the American people," she said. "The president does not want the government to remain shut down, but he will not sign a proposal that does not first prioritize our country's safety and security."

Wall Street saw one of its best days since the great recession last Wednesday. Although more than one factor played a part in the rebound in equities after a severe meltdown, a MasterCard report indicated that sales during the Christmas season rose the most in six years and managed to alleviate concerns over the health of the US economy. Moreover, White House officials attempted to calm any fears over the job status of Fed Chairman Powell, who came under fire from Trump after the central bank continued with raising rates. Initially, Trump had labeled the Federal Reserve as the "only problem" in the US economy after a Fed meeting where policymakers raised interest rates for the fourth time this year and planned for more in 2019. At the same time, a partial shutdown in the US Government did not help the rattled investors, which in turn, forfeited their equity positions and found shelter in safe government bonds. Nevertheless, US equities year to date remain in negative territory with one more trading day left in 2018.

The Fed Funds futures in Bloomberg showed a cut probability of 30.3% higher than a hike probability of 6.5% for January 2020, which could be a signal from the market pricing in an easing cycle or a recession to start in just one year from now. Additionally, the 1-year LIBOR was down by 10 basis points from the beginning of December to reach 3.03%.

On the commodities side, we have seen a volatile oil market as the US benchmark rebounded from steep losses, despite concerns over the health of the global economy. Financial markets have been suffering from worries over a global economic slowdown amid trade wars and higher US interest rates. The Russian energy minister said on Tuesday that oil prices are to stabilize in the first half of 2019 given the joint efforts by OPEC and non-OPEC countries.

On the FX side, thin trading was the theme of the market. The dollar index opened the week at 96.935 and reached a high of 97.116 on Wednesday yet quickly lost all the gains and closed the week lower at 96.402.

Europe

Inflation in Germany below 2% target

German CPI figure came at the end of the week at 1.7%, 0.3% short of the 2% inflation target of all major economies. However the volatility in the single currency dictated the movement as the euro reached a high of 1.1473 on Friday night.

We witnessed a safe haven move towards the Swiss franc as it gained as much as 1.50% on the dollar and closed the week at 0.9844.

Asia

Japan's inflation remains flat

Core CPI in Japan took a dip to 0.5% year on year from an expected 0.6% leaving the BOJ with increased difficulty to reach its 2% inflation target. Unemployment rate also increased from 2.4% to 2.5% on monthly basis. Retail sales in Japan took a massive dip from 3.6% to 1.4% year on year; however the currency remained supported around the 110.40 level by the risk aversion sentiment amid partial US government shutdown.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30330 on Sunday morning.

Rates –30th December, 2018

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1372	1.1343	1.1473	1.1444	1.1235	1.1635	1.1540
GBP	1.2648	1.2744	1.2616	1.2699	1.2500	1.2900	1.2770
JPY	110.92	109.99	111.41	110.28	108.25	111.30	109.37
CHF	0.9941	0.9790	0.9963	0.9844	0.9640	1.0040	0.9775