Weekly Money Market Report
02 February 2020

Fed & BOE keep interest rates on hold; Markets volatile.

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- The US Federal Reserve & Bank of England opt to hold rates at current levels during their latest meetings.
- US GDP came in at 2.3% for 2019, following 2.4% and 2.9% in 2017 and 2018 respectively.
- Britain has officially left the European Union.
- Australia’s inflation figures were higher than expected, though still below the RBA’s target.
- Volatile equity and oil markets a result of the spread of the coronavirus.

United States

Federal Reserve holds rates
The Federal Reserve opted to leave its benchmark interest rate unchanged on Wednesday as it measures how rate cuts last year have cushioned the US economy facing weaker global growth. All ten members of the rate-setting committee voted to hold the benchmark rate in a range of 1.5% to 1.75%. “We’re comfortable with our current policy stance and we think it’s appropriate,” Fed Chairman Jerome Powell said at a news conference after the central bank announced its decision. Inflation has remained below the 2% target since the central bank adopted it in 2012, with 2018 as an exception when officials most recently raised rates. Inflation then ran below 2% as the central bank cut rates three times and the global economy slowed. Trump has pressured the Federal Reserve to continue to cut interest rates to help lower debt costs.

“We’re not satisfied with inflation running below 2%, particularly at a time such as now where we’re a long way into an expansion and a long way into a period of very low unemployment, when in theory where inflation should be moving up,” Mr. Powell said at the news conference. Following three cuts in 2019, policy makers now aim at supporting the country’s expansion despite headwinds from trade and geopolitical uncertainty. Nonfarm payroll growth averaged 176,000 a month last year, while the unemployment rate held below 4% for most of 2019. Surveys show consumers also remain upbeat about their prospects. Last week, data revealed the Conference Board index climbed to 131.6 from an upwardly revised December reading of 128.2. The advance marked the highest reading in consumer confidence in five months, and was driven by a positive assessment of both the current and future job market. On the other hand, manufacturing has shown little improvement, consistent with a downshift in investment and sluggish markets for exports. The committee repeated that economic activity has been rising at a “moderate” rate, with “strong labor market conditions.” The US dollar did not react significantly though remained strong and has risen 1.44% in the first month of 2020.

GDP below Trump’s promised 3% target
The US economy grew by 2.1% in the fourth quarter of 2019, ending a year where GDP decelerated to its slowest pace in three years. On a yearly basis, the economy grew 2.3% from the 2.9% increase in 2018 and the 2.4% gain in 2017. Net exports helped, rising 1.4% amid the tariff war between the US and China, while imports fell 8.7% due to swings in tariffs. The US and China have recently come to a first-phase agreement on tariffs, though much of the levies remain in place today. Still, the partial agreement has the potential to stimulate corporate investment once again and shift the heavy lifting away from consumers.

Virus Outbreak from China
The outbreak of the coronavirus in China has rattled financial markets as investors assess how much it will hurt the country's economy and whether that will weigh on the US and global growth. Equity and oil prices have swung sharply in recent days. Brent crude has fallen over 11% in January, dropping most recently to a 3-month low of 57.71. The S&P 500 has fallen over 1.5% in the past week, and was last seen at 3,225.52.

Europe & UK

German Ifo Business Climate
The German Ifo business Climate announcement early last week failed to live up to expectations. The survey is seen as a strong predictive quality regarding what happens with the German economy, and utilizes a large sample size. Companies provide their views on business conditions and whether or not they are leaning towards expansionary or contractionary conditions. The world was expecting business sentiment to improve in Germany, and was surprised by the decline. The announcement came in at 95.9, versus forecasts of 97.1 and lower than the 96.3 seen prior. Germany represents over 80% of the economic power in the EU, and as morale deteriorates, it drags down surrounding sentiment. Some of the reasons stated by businesses include a lack of exports and the overall global slowdown, and of course concerns surrounding Brexit.

Carney's final meeting
It was Governor Mark Carney's final meeting, and the Bank of England kept interest rates on hold waiting for more evidence of an economic rebound before supporting it with a cut. Policy makers voted 7-2 to keep the benchmark at 0.75%, and the split was unchanged from the last meeting. The committee added that surveys of business activity have picked up "quite markedly in some cases" since Prime Minister Boris Johnson's election victory removed much of the near-term uncertainty related to Brexit. Still, officials signaled easing may be needed soon. The central bank predicts GDP to reach its lowest level since the global financial crisis, and predicts inflation will only return to target by the end of 2021 if rates are cut to 0.5% next year. Looking ahead, the decision on a BOE response will fall to Carney's successor, Andrew Bailey, who will take post mid-March. The pound rose to its highest level in a week, reaching 1.3208 against the USD.

Britain's Exit
On Friday, the UK formally left the EU after more than 3 years of deliberations. As the EU gave its final approval to Britain's exit deal from the bloc, the chamber broke into singing a traditional Scottish farewell song, after voting 621 for versus 49 against the Brexit deal, with 13 abstentions. It has now entered into an 11-month transition period, in which the UK will begin trade talks with countries around the world. As an EU member, the UK had not been allowed to enter into negotiations with countries like the US and Australia. Brexit supporters have argued that having the freedom to set its own trade policy will boost the UK's economy.

Australia

Core inflation stubborn at 1.6%
Australia's consumer prices rose slightly more than expected in the fourth quarter of 2019, adding to the view that the Reserve Bank of Australia should keep interest rates on hold at its first policy meeting for the year. The consumer price index rose 0.7% in Q4 from Q3, and 1.8% on a yearly basis. Meanwhile, economists had expected a 0.6% quarterly rise. Looking at the core figure, the measure remained stuck at an even slower 1.6% y/y - marking four straight years below target. Still, December employment data showed unemployment falling to its lowest level in close to a year, allowing the RBA more time to consider its next move. The persistent weakness in inflation was a drive for the RBA to cut rates three times last year to an all-time low of 0.75%. RBA chief Philip Lowe has battled to reignite prices for over 3 years, but with limited success despite the easing. Lowe estimates the RBA has two cuts left before opening the door to unconventional policy. The Australian dollar has depreciated more than 5% in the past twelve months.

Kuwait

Kuwaiti Dinar at 0.30380

The USDKWD opened at 0.30380 Sunday morning.

Rates – 02 February, 2020

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1019	1.1096	1.0990	1.1093	1.0895	1.1290	1.1260
GBP	1.3073	1.3208	1.2974	1.3199	1.3000	1.3400	1.3202
JPY	109.04	109.26	108.30	108.38	106.45	109.40	107.85
CHF	0.9713	0.9767	0.9626	0.9630	0.9535	0.9735	0.9623

© Copyright Notice. The Weekly Money Market Report is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.

While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. This report and other NBK research can be found in the "News & Insight" section of the National Bank of Kuwait's web site. Please visit our web site, www.nbk.com, for other bank publications. For further information please contact: NBK Treasury Group, Tel: (965) 2221 6603, Fax: (965) 2241 9720, Email: tsd_list@nbk.com