Weekly Money Market Report
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U.S. Dollar Lower on Manufacturing Data

>NBK Treasury
+965 22216603
tsd_list@nbk.com

Highlights

- U.S. manufacturing falls to decade low.
- U.S. interest rate cut expectations at 74%.
- U.S. introduces tariffs on EU.
- Non-farm payrolls disappoint.
- Boris Johnson pitches his Brexit deal to the EU.
- Reserve Bank of Australia cuts interest rates.

United States

Weaker Manufacturing and Non-Farm Payrolls

The U.S. dollar was slightly weaker last week while still being heavily supported by demand for dollar-denominated assets. Investors have been caught out by a set of weak U.S. data, including surveys on services and manufacturing sectors, deepening fears the Sino-U.S. trade war is starting to hurt growth in the world's biggest economy.

The release of the much weaker than expected ISM manufacturing survey for September has put a dampener on the U.S. dollar's renewed upward momentum. It raises questions over the sustainability of the recent run of better than expected U.S. data especially in the housing sector. The ISM manufacturing survey revealed that business confidence dropped sharply by 1.3 point to 47.8 in September. It was the lowest level since June 2009. Manufacturing output peaked at the end of last year and has since contracted modestly by -1.1% to the end of August. The ISM survey signals that recessionary conditions in the manufacturing sector are likely to increase further heading into year end. It is also consistent with the global deterioration of manufacturing and trade. President Trump chose to blame the Fed for the hit to the manufacturing sector saying monetary policy is too tight and encourages a strong U.S. dollar. However, economists believe that disruptive trade policies from the Trump administration have also played a large role in the fall.

The U.S. rate market now sees another 25 point rate cut as more likely in October as expectations rose from 60% to 74%. It also casts doubt on the Fed's plans from last month in which they clearly signaled that rates are unlikely to be lowered much further. Those doubts will be reinforced if weakness in the U.S. labor market materializes further.

Indeed, U.S. nonfarm payrolls disappointed and rose by 136,000 in September according to the Bureau of Labor Statistics, with the health care sector contributing the greatest. The figure follows an upwardly revised 168,000 in August and below expectations of 145,000. Looking at unemployment however, the figure posted its lowest level since 1969 at 3.5% in September, following 3.7% in August and lower than expectations of 3.7%. Still, job creation has decelerated diminishing business confidence as indicators point to a slowing economy and weaker growth ahead.

U.S. Adds Tariffs on EU
The United States said it would impose 10% tariffs on European-made Airbus planes and 25% duties on various goods including, alcoholic beverages, food, and clothing from across the continent. The announcement came after the World Trade Organization gave Washington a green light to impose tariffs on $7.5 billion worth of EU goods annually as punishment for illegal EU aircraft subsidies. "Finally, after 15 years of litigation, the WTO has confirmed that the United States is entitled to impose countermeasures in response to the EU's illegal subsidies," U.S. Trade Representative Robert Lighthizer said in a statement.

As Washington and Beijing try to ease their bitter 15-month trade war, the U.S.-EU trade spat looks set to worsen. Airbus spokesman Clay McConnell said the France-based planemaker was evaluating the tariffs and its possible consequences in "close collaboration with the European Commission." The WTO, he said, in coming months would grant the EU authority to impose tariffs on U.S. goods over similar findings of illegal subsidies for Boeing from Washington. The move threatens to reignite another tit-for-tat trade war with the EU.

Europe & UK

Brexit
Boris Johnson pitched his Brexit deal to the EU on Wednesday with limited time left for further negotiations. The current proposal differs from the former-PM May's failed deal in two key ways. The Irish border backstop is to be replaced by having Northern Ireland within the Single Market but outside of the EU's Customs Union. This will see customs checks on goods from Northern Ireland to Ireland, and for goods coming into Northern Ireland from the UK meaning effectively two borders. He has suggested that physical checks would only be required on a small proportion of trade and most checks would take place on the premises of the trader. This would be similar to the arrangement Norway and Sweden have and allow inspectors from each other's jurisdictions to carry out checks anywhere on all of Ireland. The second difference is that the proposed end goal of trade talks is a Free Trade Agreement rather than the much closer alignment under May's deal. Furthermore, this status of Northern Ireland being in the Single Market would need consent from the Irish Parliament every four years. Basically, Northern Ireland would have a Brexit debate every four years. One of the key reasons the EU might not accept this is that if Northern Ireland leaves the EU's Customs Union this ensures that there will have to be customs checks in Ireland and the UK in 2017 committed to a "no physical border infrastructure."

The EU replied cautiously saying the document contained some progress on the sticking point of Northern Ireland but still had problems. The ball is in the UK's court to address problems the EU sees in the new Brexit proposal, and not the other way around, a spokeswoman for the European Commission has said.

UK GDP Lower
UK gross domestic product contracted by 0.2% in quarter 2 of 2019, having grown by an upwardly revised 0.6% in quarter 1. Annually, the UK economy grew by 1.3% compared with the same quarter in the previous year slowing from 2.1% in Quarter 1. GDP and some of its components have been particularly volatile through the year so far, largely reflecting changes in the timing of activity related to the UK's original planned exit date from the European Union in late March. There is evidence that stockpiling and the change in timing of activity was taking place in the first quarter of the year, which likely provided a boost to GDP, with the latest figures suggesting that these increased stock levels were partly run down in Quarter 2 2019. Furthermore, it was also reported that a number of car manufacturers had brought forward their annual shutdowns to April as part of Brexit-related contingency planning.

UK Manufacturing Lower
The downturn in the UK manufacturing sector continued in September. Although the contraction was shallower than the prior survey month, levels of output, new orders, new export business and employment nonetheless fell further. Stocks of purchases and input buying volumes also rose for the first time in recent months, as some companies restarted their Brexit preparations. The headline seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index rose slightly to 48.3 in September, up from August's

six-and-a-half year low of 47.4. The headline index has now remained below the neutral 50.0 mark for five successive months, its longest sequence below that mark since mid-2009.

EU Inflation
The need for action by the European Central Bank became evident in the latest Euro area inflation reading. Annual inflation is expected to be 0.9% in September 2019, down from 1.0% in August according to a flash estimate from Eurostat, the statistical office of the European Union. At their last policy meeting the ECB revealed that it has gone all in to boost growth and inflation in the euro-zone before President Draghi’s term ends. The comprehensive easing package even exceeded market expectations by unveiling plans for an open-ended QE program. More specifically, the ECB will restart monthly purchases of EUR20 billion from the 1st November.

Asia

China Manufacturing Stronger
China’s factory activity unexpectedly expanded at the fastest pace in 19 months in September as plants ramped up production and new orders rose, the private Caixin Manufacturing PMI survey showed suggesting a modest recovery in the manufacturing sector. The index rose 51.4 from 50.4 in August, marking the second straight month of expansion. The survey showed the acceleration was largely due to a rebound in domestic demand. New export orders for Chinese manufacturers, an indication of foreign demand, fell for the fourth straight month as a nearly 15-month trade war between the United States and China wears on. Despite external weakness, total new orders increased at the fastest rate in 18 months, while growth in production picked up to the highest since August last year.

Reserve Bank of Australia
Australia’s central bank lowered interest rates for the third time this year as it attempts to protect the economy from offshore risks, and signaled further cuts moving forward. Reserve Bank of Australia Chief Philip Lowe announced a reduction to the cash rate by 25 bps to 0.75%, as predicted. “Forward-looking indicators of labor demand indicate that employment growth is likely to slow from its recent fast rate,” Lowe said. “The economy still has spare capacity and lower interest rates will help make inroads into that.”

Commodities & Equities

Oil and Stocks Lower
Although oil prices surged the most on record after the attack on Saudi Abqaiq processing facility and Khurais oilfield on September 14, instantly disabling half of Saudi output, the gains have since evaporated. Crude is back below $60 a barrel, partly because Saudi Aramco has restored production swiftly, but also reflecting deeper challenges afflicting the market. A faltering global economy and fears of recession eroding oil demand, combined with a relentless tide of American shale-oil offering alternative supply heavily outweighed the brief loss of supply from Saudi.

Global shares were generally lower falling to one-month lows in some cases after U.S. manufacturing activity tumbled to more than a decade low, sparking worries that the fallout from the U.S.-China trade war is spreading to the U.S. economy. A slowdown in U.S. economic growth would remove one of the few remaining bright spots in the global economy and come just as Europe is seen as close to falling into recession.

Kuwait

Kuwaiti Dinar at 0.30380

The USDKWD opened at 0.30380 Sunday morning.

Rates – 06 September, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.0938	1.0999	1.0877	1.0976	1.0780	1.1180	1.1050
GBP	1.2288	1.2413	1.2205	1.2332	1.2140	1.2525	1.2373
JPY	107.90	108.46	106.47	106.93	104.95	108.90	106.27
CHF	0.9912	1.0027	0.9900	0.9953	0.9755	1.0155	0.9880