Weekly Money Market Report
30 June 2019

Currency Markets Quiet before G20

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Highlights

- Trump meets with China at G20.
- Fed Powell Speaks about state of Economy
- Confidence surveys down in the US and Europe
- Eurozone Inflation Flat.
- Potential monetary easing from Bank of Japan.
- Oil prices rise 9% over supply concerns and increased demand.

United States

US-China Trade

Most currencies including the U.S. dollar traded sideways last week as investors awaited a crucial meeting between the leaders of the United States and China at the Group of 20 summit over the weekend for any signs of progress to end their heated trade war. The drawn out trade war has slowed global growth and pushed many central banks toward cutting interest rates to support their economies. Any sign the trade war will come to an end would be a significant boost for the global economic outlook.

U.S. President Donald Trump said that a trade deal with Chinese President Xi Jinping was possible, but he is prepared to impose U.S. tariffs on virtually all remaining Chinese imports if the two countries continue to disagree. Trump also raised the possibility that he may impose a lower 10% duty on a $300 billion list of Chinese imports, instead of the proposed 25% rate. Trump said in an interview "It's possible that we'll make a deal but I'm also very happy where we are now. I would do additional tariffs, very substantial additional tariffs, if we don't make a deal." Fitch Ratings forecast that imposing a 25% tariff on the $300 billion in Chinese goods would chop 0.4% from world economic output. Trump said China knows what the United States needs for a trade deal, and pushed for China to return to the negotiating table with the same concessions they had made before talks abruptly ended in May. The mood improved the previous day after the South China Morning Post said Washington and Beijing were laying out a truce that would halt the next round of tariffs on an additional $300 billion of Chinese imports.

The reports turned out to be reliable after the United States and China agreed on Saturday to restart trade talks. In a lengthy statement on the talks, China's foreign ministry said the United States would not add new tariffs on Chinese exports, and added that negotiators of both countries would discuss specific issues, but gave no details. In concession from the US however, Trump also said he would allow US companies to continue to sell to the Chinese tech giant Huawei for the time being. Trump commented on his 80-minute meeting with Chinese President Xi Jinping saying it was "excellent" and that the two sides were "back on track" to finding to a favorable resolution.

Jerome Powell Speaks

Speaking last week Jerome made some comments in line with the Fed's latest release while supporting further easing. Powell said the economy has performed reasonably well so far this year. Solid fundamentals are supporting continued growth and strong job creation, keeping the unemployment rate near historic lows. Although inflation has been running somewhat below the Fed's symmetric 2 percent objective, he expects it to pick up. However, the risks to the Fed's favorable outlook appear to have grown. Trade tensions have promoted greater uncertainties while incoming data raised renewed concerns about the strength of the global economy. These concerns may have contributed to a drop in business confidence in recent surveys and may be starting to show through incoming data. It is for those reasons many FOMC participants judge that the case for somewhat more accommodative policy has strengthened.

Consumer Confidence Falls

As mentioned by Powell in his speech, U.S. consumer confidence tumbled to a 21-month low in June. The Conference Board said its consumer confidence index dropped 9.8 points to a reading of 121.5 this month, the lowest since September 2017. The fall was driven by a less favorable assessment of current business and labor market conditions combined with dimmer short-term outlooks. The escalation in trade and tariff tensions earlier this month appears to have shaken consumers' confidence. Although the Index remains at a high level, continued uncertainty could result in further volatility in the Index and, at some point, could even begin to diminish consumers' confidence in the expansion.

The economy's prospects were further dimmed by other data showing sales of new single-family homes unexpectedly falling for a second straight month in May. New home sales dropped 7.8% to a seasonally adjusted annual rate of 626,000 units in May, the lowest in five months, according to a separate report from the Commerce Department. The lack of new purchases reflects the reduced confidence of consumers.

US GDP

The U.S. economy accelerated at a solid pace in the first quarter of 2019. GDP increased at a 3.1% annualized rate the Commerce Department said in its final reading of first-quarter GDP. Excluding trade, inventories and government spending however, the economy only grew 1.3% in the first quarter. That was the slowest rise in this measure of domestic demand since the second quarter of 2013. Growth in consumer spending, which accounts for more than two-thirds of U.S. economic activity, was also revised down to 0.9% from 1.3%, the weakest in a year.

The reading marks 10 years of economic expansion in July, the longest on record. However, momentum appears to be slowing, with manufacturing struggling, the trade deficit widening again and the housing sector still stuck in a soft patch.

Europe & UK

Euro Zone Inflation Flat

The President of the European Central Bank, Mario Draghi, made it pretty clear in the last ECB meeting that if inflation fails to converge sustainably towards the ECB's target, then "additional stimulus will be required." Annual euro zone inflation for June remained flat and in line with expectations at 1.2%, having stood above 2% late last year. The more significant core figure however, which removes volatile elements such as energy and food, actually picked up 1.1% from 0.8% last month giving hope for a pickup as the ECB expected. It is yet unclear what the ECB's response will be should they decide to ease further. With rates already in negative territory, economist expectations are for a return of quantitative easing.

Euro Zone Sentiment Lower

Euro zone economic sentiment sank to its lowest point in nearly three years in June, with industry in particular hit by global trade tensions, European Commission data showed. The Commission said its main indicator of economic confidence dropped to 103.3 points in June from 105.2 a month earlier. June's drop was bigger than expected and caps a half-year stretch in which sentiment has fallen every month except May. The Commission's survey showed selling price expectations were falling in industry and retail trade. The largest fall in confidence was recorded in Europe's powerhouse Germany marking a point of concern.

British Pound Pressured

While the British pound was also steady last week, it still failed to derive much support from the Bank of England's relatively hawkish policy stance. At their latest policy meeting, the BoE continued to signal that they plan to deliver gradual and limited rate hikes in the coming years assuming a smooth Brexit outcome. A "smooth" outcome is being threatened by Eurosceptic Boris Johnson, who seems to be the Conservative Party's favorite to replace Theresa May. Johnson recently reiterated his stance, telling the BBC he was "serious" about leading Britain out of the EU on the October 31 deadline without a deal if the bloc refused his demands to negotiate a new exit agreement. With the rising probabilities of a "No Deal" Brexit and slowing global growth this year, it is clear markets do not believe that the BoE will be able to follow through with their hikes.

Asia

Bank of Japan Signals Easing

Deputy Bank of Japan Governor Masazumi Wakatabe surprised markets when he stated the Boj may pre-emptively ease monetary policy if the board can agree it will be hard to achieve their 2.0% target. He believes that the BoJ must ease immediately without hesitation if the economy loses momentum to the hit the BoJ's price goal. He said the U.S.-China trade dispute, if prolonged, would hit the global economy not just through higher tariffs, but by discouraging firms from investing and hurting market sentiment. That may lead to a "significant risk" that they may have to change their outlook that the economy will continue the moderate expansion trend. The BoJ is currently expecting a pick-up in growth during the second half of this year.

Commodities

Oil Rebounds, Gold Steady

Oil prices rose more than 9% last week supported by various events. First, industry data showed U.S. crude stockpiles fell more than expected. Second, Asia's crude oil imports from Iran fell in May to the lowest in five years after China and India wound down purchases amid U.S. sanctions, while Japan and South Korea halted imports. Finally, on the supply side, markets were worried a potential U.S.-Iran conflict could affect oil supply from the middle east while OPEC members are expected to renew their output curb this week. The aforementioned events show an incoming increase demand for oil with the potential of limited supply driving prices higher. Brent Crude closed out the week at $64.74.

Gold prices managed to maintain their levels at six-year highs, as dovish signals from major central banks and heightened tensions between the United States and Iran boosted demand for the safe-haven metal. The ongoing trade war with China leading to a global slowdown is also a major contributing factor to gold's rise this month. Gold closed out the week at $1409.

Kuwait

Kuwaiti Dinar at 0.30315

The USDKWD opened at 0.30315 Sunday morning.

Rates – 30 June, 2019

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1359	1.1412	1.1342	1.1368	1.1265	1.1565	1.1450
GBP	1.2721	1.2783	1.2660	1.2693	1.2590	1.2885	1.2745
JPY	107.39	108.15	106.77	107.88	105.95	109.85	107.18
CHF	0.9763	0.9814	0.9691	0.9765	0.9575	0.9965	0.9684