

Weekly Money Market Report

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Safe Havens Jump as US-Iran Tensions Escalate

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Highlights

- Trump promises “phase one” deal to be signed on January 15; phase two negotiations to start soon.
- US attack on Iranian military leader see’s safe haven assets rising.
- UK Manufacturing activity takes a turn to the worse.
- China’s economy stabilizes.

United States

Trump Promises Trade Truce in 2020

The year 2019 was what one would call a mixed bag of events. Central banks cut interest rates in order to deal with the slowdown in economy, while Brexit continued to divide the British public to end with a decisive win for Boris Johnson. The House of Representatives voted to impeach Donald Trump, while Wall Street powered through the year with record highs.

President Donald Trump wanted to end the year on a high note, when he said on Tuesday that he will sign a “phase one” trade deal at the White House on January 15 in the presence of high-level representatives from China. The US president also said in a tweet that he will travel to Beijing at a later date to begin “phase two” talks.

A limited agreement was reached between Washington and Beijing on December 13 to pause the trade war between the two economies, in which more than half a trillion dollars of goods have been hit with new tariffs. The US agreed not to impose fresh levies on \$156bn of Chinese consumer goods and agreed to halve tariffs on \$120bn of imports that were introduced in September. China on the other hand have pledged to increase imports from the US such as agricultural purchases, and promised better protections of intellectual property rights.

The exact terms of the 86-page agreement have not been made public and are being translated and reviewed by the two sides. White House advisor Peter Navarro indicated that the “phase one” agreement was near, saying “That’s a deal, put that one in the bag.” He said in an interview with Fox News that the details of the agreement would be released “as quickly as possible.”

US-Iran Tension Disrupts Markets

Markets were disrupted on Friday following a US attack that killed Iran’s top military leader in a targeted air strike at Baghdad airport. The attack saw oil prices and safe haven assets rally; with the international benchmark Brent crude jumping 4% to \$70.96 a barrel, while US marker West Texas Intermediate rose 3.4% to \$63.30. Gold followed suit and climbed 0.9% to \$1,542 an ounce and nearing a four month high. The US Treasury yields, which move inversely to the price of American sovereign debt, fell 0.05 percentage points to 1.835%, their lowest level in three weeks. The US dollar also rallied with the index moving up 0.32% and closing at 96.896, while the safe haven Japanese yen gained 0.40%.

Stock markets responded in declines after the record highs clocked on the first trading day of the year, where the S&P closed 0.8% higher at a record 3,257.85, and Nasdaq saw a 1.3% rise also hitting a record high while the Dow Jones industrial average climbed 1.2%. The equity market has posted an impressive year in which the S&P 500 rose 28.9% and the Dow climbed 22.3%, while Nasdaq skyrocketed more than 35%. The strength did not seem to bode well in front of the recent developments and saw all of the main indices losing some of their gains.

Europe & UK

UK Manufacturing Activity Declines

In the UK, manufacturing activity took a turn for the worse at the end of 2019, with the sharpest deterioration in output in more than seven years as political uncertainty continued to weigh on orders. December saw the IHS Markit manufacturing Purchasing Managers' Index sinking to 47.5 down from 48.9 in November, although marginally higher than the initial flash estimate of 47.4. The figure indicated a majority of businesses reporting deteriorating activity as it marks the eighth consecutive month with a reading below 50. Both domestic and foreign orders contracted with respondents linking the lower new business to concerns surrounding the economic, global trade and political outlooks. The main driver of the industrial downturn in the UK was driven by producers of intermediate and investment goods, while manufacturers of consumer goods reported a weak expansion.

The weight of Brexit-related uncertainty was confirmed on Thursday by a Bank of England survey of nearly 3,000 chief financial officers from small, medium and large UK businesses. 53% of companies reported that Brexit was one of their top three sources of uncertainty during December, while other concerns were left unspecified.

It seems like Brexit fears are still looming over manufactures and traders alike, who saw the Sterling begin the new decade on the back foot as strategists expected torturous months of trade negotiations with the EU. After it rallied as much as 1.1% on December 31st, reaching a high of \$1.3283 and achieving the biggest increase since December 13th following the elections, the pound shed 1.55% of its value closing the week at 1.3077. The drop came due to a mixed bag of factors including the tough year ahead for Brexit, and the stronger dollar following the US attacks.

Asia

China's Economy Stabilizes

China's official Purchasing Managers' Index for manufacturing came in at 50.2 for the month of December, near expectations of 50.1. On the downside, non-manufacturing fell to 53.5 from 54.4. The latest figure provides some evidence that the world's second largest economy is stabilizing. The figure marks the second straight month of expansion for manufacturing. Food and beverage, clothing, medicine, and automobiles were the sectors that saw robust expansion. On December 13th, the US and China announced they had reached a phase one trade deal which included tariff relief, increased agricultural purchases, and structural changes to intellectual property and technology issues. China's economy appears to be at the bottom of a cyclical slowdown as 2019 ends, aided by the prospect of the trade deal and domestic stimulus ranging from tariff cuts to support for infrastructure spending.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30305 on Sunday morning.

Rates –5th January, 2020

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1181	1.1123	1.1239	1.1161	1.0980	1.1310	1.1226
GBP	1.3094	1.3052	1.3283	1.3077	1.2880	1.3265	1.3122
JPY	109.43	107.82	109.44	108.08	106.30	108.90	107.53
CHF	0.9737	0.9643	0.9743	0.9722	0.9540	0.9820	0.9662

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