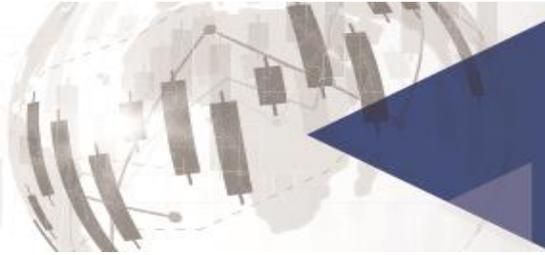


Weekly Money Market Report

22 December 2019



Global slowdown fears subside; Major Central Banks looking at a lengthy hold

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Highlights

- BOE votes 7-2 to keep interest rates on hold.
- Boris Johnson fights for a swift exit.
- Kuroda of the BOJ signals optimism regarding the global economy.
- Phase one of the US-China trade agreement is complete.
- Oil prices climb.

Advancement in US-China trade talks, a clearer direction for Brexit, and what seems to be the bottoming of the manufacturing slump are all factors easing concerns over a global slowdown which had triggered a wave of interest rate cuts across the world earlier this year. Jerome Powell has put the Fed on pause, Christine Lagarde signaled that the worst may be over for the Eurozone, and Kuroda of the BOJ speaks of an improvement in the risks surrounding growth. Heading into 2020, extra easing is not completely off the table for global central bankers, but the possibility of a lengthy hold in interest rates followed by firm policy is appearing more likely than it did before.

United States

What comes next for US-China trade?

The US and China now both agree that the phase one of the most difficult bilateral economic negotiation in recent decades is finally over. Fundamentally, China has agreed to increase its total purchases of US goods and services by at least \$200bn over the next two years, and will increase its buying of US agricultural products to \$50bn. The US will halve its 15% tariff on about \$120bn of Chinese goods, and has agreed to suspend planned duties set to take effect last Sunday. That leaves roughly \$250bn taxed at 25% and \$120bn will be subject to a 7.5% duty.

Lawyers will now review the text for it to be ready to sign in the first week of January, and will take effect roughly 30 days after. Looking at phase two, the president announced that negotiations for the next phase would start immediately, though no official date has been set yet. Wall Street saw a strong rally last week on the positive developments, as the S&P 500 hit a record high of 3,205.37 and the Dow Jones Industrial Average also saw a record high of 28,381.48.

Europe & UK

Inflation remains below the BOE's target

Inflation in the UK remained unchanged at 1.5% y/y in November according to data from the Office for National Statistics. Core inflation was also unchanged at 1.7% y/y. The figure remains at its lowest in three years and well below the 2% target set by the Bank of England. Other data released last week revealed a sharp drop in UK retail sales for the fourth month in a row raising concern over the most resilient sector of the economy. The figure fell 0.6% in November compared with the previous month, defying expectations of a 0.3% rise. Looking at GDP, the UK's second estimate showed the economy expanded by 0.4% q/q in Q3 of 2019, up from the 0.3% seen in the first readout. The pound ticked higher following the upbeat data on Friday, though ended the week lower at 1.3002.

BOE keeps rates on hold

The Bank of England voted to leave rates on hold in its final policy decision of the year as widely expected. The monetary policy committee voted 7-2 to keep the official interest rate on hold at 0.75%. The BOE maintained its message that interest rates could move in either direction moving forward, and that it was still too early to judge how material the effect of developments regarding the US-China trade war and Brexit would be on the UK economy. "If global growth fails to stabilize or if Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected recovery in GDP growth and inflation," the committee said in a statement. The Central Bank is now counting on a post-election boost to the UK economy.

"The Boris Bounce"

Last week, we saw the Conservatives win a sweeping majority in the UK general election. As a result, Johnson's government is now able to set their agenda and implement their plans. There are two important dates to look at moving forward. The deadline for the UK to leave the EU is at the end of January 2020. However, the end of December 2020 is when the UK will officially leave the EU's framework and become truly independent. This is a short period to discuss complex trade agreements. In comparison, the EU/Canada trade deal took 7 years to finalize. Article 132 of the agreement stated that both sides may agree to extend the transition by 1 or 2 years, potentially seeing the transition continue to 2022. Johnson does not want to see that happen, and has promised a swift exit.

Asia

Kuroda Signals Optimism

The Bank of Japan left policy untouched at -0.1% on Thursday and maintained its target for interest rates and asset purchases. The Bank has now reached the end of a shaky year without having to dig deeper into its depleted ammunition, despite easing by global central banks which now appears to have ended. The phase one US-China trade deal, the stabilizing of manufacturing readings and a stronger mandate for Brexit has caused the BOJ to shift its tone on the global economy. The Bank will now assess how Prime Minister Shinzo Abe's \$120bn fiscal package will prop up growth in the economy which is also facing a sales tax increase. Officials expect the package to boost the economy by 0.35%. Japan's economy, the world's third-largest, expanded at an annualized 1.8% in Q3 on resilient domestic demand and business spending.

Commodities

Oil supported by optimism

The Energy Information Administration reported that US crude supplies fell by 1.1 million barrels for the week ending Dec. 13, less than the 2.5 million decline expected. It came as a relief after the American Petroleum Institute on Tuesday reported a 4.7 million barrel climb. Prices for oil may move lower in the first quarter of 2020 due to slow demand, and any problems with the US-China trade war may see an accelerated move to the downside as worries about energy demand resurface. For now, oil remains bolstered by more optimistic expectations regarding the global economy. Brent crude rose to a 3-month high of 66.78 and is currently trading at 66.14.

Kuwait

Kuwaiti Dinar at 0.30345

The USDKWD opened at 0.30345 Sunday morning.

Rates – 22 December, 2019

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1121	1.1175	1.1064	1.1078	1.1025	1.1235	1.1147
GBP	1.3334	1.3422	1.2976	1.3002	1.2980	1.3185	1.3041
JPY	109.37	109.67	109.17	109.44	108.60	110.60	108.86
CHF	0.9834	0.9845	0.9767	0.9826	0.9695	0.9910	0.9762

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