NBK MONEY MARKETS REPORT

# Dollar depreciates despite solid economic fundamentals, data

## Syria war tension overshadows trade war fears

**KUWAIT:** It was an extremely light week in terms of economic data as global political turmoil continued to mount. Therefore, markets direction was mostly dominated by the possibility of a clash between Western powers and Russia in Syria. Meanwhile, trade war tensions have eased recently after both the US and China made positive gestures. China's president promised to lower taxes on imports and open the country's markets further. On the US side, president Trump suggested negotiations with China will lead to positive results while repeating optimism over NAFTA. The most important proposal of rejoining the TPP was the biggest surprise and indicates a possible shift in strategy. Anxieties around military action in Syria seem to be overshadowing any relief about a reduction in trade tensions between China and the United States.

For the meantime, safe haven currencies (JPY and CHF) are dwindling in conjunction with the cautious improvement in global investors risk sentiment. Heightened concerns over a global trade war have eased. At the same time, intensifying geopolitical risks involving the ongoing developments in Syria are having minimal negative spill-over on global risk sentiment. The technical picture has become more positive for risk assets in the near-term as the price of US equities have found support from their 200-day moving average and their encouraging performance last week.

Looking at the kick-off to the earnings season may bring equity markets back to fundamentals after recent global political turmoil have been important drivers for equities. Anticipation towards earnings is unusually high heading into this reporting period, suggesting greater risk of disappointment. Given the equity market's correction in early February, a further sell-off in the coming weeks on disappointing earnings results would likely influence the FX market.

### Growth objective

As for the Fed's meeting minutes, there was strong evidence that the committee is more confident in achieving its two percent price growth. Several monetary policy setters concluded that the appropriate path for the federal funds rate over the next few years would likely be slightly steeper than they had previously thought. The outlook of a sharper path of tightening may mean a movement from three hikes this year to four and more in 2019 or 2020 but the rates market is currently in no mood to price those risks given current uncertainties.

On the currency front, the US dollar was on the back foot at the start of the week following the latest release of the weaker than expected non-farm payrolls report. Improvement in investors' risk sentiment also played a role after Chinese President Xi Jinping promised to open the country's economy further and lower import tariffs. On Wednesday, the negative momentum persisted in the Dollar over possible US military involvement in Syria. The Dollar's negative trajectory was altered at the end of the week and snapped a four-day losing streak as worries about the threat of a clash between Western powers and Russia in Syria faded. Moreover, the FOMC's minutes provided further conviction for a June rate hike. Overall, the Dollar index still managed to depreciate by 0.40 percent throughout last week.

As for the single currency, the euro didn't hesitate to take advantage of the dollar's weakness at the beginning of the weekly session. The common currency also found further support from ECB's president when he stated that the slide in stock markets this year had not materially had an impact on eurozone's financial conditions, suggesting policymakers remain calm about the recent market volatility. ECB policymaker Ewald Nowotny also had positive remarks after calling on the ECB to get on with tightening monetary policy gradually and to start with the deposit rate. However, the euro weakened at the end of the week due to a somewhat dovish ECB meeting account and a stronger US dollar. The easing concerns over an imminent escalation of conflict between the US and Russia took one of the support features from the euro, it's safe haven status of possessing a very large current account surplus. The euro gained 0.52 percent versus the green back in last week's trading session. The pound sterling retained its positive tone last week and was the best performer among G10 currencies. The pound soared to the highest level since late January versus the US dollar and is near a one year high against the euro. Improving political prospects, a slight rebound in economic indicators and a robust Halifax House Price Index were all factors supporting the upward movement. Policy makers at the BOE have recently cautioned markets for higher interest rates to come and markets now expect the MPC to vote for another increase in May's meeting. Rising interest rates tend to support currencies as foreign capital flows are drawn to currencies where returns are rising and this can especially be seen in EUR/GBP movements. The pounded added 144 basis points on the Dollar last week.

The safe haven yen was in a consolidating mode until Thursday as markets continued to shift between risk-on and risk-off themes. The yen began its downward momentum on mid Thursday as war tensions were diminishing after President Trump softened his tone. Furthermore, hawkish FED meeting minutes revealed rates may rise even more this year and the yen is extremely sensitive to other countries monetary policies. The reason for that is the perception that the BoJ will be among the last major economies to tighten its monetary policy. The Japanese yen lost 0.38 percent of its value to the US dollar in the last five trading sessions.

In the commodities complex, the precious yellow metal may continue its upward momentum this year after strong gains in 2017. The most important driver is the demand for gold in times of risk and volatility. Higher equity market volatility will also provide a support to gold prices as we have seen earlier this year. Tighter monetary policies globally may create headwinds to rallies but are largely priced in. Last week, the safe haven asset gained 0.87 percent over the US dollar as global political tensions slightly overshadowed US economic fundamentals.

### A more hawkish Fed

The meeting minutes of the FOMC revealed that officials down played the sluggish Q1 growth readings and expressed increased confidence in the US economy. A majority of the policy setters agreed that additional rate hikes are warranted this year because labor market conditions are expected to improve even more and core inflation is anticipated to move up to the FOMC's 2 percent target in the medium term. For the current year policy makers are on the same page, however disagreement exists in what the appropriate monetary policy path should be for 2019 and 2020. The differences were already revealed in the dot plot released after the last meeting as the projections for 2019 and 2020 widened out. For next year, the median projection for the federal funds rate is 2.9 percent. Five of the Committee's current 15 members actually think that will be the appropriate rate, four members of the Committee think the rate should be lower, and six think it should be higher. Overall, the meeting minutes indicate that the appropriate path for the federal funds rate over the next few years would likely be slightly steeper than they had formerly projected. However, the direction of policy after this year is still up for debate.

**Trump upbeat about NAFTA breakthrough**

### US inflation

Prices in the US were inflated last month after the CPI rose from 2.2 percent to 2.4 percent, while the core CPI followed the same momentum from 1.8 percent to 2.1 percent. The figures suggest that inflation soared at the quickest pace in a year. The enhancement was mainly due to a change in the method of calculating inflation. Weaker mobile phone charges, which had reduced price growth for the past year, were dropped out of the calculation. Therefore, the FED's earlier prediction was correct that costs on mobile services were a large factor of subdued inflation. The latest indicators will add further evidence that price pressures are broad based and on the rise.

On the producer front, price growth last month came above expectations for both headline and core. The annual rate of PPI was inflated to 3 percent from 2.9 percent as the monthly rate rose by 0.3 percent. The core figure increased 0.4 percent m/m, which brings the year on year rate to 2.9 percent. That was the biggest increase since August 2014 for the core data. The wide-ranging increase in wholesale prices backs the view that inflation is on the pick up this year. Many economists believe that a tightening labor market, feeble dollar and a fiscal boost will push price growth toward the Federal Reserve's 2 percent target this year.

### ECB's meeting

ECB policy makers' gathering last month raised concern about trade protectionism and rejected a push to declare the conditions are almost in place to end their bond-buying program. The Governing Council meeting disclosed that policy makers were close to meeting the objective of putting inflation on a sustained path toward the medium-term goal of just under 2 percent. However, officials concluded there wasn't adequate evidence to make the call, with some arguing the slack in the economy may be larger than assumed. The second concern was the euro's strength in recent months, partly due to fears over US protectionism. The movement in EUR/USD has not significantly reduced demand, but policymakers called the exchange rate a "significant source" of uncertainty with some predicting a more negative impact on inflation.

Overall, the most influential group on the council, including ECB president Mario Draghi and his chief economist Peter Praet, believe a degree of breathing room still exists. On the other hand, policymakers argued that the extra capacity is largely exhausted in the euro-zone and it is only a matter of time before inflation picks up. So, the ECB can afford to tighten its monetary policy and give price growth time to accelerate. Recently, Governing Council member Ewald Nowotny called on the ECB to get on with the process to ensure it can take a gradual approach and to start with the deposit rate, which has been in negative territory since mid-2014. The ECB has forecasted that core inflation will be very close to 2 percent in 2020. It seems the ECB is attempting a complex maneuver to get hawkish without causing a sharp appreciation in the single currency.


### UK manufacturing sector

Britain's defiance in the manufacturing industry came to a halt in February after the sector constricted for the first time in nearly a year. The manufacturing industry contracted 0.2 percent versus an expectation of a 0.2 percent rise. Last year, the sector was boosted by a mixture of a fragile pound and stronger global growth, however the modest stimulus from sterling's 2016 depreciation has begun to fade. Recently, global economic indicators in the manufacturing sector are losing pace, especially in Europe. Looking at the survey, 54 percent of the manufacturing sector experienced an output decline, with machinery and equipment dropping 3.9 percent. In the latest three months, factory output rose 0.6 percent, the least since July. GDP expansion might be weaker in the Q1 than the 0.3 percent predicted by the Bank of England, which casts doubt on whether a May interest-rate increase is as likely as market pricing suggests.

### China's inflation disappoints

Looking at Chinese price growth, both CPI and PPI inflation came in below accord at 2.1 percent y/y and 3.1 percent y/y respectively. Stabilizing food prices after the Chinese New Year holidays and slower commodity price gains were the main factors for muted inflation. The data confirms the view that February's CPI inflation spike was one-off. As for the PPI, factory price has been descending consecutively for the fifth month and is currently at 17 months low. The recurring downward momentum in price growth increases the probability of an economic slowdown, which many economists have been stating. Inflation may ease even further as a slowdown in credit growth is feeding through to an overall softening in economic activity. On the monetary front, softer inflation readings and moderation in global growth at the start of the year are consistent with a neutral monetary policy outlook.

### BoJ front

As always, BoJ Governor Kuroda reiterated his determination to maintain the central bank's loose monetary program, while offering an optimistic view on prospects for meeting the 2 percent inflation target. Japan's economy grew an annualized 1.6 percent in Q4 2017, marking the eighth straight quarter of growth. Although, core consumer inflation stood at 1 percent in February, well below the BOJ's 2 percent target. A senior BOJ official stated there were promising signs in the economy that would help the central bank meet its price goal. The reason for the increased confidence on the price objective was due to a raised assessment for two of Japan's nine regions and preserved its positive view for six areas as a tightening job market drove up household income and consumption.

### Kuwait

Kuwaiti dinar at 0.29970

The USDKWD opened at 0.29970 on Thursday morning.

# Another trade war looms with US... on Spanish olives

**LA RODA DE ANDALUCIA, Spain:** The US flag still flutters next to others in front of the AgroSevilla factory, the world's biggest exporter of black olives based in southern Spain.

But the cooperative in Andalusia may soon have to take down the Stars and Stripes if a rise of more than 20 percent in duties on black table olives recently imposed by the United States, its number one client, becomes permanent. Far from just concerning Spain, the decision could snowball into the US imposing duties on other European products such as French cheese or Italian wine. Since the winter and the sudden rise in levies, "we have lost many contracts and we have had to let people go for the first time ever," says Gabriel Redondo, president of a grouping of 4,000 farmers who all own a small share of the factory, the world's biggest for black olives.

Set at the heart of huge olive plantations between Seville and Granada in the south, the factory treats, cures and slices olives, which are picked green. They are then put in jars and cans and dispatched to 72 countries where they are sold to pizzerias, sandwich shops and salad bars - all expanding markets, particularly in the United States.

### 'Re-organizing everything'

AgroSevilla exports 25 percent of its annual production to the US. But within the space of a few months, the clouds have gathered for the cooperative and the entire sector, which employs 8,000 people on full-time contracts and ensures the survival of 16,000 farms in Andalusia.

In 2017, two Californian companies filed a complaint against their Spanish competitors to the US commerce department, accusing them of dumping, or selling their products too cheaply in the United States by profiting from EU subsidies. The department opened a probe, as did the International Trade Commission, an independent federal agency that investigates trade-related issues. The final decision is due on mid-July, but the United States has already slapped temporary duties of more than 20 percent this winter on Spanish olives.

MADRID: Farmer Juan de Dios Segura poses at the "Agro Sevilla" olive factory in La Roda de Andalucia. AgroSevilla exports 25 percent of its annual production to the United States and the factory has been specially calibrated to supply this crucial customer. — AFP

The conflict comes amid fears of a wider trade war after US President Donald Trump's administration raised customs duties on steel and aluminum, even if Europe is for the moment exempt from these. For farmers in Andalusia, the move to raise levies came as a total surprise.

The sector as a whole exports 40 percent of its production to the United States for some 70 million euros ($86 million) a year. Even before the final decision, some US buyers have suspended their contracts, which are now too expensive thanks to the temporary duties..

In the factory, "we're re-organizing everything," says Redondo, who fears they will lose market share to Morocco or Egypt. Out of 450 employees at the factory, 30 have already lost their jobs. If the situation drags on, this could rise to 80.

### EU policy challenged

Paradoxically, the Californian complaint only targets finished products and not imports of untreated olives that have just been picked. The United States, which only produces 20 percent of the olives it consumes, will therefore continue buying the unprocessed olive fruit from Spain.

And that's a concern for Spanish farmers. "We don't want to deliver olives without transforming them" as the untreated fruit is sold half the price of the finished product, says Juan de Dios Segura, who farms 100 hectares of olive trees nearby. He's waiting anxiously for the July decision in the US, as he has already bought all the necessary fertilizer and machines for this year. The sector says it has already spent five million euros in lawyers' fees in the United States, and it feels forgotten by the European Union. — AFP

# KFH says KD 120m credit facility to MENA Homes

**KUWAIT:** Kuwait Finance House (KFH) inked credit facility of KD 120 million with Mena Homes Real estate Company, affiliated to Kuwait Projects Company Holding (KIPCO), for the development work in Hessah Al-Mubarak District real estate project that is considered as a masterpiece of urban development projects of the company and the most prominent real estate project in the Capital.

Khaled Yousif Alshamlan

General Manager Corporate Banking at KFH, Khaled Yousif Alshamlan said that the credit facility has a maturity of 11 years with a 3-year grace period.

He added in a press release, that financing Mena Homes reflects the successful efforts in supporting the Kuwaiti companies and development projects. It confirms the efficiency of Islamic finance instruments in providing financing solutions that meet customers' requirements while reflecting the world leadership position of KFH in the Islamic finance industry and the excellence in providing a wide range of comprehensive financial services as per highest international standards of reliability and quality.

Alshamlan emphasized that KFH operations and financing services in the market aims at strengthening partnership and cooperation to serve the national economy, indicating KFH offered financing to several projects in vital sectors including water and electricity, energy, infrastructure and construction. He indicated the scope of KFH's business extends from the local market to the global and regional markets.

KFH participated in financing terminal II building for Kuwait International Airport of KD 124.6 million.

The Bank provided 200 million euros credit facility for the construction of Canakkale Bridge in turkey, and now KFH has inked KD 120 million credit facility to Mena Homes. The Bank is pioneering in financing the SMEs.

It is worth noting that the Bank has recently signed a Memorandum of Cooperation 'MOC' stating that KFH offers Sharia-compliant financing solutions for individual purchasers of residential or commercial property in Hessah Al-Mubarak District real estate development project. The bank offers financing solutions to the individual purchasers to buy units in the project as per the MOC. KFH provides advantages to KFH customers within a range of facilities that encourage all those wishing to purchase from the project.

KFH provides customers with financing services for purchasing, finishing and even furnishing not to mention consulting services by a distinguished group of experienced staff in the construction and finishing stages.