US dollar drops as Fed minutes delay rate hike expectations

NBK'S WEEKLY MONEY MARKET REPORT

KUWAIT: Last week, disappointing data from the US combined with the release of the Fed's minutes from its September meeting pushed rate hike expectation beyond December 2015. In the minutes, policy members cited concerns related to China and emerging markets in its decision to keep rates unchanged. Additionally, the minutes showed that members showed fears that a premature hike might suppress inflation further below its 2% target. Despite jobless claims reaching an almost 42-year low, the US Dollar continued to drop against most of its counterparts as the index reached a low of 94.692 and closed at 94.916.

The Euro gained against the US Dollar last week despite disappointing data that indicated slower growth in the region's economic activity. The Euro opened the week at 1.1216 and dropped to a low of 1.1172 amid disappointing manufacturing and industrial data from Germany. The currency quickly regained its losses as investors started trimming their US dollar positions ahead of the Fed's minutes. The currency continued to gain and reached a high of 1.1387 as dovish Fed minutes further delayed rate hike expectations.

Similarly, the British Pound gained against the US dollar despite negative services PMI data that signaled that the UK's recovery is losing momentum. The currency dropped temporarily amid the BoE decision to keep rates unchanged, but regained its momentum amid the release of the dovish Federal Reserve meeting minutes. Cable reached a high of 1.5383 and closed the week at 1.5322.

The Japanese ten gained last week following the Bank of Japan's decision to refrain from adding stimulus despite the recent slowdown in the country's exports. The pair opened the week at 119.91 and reached a high of 120.57 only to drop to a low of 119.63 amid the Feds minutes. On Friday the US Dollar regained its losses and closed the week at 120.27.

The Australian dollar also gained against the greenback last week. The currency opened the week at 0.7045. The Aussie broke the 0.7300 level and reached a high of 0.7344 on Friday. The currency closed the week at 0.7336.

Commodities had their fair share of gains against the greenback as oil and gold closed the week higher. Oil opened the week at 45.54. The commodity gained towards the end of the week to break the 50 level on Friday and closed at 49.63. Similarly, spot gold opened at 1.1138.60 and reached a high of 1159.78 at the end of the week. Gold closed at 1156.53.

Mixed Data

The US ISM non-manufacturing activity index in September dropped to 56.9 compared to the expected drop to 57.5 from August's 59.00, a sign that weak wages may be pushing the demand down amid signs of slowdown in the global economy.

Meanwhile, US trade deficit in August widened by the most in five months as exports hit a 4-year low. Trade deficit widened to 48.3 billion, beating the expected deficit of 48 billion from the July's revised 41.8 billion. Imports rose 1.2%, while exports decreased 2%. Weak overseas demand and a strong US Dollar weighed over the exports.

Jobless claims fall to almost 42-year low

The number of Americans filing new applications for jobless benefits fell to almost the lowest in 42 years last week, pointing to ongoing tightening in the labor market despite the recent slowdown in hiring. The data provides an upbeat check on the health of the labor market after last week's monthly employment report increased doubts the Federal Reserve would raise interest rates by the end of this year. Initial claims for state unemployment benefits dropped 13,000 to a seasonally adjusted 263,000 the Labor Department said.

Concerns over Global Growth influenced Fed to Delay a Rate Hike

During its September monetary policy meeting, the FOMC voted nearly unanimously to leave its benchmark Federal Funds Rate unchanged, marking the 55th consecutive meeting that it decided to hold rates at its current near-zero level. Citing mounting concerns related to slowing growth in China along with a host of emerging market economies, the Federal Reserve decided that the timing was not appropriate to normalize monetary policy. The deceleration in economic growth, according to the minutes, led to a spike in the dollar, which the Fed believes is holding down inflation. Long-term inflation has remained under the Fed's targeted goal of 2% in every month for the last three years. The FOMC also expressed fear that a premature rate hike could "erode the credibility" of its inflation objective, if long-term inflation stayed below 2% for a prolonged period. In September, the Fed forecasted that its preferred gauge of inflation will not reach its 2% target until at least the end of 2018.

The relatively dovish minutes from the September meeting may bolster arguments that the FOMC could wait as long as March of next year before lift-off. Previously, it was widely believed the FOMC could raise rates either this month or when it meets in December. A rate hike is viewed as bullish for the dollar, as foreign investors pile into the greenback looking to capitalize on higher yields.

Europe & UK
German Factory Orders Drop Unexpectedly

German factory orders unexpectedly fell in August in a sign that Europe's largest economy is vulnerable to weaker growth in China and other emerging markets.

Orders, adjusted for seasonal swings and inflation, dropped 1.8% after decreasing a revised 2.2% in July, data from the Economy Ministry in Berlin showed on Tuesday. The typically volatile number compares with a median estimate of a 0.5% increase in a Bloomberg survey. Orders rose 1.9% from a year earlier.

A China-led slowdown in emerging markets that threatens Germany's export-oriented economy is exacerbated by an emissions scandal at Volkswagen AG that could affect as many as 11 million cars globally. Still, business confidence unexpectedly increased in September as the economy benefited from strengthening domestic demand on the back of record employment, rising wages and low inflation.

UK services PMI drops

The UK's recovery is losing momentum as concerns about the world economy continue to grow and weakness from the manufacturing sector spreads to the dominant services sector. Financial data company Markit said its monthly all-sector purchasing managers' index (PMI) had fallen to its lowest since April 2013, suggesting that the economy as a whole was now growing at its weakest rate in nearly three years. The headline services PMI dropped to 53.3 in September from August's 55.6, its lowest since April 2013 and well below forecasts in the market. The expectations component was its lowest since August 2014.

BoE keeps policy unchanged

Bank of England policy makers said the UK economy is withstanding international pressures, while also signaling they have room to keep the benchmark rate at a record low as inflation weakness persists. In the minutes of its October meeting, the Monetary Policy Committee weighed risks of a further global slowdown against resilient domestic demand and consumer spending. It said the near-term outlook for inflation had weakened since August and price growth will probably stay below 1% until spring 2016. Officials voted 8-1 to keep the key rate at 0.5%, with Ian McCafferty maintaining his call for an increase.

Inflation at zero, combined with an "easing in the pace of activity," may keep the MPC on a cautious footing as it judges when to begin removing the emergency stimulus it put in place during the financial crisis. Investors haven't priced in a rate increase until late 2016 and short-sterling futures rose after the minutes were released, indicating traders were taking off bets for higher rates.

In the central bank's analysis, unit-labor costs aren't yet strong enough to push inflation back to its 2% target. While official statistics put the annual increase in unit labor costs at 2.2% in the second quarter, the central bank said that the underlying figure may be much weaker.

Asia
BoJ keeps stimulus unchanged

The Bank of Japan held off on expanding stimulus, even as slumping exports and falling oil prices threaten its projection that the economy is on track to hit its 2% inflation target next year. The central bank maintained its pledge to increase money supply at an annual pace of 80 trillion yen through aggressive asset purchases. The BOJ kept its optimistic view that while exports and output have been hurt by slowing emerging market growth, the economy continues to recover moderately.

Reserve Bank of Australia leaves Key Rate at 2.0%

The Australian Dollar gained after the country's central bank held interest rates unchanged for a fifth-straight month. The currency rose against most of its major counterparts after Reserve Bank of Australia Governor Glenn Stevens left the cash-rate target at a record-low 2%. Policy makers have toned down calls for a weaker Aussie after the exchange rate dropped in each of the past three months, falling 8.9% in its steepest quarterly depreciation for more than two years. Speculators have been betting that the RBA will be forced to lower rates in the coming year as growth slows in China, Australia's biggest trading partner, even as Stevens has signaled he is reluctant to ease policy again.

Kuwait
Kuwaiti Dinar at 0.30180

The USD-KWD opened at 0.30180 yesterday morning.

Al Tijari announces winners of Al Najma Account

KUWAIT: Commercial Bank of Kuwait held the Al Najma Account draw yesterday.

The draw was held under the supervision of the Ministry of Commerce & Industry represented by Abdulaziz Ashkanani.

The winners of the Al Najma Daily Draw are

Alexander Victor Bitass KD 7000/-
Mohammad Nasser Ismaeil KD 7000/-
Abdullah Eissa Al Mesri KD 7000/-
Yuefan Chen KD 7000/-
Mohammed Abu Horaiyra Khondakar KD 7000/-

The Commercial Bank of Kuwait announces the biggest daily draw in Kuwait with the launch of the new Najma account. Customers of the bank can now enjoy a KD 7,000 daily prize which is the highest in the country and another 4 mega prizes during the year worth KD 100,000 each on different occasions: The National Day, Eid Al Fitr, Eid Al Adha and on the 19th of June which is the date of the bank's establishment.

With a minimum balance of KD 500, customers will be eligible for the daily draw provided that the money is in the account one week prior to the daily draw or 2 months prior to the mega draw. In addition, for each KD 25 a customer can get one chance for winning instead of KD 50.

Commercial Bank of Kuwait takes this opportunity to congratulate all lucky winners and also extends appreciation to the Ministry of Commerce and Industry for their effective supervision of the draws which were conducted in an orderly and organized manner.

SPE Kuwait Oil & Gas Show and conference set for success

KUWAIT: Following the huge success of the first edition in 2013, the Society of Petroleum Engineers (SPE) Kuwait Oil & Gas Show and Conference is returning to Kuwait from 11-14 October 2015. The event will be held at the Kuwait International Fair in Mishref under the patronage of His Highness Sheikh Jaber Mubarak Al-Hamad Al-Sabah, the Prime Minister of the State of Kuwait.

Set to be the largest gathering of the oil and gas industry ever seen in Kuwait, KOGS 2015 incorporates a multidisciplinary conference programme organised by the SPE and a world-class international exhibition of oil and gas hardware and services organised by Allworld Exhibitions' member Arabian Exhibition Management. The event is expected to attract over 3,500 regional and international attendees.

Dr Ali Saleh Al Omair, Minister of Oil and Minister of State for the National Assembly, commented: "I am pleased to announce the Kuwait Ministry of Oil's support for the second edition of the SPE Kuwait Oil & Gas Show and Conference. The stature of this major international oil and gas exhibition and conference befits Kuwait's international standing as one of the world's leading oil producing nations, and mirrors the great strides we have made both upstream, downstream, and in our overseas activities".

The KOGS 2015 conference takes place under the theme 'Future Hydrocarbon Resources; Innovations, Technology and Opportunities' and focuses on key areas of interest for those working in the upstream and downstream sectors in the region, including reservoir management, production operations, sustainable development, drilling and completion technologies, innovation, refining and the petrochemical industries. The conference opens in a special ceremony on 11 October 2015 at the Hilton Kuwait Resort. The session will begin with welcome addresses from His Highness Sheikh Jaber Mubarak Al-Hamad Al-Sabah, Kuwait's Prime Minister; His Excellency Dr. Ali Saleh Al-Omair, Kuwait's Minister of Oil and Minister of State for the National Assembly; Nizar Al-Adsani, Chief Executive Officer, Kuwait Petroleum Corporation; Hosnia Hashim, Vice President Operations, KUFPEC and Janeen Judah, 2017 SPE President.

Keynote speeches on this year's conference theme will follow, delivered by His Excellency Abdalla Salem El-Badri, Secretary General, OPEC; Mohammad Al-Mutairi, Chief Executive Officer, Kuwait National Petroleum Company; Bob Dudley, Chief Executive Officer, BP and Samir Brikho, Chief Executive, Amec Foster Wheeler.

More than 180 technical and poster presentations designed to share the knowledge and experience of managing, operating and supplying companies will follow over the subsequent 3 days of the conference at Kuwait International Fair, delivered by over 260 expert speakers from more than 60 companies across 27 countries.

The packed agenda at KOGS 2015 also includes 4 industry panel sessions and 5 special sessions led by chief executive officers, managers and presidents of national and international oil companies and the service industry. Discussion topics include industry strategies in the face of unstable oil prices, the role of gas in the region, innovation, overcoming scarcity of resources, refining industry drivers, women's networking, local content and the role of the banking sectors.

NEW DELHI: A file photo of shoppers at a mall in New Delhi.

India rate cut tempts shoppers to buy cars, major appliances

MUMBAI: The way car salesman Ashish Bhavsar tells it, in India, men come first on their own to eye up a potential purchase. Then they bring their wives. Then - if it's serious - the whole family.

On this weekday, almost two weeks after the central bank cut interest rates, a young boy and his elderly grandmother inspect a sports utility vehicle at a busy Hyundai Motor dealership in downtown Mumbai, while his parents speak to a sales agent nearby. That's good news for branch manager Bhavsar.

He estimates that cheaper borrowing could mean sales growth of 12 to 15 percent this year, above his 10 percent target.

"Many customers were waiting for rate cuts. They didn't want to make a decision," he says with a grin, surrounded by gleaming new cars. "They will definitely come now."

India kicks off its two-month religious festive period yesterday, a time considered auspicious to buy big-ticket items such as cars, and when promotions abound. Company executives say they see the Reserve Bank of India's unexpectedly sharp 50 basis points cut last month as a lifeline.

Consumers have already been showing an eagerness to spend more on small luxuries, like movie tickets and fancy hair cuts, even as the overall economy struggles to take off after a period of cooler growth.

Yet with retail spending accounting for 50 to 60 percent of the economy, India needs households to splurge on more expensive, higher-margin items like washing machines, TVs and cars.

To date, a combination of slow consumer spending and a dearth of corporate investments has delivered a double punch to the economy, which grew a slower-than-expected 7 percent in the April-June quarter, well below the government's 8 to 8.5 percent target.

GOING SHOPPING

With inflation around record lows and central-bank rate cuts totalling 125 basis points so far this year, retail executives believe a consumer recovery is now in the offing.

Firms selling discretionary items such as cars and electronics are desperate for such a recovery. They have reported double digit annualised falls in earnings for the past four quarters.

Banks have not passed on all of the central bank's latest cut. In the last two weeks, auto loans are down only 25 basis points, and home loans by 30 basis points. But retailers expect traditional festival-season discounts to help pull shoppers in.

Added to that, Indian consumers often prefer instalment plans to finance bigger purchases. Known as equated monthly instalments (EMI), they are typically provided on a floating-rate basis, so consumers benefit from falling loan rates.

Sunita Pednekar, a 35-year old nurse, at one downtown electronics store, said she planned to buy a washing machine for now, and a TV next month during Diwali, the Hindu holiday that marks the peak of the Indian festive period.

"We can afford the washing machine now since EMI will be cheaper after interest rates have come down, and there are discount offers before festive season," she said, speaking as she headed into the store with her husband and young son.

"I can spread out the expenditure, rather than pay a lump-sum amount upfront." Optimism about consumer demand is being given a further boost as India gears up to raise the wages of 10 million government employees and pensions from next year.

Abheek Barua, chief economist at HDFC Bank in New Delhi, says last month's official rate cut and the expected pick-up in consumer demand would help boost economic growth. He has forecast 7.5 percent growth for the year ending in March.

"Earlier we were banking on investment demand to push up growth," he said. "Now we are expecting a better consumption phenomenon to drive growth." — Reuters