A calm February after January's chaos

KUWAIT: After a volatile start of 2015, the Chinese Yuan spent most of 2015 trading in a very narrow range before authorities decided to start devaluating the currency in August of last year.

In 2016, all eyes turn to China to determine whether the PBoC will continue on the devaluation path in an attempt to reclaim their lost share of global growth in a global deflationary environment.

After a rocky January, February seems to have brought some markets calmness, especially after the minutes of the latest FOMC meeting were released during the week.

Globally, with the ongoing persistence of the oil glut known to be the main reason for oil prices to linger near the lows, only an acceleration of the global economy could see prices move in the other direction. With the IMF and the OECD downgrading global growth amid the Chinese slowdown, oil prices aren't likely to move higher in the short term and market stress are likely to come back in 2016

Moreover, as global inflation continues to be subdued, policymakers would rather postpone any rates hike. In some cases, as in Japan and Europe, Central banks are even reducing rates into the negative territory to try to spur growth in their respective economies.

As January proved to be a difficult month in term of US fundamental news, various economic indicators improved again last week with both initial jobless claims at 262k against expectations of 275k and the Philly Fed manufacturing index at -2.8 against expectations of -3.0. The improvement in the four-week moving average for claims was seen as positive in the current environment. With expectations of the next Fed hike pushed all the way to February 2017, the current calm environment could continue and volatility might drop in the short term.

For the moment, all the attention is shifted towards commodities, especially oil prices and the global economic slowdown.

On the foreign exchange side, the Yen remains very volatile trading between a high of 114.87 and a low of 112.31. The currency performance continues to be highly negatively correlated with the Nikkei, and investors continue to sell the rally in the Dollar while awaiting further action from the BoJ. The latest measures taken by the BoJ to cheapen the currency have failed for now and sent a negative signal to equity markets.

The Euro on the other hand lost some ground against the Dollar this week. The ECB verbal intervention continues as Draghi vows to do whatever it takes to spur Europe economic growth. The Euro fell under pressure and dropped to 1.1130 by the end of the week.

Despite the good economic figures in the UK, and the signs of progress in the ongoing negotiations between the UK and EU this week, the lack of agreement left the Pound stranded, closing the week around the 1.4406 level. The short term direction in the currency remains highly dependent on the progress, or lack of it, of the talks in Brussels.

On the commodities side, this week's negotiations in Qatar yielded little in terms of a fundamental change in either OPEC calling for non-OPEC cooperation, or market expectations of supply growth this year. As talks moved from cuts to a freeze in production, such a freeze would come from producers who weren't expected to raise production such as Russia, Venezuela, Saudi Arabia and Qatar. Treasury Group Weekly Money Market Report 21 February, 2016

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The IMF and the OECD

The IMF published an update to its World Economic Outlook last week, saying that the pick-up in global growth was weak and uneven across economies, with emerging markets and developing economies set for slower growth. The Fund projects global growth of 3.4 percent this year down from 3.6 percent in October and 3.6 percent in 2017. The IMF estimates that the global economy grew 3.1 percent last year. According to one of the director of research, "This year is going to be a year of great challenges and policymakers should be thinking about short-term resilience and the ways they can bolster it, but also about the longer-term growth prospects."

In parallel, the Organization for Economic Co-operation and Development also cut its global growth forecasts last week. According to the report, the world economy is expected to growth by 3 percent this year lower than its previous forecast and the same pace as 2015. That included a downgrade to its US forecast to 2 percent this year while China is expected to grow 6.5 percent.

Bullard Shifting Side

In a complete turnaround for one of the most Hawkish members of the Fed, James Bullard, St. Louis Fed president said it would be "unwise" for the U.S. Federal Reserve to continue hiking interest rates given declining inflation expectations and recent equity market volatility. For much of last year, Bullard argued for an earlier rate hike, but said he now feels key assumptions supporting higher rates have been undermined.

NBK MONEY MARKETS REPORT

Inflation expectations have fallen "too far for comfort," making it more probable inflation itself will fall and continue to miss the Fed's 2 percent target. "I regard it as unwise to continue a normalization strategy in an environment of declining market-based inflation expectations". In addition, declining equity prices and other tightened financial conditions have made dangerous asset bubbles "less of a concern over the medium term."

In parallel, San Francisco Fed President Williams stuck to his view that 'a gradual pace of policy normalization as being the best course'. Williams said that the US economy 'still needs a gentle shove' from monetary policy headwinds but that the economy is 'all in all, looking pretty good'. On the popular topic of negative rates, Williams said that the chances of the Fed cutting rates below zero were 'very remote'

The Fed worried

The latest Philadelphia Fed manufacturing survey for February suggest the manufacturing ISM is likely to remain in contractionary territory. The ISM Philadelphia declined to 44.7 in February in comparison to 47.5 in January and matches its recent October 2015 low. As long as the manufacturing ISM survey remains below 50, investors are likely to continue to worry about the US growth outlook.

This week's housing starts also dropped, however according to analysts, this could be a direct relation to the bad weather experienced in January in some parts of the country. Industrial production came at 0.9 percent on a monthly basis against expectations of 0.4 percent. The number picked up strongly despite the downward revisions to the previous month.

The release of the January FOMC policy meeting minutes this week pointed towards the fact that the Fed was still in a wait and see mode, keeping options open but with clear uncertainty around the outlook.

Members turned their attention on the factors driving the turmoil in markets with the minutes showing that "while acknowledging the possible adverse effects of the tightening of financial conditions that had occurred, most policymakers thought that the extent to which tighter conditions would persist and what that might imply for the outlook were unclear, and therefore judged that it was premature to alter appreciably their assessment of the medium-term outlook".

Europe & UK

This week ECB minutes didn't offer a whole lot new with the text revealing that the governing council was unanimous that policy 'needed to be reviewed and possibly reconsidered' at the March meeting, although there were some hints from certain policymakers that it would be 'preferable to act pre-emptively' rather than 'wait after risks had fully materialized'. **Treasury Group Weekly Money Market Report 21 February, 2016**

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Markets are expecting the ECB's deposit rate to be cut another 10 basis points to -0.4 percent next month, while the Ä60 billion quantitative easing programme launched a year ago is likely to be increased. However, Jen Weidmann, president of the Bundesbank remains against the extension of the ECB's asset- purchase program.

On the data front, France January consumer prices index came at -1.0 percent on a monthly basis with the Yearly figure staying unchanged at a +0.2 percent. The downturn in January came mainly from a seasonal fall in manufactured product prices and from the drop in prices of services tourism-related.

In Germany, the ZEW survey was out this week with the current situation index plunging by 7.4 points to 52.3 against market expectations of 55.0, the lowest in 12 months and clearly a reflection of the European banks, global growth and China woes which have played their part this year. The expectations survey came slightly better, dropping 9.2 points to 1.0.

UK retail sales

This week, UK retail sales jumped the most in more than two years in January on the back of demand for clothing and computers. While expectations were for a increase of 0.7 percent, the figures came at 2.3 percent almost three times the pace of growth forecasted by economists. According to the report, growth was helped by post-Christmas price cutting as retailers looked to clear excess stock. On a yearly basis, retail sales rose 5.2 percent.

Asia

Chinese Markets, Calm for now

As China comes back from a week of holidays, markets were calmer following comments by the People's Bank of China's governor, saying he saw no basis for continued depreciation in the currency.

On the data side, exports fell 6.6 percent on a yearly basis in January following a 2.3 percent gain in December. Expectations were for a gain of 3.6 percent. It was the biggest fall in exports since the 8.9 percent drop in July 2015. In dollar terms, the drop was bigger, with exports dropping 11.2 percent on a yearly basis. Imports also dropped 18.8 percent in dollar terms from a 7.6 percent drop in January versus expectations of a drop of 3.6 percent.

Chinese January inflation numbers were also released this week. CPI figures were up by 0.5 percent on a monthly basis driven by a surge in food prices with non-food prices relatively stable. The yearly rate was up by 1.8 percent although slightly less than market expectations of +1.9 percent.

On a different front, after a record lending figure of 2.51 trillion Yuan in new loans in January 2016, the People Bank of China decided on Friday to boost the amount of reserves some banks must lock away as it moves to contain risks after a January surge in credit by smaller lenders. The targeted increase in the reserve requirement ratio will affect regional banks. The step taken by the bank to increase the reserve ratio is aimed at curbing financial-system risks and doesn't necessarily amount to monetary tightening by the PBOC.

Bank of Japan under pressure

This week, figures showed the Japanese economy shrank at a rate of 1.4 percent in fourth quarter down from a 1.3 percent advance in the third quarter and worse than expectations for a 0.8 percent contraction. Moreover, industrial production fell more than expected by 1.7 percent in January, compared to the 1.4 percent fall originally released by Japan's economy ministry. On a yearly basis, it fell 1.9 percent against expectations of 1.6 percent drop. The figures are likely to put additional pressure on the BoJ to support the economy.

Kuwait

Kuwaiti dinar at 0.29885. The USD-KWD opened at 0.29885 yesterday morning.

US consumers signal signs of acceleration in January

WASHINGTON: US consumer prices were unchanged in January, as the rising costs of housing and health care were largely offset by cheaper oil.

But the annual pace of inflation showed signs of acceleration. The Labor Department said Friday that prices have risen 1.4 percent over the past 12 months, compared to a year ago when annual inflation was close to zero. Consumer prices climbed at the fastest annual rate since October 2014.

Core inflation, which excludes volatile energy and food costs, rose 0.3 percent in January. Over the past 12 months, this category closely watched by the Federal Reserve has climbed 2.2 percent.

The rising tempo for inflation follows a Fed decision in December to raise a key short-term interest rate for the first time in nearly a decade. But the turmoil in the stock and bond markets after the Fed rate hike suggested to many investors that inflation might barely budge amid a slowing global economy.

Jennifer Lee, a senior economist at BMO Capital Markets, said that January's report on consumer prices affirms the Fed's decision and raises the potential for further rate increases later this year.

"In a way, this justifies the December rate hike and keeps the Fed at the rate hike table," she said.

The combination of a strong dollar and cheaper oil has suppressed inflation across much of the economy. Gasoline prices at the pump have dropped 24 percent over the past year to a national average of $1.72 a gallon. At the same time, economic growth struggles worldwide have pushed up the value of the dollar, making foreign imports cheaper. But the rate of gasoline prices declining slowed in January, weakening its downward pull on inflation.

Expenses

Housing expenses - which account for a third of the consumer price index- have risen 3.2 percent from a year ago. Medical services are up 3.3 percent.

In January, prices also rose on a monthly basis for airfare, clothing and autos, while food expenses were flat. The Fed is closely following inflation, looking for assurance that it will accelerate to 2 percent in its preferred measure. That particular measure of personal consumption places less of an emphasis on housing. It posted a modest annual increase of 0.6 percent in December.

Fed officials have said they are increasingly unsure about the path of inflation after raising a key interest rate in December from a record low set in late 2008. The quarter-point increase pushed the federal funds rate from near zero to a range of 0.25 percent to 0.5 percent.

Top Fed policymakers have greater concerns about threats to U.S. economic growth coming from lower oil prices and slowing growth in China and other emerging markets, according to the minutes of their January meeting released Wednesday.

The officials said these global pressures made it harder to forecast growth and inflation, two key factors for deciding the pace of additional rate hikes.

"Most participants indicated that it was difficult to judge at this point whether the outlook for inflation and economic growth had changed materially, but they thought that uncertainty surrounding the outlook had increased as a result of recent financial and economic developments," the minutes said. — AP

MIAMI: Shoppers walk along Lincoln Road Mall, a pedestrian area featuring retail shops and restaurants in Miami Beach, Florida. — AP

Mohammed El Houssami

Ford Middle East appoints new sales director

DUBAI: Ford Middle East yesterday announced the appointment of Mohammed El Houssami as the new sales director, supporting Ford and Lincoln dealers across the GCC markets, Lebanon, Jordan, Iraq, Afghanistan and Yemen. A Lebanese national, Mohammed El Houssami has an extensive automotive experience over 15 years in all the GCC and Middle East markets, having held various positions in sales, aftersales and dealer network at General Motors Middle East.

Thierry Sabbagh, managing director, at Ford Middle East said: "We are pleased to welcome Mohammed to our organization and look forward to his valuable contribution to our team. With his knowledge and background, we are confident that he will lead our sales operations to greater heights and accelerate the delivery of Ford and Lincoln products across our dealership network in the region."

US Treasury urges Puerto Rico creditors to negotiate

WASHINGTON: The US Treasury weighed in on Puerto Rico's battle with creditors, urging bondholders to come to the table and work on debt restructuring.

Treasury Secretary Jacob Lew met with a group of bondholders and "explained that the crisis in Puerto Rico is severe and rapidly deteriorating," a statement said. He told them it was essential that the small US territory crumbling under $70 billion in debt needs Congress to pass laws establishing a process on orderly restructuring of the Caribbean island's debt.

But some creditors have fought such a move and so far Congress, requested by Puerto Rico and the White House to give it the right to enter bankruptcy protection, has not obliged. Lew warned that without action from Congress, a disorderly default on the debt was "a likely outcome." That, he said, "could trigger protracted and costly litigation, threaten the delivery of critical public services, (and) delay or lower the ultimate recovery by bondholders and other creditors," according to the Treasury statement.

"In order to resolve this crisis, Secretary Lew urged all stakeholders to come to the table." Lew "underscored that addressing the crisis will require shared sacrifice by all parties, including by creditors, and that without an orderly restructuring, there is no path out of insolvency and back to growth."

At the beginning of February, Puerto Rico proposed that holders of its $49.2 billion in tax-funded debt agree to cut the value to $26.5 billion in a voluntary restructuring. It also proposed that interest payments, which would only begin in 2018, be limited to 15 percent of current government revenues, down from the current draw of 36 percent, which Puerto Rico says is "unsustainable." To make the proposal work, however, it requires a very high level of participation from creditors. Puerto Rico has been locked in recession for a decade, and defaulted on some debt payments at the beginning of the year. Despite sweeping spending cuts and some policy reforms, it has not been able to stop the deterioration of its budget deficit. — AFP