Global central banks wait for UK referendum

NBK'S WEEKLY MONEY MARKET REPORT

KUWAIT: This week, foreign exchange markets were dictated by four central bank meetings and their responses to the imminent British referendum. Not surprisingly, the US, Japanese, Swiss and UK Central banks chose to leave policies unchanged fearing the June 23 referendum result would undo the impact of whatever policy was introduced. For the moment, status quo remains in markets.

During the last meeting, the FOMC sent strong signals that they were willing to act in June if data were consistent with growth. The dismal non-farm payrolls earlier in the month all but erased those sentiments. Combined with the Fed's dovish meeting Wednesday and a looming referendum, July rate hike remains uncertain. Furthermore, while the median forecast by the fed is still for two hikes, the number of dovish committee members only seeing one hike in 2016 has gone up from 1 to 6 out of 17, relative to March's last round of forecasting.

The latest data out of the US showed prices increasewere drivenby the biggest rebound in energy costs since May 2015. However, temporary energy-related spikes in prices are likely to reverse in light of soft growth in the US and abroad. Consumer spending on the other hand continues to be the highlight of US recovery in the second quarter. Retail sales increased 0.5% following a 1.3% jump in April registering the biggest gain in a year.

On the currency front, we saw slight USD weakness in cautious trade against its majors as we approached the central bank meetings at the end of the week. The Euro started the week at high of 1.1300 and made its way down to a low of 1.1131 on Thursday after the Fed meeting.However the EUR quickly regained some ground closing the week off at 1.1277 and the US dollar index closed at 94.206

The Sterling Pound saw similar movements as the EUR as cautious trade kept the cross in a tight range between 1.4230 and 1.4130 for most of the week until the Central Bank meeting on Thursday saw a dip to 1.4010 before quickly recovering as risk aversion abated when a known "In camp" British lawmaker was murdered and UK referendum campaigning was halted. The Bank of England referred to the outcome of the referendum as largest immediate risk facing UK financial markets, and possibly also global financial markets. The Sterling closed the week at 1.4358 against the USD.

The Japanese Yen saw the biggest movements this week as risk aversion dominated sentiments fueled by Brexit fears and dovish central banks. The USD/JPY has surged 15%so far this year reaching a low of 103.61as the Bank of Japan's decision to maintain its monetary policy and the Fed's inaction increased demand for the currency. However, the BoJ governor Kuroda mentioned that positive effects of the central bank's stimulus policies were gradually working through the economy and that the BoJ does not decide monetary policy based on currency moves. The JPY closed the week at 104.16.

Crude oil prices saw declines throughout the week until recovering slightly Friday as trading remains volatile before Britain's June 23 referendum on its EU membership. Gold on the other hand reached 23 month highs at 1,315.58 before dropping to 1,277.96 at the conclusion of the central bank meetings and as traders locked in profits. Brent Crude closed the week at 49.17 and Gold at $1,298.

FOMC: No Change In June

The Federal Open Market Committee voted unanimously to leave interest rates unchanged at the end of a two-day meeting on Wednesday in Washington. The Fed mentioned a slowing labor market and slow to pick up inflation as the reasons for their decision. However, the Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will strengthen. Inflation however, is expected to remain low in the near term before moving to its 2% goal over the medium term as energy prices improve. In regards to Britain's referendum, Fed Chair Janet Yellen mentioned it was also one of the uncertainties that we discussed and that factored into the decision.

Retail Sales Impress Again

Retail sales rose more than expected for the second month in a row in May. The Commerce Department showed that Retail sales increased by 0.5% from a 1.3% increase in April showing consumer spending is still boosting economic recovery in the second quarter. Nine of thirteen major categories showed increases in demand in May from the prior month, led by a 1.3% jump at non-store retailers, which include online merchants. Core Retail sales, which exclude automobile sales, increased by 0.4% in May, in line with forecasts.

Fuel Costs Increase Prices

Prices of finished goods and services sold by producers increased in May as higher fuel costs pushed up prices for the second month. The Labor Department showed that the producer-price index gained 0.4%, beating forecasts, after a 0.2% increase in April. However, when you exclude volatile components such as food, energy and trade services, prices declined for the first time in seven months at -0.1% showing inflation is still slow to pick up. The Core PPI, which only excludes food and energy, rose 0.3% following a 0.1% advance in the previous month.

CPI Remain Subdued

Consumer Prices were relatively flat for the month of May as the CPI increased 0.2% barely missing expectations by 0.1% and the Core CPI increased by 0.2% as in April. The increase come largely from higher gasoline prices and rising rents as the cost of many other staples such as groceries were flat or declined. While the cost of living in the US is steadily increasing, the consumer price index has risen just 1% in the past 12 months well below the level the Federal Reserve believes is healthy for the economy.

US Manufacturing Mixed

The Philadelphia Fed's Manufacturing Business Outlook Survey showed that general activity rebounded to 4.7 from -1.18 showing growth in May. However, while the survey's indicator for general activity returned to positive territory, indicators for new orders, shipments, and employment remained negative. Furthermore, indicators for future conditions fell from last month's readings but remained optimistic as firms continued to expect future growth.

Europe & UK
Bank of England on Brexit

The Bank of England's Monetary Committee voted unanimously to leave the Official Bank Rate unchanged at 0.5% and maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion. While also mentioning subdued inflation, the main driver for the decision comes from the looming referendum to leave the European Union. The Committee mentioned that while figures like consumer spending have been solid, potential referendum effects are making economic data releases more difficult to interpret, and that the Committee is being more cautious in drawing inferences from them than would normally be the case. While Growth in the United Kingdom's major trading partners is expected to continue at a modest pace over the next three years, a vote to leave the EU could sharply depreciate the GBP adversely affecting trade and productivity.

Analysts continue to blame much of the deterioration in global risk sentiment to increasing uncertainty ahead of the referendum. Furthermore, committee members said that leaving the EU would significantly alter the outlook for output and inflation, and therefore the appropriateness of monetary policy. However, the MPC will take whatever action is needed, following the outcome of the referendum, to ensure inflation returns to the target over the appropriate horizon.

Lagging Inflation Figures

Consumer prices in the UK showed an annual rise of 0.3%, below an expected 0.4%, unchanged from the last month's reading. Core CPI, which excludes volatile factors such as food, energy, alcohol, and tobacco, was unchanged at 1.2% versus an expected 1.3%. The Office for National Statistics said that rises in transport costs, restaurant, hotel bills and telecommunication services were the main upward contributors to change in the rate, but were offset by falls in the price of clothing, food, games, toys and hobbies.

Retail Sales Continue to Rise

Retail sales in the UK made another jump for the second month in a row as sales increased by 0.9% from a 1.3% increase in April. The figure was supported as prices of goods sold in the retail industry decreased by 2.8% year-on-year and good weather in May boosted clothing sales up 4.3%. The Office for National Statistics reported the May increase was 6% higher than the same month in 2015 as clothing and online sales were significantly better from the same period.

Unemployment at Record Low

The UK unemployment rate has fallen to 5%, the lowest since October 2005. The report showed the unemployment total fell to 1.67 million in the February-to-April period, down 20,000 from the previous quarter. Furthermore, with the introduction of new national minimum wage for workers above 25, average weekly earnings were 2% higher from last year. The Office of National Statistics also reported that the number of people out of work and claiming benefits fell by 400 in May from 6,400.

Swiss National Bank Prepared for Action

The Swiss National Bank has kept its negative interest rate policy unchanged with the deposit rate at -0.7%. The SNB said the CHF is still significantly overvalued and will therefore maintain their expansionary monetary policy to support economic activity. However, with the UK referendum drawing near, President Thomas Jordan said the SNB is ready to respond if needed including intervening in the currency markets introducing additional rate cuts.

Asia
Bank of Japan Waits for Referendum

The Bank of Japan left its policies unchanged as they awaited the UK's referendum on June 23rd. With Yen demand soaring on risk aversion, Governor Haruhiko Kuroda reiterated that the central bank won't hesitate to take action if needed and that they were in touch with the Bank of England "to coordinate closely with domestic and overseas authorities and carefully watch how the vote will affect international financial markets and the global economy, including Japan." He governor also reiterated his expectation for inflation to hit policy makers' 2% target as forecast in the fiscal year through March 2018, saying Japan's economy continues to expand gradually and citing solid plans for business investment. However, the BOJ's immediate outlook for inflation deteriorated mentioning year-on-year change in consumer prices is "likely to be slightly negative or about 0 percent for the time being."

Kuwait

Kuwaiti Dinar at 0.30105

The USD-KWD opened at 0.30105 on Sunday morning.

Qatar predicts at least 3 yrs of budget deficits

DUBAI: Qatar's government expects to run a budget deficit for at least three years as low natural gas and oil prices weigh on its revenues, the Ministry of Development

Planning and Statistics said on Saturday. In a long-term report on the Qatari economy, the ministry forecast a fiscal deficit of 7.8 percent of gross domestic product (GDP) this year, which would be the first deficit in 15 years and bigger than the deficit of 4.8 percent predicted for 2016 in the ministry's last report published in December.

The deficit is expected to total 7.9 percent of GDP next year before shrinking to 4.2 percent in 2018, the ministry said. Qatar, the world's biggest liquefied natural gas exporter, is one of the richest of the Gulf states but like its neighbours, it has been pushed into austerity measures this year in an effort to stabilise its finances. More austerity will be needed to achieve the ministry's projections, the report said.

"This estimate assumes that the government pares recurrent spending and caps growth of capital spending below previously programmed levels; that there are effective cost reductions in the hydrocarbon sector, which support transfers to the budget; and additional non-oil and gas revenues accrue to the budget."

Some of the projected improvement in the fiscal balance depends on a hoped-for rise in energy prices; the ministry assumed the average crude oil price would climb to $48.91 a barrel in 2018 from $45.49 in 2017 and $37.88 this year.

The ministry predicted Qatar's economy would grow 3.9 percent this year, down from a previous 4.3 percent forecast. It expects growth of 3.8 percent next year and 3.2 percent in 2018.

Liquidity in the Qatari banking system has tightened and money market rates have risen because of reduced inflows of gas and oil money. The ministry said the central bank might take several steps to reduce pressure on liquidity.

It could cut official interest rates, continue to suspend domestic Treasury bond issuance while resuming its suspension of Treasury bill issues, or adopt unconventional measures used by central banks in other countries such as direct purchases of commercial bonds and extraordinary loans to, or equity injections in, individual banks, the ministry said without specifying which steps were likely to be chosen.

In early 2014, the central bank announced a new loan-to-deposit requirement for banks of 100 percent by the end of 2017. The deposit side of the ratio includes only customer deposits and not long-term wholesale funds, which have recently been the primary source of funding for banks.

The banks are still negotiating with regulators to change the loan-to-deposit formula to include long-term wholesale funds, and the deadline for compliance may be postponed until the end of 2018 because of the liquidity issues at Qatari banks, the ministry said. — Reuters

GOIC: Investments worth $18.1 bn in manufacture of cement and lime in Gulf

INDUSTRIAL REPORT

DOHA: The Gulf Organization for Industrial Consulting (GOIC) announced that investments in the manufacture of cement, lime and plaster in the GCC reached $18.1 bn in 2015.

In its report published by the Gulf Industrial Knowledge Centre (GIKC), GOIC stated that the number of factories manufacturing cement, lime and plaster in the GCC jumped from 59 in 2011 to 69 in 2016, a compound annual growth rate (CAGR) of 4%. In addition to that, the report highlighted the surge of investments from $15435 million to $18102 million, a CAGR of 4.1% for the same period, while labour force expanded from 25304 to 26469 workers, a CAGR of 1.1%. Furthermore, data of GOIC's Industrial Information Unit revealed that the manufacture of cement, lime and plaster represented approximately 2.4% of the total factories, 47.3% of the total investments and 9.7% of the total labour force in the field of building materials manufacture in 2015.

The manufacture of cement, lime and plaster includes the manufacture of clinkers and hydraulic cements, including Portland, aluminous cement, slag cement and superphosphate cements, the manufacture of quicklime, slaked lime and hydraulic lime and the manufacture of plasters of calcined gypsum or calcined sulphate.

GOIC's GIKC publishes detailed industrial reports in GCC countries. They are classified in a user-friendly fashion on GIKC's website to facilitate access to the information. The reports tackle various areas including: food, medical supplies, plastics, textiles, leather, chemicals and petrochemicals, engineering, the environment, recycling and other important sectors. GIKC's website is available in Arabic and English to provide a source of comprehensive industrial information in the Gulf. It offers a unique set of GOIC's industrial studies, industrial investment opportunities and updated reports on several industrial sectors. You can visit www.knowledge. goic.org.qa for more reports to purchase or download for free. The development of the manufacture of cement, lime and plaster in GCC countries.

DATA	2011	2012	2013	2014	2015
Factories	59	62	62	67	69
Investments (million USD)	15,435	15,769	16,034	17,526	18,102
Labour Force	25,304	24,619	24,079	25,681	26,469

DATA	2012	2013	2014	2015	CAGR (5 years)
Growth rate of factories manufacturing cement, lime and plaster	5.1	0.0	8.1	3.0	4.0
Growth rate of investments in the manufacture of cement, lime and plaster	2.2	1.7	9.3	3.3	4.1
Growth rate of the labour force in field of cement, lime and plaster manufacture	-2.7	-2.2	6.7	3.1	1.1