The FOMC leaves rates unchanged

NBK WEEKLY REPORT

FOMC Statement

The FOMC left interest rates unchanged at 0.50% this week a highly anticipated decision due to soft US data as of late. Fed Chair, Janet Yellen, pointed out that the US economy is still on the growth track, as the pace of economic activity had picked up from the modest growth seen in the first half of 2016.

She also noted that further tightening of monetary policy would be needed to keep the economy from overheating and fueling high inflation. According to the statement, the main factor that will determine a hike in December is the labor markets strength. In summary, fourteen out of seventeen Fed officials think there will be a rate hike by the end of the year, although three do not see one at all, showing that the Fed is becoming increasingly split.

The next decision is scheduled for the second of November; however, markets do not expect a rate hike during this meeting. In the contrary, odds of a rate hike remain around the 60% level for December meeting. Separately, in its summary of economic projections, the Fed policymakers slashed the US growth forecast to 1.8% for 2016, from 2.0% estimated earlier in June.

Back in Europe, UK foreign minister Boris Johnson noted that he expects the Brexit process to begin in early 2017. He said "Although we are leaving the EU treaties, we do want to have the closest possible trading relationship and it's very much in their interests to achieve that."

On the currency front, the US Dollar index initial move was a spike higher in the beginning of the week. As we advanced in the week, the Dollar reversed and remained under pressure after The Fed decided to keep rates unchanged, in line with market expectations. While the Fed statement in the run-up to the meeting pointed to some division amongst the FOMC members as to the timing of the next rate move, somewhat softer data over the past few weeks solidified expectations for 'no action' in September.

The Euro opened the week at 1.1160 against the US Dollar and managed to reach a short lived high at 1.1257. The pair slowly weakened as speculations heightened over further stimulus measures by the ECB. The currency closed the week at 1.1225. The Sterling Pound opened the week at 1.2993 and reached a low of 1.2943 against USD. However, the currency had a short lived recovery after the FOMC meeting and closed the week at 1.2979

In Asia, the Japanese Yen came under selling pressure as the currency regained some strength after the BOJ kept rates and ETF purchases unchanged at its policy review meeting. The USD/JPY pair witnessed wild swings post the BOJ policy announcement, initially plunging to 101.08 levels in a knee-jerk reaction to the BOJ's rates on-hold decision. The currency pair quickly jumped back to reach the 102.60 level after the central bank noted that it will continue to expand monetary base until the inflation exceeds 2% price target and stays above the last in stable manner. The pair finally dropped again after FOMC meeting and managed to close the week at 101.00. The outperformance on the Yen continues to pressure Japanese equities as it takes its toll on exports.

On the commodities side, oil prices climbed after a private data in US showed a drop in inventories, while Japan reported higher oil imports. American Petroleum Institute (API) released overnight showed a 7.5 million barrel draw to 507.2 million barrels in US crude inventories, the third weekly inventory draw. Markets were expecting an increase of 3.4 million barrels. Also, gold futures climbed after the Federal Reserve left interest rates unchanged. The yellow metal spiked immediately following the conclusion of the Federal Open Market Committee meeting.

The FOMC decided to keep the federal funds rate at 0.5%. The Committee judged that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2% inflation.

During the press conference, Fed Chair Janet Yellen said that the move "does not reflect a lack of confidence in the economy." Instead, Yellen told reporters, the Fed sees "scope for some further improvement in the labor market." Among recent data disappointments, the drop in manufacturing and non-manufacturing ISM surveys in August is perhaps the most concerning, pointing to a potential slowdown in US growth momentum in the coming months.

Moreover, a number of consumption related data points, including retail sales, have also been weak as of late, posing questions on the ability of consumers to continue driving growth going forward. Moreover, a decision whether to hike rates or not this year has now become a question of the Fed's credibility. Investors have been frustrated with the Fed's confusing communication as of late and seemingly little concern about potential financial stability implications related to keeping rates low for so long.

Unemployment claims fell to 252K

In the week ending September 17, the advance figure for seasonally adjusted initial claims was 252,000, a decline of 8,000 from the prior week's unrevised level of 260,000. The 4-week moving average was 258,500, a decrease of 2,250 from the prior week's unrevised average of 260,750. This marks 81 consecutive weeks of initial claims below 300,000, the longest streak since 1970.

Building permits fell by 5.8%

US residential building permits declined 5.8% to a 1.14 million annualized rate, from the prior month's revised 1.21 million pace. The figures represent a pause after a spell of strong gains, and permits show that single-family home construction in the South may bounce back. A solid job market and mortgage rates near historically low levels continue to support housing, with a measure of homebuilder sentiment rising to an 11-month high. The number of privately owned new houses decreased by 5.8% in August and single family news houses fell by 13.1% their lowest level since May 2015 as bad weather disrupted building activity in the South after two strong months of gains. On the other hand, permits for single family homes surged 3.7% to a 737,000 units, which is the largest segment of the market. This shows that the housing economy is still solid.

US existing home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, dropped 0.9% to a seasonally adjusted annual rate of 5.33 million in August from a downwardly revised 5.38 million in July. The reading came in below market expectations of a rate of 5.45 million in August.

EUROPE & UK

EuroZone flash manufacturing PMI above expectations

The manufacturing sector PMI increased in September as businesses indicated that new orders and exports are strengthening. This comes on the back of initial weakness for Eurozone industry in the third quarter. While France manufacturing stagnated, German industry saw a marked improvement with notable increases in new orders from the US and Asian markets. This shows that more stable growth in the US and Asia could support weak Eurozone manufacturing production in the second half of the year. With many other trading partners still surrounded by an uncertain political and economic environment, it seems unlikely that a strong revival is in the making though. The drop in the service sector PMI was mainly because of a weakening outlook, while current order books remained stable in September. European Flash Services PMI came in at 52.1 below forecasts of 52.8 in September.

UK Public Sector net borrowing climbed less than expected

Britain's public sector borrowing increased less than expected in the last quarter, official figures revealed on Wednesday. According to the UK Office for National Statistics, UK Public Sector Net Borrowing climbed to 10.05 billion pounds on a seasonally adjusted basis, following the preceding quarter's 2.43 billion pound fall, which was revised down from the originally reported drop of 1.47 billion pounds. In the meantime, market analysts expected the country's public sector borrowing to rise to 10.30 billion pounds during the reported period. In a report, the Office for National Statistics stated that there were no clear signs of any impact of the British decision to leave the European Union on the public sector finances. Nevertheless, business growth slowed, according to the Bank of England's regular survey of business conditions released on the same day. Although the survey also showed that consumer spending and business sentiment rebounded slightly from the post-Brexit shock.

UK financial policy committee

The Bank of England released its FPC statement on Thursday, and the bank's message appeared directed at the EU as much as at domestic lenders. The BoE warned that it would not relax bank capital rules in the aftermath of the Brexit vote. In a clear reference to Brexit, the statement noted that the UK "faces a challenging period of uncertainty and adjustment". This stern message is consistent with the significant monetary moves that the BoE adopted in August, when it lowered interest rates for the first time in nine years and expanded its asset-purchase program. The BoE has strongly hinted that it is leaning towards another rate cut in November, even though third quarter data has been better than expected.

ASIA

Reserve Bank of Australia policy meeting minutes

The minutes of the September Reserve Bank of Australia meeting when interest rates were held unchanged at 1.5% have been released. Interest rates are likely to remain on hold in the foreseeable future, with the Reserve Bank of Australia flagging that growth remains in line with expectations, and the RBA remains unworried by the housing market. "Taking into account the recent data, and having eased monetary policy at its May and August meetings, the Board judged the current stance of monetary policy was consistent with sustainable growth in the Australian economy and achieving the inflation target over time," the Board said in its minutes. On the employment front, the RBA observes "The unemployment rate had been little changed at around 5.75% over 2016 and employment growth had been steady at around 2% in year-ended terms. Strong growth in part-time employment had been apparent in most states, while full-time employment had fallen in the mining-exposed states."

Japanese exports fell due to weak global demand

Japanese exports dropped for an 11 straight month due to weak global demand and an appreciation of the Japanese yen. August exports fell tremendously year to year by 9.6% versus a forecast of -4.8%. Exports to China, which is Japans largest trading partner, fell by 8.9% in the year to August, marking the sixth straight month of annual declines. Japans trade balance deficit is currently at 18.7 billion yen versus a surplus forecast of 202.3 billion yen, the first trade deficit in three months.

Bank of Japan kept interest rates unchanged

The BoJ left the interest rate at -0.10% and provided a more flexible asset purchasing program by implementing a yield control curve, which is designed to keep 10 year bond yields at 0%. This means it can lend to the public sector at 0 cost, which will lead to a higher money supply in the market and potentially a higher inflation. The previous method of printing money at an annual pace of 80 trillion yen, was forcing The BoJ to take up bonds at an unsustainable pace even as it failed to accelerate inflation to a 2% target.

National Bank of Kuwait
Financial Markets
Daily Report
At 02:00 PM Previous Day

NBK

Global Stock Indices

Index	Previous Close	Last Price	Change		Daily Performance %	Yearly Performance %
Dow Jones	18,268.50	18,240.49	-28.01	▼	-0.15	4.68
NASDAQ	5,306.85	5,292.41	-14.45	▼	-0.27	5.69
S&P 500	2,160.77	2,153.74	7.03	▼	0.33	5.44
Financial Times	6,999.96	7,044.39	44.43	▲	0.63	12.85
DAX	10,568.80	10,490.86	-77.94	▼	-0.74	-2.35
CAC 40	4,480.10	4,449.91	-30.19	▼	-0.67	-4.04
Swiss	8,170.44	8,124.59	-45.85	▼	-0.56	-7.86
Nikkei 225	16,899.10	16,860.09	-39.01	▼	-0.23	-11.42
Topix	1,353.93	1,350.61	-3.32	▼	-0.25	-12.71
Hang Seng	23,952.50	23,851.82	-100.68	▼	-0.42	8.84
Straits Times	2,885.22	2,875.24	-9.98	▼	-0.35	-0.26

MENA Stock Indices

Index	Previous Close	Last Price	Change		Daily Performance %	Yearly Performance %
Kuwait	5,320.22	5,311.43	-8.79	▼	-0.17	-5.54
Saudi Arabia	5,631.26	5,552.95	-78.31	▼	-1.39	-18.53
Dubai	3,354.63	3,348.14	-6.49	▼	-0.19	6.46
Abu Dhabi	4,389.60	4,362.17	-27.43	▼	-0.62	1.91
Bahrain	1,137.05	1,131.38	5.67	▼	0.50	6.48
Qatar	10,357.33	10,355.53	-1.80	▼	-0.02	-0.69
Oman	5,609.97	5,692.36	82.39	▲	1.47	3.77
Lebanon	1,162.94	1,163.61	0.67	▲	0.06	-0.56
Jordan	2,104.88	2,109.02	4.14	▲	0.20	-1.47
Egypt	8,368.52	8,450.41	81.89	▲	0.98	19.45
Morocco	10,123.10	10,209.05	85.95	▲	0.85	13.42
Tunisia	5,397.80	5,395.31	-2.49	▼	-0.05	7.05

Global Currencies Exchange Rate

Currency	Kuwaiti Dinar	Saudi Riyal	US Dollar	Euro	Sterling Pound	Swiss Franc	Japanese Yen	Australian Dollar
Kuwait Dinar		12.3088	3.2954	2.9408	2.6491	3.2190	339.10	4.3430
Saudi Riyal	0.08124		0.2677	0.2389	0.2152	0.2615	27.55	0.3528
US Dollar	0.30345	3.7351		0.8924	0.8039	0.9768	102.90	1.3179
Euro	0.34005	4.1856	1.1206		0.9010	1.0951	115.33	1.4780
Sterling Pound	0.37749	4.6465	1.2440	1.1099		1.2160	128.05	1.6392
Swiss Franc	0.31066	3.8238	1.0238	0.9132	0.8224		105.40	1.3492
Japanese Yen	0.00295	0.0363	0.0097	0.0087	0.0078	0.0095		0.0128
Australian Dollar	0.23026	2.8342	0.7588	0.6766	0.6101	0.7412	78.08	

MENA Currencies Exchange Rate

Currency	US Dollar	Kuwaiti Dollar	Saudi Riyal	Bahraini Dinar	Qatari Riyal	Omani Riyal	Emirates Dirham	Egyptian Pound
US Dollar		0.30345	3.7351	0.3748	3.6271	0.3832	3.6571	8.7700
Kuwaiti Dinar	3.2954		12.3088	1.2351	11.9529	1.2626	12.0517	28.9010
Saudi Riyal	0.2677	0.08124		0.1003	0.9711	0.1026	0.9791	2.3480
Bahraini Dinar	2.6681	0.80963	9.9656		9.6774	1.0223	9.7575	23.3991
Qatari Riyal	0.2757	0.08366	1.0298	0.1033		0.1056	1.0083	2.4179
Omani Riyal	2.6099	0.79199	9.7484	0.9782	9.4665		9.5448	22.8892
Emirates Dirham	0.2734	0.08298	1.0213	0.1025	0.9918	0.1048		2.3981
Egyptian Pound	0.1140	0.03460	0.4259	0.0427	0.4136	0.0437	0.4170	

Global Interest Rates

Currency	1-Week	1-Month	3-Month	6-Month	1-Year
Kuwaiti Dinar	0.00	1.19	1.44	1.63	1.94
US Dollar	0.45	0.52	0.87	1.26	1.58
Euro	-0.38	-0.37	-0.32	-0.21	-0.07
Sterling Pound	0.24	0.26	0.39	0.54	0.77
Swiss Franc	-0.79	-0.78	-0.73	-0.64	-0.48
Australian Dollar	1.56	1.63	1.60	1.59	1.57
Canadian Dollar	0.00	#VALUE!	#VALUE!	#VALUE!	#VALUE!

Global Bond Yields

Country	2-Year	5-Year	10-Year	30-Year
United States	0.83	1.26	1.72	2.45
Europe	-0.68	-0.50	0.01	0.63
United Kingdom	0.16	0.35	0.97	1.67

Commodities

Index	Previous Close	Last Price	Change		Daily Performance %	Yearly Performance %
Kuwait Oil	47.59	47.58	-0.01	▼	-0.02	39.59
Brent	49.90	49.88	-0.02	▼	-0.04	24.67
West Texas	49.81	49.71	-0.10	▼	-0.20	25.46
Gold	1256.48	1256.48	0.00	-	0.00	15.53
Silver	17.51	17.51	0.00	-	0.00	20.91

Source: National Bank of Kuwait

Solid hiring, better pay draw more Americans in job hunt

WASHINGTON: Drawn by steady hiring and slightly higher pay, more Americans began looking for work in September, a sign of renewed optimism about the US job market. The influx of job seekers sent the unemployment rate up slightly as more Americans were counted as unemployed. Taken as a whole, Friday's jobs report from the government painted a picture of a resilient economy that could keep the Federal Reserve on track to raise interest rates in December.

Employers added 156,000 jobs, fewer than the 167,000 in August and well below last year's average monthly gain of 230,000. Still, September's hiring pace, if sustained, would likely be more than enough to absorb new job seekers.

At the same time, the unemployment rate inched up to 5 percent from 4.9 percent as more than 400,000 people began looking for jobs and some didn't immediately find them. The rate has barely budged in the past year even though employers have added 2.4 million jobs. That's because many Americans have begun seeking work after having remained on the sidelines for much of the economic recovery. "The word has spread that there are jobs to be had, and more and more people are flocking to the job market," said Sung Won Sohn, an economist at California State University's Smith School of Business, said.

Conflicting views

The economy's durability, despite its sluggish growth, contrasts sharply with the tumultuous ups and downs of the presidential race, which is nearing its end. The two major presidential nominees have sketched sharply conflicting views of the economy's health and the best ways to accelerate its growth. Donald Trump focuses on the loss of manufacturing jobs, for which he blames badly negotiated trade agreements. The Republican nominee also points to what he calls excess regulation for stifling businesses and depressing hiring. He pledges to renegotiate or withdraw from the trade pacts and reduce regulation.

Hillary Clinton notes that 15 million jobs have been created since the economy bottomed in 2010. Still, she supports additional infrastructure spending to try to accelerate growth and hiring. And she wants to make college more affordable and community college free.

Friday's jobs report isn't likely to affect the course of the election. But it reflected improvement in two key areas: job-hunting and pay. For much of the recovery, the proportion of Americans who either had a job or were looking for one had declined as an aging population increased the pace of retirements. Many unemployed people also grew discouraged and stopped looking. Others stayed in school or stayed at home caring for relatives.

All that helped keep the unemployment rate down. People who are out of work aren't counted as unemployed unless they're actively searching for a job. Yet in the past year, the opposite has occurred: The jobless rate has remained mostly flat even as hiring has been solid. That's because the proportion of adults either working or looking for work has increased from a 40-year low of 62.4 percent in September 2015 to 62.9 percent last month.

That's still far below pre-recession levels. But the proportion has increased even while many people in the vast baby boom generation have been retiring. The workforce - people either with a job or looking for one - has grown 3 million in the past year, the biggest 12-month gain since 2000. Pay is also ticking up. In September, average hourly pay rose 6 cents to $25.79 and is now 2.6 percent higher than it was a year ago. That's stronger than the pace for most of the seven-year economic recovery, when pay was rising at only about 2 percent a year. — AP

MIAMI: In this Feb 9, 2016 file photo, a restaurant posts a sign indicating they are hiring. — AP