Britain's smaller banks now wallow in giants' shadow

UK's Big Five hold a commanding 63% share of retail banking market

LONDON: Computer meltdowns. Unexplained holes in accounting. Personnel management scandals. For smaller banks that want to compete with historic giants of global fame, UK finance has proven to be a minefield. When visiting their local branch or going online, Britons have struggled to break their habit of relying on a big bank with an established name.

Britain's Big Five-Barclays, HSBC, Lloyds, Royal Bank of Scotland and Santander UK-hold a commanding 63-percent share of the retail banking market, according to the Centre for Economics and Business Research.

This dominance remains despite years of hardship that followed the 2008 financial crisis, which saw interest rates fall to historic lows and consumers finding little point in keeping money parked in savings accounts. "The last 20 years have seen significant consolidation in the UK retail banking market," Stephen Jones, chief executive of the UK Finance banking trade association, wrote in a report.

"The structure of UK retail and commercial banking is relatively concentrated, with a notable absence of mid-tier competitors of scale."

Small but crowded field

Paradoxically, this market grip was cemented by the very same crisis that tarnished the big banks' reputations a decade ago. The Big Five, along with mortgage-specialist Nationwide, together have about £1.8 trillion ($2.3 trillion, 2.0-trillion-euros) in retail banking assets.

Their competitors have a combined total of £360 billion. While relatively small, the field of also-rans is crowded with names such as Metro Bank, TSB (a subsidiary of Spain's Banco Sabadell) and CYBG, which has just merged with Richard Branson's Virgin Money.

They each have millions of clients and are joined by "fintechs" such as Revolut and Monzo-two digital banks with big ambitions that want to expand beyond their young, city-dwelling consumer base.

Costly mistakes

The upstarts have little in common beyond a shared experience of suffering scandals that make newspaper headlines. The most recent involved Metro Bank, which has been losing its luster after a bright launch in 2010 by the US banker Vernon Hill, perhaps best known for calling his clients "fans". Hill has been busy trying to reassure his 1.7 million fans that Metro Bank is still standing, after raising funds, seeing a drop in profits, and coming under the scrutiny of regulators for classifying unsavory real estate loans as "low risk". Metro Bank's troubles came a few months after TSB suffered a comprehensive computer failure caused by a software update, which saw millions of clients lose access to the bank's site and app.

The breakdown forced TSB to part ways with its general manager and cost nearly $300 million-a hefty sum for a bank that broke away from the Lloyds Banking Group to try its own luck in 2013.

Digital banking wave

Britain's digital banking sector has not been spared either, as it rides the wave of changing consumer habits. Perhaps none experienced more damage than Revolut, which had to take a stern look at its personnel management after a whistleblower accused it of forcing job applicants to work for free.

Revolut's Russian-born boss and founder Nikolay Storonsky now wants to evolve to a more consumer-friendly business model. Beyond these individual problems, which companies in other fields know just as well, smaller banks have to overcome more regulator hurdles, which carry an especially high cost.

They must further be financially strong enough to convince investors to follow them-a task complicated by the gloom of the seemingly endless Brexit crisis.

A decade of low interest rates has even forced behemoths such as Goldman Sachs to venture past their established niches and into the digital space. Goldman's new Marcus online savings account offers higher interest rates than established competitors and is partnering with Apple to launch a credit card.

LONDON: Metro Bank is one of the several upstart British banks that have suffered scandals recently as they battle against the Big Five. —AFP

Marcus has attracted more than $35 billion in online consumer deposits in the past years, a result that Goldman views as a success.

Industry watchers see benefits in the added competition, which creates more options as brick-and-mortar branches disappear. But a report by parliament's Treasury committee cautions that branch closures are making the elderly feel cut off from their cash. —AFP

NBK Money Markets Report

Dollar selloff boosts Fed's rate cut expectations, US economy cools

KUWAIT: The resilient US dollar has suffered significantly over the past week. After hitting a 1-year high of 98.371 in May, the dollar index has since fallen back sharply towards the 96.450 level. The selloff delivers the first clear indication that the buck is commencing its downward trajectory in response to building Fed rate cut expectations. Up until recently, the US dollar had shown resiliency towards lower treasury yields.

The amplification of Fed rate cut expectations was prompted by dovish comments from St Louis Fed President Bullard who is a voter this year on the FOMC. Bullard said cutting rates "may be warranted soon," due to the elevated economic risk caused by global trade tensions as well as weak inflationary pressures. At the same time, Bullard has been worried about the yield on the 10-year bond, which has fallen below 3-month yield as well as below the federal funds rate itself. It seems that this inversion of the yield curve has become evident enough to reinforce the case for a rate cut. Historically when the yield curve has been this inverted, the Fed has always cut interest rates and delivered a series of rate cuts. Furthermore, the Fed Chairman dropped his typical reference to the Fed being "patient" in approaching any rate decision and mentioned instead that the central bank was watching the fallout from the trade war and would react "as appropriate." It looks like President Donald Trump may finally get the rate cut he has been asking for.

Year to date, the US 2-year treasury yield has fallen around 64 basis points to 1.86 percent and a 60 basis points drop for the 10-year to 2.08 percent. The sharp drop is not only attributed to increasing rate cut prospects, but also due to strong demand for safe haven US bonds. Interbank rates have also followed the downward trajectory. The 3-month Libor rate is near an 8-month low at 2.45 percent, way below the 2.79 percent seen at the start of the year. The Fed Funds Futures is currently pricing a 98 percent chance for a cut at the December meeting.

In the FX sphere, the dollar index was further pressured on Friday as the US economy only added 75,000 jobs, lower than the median 185,000 predicted by economists. As for wages, the annual rate dropped from 3.2 percent to 3.1 percent, while the unemployment rate remained near a 50-year low of 3.6 percent. The probability for three or four quarter-point Federal Reserve rate cuts this year jumped higher to 60 percent after the labor report was released, from 49 percent seen in the previous session, according to Bloomberg data on federal funds futures. As such, the dollar index was the worst performer in the currencies market losing nearly 1.06 percent of its value. The DXY opened the week at 97.590 and closed on Friday at 96.544.

In the equities market, the Dow Jones snapped a six-week losing streak and the S&P 500 has risen nearly 5.30 percent from its lows seen this month. US Federal Reserve officials have hinted the possibility of lower rates to come, while financial markets' tone indicates that a lower overnight rate in the future is certain. Looking at fundamentals, stock prices are inversely related to interest expenses. Hence, the prospect of lower rates to come has opened the green light for US stock markets. The Dow Jones gained 4.65 percent in the past five trading sessions.

US Manufacturing

As the global economy is evidently cooling down and trade tensions linger on, the US manufacturing sector is under pressure. The ISM manufacturing index fell to 52.1 in May from 52.8, the lowest reading since October 2016. An alternative indicator, the US Markit manufacturing PMI also declined by 2.1 points to 50.5, which was the worst reading since September of 2009. Both surveys have weakened noticeably since late last year. If trade tensions intensify and becomes a norm, the manufacturing sector's direction of travel could be tilted to the downside.

In regards to the service sector, the latest PMI data portrait an optimistic picture as the PMI reading rose to 56.9 in May, from 55.5. It looks like the service sector is doing the heavy lifting for the economy, which accounts to nearly 80 percent of US GDP. The overall economy has grown at a healthy pace in recent quarters, though underlying signs suggest growth is slowing. A weaker manufacturing sector, subdued inflation and the recent private sector just hiring 27,000 versus expectations of 185,000 are signals that the largest economy is losing momentum.

Euro appreciates

The ECB's governing council maintained its loose monetary policy last week as expected and pushed back the timing of its interest rate hike. Governing officials at the ECB pledged to keep rates at their current levels at least through the first half of 2020, instead of the end of this year as it had said only back in March. As for rate cuts, the head of the ECB stated that officials had addressed the Bank's readiness to act in case of "adverse contingency" and several governing members had raised the possibility of additional interest rate cuts or even restarting asset purchases. Current money market futures are pricing in a 45 percent chance of a 10 basis point cut in ECB rates by the end of 2019. In the meantime, the central bank will support the single economy through (TLTRO-III), which provides cheap financing to credit institutions and banks. The lending rate to the euro-zone banks has been established at 10bps above the average main refinancing rate (currently 0 percent), however if lending exceeds a certain benchmark, then 10bps above the marginal deposit rate (currently -0.4 percent) will be applied.

Looking at ECB predictions, growth was slightly revised higher to 1.2 percent for 2019, although for 2020 and 2021 GDP was downgraded to 1.4 percent. Prices are now seen rising just 1.3 percent this year, 1.4 percent next year and 1.6 percent in 2021. Economic data out of the euro-zone has been frail indeed with the manufacturing sector in negative territory, weak growth and a subdued inflation. The most recent inflationary readings disappointed to the down side after headline CPI dis-inflated from 1.7 percent to 1.2 percent and core price growth tumbled from 1.3 percent to 0.8 percent. Moreover, the global trade war displays no sign of scaling down, Italy is once again in conflict with the European Commission, German industry continues to post dismal figures, stock markets are continuously in the red and a hard Brexit may just be around the corner. Providing banks with cheap funding maybe the only solution at the moment, especially with rates already at 0 percent and no fiscal levers to pull, options are somewhat limited. With universal uncertainty already harming trade, major central banks like the ECB and the US FED seem to have given up plans to tighten policy.

As for the single currency, the EUR/USD pair soared to a 1.5-month high of 1.1308 after the ECB meeting. The euro appreciated as markets had anticipated an even more dovish motion from the ECB and for the central bank to acknowledge softness in economic growth. Money market futures are now pricing in a 45 percent chance of a 10 basis point euro-zone rate cut by the end of year versus 75 percent before the ECB statement. In addition, the dollar was softer across the board on lower treasury yields, paving the way for the single currency to appreciate. Over the past five trading session, the euro gained 1.44 percent over the USD and was the second best performing G10 currency in the FX market last week.

UK manufacturing

Britain's manufacturing segment contracted for the first time in almost three years as the index fell from 53.1 to 49.4. The shrinkage in the manufacturing sector was attributed to diminishing Brexit related stockpiling, weaker global demand and most importantly the Brexit conundrum. Several firms surveyed in this reading conveyed that some clients had diverted supply chains away from the UK as a result of an uncertain Brexit outcome. The boost from stockpiling was expected to be temporary, while quarterly growth is expected to slow to 0.2 percent in the second quarter, the Bank of England said in its latest inflation report.

As for the services sector, the PMI data improved to 51 from April's 50.4. In spite of the uptick in services activity in May, the average for the sector so far in 2019 is 50.3, down from the 2018 average of 53, elevating fears for the health of a sector that accounts for about 80 percent of UK economic output. The dominant service segment is still suffering a potent cocktail of depressed demand and uncertainty. A sharp depreciation in the Sterling pound since the referendum is increasing transport and input costs, while staff wages are increasing. As a result, service companies are under immense pressure. The progress in the sector's activity in May was counterbalanced by worsening manufacturing and construction PMI indices, which both dropped below the 50 mark indicating a contractionary environment. Overall, a slowdown in the global economy and worldwide trade tensions escalating combined with Brexit uncertainties increases the probability that the UK manufacturing sector could remain in contraction territory. As such, a rate hike from the central bank seems farfetched at the moment.

In regards to the Sterling pound, the GBP incurred its first weekly gain in five weeks against the USD. The positive momentum is attributed to dollar weakness rather than markets feeling more confident that Britain can avoid a no-deal Brexit. The pound gained 0.77 percent versus the USD last week. The CHF also took advantage of the dollar's weakness and found further support due to its risk aversion demand. The USD/CHF pair

ended the weekly session at 0.9876, a 1.20 percent loss for the dollar in weekly terms.

Aussie perseveres despite rate cut

The Australian dollar was barley impacted by the RBA's decision to cut its cash rate by 0.25 percent to 1.25 percent, which is the first policy rate move in nearly three years. Markets have been expecting the loosening of monetary conditions as the overnight indexed swap (OIS) was 102 percent priced for a 0.25 percent cash rate cut just before the announcement. Furthermore, in the Bloomberg survey, 36 of 38 economists had expected a cut. Thus, the perseverance of the Aussie dollar was partly due to an already priced in scenario and a weaker dollar across the board. The AUD/USD rose to a high of 0.7004 after the rate cut decision. It is still all about the labor market the RBA noted; the RBA cut its cash rate to upkeep employment growth and provide greater confidence that price growth will be consistent with the 2-3 percent target objective. In addition, the RBA expressed concern that recent inflationary results have been lower than projected, however they still expect inflation to pick up. Underlying inflation is forecasted at 1.75 percent in 2019 and 2.00 percent for 2020. The Australian rate market is also predicting a further rate cut this year to 1 percent during the second half of this year. Hence, with more room for the Bank to ease monetary policy amidst increasing downside risks stemming from trade disputes; recent modest Aussie gains are built on shaky foundations. Looking at the preferred safe haven currency, the yen has soared tremendously in response to the latest re-intensification in trade tensions between the US, China and Mexico. Therefore mounting downside risks to the global growth outlook have encouraged a pick-up in safe haven demand for the yen. During May the yen strengthened against the US dollar from 111.37 to 108.68. The USD/JPY depreciated to a five month low of 107.80 last week.

Commodities

In the commodities complex, gold prices soared to $1,348.08 last week, the highest level in 14 months. Declining US interest costs has made the yellow metal more attractive as the opportunity loss of holding it has diminished. Ever-growing expectations for a US rate cut and concerns that the trade war rhetoric could hit global growth boosted demand for the safe haven metal. On a weekly basis, the price of gold surged 2.52 percent.

Kuwait

Kuwaiti dinar at 0.30300

The USD/KWD opened at 0.30300 yesterday morning.

EXCHANGE RATES

Al-Muzaini Exchange Co.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.750
Euro	348.370
Sterling Pound	391.170
Canadian dollar	231.670
Turkish lira	53.920
Swiss Franc	312.300
US Dollar Buying	296.550
ASIAN COUNTRIES	
Japanese Yen	2.816
Indian Rupees	4.390
Pakistani Rupees	2.097
Srilankan Rupees	1.722
Nepali Rupees	2.743
Singapore Dollar	225.080
Hongkong Dollar	38.814
Bangladesh Taka	3.600
Philippine Peso	5.888
Thai Baht	9.744
Malaysian ringgit	77.916
GCC COUNTRIES	
Saudi Riyal	81.294
Qatari Riyal	83.730
Omani Riyal	791.813
Bahraini Dinar	809.490
UAE Dirham	83.000
ARAB COUNTRIES	
Egyptian Pound - Cash	20.750
Egyptian Pound - Transfer	18.171
Yemen Riyal/for 1000	1.224
Tunisian Dinar	105.050
Jordanian Dinar	430.570
Lebanese Lira/for 1000	0.203
Syrian Lira	0.000
Morocco Dirham	32.170

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	304.290
Canadian Dollar	227.140
Sterling Pound	388.330
Euro	342.520
Swiss Frank	306.445
Bahrain Dinar	809.220
UAE Dirhams	83.250
Qatari Riyals	84.490
Saudi Riyals	82.040
Jordanian Dinar	430.470
Egyptian Pound	18.055
Sri Lankan Rupees	1.724
Indian Rupees	4.383
Pakistani Rupees	2.016
Bangladesh Taka	3.604
Philippines Pesso	5.807
Cyprus pound	18.105
Japanese Yen	3.780
Syrian Pound	1.590
Nepalese Rupees	2.741
Malaysian Ringgit	73.530
Chinese Yuan Renminbi	44.545
Thai Bhat	10.545
Turkish Lira	50.585
Singapore dollars	220.210

BAHRAIN EXCHANGE COMPANY WLL

CURRENCY	BUY	SELL
Europe		
British Pound	0.381006	0.394906
Czech Korune	0.005462	0.014762
Danish Krone	0.042117	0.047117
Euro	0. 337871	0.351571
Georgian Lari	0.131935	0.131935
Hungarian 0.001146	0.001336	
Norwegian Krone	0.031275	0.036475
Romanian Leu	0.065164	0.082014
Russian ruble	0.004694	0.004694
Slovakia	0.009088	0.019088
Swedish Krona	0.028385	0.033385
Swiss Franc	0.301915	0.312915
Australasia		
Australian Dollar	0.205022	0.217022
New Zealand Dollar	0.197008	0.206508
America		
Canadian Dollar	0.224105	0.233105
US Dollars	0.300550	0.305850
US Dollars Mint	0.301050	0.305850
Asia		
Bangladesh Taka	0.003004	0.003805
Chinese Yuan	0.042542	0.046042
Hong Kong Dollar	0.037004	0.039754
Indian Rupee	0.003732	0.004504
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002733	0.002913
Korean Won	0.000247	0.000262
Malaysian Ringgit	0.069475	0.075475
Nepalese Rupee	0.002676	0.003016
Pakistan Rupee	0.001452	0.002222
Philippine Peso	0.005748	0.006048
Singapore Dollar	0.218043	0.228043
Sri Lankan Rupee	0.001350	0.001930
Taiwan	0.010152	0.010332
Thai Baht	0.009371	0.009921
Vietnamese Dong	0.00013	0.00013
Arab		
Bahraini Dinar	0.792194	0.808694
Egyptian Pound	0.018073	0.020673
Iranian Riyal	0.000084	0.000085
Iraqi Dinar	0.000209	0.000269
Jordanian Dinar	0.424078	0.433078
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000156	0.000256
Moroccan Dirhams	0.020455	0.044455
Omani Riyal	0.783682	0.789362
Qatar Riyal	0.079275	0.084215
Saudi Riyal	0.080020	0.081320
Syrian Pound	0.001289	0.001509
Tunisian Dinar	0.098390	0.106390
Turkish Lira	0.045774	0.055619
UAE Dirhams	0.081384	0.083084
Yemeni Riyal	0.000989	0.001069