NBK Money Markets Report

US dollar sell-off moderates; trade tensions back into focus

UK prepares list of businesses for July 4 reopening

KUWAIT: The US dollar's performance last week continued to be driven mainly by the day-to-day fluctuations in investor risk sentiment. However, the dollar sell-off that began mid-May seemed to have flattened out with a more balanced risk appetite from market participants given some renewed evidence of further COVID-19 spreading.

The US dollar softened at the start of the week alongside a modest improvement in investor risk sentiment as fears over the COVID-19 outbreak in Beijing had eased. The move was short-lived as trade policy uncertainty was thrust back into focus on comments from a White House advisor. In an interview, the advisor implied that the phase one China trade deal was "over." However, President Trump moved quickly to debunk the statement by tweeting that

Oil and gold prices remain supported

"the China trade deal is fully intact. At the same time, it was reported that the US is weighing up imposing new tariffs on $3.1 billion of imports from the EU including products like olives, alcohol and trucks while also increasing existing tariff rates on other products like aircrafts, cheese and yoghurt. The move from the Trump administration is a continuation of the EU's "punishment" for providing illegal subsidies to Airbus. The tariffs are expected to come into effect in September if the US decides to go ahead. At which point, the WTO is also expected to determine if the EU can legally impose tariffs on $11.2 billion of US imports in retaliation for similar illegal subsidies provided to US's Boeing. Renewed trade tensions threaten to undermine the economic recovery and the reaction seen highlighted the FX market's continued sensitivity to trade policy uncertainty.

Partially supported by fresh trade uncertainty, the US dollar moved higher towards the end of the week as COVID fears in the US were rekindled. The spread of the virus continued in multiple states across the country while others such as New York and New Jersey imposed 14-day quarantines for incoming travelers from eight states. If one message can be seen in last week's volatile FX activity, it is a more challenging environment for risk assets which may see the dollar's sell-off moderate. Indeed, most global stocks were lower while the move towards treasuries was evident. Going forward however, the US dollar's performance will continue to be driven by fluctuations in risk-off/risk-on sentiment until the COVID shock fades and there is more clarity over the outlook for the global economy.

Economic data

US data released last week continues to project a slow recovery in the world's largest economy. The number of Americans filing claims for unemployment benefits fell moderately as a second wave of layoffs partially offset hiring by businesses reopening. Furthermore, while orders for key capital goods rebounded in May, the increase recouped only a fraction of the prior declines. The recovery expected from reopening regional economies is currently being hampered by the labor market. While the figures seem to be improving, high unemployment is undercutting demand slowing the process. Economists expect GDP could shrink at as much as an annualized 46 percent in the second quarter.

ECB minutes

The ECB was under close monitoring last week as market participants carefully went through the minutes of the Central Bank's last meeting. First, there was the increase of the new Pandemic Emergency Purchase Program stimulus and second, a response to the German constitutional court controversy from May.

The minutes suggested that an increase in stimulus was warranted by two main factors. One, the medium-term outlook for price stability was threatened by the fallout from the coronavirus crisis. New projections see 0.3 percent and 0.6 percent downward revisions in the 2022 headline and core inflation rates respectively. And

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1183	1.1348	1.1167	1.1217	1.1050	1.1420	1.1240
GBP	1.2355	1.2542	1.2312	1.2333	1.2120	1.2600	1.2342
JPY	106.89	107.45	106.06	107.21	106.00	108.50	107.07
CHF	0.9517	0.9528	0.9418	0.9479	0.9375	0.9640	0.9453

two, financial conditions for the euro area as a whole were significantly tighter compared with the period before the pandemic, whereas the growth and inflation outlook called for looser financial conditions.

In May, the German constitutional court ruled that the ECB overstepped its mandate with over two trillion euros of government bond purchases and ordered the German federal bank—The Bundesbank should stop participating. In response, the minutes showed that ECB council members debated the effectiveness of their monetary policy. In the end, the ECB said there was "broad agreement" that the "negative side effects had been clearly outweighed by the positive effects of asset purchases on the economy in the pursuit of price stability".

To further ease and resolve the standoff with Germany's court, the ECB agreed to give unpublished documents underpinning its policy decisions to Bundesbank chief Jens Weidmann. Weidmann can then present them to the German parliament and government, as demanded by the court ruling. Most sources, expect that this would be sufficient enough for the Bundesbank to defend the ECB's policy in court. Still, the ECB revealed contingency plans should the court rule against its favor. In this worst-case scenario, the ECB would launch an unprecedented legal action against the German central bank, its biggest shareholder, to bring it back into the program.

UK eases restrictions

The British pound was relatively stable last week in comparison to its counterparts supported by euro weakness and further easing of COVID restrictions. UK Prime Minister Boris Johnson revealed a list of eighteen businesses and venues including restaurants, bars, and places of worship that can reopen from July 4. Also, people will be able to meet and gather with friends and family more easily outdoors. However, fears of a second wave of infections and Brexit uncertainties kept the pound in check.

EU Brexit Michel Barnier negotiator voiced his frustration with the UK saying London needs to give "clear signals" that it is ready to work towards a resolution. "I believe that the deal is still possible," he said, but "Our problem is not related to timing, but to substance, in particular that the UK keeps backtracking on its commitments in the political declaration." While it is reassuring that the EU believes a deal can be made, the possibility of a failure still weighs heavily on the pound.

Oil & gold prices

Oil prices inched lower at the end of the week but remained supported above the $40 level as signs of fuel demand recovery was kept in check by a rising number of new coronavirus cases in the US and China. Analysts said satellite data showing a strong pick-up in traffic in China, Europe and across the United States pointed to an improvement in fuel demand. However, the prospect of increased US crude production also kept a lid on gains Friday. The recovery in oil prices makes some shale oil wells profitable again with larger producers reopening, increasing supply.

Gold prices hit a fresh eight year high last week heading for a third weekly gain on worries about rising coronavirus infections worldwide. Low interest rates and fresh money from stimulus measures are currently benefiting gold, which is viewed as a hedge against inflation and currency devaluation.

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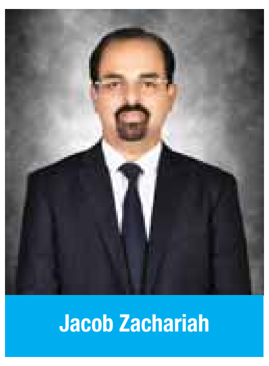
The USDKWD closed last week at 0.30770.

Smart action to overcome COVID impact


Jacob Zachariah

KUWAIT: To know more about COVID-19 impact on the IT and financial market and action to overcome the situation, we spoke with the industry expert Jacob Zachariah Karuvelil. An MBA holder from the University of Liverpool, UK, Jacob is a visionary business leader who brings over 3 decades of experience in the fields of IT, Banking, Finance, Operations, Organization Development, Compliance and Standards, Legal and Core Banking System end-to-end services to clientele. Jacob is currently the Partner of Testhouse, an organization that is the global leader in pure-play Quality Assurance and DevOps services.

Jacob enlightens us that, like any other sector the impact on the financial and affiliated services industries is expected to be equally bad and restoration to the norm will require some serious planning and action by the industry leaders. Banking and financial management will never be the same. It is evident that based on how long we take to settle after this pandemic, the way people bank, the use of the latest technology for work and life, and the value of brands will inevitably change. Banks being one of the most integrated establishments to the general public will play a key role in the restitution of tomorrow.

Executive management focus: McKinsey in a report has indicated the relevance of risk and capital management-credit-loss to be key differentiators in managing performance post-COVID-19. It becomes quintessential that processes are reviewed and revamped while ensuring that the organizations' IT function is well aligned with the business goals. The need to be Agile has been proven to be a significant virtue operating under the current crisis conditions and Executive Management should imbibe these principles into their core values and how they for evolve into a more effective and efficient organization.

Branchless banking

Banks of today should look to transform the way they engage their customers with the bank. Just as we have seen how the usage of the cheque for financial transactions is almost on the verge of becoming obsolete, the banking sector should be prepared for the evolving nature of way transactions will be carried out in the Post COVID-19 era. Customers would be driven to interact with tech kiosks for most transactions, reserving real person interaction for indulging unique requirements that cannot be managed otherwise. More of Interactive teller machines (ITMs) will be the norm, enabling users to directly deposit and withdraw funds, or inquire balances, and going one step further, this can include video screens so that in case customers would need further assistance they can use it to speak with human tellers. ATM innovations are already available globally for example, biometric authentication is already used in several countries, and iris recognition is in place at ATMs in middle-east. These technologies can further help ensure better security by protecting against ATM hacks.

Contactless payment options are rapidly being adopted across most banks where cards have been the norm for quite some time. Technologies that use radio-frequency identification (RFID) or near field communication (NFC) allow smartphones and other mobile devices to be used for payments. Mobile wallets are very common now; these applications emphasize convenience allowing their users to make purchases with their smartphones – without ever having to take out their physical credit card. These new options would be the new standard; typical Branches and ATM are a dying mode of banking. At the same time, this can also be considered as an opportunity to transform regular branches into a network of highly connected smaller, digitally enabled, multi-format units that offer an engaging personalized experience that supplements the customer's digital interaction with the bank.

Products innovation

Innovation will be the keyword - banks need to innovate and come up with an alternative and revolutionary measures and products that could provide customers' newer ways to manage, save, and even source income. This will sway existing customers to engage more and attract new ones. As per 'Business Insider Intelligence', mobile banking is flourishing at five times the rate of online banking. Successful mobile banking options that new banks are providing also include money management features. Savings and financial wellness scoring tools, are seen to be attracting millennials and is essential with new-age mobile banking

Replace legacy systems and outdated IT technology: Software providers and banks using outdated IT technology and product will be out from the market shortly. So, the priority should be to have an advanced product with the latest technology. The growth of mobile and digital transformation in the banking system is already explosive. Some of the new technologies such as blockchain, machine learning, and cloud computing will enable banks to improve numerous facets of banking and automate their operation. Artificial intelligence solutions, such as Chabot's, often assist customers in simple tasks such as providing customer support (now 24x7) and for making payments.

Omni-channels

Almost all banks were already talking about digital transformation, most had initiated it and many have implemented it but the time has now become inevitable that if one isn't ready they won't survive anymore. Banks management should provide top priority to transform the operations to cater to the digital world and being customer-centered, and that means offering seamless Omni-channel experiences. Banks should use customer journey mapping tools to engage with customers beyond traditional financial channels. Understanding mobile banking or digital banking usage of customers will help guide on how to make the best use of existing digital channels. Banks can then use re-targeting options to reach out to customers who have not made any transactions. The successful banks and financial institutions would proactively update their customers much before they feel the need to reach out for help, especially in times of crisis.

Better usage of resources and reduction of overhead: As per the latest edition of the "Global Economic Prospect report", the current recession is said to be the first such for over 100 years that has been spiraling into an epidemic.

Importance of work from home

While the impact of COVID 19 has touched all facet of our lives globally, it also has revealed the advantages which a WFH solution can provide. Owing to adherence to best service practices, the transition to WFH has been particularly smooth for the IT industry and banking sectors which have continued to provide the same level of service without having a significant impact on productivity. Collaboration tools like Zoom, MS Teams, WebEx have greatly helped to promote teamwork and discussion even though physically we may be miles apart. This indicates that organizations and business leaders need to seriously evaluate the pros and cons of establishing the WFH as a permanent strategy even after the impact of COVID-19 diminishes.

CBK's Najma Account prizes

KUWAIT: Najma account prizes include a weekly KD 5000 award, a monthly KD 20,000 award, a biannual KD 500,000 award and the world's largest annual and Guinness world record certified award of KD 1.5 million.

Commercial Bank of Kuwait (CBK) said that the Najma Account can be opened by depositing a minimum of KD 100 but clarified that the account balance must be at least KD 500 in order to enter all draws and that each KD 25 provides an entry chance in the draw in addition to other benefits such as ATM card and credit cards and other banking services.

NEW YORK: Chesapeake Energy Corp filed for Chapter 11 on Sunday, becoming the largest US oil and gas producer to seek bankruptcy protection in recent years – Reuters

Shale pioneer Chesapeake files for bankruptcy

NEW YORK: Chesapeake Energy Corp filed for Chapter 11 on Sunday, becoming the largest US oil and gas producer to seek bankruptcy protection in recent years as it bowed to heavy debts and the impact of the coronavirus outbreak on energy markets.

The filing marks an end of an era for the Oklahoma City-based shale pioneer, and comes after months of negotiations with creditors. Reuters first reported in March the company had retained debt advisers. Chesapeake was co-founded by Aubrey McClendon, an early and high profile advocate of shale drilling who died in 2016 in a fiery one-car crash in Oklahoma while facing a federal probe into bid rigging. Over more than two decades, McClendon built Chesapeake from a small wildcatter to a top US producer of natural gas. It remains the sixth-largest producer by volume.

Current CEO Doug Lawler, who inherited a company saddled with about $13 billion in debt in 2013, managed to chip at the debt pile with spending cuts and asset sales, but this year's historic oil price rout left Chesapeake without the ability to refinance that debt."Despite having removed over $20 billion of leverage and financial commitments, we believe this restructuring is necessary for the long-term success and value creation of the business," Lawler said in a statement announcing the filing.—Reuters

HANOI: Vietnam's Prime Minister Nguyen Xuan Phuc addresses regional leaders during the Association of Southeast Asian Nations (ASEAN) Summit, held online due to the COVID-19 coronavirus pandemic, in Hanoi.—AFP

Vietnam warns of economic calamity at ASEAN summit

HANOI: South East Asian leaders warned the virus pandemic had swept away years of economic gains and was hindering negotiations over the flashpoint South China Sea as they met online for a delayed summit.

Vietnam, the current chair of the Association of Southeast Asian Nations (ASEAN), had wanted to use the summit to inject momentum into talks on a sprawling China-backed trade pact. But the immediate focus for the 10-member bloc was the crippling cost of the coronavirus, which has ravaged the economies of tourism and export-reliant countries such as Thailand and Vietnam.

"It has swept away the successes of recent years... threatening the lives of millions of people," Vietnam's Prime Minister Nguyen Xuan Phuc said in a sobering opening address. He emphasized the "serious consequences" of the pandemic for economic development among ASEAN'S members. ASEAN General Secretary Lim Jock Hoi confirmed the bleak outlook, warning the region's economy is expected to contract for the first time in 22 years.

There is also increasing angst that the fallout from the virus has provided cover for new Chinese plays in the South China Sea, the resource-rich waterway Beijing claims most of but is also contested by Vietnam, the Philippines, Malaysia and Taiwan.

In a draft statement seen by AFP, ASEAN leaders noted concerns over "land reclamations, recent developments and serious incidents" in the South China Sea.

Philippines President Rodrigo Duterte—using strong language for a leader that is seen as having pivoted toward China from its traditional ally the United States—urged all parties "to refrain from escalating tensions and abide by responsibilities under international law".—AFP