

BANKING ON KNOWLEDGE

Uncertainty prevails on quantum of first rate cut by Fed in more than a decade

By Dr R Seetharaman



the 2019 global oil demand growth forecast, in light of slowing global economy, especially China. Copper was at \$6,055.25/tonne, aluminium was at \$1,823/tonne and nickel was at \$14,680/tonne by end of last week. Nickel had surged by more than 38% YTD as stockpiles continue to diminish and the electric vehicle and lithium-ion battery

revolution picks up pace. It remains to be seen whether the price will continue rising or falter again.

Corn price was at \$4.35/bushel, wheat price was at \$5.02/bushel and soyabean was at \$9.01/bushel by end of last week respectively. The winter wheat harvests had pressured wheat prices. Corn futures fell on forecasts of cooler weather after gains the past two weeks culminated in a five-year high last week. Forecast rain poised to benefit Midwest crops sent grain and soybean lower. Cocoa was at \$2,467/tonne, coffee was at \$107.30/pound and sugar was at \$11.59/pound. Concerns of oversupply have brought down the prices of these commodities this year. The euro was at 1.1221 against dollar by end of last week and had weakened by more than 2% YTD. Euro is expected to weaken versus the US dollar as euro liquidity rises after October 2019. The main driver of this change in liquidity is the European Central Bank which is expected to increase monetary easing after October 2019. The British pound was at 1.2502 against dollar by end of last week and had weakened by close to 2%



YTD. The British pound has been grinding steadily lower since May when it became clear Prime Minister Theresa May's EU Brexit deal would not pass through parliament and her position had therefore become untenable. The prospect of a new prime minister who is open to leaving the EU without a deal has risen sharply as the Conservative Party looks set to anoint Boris Johnson as its next leader, and the country's prime minister. If the new prime minister strike a more constructive approach with Europe, Pound might be able to recover further. The yen was at 107.71 against the US dollar by end of last week and has strengthened by more than 2% YTD. The US dollar has gone back and forth during the week against the Japanese yen just below the ¥108 level, as the market continues to show a lot of indecision.

The Swiss franc was at 0.9819 against the US dollar. The Australian dollar was at 0.7042 against the US currency by end of last week. Both the currencies were flat YTD against the dollar. Most of the emerging economy currencies have strengthened this year against the dollar on account of fall in oil price, trade tensions, and hopes of rate cuts by Fed. The Indian rupee was at 68.8075 against the US dollar by end of last week. The South African rand was near 14 levels by end of last week. The Brazilian real was at 3.75 levels against the dollar by end of last week. The Chinese yuan was at 6.88 levels against the dollar by end of last week. The Russian rouble was at 63.0267 against the dollar by end of last week. Global headwinds, namely trade tensions, Brexit, geopolitical tensions in GCC and

the global economy slowdown contribute to the volatility in currency and commodity markets amidst Fed action.

The dollar index was at 97.151 by end of last week after positive comments from St Louis Fed J Bullard. It had surged by more than 1% YTD. Trade tensions and global growth concerns continue to cloud the US outlook while the lack of upside traction in inflation remains worrisome. Confronting this scenario, the greenback still looks underpinned by its safe have appeal, the status of 'global reserve currency'. Despite being on the dovish side of the FOMC governors, Bullard said a 25 bps interest rate cut at this month's meeting seems appropriate amidst ongoing economic conditions, deeming unnecessary a larger rate cut for the time being. The market has already priced in a 25 bps rate cut this month end, although a bigger rate cut still remains at the centre of the debate. Hence uncertainty prevails on the quantum of first rate cut by the Fed in more than a decade.

■ The author is Group CEO of Doha Bank.