Treasury Group
Weekly Money Market Report
30 July 2017

Dollar Drops over Uncertain Interest Rates Path

United States

The FOMC's Statement Leaves the USD Weak

The US dollar has fallen further in recent weeks as the Fed indicated it is more concerned about the outcome of inflation. The shift in focus to QE balance sheet run down also points to a slower and more uncertain path of Fed rate rises over the coming year. The Fed changed its language regarding its balance sheet to say the wind down would happen "relatively soon" rather than "this year" and that helped the market interpret the statement as a dovish one. The statement helped push US Treasury yields and the USD lower. Additionally, market probabilities of a rate hike in December dropped to 37% from 42% earlier last week.

On the political side, the Trump administration has been troubled by investigations into the president's campaign relations with Russia, and more recently, Trump's party failed to push through their healthcare agenda in the Senate. The US Senate voted down a repeal of the Affordable Care Act (Obamacare) and is now focusing on slimmed down version of the bill in the hopes that has a better chance of passing. This was the second failed attempt by Republicans to reform healthcare and sends more troubling signals about policymaking in the US. Despite the Congress and President being aligned in the Republican Party, internal divisions are making policymaking as challenging as during the years when President Obama dealt with a Republican Congress. The odds of the Trump administration being able to successfully introduce new economic reforms or major infrastructure spending packages to support growth next year look increasingly slim. These events continue to weigh down on the dollar, which is currently sitting on its lowest level since June of 2016.

On the equities front, the Dow Jones was back in record territory and other US equity indices were modestly higher as probabilities for an interest rate hike in December dropped following a dovish FOMC meeting. Moreover, rising oil prices and strong corporate earnings also helped pave the way for US equities.

On the currency front, the US dollar fell sharply last week after the Fed meeting. The dollar index opened the week at 93.839 and managed to reach a high of 94.285 before dropping to a low of 93.152 on Thursday. Moreover, the US dollar remains clouded by the approaching debt ceiling problem that is intertwined with budget and spending bills. However, consumer and business confidence remains elevated since the election, the most recent US economic indicators have improved, and the labor market continues to tighten. The index was supported by good economic figures and managed to close the week at 93.31.

The Euro opened the week at 1.1658 and managed to reach a high of 1.1776 after the Federal Reserve held interest rates steady. Moreover, the low expectations from the ECB to ease policy also supported the pair. The currency closed the week at 1.1748.

The Swiss franc fell against most of its counterparts, extending a selloff to reach the weakest level against the Euro since the Swiss National Bank abandoned its currency cap more than two years ago. Investors have been selling the Swiss franc against euro on the back of the monetary policy divergence between the respective central banks. While the European Central Bank is moving toward a tightening of policy, the SNB is sticking to its dovish stance. Furthermore, the robust European figures helped push the EURCHF pair higher. The USDCHF opened the week at 0.9448 and rallied to the high of 0.9726 during the week. The pair managed to close the week at 0.9686.

The Sterling Pound opened the week at 1.2983. The cable rallied to a high of 1.3157 after the Fed meeting on Wednesday. However, the pair lost that momentum as political uncertainty emerged between UK and Northern Ireland. Northern Irish politicians who are propping up British Prime Minister Theresa May's minority government reacted with fury on Friday to a report that Ireland wants the Irish Sea to be its border with Britain after Brexit. The border between the Irish Republic, a member of the European Union, and the British province of Northern Ireland will be the only land frontier between the United Kingdom and the European Union once Britain leaves the bloc in early 2019. The pair closed the week at 1.3133.

The Japanese Yen opened the week at 111.05 and reached a high of 112.18 against US dollar ahead of the Fed meeting. However, the Yen was supported on Friday after the Bank of Japan Summary of Opinions showed that additional monetary easing is not needed, the pair dropped to a low of 110.53. The currency closed the week at 110.65

In the commodities space, it was a robust week for oil prices as it gained upward momentum every day and rose by nearly 8% last week. The main boost in the price of oil was due to inventories declining globally and the world's largest oil exporter stated it would further reduce oil output in August by almost a million barrels a day. Data out of the US, Europe, Singapore and Japan point to overall inventory declining by 83 million barrels since March. Brent crude oil started the week at 47.59 and closed on Friday at 52.04.

FOMC Kept Rates Unchanged

The Federal Open Market Committee released its statement last Wednesday, in which it declared that interest rates will be kept on hold for the time being, which was widely expected by markets. The Fed also signaled that it will start shrinking its balance sheet relatively soon. Additionally, the Fed noted that inflation has been weak in recent months, saying that inflation on a 12-month basis is expected to remain below 2% in the near term, but should stabilize “around” the Committee’s 2.0% objective in the medium term. However, the Fed noted that the overall economy would continue to strengthen.

US Existing Home Sales Fell Below Forecasts

US home sales dropped more than expected in June as a shortage of properties amid strong demand pushed prices to a record high, keeping first time buyers on the sidelines. The housing market has experienced an acute shortage of homes for sale for about two years. The monthly figure of home sales came in slightly below expectations at 5.52M, versus the expected 5.59M. Compared to last year, the median house price rose to an all-time high of $263,800 in June. This marks the 64th straight month of year-on-year increases. Nevertheless, the National Association of Realtors said the increase in prices do not indicate a housing bubble, highlighting that the inflation-adjusted median price was below its peak in 2006.

US Consumer Confidence Climbed Above Market Expectations

US consumer confidence jumped in July to the second highest level in 16 years as consumers are less influenced by politics than businesses and took heart in the best labor market in a decade. The Conference Board said its consumer confidence index increased to 121.1 this month from 117.3 in June. The increase came above market expectations of 116.9. The high level of confidence in July was only exceeded by a 124.9 reading in March just as the Trump administration was getting started. The big reason is the creation of millions of jobs since 2010 that’s driven the unemployment rate down to as low as 4.3%. That’s the lowest level since the turn of the century.

US Durable Goods Orders Improved

The US economy is experiencing steady but slower growth in business investment as orders for capital equipment eased last month following a May increase that was bigger than previously reported. Orders for long-lasting US factory goods posted the biggest gain in nearly three years in June. The rise is mainly attributed to a 131.2% leap in orders for civilian aircraft, which is known to be volatile. In details, durable goods orders climbed to 6.5% in June from -0.8% in the prior month, above market expectations of 3.9%. However, spending on durable goods accounts for a small part of American economic output

Mixed US Data

Real Gross Domestic Product increased at an annual rate of 2.6% in the second quarter of 2017 above 1.2% growth recorded in the prior quarter. Pickup in consumer and business equipment spending powered the economic rebound in the second quarter, signaling the eight-year expansion is on track to be sustained. On the other hand, the employment cost index came below market expectations. The index came at 0.5% q/q, less than the 0.6% expected and worse than the previous quarter rise of 0.8%, which now seems to have fueled concerns of slowing inflationary pressures.

Europe & UK

Euro Zone Flash Manufacturing PMI Came Below Expectations

Euro zone manufacturing figures released on Monday were mostly below market expectations. They indicated the slowest rate of expansion since January. The Flash Eurozone PMI Composite Output Index fell to 55.8 in July from 56.3 in the previous month. Eurozone flash PMI figures signaled that "the recent growth spurt lost momentum for a second straight month, but still remained impressive," said Chris Williamson of IHS Markit. He added: "The slowing pace of economic growth signaled by the surveys and the accompanying easing of price pressures adds to the belief that ECB policymakers will be in no rush to taper policy, and will leave all options open until the central bank sees a clearer picture of the sustainability of the upturn."

German Ifo Business Climate Unexpectedly Increased

German business confidence surprisingly climbed in July, hitting the third record high in three months as Europe's largest economy powered ahead and optimism increased across industries. The Munich-based Ifo economic institute said its business climate index, based on a monthly survey of some 7,000 firms, increased to 116.0 from 115.2 in June compared with market expectations for a value of 114.9. Ifo chief Clemens Fuest said that Companies' satisfaction with their current business situation reached its highest level since Germany's reunification. He also added that Germany's economy is powering ahead.

UK GDP Grew Thanks to Growth in the Services Sector

UK economy expanded by 0.3% in the second quarter after what government statisticians called a "notable slowdown" in the first half of the year. The growth in the second quarter followed a 0.2% growth in the first quarter and was in line with market expectations. Year on year, the GDP grew by 1.7% in second quarter mainly due to expansion in the services sector. Official data for gross domestic product showed that of the three big sectors of the economy, only the service sector grew at the end of June compared to March, posting growth of 0.5% over the quarter. The slowdown in the GDP reduced the expectations that the Bank of England would raise interest rates in the near future.

Asia

Japanese PMI Came Below Forecasts

Japan's Manufacturing Purchasing Managers Index (PMI) came out at 52.2, below the reading of 52.4 in June. The report, prepared by IHS Markit, indicated that slowdown was driven by stagnation in export orders, amid reports of weaker demand from South East Asia markets. Moreover, Flash Manufacturing Output Index dropped to 52.2 to 51.4. It was the weakest growth in 10 months. However, the sector continues to add jobs, with employment growth remaining amongst the best since the financial crisis, while optimism hit its highest level in five years of data collection.

Japan CPI Came In Line With Market Expectations

Japanese consumer prices rose at a steady pace last month, as overall consumer spending snapped a 15-month losing streak, adding further evidence of a rebounding economy. Core CPI rose at an annualized 0.4% in June, the Japanese Statistics Bureau reported Friday. The reading came in line with market expectations, marking the sixth straight monthly gain for the core index. Although inflation has been marginally positive since October last year, it still remains far below the Bank of Japan price stability target of 2.0%.

A separate report on Friday showed overall household spending surged 2.3% year-over-year in June, snapping 15 consecutive months of decline. Analysts had forecast household consumption to increase just 0.6%.Meanwhile, Japan's unemployment rate dropped to 2.8% from 3.1% in May%, the lowest reading since June 1994.

Australian Inflation Softer than Forecasted

Australian inflation figures were released on Wednesday, coming in below market expectations. The consumer price index increased 0.2% q/q against expectations of 0.4% by markets. On the monetary front, interest rates in Australia are currently at record lows, and are likely to remain there for a while. Reserve Bank of Australia Governor Philip Lowe defended the low interest rate policy, hinting that they may continue to be unchanged due to subdued wages and high household debt. Australia's wage growth stands at 1.9%, rising at a very slow pace, and unemployment is currently at 5.6%.

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Kuwait

Kuwaiti Dinar at 0.*30185*
The USDKWD opened at 0.30185 on Sunday morning.

Rates – 30 July, 2017

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1658	1.1611	1.1776	1.1748	1.1650	1.1950	1.1812
GBP	1.2983	1.2983	1.3157	1.3131	1.3050	1.3300	1.3185
JPY	111.05	110.53	112.18	110.65	108.90	111.60	110.25
CHF	0.9448	0.9443	0.9726	0.9686	0.9470	0.9860	0.9634