Treasury Group

Weekly Money Market Report

10 December 2017

Brexit negotiations change gears; Dollar holds on to weekly gains

United States

Last week in the United States, positive economic data indicated that the economy created more jobs than forecasted in November. Non-farm payrolls increased by 228K, compared to 200K expected by analysts. Gains in hiring are being partly attributed by the return to work of thousands of employees who had been temporarily dislocated by Hurricanes Harvey and Irma.

Meanwhile, data from the department of labor also pointed to a rebound in wages as average earnings rose 0.2% in November compared to a month earlier. This has elevated the annual increase in wages to 2.5%, up from 2.3% last month. In addition, the unemployment rate in the US economy remained at a 17-year low of 4.1%.

The data, which came at the end of the week, did little to change the upward direction of the US dollar at a time when it is being supported by an imminent interest rate hike this month as well as progress regarding tax reform. The dollar had consistently drifted higher throughout the week as speculation mounted that the US House and Senate will reconcile their tax bills before the end of the year.

In Europe, Brexit negotiations between the United Kingdom and the European Union have made “sufficient progress” as PM May and EU commission President Juncker both expressed optimism in an initial deal reached on Friday. The deal was made possible as a result of a compromise on both sides. However, while the EU stated that it has given ground, PM May conceded on all the main subjects, bringing to Brussels an offer on the financial settlement, an agreement on Europeans living in the U.K. and a solution to keep open the border that divides the island of Ireland after the split. This agreement will allow negotiations to transition into other topics, particularly trade negotiations and the nature of the post-Brexit future.

Despite the significance of such event, the FX market held an unusually muted response. Some analysts have claimed that the market was already long and was positioned for a deal despite the recent speed bumps in negotiation talks. Nevertheless, the accomplishment marks a major milestone that will aid in diminishing the uncertainty of the UK’s future outlook as it parts ways with the EU after 40 years.

The Bank of Canada kept interest rates unchanged on Wednesday. The bank took a cautious tone even as it said more rate hikes are likely in store amid diminishing slack in the labor market and signs of inflation pressures. In addition, the central bank provided few hints as to when the next rate hike will come as chances of hike in January declined to 35%. As a result, the Canadian dollar had its worst week in nearly 4 months as the dovish central bank statement coincided with strong US dollar prospects. While the USDCAD pair opened the week at a level of 1.2684, it closed 161 points higher at 1.2845.

With no major economic indicators released throughout the week with respect to the Euro, the single currency lost ground slowly but surely to the strength of the US dollar. While the EURUSD opened the week at 1.1880, it closed it lower at a level of 1.1765. Moreover, the Euro also lost ground to Sterling after an initial Brexit deal was struck. The EURGBP pair reached a near 6 month low of 0.8791 towards the end of the week.

A week of mixed economic indicators and speculation ahead of late Brexit negotiations managed to intensify Sterling volatility. After reaching a December low of 1.3318, the pound managed to close the week higher at a level of 1.3388 against the US dollar.

The Australian dollar managed to rally during the beginning of the week after data indicated that retail sales in the country bounced in October. However, weaker than expected economic data pressured the Aussie throughout the week causing it to close 1.17% lower at 0.7505.

Regarding commodities, gold marked its worst week since May as it reached a low of $1,243.71. Gold lost 2.7% of its market value this week as prospects of higher interest rates and progress regarding tax reform lifted the dollar. Meanwhile, the dollar had a similar, yet weaker, effect on oil prices as they dipped slightly towards the end of the week.

Europe

UK Construction PMI

In the UK, the construction PMI, a leading indicator of economic health, reached a 5-month high. The solid figure was driven mainly by the residential sector as commercial and civil engineering activity continued to decline. Tim Moore, Associate Director at IHS Markit, which compiles the report, commented on the report saying that “UK construction companies experienced a solid yet uneven improvement in business conditions during November. Once again, resilient house building growth helped to offset lower volumes of commercial work and civil engineering activity.” Moore also added that “business optimism across the construction sector remained relatively subdued, but picked up from the near five-year low seen in October”.

UK Services PMI

Additionally in the UK, reports showed that consumer prices face the sharpest increase in prices charged by services firms in almost a decade as a range of businesses from hotels to IT companies seek to protect profits against rising costs since the EU referendum. Chris Williamson, Economist at IHS which compiles the report , commented saying that “the big news is in relation to prices, with the PMI surveys pointing to the largest monthly increase in average prices charged for goods and services since August 2008; a time when oil prices soared just before the global financial crisis. Rising oil prices were again to blame in November, with firms also reporting the need to pass higher costs of a wide variety of other inputs on to customers as a result of the weak pound having driven up import prices. As such, the survey data suggest that inflationary pressures have yet to peak.”

Asia

Australia Economic Data

Solid economic data in Australia indicated that retail sales rose above expectations at 0.5% from the previous month, the strongest rise since May. Meanwhile, the Reserve Bank of Australia decided to hold rates as expected, at 1.5%. The central bank indicated that it is no rush to follow the US, Canada, and the UK in raising rates as it continued to cite the outlook for household consumption as a source of certainty. “Household incomes are growing slowly and debt levels are high” added RBA Governor Lowe.

Despite a solid start to the week, further economic data from Australia indicated that the economy grew at a pace that is slower than expected by analysts. The GDP figure, which came in at 0.6% q/q, also showed that household spending rose at the weakest pace since the 2008 financial crisis, reinforcing the likelihood of the central bank keeping interest rates on hold for longer. The AUDUSD pair dropped around 46 points immediately following the release of the data.

Furthermore, data out of Australia revealed that Australia’s trade surplus fell to its lowest level since December of 2016. The figure disappointed markets as it came in at $0.11B, whereas analysts were expecting $1.60B. The weakness in the trade balance surplus was also accompanied by exports falling 3 percent as imports rose by 2 percent.

Kuwait

Kuwaiti Dinar

The USDKWD opened at 0.30215 on Sunday morning.

Rates – 10th December, 2017

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1866	1.1728	1.1878	1.1764	1.1550	1.1960	1.1839
GBP	1.3474	1.3318	1.3538	1.3389	1.3190	1.3610	1.3435
JPY	112.73	111.98	113.58	113.48	111.40	115.50	112.88
CHF	0.9798	0.9793	0.9977	0.9928	0.9730	1.0130	0.9859