Treasury Group
Weekly Money Market Report
08 October 2017

US Dollar Brushes off Poor Employment Report

United States

US Dollar Higher Across the Board

The US dollar continued its rebound this week on the back of positive economic figures heading into the fourth quarter of 2017. The labor market proved to be resilient despite the damages caused by hurricanes Harvey and Irma. While the economy lost 33,000 jobs unexpectedly, a rebound is anticipated as the displaced Americans return to work. Furthermore, the unemployment rate fell to a new low of 4.2% and wages jumped 0.5% above expectations. Analysts believe a 3.0% annual wage growth is needed to reach the Fed's 2% inflation target. Wages now stand at 2.9% year on year enforcing market expectations for a Fed hike in December.

US equity markets and treasuries yields rallied in tandem this week as positive figures were released and multiple Fed members echoed Janet Yellen's bullish remarks stating inflation does not need to move any higher to warrant another rate hike. With that sentiment, and a labor market near full capacity, there is nothing holding the Fed back from an interest rate increase in December. The US 10 year benchmark yield reached a 5 month high of 2.40% on confidence before retreating slightly.

The US dollar opened the week at 93.222 climbing steadily higher before jumping on Thursday and Friday to a high of 94.255 after the jobs report was released. The index then closed the week lower at 93.919.

The Euro was subdued throughout the week with markets cautious after the regional government of Catalonia announced on Wednesday that they will declare independence from Spain on Monday, adding to tensions in the region. Furthermore, the ECB meeting minutes released Thursday was unexpectedly dovish suggested that the economy may still need substantial stimulus for a little longer period of time. The EUR/USD opened the week at 1.1816 and closed at 1.1736.

The British pound had the worst performing week in a year dropping to a monthly low amid growing concerns over Prime Minister Theresa May's control of the leadership and as the economy feels more of Brexit's negative effects. The latest Purchasing Manager's Indices indicated that rising inflation is increasing the cost burdens on businesses while Brexit uncertainties are delaying new projects and orders. The GBP opened the week at 1.3387 and dropped 2.4% to a close of 1.3063.

The Japanese yen traded sideways throughout the week despite an optimistic manufacturing report that showed business confidence at the highest in a decade. Furthermore, a Friday report showed wages rose in both nominal and inflation-adjusted real terms which may have helped off-put the US dollar employment report gains. The USD/JPY opened the week at 112.54 and closed 112.63.

In commodities, Russian President Vladimir Putin hinted at a deal between OPEC and rival oil producers to extend the production curb to the end of 2018. The current agreement to cut output by 1.8 million barrels a day is set to expire in March. The Russian energy minister said he had discussed this pact with fellow ministers from Venezuela, Qatar and Iran. Saudi Arabia's energy minister responded saying he was "flexible" about the pact. However, Oil futures plunged 3% on Friday, and were set to end Brent's longest multi-week rally in 16 months. Brent Crude was last 55.62 and West Texas Intermediate closed at 49.29.

US Manufacturing Surges

US manufacturing activity surged to a more than 13-year high in September amid strong gains in new orders and raw material prices. This pointed to underlying strength in the economy even as Hurricanes Harvey and Irma are expected to dent growth in the third quarter. The ISM said Harvey and Irma led to disruptions to the supply chains that resulted in factories taking longer to deliver goods and boosted raw material prices. A lengthening in suppliers' delivery time is normally associated with increased activity, which is a positive contribution to the ISM index. As a result, the ISM's manufacturing index rose to a six year high of 60.8. Disregarding the hurricanes' impact, the outlook for manufacturing remained bullish with 17 out of the 18 manufacturing industries reported growth last month.

US Labor Market Resilient

The US monthly employment report showed that the economy unexpectedly lost jobs in September while the unemployment rate ticked lower and wage inflation rose more than expected. Hurricanes Harvey and Irma undercut economic activity in the third quarter, delayed hiring and left displaced workers temporarily unemployed resulting with 33,000 less jobs last month. Combined with the rebuilding and clean-up crews, returning workers should lead to a recovery in the coming months.

The hurricanes however, did not have an effect on the unemployment rate, which fell to a sixteen year low of 4.2%. Furthermore, average hourly earnings rose again in September by 0.5% from 0.2% in August. That pushed the annual increase in wages to 2.9%, the largest gain since December of last year. Analysts believe an annual wage increase of 3.0% is needed to raise inflation to the Fed's 2% target.

Europe & UK

European Central Bank Meeting Minutes

In the European Central Bank's September meeting, the council believed economic improvement continued to be solid and broad based, with staff projections pointing to faster growth for 2017. The ongoing economic expansion also supported confidence that inflation would gradually head towards levels in line with the Governing Council's inflation aim. The projections however, also indicated a somewhat slower path for inflation due to the appreciation of the euro.

In regards to monetary policy, members generally agreed that the ECB's policy measures had contributed significantly to the ongoing economic expansion and that a sustained momentum in economic growth was still dependent on monetary accommodation. In the meantime, it was proposed to maintain the monetary policy stance and all elements unchanged including the extension of asset purchases beyond 2017 if needed.

The minutes finally showed members debating the possible amendments to the asset buying program by assessing the trade-offs between changing the scope or size of the program. Nonetheless, as the end of the intended horizon of the net asset purchases was approaching, members reiterated that a decision was warranted in their October meeting. This decision would be based on a thorough assessment of the outlook for inflation, the monetary policy stance and the financial conditions needed for a sustained return of inflation rates towards 2%.

UK Surveys Highlight Weaknesses

Manufacturing in the UK continued to expand at a solid rate during September with production and new orders both rising above long-run average rates. The pound sterling's depreciation was widely expected to benefit manufacturers as their goods become more competitively priced for foreign buyers. However, inflationary pressures have increased the cost of imported materials used in the production process to a six month high. As a result, Markit's Manufacturing PMI recorded a level slightly below expectations and the previous month at 55.9.

Services also expanded in September though only slightly and below 2017's average. Relatively subdued domestic demand acted as a drag on activity growth, with the latest rise in incoming new work the slowest for 13 months. Inflationary pressures again affected activity as operating costs rose at the fastest pace since April. Furthermore, Brexit related uncertainties affected service providers by subduing business-to-business sales and delaying decision making on large projects. As a result, overall new business volumes expanded at the slowest pace since August 2016.

The UK's construction industry actually contracted for the first time since the immediate aftermath of the Brexit vote as rising political uncertainty led to a sustained drop in new work. At a 48.1 PMI level, survey respondents attributed the drop in workloads to fragile confidence and subdued risk appetite among clients, especially in the commercial building sector. Civil engineering and new businesses saw a lack of new projects to replace completed contracts while commercial development projects had budget approval delays from clients due to political and economic uncertainty. The resulting fragile client confidence and reduced tender opportunities have dropped growth expectations to a four year low. Construction companies have now experienced their longest period of falling workloads since 2013.

Asia

Reserve Bank of Australia

The Reserve Bank of Australia has left the official cash rate on hold at its historic low of 1.5% for the 14th month in a row. RBA Governor Philip Lowe said that recent data is consistent with the Bank's expectation that growth in the Australian economy will gradually pick up over the coming year. He also said that there have been more consistent signs that non-mining business investment is picking up and that a "large pipeline of infrastructure investment" is also supporting the country's economic outlook. On the other hand, Lowe said slow growth in real wages and high levels of household debt are likely to constrain growth in household spending while the appreciating Australian dollar will weigh on the outlook for output and employment. Finally, policy makers said that low inflation is supporting the economy and that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth and achieving the inflation target over time.

Japan Manufacturers Optimistic

In Japan, the Tankan survey showed that activity at Japan's major manufacturers grew well beyond expectations in the third quarter to the highest level in a decade. The survey, prepared by the Bank of Japan, indicated that the country's economic recovery may be gathering steam thanks to robust global demand. The headline reading on business conditions at large Japanese manufacturers climbed to 22 in the September quarter from 17 in the three months ended June above forecasts of 18. Meanwhile, big firms expect to increase capital expenditure by 7.7% in the current fiscal year ending in March 2018.

Kuwait

Kuwaiti Dinar at 0.30225

The USDKWD opened at 0.30225 on Sunday morning.

Rates – 8th October, 2017

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1816	1.1667	1.1816	1.1733	1.1535	1.1835	1.1795
GBP	1.3387	1.3024	1.3402	1.3063	1.2865	1.3155	1.3105
JPY	112.54	112.31	113.43	112.63	111.65	114.50	112.15
CHF	0.9680	0.9678	0.9836	0.9779	0.9680	0.9965	0.9722