Treasury Group
Weekly Money Market Report
10 September 2017

Risk Aversion Continues to Dictate Financial Markets

United States

Dollar Continues to Drop Amid Risk Aversion & Fed Policy Uncertainties

The US dollar continued to be pressured in the second week of September as signs indicate monetary policy convergence from other Central Banks is on the horizon. The Bank of Canada unexpectedly raised their interest rates for the second time this year and left the door open to more hikes. The 25-basis-point increase to 1% followed a hike in July and puts Canada ahead of the curve in returning borrowing costs to more normal levels after they were slashed due to the 2007 financial crisis. While the European Central Bank is not expected to raise interest rates in the short term, expectations of winding down their asset-buying program are being priced in with the appreciation of the euro. With growth in the Eurozone being revitalized and the ECB running out of bonds to buy, markets are suggesting that this is the time to wind down the quantitative easing program. ECB President Mario Draghi confirmed to address the future of the QE program in their next October meeting saying “this autumn, we will decide on the calibration of our policy instruments beyond the end of the year.”

The second driver of the US dollar’s weakness continues to be the current risk adverse nature of the markets. North Korea seems unwavered by the United Nation’s efforts to curb its nuclear test program and has made new threats of attack on the United States. Combined with the aftermath of hurricane Harvey and the imminent hurricanes of Irma and Jose, markets are moving away heading towards the euro, Japanese yen and gold. The effects of hurricane Harvey on the economy began to materialize evident in the surge of US jobless claims last week. The US Labor Department revealed that tens of thousands of Texans displaced by Hurricane Harvey filed applications to collect benefits leading to the largest rise in claims in 5 years. The US dollar index opened the week at 92.57 and closed the week 1.5% lower at 91.489.

The euro was relatively quiet and remained at the 1.1900 levels until the ECB’s policy meeting on Thursday where the EUR/USD pair jumped to a two year high of 1.2090. Despite Draghi’s slightly dovish tone markets were encouraged by the better than expected growth the Eurozone has had this year. In its forecasts, the ECB revised growth for this year from 1.9% to 2.2% for 2017. The EUR/USD closed the week at 1.2033.

In the UK, the pound sterling also managed to benefit from weakness in the US dollar. While construction and services surveys were modest for the past month, manufacturing managed to rebound for the first time this year increasing 0.5% due to new car models being built. This helped the GBP/USD rise from 1.2958 at the beginning of the week to a close of 1.3197.

In Japan, the yen remained firm across the board on risk aversion. Even a lower than expected GDP growth reading wasn’t enough to reverse the USD/JPY pair’s course. Meanwhile, analysts still expect the economy to sustain a steady recovery as robust global demand supports exports. The USD/JPY opened the week at 109.38 and appreciated to a close of 107.83.

In commodities, oil prices managed to climb as the new hurricane threats in the Gulf of Mexico shut roughly a quarter of the US’s refinery capacity and more than a dozen petrochemical plants halted operations. Furthermore, ports were closed and key fuel pipelines were partially or completely shut. Brent crude was up 2.67% to 53.77 while West Texas climbed a similar 0.4% to 47.48. Looking at gold, the yellow metal held near its highest in more than a year on Friday on risk aversion and as weak economic data lowered expectations of a December interest rate rise in the United States and. Gold closed the week at 1,346.31.

US Factory Orders

New orders for US-made goods recorded their biggest drop in nearly three years in July as factory goods orders fell by 3.3%. The Commerce Department said a drop in demand for transportation equipment was a leading factor. However, economists predict production to receive a boost but the end of the year as US consumers try and replace goods damaged by the recent hurricanes.

US Trade Balance

The US trade deficit widened less than expected in July as rising energy and aircraft exports helped offset drops in shipments of autos and household goods. July's figures showed drops in both exports and imports of passenger cars as the industry copes with a sales slowdown, while exports of consumer goods fell to the lowest since May 2016. However, energy shipments rose with petroleum exports at the highest in more than two years. The figures indicate trade was on track to contribute to third-quarter growth after net exports added about 0.2% to the annual pace of expansion in the previous period. The US Census Bureau said that the goods and services deficit was $43.7 billion in July, up $0.1 billion from $43.5 billion in June.

Non-Manufacturing PMI

While manufacturing has been slow in the summer, services continued to grow for the 97th consecutive month. Higher activity and new business prompted firms to add to their payrolls again in August and at the quickest rate for nearly two years. Furthermore, business confidence was the strongest since January, with firms encouraged by greater client demand. The Non-Manufacturing Business Activity Index increased to 55.3 from 53.9 last month.

Unemployment Claims

According to Labor Department, US jobless claims surged last week by the most since November 2012 as tens of thousands of Texans displaced by Hurricane Harvey filed applications to collect benefits. Prior to the storm however, claims figures had been consistent with an improving labor market picture. A shortage of qualified workers is making companies reluctant to dismiss employees, which has kept the underlying trend in applications for unemployment benefits near the lowest level in more than four decades.

Europe & UK

European Central Bank

The European Central Bank left its benchmark interest rate unchanged and reiterated its readiness to increase its asset purchase program if needed. Since the 60 billion euro asset buying program is meant to expire in December 2017, President Draghi stated that the decision would be made in the ECB's October meeting. In terms of forecasts, the ECB said it expects the euro zone to grow 2.2% in 2017, up from a previous forecast of 1.9% while headline inflation is expected to decline from 1.5% to 1.2% in 2018. The decrease in inflation comes as a result of the drop in oil prices combined with the appreciation of the euro currency which will reduce input costs.

Eurozone GDP

Gross domestic product in the Eurozone rose by 0.6% in the second quarter of 2017 according to an estimate published by Eurostat. Compared with the same quarter of the previous year, seasonally adjusted GDP rose by 2.3%. The increases come from gains in household consumption, fixed capital, and exports.

UK Purchasing Managers' Indices

Purchasing Managers' Index surveys in the UK indicated that the construction and services sectors continued to experience a slowdown this summer. Construction survey respondents linked subdued demand to reduced business investment and heightened economic uncertainty due to Brexit. As a result, construction firms took greater caution in terms of their staff hiring, with employment numbers rising at the slowest pace since July 2016.

While service providers recorded good rises in activity, rates of growth eased since July and remained notably weaker on average than the first half of 2017. Services respondents said rising inflation led to higher staff costs, fuel bills and prices for imported items. This lead to a sharp increase in average cost burdens at service sector companies.

UK Manufacturing Production

Manufacturing rose in July for the first time this year, boosted by a strong rebound in car production. New models rolling off production lines helped vehicle output, which had fallen sharply in recent months, surged almost 14%. Manufacturing Output rose by 0.5% from a flat reading of 0% in the previous month.

Asia

Reserve Bank of Australia

The Reserve Bank of Australia left the cash rate unchanged at 1.50% at their September meeting while mentioning conditions in the global economy are continuing to improve. Labor markets have tightened further and above-trend growth is expected in a number of advanced economies, although uncertainties remain. Wage growth remains low and is likely to continue for a while yet stronger conditions in the labor market should see some lift in wages growth over time. The recent data has been consistent with the Bank's expectation that growth in the Australian economy will gradually pick up over the coming year and the decline in mining investment will soon run its course. The RBA concluded that the low level of interest rates is continuing to support the Australian economy and should aid them in achieving the inflation target over time.

Australia GDP

Australia's economy rebounded last quarter expanding 0.8% from 0.3% in Q1. Driving the latest pick up was a surge in public investment, including roads, rail and a major new hospital - the country's single most expensive building. Rising export volumes, particularly for liquefied natural gas, also added to growth, helping offset a rundown in inventories which was the single biggest drag in the quarter.

Japan GDP

Japan’s economy expanded at a slower pace than expected in the second quarter of 2017. The slowdown was widely expected after data used to revise gross domestic product figures showed capital spending in April-June rose at a slower annual pace than the previous quarter. While the disappointing data may weaken confidence in the government's economic policies and the business outlook, analysts still expect the economy to sustain a steady recovery as robust global demand supports exports and a tightening job market improves the prospects for higher wages. Japan’s GDP grew 0.6% q/q against an expected 0.7% increase. Annualized, GDP expanded 2.5%.

Kuwait

Kuwaiti Dinar at 0.30090

The USDKWD opened at 0.30090 on Sunday morning.

Rates – 10th September, 2017

	Previous Week Levels				This Week’s Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1857	1.1852	1.2092	1.2033	1.1940	1.2220	1.2092
GBP	1.2958	1.2907	1.3224	1.3197	1.3080	1.3360	1.3240
JPY	109.38	107.31	109.92	107.83	105.80	108.50	107.353
CHF	0.9617	0.9419	0.9623	0.9443	0.9250	0.9520	0.9390