

Dollar Pressured amid a Combination of Softer Data and a Stronger Euro

United States

Hawkish ECB pressures the dollar

Last week, the greenback was under modest pressure until Thursday evening when softer US data along with hawkish ECB minutes were released sending the dollar to 3-year lows. However, positive inflation and retail sales reports supported the currency and sent March interest rate hike probabilities to 82%. Furthermore, NY Fed president Bill Dudley delivered his keynote remarks in New York warning bluntly on the prospect of US economic overheating is a real risk over the next few years. He also cautioned about the financial market asset valuations, which he believes to be elevated.

The 10 year Treasury bond rose to a new 10-month high after a report from China recommended the reduction of US purchases. China has the world's biggest currency reserves and is the biggest foreign holder of US government debt. According to the Bloomberg report, the sources said the market for US government bonds is becoming less attractive relative to other assets. They also cited trade tensions with the United States as a reason to slow Treasury purchases.

The surprise of last week was that the European Central Bank could be the next major policymaking body that takes a step away from accommodation. According to the minutes from their December meeting, the central bank saw "some comfort" in wage dynamics but low inflation remains a concern. Most importantly, they would consider a gradual shift in guidance starting in "early 2018" if reflation continues which suggests that they've grown less dovish since their decision to cut bond purchases in October. Further positive news on the euro zone was the reported success of Chancellor Angela Merkel in reaching a preliminary deal with Social Democrats to negotiate a grand coalition government.

On the currency front, the dollar index opened the week at 91.931 and was neutral until the release of the ECB meeting minutes and disappointing PPI figures which sent the dollar to a low of 90.902, a 3-year low. The currency closed the week at 90.974.

The Euro started the week with a bullish move to reach the 1.2000 levels. The single currency had a breakthrough the 1.2100 level after the grand coalition agreement between the German parties. The agreement to form a government was reached after long hours of negotiations and cleared any political uncertainties surrounding Europe's largest economy. The pair closed the week at 1.2194.

The cable traded sensitively to the progress of the divorce settlement negotiations between the UK and EU, better known as Brexit. The pair appreciated to reach a high of 1.3744 on the back of solid manufacturing data and a weaker dollar. The currency closed the week at 1.3728.

The Japanese yen had a week of solid gains on the dollar. The pair opened the week at 113.10 and continued to appreciate to reach 6-week low of 110.97 amid speculation on US inflation figures. The currency closed the week at 111.01.

Producer prices fall for the first time in nearly 18 months

The labor department said that its producer price index slipped by 0.1% last month, marking the first monthly drop since August 2016. Most of the December decline in the final demand index is attributable to a 0.2% decrease in prices for final demand services. A major factor in the December decline in prices for final demand services was the index for automotive fuels and lubricants retailing, which fell 10.7%. The indexes for loan services (partial); airline passenger services; apparel, footwear, and accessories retailing; legal services; and health, beauty, and optical goods retailing also moved lower. In contrast, prices for inpatient care advanced 0.7%. The indexes for truck transportation of freight and apparel wholesaling also increased.

Consumer Prices and retail sales reports were as expected

Underlying U.S. consumer prices recorded their largest increase in 11 months in December amid strong gains in the cost of rental accommodation and healthcare, bolstering expectations that inflation will gain momentum this year. The Labor Department said its Consumer Price Index excluding the volatile food and energy components rose 0.3% last month also as prices for new motor vehicles, used cars and trucks and motor vehicle insurance increased.

Retail sales increased in December as households bought a range of goods and figures for the prior month were revised higher, suggesting the economy exited 2017 with strong momentum. The Commerce Department said on Friday that retail sales rose 0.4% last month. Data for November was revised to show sales gaining 0.9% instead of the previously reported 0.8% increase.

Job openings falls for the second month in a row

Job openings for November fell for the second consecutive month in a row according to data out from the Labor department. The JOLTS report showed 5.88 million job openings and judging from the recent employment data which showed a steady unemployment rate of 4.1%. Thus, analysts expect to see a continuous marginal decrease in the job openings.

Europe & UK

ECB hawkish minutes

The central bank's December meeting minutes showcased a hawkish ECB on the back of great growth figures and solid fundamentals and a tighter labor market. As such, the market is expecting the central bank to gradually reduce its bond purchases and start considering their stance on interest rates "As progress was made toward a sustained adjustment in the path of inflation, the relative importance of the forward guidance on policy rates would increase," policymakers said. Sidelining his critics, ECB President Mario Draghi stuck to his pledge last month to keep money pouring into the euro zone economy for as long as needed, despite improved growth and inflation prospects.

UK manufacturing output at peak levels

Manufacturing output in the UK is expanding at the fastest rate since 2008 after recording a seventh consecutive months of growth in November. Renewable energy projects, boats, airplanes and cars for export helped make output 3.9% higher in the three months to November than in 2016. Official figures also show industrial output rose by 0.4% in November. Economic growth had slowed in the first nine months of 2017 with higher inflation caused by the fall in sterling after the Brexit referendum, although the UK economy did grow by 0.4% in the three months to September. While the manufacturing figures are good, it is important to note that the sector only makes up roughly 10% of the economy.

Asia

China's trade balance

China's producer-price index slid to the lowest level since November 2016 last month and consumer price growth remained largely stable, taking pressure off the People's Bank of China to restrain inflation even as it raises market borrowing costs to curb debt growth. While a sustained moderation in factory inflation in China would put a question mark over the strength of global deflation, it also leaves domestic policy makers with a freer hand to conduct ongoing campaigns against industrial over-capacity and pollution.

Kuwait

Kuwaiti Dinar at 0.30070

The USDKWD opened at 0.30070 on Sunday morning.

Treasury Group
Weekly Money Market Report
14 January 2018



Rates – 14 January, 2018

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2027	1.1916	1.2218	1.2202	1.2095	1.2385	1.2280
GBP	1.3555	1.3458	1.3744	1.3729	1.03650	1.3925	1.3781
JPY	113.11	110.91	113.38	111.02	109.15	113.10	110.57
CHF	0.9752	0.9665	0.9845	0.9672	0.9480	0.9880	0.9626