Treasury Group
Weekly Money Market Report
23 June 2017

Oil Erases 2017 Gains

United States

Conflicting Views

In a generally calm week after the Fed hawkishly hiked interest rates, the future pace of monetary tightening is unknown. Oil prices tumbled to 15 month lows pushing down treasury yields. Lower crude prices weaken inflationary pressures and in turn slow the rise in yields. With US inflation already slowing in the second quarter, anther fall in oil prices could hinder the Fed's plan for another rate hike in 2017.

Even FOMC members seem conflicted on the pace of tightening. New York Fed President William Dudley reinforced expectations of another interest rate hike this year stating that inflation should rebound alongside wages as the labor market continues to improve. Dallas Fed President Robert Kaplan on the other hand, said that low US treasury yields suggest markets expect sluggish growth ahead and there needs to be more evidence that recent weak inflation is indeed transitory.

A Reuters poll sees the FOMC passing on all Fed meetings this year with the December meeting being the most disputed at 60% for no hike.

The USD dollar traded in a relatively tight range only jumping up to a high of 97.87 after Fed Dudley's comments. The index then inched lower throughout the week as more promising data was released in Europe. Markets will be waiting for fresh new indicators to provide more insight on the Fed's plans.

In the UK, the Pound Sterling dropped to new lows as Bank of England governor Mark Carney dispelled expectations of an upcoming rate hike. Carney said "now is not the time to hike rates" citing weak wage growth and a likely hit to incomes as Britain prepares to leave the European Union. Last week 3 policy members voted in favor of tightening increasing expectations that a rate hike may not be too far off. Carney's comments sent the GBP to a two-month low of 1.2587. However, cable moved higher erasing most of the its losses as Bank of England's chief economist Andy Haldane countered Carney's comments and voicing his support for a rate hike this year.

In Europe, the Euro followed suit trading in a tight range throughout the week only jumping higher on Friday after the release of optimistic manufacturing data. With Purchasing Manager's Index data being very strong in Europe this year and consumer confidence at a 16 year high, the EUR/USD reached a one week high of 1.1209.

In commodities, oil prices dropped to around multi-month lows this week despite strong compliance by OPEC and non-OPEC's deal to curb production. OPEC compliance with the output curbs in May was 108%, while non-OPEC compliance was 100%. However, the drop in prices suggests that markets are unconvinced that the production curb will affect total supply as other producers like US shale have been ramping up production. Brent Crude was last $45.65 while West Texas was $43.15.

US Housing in Demand

New and existing home sales rebounded in May despite rising prices due to low supply. Low mortgage rates, a solid labor market and rising wages continue to drive steady demand for housing. However, a tightening inventory could lead to inflated prices that could potentially price out new home buyers. Last month's median sale price came in at $252,800 up 5.8% from a year ago and marked a record high for the survey.

Current Account Deficit Widens

The US trade deficit in the broadest measure of trade rose to the highest level in a year during the first quarter of 2017. The US current-account deficit increased to $116.8 billion in the January-March period from $114.0 billion in the fourth quarter of 2016. The $2.8 billion increase was largely due to the widening of trade imbalance of goods by $5.3 billion. Overall, exports of goods and services plus income receipts increased $22.5 billion in the first quarter as imports of goods and services plus income payments increased $25.2 billion. The deficit now accounts for 2.5% of the US GDP.

Europe & UK

Public Sector Borrowing Falls

UK public sector borrowing fell more-than-expected in the last quarter to the lowest level since lowest level since 2008. The public finances have been bolstered by greater government income. The central government received £110.2bn in income including £79.1bn in taxes. This was around 5% more than in the same period in the previous financial year. The Office for National Statistics said public sector net borrowing, excluding state-owned banks, fell by £300 million to a lower-than-expected £6.7 billion in May.

Eurozone PMIs indicate Expansion

According to Markit's flash PMI survey, continued rises in Eurozone business activity in June led to the strongest quarter of economic expansion for over six years. Although the rate of growth decreased to a five-month low, high order book inflows and elevated levels of business confidence meant job creation remained one of the strongest recorded in 10 years as firms continued to expand capacity to meet rising demand. Price pressures eased however, reflecting lower global commodity prices.

While overall new order growth eased in the service sector, manufacturing output rose at the steepest rate since April 2011 with factories reporting the high influx of new orders. Eurozone Manufacturing PMI came in at a 6 year high of 57.3 while Services PMI Activity came in at a 5 month low of 54.7.

Asia

Royal Bank of Australia Minutes

In the minutes of the Royal Bank of Australia's June meeting, the bank reiterated the appropriateness of keeping their accommodative policies and interest rate unchanged. The bank also mentioned its focus on employment and maintained its cautious outlook on the nation's housing market. While employment gains had strengthened in recent months, growth in housing debt had outpaced growth in household incomes.

In regards to consumption, the RBA said wage growth had remained low and this was likely to remain the case for some time. "Low growth in incomes, along with high levels of household debt, appeared to have been restraining growth in household consumption."

The minutes revealed that the RBA still expects GDP growth to accelerate to 3% over time, despite soft first quarter.

Japan Manufacturing Slows

The preliminary Nikkei flash manufacturing PMI for June came in at seven-month low of 52.0, down from 53.1 in May. Slower growth was signaled in June, with both orders and output rising at the weakest rates since late last year amid reports of a slight softening in market conditions. However, external demand is consistent and the sector continues to operate within a solid growth range. This is helping support employment gains while also enabling firms to pass costs on to clients fueling inflation.

Bank of Japan Minutes

In their last meeting, the Bank of Japan kept monetary policy on hold and made its most optimistic assessment of the economy in nine years. Policymakers also expressed more optimism about exports and industrial production, according to the minutes. However, the BOJ also trimmed its consumer price forecast as inflation expectations have struggled.

In regards to their asset-purchases, policymakers agreed that the amount of government debt purchases will fluctuate under its quantitative easing program but will not affect the BOJ's guidance on its market operations, the minutes showed.

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Kuwait

Kuwaiti Dinar at 0.30365
The USDKWD closed at 0.30365 on Thursday.

Rates – 23 June, 2016

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1198	1.1117	1.1213	1.1192	1.1019	1.1285	1.1250
GBP	1.2783	1.2587	1.2813	1.2716	1.2587	1.2905	1.2752
JPY	110.82	110.73	111.78	111.26	111.07	111.74	110.82
CHF	0.9730	0.9674	0.9766	0.9693	0.9522	0.9854	0.9635