Weekly Money Market Report

24 June 2018

Trump's Trade War Round 2 Dictates the Market

United States

Last week started-off with US President Donald Trump threatening to impose a 10% tariff on $200 billion of Chinese goods on Monday, quickly escalating the trade conflict among the world two biggest economies. In his statement, Trump explains that the move would be in retaliation for China's decision to raise tariffs on $50 billion on US goods. Investors who were concerned with interest rate hikes from the Federal Reserve now fear Trump negatively impacting industries such as automakers and construction.

The forum on Central Banking in Portugal included a panel of the major central banks' governors. Federal Reserve Chairman Jerome Powell maintained his position in keeping the economy on a sustainable path with support from his colleagues at Fed. A week after the Fed raised rates for the second time this year, Powell expresses his confidence by stating, "With unemployment low and expected to decline further, inflation close to our objective, and the risks to the outlook roughly balanced, the case for continued gradual increases in the federal funds is strong". Meanwhile, interest rate hike probability for the Fed's September meeting sits currently at 80%.

On the currency front, the dollar managed to gain as much as 0.81% towards the end of the week. Yet the escalating trade tensions between the US and China managed to wipe the gains amid softer than expected housing data and sent the currency falling and closing the week at 94.520.

Mixed Housing Data

U.S homebuilding rose to an 11-year high in May due to the spurring in both single and multi-family home construction. However, housing demand met with high lumber prices imposed by the Trump administration in April 2017 as well as labor and land shortages has depleted the number of properties for sale. On Monday, the National Association of Home Builders released a report expressing an unexpected deterioration in homebuilder confidence following the rise in lumber prices. The Commerce Department released a report on Tuesday showing the larger than expected jump in new residential construction in the U.S in the month of May. The report reveals housing starts rose by 5.0% to an annual rate of 1.350 million in May after dropping 3.1% to a rate of 1.286 million in April. Reports on building permits reveal a plunge by 4.6% to an annual rate of 1.301 million in May after falling by 0.9% to a rate of 1.364 million in April. With permits lagging behind, homebuilding is expected to slow in the months ahead.

UK & Europe

ECB cautious on tightening monetary policy

European Central Bank president Mario Draghi expressed that the ECB will remain patient in tightening policy further, explaining how the first post crisis rate hike was consistent with the goal of gradual movement. Rate hike expectations are now pushed back by three months to September 2019, following the ECB indicating that interest rates would remain unchanged at least through next summer. Draghi expressed a generally positive outlook, while also mentioning risks such as rising oil prices and heightened financial market volatility.

Eurozone PMIs to lift the Euro

Positive PMI figures surfaced on Friday showcasing growth potential for the services and manufacturing sectors in the Eurozone. The services sector shined with a 55 reading where the market's forecast was at 53.7. Manufacturing on the other hand had a reading of 55 consistent with the consensus of the market. The upbeat data helped continue the sharp reversal of the losses of the currency towards the beginning of the week when the euro almost broke the 1.15 level on Thursday. The single currency closed the week at 1.1651.

A win for PM May in the Parliament

The UK's House of Commons has voted by 319 to 303 to reject an amendment tabled by the House of Lords, which would have given parliament a boost on the final Brexit deal. The amendment tabled yesterday was itself a watered-down version of an amendment rejected last week. And yesterday's vote on the revised amendment was on a knife-edge because would-be rebels (i.e. members of the ruling Conservative party intending to vote against the government) were reported as saying the government had reneged on the agreement it made with them last week. The market is still uncertain on the path of the Brexit situation which is still weighing heavily on the Sterling Pound.

Bank of England kept rates on hold

The Monetary Policy Committee at the Bank of England voted by 6-3 in favor of keeping interest rates steady at 0.50% in their latest meeting last Thursday. The MPC also voted unanimously to keep QE and corporate bond holdings unchanged. As was the case in May, the minutes suggest the MPC is relaxed about the recent weakness of the data. Members felt the news since May had given them 'greater reassurance that the softness of activity in the first quarter had been largely temporary'. It left its forecast for Q2 GDP growth unchanged at 0.4%. The committee focused on the upbeat data of the consumer indicators such as the retail sales and consumer confidence. The market is currently pricing a 70% probability for a hike in the upcoming August meeting.

The cable traded with high volatility last week losing up to 1.34% reaching a low of 1.3102 on Thursday before the BOE's meeting. The increased tensions and uncertainty on the never-ending Brexit situation have weighed heavily on the currency, yet the hawkish MPC and improved interest rate hike probabilities for the upcoming weeks managed to reverse the losses of Thursday. The currency closed the week at 1.3264.

SNB leaves policy rates intact

As widely anticipated, the Swiss National Bank (SNB) left its policy rates on hold. The sight deposit rate has been at -0.75% and the 3-month Libor target range at -1.25%/-0.25 since January 2015. The SNB committed to 'remain active' in the FX markets, where the situation is viewed as 'fragile', in particular 'in light of political uncertainty in Italy'. Still describing the Swiss franc as 'highly valued', the SNB continued to consider negative interest rate and willingness to intervene in the FX market as 'essential'. Higher oil prices contributed to an upward revision in the 2018 inflation forecast (+0.3% to 0.9%) while the forecast, conditional to a 3-month Libor at -0.75%, was unchanged for 2019 (0.9%) and revised by -0.3% for 2020 (1.6%), with no further details provided by the SNB on the latter.

Asia

Kuroda on the Japanese economy

Bank of Japan's governor Haruhiko Kuroda endorsed a Japanese government call for employers to raise wages by 3% a year. Though wage gains have picked up in 2018, they remain vital in the central banks effort to reach its inflation goal of 2%. The BOJ has stuck by its current policy since 2016, when the focus was on managing Japan's yield curve so that the 10-year rate remains at around 0%. With that said, CPI figure on Friday showcased a stagnant inflation of 0.7% yearly and in-line with the market's expectations. Additionally, the manufacturing PMI came above expectation at 53.1 for the current month.

Commodities

OPEC Increases Oil Production

OPEC agreed on Friday on a modest increase in oil production from July after its leader Saudi Arabia persuaded Iran to cooperate amid calls from major consumers to help reduce the price of crude and avoid a supply shortage. A source confirmed the group will aim to restore about 1 million barrels per day (bpd) to the market. However, estimates show the real increase will be smaller because several countries will struggle to return to full quotas. Analysts say supply increases are more likely to fall in a range between 600,000 to 800,000 bpd. OPEC president Suhail Al Mazrouei said they made "the best choice" in balancing the interests of its members and other producers.

Brent oil prices were up around 2.0% on Friday as the output boost had been largely priced in and was seen as modest. Brent crude closed out the week at $75.55, 2.11% higher.

Kuwait

Kuwaiti Dinar at 0.30240

The USDKWD opened at 0.30240 on Sunday morning.

Rates – 24 June, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1610	1.1509	1.1675	1.1651	1.1370	1.1830	1.1740
GBP	1.3273	1.3102	1.3314	1.3264	1.3015	1.3500	1.3338
JPY	110.62	109.55	110.75	109.98	107.50	111.70	109.20
CHF	0.9968	0.9873	0.9990	0.9878	0.9698	1.0030	0.9790