Treasury Group

Weekly Money Market Report

7 January 2018

US Dollar Remains Subdued

United States

FOMC Minutes As Expected

The US dollar remained subdued in the first week of 2017 as markets turned back to the fundamentals of the US economy after the fiscal tax plan was finally delivered. Despite being at near full employment for the majority of 2017, inflation remained subdued when removing the effects of oil prices. The Federal Reserve's preferred inflation index, the core personal consumption expenditure actually decreased from 1.9% to 1.5% over the course of the year while headline inflation was last at 2.2%. Nonetheless, a majority of the FOMC members held on to the belief that low unemployment will eventually lead to a higher rate of inflation.

Not even the FOMC minutes of their December meeting were able to move markets. The minutes contained few surprises and came as expected. The minutes restated the committee's positive outlook for the economy and that further gradual increases in the federal funds rate would be "warranted" to achieve the FOMC's dual goal of maximum employment and inflation close to 2.0%. More importantly, policymakers indicated that their views regarding the outlook for inflation were "little changed" despite the decline in core inflation earlier in the year.

The US monthly employment came back weaker than expected aiding in the US dollar's stagnation. Non-farm payrolls rose by 148,000 against an expected 190,000 jobs. The unemployment rate however remained unchanged at 4.1%. The most anticipated figure was wage growth however, which has a sizable effect on inflation. As wages grow, consumers spend more and spur economic activity increasing prices. The average hourly earnings for December met expectations increasing by 0.3% from 0.1% in November.

The US dollar index remained in a tight range throughout the week as few developments were able to nudge the dollar to a new direction. The US dollar index opened the week at 92.240 and closed at 91.949. Looking at treasuries, the 2-year note yield, which is the most sensitive to shifts in interest-rate expectations, moved up 4 basis points to 1.96% while the 10-year note increased to 2.476%.

The euro was well supported at its new highs as the euro zone economy closed out the year with the strongest growth in nearly seven years. IHS Markit's Final Composite Purchasing Managers' Index which is seen as a good overall growth indicator for the euro zone, rose to 58.1 in December from 57.5 in November. The EUR/USD opened the week at 1.2001 and closed at 1.2028.

The British pound also maintained its newly acquired levels as economic data released over the week pointed to the economy picking up speed at the end of last year with businesses growing more optimistic for the year ahead. Furthermore, markets are cautiously waiting to see new developments on Brexit negotiations before taking new positions. The GBP/USD opened the week at 1.3512 and close at 1.3568.

The Japanese yen reversed course this week moving higher mostly reacting to economic developments in the US. Renewed tensions between the US and North Korea, positive ADP non-farm payrolls report and slightly hawkish federal minutes saw the USD/JPY pair increase earlier in the week from 112.65 to a high of 113.30. The yen managed to close the week at 113.06 after the disappointing US employment report was released.

Oil prices fell on slightly Friday, dropping from highs last seen in 2015, as soaring US production undermined the rally from December that was driven by tightening supply and political tensions in OPEC member Iran. The political tensions in Iran, the third-largest producer in OPEC helped pushed prices higher over the past 2 weeks. Benchmark Brent crude oil opened the week at 66.55 and closed a 67.65.

US Manufacturing PMI

US factory activity increased more than expected in December boosted by a surge in new orders growth in a further sign of strong economic momentum at the end of 2017. The Institute for Supply Management said its index of national factory activity jumped to a reading of 59.7 last month, the second-highest reading in six years. The survey also showed manufacturers upbeat about the economic outlook strong international sales.

Europe & UK

UK Construction PMI

Britain's construction PMI showed growth slowed down last month despite the progression in Brexit negotiations. Construction has been bogged down in 2017 after the Brexit uncertainties deterred and delayed investments from the commercial sector. However, residential building activity expanded for the sixteenth consecutive month making it the key driver of growth. The construction PMI was at 52.2 in December, down from 53.1 in November.

UK Manufacturing PMI

Britain's manufacturers finished the year on a positive note amid resurgent euro zone growth lifting demand for goods. The UK manufacturing PMI showed an average of 57 in the three months to December, in the strongest reading since the three months to June 2014. The surveys showed activity and new orders expanding throughout the past 17 months in the UK, as firms reported increasing production in response to new orders and the launch of new product lines at home and abroad.

UK Services PMI

Britain's services PMI indicated a rise in business activity in December while new order growth eased to a 16-month low. Higher levels of business activity have now been recorded for seventeen months running supported by the resilient economic backdrop and rising consumer spending. However, service providers noted that Brexit-related uncertainty continued to hold back clients' willingness to spend at the end of 2017. At the same time, they mentioned the increase in average prices charged for their services due to the rising costs from inflation. The seasonally adjusted UK Services PMI registered 54.2 in December, up from 53.8 in November.

Asia

China Manufacturing

The manufacturing sector proved to be tolerant despite new government regulation on pollution and the high degree of financial leverage. The manufacturing index was elevated to a four months high in December, thanks to robust demand. The index increased 0.7 points to 51.5. Business morale edged higher, however business entities claimed subdued client demand and changes to national policies dampened confidence at the end of the year. Overall, conditions in the manufacturing sector improved in December, supporting the notion that economic activity has stabilized last year and performed better than anticipated. However, some downward pressure is expected on growth due to tightening monetary policy and strengthening oversight on local government financing.

Australia Trade Balance

Australia's trade balance came out at a A$628 million deficit, underperforming analyst expectations for an A$550 million surplus. The previous month's trade balance figures were also revised lower from an A$105 million surplus to an A$302 million deficit. The data reported little change in exports from the month prior, while imports rose roughly 1%. This marks 2 months of negative trade balance performance in Australia, which has not occurred since October of 2016.

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Kuwait

Kuwaiti Dinar at 0.30140

Rates – 7 January, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2001	1.2089	1.1993	1.2028	1.1830	1.2220	1.2096
GBP	1.3512	1.3612	1.3491	1.3568	1.3365	1.3770	1.3611
JPY	112.65	113.30	112.04	113.06	111.10	115.10	112.52
CHF	0.9743	0.9797	0.9698	0.9750	0.9560	0.9950	0.9690