

Weekly Money Market Report

30 September 2018

Fed Raises Interest Rates; Expects One More Hike In 2018

United States

The US central bank took center stage last week as it raised interest rates for the eighth time since the Fed began normalizing policy in December 2015. The Federal Reserve raised rates by another 25 basis points on Wednesday, lifting the upper target for its key rate to 2.25%.

Despite ongoing escalation by the Trump administration, the Fed made no reference to trade worries in its post-meeting statement. On the contrary, the Fed asserted its expectations that the US economy will grow by more than 3% this year, citing an uplift in business activity and solid job gains. Median forecasts released by the Fed's policymakers pointed to one more rate rise this year, followed by three increases in 2019 and another in 2020, in line with previous expectations.

The rate hike, which the market was expecting, came as no surprise. Neither did Trump's criticism. In the past, Trump has made it known that he is not a fan of the ongoing rate hikes implemented by the Federal Reserve and has publicly voiced his disapproval on numerous occasions.

Nevertheless, the Fed's decision was not only the thing on the president's mind. Trump's Supreme Court nomination has directly led to an incredible bipartisan showdown in the Senate, for the simple reason that this nominee will have the power to sway significant decisions by locking in a conservative majority on America's highest court. Additionally, the president has also continued to lock horns with China over trade disputes that have shown no signs of slowing down.

As oil prices broke \$80 for the first time in 4 years, Trump also took aim at OPEC as he spoke in front of the UN General Assembly on Tuesday. Trump told the UN that OPEC members were "as usual ripping off the rest of the world" and that the US was "not going to put up with these horrible prices much longer". Trump's rhetoric has added fuel to the so called NOPEC bill. This piece of legislation, if passed, would effectively allow open up OPEC to antitrust lawsuits by the US Government. In the past, chances of such a bill becoming law have been slim as both Presidents George W. Bush and Barack Obama threatened to use their veto power to prevent it becoming law. Now however, the risk for OPEC is that Trump could break with this precedent.

A dysfunctional administration with an absurd rate of staff turnover, a special counsel investigation that has found guilty countless associates of his, and an upcoming midterm election that may prove fatal to his presidency are only some of the items on Trump's agenda. At the moment, it seems that the president may be spreading himself too thin and the path of the Fed could very well be the least of his worries.

US Consumer Confidence

Meanwhile, US consumer confidence recorded its highest level in about 18 years as it rose to 138.4 for September up from 134.7 in August. Supported by a strong economy and robust job growth, the high confidence levels reveal sentiment on current economic conditions and prospects for the next 6 months, including business and labor market conditions. Manufacturing activity also rose to the highest level in 14 years in August, along with the economy growing at a pace of 4% last quarter. Even though economists have warned that the trade war between the US and China will possibly be accompanied by job losses and higher prices for consumers, such figures reveals increasing confidence in the economy.

UK & Europe

Italy's Populist Coalition Risks a Clash With The EU

Towards the end of the week, the Euro fell below 1.1600 for the first time in two weeks after Italy's government agreed a budget seen by some investors as defying Brussels. Italy's populist coalition followed through with campaign promises as they emerged victorious in a tense stand-off with Giovanni Tria, Italy's economy minister. The country's new budget will aim for a deficit of 2.4% of GDP, a number far higher than the target of the economy minister, and one that risks putting Rome on a collision course with Brussels and unnerving financial markets. Turbulence in Italy along with weaker than expected inflation data were enough to drive the Euro to a low of 1.1566. On the other hand, the dollar proceeded to rise sharply, setting an 10-month high against the Japanese yen.

Brexit Negotiations Remain Turbulent

The British Prime Minister Theresa May has demanded the bloc "treat the UK with respect" in regards to Brexit negotiations, re-iterating her warning that a no-deal Brexit is better than a bad deal. She told European leaders it was "not acceptable to simply reject" her plan as the stalemate in negotiations deepened. May is facing opposition from several fronts in regards to her Brexit plan as the March deadline for an agreement approaches. Members within her party have launched an alternative plan for leaving the European Union in an effort to force May out of her Chequers deal attempt. Former Brexit Secretary David Davis quit in July due to disagreements with May, and is now backing the proposal for a "more aggressive" strategy towards EU negotiations which involve opening trade talks with other countries around the world.

Asia

Trade War Dispute Drags On

Meanwhile, the Chinese government has called off previously planned talks with US officials, claiming that President Trump's threats of further tariffs are blocking any chance for negotiations between the two economic powers. The comments were made following the imposition of duties on \$200 billion of Chinese products as President Trump gives no indication of backing down. Trump continues to insist on unfair trading practices, while Beijing has signaled that discussions will only be possible after the US midterm elections in November. In total, Trump has imposed tariffs on \$250 billion of Chinese goods, while the Chinese government has retaliated with \$110 billion in US products. If Trump were to follow through on his threat on tariffs worth \$267 billion, that would cover the total amount of imports from China.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30310 on Sunday morning.

Rates – 30th September, 2018

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1749	1.1566	1.1815	1.1608	1.1385	1.1740	1.1700
GBP	1.3066	1.2998	1.3217	1.3028	1.2785	1.3160	1.3089
JPY	112.56	112.26	113.70	113.68	111.65	115.50	112.85
CHF	0.9583	0.9574	0.9820	0.9819	0.9640	1.0010	0.9734