# Treasury Group
## Weekly Money Market Report
15 January 2017

## Politics Trump Markets

## United States

### Markets Need Clarity
The week started on a continued strength in the US Dollar as markets were eager to listen to the first post-election speech of president-elect Trump. To markets' disappointment, the press conference did not provide any further details as to the potential fiscal policies causing a major setback to the Dollar and to risk in general.
Although there was a very brief mention of a “major border tax on companies leaving the US” and that Obamacare will be repealed and replaced “almost simultaneously”, overall markets were however disappointed at the lack of substance around policy in particular.

In this whole political mess, markets chose to ignore another set of important news around the balance sheet unwinding comments out of the Fed and the positive comments from the Fed chair Yellen. Indeed, the later was largely positive, saying that “unemployment has now reached a low level, the labor market is generally strong and wage growth is beginning to pick”. The Fed Chair also said that Dodd-Frank bank regulation made “important changes” and that she would not want to see it “rolled back”.
Moreover, Philadelphia Fed President Patrick Harker mentioned that the Fed can start considering stopping balance sheet reinvestment and later start unwinding the balance sheet when the Fed funds rate gets to 100 basis points.
St Louis Fed President James Bullard reiterated by saying that the “committee may be in a better position to allow reinvestment to end or to otherwise reduce the size of the balance sheet”.
Last but not least, Chicago Fed president Charles Evans expects that president-elect Donald Trump's stimulus policies to "increase growth over the next two years." He stated that policymakers "look forward to refining that when we actually see proposals that are moving forward and likely to be implemented." As improvements in the economic outlook materialize, the US would need "less accommodation". He also said earlier in the month that three rate hikes this year is "not implausible".

In summary, the US dollar traded broadly lower during the week while stocks struggled in a tight range as markets continue obsessing over the new president elect political moves.

On the other side of the ocean, politics also remain the major driver of the economy. In the UK, Prime Minister Theresa May renewed hard "Brexit" fears as she seems leaning against Britain keeping "bits" of its EU membership. Markets interpreted her words as a sign that the Prime Minister prioritizes control of the country’s borders over the access to the single European Market. She reiterated being “tempted to say that the people who are getting it wrong are those who print things saying I’m talking about a hard Brexit, or it is absolutely inevitable it is a hard Brexit. I don’t accept the terms soft and hard Brexit.’’ Adding to the tension were comments from Scotland’s First Minister Nicola Sturgeon who stated she was not "bluffing" when speaking about a second independence vote in Scotland.
In the same fashion, markets ignored better than expected UK economic figures indicating that the economy continues to perform relatively well despite the political uncertainty. Although data on industrial production, manufacturing output and exports all came in above consensus, investors have continued to shy away from the Pound in the wake of the unclear path of the government towards the European negotiations.

In summary, on the currency front, the Dollar index had a volatile week opening the week at 102.24 and reached a 25 day low of 100.72. The index managed to close the week at 101.22.
The Sterling Pound opened the week at 1.2266 and reached a low of 1.2036 against the US dollar. However, the Pound recovered with the release of positive economic data and managed to close the week at 1.2180.
Despite many election posing threats in 2017, the Euro was able to recoup some of its losses during the week. The currency’s rally was not triggered by events within the Eurozone, but by events in the US and the UK. After managing to reach a short lived high at 1.0684, the Euro closed the week at 1.0647.

On the commodities front, news was out that Saudi Arabia has cut February term crude supplies to refiners in India and Southeast Asia, seeking to comply with an OPEC deal, but it has held most of its exports to the rest of Asia steady for a second month according to market reports. Oil prices fell slightly after the US Energy Information Administration said crude oil production this year is expected to rise by 110,000 barrels to 9 million barrels per day compared with a year ago due to the rise in oil prices. Also, Gold moved on the Dollar weakness and extended a recent rebound towards the $1,200 level.

## Job Markets and Retail Sales Remain Strong

Job openings increased marginally to 5.52 million in November from a revised 5.45 million in October and below market expectations of 5.59 million. Over the month, quits rate was unchanged at 2.1% and the layoffs and discharges rate was unchanged at 1.1%. The elevated level of job openings suggests that the labor market conditions remain strong.
Another evidence of a healthy labor market is jobless claims coming at 247,000 this week, an increase of 10,000 from the earlier week's level. This marks 97 consecutive weeks of initial claims below 300,000, the longest streak since 1970.
On a different front, US retail sales accelerated in December on the back of a stronger demand for motor vehicles and provided further evidence that the economy ended the fourth quarter with positive momentum. In the previous month, retail sales rose 0.6% from a small gain of 0.2% in November. The increase in sales was supported by holiday shopping in December, reflecting a boost in confidence after the election and a solid increase in hourly pay. For all of 2016, sales climbed 3.3%, exceeding the 2.3% advance a year earlier.

## Wholesale inventories and Producer Price in Line with Expectations

The final figures for US wholesale inventories in November increased more than expected posting their largest increase in two years and suggesting inventory investment would again support economic growth in the fourth quarter. Wholesale inventories were revised upwards to show an increase of 1.0% on a monthly basis in November. That was the largest increase since November 2014. Moreover, the component of wholesale inventories that goes into the calculation of gross domestic product rose 0.7% in November.
Producer price growth in the US came in line with economist estimates in the month of December at 0.3% and 1.6% on a yearly basis, the largest yearly gain in just over two years. The increase in producer prices was primarily due to a jump in energy prices, which spiked by 2.6% during the previous month. Excluding food and energy prices, core producer prices increased by 0.2% in December after rising by 0.4% in November.

# Europe & UK

## Euro zone Unemployment Unchanged while Investor Confidence on the Rise

Investor confidence surprisingly turned positive and implies more growth potential ahead in the euro zone. The index for the Euro zone climbed by 8.2 points and reached the highest value since August 2015. It came at 18.2 from 10.0 in the previous month. At the same time, economists expect more economic upside potential for Eastern Europe and Austria due to its strong ties with the east of Europe

The Euro zone unemployment was unchanged at 9.8% in November from the prior month coming in line with consensus market expectations. This is the lowest rate since July 2009 and also declined from the 10.5% seen in November 2015. The rate of youth unemployment increased to 21.2% from 20.9% previously, although there was a net reduction from the 21.8% seen a year ago. German unemployment held at a record low of 4.1% and the French unemployment rate fell to 9.5% from 9.7%. In contrast, the Italian unemployment rate increased to 11.9% from 11.8% and also rose from 11.5% a year ago, which will maintain concerns surrounding structural Italian weaknesses.

## UK Manufacturing Production Remains Strong

UK manufacturing output has increased in November, increasing 1.3% on a monthly basis, well ahead of the market expectations of a 0.5% increase. The increase in production was due to an increase in mining and quarrying output following the end of a maintenance period in the oil and gas industry and an increase in manufacturing. The industrial output in total was up 2.1% in November, suggesting the sector will make a decent contribution to 4Q GDP.
Currently, the annual rate of manufacturing growth is 1.2%, but the PMI is historically consistent with annual growth of around 3% on a yearly basis. Certainly, the pound's fall will boost international competitiveness and therefore should be supportive for exports of manufactured goods.

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### UK House Prices Finished 2016 Strongly

UK House prices in the final quarter of the year were 2.5% higher than in the earlier quarter. The annual rate of growth increased, rising for the second consecutive month, from 6.0% in November to 6.5% in December. Slower economic growth, pressure on employment and a squeeze on spending power, together with affordability constraints, are expected to reduce housing demand during 2017.
UK house prices should, however, continue to be supported by an ongoing shortage of property for sale, low levels of house building, and exceptionally low interest rates. Total UK home sales however have started to depict a different picture as in the three months from September to November, sales were 9% lower than in the same period last year.

## Asia

### Japanese Consumer Confidence Increased

The Japanese consumer confidence jumped in December from the previous month, improving for the first time in three months hitting the highest level in more than three years. The news comes amid a solid performance from Tokyo's equity market and a weak yen. On the other hand, the index is still in contraction at 43.1 in December up by 2.2 from the previous month.

### Chinese inflation fails to climb

Chinese consumer inflation rose at a slower but steady pace, while producer prices improved sharply, pointing to improved productivity and growth in the economy. The consumer price advanced 2.1% on a yearly basis, after climbing 2.3% in November. China's producer prices however, rose the most in more than five years in December as prices of coal and other raw materials soared, adding to expectations that global inflation may be stronger in 2017. The producer price index jumped 5.5% in December from a year earlier, the most since September 2011, compared with a 3.3% increase in November.

## Kuwait

### Kuwaiti Dinar at *0.30535*

The USDKWD opened at 0.30535 on Sunday morning.

## Rates – 15 January, 2017

| | Previous Week Levels | | | | This Week's Expected Range | | 3-Month |
|---|---|---|---|---|---|---|---|
| Currencies | Open | Low | High | Close | Minimum | Maximum | Forward |
| EUR | 1.0537 | 1.0452 | 1.0684 | 1.0647 | 1.0450 | 1.0790 | 1.0695 |
| GBP | 1.2266 | 1.2036 | 1.2316 | 1.2180 | 1.2035 | 1.2390 | 1.2210 |
| JPY | 116.89 | 113.73 | 117.52 | 114.55 | 112.35 | 116.70 | 114.08 |
| CHF | 1.0165 | 1.0042 | 1.0248 | 1.0099 | 0.9960 | 1.0225 | 1.0045 |