Weekly Money Market Report

29 July 2018

The Dollar Rallies on Easing Tensions and Softer Trade-War Rhetoric

United States

U.S. President Donald Trump declared “a new phase” of trade relations after reaching an agreement with European Commission President Jean-Claude Juncker, easing tensions following Trump’s threat to impose tariffs on car imports. Trump had warned last week that he would move forward with 25 percent tariffs if the meeting did not go well. The two sides agreed to expand European imports of U.S. liquefied natural gas and soybeans, and lower industrial tariffs on both sides, leaving automakers aside as they continue to endure losses. Investor concern eased while U.S. equities rose as 10-year treasury yield rose to reach 2 month high of 2.976 percent.

The Trump administration announced last Tuesday that it will implement a relief package program to pay up to $12 billion in order help U.S. farmers handle the growing trade war with China, the European Union, and others. The move signals clear intent that President Trump is determined to stick to his tariff plan, yet the plan was met by criticism by many farmers, lawmakers, and republicans. On a different note, Trump tweeted that the U.S. will impose large sanctions on Turkey for the detainment of Pastor Andrew Brunson. The tweet depreciated the Turkish Lira by 1.76 percent against the dollar within minutes.

Oil markets have witnessed plenty of volatility during the past week. The U.S. continued to trade threats with Iran. Additionally, U.S. crude oil inventories dropped to their lowest level since 2015. According to the Energy Information Administration, inventories fell 6.1 million barrels during the week, leaving a total of 404.9 million barrels left (not including the American emergency petroleum reserve). Adding fuel to fire, Saudi Arabia announced it was "temporarily halting" all oil shipments through a strategic Red Sea shipping lane immediately, after an earlier attack on two crude vessels by the Iran-aligned Houthi movement. Brent Crude futures settled at $74.29 towards the end of the week.

On the FX front, the U.S. dollar had a volatile week reacting to sudden changes in the trade-war rhetoric with Europe especially. During the past week, the green back gained as much as 0.378 percent. The currency closed the week at 94.683.

Existing home sales drops

U.S. sales of existing homes fell in June as Americans in search of homes confront prices that are rising nearly double the pace of wage growth. The National Association of Realtors announced total existing-home sales fell 2.2 percent from a year ago in June, largely due to a shortage of homes and rising building materials costs. NAR’s chief economist said that “there continues to be a mismatch between the growing levels of home buyer demand in most of the country in relation to the actual pace of home sales, which are declining." Though the number of homes for sale rose for the first time since 2015, median sales price increased 5.2 percent annually in June.

UK & Europe

ECB maintains the status quo

As widely expected by the market, the ECB kept policy and guidance unchanged. The statement by ECB President Mario Draghi was not changed since the latest meeting. Fixed income investors looking for more detail on reinvestment policy have been disappointed as Draghi didn't answer any questions on the topic saying simply that "it wasn't discussed". During his statement Draghi noted the positive acceleration in wage growth in the region. Additionally, the ECB views growth to remain "broadly balanced" as per their assessment. The governing council remains confident that inflation is converging to target in a sustainable manner, but weak underlying inflation means "ample" stimulus is still required: prudence, patience and persistence is still needed when setting policy.

On the FX side, the Euro started the week at 1.1727 and lost ground to the dollar to reach 1.1622 on Friday. The single currency was supported at the 1.17 levels, yet after the ECB statement the Q&A session weighed in heavily on the currency as reinvestment strategy was not discussed and expectations for an interest rate hike may occur by the end of summer 2019.

PM May to take control of EU negotiations

Theresa May has taken back control of crucial negotiations with Brussels from her new Brexit secretary just hours after the government published its white paper on withdrawing from the European Union. May announced she would lead the talks with the EU while the recently appointed Dominic Raab would be in charge of domestic preparations.

In light of the earlier mentioned news the sterling gained on the Euro, yet the overall uncertainty on the Brexit negotiations outcome remains an anchor for both currencies. The pound had a third straight week of decline after the EU's chief negotiator Michel Barnier rejected a key part of the UK Government's Brexit proposal. The sterling levels are justifiably subdued below the 1.31 levels.

Asia

Japanese manufacturing slows down

The Japanese manufacturing sector recorded its slowest growth in 20 months this July. The Nikkei Japan manufacturing PMI showed a preliminary reading of 51.6, down from 53.0 in June. Growth in output, employment, inventories and purchase quantities all slowed, with a decline in order backlogs. This hints that the slowdown in July may extend in the months ahead, with new export orders continuing to decline and domestic orders remaining unchanged.

Inflation in Japan picks up

Tokyo's core inflation increased by 0.8 percent in July from a year earlier, accelerating for a second straight month but offering little comfort to the Bank of Japan as it struggles to reach its elusive 2 percent inflation target. The central bank will meet next week and perhaps the current inflation level won't warrant a change in the framework of their monetary policy stance.

Kuwait

Kuwaiti Dinar at 0.30265

The USDKWD opened at 0.30265 Sunday Morning.

Rates – 29 July, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1732	1.1743	1.1619	1.1657	1.1475	1.1875	1.1740
GBP	1.3138	1.3213	1.3069	1.3109	1.2910	1.3315	1.3166
JPY	111.32	111.54	110.58	111.03	109.15	111.95	110.37
CHF	0.9918	0.9978	0.9898	0.9943	0.9745	1.0135	0.9870