Treasury Group

Weekly Money Market Report

29th April 2018

Dollar makes a comeback amid Higher Yields and Lower Tensions

United States

After the worst start to the year since 1987, the dollar is finally making its comeback. The greenback has been struggling to gain ground despite the fact that the Federal Reserve has been raising interest rates and widening the interest rate differential with other major economies. This was due to a number of factors, not the least of which is the current US pursuit of trade protectionism under Donald Trump. Additionally, US officials' talked down the US dollar at the beginning of the year, adding further downward pressure. Coupled with talks about other central banks also looking to shift gears and end their recession-era policies, the dollar was left licking its wounds for the majority of the year as investors priced in a higher risk premium. Until last week.

The past week saw the dollar enjoy one of its best performances since 2016, wiping away most of its losses in 2018. Trade protectionism fears have been calmed after widespread optimism regarding an imminent NAFTA deal. Furthermore, markets see a light at the end of the tunnel in terms of tensions with China. US Treasury Secretary Mnuchin will be visiting China in an attempt to reach some sort of understanding after recent escalation of a trade war. Also a catalyst for dollar strength was the US-10 year Treasury yield breaking the 3% level for the first time since 2014.

Regarding the US economy, consumer confidence levels increased in April while new home sales increased more than expected. The data signaled some strength in the economy despite signs that growth slowed in the first quarter. Meanwhile, house prices rose in February which, coupled with strong consumer confidence, should underpin consumer spending.

In the commodities market, oil prices were kept afloat as doubts over Iran's supply increased after Trump threatened new sanctions on Iran. Trump also threatened to withdraw from the international nuclear deal with Iran, calling it "ridiculous" and "insane" and saying "it should have never, ever been made". During the week, Brent Crude prices reached $75 for the first time since 2014 as the OPEC supply cut continued. Meanwhile, gold dipped to a 6-week low as the dollar jumped and 10Y Treasury yields broke the 3% level for the first time since 2014.

UK & Europe

The Euro fell to a low of 1.2053 against the dollar last week, a level not seen since January of this year. One might think this was due to a dovish ECB, which held rates at their meeting on Thursday. However, that was not the case. ECB President Mario Draghi hailed "solid" euro zone growth, while at the same time acknowledging a slow-down in the Eurozone economy. The ECB was not overly concerned by the recent moderation in growth, and described the euro zone economy as still experiencing a solid and broad based expansion. The ECB also continued to see the risks to their growth outlook as broadly balanced, although understandably expressed more concern over downside risks posed by the recent shift to more protectionist trade policies. The dip in the Euro after the press conference was mainly due to dollar strength rather than Euro weakness, as a roaring dollar marched on towards an outstanding weekly performance.

Meanwhile in the UK, the sterling pound recorded a second week of losses after official data showed economic growth slumped in early 2018, prompting investors to scale back their bets that interest rates will rise in May. The yield on two-year gilts, which are highly sensitive to rate expectations, fell by more than seven basis points to as low as 0.794%, the lowest level since March 16. The last time the two-year gilt yield fell that much in one day was Nov. 2, when the Bank of England raised rates for the first time in more than 10 years but said it expected only "very gradual" increases as Brexit approached. The growth data indicated that Britain's economy grew at its weakest pace since the fourth quarter of 2012, expanding by just 0.1% in the first quarter of 2018. The pound ended up falling 240 points during the past week alone, ending it at a level of 1.3778.

Asia

During its meeting on Friday, Japan's central bank continued holding its rates. This time however, the bank abandoned the timeline it had set for hitting its inflation target in a surprise move analysts say is aimed at keeping market expectations for more stimulus in check. Bank of Japan Governor Kuroda noted the omission of a target timeframe was aimed at preventing markets from betting on additional easing each time the BOJ pushed back the timing for hitting its price goal. Kuroda added that "while there's no change to our commitment to achieve our price goal at the earliest date possible, there's considerable uncertainty on the outlook".

The Japanese yen lost ground to the US dollar, as the latter attempted to erase all losses incurred in 2018. The USD/JPY pair rose 141 points during the week, breaking the 109.00 level for the first time since February.

Kuwait

Kuwaiti Dinar

USDKWD opened at 0.30080 on Sunday morning.

Rates – 29th April, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2287	1.2053	1.2290	1.2128	1.1930	1.2330	1.2216
GBP	1.4018	1.3745	1.4031	1.3778	1.3580	1.3980	1.3847
JPY	107.62	107.62	109.53	109.03	108.00	111.00	108.35
CHF	0.9743	0.9739	0.9920	0.9877	0.9775	1.0070	0.9799