Treasury Group

Weekly Money Market Report

5 March 2017

The Fed on the Way to Raise in March

United States

FOMC Rate Hike "Relatively Soon"

The US dollar continued its rally this week as expectations for a Fed interest rate hike in March rebounded drastically jumping to 80%. The renewed expectations came as several Fed Governors speaking at different events spoke about the appropriateness of a "relatively soon" rate hike. In a media interview on Thursday, Fed Governor Jerome Powell said that "the case for a rate increase for March has come together." A day earlier, Fed Governor Lael Brainard, who is known for his dovish stances, also said that the case for a rate hike is strong. Furthermore, permanent voting New York Fed Governor William Dudley also voiced his support Tuesday saying "the case for monetary policy tightening has become a lot more compelling."

On Friday, Yellen signaled the central bank is likely to raise short-term interest rates at its March meeting, and suggested more increases are likely this year if the economy performs as expected. She also indicated the Fed expects to raise rates again this year, saying it likely will move more than it did over the past two years, when it raised rates once in 2015 and 2016 each. The key point in her speech was "it will be appropriate to gradually increase the federal funds rate if the economic data continue to come in about as we expect. At our meeting later this month, the Committee will evaluate whether employment and inflation are continuing to evolve in line with our expectations, in which case a further adjustment of the federal funds rate would likely be appropriate."
Next week's payrolls report has become suddenly extremely important, although "the economy has essentially met the employment portion of our mandate and inflation is moving closer to our 2% objective," Yellen said

Combined with statements from the rest of the FOMC voting members, Fed Chair seems to have convinced investors finally that the Fed has a solid case for raising interest rates.

On the political front, despite offering little insight, Trump's Congress address on Tuesday fueled further confidence that the administration is determined to work with Congress in furthering its pro-growth, pro-spending agenda. This, in turn, has once again helped renew expectations of inflationary pressures and likely monetary policy action by the Fed.

The US dollar index had the strongest rally this year jumping 1.56% over the course of the week. Despite starting the week under pressure, as Fed Presidents made their statements and President Trump concluded his address, the index made its way to 32 day high of 102.60. Finally the index closed off the week at 101.340.

On the other side of the ocean, Europe continues to be riddled with political uncertainties adding pressure to the Euro and the Sterling Pound. The main driver in the Eurozone seems to be the French elections where investors are becoming increasingly fearful about the Euro downside risks from a win for the right-wing National Front party. As a result, short EUR positions were added pressuring the currency in a downward trend.

In the UK, tensions between the Scottish and British governments and renewed prospects of another independence referendum for Scotland have weighed on the pound. Since last year's Brexit vote, SNP leader and Scottish First Minister Nicola Sturgeon has repeatedly said she could push for a new independence referendum if the country, which voted to remain in the European Union while England and Wales voted to leave, is forced into a clean break with the bloc. The British Prime Minister Theresa May responded "the Scottish National Party is treating politics as a game and obsessing over independence rather than focusing on improving public services in Scotland."

The EUR/USD dropped almost 1% from a high of 1.0630 on Monday to a low of 1.0492 Thursday while the GBP/USD fell a more drastic 1.9% from a high of 1.2478 Monday to a 1.2240 low Thursday as developments were made. They closed of the week 1.0620 and 1.2294 respectively.

US Durable Goods Rebound

Orders for US durable goods rebounded in January, a sign companies remained upbeat at the start of the year. Bookings for goods meant to last at least three years rose 1.8% after a 0.8% decrease in December, Commerce Department data showed Monday. Bookings for non-military capital goods excluding aircraft, a proxy for future business investment, unexpectedly fell 0.4% after a 1.1% jump in the prior month that was larger than previously estimated. However, bookings for capital equipment increased at an 8.9% annualized pace over the three months ended in January, the fastest since 2014. Such investment includes machinery, computers and communications gear.

US GDP Grows in Preliminary Assessment

The US economy grew in the fourth quarter at a 1.9% pace, unchanged from an initial estimate, as slower investment by businesses and state and local agencies offset stronger household purchases. Consumer spending, the biggest part of the economy, rose 3%, more than projected reinforcing the leading role that consumers continue to play in the current expansion. Furthermore, Optimism that President Donald Trump will lower taxes, reduce regulation and rebuild infrastructure may also encourage businesses to step up investment this year, contributing to growth.

ISM Manufacturing Grows

The institute for supply management reported Economic activity in the manufacturing sector expanded in February, and the overall economy grew for the 93rd consecutive month. Factory managers reported stronger orders and production as 17 out of 18 industries surveyed posted growth in February, including textiles, apparel, machinery and computers. The US dollar index opened around 0.14% higher taking it near a 7 week high.

US Consumer Confidence Increase

US Consumer confidence increased in February and remains at a 15-year high of 114.8. Consumers rated current business and labor market conditions more favorably this month than in January with improved expectations regarding the short-term outlook for business. Overall, consumers expect the economy to continue expanding in the months ahead.

Europe & UK

EUR Yearly CPI Estimate Higher

Euro area annual inflation is expected to be 2.0% in February 2017, up from 1.8% in January 2017, according to a flash estimate from Eurostat, the statistical office of the European Union. Looking at the main components of euro area inflation, energy is expected to have the highest annual rate in February (9.2%, compared with 8.1% in January), followed by food, alcohol & tobacco (2.5%, compared with 1.8% in January), services (1.3%, compared with 1.2% in January) and non-energy industrial goods (0.2%, compared with 0.5% in January).

UK Manufacturing Solid

The UK manufacturing sector experienced further solid growth of production and new orders during February. Although rates of expansion slowed, they remained well above the respective long-run averages. Growth remained solid across the three product categories – consumer, intermediate and investment goods – with the steepest increase seen in the latter. The UK Manufacturing PMI at 54.6 in February down from 55.7 in January.

UK Services Expands

The UK service sector firms remained in expansion mode during February, but growth momentum eased further from the 17-month peak seen at the end of 2016. The slowdown mainly reflected a softer pace of new business growth, which some respondents linked to more cautious spending among consumers. Business confidence nonetheless remained strong, with service providers indicating that optimism was little-changed from the post-referendum high recorded at the start of this year. The UK services PMI was 53.3 in February down from 54.5 in January.

Asia

Australia Quarterly GDP Rebounds

Data from the Australian Bureau of Statistics showed the Australian economy recorded broad-based growth of 1.1% in the December quarter of 2016, a rebound from the previous quarter's decline of 0.5%. Household spending accounts for more than half of Australia's economy, and resurgent consumption teamed with government investment supported last quarter's expansion. Furthermore, coal and iron ore prices continued their rebound in the period, providing a boost to national income and kept the economy on track to meet the Reserve Bank of Australia's target of 3% annual growth later this year.

China Caixin Manufacturing PMI Strong

Chinese manufacturing companies saw a stronger improvement in overall business conditions in February, with output and total new orders both rising at faster rates than at the start of the year. The latest upturn in new work was supported by the fastest increase in new export business since September 2014. At the same time, employment declined at only a marginal pace that was the slowest seen in two years. Despite easing since January, the rate of input price inflation remained sharp which prompted firms to raise their prices charged. Looking ahead, manufacturers signaled the strongest degree of optimism towards future output growth since May 2015. The seasonally adjusted index was released at 51.7 up from 51.0 in January.

Kuwait

Kuwaiti Dinar at 0.30545

The USDKWD opened at 0.30545 on Sunday morning.

Rates – 05 March, 2017

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.0560	1.0492	1.0630	1.0620	1.0490	1.0805	1.0672
GBP	1.2484	1.2212	1.2484	1.2294	1.2195	1.2485	1.2326
JPY	112.07	111.67	114.74	114.00	111.55	114.85	113.73
CHF	1.0066	1.0006	1.0146	1.0075	0.9915	1.0145	1.0024