

## Dollar surrenders gains as Trump starts trade war

### United States

---

#### Fed Chair optimistic on the status of the US economy

Fed Chair Jerome Powell had his first semiannual testimony in front of congress since being appointed by President Trump to succeed Janet Yellen. In his testimony Powell iterated on the Fed's path to gradually tighten the monetary policy amid the accelerated growth of the US economy. With the unemployment rate at a historically low level and the labor participation rate not moving up much, Powell expressed confidence that wage growth would pick up and that the recent shortfall in inflation would prove transitory. The Fed chairman emphasized the need to revisit various aspects of the tighter financial regulation adopted in the aftermath of the global financial crisis, including leverage ratios.

Looking at the debt market, US treasury yields retreated last week as the 10-year treasury yield reached a low of 2.807% after President Donald Trump sparked fears of a trade war announcing tariffs on steel and aluminum. In details, treasury prices rallied Thursday, pushing down yields, with investors rushing into government paper after the Trump administration's decision to impose global tariffs on steel and aluminum imports triggered a stock-market selloff. The tariffs are to be implemented as early as next week said President Trump.

Globally, the tensions escalated between the EU and the UK after EU officials published their draft on the Brexit deal to the UK. Prime Minister May said that she will never accept the drafted Brexit agreement, fueling the prospect that the negotiations are heading for a tougher period. Meanwhile, the Bank of Japan will start thinking about how to exit its massive QE program around the fiscal year starting April 2019, said Governor Kuroda. This marks the first time the central bank provided any clear guidance on the timing for normalizing policy.

On the currency front, the dollar index opened the week on a strong footing reaching a high of 90.932 before retreating towards Friday following Trump's speech, Powell's testimony, and weak economic data. The US dollar closed the week at 89.935.

The Euro started the week with a bearish move and broke the 1.2200 level to reach a low of 1.2155 towards the end of the week. The single currency capitalized on the increased tensions in the Brexit negotiations and erased most of its losses to the dollar. The currency ended the week at 1.2312.

The cable traded sensitively prior to the Brexit negotiation developments and PM May's comments on the drafted EU deal reaching a 6-week low of 1.3712. The Sterling pound had the biggest losses to the dollar as it depreciated by 1.60%. The pair closed the week at 1.3796.

The Japanese yen moved with the market at the beginning of the week as a strong dollar direction was the theme of the market. However, the currency had substantial gains after Governor Kuroda's comments on the timeline of monetary policy normalization, breaking the 106 level and reaching a low of 105.25.

#### US GDP

The US economy did expand, yet on a slightly slower pace than previously thought for the fourth quarter of 2017. The reading came at 2.5%, down from the previous reading of 2.6%. The report said that the downward revision reflected a "downturn in private inventory investment", while consumer spending remained at 3.8%. The reliance on imports to fulfill domestic demand could widen the trade deficit and halt the anticipated economic boost from the tax cuts and the increased government spending. Economists do believe that the economy will reach Trump's administration 3% annual growth target this year, possibly putting pressure on the Federal Reserve to raise interest rates more aggressively than currently anticipated.

#### US Housing Market Stalls

Pending home sales declined in January to more than three-year low at 4.7% m/m. The property market is settling into a cooler pace as there aren't enough affordable listings to choose from. Rising property prices remain a hurdle.

For further information, please contact NBK Dealing Room on 22462046 (Telephone), 22419720 (Fax) or TSD\_LIST@nbk.com . This report is a publication of National Bank of Kuwait. It is designated for information only, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential loss and/or damage arising from its use.

US home sales fell for the second month in January, recording their lowest level since August 2017. The measure is based on signed contracts during the month and is a strong read on reactions to home affordability. Mortgage prices are increasing and price appreciation of properties continues to overtake wage growth. It is worth noting that the average rate on a 30-year mortgage has jumped to the highest level since 2014.

### **Core Durable Goods Fall**

US durable goods orders fell to their lowest in six months. Durable goods, or items that are intended to last for three years or more fell 3.7% versus the expected 2.4%. One of the factors that dropped down the number is bookings for commercial aircrafts, which decreased 28.4% while bookings for defense aircraft shrank 45.6%. Core durable goods orders, which exclude transportation, came down 0.3% versus a projected gain of 0.4%. In addition, Non-defense capital goods excluding aircraft fell 0.2% against the expected 0.5% increase.

## **Europe & UK**

---

### **UK Manufacturing PMI**

The rate of activity in UK factories dropped into an eight-month low this February, and a survey of businesses suggested that manufacturing was struggling to cope with rising orders. The UK Manufacturing PMI fell to 55.2 from 55.3 in January. It is worth mentioning that UK manufacturing was boosted last year with the help of a combination of stronger global growth and the weaker sterling. Slower rates of growth have been recorded around the globe this year, with the latest Eurozone poll highlighting bottlenecks among suppliers. Similar constraints have been pointed by the UK survey, where employment in manufacturing rose for the 19th month in a row. Companies were seeking to increase the capacity to meet rising sales, but some reported shortages of components and rising costs of raw materials.

### **Eurozone Inflation Stagnant**

Inflation in the Eurozone fell once again in February though the move should have few implications for monetary policy. European inflation came in line with market expectations in February at 1.2% y/y down from 1.3%. Core inflation on the other hand was stuck at 1.0% y/y and also in-line with expectation. The inflation report shows that the decrease was led by the sharp fall in unprocessed food prices as the winter season comes to an end. However, weak core inflation is likely to leave the doves at the ECB resisting calls from the hawks for a quick move toward the exit from its asset purchase program.

## **Asia**

---

### **China's Manufacturing Slows Down**

The Chinese manufacturing PMI came at 50.3 in February, lower than the projected 51.2 and hitting a 19-month low. If we look at the breakdown of the index we come to the realization that this is not alarming, since the domestic market was still good at 51.0 and expectations of business activity stood at 58.2, which is higher than 56.8 in January. This means that the low reading is probably caused by holiday effects and not an underlying slowdown in manufacturing activity. Meanwhile, the non-manufacturing PMI fell to 54.4 from 55.3 in January. This is understandable as the financial and real estate sectors were off for two weeks in February. The PMI still shows that consumption, tourism and the travel industry did not counter the low activities during the holiday season. Economists are expecting the Chinese economy to slow down in 2018 as the government cracks down on the polluting industries and high levels of debt.

## **Kuwait**

---

### **Kuwaiti Dinar at 0.29975**

The USDKWD opened at 0.29975 on Sunday morning.

**Treasury Group**  
**Weekly Money Market Report**  
4 March 2018



**Rates – 04 March, 2018**

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2296	1.2155	1.2355	1.2317	1.2120	1.2525	1.2410
GBP	1.3979	1.3712	1.4070	1.3801	1.3620	1.4005	1.3870
JPY	106.82	105.25	107.67	105.72	103.75	107.65	105.01
CHF	0.9366	0.9325	0.9490	0.9377	0.9180	0.9590	0.9310