Treasury Group

Weekly Money Market Report

03 December 2017

Senate Finally Approves Republicans Tax Overhaul

United States

US Dollar Might be Poised for Appreciation amid Senate Vote

Last week, the greenback was under pressure after the U.S. Senate suspended voting on the tax bill on Thursday as a key compromise to win a majority collapsed, leaving Republicans scrambling to salvage the legislation. On Saturday, Senate Republicans finally passed their version of the tax bill by a 51-49 vote. Republicans will now move on to reconcile the versions of the House and Senate, starting as soon as Monday. The party targets to put the legislation for President Donald Trump's signature by the end of the year. Markets have become sensitive to any optimism on the reforms, which may give fresh incentive to the equity bull-run into the final weeks of the year.

On a different note, Jerome Powell, Federal Reserve Chairman Nominee spoke in his confirmation hearing before the Senate Banking Committee that the case for raising interest rates in the upcoming December meeting is firming as the labor market improves without spurring the US economy to overheat.

In the Brexit saga, the breakthrough in Brexit talks that Theresa May has been working to clinch was at risk on Friday as the Northern Irish party that props up her government threatened to bring her down if she agrees to the concessions that Europe is demanding. The EU has set May a deadline on Monday to present a solution to avoid a hard border in Ireland, as well as an improved offer on the divorce bill. Otherwise, according to the EU, there won't be time to orchestrate the breakthrough that both sides seek by year-end that would allow negotiations to move on to the future trading relationship. Nevertheless, Sterling reacted positively to the progress made in the negotiations and closed the week higher.

On the currency front, the dollar had a volatile week with solid economic data lifting the dollar before hopes of tax reform changing due to breakdown in the majority in the Senate. The greenback opened the week at 92.757 and reached a high of 93.505 before closing the week at 92.907. Now, with the tax bill finally passed by the Senate, the greenback would likely come back to the spotlight in the upcoming week with continued.

The Euro started the week with a bearish move towards the lows of 1.1807 as a dollar bull-run was the theme. However, fueled by positive inflation data and progress in the Brexit negotiations the single currency reached a high of 1.1960 and closed the week at 1.1893.

Sterling took the lead, boosted by positive Brexit news, as UK and EU seemed to have agreed on the Brexit bill and the Irish border. The pair appreciated to reach 1.3549 on the back of solid manufacturing date but was halted by the Northern Irish party's objection to concessions that the EU are demanding. The currency closed the week at 1.3475.

The Japanese yen had a week of continuously losing ground to the dollar as the increased divergence in monetary policy and political concerns rise with North Korea's military activity. The currency opened the week at 111.41 and reached a high of 112.87 on Friday before closing the week at 112.12.

On the commodity front, oil prices remain supported as OPEC and its allies outside the group agreed to maintain production cuts until the end of 2018. Both West Texas and Brent are trading around 2 year highs of $57.80 and $63.10 respectively.

Consumer Confidence at 17 year high

Consumer confidence in the US increased for the fifth consecutive month at 129.5, well above the market's expectation of 123.9. The results of the survey showed slight improvements in the consumers' assessment of current conditions, yet their expectations regarding the short-term outlook improved more. The main attributor to the results was optimism of further enhancements in the labor market.

Consumers' outlook for the job market was also more upbeat than in October. The proportion expecting more jobs in the months ahead increased from 18.7 percent to 22.6 percent, while those anticipating fewer jobs declined from 11.6 percent to 11.0 percent. Regarding their short-term income prospects, the percentage of consumers expecting an improvement decreased marginally from 20.3 percent to 20.1 percent, while the proportion expecting a decrease was virtually unchanged at 7.6 percent.

US GDP grows

The second estimate of GDP growth in the US for the third quarter marked the quickest pace in three years. The upbeat performance was due to robust business spending on equipment and an accumulation of inventories, Gross domestic product expanded at a 3.3 percent annual rate last quarter also boosted by a rebound in government investment, the Commerce Department said in its second GDP estimate on Wednesday. That was the fastest pace since the third quarter of 2014 and a pickup from the second quarter’s 3.1 percent rate.

The economy was previously reported to have grown at a 3.0 percent pace in the July-September period. It was the first time since 2014 that the economy experienced growth of 3 percent or more for two straight quarters.
The growth pace, however, likely exaggerates the health of the economy as inventories, goods yet to be sold, accounted for nearly a quarter of GDP growth. Excluding inventory investment, the economy grew at a 2.5 percent rate. When measured from the income side, output also expanded at a 2.5 percent rate.

Pending Home Sales flourishes

Pending home sales rebounded strongly in October following three straight months of diminishing activity, but still continued their recent slide of falling behind year ago levels, according to the National Association of Realtors. All major regions except for the West saw an increase in contract signings last month. The Pending Home Sales Index, a forward-looking indicator based on contract signings, rose 3.5 percent to 109.3 in October from a downwardly revised 105.6 in September. The index is now at its highest reading since June (110.0), but is still 0.6 percent below a year ago.

Europe & UK

Eurozone Inflation on the rise

CPI flash estimate for November increased by 0.1 percent to 1.5 percent in Europe. When breaking down the main components of the inflation, energy is expected to have the highest annual rate in November followed by food and services. Oil prices should have a great effect on the actual inflation figures as 24-month high crude oil prices will hit the economy.

UK banks stress test

Governor of the Bank of England mark Carney described the results of this year’s stress tests on seven major lenders as evidence that they can withstand a disorderly Brexit scenario. Carney said the Bank had reached this judgment after considering a variety of factors, including the logistical impact faced by airlines and customs, as well as issues the City faces from processing complex derivatives transactions without a transition deal. The stress tests took into account that the banks would lose 50 billion Sterling Pounds collectively under the scenario the central bank imposed. Carney said a disorderly Brexit would have an impact that was “no worse” than this year’s tests which, while not explicitly modeling the impact of the UK’s exit from the EU, were at the extreme end of what might be expected.

UK manufacturing PMI reaches highest level in four years

November saw the UK manufacturing sector move up a gear, with rates of increase in new orders and production among the best registered over the past four years. This tested capacity and encouraged further job creation, with employment rising to the greatest extent since June 2014. The index rose to 58.2 in November, up from 56.6 in October (originally reported as 56.3), its highest level since August 2013. The reading is the tenth-best registered during the near 26-year series history. The latest survey was conducted between 13-27 November. Manufacturing production expanded at the fastest pace since September 2016 and to one of the greatest extents during the past four years. Companies linked this to stronger inflows of new orders, reflecting solid domestic demand and steeper gains in new export business.

Asia

China's PMI

China reported on Thursday that factory activity expanded at a faster pace in November with manufacturing PMI coming at 51.8. The index rose by 0.2 points from October results of 51.6, higher the market's forecast of 51.8 signaling an expanding manufacturing activity. China's services sector also saw activity pick up, with its PMI reading accelerating to 54.8 in November from the previous month's 54.3, official data showed.

Japan's inflation

Japanese core inflation increased by 0.1% in November reaching 0.8% year on year and meeting the market's forecast. The increase is considered marginal at best and far away from the BOJ's target of 2%, a further lift to core inflation may be coming due to the rise in energy prices globally.

Kuwait

Kuwaiti Dinar at 0.30160

The USDKWD opened at 0.30160 on Sunday morning.

Rates – 03 December, 2017

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1931	1.1807	1.1960	1.1893	1.1710	1.2095	1.1961
GBP	1.3335	1.3219	1.3549	1.3475	1.3265	1.3655	1.3518
JPY	111.41	110.83	112.87	112.12	110.25	113.90	111.57
CHF	0.9792	0.9733	0.9881	0.9768	0.9560	0.9965	0.9701