

# Weekly Money Market Report

## 19 August 2018

### Economic Figures Lift the Dollar

#### United States

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The US dollar continued its upward momentum last week fueled by the bloodbath in emerging markets following the turmoil in Turkey. Though the US has limited exposure to Turkey, the recent volatility was spread to other parts of the world, especially emerging markets, and could heighten worries on US trade relations with major partners. European Central Bank regulators also reported concern on the exposure of banks in the region, specifically Spain, Italy, and France. The concern is that Turkish borrowers may default on loans denominated on stronger currencies, as banks stand at a risk. Turkey's finance minister Berat Albayrak reassured investors in a call last week that the government is committed to tackling rampant inflation.

The possibility of a breakthrough in the U.S.-China trade dispute eased the worries in the markets which were struck by the infusing financial crisis in Turkey. US equities recouped their losses as investors brushed-off the political conundrums. Nevertheless, demand on treasuries as safe-havens continued and kept the 10-year US treasury yield at around 2.85 percent level.

On the FX front, the U.S. dollar had a volatile week reacting to sudden changes in the trade-war rhetoric and the developments in the Turkey crisis. The greenback gained as much as 0.75 percent during the past week and was supported by solid retail figures on Wednesday. The currency closed the week at 96.101.

#### US Retail Figures Boosted the Dollar

U.S. retail sales rose more than expected in July as households boosted purchases of motor vehicles and clothing, suggesting the economy remained strong early in the third quarter. The Commerce Department said retail sales increased 0.5 percent last month. But data for June was revised lower to show sales gaining 0.2 percent instead of the previously reported 0.5 percent rise. Economists polled by Reuters had forecast retail sales nudging up 0.1 percent in July. Retail sales in July increased 6.4 percent from a year ago. July's increase in core retail sales suggested the economy started the third quarter on a solid footing after logging its best performance in nearly four years in the second quarter.

#### UK & Europe

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#### Euro Zone Inflation Steadies

Yearly inflation in the Eurozone remained static at 2.1 percent in July with no movements from the prior reading. Similarly, core inflation reading came at 1.1 percent on yearly basis in July as well. The ECB have pledged to end the QE by the end of the year and start reducing the 30 billion in monthly asset purchases to 15 billion starting September 2018. The current readings of inflation may warrant such reductions, yet the market is still uncertain on the effect on inflation readings and the economy after the reductions of the QE program.

On the FX side, the Euro started the week at 1.1388 and traded in a narrow range while losing ground to the dollar to reach 1.1301 on Wednesday. The single currency was supported at the 1.13 levels as the crisis in Turkey started taking a turn in the right direction at least.

## UK Record Low Unemployment Rate

The unemployment rate in the UK dropped to 4 percent, its lowest level in 40 years as reported by the Office for National Statistics on Tuesday. Due to a reportedly high number of job vacancies, employment is expected to rise significantly in the near future. On the other hand, wage growth reported slower growth rising at just 2.4 percent, below economists' forecasts. The pound initially spiked, but quickly declined due to the weaker than expected wage growth data gaining just 0.09 percent on the day.

Inflation met expectations in July and reversed the 2018 downward trend, rising to 2.5 percent. The Office for National Statistics report revealed that the rise is attributed to higher transport fees and fuel, along with irregular computer game prices.

The sterling continued its bearish move last week reaching 13-month low of 1.2662 even though robust economic figures on the labor market and inflation surfaced. The market is expecting a no deal Brexit by March 2019 and is pricing it in the currency levels at the moment.

## Asia

### Economic output in China eases

Retail sales growth dropped to 8.8 percent in July, compared with the 9.0 percent gain in June. It was lower than the 9 percent median estimated in an MNI survey. The slowing was due to restaurant sales growth falling to 9.4 percent in July from 10.1 percent in June, and goods sales growth decreasing to 8.7 percent in July from 8.9 percent in June. From January to July, the growth slowed overall, to 9.3 percent from 10.4 percent in the same period last year. Industrial production growth was reported as 6.0 percent yearly in July, unchanged from the reading in June but well below analysts' predictions of a 6.4 percent yearly growth in an MNI survey. The year-to-date data, which was 6.6 percent y/y, was down 0.1 percentage point from last month.

## Kuwait

### Kuwaiti Dinar

USDKWD opened at 0.30330 on Sunday morning.

### Rates – 19<sup>th</sup> August, 2018

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1388	1.1301	1.1445	1.1438	1.1215	1.1520	1.1521
GBP	1.2773	1.2162	1.2827	1.2750	1.2580	1.2840	1.2810
JPY	110.43	110.11	111.43	110.50	109.35	111.45	109.70
CHF	0.9945	0.9901	0.9982	0.9956	0.9855	1.0060	0.9871