Treasury Group
Weekly Money Market Report
09 July 2017

FOMC Meeting Minutes Increased the Market's Uncertainty

United States

FOMC clouds the market

Last week, central bank comments and rate expectations continued to dictate movements in the global financial markets. Meanwhile, the US dollar found renewed support amid better than expected ISM data and a mostly positive job report. However, the release of the June FOMC meeting minutes showed that Fed officials were divided on several fronts. The timing of balance sheet reduction, the outlook for inflation and employment, and the impact of these economic conditions on the future of monetary policy were some of the main areas of conflict. These uncertainties have continued to weigh on the dollar. Market expectations remain skewed towards one more Fed rate hike this year. But the prospects of such a hike, given these uncertainties, are not as clear as they have previously been. Adding to doubts over Fed policy has been the recent US employment landscape as the past three months have seen relatively weak nonfarm payroll figures.

Meanwhile, the surge in global bond yields clearly reflects the movement towards withdrawal from monetary stimulus by major central banks. Specifically, German 10 year bund yields surged to an 18-month high amid the release of the ECB's hawkish meeting minutes, German yields closed the week at 0.57%, rising from 0.23%. Similarly, US treasury yields rose closed the week at 2.393% after reaching a low of 2.130%.

Additionally, Fed Vice Chairman Fischer said Thursday in a speech that the uncertainty about US fiscal policy could be holding back economic growth, as a result of the negative impact on business investment. "By one measure, U.S. policy uncertainty was elevated for much of the recovery, subsided in 2013, and then rose again late last year, underpinned by uncertainty about policies associated with health care, regulation, taxes, and trade" he said and added that "mitigating the damping effect of uncertainty by providing more clarity on the future direction of government policy is highly desirable."

On the currency front, the US Dollar initially gained across the board after the upbeat ISM data reaching 96.519. The currency then lost traction after disappointing ADP non-farm data and the release of the FOMC minutes from June's meeting reaching a low 95.811. On Friday, the currency traded in a volatile manner after the non-farm report and closed the week at 96.00.

The Euro opened the week on a strong footing at 1.1418. The single currency then reached a high of 1.1427 as minutes from the European Central Bank's June meeting revealed that members discussed removing the easing bias from its latest monetary policy statement. However, the currency lost some its momentum and closed the week at 1.1399.

The Sterling Pound traded in a relatively tight range initially. The currency then dropped dramatically after a string of weaker-than-expected economic data that raised doubt on whether the Bank of England is ready to raise rates. The Pound finally settled at 1.2891 at the end of the week.

The Japanese Yen dropped across the board last week as central bank expectations pushed global bond yields sharply higher. The drop in the Yen indicates that the market expects the divergence in policy between the Bank of Japan and other major central banks to widen further amid comments from the BoJ that it will continue its QE program until its 2% inflation target is met. The Yen opened the week at 112.12 and closed at 113.91.

On the commodities side, oil prices closed lower as data showed US production and rig counts rose last week while OPEC exports hit a 2017 high, casting doubt over efforts by producers to curb global oversupply. Brent futures closed the week at $46.83 after falling to a low of $46.28. Similarly, West Texas Intermediate closed at $44.36, after falling to $43.78.

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A surge in both Manufacturing and Non-Manufacturing PMIs

The ISM manufacturing index surged to 57.8 in June from 54.9 in May, the highest reading in nearly 3 years, and well above analysts' forecasts. The employment component of the ISM survey rose sharply in June which bodes well for non-farm payrolls data which is due to be released on Friday. As for the non-manufacturing PMI the reading increases by half a point from May's 56.9 to June's 57.4 reading.

Mixed Jobs Data

Jobs data in the US has softened approaching the summer time. The private sector in the US added 158K jobs in June, versus the forecasted 184K. That was the lowest reading since January 2017. Companies added 158,000 positions for the month, a number that economists who released the report said was still strong but stood well below the robust 230,000 number the report showed in May. All of the June jobs in the ADP's count came from services, with professional and business positions showing the biggest gain at 69,000. Administrative and support services contributed 43,000 while the trade, transportation and utilities category grew by 30,000.

Non-farm payroll report for June has shown the economy created 222K jobs from 152K in the previous month, beating the market expectations of 175K. Employment rose in health care, social assistance, financial activities, and mining. Employment growth has averaged 180,000 per month thus far this year, in line with the average monthly gain of 187,000 in 2016. The unemployment rate increased slightly to 4.4% in June from 4.3% in the prior month.

Wages however, grew a consistent 0.2% though below expectations for a 0.3% increase. Year over year, wages have grown around 2.5%. This marks the eighth year in which wages have not grown over 4% year over year. Slow wages growth may limit how high the Fed can hike rates and raises questions about the longer-term health of the U.S. economy. This suggests more progress can be extracted from the job market.

Europe & UK

Euro Area Manufacturing on the rise

Manufacturing Purchasing Managers' Index was slightly higher than forecast at 57.4 in the previous month. The sector improved to its fastest in over six years in June, indicating continued strong manufacturing growth last month. Output expanded on the back of growing inflows of new work, boosting companies to keep the pace of job creation close to May's 20-year survey record high. The PMI has now remained above the neutral 50.0 mark throughout the past four years.

Euro PPI declines

In Europe, the Producer Price Index continued to post declines for the fourth month in a row. The figure, released at -0.4% missed the estimate of -0.2%, underscoring weak inflation in the Eurozone. Meanwhile, ECB Board Member Praet said on Tuesday that a continued recovery in euro zone inflation is "crucially contingent" on low borrowing costs and, in turn, on an easy monetary policy from the European Central Bank.

UK PMIs send mixed signals

The manufacturing Purchasing Managers' Index showed further expansions of both production and new order volumes in the prior month. However, the PMI was disappointing in contrast, dropping to 54.3 from 56.7 in May. The average PMI for second quarter came at 55.9, the highest in 3 years suggesting that the weakness in the pound has supported manufacturing exports and domestic demand has remained relatively strong.

Slowing momentum across UK's service sector in June indicates that Brexit uncertainty and weak consumer confidence is starting to take its toll on the economy. Activity in the service sector fell to a four months low from a previous reading of 54.5 to 53.9. Moreover, growth in new orders fell to a nine months low, indicating weaker prospects of future activity. Overall, the economy is likely to lose momentum in the second half of 2017 that could disappoint some BoE officials who want to raise interest rates to control inflation.

Asia

The RBA keeps its policy unchanged

The Reserve Bank of Australia kept its benchmark interest rate unchanged as it held the cash rate at 1.5 percent. Unemployment rate fell to 5.5 percent in the previous month, the RBA is waiting to see if wages will respond as a result. At the same time, retail sales exceeded expectations, rising 0.6 percent, following a strong figure prior month as well.

Chinese PMI Data Improves

Last week economic data out of Asia came in better than market forecasts. China's Caixin manufacturing Purchasing Managers' Index increased to 50.4 in June from 49.6 in prior month, indicating a growth in the manufacturing sector in the previous month. Firms noted slightly stronger rises in production and new orders. This prompted companies to increase their purchasing activity.

A sharp increase Japan's Manufacturing Sector

The Tankan Manufacturing Index pointed to improved business conditions in second quarter 2017 for both manufacturing and service sector firms. The Tankan index for large manufacturers increased for a third straight quarter, it came at 17 from 12 in the first quarter, the highest reading in more than three years.

Bank of Japan Emphasizes on 2% inflation target

The BoJ on Friday announced its first 'fixed-rate' bond buying operation since February, offering to buy an unlimited amount of 5-10y JGBs at 11bp. Nominal and real Japanese yields fell 1-2bp in response, which given the bear moves in global bond markets, lifted USDJPY. The BoJ has previously communicated that it sees discussions around a policy exit as premature until sustainable 2% inflation is achieved, regardless of global developments.

Kuwait

Kuwaiti Dinar at 0.30*325*

The USDKWD opened at 0.30325 on Sunday morning.

Rates – 09 July 2017

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1418	1.1311	14.39	1.1400	1.1315	1.1580	1.1458
GBP	1.3010	1.2864	1.3023	1.2891	1.2665	1.3050	1.2938
JPY	112.12	111.92	114.17	113.91	112.85	115.90	113.45
CHF	0.9583	0.9579	0.9687	0.9642	0.9440	0.9830	0.9587

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