Treasury Group

Weekly Money Market Report

23 September 2018

Trade Wars Continue to Handicap the US Dollar

United States

US President Trump has imposed a 10% tariff on $200 billion worth of Chinese imports starting this week, adding a threat of increasing the rate to 25% if no deal is reached with China by 2019. The US has already imposed tariffs on $50 billion of Chinese imports this year, with the addition of $200 billion bringing the total amount to half of all Chinese imports. The latest move by the Trump administration has left China vowing to reply with its own retaliatory levies, representing a sharp escalation in the trade war which can have dire effects on the global economy.

China has announced its retaliation as previously threatened on $60 billion of US goods. Ranging on items from meat to wheat to textiles, the said tariffs will take effect on September 24.Trump continued his crusade on China on Thursday “It’s time to take a stand on China,” and “We have no choice. It’s been a long time. They’re hurting us.” The Trump administration hasn’t put a process in place for companies to get exemptions from the most recent tariffs it’s imposing, unlike earlier rounds of the duties.

Global markets seem to have shrugged off the escalating trade war between the US and China. Equities globally rose amid a sell-off in treasuries sending the US 10-year Treasury to a 4-month high of 3.08%. Economists also attribute the increase in treasury yields as solid economic data. In the labor market, weekly jobless claims fell to the lowest levels in nearly 49 years totaling 201,000 claims only. Additionally the Philadelphia Federal Reserve Manufacturing index rose to 22.9 in September from August’s 11.9 reading.

On the FX front, the U.S. dollar had a volatile week reacting to developments in the trade war rhetoric reaching a 2-month low of 93.960. Nevertheless, the market is pricing in a 100% chance of an interest rate hike at this week’s Fed meeting.

UK & Europe

Eurozone PMI slows down

Eurozone business activity grew in September at the second-weakest rate since late-2016, according to preliminary PMI survey data, as manufacturing growth was subdued by export orders stagnating for the first time in over five years. The IHS Markit Eurozone PMI fell from 54.5 in August to 54.2 in September, according to the flash reading. The slowdown was driven by weaker growth in the manufacturing sector, where production increased at the slowest rate since May 2016. New orders received by factories showed the joint-weakest rise since February 2015 as new export orders failed to grow for the first time since June 2013.

On the FX side, the Euro started the week at 1.1623 and kept gaining ground on the subdued dollar amid tensions with the US's trade partners. The single currency gained as much as 1.55% hitting a 3-month high of 1.1803.

Unexpected inflation jump in the UK

UK inflation unexpectedly rose to a six month high from 2.5% to 2.7%, foregoing expectations of a downward trend. Last month, the central bank increased the interest rate in an effort to tame price pressures, which led to expectations of a drop in inflation to 2.4%. The largest contributors to the upward movement were higher prices of transport services and clothing. Wages grew by 2.9% in the three months to July, illustrating that wages are still rising more than inflation.

British Prime Minster Theresa May warned EU leaders that their plan to create a customs border between Britain and Northern Ireland was "not credible", claiming she would reject the offer from EU's chief negotiator Michel Barnier. The future of the Irish border once Britain leaves the EU remains unclear, as it is estimated that at least 30,000 people cross the border every day for work, and around 2.4 billion pounds worth of Northern Ireland goods cross the border yearly.

After the EU summit in Salzburg, Theresa May promised to achieve breakthroughs in the Brexit negotiations with the EU after the leaders of the union bluntly rejected her blueprint. In 10 days she will face down her Conservative party at its annual conference in Birmingham where she will need to hold her grounds and have her party continue supporting her Brexit strategy.

The sterling continued its bullish momentum this week and climbed to a 2-month high of 1.3298 against the US dollar. The recent developments in the Brexit have created a volatile cable movement, as a result of the EU leaders rejecting the proposed Brexit deal the cable fell below 1.32 levels on Friday. The currency closed the week at 1.3076.

Asia

BOJ maintaining the status quo

The Bank of Japan announced it is keeping its monetary policy unchanged and reaffirmed its commitment to reaching 2% inflation during Wednesday's meeting. Japan's central bank promised to keep extremely low rates for an "extended period", maintaining shorter term interest rates at -0.1%, and an annual goal for government purchases at 80 trillion yen per year. Some members of the BOJ's policy board have voiced concern in regards to commercial banks, whose lending margins have been tightened by low interest rates. Central bank Gov. Haruhiko Kuroda said that the banking industry was sound and would not resort to unwise lending, claiming there are no signs of overheating asset prices.

Kuwait

Kuwaiti Dinar at 0.30250

The USDKWD opened at 0.30250 Sunday morning.

Rates – 23 September, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1623	1.1803	1.1616	1.1749	1.1355	1.1760	1.1635
GBP	1.3066	1.3297	1.3053	1.3076	1.2735	1.3125	1.2980
JPY	111.94	112.87	111.65	112.56	109.35	110.05	110.29
CHF	0.9671	0.9700	0.9540	0.9584	0.9485	0.9895	0.9613