Weekly Money Market Report

10 June 2018

Trump's Trade War Draws Retaliation

United States

Donald Trump is under fire from his allies in the G7, a group of the largest advanced economies in the world, representing more than 62% of the global net wealth. The American President has failed to even keep his closest allies happy after a series of decisions that could not be described as "friendly". After pulling out of the international nuclear deal with Iran, Trump has put a strain on historical relationships as he imposed tariffs on steel and aluminum. Other members of the G7 condemned Trump, with the Canadian Finance Minister Bill Morneau saying: "We're concerned that these actions are actually not conducive to helping our economy, they actually are destructive," and that is consistently held across the six countries that expressed their point of view to Secretary Mnuchin.

President Donald Trump has to deal with Mexico after it followed Canada's footsteps in announcing retaliatory tariffs on the US. Trump continued to face backlash against his decision to levy tariffs on most of his trading partners. Following retaliation from his neighbors, the European Union has followed in the footsteps of Canada and Mexico in announcing retaliatory tariffs on US imports. Starting in July, the EU plans to target €2.8bn of annual US imports. Jyrki Katainen, the EU commission's vice president, indicated that the decision was merely a defense of the EU's industries and legitimate interests. He also added that while "it's difficult to assess what president Trump decides to do next", it was in the interests of both sides to avoid a further escalation or widening of the trade war. "There are no winners," he said.

For now however, the US President will likely flaunt the fact that the US trade deficit has fallen to 7-month low. A rise in exports and a decline in imports dropped the American trade deficit by $1bn over the course of a month. The trade deficit is currently a national focal point, after Trump went through with his campaign promise of implementing import tariffs on most of his trading partners – neighbors and allies included. While Mr. Trump may hail the figure as evidence of immediate success of his protectionist trade policy, we have yet to see the effect of the reciprocal tariffs against the US. Note that China alone has threatened tit-for-tat tariffs on US goods worth up to $150 billion.

As far as the North Korean deal situation, Trump has held a joint press conference with Japanese Prime Minister Shinzo Abe. In the conference, Trump said that he would invite Kim Jong Un to the US and even in the white house if summit negotiations go well. At the same time, he said that he's totally prepared to walk away from the summit if necessary. The president's decision to cancel the summit and then call it back again, squeezed the time frame for planning the Singaporean summit that is set to take place Tuesday; he did mention that the summit is still subject to change. "I think I'm very well prepared," Mr. Trump said of the expected summit. "I don't think I have to prepare very much. It's about attitude. It's about willingness to get things done. But I think I've been prepared for this summit for a long time."

In the currencies market, the Greenback had started the week strong but kept slipping with all the retaliation that Trump has been facing with his decisions. The dollar finally managed to brake four straight days of declines were it stared to rebound with the Dollar Index closing the week at 93.397.

Services PMI surges

The US services sector looked better than forecasted in May, with the ISM non-manufacturing PMI rising to 58.6 in May from a dip to 56.8 in April, and surpassing the forecasted 57.5. Investors are taking the services PMI, in addition to the forecast-beating jobs report of last Friday as a sign that the Federal Reserve will probably stick with its plans for two more interest rate rises this year, and maybe an extra.

UK & Europe

ECB officials to push the Euro higher

The Euro reached a two week high of 1.1834 following hawkish comments from the European Central Bank ahead of its meeting next week. The ECB may finally be ready to unwind its quantitative easing program after a period of robust euro zone growth and increasingly evident wage pressures. ECB chief economist Peter Praet indicated that “both the underlying strength in the euro area economy and the fact that such strength is increasingly affecting wage formation support our confidence that inflation will reach a level of below, but close to, 2 percent over the medium term". Praet also added that market expectations that the ECB will halt its vast bond-buying program by the end of this year “are plausible”.

Mixed UK economic figures

The British week started with the Construction PMI figure showing that construction activity steadied in May after a gloomy start to the year. The figure was unchanged last month from April’s number of 52.5, slightly surpassing analysts’ expectations of a lower figure of 52.0. The data does confirm the consensus that the industry is bouncing back from a sharp contraction in the first quarter due to snow putting building projects to a halt, and dragging down the rate of growth in the economy as a whole. With that said, the underlying trend still looked week as new orders declined for the fourth time in five months. It is worth noting that the strongest growth in May was in residential house building rather than commercial construction and civil engineering. Respondents to the PMI survey blamed the slowdown to the political and economic uncertainty and a subdued retail sector. The combination of the modest comeback in conjunction with a weakening long-term trend suggests that the economy is indeed growing more strongly than the first quarter of the year, but has not yet reached the point that will make the Bank of England raise interest rates.

The following day was a more positive day for the British economy, as it looked more and more like it was set to rebound from its first-quarter slump. The services PMI showed that the British services sector hit the best level since February, with the figure coming at 54 in May up from 52.8 the month before and surpassing analysts’ expectations of a modest rise to 52.9. Although the latest PMI surveys add to evidence that domestic inflationary pressures are mounting, economists are still warning that the economy could slow again later this year. Inflow of orders has weakened, and manufacturers in particular are sustained by working through backlogs rather than new orders.

Bank of England deputy governor Dave Ramsden said on Thursday that the recent data supported the Bank’s view that the sharp slowdown of growth in Britain’s economy in a wintry start to the year would prove temporary. He also said that he backed the MPC’s view that an ongoing tightening of monetary policy would be appropriate if the economy behaved as they expected. The Sterling pound closed the week at 1.3410.

Asia

China's Services Sector Stagnates

The Caixin services PMI in China remained unchanged at 52.9 in May, showing that business activity growth had remained modest last month. China is banking on a stronger services sector in order to offset a smaller contribution from heavy industry and fixed asset investment as policymakers look to emphasize more sustainable economic growth. Automated factories also push the need for a solid services sector as factories are looking to remove overcapacity. China's services sector already accounts for more than half of its economy, with rising wages giving its consumers more spending power at home and abroad. Caixin's composite PMI that covers both manufacturing and services sectors also remained steady in May at 52.3, suggesting that economic growth will remain resilient despite worries about rising borrowing costs, cooling investment and trade tensions with the US.

Kuwait

Kuwaiti Dinar

USDKWD opened at 0.3190 on Sunday morning.

Rates – 3 June, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1945	1.1747	1.996	1.1775	1.1560	1.1945	1.17496
GBP	1.3336	1.3292	1.3471	1.341	1.3205	1.3605	1.3439
JPY	107.62	107.62	109.53	109.03	107.50	111.45	108.85
CHF	0.9873	0.9997	1.0022	0.9869	0.9650	1.0050	0.9773