Treasury Group

Weekly Money Market Report

08 April 2018

US & China Trade Dispute Continues

United States

Trade Tensions & Mixed Jobs Report

Trade tensions between the US and China continued to be the focus of the global markets last week as the two major economies went toe to toe. Just 11 hours after President Donald Trump's administration proposed 25% tariffs on some 1,300 Chinese industrial, technology, transport and medical products, China shot back with a list of similar duties on major American imports including soybeans, planes, cars, beef and chemicals. Fortunately, however, the United States voiced willingness on Wednesday to negotiate a resolution to an escalating trade fight with Beijing. The quick response by the US has led investors to believe that this the Trump administration’s way of playing hard ball; make large demands and then meet somewhere in the middle. Trump economic advisor Larry Kudlow told reporters, "I think we're going to come to agreements," adding that "I believe that the Chinese will back down and will play ball." The two sides also mentioned that the statements were not final and no trade actions carried out immediately, easing the markets’ sentiment.

Though overshadowed by the global trade conflict, the US released important labor data late in the week. The US economy created the fewest jobs in six months in March but a pickup in wage gains pointed to a tightening labor market. This should allow the Federal Reserve to raise interest rates further this year. Nonfarm payrolls increased by a modest 103,000 last month as construction and retail sectors shed jobs, the Labor Department said on Friday. Over the first three months of this year, payrolls increased at an average monthly pace of 201,000, which is an improvement on the average gain of 182,000 last year. Average gains of anything close to 200,000 per month at this late stage of the cycle, with the unemployment rate close to 4%, are still impressive. The US Fed will be primarily focused on the 0.3% monthly increase in average hourly earnings, which pushed the annual growth rate up to 2.7%, from 2.6%. Economists say annual wage growth of at least 3% is needed to lift inflation toward the Fed's 2% target.

The US dollar had its slow gains stumped this week as investors eyed the developments of the trade disputes between the US and China. The dollar fell from its high on Friday after China fought back against the US’s latest threat to increase tariffs on Chinese goods and as the market took in the disappointing payrolls report. As the trade tensions escalated and equites fell, demand for low risk US government bonds grew driving yields lower. The benchmark 10-year treasury yield fell around 2.2% to 2.7750% from its weekly high on Friday. The US dollar index closed the week at 90.108.

In Europe, the euro had a fairly muted week as the most recent official euro-zone data have been less than optimal and the latest business surveys are consistent in their message that the economic expansion has lost momentum. While markets were dominated by international trade disputes the EUR/USD pair traded in a tight range closing the week only 0.32% lower at 1.2281.

The British pound was very similar to the euro in trade this week as official data failed to impact the currency. Since the UK signed a transition agreement last month for exiting the European Union, concerns about Brexit have abated as investors focused on the state of the UK economy before an expected interest rate rise in May. With no significant economic indicators being released, the GBP/USD closed the week much where it started at 1.4091.

The Japanese yen was the biggest mover this week reacting directly to the US-China trade disputes. The USD/JPY rose steadily throughout the week as risk appetite slowly crept back after digesting the Trump administration’s steel tariffs. However, the rise was halted late in the week after President Trump sparked a new trade dispute with China. The safe-haven currency has been largely determined by investor risk sentiment lately which is unlikely to recover quickly unless there is some easing in the US-China trade tensions. The USD/JPY started the week at 106.24 and closed at 106.91.

In commodities, oil prices fell more than 3% on Friday after fears of a trade war between the world's two largest economies was reignited. The heightened possibility of an outright tariff war could lead to slowed economic growth that could curb the strong oil demand that has helped revive prices. The dispute also overshadowed reports that Moscow’s arrangement with OPEC could become indefinite once the current deal to cut oil production expires at the end of the year. Benchmark Brent Crude closed the week 3.79% lower at $67.11.

ISM Manufacturing

The Institute for Supply Management said its index of national factory activity fell to a reading of 59.3 last month from 60.8 in February. Machinery manufacturers said US tariffs on steel and aluminum imports announced last month were "causing panic buying, driving the near-term prices higher and leading to inventory shortages for non-contract customers." Manufacturers also noted "new tariffs are causing concern across the supply chain and the full impact will take a few weeks to reveal itself." Primary metal producers reported "significant price increases in the steel commodity" as a result of the tariffs.

Europe & UK

Euro Zone Inflation Estimate

Euro-area HICP inflation accelerated to 1.4% y/y in March from 1.1% in February as expected. The core figure was unchanged from the previous month at 1% slightly below estimates for a 1.1% rise. Services inflation, which provides the best read on home grown price increases, climbed to 1.5% from 1.3%. The ECB should welcome the inflation report because it indicates stronger underlying price increases. If the rises are sustained, the Governing Council's move toward the exit of its asset-purchase program would be better supported.

UK Services

March data signaled a slowdown in business activity growth across the UK service sector, with the latest expansion the weakest for over one-and a-half years. Survey respondents noted that snow disruption and unusually bad weather conditions in March had been a key factor holding back business activity growth. There were also reports that heightened economic uncertainty continued to act as a brake on growth during the latest survey period.

Meanwhile, input cost inflation remained strong with the latest rise in operating expenses the fastest since December 2017. This contributed to another marked rise in average prices charged by service sector firms. Higher input prices were attributed to greater staff salaries, rising utility bills and increased raw material costs. The seasonally adjusted IHS Markit/CIPS UK Services PMI Business Activity Index dropped from 54.5 in February to 51.7 in March.

UK Manufacturing

The UK manufacturing sector maintained a steady pace of expansion during March. Output growth picked up, although this was offset by slower increases in both new orders and employment. Companies continued to report solid inflows of new work from both domestic and overseas markets in March. New export orders rose for the twenty-third month running. The latest expansion in new export business was linked to successful marketing campaigns, a favorable exchange rate and improved sales volumes to existing clients.

On the price front, rates of inflation in input costs and output charges remained elevated despite easing slightly since February. Although purchase prices rose to the weakest extent in the year-to-date, the pace of inflation was still relatively strong. The seasonally adjusted IHS Markit/CIPS Purchasing Managers' Index posted 55.1 in March, little-changed from 55.0 in February.

UK Construction

Construction data in March revealed a setback for the UK construction sector following five months of marginal business activity growth. However, survey respondents noted that unusually bad weather conditions had been a key factor behind the drop in construction output, with snow-related disruption having a particularly negative impact on civil engineering projects. Business activity expectations and job creation however, both picked up in March, which provided a clear signal that construction firms anticipate a rebound in activity during the months ahead. The seasonally adjusted IHS Markit/CIPS UK Construction Purchasing Managers' Index fell sharply from 51.4 in February to 47.0.

Asia

China Caixin PMI

Chinese manufacturing companies signaled only a marginal improvement in overall operating conditions at the end of the first quarter. Production and total new orders both expanded at the weakest rates for four months, while export sales increased only marginally. At the same time, staff numbers declined at the quickest pace since last August amid reports of cost cutting plans. Overall inflationary pressures meanwhile cooled further, with input costs increasing at the slowest rate for nine months, while firms raised their selling prices only modestly. Encouragingly, confidence towards growth prospects improved to a one-year high amid forecasts of greater investment and expectations of better market conditions. Adjusted for seasonal factors, the headline Purchasing Managers' Index posted 51.0 in March, down from 51.6 in February. Although the reading signaled a further improvement in the health of the sector, the latest upturn was only slight and the weakest recorded since last November.

The Caixin China General services PMI for March came in at 52.3 vs. 54.5 expected and 54.2 last, which indicated output growth easing across both manufacturing and service sectors. Both new business and employment grew at a slower rate last month, pointing to cooling demand. However, the ability of service providers to make a profit improved as input costs increased at a weaker pace while output prices edged up.

Kuwait

Kuwaiti Dinar at 0.29995

The USDKWD opened at 0.29995 on Sunday.

Rates – 08 April, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2321	1.2344	1.2212	1.2281	1.2105	1.2515	1.2366
GBP	1.4024	1.4104	1.3963	1.4090	1.3655	1.4050	1.4148
JPY	106.24	107.49	105.64	106.91	104.85	108.65	106.29
CHF	0.9534	0.9649	0.9525	0.9590	0.9315	0.9700	0.9519