Weekly Money Market Report
27 May 2018

Dollar Supremacy Across the Board

United States

Last week, the minutes of the Fed's May meeting indicated a substantial level of debate over the mechanism of approaching inflation. The summary released last Wednesday also pointed to an interest rate hike in June, which the market has already priced in. Meanwhile, the probability of three additional hikes by the Fed this year sits at 36% currently, as the core PCE is at 1.9% while the headline rate is at 2%. Finally, the market is expecting further inflationary pressures on the US economy as oil prices surge to 4 year highs.

Regarding the increasingly volatile US foreign policy, trade negotiations and global politics have been the focus of the Trump Administration recently. The latest development in US-China trade relation came from Treasury Secretary Steven Mnuchin, who said that the plan to impose tariffs on China has been suspended. Additionally, President Trump tweeted that the Chinese had agreed to purchase unspecified amounts of American farm products. On the other hand, Donald Trump cancelled the summit with Kim Jong Un, which was supposed to take place in Singapore, due to the comments made by North Korea which were perceived as hostile by Trump.

In debt markets, the on-going hiking cycle and the increasing expectations of future rate hikes by the Federal Reserve pushed the 2-year treasury yield to 2.55%. The yield sits above the yields available on much longer-dated 10-year sovereign benchmarks such as Canada, the UK, Italy, France and Germany. This means that an investor can get a better fixed rate holding US two-year paper than by tying up their money in 10-year global bonds.

In FX markets, the dollar capitalized on its supremacy amongst major rivals and gained 0.37% throughout the week. The greenback which is supported by solid fundamentals and the on-going monetary divergence managed to close the week at 94.25.

UK & Europe

Political turmoil in Italy

Eleven weeks after an inconclusive election, Italian politics continue to face turbulence. This time, the populist parties which are expected to form the next government, are locked in a standoff with the Italian president after they nominated a Eurosceptic economist for the post of finance minister in their new populist government. This instability has not been kind to Europe's third largest economy, where government bonds continue to be sold off at an alarming rate. Adding fuel to fire, the anti-establishment parties have indicated their intention of repealing laws allowing banks to forcibly recover debts from Italian citizens without judicial approval, pushing Italian bank stocks over the ledge. Next, the parties are expected to take the fight to the EU, where they have a tall order that includes asking for forgiveness of 250 billion euros of Italian debt.

PMI drops in the Eurozone

The composite PMI of the Eurozone sank in May to an 18-month low of 54.1 down from 55.1. The figure came in below all forecasts, which have already predicted a dip to 55.0. Recently, growth in the Eurozone has been steadily weakening after outpacing its peers in 2017. Therefore, questions are being asked as to whether the ECB has the stomach to take the Eurozone off its easing program. The disappointing figure resulted in a struggling Euro which reached a low of 1.1676.

UK Inflation drops

The sterling pound fell to its lowest level this year hitting a low of 1.3306. The fall came after the release of inflation data showing that the CPI fell unexpectedly for the second consecutive month in April, reaching a 13-month low of 2.4%. The Brexit vote in 2016 had the effect of rising inflation, as the fall in the pound led to higher import prices. But we are seeing the figure fall now faster than most economists had forecast, making people question the timing of any increase in interest rates and the extent of inflation pressure.

Carney on growth

BoE governor Mark Carney had said that the rate of economic growth in Britain is likely to rebound in the second quarter, and interest rates are still likely to rise gradually this year. Mr. Carney disagreed with the assessment of the Office for National Statistics that snow had not depressed economic performance in the first quarter. He mentioned that the BoE’s regional agents and ground contacts suggested a significant snow effect, deducting between 0.1 to 0.2 percentage points from the first quarter growth rate.

UK GDP 2nd estimate

UK gross domestic product (in volume terms) was estimated to have increased by 0.1% between Q4‘17 and Q1’18, unrevised from the preliminary estimate. When comparing GDP growth in the most recent quarter to the same quarter a year ago, we see a continuation of a pattern of slowing growth, in part reflecting a slowing in the growth of consumer-facing industries. The services industries increased by 0.3% in Q1 2018; while construction decreased by 2.7% in Q1 2018. While the bad weather had some impact on the economy, particularly in construction and some areas of retail, its overall effect was limited, with partially offsetting impacts in energy supply and online sales.

Asia

Japan struggles to boost inflation

Inflation in Japan continues to move further away from the Bank of Japan’s target. The trend seems to be set on a downward path as of the latest Tokyo inflation report. According to the Japanese government, inflation excluding fresh food prices, known as core inflation, rose by just 0.5% in Tokyo in the year to May, down from 0.6% in the 12 months to April. It now sits at the lowest level since September last year, casting doubt as to when, if ever, the Bank of Japan will be able to achieve its 2% annual target. Excluding both fresh food and energy prices, inflation in the capital rose by just 0.2% over the year, again, below the 0.3% level reported one month earlier. Headline inflation, including all items, rose by 0.4% from a year earlier, below the 0.5% figure released for April.

Kuwait

Kuwaiti Dinar

USDKWD opened at 0.30225 on Sunday morning.

Rates – 27th May, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1763	1.1747	1.1830	1.1651	1.1470	1.1750	1.1741
GBP	1.3467	1.3294	1.3491	1.3296	1.3105	1.3445	1.3390
JPY	110.91	108.95	111.39	109.38	108.30	111.40	108.75
CHF	0.9976	0.9886	1.0001	0.9899	0.9180	1.0100	0.9798