Weekly Money Market Report

09 September 2018

US Dollar Rebounds on Employment Report

United States

New Tariffs & US Employment

The US dollar was pressured earlier in the week as markets awaited the details of Donald Trump’s new tariff threat on China. The Trump administration previously announced they were looking to impose another tax on China. This time worth $200 billion of Chinese goods. The US government has sought public comment on the proposed list of goods that would be affected by the tariffs. The public comment period closed on September 6. China responded by saying they would be forced to retaliate in kind. "If the United States, regardless of opposition, adopts any new tariff measures, China will be forced to roll out necessary retaliatory measures,” commerce ministry spokesman Gao Feng said.

The two nations have already placed tariffs on $50 billion on each other's goods, spooking financial markets as investors and policy makers worried the bitter trade war could derail global growth.

The US dollar did manage to rebound at the end of the week however, after impressive labor data was released. The US economy added 201,000 jobs in August beating expectations while the unemployment rate remained steady at 3.9%. Average hourly wages rose 10 cents or 0.4% over last month taking the year-on-year increase to 2.9%. The increase in wages marks the highest growth since April 2009.

Treasury yields jumped after the numbers were released and stock futures fell on expectations the data justified more rate hikes from the Federal Reserve. While market consensus has widely agreed upon a hike in September at 96%, the latest figures make the case for a fourth hike in December more likely. The benchmark 10-year yield rose to 2.930%, up from 2.877% on Thursday.

New York Federal Reserve bank President John Williams said that current economic conditions are "as good as it gets" for the US central bank. Inflation is near the Fed's 2% target, the labor market is at or near full employment, and there is no sense that financial risks, whether domestic or abroad, are particularly serious. He also specifically dismissed concerns that the narrowing gap between long and short-term interest rates could risk an "inversion" of the yield curve if the Fed keeps hiking rates. An inverted yield curve is when short-term rates rise higher than those for long-term securities. They are usually taken as a sign of market pessimism and typically precede recessions.

UK & Europe

UK Economy Still Under Effects of Brexit

In the UK, the British pound had some volatile movement last week due to continuing uncertainties with Brexit. The pound started off with a steep sell-off but recovered quickly mid-week after a report saying that Germany and UK made concessions on the Brexit negotiations. However, a German government spokesman cleared the air and said the position on Brexit is unchanged. The pound returned to the previous week's level at around 1.2930.

In other news, British manufacturers had their weakest month in over two years and export orders suffered a rare decline in August, a warning that a world economic slowdown, as well as the approach of Brexit, is weighing on the country's factories. The IHS Markit/CIPS UK Manufacturing Purchasing Managers' Index (PMI) fell to 52.8, its lowest level since July 2016, immediately after the Brexit vote, and a lot weaker than a forecast of 53.8.

Foreign demand decreased for the first time since April 2016, despite the continued relative weakness of the sterling exchange rate. Some firms linked lower inflows of new work from abroad to the recent weaker pace of expansion of the world economy. IHS Markit director Rob Dobson said, the latest PMI report suggested the sector will likely fail to provide any support to the UK economy in the third quarter.

With regards to services however, service providers experienced a stronger increase in business activity and incoming new work during August. Improving business conditions helped to underpin a rebound in employment growth to its fastest for six months. At 54.3 in August, up from 53.5 in July, the seasonally adjusted index reached its second highest level since February. Growth of incoming new work picked up only slightly since July, but was still softer than the trend since the current phase of expansion began in August 2016.

Economists have said that the prospect of leaving the European Union in March next year without any trade agreement have continued to weigh on sentiment. Business expectations for the year ahead sank noticeably lower, down across all sectors to one of the lowest levels seen since the EU referendum, largely reflecting increased anxiety over Brexit negotiations.

Finally, Bank of England Governor Mark Carney told MPs last week that he was willing to stay on as governor beyond his planned departure date June 2019 in order to "smooth" the Brexit process. "Even though I have already agreed to extend my time to support a smooth Brexit, I am willing to do whatever else I can in order to promote both a smooth Brexit and effective transition at the Bank of England," he said. Carney had already extended his time as governor once after the British referendum to support the transition.

However, Mr. Carney warned that a no-deal scenario would lead to rising prices and falling real incomes. He reiterated that Britain's economy would suffer a shock if the country leaves the EU without reaching a deal, saying households would feel a renewed squeeze on their incomes for a few years. He also concluded that there were limits to what the Bank could do to mitigate those effects. The British government has yet to confirm if they would keep Governor Carney for the extended term.

Asia

Trump Turns Eye on Japan

In Japan, the yen had been slowly appreciating against the US dollar the past few weeks as markets turned to its safe haven status. The move might be fueled further if reports that US President Trump is targeting Japan next for unfair trade practices turn out to be true. James Freeman from the Wall Street Journal, said he took a personal phone call from the President and has reported that Trump referred to the good relationship with Japan but then added "but of course that will end as soon as I tell them how much they have to pay." With the Brexit negations, global trade war, and ongoing emerging markets crisis dilemma, Trump turning his attention to trade in Japan would only unnerve market participants further and potentially increase risk aversion.

Kuwait

Kuwaiti Dinar at 0.30290

The USDKWD opened at 0.30290 Sunday morning.

Rates – 09 September, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1595	1.1659	1.1527	1.1551	1.1355	1.1760	1.1635
GBP	1.2930	1.3028	1.2783	1.2921	1.2735	1.3125	1.2980
JPY	111.07	111.75	110.37	111.05	109.35	110.05	110.29
CHF	0.9688	0.9767	0.9638	0.9691	0.9485	0.9895	0.9613