Treasury Group

Weekly Money Market Report

11 March 2018

Worries over Trade War Recede

United States

US Imposes Tariffs on Steel and Aluminum

US President Donald Trump formally adopted new tariffs on steel and aluminum imports on Thursday while allowing US allies to apply for exemptions. The 25% steel and 10% aluminum tax on imports are expected to be implemented in two weeks' time. Despite potentially exempting certain countries, the tariffs could spark a trade war from those excluded. Indeed, European trade Commissioner Cecilia Malmstrom threatened to retaliate with 90 days if not exempted while Chinese producers called on Beijing to place a similar tax on US Coal.

While the tariffs were welcomed broadly by steel and aluminum producers, they drew criticism from a wider array of industry and business groups that use steel. According to a study released by the Council on Foreign Relations, the higher steel prices resulting from the tariff could lead to a 4% fall in car sales and the loss of 45,000 automobile sector jobs. Even members of the Republican party criticized the decision fearing it would undermine the benefits of the tax reforms passed last year. Orrin Hatch, the Republican chairman of the Senate finance committee, said, “Simply put, this is a tax hike on American manufacturers, workers and consumers.”

In other news, the US released a mixed job report on Friday where job growth surged in February, recording its biggest increase in more than a year, but a slowdown in wage gains pointed to only a gradual increase in inflation so far this year.

Nonfarm payrolls jumped by 313,000 jobs last month, boosted by the largest rise in construction jobs since 2007, the Labor Department said on Friday. The payrolls gain was the biggest since July 2016 and triple the roughly 100,000 jobs the economy needs to create each month to keep up with growth in the working-age population.

Average hourly earnings however, only edged up 0.1% to $26.75 in February slowing down from the 0.3% rise in January. That lowered the year-on-year increase in average hourly earnings to 2.6% from 2.8% in January. The slow wage growth could temper expectations the Fed will raise its rate forecast to four hikes this year from three.

Overall, the labor market is benefiting from strong domestic demand, an improvement in global growth as well as robust US business sentiment following the Trump administration's $1.5 trillion income tax cut that come into effect in January. The tightening job market could still spur faster wage growth this year and pull inflation toward the Fed's 2% target.

Looking at the US dollar last week, the currency's movements revolved around the development of the proposed tariffs. Fears of a trade war and retaliations from other countries saw the US dollar index drop further mid-week before rebounding higher after President Trump mentioned possible exemptions to US allies. The rise was short lived however, blocked by the disappointing wage growth showing US inflation still had room to grow. The US dollar index opened the week at 89.834 and closed at 90.093.

The euro saw some volatility last week jumping on Tuesday after initial thoughts that the US tariffs were merely a “political show” and reports that the European Commission was planning a retaliatory tax on the US if the tariffs were passed. The EUR/USD then spiked higher Thursday after the European Central Bank removed its easing bias from its monetary policy statement. However, dovish statements made afterwards from ECB President Draghi on the removal of the bias, reversed the EUR/USD's gains dropping the pair to earlier levels. The EUR/USD opened the week at 1.2322 and closed at 1.2305.

The British pound failed to recover from the previous week's losses after the Brexit negotiations took a rough turn. Furthermore, disappointing manufacturing data on Friday suggested Britain's economy remains on a slow path ahead of Brexit. The GBP/USD pair managed to close the week higher at 1.3847 however after the mixed US jobs report.

The Japanese yen lost value against the US dollar last week as risk aversion diminished on the developments of the week. US President Donald Trump has agreed to meet with North Korean President Kim Jong Un to discuss the denuclearization of the North Korean regime while suspending nuclear and missile tests in the meantime.

Furthermore, to the market's relief, Trump also softened his stance on the steel and aluminum tariffs by potentially excluding Mexico, Canada and other US allies. The risk-on attitude saw the USD/JPY pair increase from the week's open of 105.68 to 106.77 at the close.

In commodities, industrial metals hit multi-month lows on concerns about escalating trade tensions after the US announced the tariffs on steel and aluminum imports. Oil prices on the other hand managed to gain supported by a rebound in US equities. Oil prices were also supported after Libya's 70,000 barrels per day El Feel oilfield failed to reopen as planned after being shut in February by local militias. Benchmark Brent crude closed the week at 65.49.

Canada

Bank of Canada

The Bank of Canada held the benchmark overnight lending rate at 1.25% and indicated it's no rush to pursue aggressive rate hikes amid growing global trade tensions and softer housing data. The statement repeated dovish language about moving cautiously in an economy that will require continued stimulus. Though policy makers made no explicit mention of Donald Trump's threats to impose tariffs on steel and aluminum, they did mention that recent trade policy developments were a growing source of uncertainty.

Europe & UK

European Central Bank

The European Central Bank left its momentary policies unchanged in their March 8 meeting while also signaling a move towards ending its crisis-era stimulus measures. More specifically, the Bank left out its usual pledge to increase their asset buying program if their outlook becomes unfavorable or inconsistent with maintaining the progress in inflation. This omission indicates the ECB's confidence that the European economy has progressed enough that growth in the region can survive without its extraordinary monetary support. While the current 30 billion euro per month asset-buying program is due to expire by the end of the year, the bank did however reiterate its readiness to extend it if necessary.

Inflation however, remains the main reason preventing the ECB from unwinding its stimulus and in their statement, the ECB said “measures of underlying inflation remain subdued and have yet to show convincing signs of a sustained upward trend.” As such, the ECB expects inflation of 1.4% this year, but revised the inflation estimate for 2019 downwards from 1.5% to 1.4%. They still expect 2020 inflation of 1.7%.

UK Services PMI

UK service providers experienced a modest rebound in business activity growth during February, supported by the fastest rise in new work since May 2017. The latest survey also pointed to stronger job creation across the service economy, with payroll numbers rising to the greatest extent for five months as firms sought to boost operating capacity in response to improved order books. The seasonally adjusted IHS Markit/CIPS UK Services PMI® Business Activity Index registered 54.5 in February, up from 53.0 in January, to signal the strongest rate of service sector output growth for four months.

UK Manufacturing

The pace of manufacturing growth in the UK slowed in January, growing by 0.1% compared with 0.3% in December according to the Office for National Statistics. Industrial production, which includes the output from the UK's North Sea oil and gas fields, as well as utilities such as water and gas, grew 1.3% during the month. Construction output on the other hand, fell 3.4% month on month in January, primarily due to a sharp drop in new housing work. Overall the data was fairly disappointing and could dampen the first quarter's GDP growth.

Asia

Bank of Japan
The Bank of Japan left all its monetary policies unchanged as widely expected in their March 9 meeting. The key overnight rate remained at -0.1%, the 10-year Japanese Government Bond Yield was kept at 0% and the bond buying program will continue to be 80 trillion yen annually. The Bank also kept all of its growth and inflation assessments unchanged while mentioning the economy was still expanding moderately. Nonetheless, inflation remains subdued and the Bank reiterated continued support until the sustained annualized target of 2% is reached. As it stands, the BoJ expects to reach its inflation target by 2019. As such, no major adjustments in policy are expected until then.

China Caixin Composite PMI
The Caixin China Composite PMI data, which covers both manufacturing and services, signaled a further strong rise in overall Chinese business activity in February despite the pace of expansion softening since January. Growth in services activity held close to January's 68-month record and remained solid overall while manufacturing output increased by the second-fastest seen in the past year. However, while manufacturers registered a slightly stronger increase in new orders midway through the first quarter, growth in new business placed at services companies softened slightly. Nonetheless, sales rose solidly across the service sector overall, with a number of firms commenting that greater efforts to secure new clients and new projects had lifted sales. At 53.3 in February, the Composite Index fell only slightly from a seven-year record of 53.7 at the start of the year.

China Inflation
China's consumer inflation surged to the fastest in more than four years as millions traveled home to feast with family and friends for the Lunar New Year holiday pushing up food prices. The consumer price index climbed 2.9% in February versus a forecast of 2.5%. Although the reading is close to China's target of 3% the data is slightly distorted. Due to the extremely low CPI reading during the same time last year, the year on year comparison is slightly inflated. As such, CPI figures may readjust lower in coming months.

Kuwait

Kuwaiti Dinar at 0.29995
The USDKWD opened at 0.29995 on Sunday morning.

Rates – 11 March, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.2322	1.2446	1.2267	1.2305	1.2105	1.2515	1.2391
GBP	1.3796	1.3929	1.3765	1.3849	1.3655	1.4050	1.3908
JPY	105.68	107.04	105.34	106.77	104.85	108.65	106.14
CHF	0.9371	0.9533	0.337	0.9510	0.9315	0.9700	0.9438