Weekly Money Market Report
26 August 2018

Fed asserts path towards policy normalization; Pressure mounts on Trump

United States

Last week saw the release of the minutes from the most recent Fed meeting. The minutes indicated that the FOMC, the committee responsible for setting interest rate policy in the US, is expected to continue gradually raising interest rates while at the same time monitoring for any signs of widespread economic fallout from Trump's aggressive trade policies. Policy makers expressed their concern over the currently imposed tariffs and any future ones yet to be announced, since they may hurt the ongoing economic recovery. Moreover, officials were also worried over a recent slowdown in home building. Finally, despite the vocal disapproval displayed by Trump, the Fed showed no signs of deviating from its path to return interest rates to more historically normal levels. In fact, the minutes indicated that "many participants suggested that if incoming data continued to support their current economic outlook, it would likely soon be appropriate to take another step in removing policy accommodation." So far, markets seem to believe that a hike during the Fed's meeting next month is a done deal.

Trump faces most serious legal crisis of his presidency

Meanwhile, the dollar rally ran out of steam last week after US President Donald Trump attacked the Fed for raising interest rates. Trump, whose monetary policy preferences have wildly fluctuated as a presidential nominee and sitting president, said he was "not thrilled' with the Federal Reserve under Jerome Powell, the man he nominated to run it. As is customary with the current president, Trump departed from the traditional practice of not interfering with the Fed and indicated that he will continue to do so as long as the Fed keeps lifting rates. In the past, American presidents have rarely criticized the Fed because its independence has been seen as important for economic stability.

The Trump drama did not end there however. Towards the end of the week, Trump's former campaign manager Paul Manafort was convicted of tax evasion and bank fraud in the first trial victory for Robert Mueller, the special counsel investigating Russian meddling in the 2016 election. While the Manafort conviction does not implicate Trump directly, Michael Cohen's plea does. Cohen, Trump's long-time lawyer, pled guilty last week to arranging payments "at the direction" of his former boss during the 2016 campaign to silence two women who alleged they had affairs with Trump. The question remains over whether Trump knowingly broke the law when he ordered those payments.

This series of events have led the president to address the prospect of impeachment for the first time. "I don't know how you can impeach somebody who's done a great job," Trump responded. "I think everybody would be very poor because without this thinking, you would see numbers that you wouldn't believe," he said as he was pointing to his head. The president also claimed that the market would crash should he be forced out of office.

UK & Europe

UK Government sets up contingency plans

With Brexit day on the horizon, the British government set out contingency plans in case of a no-deal Brexit. Government papers revealed that companies doing business with the European Union will face plenty of red tape, border delays, and costlier credit card payments should the two sides fail to reach an agreement before the deadline in seven months. Even though Brexit minister Raab expressed his confidence over the prospect of an agreement with the EU, he said the government wanted to "plan for every eventuality". Further details, or so-called technical notes, will be released over the coming weeks with the purpose of advising businesses and individuals on how to prepare for any disruption that might arise from a disorderly Brexit.

Nevertheless, the British pound took advantage of dollar weakness. During the past week, the pound appreciated 0.7% against the dollar after being subdued by Brexit volatility. Meanwhile, markets witnessed the euro's strongest week in 6 months at it soared against the dollar. Towards the end of the week, the euro settled at a price of 1.1621.

Asia

Shake-up in Australian politics

Meanwhile in Australia, local political drama drove up volatility in the FX market last week. Prime Minister Turnbull lost a leadership challenge which saw him ousted as Prime Minister. Due to replace him is another member of his party (the Liberal Party), Scott Morrison. After losing the leadership challenge, Turnbull announced he is stepping down as MP, spurring special elections for a candidate to replace him. With this in mind, note that right now the Liberal Party enjoys an astonishingly small majority in Parliament – literally a single seat. Because of this, Turbull's announcement to step down as a MP has jeopardized his party's majority in parliament. Meanwhile, polls have shown that the Liberal party has been losing ground to the Australia Labor party and voters may very well deprive the Liberal party of a majority in parliament. All in all, this has cast a shadow over the political stability of the country, especially with the election coming up in 2019.

Kuwait

Kuwaiti Dinar

USD/KWD opened at 0.30285 on Sunday morning.

Rates – 26th August, 2018

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1440	1.1392	1.1639	1.1621	1.1420	1.1850	1.1704
GBP	1.2738	1.2727	1.2936	1.2843	1.2640	1.2950	1.2895
JPY	110.51	109.76	111.48	111.22	109.15	112.20	110.52
CHF	0.9954	0.9805	0.9968	0.9831	0.9625	1.0030	0.9754