Treasury Group
Weekly Money Market Report
13 August 2017

Inflation Still Subdued in the US

United States

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Markets were generally quite this week as they awaited US inflation figures due Friday. After last week's robust US employment numbers, the inflation report would give a better indication to the next policy move by the Federal Reserve. While employment has been consistently strong, inflation has been relatively stagnant this year supported by falling oil prices. Nevertheless, the US Fed deemed it adequate to hike rates twice already this year with a third planned for the end of the year. However, with employment near full capacity for over a year now, inflation and growth remain the key indicators. The Fed has already addressed the recent moderation in inflation calling it a "transitory" phase that should pick up in the medium term. Indeed, NY Fed president reinforced these views in a speech Thursday. The next GDP report is due August 30 and will better indicate whether labor market strength is spilling over into inflation.

The US Fed last hiked interest rates in their June meeting despite inflation lagging behind their 2% target. Markets are now unconvinced the Fed can do it again after months of disappointing figures. Consumer prices increased just 0.1% in July below expectations for the fourth month in a row. Year-on-year inflation is now marked at 1.7%. Although, the benchmark US 10 year bond yield jumped 1.35% to 2.2185% after the release of the CPI, it is still around 8% lower than short month ago. It is no surprise then, when looking at interest rate hike expectations which are based on the 10 year US benchmark, markets poll a 30% chance for another US rate hike in 2017.

In the currency markets, the US Dollar index began the week on a recent high of 93.400 after being boosted by the non-farm payrolls of last week but remained in a tight range as markets awaited the CPI report Friday. After reaching a short lived high of 93.800 Wednesday following another positive employment report the JOLTS job openings, the index found its way back down to a close of 93.401.

Mirroring the US dollar index inversely, the Euro had a quite week with no major economic indicators mainly reacting to US policy developments. The EUR/USD opened the week at 1.1766 fell slightly after the US JOLTS review but rebounded to close the week at 1.1820.

In the UK, the British Pound has remained subdued after its fall last week following the dovish Bank of England policy meeting and the positive US employment report. Adding to its recent weakness was the flat growth in the manufacturing sector which coincided with the BoE's reduction in growth forecasts last week. Although remaining relatively flat throughout the week, the GBP/USD found its way down to 1.3011 after opening the week at 1.3025.
In Asia, the Japanese Yen saw some of the largest movements against its major counterparts in a spring of safe-haven buying as US and North Korean tensions escalate. The Yen appreciated around 1.60% as the USD/JPY fell from 110.60 at the open of the week to 109.15 at the close.

In commodities, crude oil prices dropped erasing their gains Friday after The International Energy Agency reduced demand estimates for OPEC crude this year and in 2018. Furthermore, the Agency also cast doubts on OPEC's supply curb commitment. Brent Crude reached a high of $53.64 before dropping to close the week at $52.10. West Texas Intermediate fell similarly from $50.22 to a close of $48.82. Gold prices on the other hand, had its strongest week in months in safe-haven buying due to the political tensions between the US and North Korea. The precious metal opened the week at $1,258.64 and climbed to a close of $1,288.81.

Jolts

Monthly US jobs openings increased to a record high in June from May according to the Bureau of Labor Statistics. The increase came mainly from openings in the professional and business services by 179,000, with health care and construction industries increasing the second and third most at 125,000 and 62,000, respectively. However, the hiring rate was little changed at 3.7%. The JOLTS Job Openings came in at 6.163 million, exceeding both the expected 5.6 million and July's 5.702 million.

Inflation Still Subdued

US producer prices unexpectedly fell in July weighed down by declining costs for services and energy products. The PPI dropped -0.1% in July while the annual rate slowed to 1.9% from 2.0%, both missing expectations. The core figure, which excludes volatile components such as food and energy also declined by 0.1% on a month to month and annual basis.

US consumer prices also remained soft for the fifth straight month in July, raising even more questions about whether inflation will eventually rise to hit the Federal Reserve's 2% annual rate target. The consumer price index and its core figure both rose a seasonally adjusted 0.1% in July below expectations. Annualized, consumer prices have risen an unadjusted 1.7% over the past 12 months.

Europe & UK

German Prices Steady

Consumer prices in Germany rose by 1.7% in July 2017 compared with July 2016. Month-over-month, the consumer price index rose by 0.4% in July 2017. The main driver were holiday related sectors and food. The inflation figures were fully aligned with the flash estimate and showed that the EU's largest economy was gaining steadily.

UK Manufacturing Flat as Expected

Manufacturing growth in June 2017 was flat compared with May 2017. While, 6 of the 13 sub-sectors increased, transport equipment provided the largest downward contribution, falling by 3.6% due mainly to a 6.7% fall in the manufacture of motor vehicles. However, total production was estimated to have increased by 0.5% in June compared with the previous month due mainly to a rise of 4.1% in mining and quarrying as a result of higher oil and gas production.

UK Trade Deficit Widens

A fall in export volumes and climbing imports widened Britain's trade deficit with the rest of the world in June. While a weaker pound makes British exports attractive, it also makes imports to the country more expensive. Between the first and second quarters of 2017, the total trade deficit widened by £0.1 billion to £8.9 billion as increases in imports were closely matched by increases in exports.

Asia

China Inflation Mixed

Chinese consumer inflation weakened slightly in July, while producer prices expanded at a steady pace. Consumer prices advanced 1.4% from a year earlier, slightly below the previous month's gain of 1.5%. Beijing's key inflation reading has stumbled this year after climbing above 2% annually at the end of 2016. Producer prices on the other hand, rose from a year earlier for the 11th straight month. The producer price index rose 5.5% in July, unchanged from the previous month. The recovering PPI has largely been driven by fiscal policies and other measures aimed at resolving the nation's overcapacity constraints.

Japan Business Investment Lags

Japan's core machinery orders unexpectedly fell for a third consecutive month in June as companies seem reluctant to boost spending. The figures conflict recent positive sentiment surveys as a result of higher global demand. However, the core orders, regarded as an indicator of capital spending in the coming six to nine months, decreased 1.9% in June from the previous month.

Kuwait

Kuwaiti Dinar at 0.30160

The USDKWD opened at 0.30160 on Sunday morning.

Rates – 13th August, 2017

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1766	1.1687	1.1846	1.1820	1.1720	1.2010	1.1879
GBP	1.3025	1.2937	1.3060	1.3011	1.2840	1.3110	1.3055
JPY	110.60	108.73	110.91	109.15	107.00	110.00	108.70
CHF	0.9726	0.9582	0.9772	0.9617	0.9400	0.9785	0.9562