

Tax reform, Positive economic figures and Monetary Policy lift the Dollar

United States

Positivity surrounds the US economy

Last week, the US dollar appreciated against most of its major counterparts as the majority of economic data released exceeded expectations. US third quarter GDP to jobless claims, durable goods, new-home sales and PMI indices were better than expected, yet the positive indicators were not the only reason behind the greenback's appreciation. The House of Representatives was able to make substantial progress on tax reform by passing the budget, clearing the way for the Republican Party to release a draft of the tax bill in a weeks' time. This paves the way for the Republican-led congress to have the bill introduced, debated and approved by the end of November.

The Dollar found further support following the recent Japanese elections which resulted in a landslide victory for Shinzo Abe, indicating an extension to the Bank of Japan's currently adopted loose monetary policy. What further fueled the monetary divergence trade, was the European Central Bank's announcement. Although the ECB reduced its QE by half and acknowledged the recent improvements in the economy, the bank made it clear that interest rates will not be increased and will stay at current levels well past the end of QE, longer than expected by the market.

On the currency front, the dollar appreciated by 1.33% over the course of last week. The dollar index started the week at 93.825 and managed to reach 95.150, a 3 month high. The currency closed the week at 94.612.

The Euro lost ground to the bull run of the dollar, opening the week at 1.1775 yet continuously appreciated to reach a high of 1.1837 amid increased expectations of monetary policy tapering ahead of Thursday's ECB meeting. However, the dovish view of the ECB with regards to policy rates caused the single currency to plunge and close the week at 1.1608.

The cable traded in a relatively narrow range opening the week at 1.3179. The Sterling lost ground to the dollar rally last week reaching a low of 1.3070, yet the pair was supported by the probability of an interest rate in the November meeting which is at 88%. The currency closed the week at 1.3127.

The Japanese yen opened the week at 113.87 and had a volatile trading week due to the widening divergence of monetary policy between the BOJ and other major central banks. The pair reached a high of 114.32 as investors turned away from the currency after the re-election of Shinzo Abe who is expected to continue the loose monetary policy.

Regarding commodities, oil prices are recovering as global demand increases and economic growth in China and the US is picking up. Thus, we have seen oil prices soar by 1.89% as West Texas closed the week at \$53.90 per barrel. On the other hand, gold prices took a hit as equities continued to rally and outperform the market closing the week at \$1272.60.

Unexpected jump in the housing market

New home sales in the US surprisingly climbed in September to the highest level since 2007 as activity fast-tracked in the southern states after hurricanes Harvey and Irma. Single-family home sales rose by 18.9% m/m to 667k annualized pace. While the report showed particular strength in the US South, possibly a reflection of increased demand following the storms, sales were firm in other parts of the country. A steady job market and low mortgage costs will help keep the housing recovery on track. The median sales price appreciated to 1.6% y/y to \$319,700.

US durable goods orders

Durable goods orders were enhanced by Boeing aircraft orders, while the core rose 0.7 percent m/m in September, up from August and better than forecast. The main driver appears to have been continued investment in business equipment.

GDP Growth

The US economy grew at a faster pace than expected in the third quarter, signaling a persistent demand from businesses and consumers even with the hit of the hurricanes Irma and Harvey. Gross domestic product grew at a 3% annualized rate following a 3.1% gain in 2Q, best back-to-back quarters since 2014. A key takeaway is that while GDP grew more than forecasted, analysts look to another key measure to assess the true resilience of the economy. Final sales to domestic purchasers, which remove trade and inventories, climbed 1.8% the slowest since early 2016.

Europe & UK

Dovish ECB meeting

European Central Bank kept its policy rate unchanged at 0.00% last Thursday. However, The ECB President Mario Draghi announced the future structure of the QE program. The current 60 billion euro monthly asset purchase program will be cut into half, 30 billion monthly starting from January 2018 till September 2018. The central bank also left the door open to extend the QE beyond September or raise amounts if needed. Going into the details of the press conference, the ECB's outlook on inflation was cautious to say the least "Domestic price pressures are still muted overall and the economic outlook and the path of inflation remain conditional on continued support from monetary policy". Draghi emphasized on the robust economic growth achieved by the EU countries nevertheless.

German Ifo

German Ifo in October came at an all-time high of 116.7 reflecting optimism on Europe's largest economy. The record high reading, which came after two consecutive monthly falls, exceeded the market's forecast of 115.2. The conductor of the survey said that the continued recovery in the EU has helped German exporters feel more bullish on the status of the economy. This was especially true for capital goods manufacturers and mechanical engineering firms.

Ifo economist Klaus Wohlrabe said the economy was unfazed by complex coalition talks that Chancellor Angela Merkel has embarked on with two other parties after her conservative bloc lost ground in a national election last month.

Eurozone Flash PMIs

Manufacturing PMI for October came at a whopping 58.6, an 80-month high fueled by improvements in new orders. Services PMI figure on the other hand came below expectations at 54.9, yet the sector is still in expansionary mode. A key highlight from the latest survey was a sharp and accelerated rise in employment across the private sector. Moreover, the rate of job creation was the strongest in over a decade. Service providers took on extra staff to the greatest extent in seven months, while manufacturing jobs growth was the strongest since data collection began in June 1997. The big-two Eurozone economies of France and Germany drove growth during October, comfortably outperforming the rest of the single-currency area. France posted the sharpest rise in output since May 2011, while growth in Germany remained strong despite easing slightly.

Asia

Japan's inflation on the rise

Japan's core consumer prices rose 0.7 percent in September from a year earlier to mark a ninth straight rising month, offering the central bank some hope that economic recovery is helping to drive inflation towards its 2 percent target.

The data will be among factors the Bank of Japan will scrutinize when it updates its long-term growth and price projections at next week's rate review.

The gain in the nationwide core consumer price index, which includes oil products but excludes volatile fresh food prices, compared with a median market forecast for a 0.8 percent gain and followed a 0.7 percent increase in August.

Manufacturing PMI

Manufacturing PMI is still in expansionary mode, but edged lower to 52.5 in October versus 53.2 in September. In detail, economists are emphasizing that the Japanese manufacturing sector lost some momentum in October after four-month high of September. Softer expansions were mainly attributed to output and new orders.

Kuwait

Kuwaiti Dinar at 0.30270

The USDKWD opened at 0.30270 on Sunday morning.

Rates –29th October, 2017

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.1771	1.1573	1.1836	1.1609	1.1415	1.1720	1.1674
GBP	1.3185	1.3068	1.3279	1.3127	1.2910	1.3225	1.3168
JPY	113.67	113.23	114.44	113.67	112.55	115.60	113.13
CHF	0.9845	0.9828	1.0037	0.9975	0.9875	1.0175	0.9910