Weekly Market Summary

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Misquoted or Mismanagement?! Irrespective, Another Terrible Weak for the US Dollar!!

Fadi Nasser – Deputy Chief Investment & Treasury Officer

As I reported the previous week, US dollar weakness has been one of the main market features of 2017, defying the predictions of many analysts and economists at the start of last year. When measured by the DXY index, the dollar's value against other currencies had dropped 10% in 2017, and was off for a bad start in 2018, with the index measuring the currency against its leading peers touching a three-year low! And whilst markets breathed a sigh of relief as a three-day government shutdown in the United States came to an end on Monday evening (the Republican-led House approved a stopgap bill by a 266-150 vote), with Donald Trump signing a bill funding the US government through February 8th, they surely never anticipated the fierce double knockout coming next!

On January 23rd, the US administration implemented a measure aimed at imposing tariffs on imported solar-energy components and large washing machines in a bid to help US manufacturers, calling the decision part of Trump's pledge to put American companies and jobs first. It imposed an immediate tariff of 30% on most imported solar modules, with the rate declining before phasing out after four years. For large residential washing machines, tariffs will start at up to 50% and phase out after three years. "*The President's action makes clear again that the Trump administration will always defend American workers, farmers, ranchers, and businesses in this regard*," U.S. Trade Representative Robert Lighthizer said in a statement announcing the decision. South Korea's reaction came quick: It filed a World Trade Organization complaint that alleged the Trump Administration violated international rules when it imposed those safeguard tariffs. Korea, which is home to electronic manufacturers Samsung Electronics and LG Electronics, said the measures violate the WTO's Safeguards Agreement and the General Agreement on Tariffs and Trade. "*Our government expresses its regret over the excessive safeguard measures that affect our companies and the clear fact that they will violate WTO regulations*," South Korean Trade Minister Kim Hyun-chong said. China's Ministry of Commerce also condemned the tariffs, calling them a misuse of trade measures, and said it hopes Washington will show restraint in imposing trade restrictions: China is "*strongly*" dissatisfied with the U.S. tariffs, which will worsen the global trade environment and impair the development of the industries in the U.S., the Ministry of Commerce communique read (while the new measures are not directed specifically at China, the latter is the world's biggest producer of solar panels and exported 21 million washing machines last year worth almost $3 billion!). The new U.S. tariffs may signal the coming of a bitter phase in U.S.- China trade relations, though it has taken Trump more than a year to deliver on campaign pledges to deliver punitive actions against nations deemed to be using unfair trading practices. China's economic power gives President Xi Jinping's government the leverage it needs to strike back decisively, including scaling back purchases of American products and subjecting well-known U.S. companies with large Chinese operations to tax or antitrust probes. "*This is the beginning of a rough patch in U.S.- China relations*," said David Dollar, a former U.S. Treasury attach in Beijing and now a senior fellow at the Brookings Institution in Washington. "*These initial measures are modest and are likely to be met by proportionate moves from the Chinese. The key question is whether U.S. protectionism will escalate, which would damage both economies*."

And then US Treasury Secretary Steven Mnuchin – an ex-Goldman Sachs banker with little known qualifications and zero experience in politics or policy outside his loyalty for Trump and Wall Street (Goldman in particular, I am guessing ☺), spoke!

Whether or not the White House choreographed the dollar's slide to its lowest level in three and a half years, the U.S. administration must have certainly known or guessed it would be providing ammunition for those betting that the greenback will continue to weaken. Speaking in Davos, Switzerland on Wednesday, Mnuchin laid out the benefits of a weaker dollar for the American economy, just a day after U.S. President Donald Trump's protectionist tariffs. "*Obviously a weaker dollar is good for us as it relates to trade and opportunities*," Mnuchin told reporters. The currency's short term value is "*not a concern of ours AT ALL,"* he added. Mnuchin's comments give "*a green light to ongoing dollar weakness as far as the market is concerned*," said Shahab Jalinoos, global head of foreign-exchange trading strategy at Credit Suisse Group AG in New York. "*As long as these kinds of messages are presented it allows the market to imagine that's what the administration wants to see. It validates the idea that further weakness is possible.*" Foreign exchange markets reacted quickly: The U.S. currency dropped against all its G-10 peers, with the British pound and Swiss franc among the leading gainers. The greenback dipped as much as 1.2% against the yen (last at 108.95), whilst the euro added as much as 0.8% versus the dollar last trading at 1.2450, following an extra push on the back of Draghi's comments yesterday).

Mnuchin's comments appear to echo prior sentiments of his boss. During his first year in office, Trump has expressed his displeasure with a lofty currency, telling the Wall Street Journal last year that "*I like a dollar that's not too strong*" and adding that "*lots of bad things happen with a strong dollar*." The forum and the overall climate are crucial in sending a message that at a minimum, the U.S. views dollar weakness as benign and in the short term, potentially even favourable, said Alan Ruskin, global co-head of foreign-exchange strategy at Deutsche Bank. "*The dollar's obviously been trading awfully to even what might be good news for some time now. It's clear it's more responsive anyway to negative news at this moment*." In that context, President Trump's assertions yesterday evening, during an interview with CNBC from the World Economic Forum in Davos, that the dollar would continue to strengthen and that earlier remarks made by his Treasury secretary - suggesting support for a weaker U.S. currency - had been taken out of context remain very suspicious to say the least!

In Europe, Mario Draghi noted yesterday that the euro region is firing on all cylinders, adding that the European Central Bank (ECB) is not about to get in the way. After the IMF raised growth forecasts and the global elite in Davos praised the economy's brighter prospects, the ECB gave his own vote of support by saying that an interest-rate increase this year is very unlikely - a green light for an expansion that has now entered its fifth year. The Eurozone economy grew the fastest in a decade last year, and gross domestic product data due next Tuesday will probably show a 19th consecutive quarter of expansion at the end of 2017. Still, the euro's recent ascent (last at 1.2450 versus 1.0650 just a year back) may yet become a thorn in the economy's side if it curbs exports and damps prices. Much of the attention on Thursday was on Draghi's response to U.S. Treasury Secretary Steven Mnuchin's remarks that appeared to welcome a weaker dollar. The ECB President hit back, saying such comments may violate agreements to refrain from competitive devaluations, whilst declining to say that the Euro has climbed too high and adding that the euro's strength is partly due to the region's improving outlook (this week, the International Monetary Fund – IMF - predicted 2.2% growth in 2018, up from a previous estimate of 1.9%). "*His commentary on growth was relatively bullish*," said Nick Kounis, an economist at ABN Amro Bank NV in Amsterdam. "*If you are trying to talk down the euro, those kinds of comments are extremely unhelpful*." Worth noting that the ECB will update its forecasts for growth and inflation at its next monetary-policy meeting in March. While most economists foresee a change in the communication on the outlook for stimulus then, some members of the Governing Council are said to be pushing for a delay.

Last, but not least, a quick update on some spicy drama coming soon our way ☺! On Wednesday evening, President Donald Trump held an impromptu press briefing in the White House, popping into a meeting of reporters and his chief of staff and telling the group that he's "*looking forward*" to speaking "*under oath*" with Special Counsel Robert Mueller. That is the Robert Mueller who is overseeing a Justice Department investigation into whether Trump's presidential campaign colluded with the Kremlin to tilt the 2016 election in his favour & examining the president's businesses and finances. And unequivocally it is the same Robert Mueller Trump wanted to fire last June, raising concerns among his top aides and closest supporters that the US president would put himself in legal jeopardy (ultimately the US President gave up on that thought after his White House counsel Don McGahn refused to carry out the order and threatened to resign, the New York Times reported yesterday … YES Trump has already called the story "FAKE NEWS" ☺!). Yet the president mustered the bravado (showing courage) to tell reporters last night that he "*would love to*" sit down with Mueller in two or three weeks.

William Shakespeare once said "*a fool thinks himself to be a wise, but a wise man knows himself to be a fool*". We've also often heard that "*Love is Blind*". Guess President Trump will soon acquire the bitter taste of these wise quotes!!

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