The Week Ahead: Major central banks on hold; expansionary India budget expected

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US: January NFP data and Fed meeting in focus

Key data releases this week will be January NFP data (due 3 February) and December personal spending and core PCE data (30 January). Consensus forecasts solid jobs growth of 175K in January, with the unemployment rate remaining steady at 4.7% and wage growth of 0.3% m-o-m. Meanwhile, we expect the Fed to remain on hold at its meeting (ending 1 February), after raising the FFTR by 25 bps in December. The focus will be on the post-meeting statement (a press conference is not scheduled), especially given recent comments by Fed Chair Janet Yellen that were interpreted as hawkish. We believe the message will continue to outline the ongoing build up in economic momentum and tightening in labour market conditions. We expect there to be some strengthening in the language regarding the inflation outlook, following the recent rise. The Fed is also likely to indicate that it will respond to changing economic conditions, given the uncertainty regarding fiscal and trade policies under the new administration.

Global: BoE and BoJ also to keep monetary policy steady

We do not expect any changes to the policy stance of the BoJ (31 January) or BoE (2 February) this week. In Japan, a weakening JPY since October and higher energy prices have supported inflation recently. This should reduce the urgency for the BoJ to ease monetary policy in the short term. In the UK, the BoE's MPC meeting and Inflation Report will be closely followed given the recent pickup in inflation. We do not expect the BoE to suggest any tapering of its QE purchases at this meeting. The bank should continue to highlight downside risks to consumer prices later in 2017 as economic growth moderates on weakening consumer spending (see page 5), while cautioning against near-term risks to inflation from higher energy prices and a weaker GBP. The Eurozone CPI (flash estimate) for January (due 31 January) is likely to pick up to 1.5% y-o-y (1.1% previously), reflecting the impact of higher energy prices.

India: Government to target 3.3% fiscal deficit

We expect India's central government to target a fiscal deficit of -3.3% of GDP in FY18 (April 2017-March 2018) in its budget this week (1 February). This is lower than the -3.5% deficit in FY17, but higher than the -3% target for FY18 it had set for itself in July 2014. We expect the government to announce an expansionary budget, with spending rising by 14% from the previous budget (consensus: 13.4% increase), aimed at limiting the impact of demonetisation on economic activity. Personal income tax rates are likely to be lowered (c. 10 pp on a weighted average basis) to provide relief to middle class households. Spending on rural infrastructure (roads, electricity and skill development) is also likely to be stepped up considerably. That said, we still see some upside risks to our fiscal deficit forecast of -3.3%. Demonetisation could impact the economy more adversely than we currently forecast and revenues from the new GST (we assume implementation in mid-2017) could be lower than expected, due to slowing economic growth and delays in its roll-out.

I. Recent Events and Data Releases

A. MENA Economies

Egypt: Raises USD4 billion in first sovereign issue following IMF deal

Demand supported by attractive pricing and recent economic reforms

Egypt raised USD4 billion last week, in its first bond issuance since securing a USD12 billion aid package from the IMF in November. The bond comprises three tranches: i) USD1.75 billion in a five-year note (yielding 6.125%); ii) USD1 billion in a 10-year note (at 7.5%) and iii) USD1.25 in a 30-year (at 8.5%). Demand for the paper was strong, with bids of over USD13.5 billion, allowing the government to raise twice the targeted amount. Interest in the paper was supported by the attractive prices, especially compared to similarly-rated sovereigns. Nevertheless, there was some tightening from the initial guidance pricing suggested. Investor confidence would have been bolstered by the IMF programme, the floating of the EGP and the recent progress with fiscal reforms.

Strong demand reduces concern over Egypt not meeting its external funding requirement

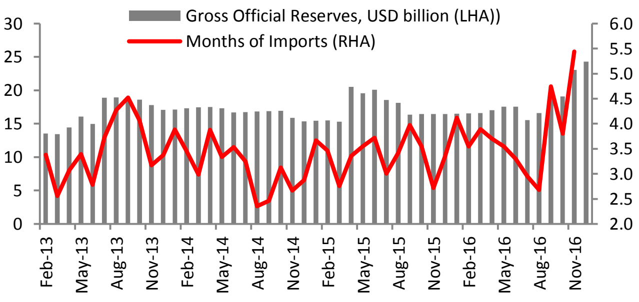
The size of and demand for the issuance help to reduce fiscal and external deficit funding concerns. Official statements indicated that Egypt is looking to return to the debt market at the end of 2017 or early 2018, with the JPY and CNY being considered as possible currencies of denomination. Egypt's external funding requirement is estimated at c. USD18-20 billion over the next few years. The bond will help to increase Egypt's FX reserves and is also likely to increase FX liquidity in the economy (through FX auctions). Demand for the USD remains high, even after the floating of the EGP. We see Egypt's fiscal deficit narrowing to around -10.3% of GDP in FY2016-17 (July - June), down from -12.2% in the previous fiscal year.

GCC countries also expect to tap debt market in early 2017

GCC: We expect a number of GCC sovereigns to also raise debt in 1H2017, supported by the ample global liquidity, the low interest rate environment in Europe and Japan, and firmer oil prices. Both Kuwait and Oman recently mandated banks to arrange sovereign bond issues, whilst Abu Dhabi met with fixed-income investors in Asia last week. Saudi Arabia has also previously indicated that it was looking to return to the debt market in 1Q2017.

Fig. 1. Egypt: International bond issuance will further increase Egypt's FX reserves, following IMF support

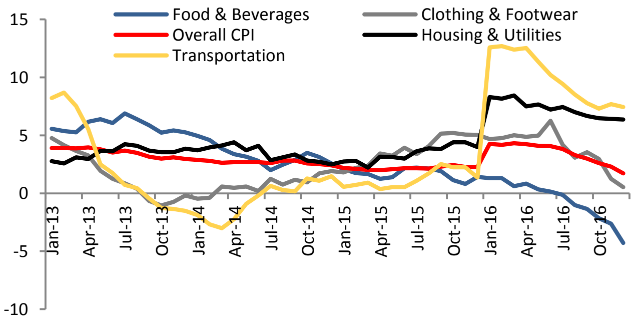
USD billion (LHA); months of import cover (RHA)



Source: Central Bank of Egypt, CAPMAS, ADCB estimates

Fig. 2. Saudi Arabia: Soft domestic demand, strong USD and lower food prices behind weak December inflation

% change y-o-y



Source: General Authority for Statistics

UAE: S&P downgrades Sharjah's sovereign rating, but maintains Ras al Khaimah's

Rising debt burden behind Sharjah's downgrade

S&P downgraded its credit rating assigned to Sharjah to BBB+/A-2 (from A/A-1), over concerns of rising debt. S&P noted that Sharjah's debt burden has risen with a combination of increased expenditure (including capital) over the past three years and the delay in implementing revenue-raising measures (including the sale of land). Nevertheless, government debt remains moderate with S&P estimating that it has averaged 13.4% of GDP over the past three years. The agency expects Sharjah's fiscal deficit to average c. -3% of GDP over 2014-2017 from -1% in 2010-2013. However, S&P affirmed its A/A-1 rating on Ras Al Khaimah, which it said benefits from a fairly diverse economy. S&P expects Ras Al Khaimah's economic activity to be boosted by stronger regional demand, including Expo 2020 in Dubai.

Saudi Arabia: Inflation decelerates to 1.7% in December, lowest level since 2006

Lower food prices largely behind deceleration

Consumer price inflation in Saudi Arabia decelerated to 1.7% y-o-y in December (-0.5% m-o-m), down from 2.3% y-o-y (-0.2% m-o-m) in November. The yearly moderation was largely on the back of lower food prices, which contracted by -4.2% in December (November: -2.6% y-o-y). We believe that the strengthening in the USD (especially following the US presidential election in November) and soft global food prices were key factors. However, we also see the weak domestic demand as contributing to the lower food prices. There are indications that food demand had slowed at end 2016 (likely due to the cuts in public sector benefits in October), resulting in price discounting and promotions.

Weak domestic demand has also reduced price pressure

The wider weakening in domestic demand, the strong USD and soft global inflation have contributed to Saudi Arabia's headline CPI slowing from 4.3% in January 2016. Sectors linked to fiscal reform, such as transportation, continue to see the strongest yearly inflation rates. Nevertheless, even price increases in the transportation subcomponent have moderated to 7.5% y-o-y in December from 12.6% in January 2016. We see annual average inflation moderating in 2017 to 1.9%, from 3.5% in 2016. This will largely be on the back of weaker fiscal reform compared to 2016, especially in 1H2017. However, the low inflation rate will likely support further fiscal reforms in 2H2017. We expect to see new reform measures again pushing up prices in 2H2017. A possible levelling off in the USD in 2017 and higher global inflation (with higher energy prices) are also likely to support a pickup in inflation in 2H2017, given the time lag in global inflation filtering into Saudi prices.

B. G4 Economies

US: USD under downward pressure as markets focus on Trump's protectionist polices

Trump's protectionist policies raise expectations he will look to weaken USD

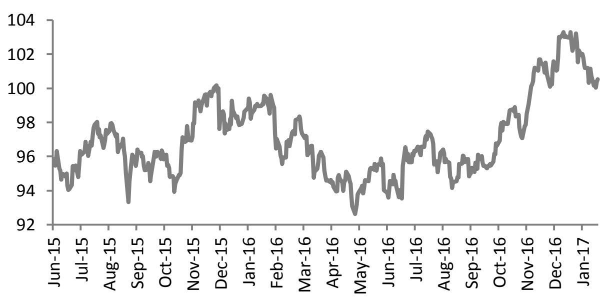
The USD came under downward pressure last week, with rising concerns over the new administration's economic and trade policies. Safe haven currencies such as the JPY strengthened. President Donald Trump has moved swiftly to introduce a number of executive orders to put his stamp on a range of policies, including trade, healthcare and immigration (construction of a US-Mexican border wall, halting all refugee admissions and 90-day suspension on arrivals from seven Muslim-majority countries). Trump's focus on increasing protectionism has fuelled expectations that his government might seek a competitive advantage through a weaker currency. Indeed, US Treasury Secretary nominee Steven Mnuchin cautioned against the "excessively strong dollar" and reiterated his intention to review "the issue of Chinese currency manipulation". The USD has retraced nearly 50% of its rally since the November election.

Rising concerns of greater trade restrictions

So far, the focus of economic policy has been on trade restrictions, thus overshadowing the reaffirmation of lower taxes and looser regulation (which will take time to formulate and implement). The US formally withdrew from the 2015 Trans-Pacific Partnership (TPP) trade deal last week, which was a key Trump campaign pledge. The US had signed the TPP agreement but not ratified it. As the TPP was not yet implemented, we do not expect a marked weakening of trade activity on the back of the move. However, it raises the potential for China to expand its influence economically and geopolitically in Asia through its own version of TPP. The TPP was a central tenet of President Barack Obama's policy to increase economic ties with Asia and counterbalance the rising trade role of China. A number of Asian countries are looking to salvage the TPP without the US, with the possibility of including China. Moreover, the greater risk (globally and to the US) is if this is a sign of further protectionist policy being introduced, which could trigger a trade war. Separately, Trump also signed an executive order to support the Keystone XL and Dakota Access pipelines. Again the immediate impact will be limited given the time needed to build the pipelines and the federal approvals required. Nevertheless, the executive order shows support for the Canadian and US (Bakken crude from Montana and North Dakota) oil industries.

Fig. 3. US: USD has retraced some of its gains since election following increased focus on protectionism

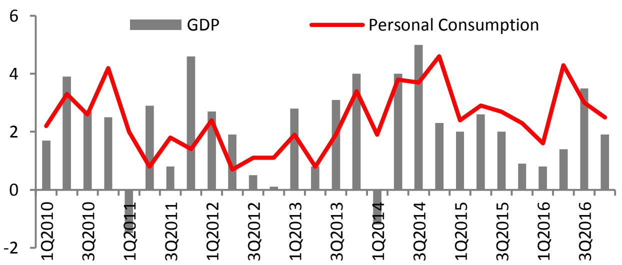
USD index



Source: Bloomberg

Fig. 4. US: 4Q GDP growth softens with net exports dragging on growth

% change q-o-q SAAR



Source: Bureau of Economic Analysis

US: 4Q GDP growth misses consensus forecasts; domestic activity solid

Business investment rose in 4Q – its first increase in five quarters

US GDP growth expanded by 1.9% q-o-q SAAR in 4Q (first estimate), below consensus expectations of 2.2%. However, the underlying data indicates that domestic components of GDP remained solid. Private consumption printed in line with market expectations, expanding at 2.5% q-o-q SAAR in 4Q. This brought the 2016 private consumption growth to 2.8% in 2016, a moderate rise from the 2.6% increase seen in 2015. Positively, business investment increased in 4Q, its first gain in five quarters, with spending on equipment rising by 3.1% q-o-q SAAR. This increase partly reflected a surge in gas and oil well drilling supported by the higher oil price. Meanwhile, inventories added 1 pp to headline GDP growth, pointing to a strengthening in business confidence.

Net exports subtracted -1.7 pp from headline GDP growth

However, net exports subtracted -1.7 pp from GDP growth as the trade deficit widened. This was the biggest drag on GDP growth from net exports since 2Q2010. The deterioration in the trade balance was partly due to one-off factors, including a fall in soybean exports (which boosted 3Q exports with poor harvests in Argentina and Brazil). Consequently, US exports fell by -4.3% q-o-q SAAR in 4Q, down from the 10% growth seen in 3Q. Imports were supported by the healthy domestic demand and the strengthening in the USD.

UK: Parliamentary support required to trigger Article 50

UK government is likely to secure Parliament's approval for triggering Article 50 easily

The UK Supreme Court ruled against the British government last week, saying that Parliamentary permission is needed to trigger Article 50 and begin formal Brexit negotiations with the EU. Parliament will now have to approve a government bill to authorise the invoking of Article 50. However, we do not see the judgment as a setback to the government's plan to trigger Article 50 by end-March 2017. First, the ruling does not require permission from the regional parliaments in Scotland, Wales and Northern Ireland. This removes uncertainty, as these pro-EU parliaments could have delayed their approval of the UK government's plans. Second, bipartisan support for Brexit has built up in recent months with Labour Party leaders indicating their willingness to work with the ruling Conservatives, who already enjoy a solid majority in Parliament. Third, the government has already published the required bill and is expected to introduce it to Parliament shortly. Therefore, Parliament is very unlikely to hold up the bill.

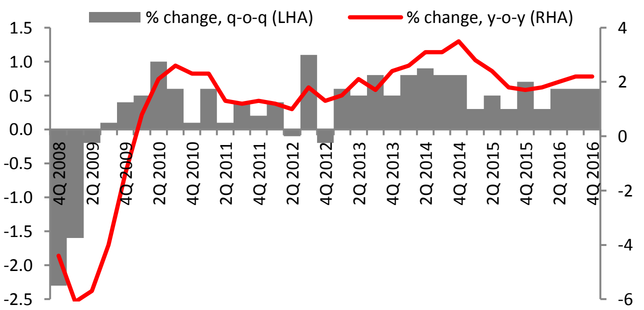
UK: Economic growth remained buoyant in 4Q, supported by services

GDP rose faster than expected in 4Q, supported by strong consumer spending

The UK economy grew by 0.6% q-o-q in 4Q, slightly faster than market expectations (consensus: 0.5%; 3Q: 0.6%). Though a full breakdown of GDP numbers will be available only in late February, the first estimate showed firm support for the economy from higher wages, the BoE's accommodative monetary stance and a weaker GBP. As in 3Q, the services sector remained the engine of growth, rising by 0.8% q-o-q (0.9% in 3Q), and adding 0.6 pp to headline growth numbers. Economic activity was especially strong in the retail, hotel and travel sectors, indicating that personal discretionary spending remained robust throughout the 4Q festive season. Furthermore, a big rebound was also seen in manufacturing output, which rose 0.7% q-o-q in 4Q (-0.5% in 3Q). In our view, a persistently weaker GBP in 2H2016 may have provided significant support to manufacturing output, as export orders continued to increase across all industrial segments through 4Q. However, the construction sector dragged on headline GDP.

Fig. 5. UK: GDP growth remained firm in 4Q2016, supported by personal discretionary spending

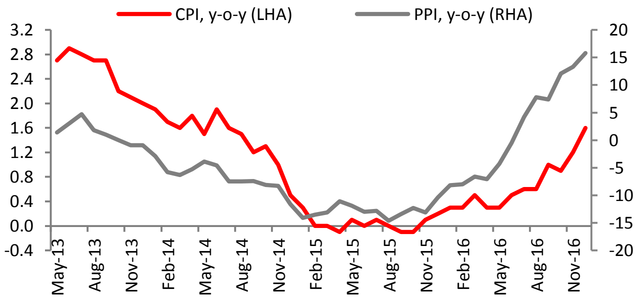
% change q-o-q (LHA); % change y-o-y (RHA)



Source: Office for National Statistics

Fig. 6. UK: Higher producer prices already feeding into inflation and could weigh on consumption in 2017

% change y-o-y



Source: Office for National Statistics

That said, we expect UK GDP growth to moderate to 1.5% y-o-y in 2017 (2016: 2%). First, we expect higher inflation, driven by a weaker GBP, to weigh on consumer spending. Notably, the statements accompanying last week's GDP release observed that steadily rising producer prices have already started to feed into domestic food and energy inflation. We believe this trend could slow down the momentum in consumer spending from 1Q2017. Second, we expect significantly slower growth in investment activity this year, as manufacturing and construction capex is put on hold until clarity emerges around the UK's new relationship with the EU upon Brexit.

We expect slowdown in GDP growth in 2017

C. Emerging Market Economies

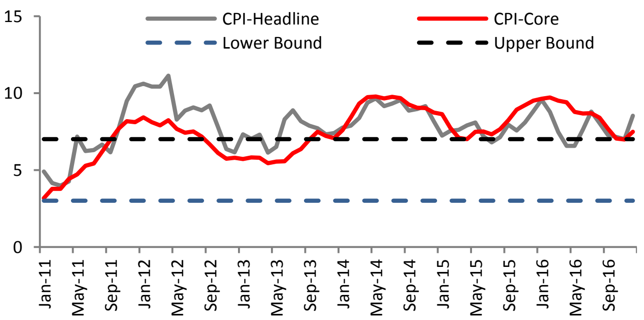
Turkey: CBRT deploys unorthodox monetary policy tools

The CBRT's monetary policy meeting last week surprised us and the markets, as the benchmark repo rate and overnight borrowing rate were kept unchanged at 8% and 7.25% respectively. Instead, the central bank resorted to unconventional monetary policy tools to manage liquidity and inflation expectations. The overnight lending rate was hiked by 75 bps to 9.25%. The bank also hiked its Late Liquidity Window lending rate by 100 bps to 11%. This rate has recently become the marginal cost of funding for interbank market participants, following measures undertaken by the CBRT on 10 January to halve the amount banks could borrow from its conventional repo window (at repo rate). We think these measures reflect the CBRT's view that recent upward price pressures are mainly being driven by the sharp TRY depreciation reflecting the USD liquidity squeeze, whereas underlying inflation dynamics remain muted. While the policy statement hinted at the possibility of further rate hikes in the coming months, it kept open its option of intervening in foreign exchange markets to stem a sell-off in TRY.

CBRT sees recent inflation spike as driven by weaker TRY rather than by fundamental factors

Fig. 7. Turkey: Given weaker TRY and higher energy prices, we expect inflation to breach 9% mark by 4Q2017, unless CBRT tightens rates

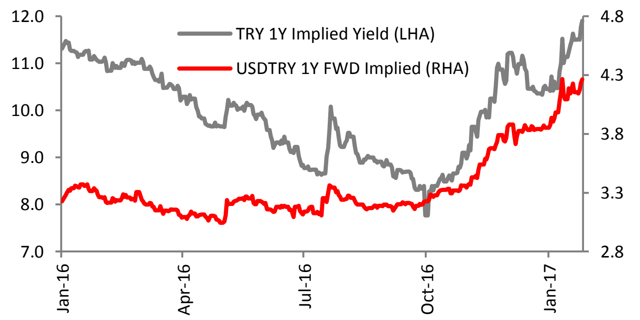
change in % y-o-y



Source: Turk Stat

Fig. 8. Turkey: Uncertainty around monetary policy guidance a key factor in weakening TRY currency expectations against the USD

% (LHA), USD:TRY (RHA)



Source: Bloomberg

We believe the CBRT will have to raise its benchmark repo rate by another 100 bps in 1H2017 to bring inflation back within its target range of 3-7% y-o-y by end-2017. Without significant monetary tightening, the twin effect of a weaker TRY and relatively higher oil prices could push inflation above 9% y-o-y, by our estimate. While the CBRT's actions last week will indeed tighten the average cost of interbank funding by some 80 bps to 9.8% (official estimate), the policy guidance is not clear given the complicated nature of its policy toolkit. In our view, the uncertainty about the CBRT's monetary policy, alongside

We expect CBRT to raise policy rates by another 100 bps in 1H2017 higher oil prices and higher US yields, is a key factor in the TRY's depreciation. We observe that 1-year TRY forwards have closely followed TRY policy rate expectations in recent months (see Fig 8). Therefore, clear communication of the monetary policy outlook, possibly through a hike in the benchmark repo rate, would be our preferred course of action to contain inflation risk.

II. Economic Calendar

Fig. 9. Upcoming events and data releases

Time*	Country	Event	Period	Prior	Consensus
GCC Data					
	Saudi Arabia	SAMA Net Foreign Assets SAR	Dec	1989.5B	--
	Saudi Arabia	GDP Constant Prices, q-o-q	3Q	-1.3%	--
	UAE	Central Bank Foreign Assets	Dec	285.2B	--
	UAE	CPI, y-o-y	Dec	1.9%	--
	Qatar	M2 Money Supply, y-o-y	Dec	-4.4%	--
Monday, 30 Jan					
14:00	Eurozone	Consumer Confidence	Jan F	-4.9	-4.9
17:00	Germany	CPI, y-o-y	Jan P	1.7%	2%
17:30	US	Personal Income	Dec	0%	0.4%
17:30	US	Personal Spending	Dec	0.2%	0.5%
17:30	US	PCE Deflator, y-o-y	Dec	1.4%	1.7%
17:30	US	PCE Core, y-o-y	Dec	1.6%	1.7%
Tuesday, 31 Jan					
	Japan	BOJ Monetary Policy Statement			
	Japan	BOJ Short-Term Policy Rate	31-Jan	-0.1%	--
	Japan	BOJ Long-Term Policy Rate	31-Jan	0%	--
3:30	Japan	Jobless Rate	Dec	3.1%	3%
3:50	Japan	Industrial Production, y-o-y	Dec P	4.6%	3%
14:00	Eurozone	Unemployment Rate	Dec	9.8%	9.8%
14:00	Eurozone	GDP SA, q-o-q	4Q A	0.3%	0.4%
14:00	Eurozone	GDP SA, y-o-y	4Q A	1.7%	1.7%
14:00	Eurozone	CPI Estimate, y-o-y	Jan	1.1%	1.5%
14:00	Eurozone	CPI Core, y-o-y	Jan A	0.9%	0.9%
16:00	India	GDP Annual Estimate, y-o-y	2016	7.1%	--
19:00	US	Conf. Board Consumer Confidence	Jan	113.7	112.9
Wednesday, 1 Feb					
5:00	China	Non-manufacturing PMI	Jan	54.5	--
5:00	China	Manufacturing PMI	Jan	51.4	51.2
9:00	India	Nikkei India PMI Mfg	Jan	49.6	--
13:30	UK	Markit UK PMI Manufacturing SA	Jan	56.1	55.9
16:00	US	MBA Mortgage Applications	27-Jan	4%	--
17:15	US	ADP Employment Change	Jan	153K	170K
19:00	US	ISM Manufacturing	Jan	54.5	55
23:00	US	FOMC Rate Decision (Upper Bound)	1-Feb	0.75%	0.75%
23:00	US	FOMC Rate Decision (Lower Bound)	1-Feb	0.5%	0.5%
Thursday, 2 Feb					
16:00	UK	Bank of England Bank Rate	2-Feb	0.25%	0.25%
16:00	UK	BOE Asset Purchase Target	Feb	435B	435B
16:00	UK	BOE Corporate Bond Target	Feb	10B	10B
16:00	UK	Bank of England Inflation Report			
17:30	US	Initial Jobless Claims	28-Jan	259K	250K
Friday, 3 Feb					
13:30	UK	Markit/CIPS UK Services PMI	Jan	56.2	55.8
14:00	Eurozone	Retail Sales, m-o-m	Dec	-0.4%	0.3%
17:30	US	Change in Nonfarm Payrolls	Jan	156K	175K
17:30	US	Unemployment Rate	Jan	4.7%	4.7%
17:30	US	Average Hourly Earnings, m-o-m	Jan	62.7%	--
18:15	US	Fed's Evans Speaks on Economy and Policy in Olympia Fields	Jan	0.4%	0.3%
19:00	US	ISM Non-Manf. Composite	Jan	57.2	57
19:00	US	Factory Orders	Dec	-2.4%	1.5%

* UAE time
Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Data						
	Saudi Arabia	CPI, y-o-y	Dec	2.3%	--	1.7%
	UAE	M2 Money Supply, m-o-m	Dec	0.8%	--	1%
	Kuwait	CPI, y-o-y	Dec	3.4%	--	3.5%
	Bahrain	CPI, y-o-y	Dec	1.9%	--	2.3%
Monday, 23 Jan						
8:30	Japan	All Industry Activity Index, m-o-m	Nov	0%	0.4%	0.5%
19:00	Eurozone	Consumer Confidence	Jan A	-5.1	-4.8	-4.9
Tuesday, 24 Jan						
4:30	Japan	Nikkei Japan PMI Mfg	Jan P	52.4	--	52.8
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Jan P	54.9	54.8	55.1
13:00	Eurozone	Markit Eurozone Services PMI	Jan P	53.7	53.8	53.6
15:00	Turkey	Benchmark Repo Rate		8%	8.5%	8%
15:00	Turkey	Overnight Lending Rate		8.5%	9.25%	9.25%
18:45	US	Markit US Manufacturing PMI	Jan P	54.3	54.5	55.1
19:00	US	Existing Home Sales	Dec	5.65M	5.5M	5.49M
Wednesday, 25 Jan						
3:50	Japan	Trade Balance	Dec	¥150.8B	¥281.1B	¥641.4B
3:50	Japan	Trade Balance Adjusted	Dec	¥466.1B	¥209.9B	¥356.7B
3:50	Japan	Exports, y-o-y	Dec	-0.4%	1.2%	5.4%
13:00	Germany	IFO Business Climate	Jan	111	111.3	109.8
16:00	US	MBA Mortgage Applications	20-Jan	0.8%	--	4%
Thursday, 26 Jan						
13:30	UK	GDP, q-o-q	4Q A	0.6%	0.5%	0.6%
13:30	UK	GDP, y-o-y	4Q A	2.2%	2.1%	2.2%
17:30	US	Wholesale Inventories, m-o-m	Dec P	1%	0.3%	1%
17:30	US	Initial Jobless Claims	21-Jan	237K	247K	259K
18:45	US	Markit US Services PMI	Jan P	53.9	54.6	55.1
18:45	US	Markit US Composite PMI	Jan P	54.1	--	55.4
19:00	US	New Home Sales	Dec	598K	588K	536K
19:00	US	Leading Index	Dec	0.1%	0.5%	0.5%
Friday, 27 Jan						
3:30	Japan	Natl CPI, y-o-y	Dec	0.5%	0.2%	0.3%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Dec	-0.4%	-0.3%	-0.2%
13:00	Eurozone	M3 Money Supply, y-o-y	Dec	4.8%	4.9%	5%
17:30	US	GDP Annualized, q-o-q	4Q A	3.5%	2.2%	1.9%
17:30	US	GDP Price Index	4Q A	1.4%	2.1%	2.1%
17:30	US	Personal Consumption, q-o-q	4Q A	3.0%	2.5%	2.5%
17:30	US	Durable Goods Orders, q-o-q	Dec P	-4.8%	2.5%	-0.4%
17:30	US	Durables, ex-Transportation, m-o-m	Dec P	1%	0.5%	0.5%
19:00	US	U. of Mich. Sentiment	Jan F	98.1	98.1	98.5

* UAE time
Source: Bloomberg

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