The Week Ahead: BoE meeting and CPI data in focus

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UK: BoE to remain on hold, communication key

The BoE is expected to keep monetary policy steady at its 13-14 September meeting. More important will be the tone of the communication and the voting pattern, with some mixed economic development. On the one hand, the labour market remains tight and the recent weakening in the GBP and rise in the oil price will support inflation. However, GDP growth has softened substantially and the outlook remains subdued. As such, we see the MPC vote remaining at 7-2 to keep rates on hold. However, the tone of the meeting may be moderately on the hawkish side, given the recent GBP developments. We see the BoE keeping its benchmark interest rate on hold over the next 12 months given the uncertainties around the Brexit negotiations and the lacklustre economic outlook. There will also be a number of key economic releases this week, including labour market data for July and August inflation. Unemployment is forecast to remain steady at 4.4%, while consensus expects an acceleration in inflation. Consensus estimates headline inflation will rise to 2.8% in August (July: 2.6%) on higher petrol and imported goods prices.

US: Headline inflation to pick up on higher petrol prices

We also have August CPI data out of the US this week, with consensus forecasting a tick up in core inflation to 0.2% m-o-m, after four consecutive months at 0.1%. This rise will partly be payback for the volatile lodging-away-from-home component, which provided a substantial drag to core inflation in July, whilst rents and medical care likely also remained supportive. Despite the monthly tick up, yearly core CPI is likely to edge down to 1.6% y-o-y in August, from 1.7% in the previous month. However, headline CPI inflation should increase slightly to 1.8% y-o-y in August (July: 1.7%), given higher petrol prices following Hurricane Harvey. The other key release this week will be August retail spending data, which is forecast to moderate following the strong growth in July. Separately, we see greater downside risks to our core scenario of a further 25 bps rate hike in December, with developments in Washington and changes within the Fed (pages 4-5). These have raised a number of uncertainties for the setting of monetary policy.

EM: India inflation and Turkey 2Q GDP

In India, consumer inflation likely accelerated further to 3.3% y-o-y in August. This is on the back of further rises in vegetable prices, a tick up in fuel prices and an unfavourable base effect. Despite the higher inflation outlook, we still see the RBI delivering a further 25 bps rate cut at its December meeting. Meanwhile, consensus sees Turkey's 2Q real GDP growth strengthened to 5.3% from 5% in 1Q. A notable acceleration in loan growth, supported by the government's credit guarantee facility, likely boosted consumer spending. The pickup in domestic demand is partly reflected in the recent inflation data (page 5).

The next issue of Global Data Watch will be published on Monday 2 October 2017.

I. Recent Events and Data Releases

A. MENA Economies

Saudi Arabia: Redefining its National Transformation Plan

Details of new plan likely released at end-October

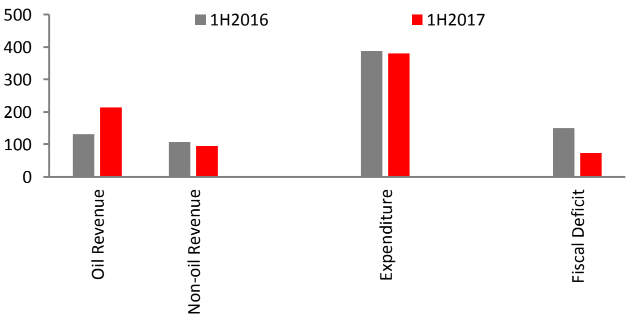
Official and media reports have suggested that Saudi Arabia is in the process of revamping its National Transformation Plan (NTP). The NTP, which was announced in June 2016, outlines key economic objectives for Vision 2030 – the country's blueprint to diversify the economy away from oil. The original NTP included fiscal consolidation plans and reforms, alongside other areas, and sets bold targets to be reached by 2020. The FT noted that the government has been reworking the NTP since July (dubbed NTP 2.0) and the timeline will continue to 2020, whilst adding objectives for 2025 and 2030. The FT also noted that full details of the changes will not be made public until end-October when officials are scheduled to present a final draft.

Revamp likely aimed at placing framework around original plan

From our understanding, most of the changes are likely to be aimed at providing greater definition and structure to the NTP alongside a better framework for its implementation. This is rather than wholesale changes or dilution of the overall reform agenda, including fiscal or energy-related targets. As we highlighted when the NTP was launched, it provided few details on the mechanisms/initiatives to be used to achieve these targets or the timelines involved. Please see our note, **Saudi Arabia: Economic reform plan approved; details limited so far**, published on 7 June 2016. We believe that key objectives will likely be defined alongside the public entities responsible for implementation and delivering the targets. Official statements have indicated NTP 2.0 will focus on 36 strategic objectives by allocating them to various government portfolios. Bloomberg has indicated that KSA's fiscal goals, including balancing its budget by 2020, will be moved to the Fiscal Balance Program. Moreover, the privatisation objectives will also likely be managed outside the NTP scope.

Fig. 1. Saudi Arabia: Fiscal reforms have slowed in 2017 YTD, fiscal improvement due to higher oil revenue

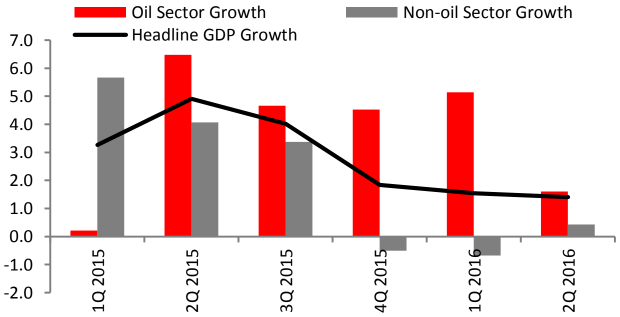
SAR billion



Source: Ministry of Finance

Fig. 2. Saudi Arabia: Real non-oil GDP growth remains weak, with government spending remaining restrained

% change y-o-y



Source: General Authority for Statistics

Main objectives will still be difficult to achieve

We still see substantial challenges ahead in terms of implementing the programme, especially around timing. There are already signs of a delay in the implementation of the fiscal reforms, as the earlier reforms continue to drag on economic activity. Moreover, the government has not made any progress with its fiscal stimulus package, which is vital to support the private sector and meet key investment objectives. A higher oil price and greater FDI inflows will be vital for Saudi Arabia to meet its long-term economic and social objectives. Moreover, the privatisation programme will also be critical in providing funds for diversifying the domestic economy and increasing overseas investment.

Bahrain: Holding roadshows with prospective bond investors

Bahrain's funding requirements remain high, with large fiscal deficit persisting

The government of Bahrain has mandated a number of banks to arrange a series of investor roadshows ahead of the issuance of a multi-tranche US bond. The maturities proposed include a 7-year sukuk and a 12-year and/or 30-year conventional bond, subject to market conditions. Bahrain has been widely expected to return to the international debt capital market to help cover its fiscal shortfall. Its financing requirements remain high and we estimate that it will likely realise a deficit of c.14.5% of GDP in 2017. So far, interest in Bahrain's international debt has remained supported, though further recent downgrades by rating agencies (Fitch in June and Moody's in July) and will likely be reflected in the pricing and demand.

B. G4 Economies

ECB: To announce QE tapering at October meeting

Tone of meeting bearish, with concerns over EUR strength

The ECB kept monetary policy steady at its 7 September meeting, including interest rates and its asset purchase programme for 2018, in line with our and market expectations. Moreover, the ECB did not announce any future changes to the QE programme or to its forward guidance. The tone of the meeting was dovish, with concerns over the EUR's strength highlighted and downward revisions to the inflation forecast. The ECB slightly revised down its inflation forecast by 0.1ppt for 2018 and 2019, to 1.2% and 1.5% respectively. This was as a result of a stronger EUR. The 2017 growth forecast was revised up to 2.2% (from 1.9% earlier), though the estimates for 2018 and 2019 were left unchanged at 1.8% and 1.7%, respectively. Again, the EUR was highlighted as a downside risk for the growth outlook. On the EUR appreciation, the policy statement noted that the volatility of the single currency was a source of uncertainty that required monitoring. Moreover, ECB president Mario Draghi reiterated that the ECB's only mandate is price stability, in contrast to other central banks which have a dual mandate of growth and inflation.

"Bulk" of decisions on QE programme in 2018 will be taken at October meeting

Regarding the QE programme, Draghi noted in the press conference that "the bulk of the decisions will probably be taken in October", though the Governing Council (GC) had already had a preliminary discussion about various scenarios including the size of monthly purchases and the length of the programme. This supports the widely-held expectation that the extension of the programme will be announced at the 26 October meeting. We continue to see the ECB reducing the quantum of monthly purchases by EUR20 billion to EUR40 billion, starting in January 2018 for six months. We do not expect the first interest rate hike until mid-2019.

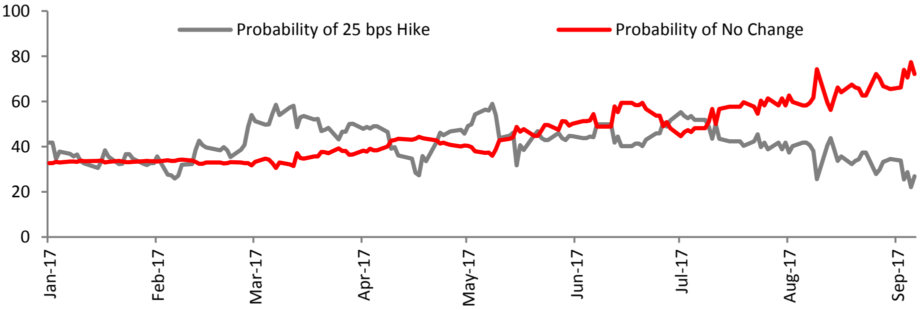
GDP growth: 2Q GDP growth was confirmed at 0.6% q-o-q in the final print. However, the y-o-y growth rate was revised up to 2.3% from 2.2%. Domestic drivers were behind the solid GDP growth with investment rising by 0.9% q-o-q. Both private and government consumption grew by 0.5% q-o-q. Net exports made a small positive contribution, though the external position is expected to deteriorate given the strengthening in the EUR.

US: Short-term rise in debt ceiling passed by Senate

If passed, debt deal will allow Fed to announce QE normalisation plans in September

In a surprise move, President Donald Trump forged a deal with Democrats in Congress to extend the debt ceiling and provide funding for the government until 8 December. The legislation was passed by the Senate last Thursday, and now moves to the House for a vote on Friday. The Senate-approved legislation is likely to pass, given the need to provide disaster aid. The short-term debt limit and government funding measure is attached to a bill providing disaster aid of USD15.3 billion for hurricanes Harvey and Irma. The decision removes short-term risks ahead of the FOMC's September meeting and, if passed, keeps the door open for the Fed to announce its balance sheet reduction plan. However, the agreement suggests that there will be further debt deadlines in December and possibly in 1Q2018. The December deadline will be ahead of the Fed's 12-13 December meeting. US Treasury Secretary Steven Mnuchin indicated that Trump chose a short-term deal to keep options open on possibly raising military funding later this year. The comment implies that a longer-term government funding deal, as sought by other Republicans, might have blocked this option. Meanwhile, the likely need to raise the debt level later in the year and potentially the need for higher hurricane relief support could weaken support for a net tax cut (the key objective of Trump's proposed tax reforms).

Fig. 3. US: Markets see less than 30% probability of 25 bps rate hike in December



Source: Bloomberg

US: Resignation of Vice Chair Fischer increases short-term policy uncertainties

Fed showing signs of increasing divisions on inflation outlook

Meanwhile, Fed Vice Chair Stanley Fischer announced that he will step down from his position in mid-October, eight months ahead of when his term is scheduled to end. The upcoming FOMC meeting on 19-20 September, when the Fed is expected to announce balance sheet normalisation, will be his last. This adds greater policy uncertainty at a time when the Fed is already showing signs of greater division over the inflation outlook and the need to raise interest rates further. A December rate hike remains our base case scenario; however, Fischer's departure could result in more downside risks to a further hike alongside the weak inflation backdrop and possible uncertainties over the government's debt ceiling. Fischer was widely seen as being supportive of a further rate hike in 2017 with signs of ongoing strength in the labour market, and has tended to be slightly more hawkish than the consensus.

Trump in strong position to reshape direction of Fed and monetary policy

The resignation has also strengthened President Donald Trump's hand regarding reshaping the direction of the Fed and monetary policy. Notably, Fed Chair Janet Yellen's term ends in February and three of the board of governor positions are vacant. As a result, Trump will have the opportunity to appoint up to five governors, albeit requiring

Senate approval. However, the Fed's board function can be conducted with as few as two members, according to the governing rules. Trump has already nominated Randal Quarles for one of the vacancies (vice chairman for bank supervision). Quarles has testified in front of Congress but has yet to be confirmed; the Senate Banking Committee voted last Thursday to advance the nomination. Trump has indicated that he would consider asking Yellen to serve another term despite being critical of her earlier policies. However, Trump has also said that he is still considering other candidates.

C. Emerging Market Economies

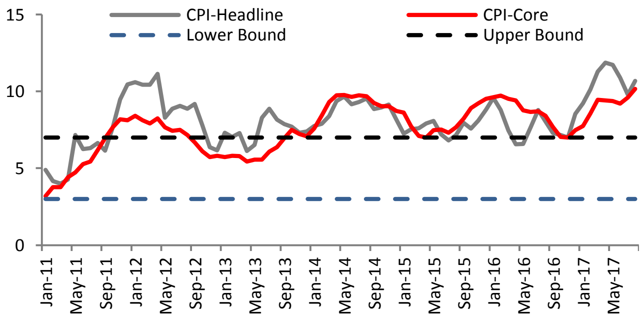
Turkey: Inflation returns to double-digit growth in August

Weakening TRY basket and pickup in demand behind rise in inflationary pressure in August

Consumer inflation saw a marked rise in August, accelerating by 0.5% m-o-m. This resulted in the yearly rate rising to 10.7% y-o-y in August from 9.8% the previous month. Core inflation also strengthened to 10.2% y-o-y in August from 9.6% in July. The rise in both headline and core inflation was above consensus expectations. The increase in prices was relatively broad-based, though food and clothing prices saw a monthly contraction in line with seasonal trends. The acceleration in other categories was driven by the strengthening in domestic demand and the weakening of the TRY trade-weighted basket, led by the appreciation of the EUR in particular. The segments that saw the highest inflation were education (up 2.8% m-o-m), transportation (2.1% m-o-m) and furniture and household equipment (1.7% m-o-m).

Fig. 4. Turkey: Stronger domestic demand and weakening TRY support rise in inflation

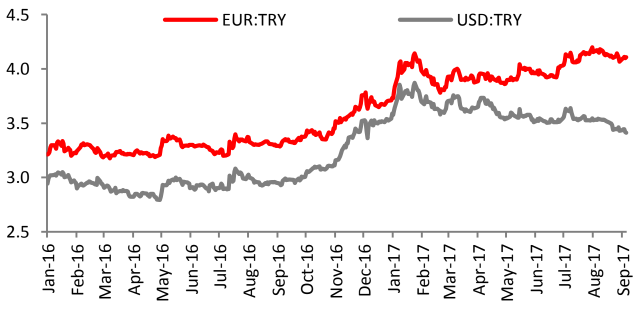
% change y-o-y



Source: State Institute of Statistics Turkey

Fig. 5. Turkey: TRY trade basket has weakened, thanks largely to appreciation in EUR

EUR:TRY; USD:TRY



Source: Bloomberg

Monetary policy to remain tight for remainder of 2017

The strengthening of inflation in August will keep monetary policy tight for the remainder of the year, both to support the TRY and contain the rise in demand. We expect inflation to remain in double-digit territory until December due to a combination of the base effect, elevated inflation expectations and the demand backdrop. As noted in our previous research, we see the CBRT potentially looking to tighten the average cost of interbank funding further to rein in inflation expectations. We only see inflation moderating meaningfully in early 2018, though this will also depend on developments in the TRY.

II. Economic Calendar

Fig. 6. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Bahrain	GDP Constant Prices, y-o-y	2Q	2.9%	--
	Bahrain	GDP Constant Prices, q-o-q	2Q	2.2%	--
	Oman	CPI, y-o-y	Aug	0.7%	--
	Qatar	CPI, y-o-y	Aug	0.2%	--
	Qatar	CPI, y-o-y	Aug	0.2%	--
	China	Foreign Direct Investment, CNY y-o-y	Aug	--	--
	China	Money Supply M2, y-o-y	Aug	9.2%	9.1%
	China	New Yuan Loans CNY	Aug	825.5B	950B
	China	Aggregate Financing CNY	Aug	1220.6B	1280B
Monday, 11 Sep					
3:50	Japan	Machine Orders, m-o-m	Jul	-1.9%	4.1%
3:50	Japan	Machine Orders, y-o-y	Jul	-5.2%	-7.8%
8:15	UAE	Dubai Economy Tracker SA	Aug	56.3	--
Tuesday, 12 Sep					
12:30	UK	CPI, m-o-m	Aug	-0.1%	0.5%
12:30	UK	CPI, y-o-y	Aug	2.6%	2.8%
12:30	UK	CPI Core, y-o-y	Aug	2.4%	2.5%
16:00	India	CPI, y-o-y	Aug	2.36%	3.23%
16:00	India	Industrial Production, y-o-y	Jul	-0.1%	1.7%
18:00	US	JOLTS Job Openings	Jul	6163	5975
Wednesday, 13 Sep					
12:30	UK	Jobless Claims Change	Aug	-4.2K	--
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Jul	2.1%	2.3%
12:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Jul	2.1%	2.2%
12:30	UK	ILO Unemployment Rate, 3Mths	Jul	4.4%	4.4%
12:30	UK	Employment Change, 3M/3M	Jul	125K	154K
15:00	US	MBA Mortgage Applications	8-Sep	3.3%	--
Thursday, 14 Sep					
6:00	China	Retail Sales, y-o-y	Aug	10.4%	10.5%
6:00	China	Industrial Production, y-o-y	Aug	6.4%	6.6%
8:30	Japan	Industrial Production, m-o-m	Jul F	-0.8%	--
8:30	Japan	Industrial Production, y-o-y	Jul F	4.7%	--
8:30	Japan	Capacity Utilization, m-o-m	Jul	2.1%	--
15:00	UK	Bank of England Bank Rate	14-Sep	0.25%	0.25%
15:00	UK	BOE Asset Purchase Target	Sep	435B	435B
15:00	UK	BOE Corporate Bond Target	Sep	10B	10B
16:30	US	Initial Jobless Claims	9-Sep	298K	300K
16:30	US	CPI, m-o-m	Aug	0.1%	0.3%
16:30	US	CPI, ex-Food and Energy, m-o-m	Aug	0.1%	0.2%
16:30	US	CPI, y-o-y	Aug	1.7%	1.8%
16:30	US	CPI, ex-Food and Energy, y-o-y	Aug	1.7%	1.6%
Friday, 15 Sep					
16:30	US	Retail Sales Advance, m-o-m	Aug	0.6%	0.1%
16:30	US	Retail Sales, ex-Auto, m-o-m	Aug	0.5%	0.5%
16:30	US	Retail Sales Control Group, m-o-m	Aug	0.6%	0.3%
17:15	US	Industrial Production, m-o-m	Aug	0.2%	0.1%
17:15	US	Capacity Utilization	Aug	76.7%	76.8%
18:00	US	U. of Mich. Sentiment	Sep P	96.8	95
	Kuwait	Kuwait Sovereign Debt to be rated by Moody's			

* UAE time
Source: Bloomberg

Fig. 7. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Data						
	Egypt	Net Reserves	Aug	36B	--	36.1
	Egypt	Gross Official Reserves	Aug	36B	--	36.1
Tuesday, 5 Sep						
4:30	Japan	Nikkei Japan PMI Composite	Aug	51.8	--	51.9
5:45	China	Caixin China PMI Composite	Aug	51.9	--	52.4
9:00	India	Nikkei India PMI Composite	Aug	46	--	49
12:00	Eurozone	Markit Eurozone Composite PMI	Aug F	55.8	55.8	55.7
12:30	UK	Markit/CIPS UK Composite PMI	Aug	54.1	54	54
18:00	US	Factory Orders	Jul	3.2%	-3.3%	-3.3%
18:00	US	Durable Goods Orders, m-o-m	Jul F	-6.8%	-2.9%	-6.8%
18:00	US	Durables, ex-Transportation, m-o-m	Jul F	0.5%	--	0.6%
18:00	US	Cap Goods Orders, Nondef ex-Air, m-o-m	Jul F	0.4%	--	1%
18:00	US	Cap Goods Ship, Nondef ex-Air, m-o-m	Jul F	1%	--	1.2%
Wednesday, 6 Sep						
8:15	UAE	Emirates NBD UAE PMI	Aug	56	--	57.3
8:15	Saudi Arabia	Emirates NBD Saudi Arabia PMI	Aug	55.7	--	
8:15	Egypt	Emirates NBD Egypt PMI	Aug	48.6	--	48.9
15:00	US	MBA Mortgage Applications	1-Sep	-2.3%	--	3.3%
16:30	US	Trade Balance	Jul	-$43.5B	-$44.7B	-$43.7B
18:00	US	ISM Non-Manf. Composite	Aug	53.9	55.6	55.3
Thursday, 7 Sep						
11:30	UK	Halifax House Price, 3Mths/Year	Aug	2.1%	2.1%	2.6%
11:30	UK	Halifax House Prices, m-o-m	Aug	0.7%	0.2%	1.1%
13:00	Eurozone	Gross Fix Cap, q-o-q	2Q	-0.3%	1%	0.9%
13:00	Eurozone	Govt Expend, q-o-q	2Q	0.2%	0.5%	0.5%
13:00	Eurozone	Household Cons, q-o-q	2Q	0.4%	0.5%	0.5%
13:00	Eurozone	GDP SA, q-o-q	2Q F	0.6%	0.6%	0.6%
13:00	Eurozone	GDP SA, y-o-Y	2Q F	2.2%	2.2%	2.3%
15:45	Eurozone	ECB Main Refinancing Rate	7-Sep	0%	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	7-Sep	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	7-Sep	-0.4%	-0.4%	-0.4%
15:45	Eurozone	ECB Asset Purchase Target	Sep	EU60B	EU60B	EU60B
16:30	US	Initial Jobless Claims	2-Sep	236K	245K	298K
	China	Foreign Reserves	Aug	$3080.7B	$3095B	$3091.5B
Friday, 8 Sep						
3:50	Japan	GDP SA, q-o-q	2Q F	1%	0.7%	0.6%
3:50	Japan	GDP Annualized SA, q-o-q	2Q F	4%	2.9%	2.5%
3:50	Japan	GDP Nominal SA, q-o-q	2Q F	1.1%	0.9%	0.7%
3:50	Japan	GDP Deflator, y-o-y	2Q F	-0.4%	-0.4%	-0.4%
3:50	Japan	GDP Private Consumption, q-o-q	2Q F	0.9%	0.9%	0.8%
3:50	Japan	GDP Business Spending, q-o-q	2Q F	2.4%	0.5%	0.5%
12:30	UK	Industrial Production, m-o-m	Jul	0.5%	0.2%	0.2%
12:30	UK	Industrial Production, y-o-y	Jul	0.3%	0.4%	0.4%
12:30	UK	Manufacturing Production, m-o-m	Jul	0.0%	0.3%	0.5%
12:30	UK	Manufacturing Production, y-o-y	Jul	0.6%	1.7%	1.9%
	China	Imports, y-o-y	Aug	11%	10%	13.3%
	China	Exports, y-o-y	Aug	7.2%	6%	5.50%
	China	Trade Balance	Aug	$46.73B	$48.45B	$41.99B

* UAE time
Source: Bloomberg

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