The Week Ahead: Fed expected to raise by 25 bps, BoE and BoJ to hold

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US: Focus on the Fed's forward guidance, hike expected

We expect the Fed to raise the FFTR by 25 bps to 1% (upper bound) at its 14-15 March meeting. Markets are pricing in a 98% probability of a 25 bps rate hike following the strong February payroll report, with 235K jobs created and the unemployment rate falling to 4.7% (page 2). Market focus will be on projections and the tone of the guidance, particularly if there is any indication of a June rate hike. Overall, we expect the Fed to present a more positive assessment of the economy, including an improvement in the balance of risk. Fed Chair Janet Yellen's press conference will be scrutinised for the economic criteria the Fed requires for the next rate hike. Any comments regarding balance sheet policy will also be closely scrutinised. We expect the median dots to still indicate a further three rate hikes in 2017, though we see a risk that the median dots move higher for 2018 to suggest four rate increases. On the data front, February inflation and retail sales will be in focus. Consensus expects headline inflation to accelerate to 2.7% y-o-y given the higher energy prices. However, m-o-m inflation is expected to remain flat (0% m-o-m). Elsewhere, China's economic indicators for February are expected to show a further build up in investment momentum.

Global: BoE and BoJ on hold; CBRT likely to hike

Markets will closely follow comments by the BoJ and BoE arising from their policy meetings next week, with no changes to policies expected. The BoJ is forecast to maintain its yield-curve targeting framework (15-16 March) supported by the recent rise in core inflation and strengthening in near-term growth momentum (page 5). However, expectations are rising that the central bank will soon increase its 10-year yield target (0% currently) in response to a rise in global inflation and yields. The BoE is unlikely to indicate a rate hike this year at its 16 March meeting, given its preference for looking past increases in inflation driven by a weaker GBP and higher fuel prices. Elsewhere in Turkey, we expect the CBRT to hike its benchmark repo rate by another 25 bps to 8.25% on 16 March. The jump in February inflation to double-digit figures (10.1% y-o-y) and a rise in Turkish residents' dollar deposits this year make a strong case for conventional monetary tightening in our view. Recent TRY weakness and the outlook for a rate hike by the Fed also support the case for a hike.

Netherlands: General election to result in another coalition

The Netherlands holds elections for the 150 seats of its House of Representatives on 15 March. Polls are indicating that the Freedom Party (PVV) will win the most seats (25-30), though it may have difficulty finding coalition partners given its extreme opposition to the EU and immigration. Thus a coalition government is expected to be formed with the PVV excluded. However, it is expected to take months to form with key coalition partners unlikely to secure the 75 seats needed for a majority in parliament.

I. Recent Events and Data Releases

A. MENA Economies

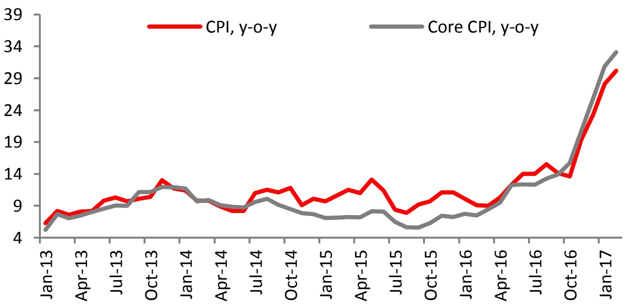
Egypt: Inflation accelerates to 30.2% y-o-y in February, though expected to peak soon

Core inflation rose to 33.1% in February

Egypt's headline inflation accelerated to 30.2% y-o-y in February, up from 28.1% in the previous month. Food and beverage price increases strengthened further to 40.5% y-o-y in February, up from 37.2% in January. Core inflation also increased to 33.1% y-o-y (January: 30.9%). However, the pace of monthly price increases subsided to 2.6% m-o-m, down from 4.1% in January, reflecting a reduced build up in inflationary pressure. This was the weakest monthly rise in inflation since the November 2016 devaluation. We believe that the annual inflation rate is close to peaking, though will remain high until end-2017 as the sharp November 2016 EGP devaluation continues to feed into annual prices. We expect some gradual softening in March annual inflation, from the February level, given the relatively contained EGP devaluation in March 2016 (Fig. 2).

Fig. 1. Egypt: Inflation expected to remain strong for most of 2017 following November EGP devaluation

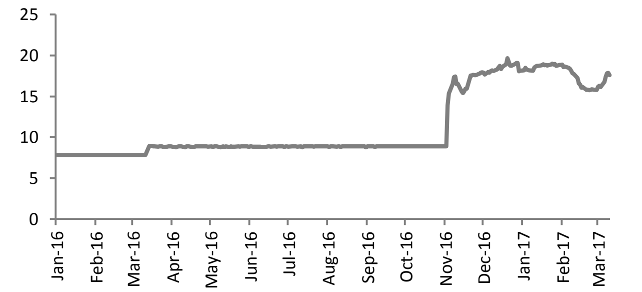
% change y-o-y



Source: CAPMAS

Fig. 2. Egypt: Some gradual softening in inflation expected in March given moderate EGP devaluation in March 2016

USD:EFG



Source: Bloomberg

CBE expected to keep interest rates on hold, looking past temporary drivers of inflation

We expect the CBE to remain on hold at its 30 March meeting as it looks through the impact of EGP devaluation and fiscal reforms (lower fuel subsidies and introduction of VAT), despite the further acceleration in inflation in February. Meanwhile, increased capital inflows and workers' remittances reduced the need for the CBE to raise rates in the immediate future. Egypt's current account deficit narrowed to USD4.7 billion in Q4 2016 from USD5 billion in 3Q2016, largely on the back of stronger remittances following the liberalisation of the EGP.

B. G4 Economies

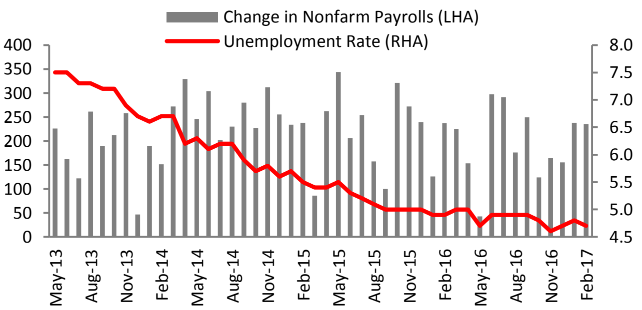
US: Robust labour report for February, with 235K jobs added

Three-month moving average jobs growth rose to robust 209K in February

The NFP payroll report for February was strong across the board, raising market expectations of a 25 bps rate hike at the Fed's March meeting to 98%. The US economy added 235K jobs in January, substantially beating consensus expectations of 200K. The jobs growth was supported by rises in the goods-producing sectors (adding c. 95K), including mining, manufacturing and construction. The warmer seasonal weather boosted construction gains (58K), though it negatively impacted retail employment growth. Meanwhile, mining and manufacturing sector jobs continue to benefit from the higher energy prices. Moreover, net revisions to the payroll for the previous two months resulted in an increase of 9K jobs. The robust February jobs growth, and previous months' revisions, means that the three-month moving average strengthened to 209K, up from an already healthy 185K in January. The six-month moving average stands at 194K.

Fig. 3. US: Unemployment rate moderates to 4.7% in February, despite higher participation rate

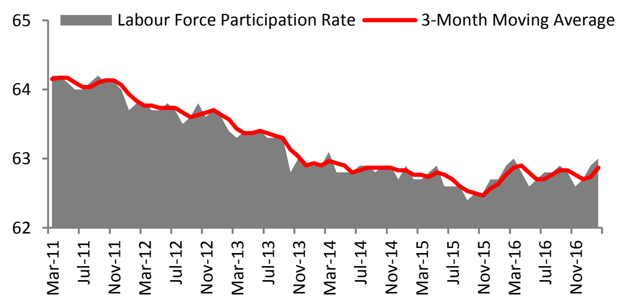
'000 (LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 4. US: Participation rate increases to 63% in February 2017, from 62.6% in May 2016

%



Source: Bureau of Labor Statistics

Data reflects further tightening in labour market

The unemployment rate moderated to 4.7% (January: 4.8%), in line with consensus forecasts, despite the labour force participation rate rising to 63% (January: 62.9%). Wages expanded by a respectable 0.2% m-o-m, though missed consensus expectations of 0.3% growth. However, January's wage growth was revised up to 0.2% m-o-m, from 0.1%. On a yearly basis, wage growth accelerated to 2.8% y-o-y in February, up from 2.6% in January.

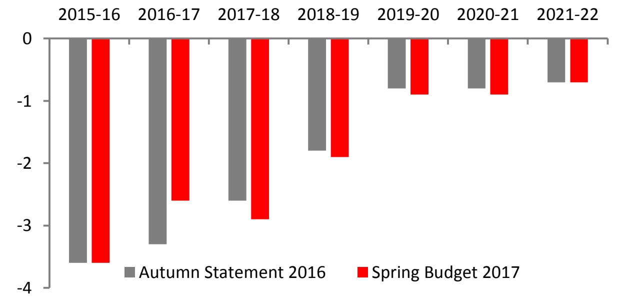
UK: Government stays committed to fiscal targets, lowers borrowing forecasts

UK government to borrow GBP17.2 billion less than forecast in November 2016

The UK government maintained its fiscal restraint stance in the FY2017-18 budget (April 2017-March 2018), pledging to cut the deficit by another 1.9% of GDP over the next five years. The additional borrowing forecasts until 2022 were revised down to GBP104.8 billion from GBP122 billion in the Autumn Statement. The government now expects the public debt-to-GDP ratio to start falling from 2018, versus 2019 in previous estimates. Notably, the government now expects net market borrowing to be GBP22.9 billion lower over the period 2016-19, as it forecasts stronger growth than anticipated in November 2016 and plans further cuts to current expenditure by government departments. Total expenditure growth was kept unchanged for 2017-18 (3.9% y-o-y as in 2016-17), with school education and social care seeing the biggest spending outlays. This is likely to be funded by additional receipts of GBP28 billion from lower deduction thresholds on dividend tax and an increase in national insurance contributions by self-employed persons. As we had expected, the strength in economic momentum since the Brexit vote prompted some upward revisions to the near-term economic outlook, with the 2017 GDP forecast revised up to 2% from 1.4% previously. However, economic forecasts for 2018-22 were reduced, factoring in the costs of Brexit.

Fig. 5. UK: Government expects to cut fiscal deficit by another 1.9% of GDP by March 2022

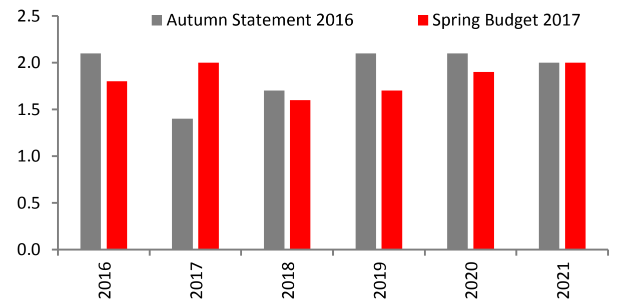
Cyclically adjusted fiscal deficit, % of GDP



Source: Office for Budget Responsibility

Fig. 6. UK: Estimate of growth in 2017 raised significantly in the budget

% change in GDP



Source: Office for Budget Responsibility

Near-term growth could be lower than budget estimates; fiscal targets should remain intact

We view the FY2017-18 budget positively given the government's ongoing commitment to bring its fiscal deficit under 2% by 2020. A modest increase in spending this year is prudent considering that the economy has outperformed market expectations since the Brexit vote. That said, we see some downside risks to the near-term growth forecasts, as both consumption and investment might come in lower than budget estimates. We also continue to see risks of higher expenditure by the government, if it agrees to the EU's demand to pay EUR40-60 billion as an indemnity for Brexit ('Brexit divorce bill'). Even so, fiscal savings from previous years will allow the government to increase its borrowing by 1-1.3% of GDP without any risks to its medium-term deficit target (2% of GDP).

Eurozone: ECB maintains monetary policy, slightly more positive on economic assessment

No new TLTRO programme discussed

The ECB made no changes to its monetary policy at its 9 March meeting, including keeping the deposit facility rate at -0.40%, in line with our and consensus expectations. The key change was in its communication, which provided a more positive assessment of the economy, resulting in a moderately less bearish overall tone. The more positive comments were seen in both the statement and comments by ECB President Mario Draghi. The ECB statement noted that "the risks surrounding the euro area growth outlook have become less pronounced" and that the Eurozone's "cyclical recovery may be gaining momentum". In line, there were some moderate upward revisions to GDP estimates by staff economists: 2017 growth was increased to 1.8% (1.7% earlier) and 2018 to 1.7% (1.6% earlier). Moreover, the ECB removed the statement that it would use all instruments available, which Draghi highlighted was due to a reduced risk of deflation. Draghi also noted that the Governing Council did not discuss launching a new TLTRO (targeted longer-term refinancing operations), even though the last scheduled TLTRO will soon take place.

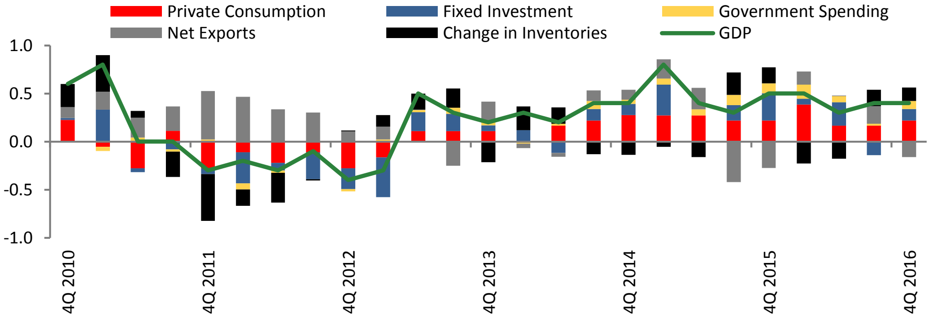
Inflation remains weak link

However, weak underlying inflation means significant policy changes are unlikely to come soon. Indeed, the ECB's core inflation forecast for 2017 was maintained at 1.1%, though there were some increases to the projections for 2018 (to 1.5%) and 2019 (1.8%). We expect some very gradual pickup in core inflation in 2017, with a moderation in spare capacity. This could be sufficient for the ECB to announce later this year (possibly in the September meeting) that it will begin tapering its asset purchases from January 2018.

However, we do not expect an interest rate hike until end-2018 at the very earliest. Greater clarity on the impact of Brexit will be critical before the ECB hikes.

Fig. 7. Eurozone: Private consumption continued to support growth in 4Q2016 even as exports pulled back

Contribution to real GDP growth (pp, q-o-q)



Source: Eurostat

Political uncertainties are a risk to the economic outlook, especially investment spending

4Q GDP growth: The figure for 4Q2016 growth was unrevised at 0.4% q-o-q (3Q: 0.4%). The breakdown by component sheds further light on its drivers. Household consumption remained the engine of growth, adding 0.2pp (3Q: 0.2pp) to headline GDP. Capital expenditure grew, adding 0.1pp (-0.1 pp in 3Q), while the contribution from net exports turned negative (-0.1pp after 0.2pp in 3Q). Looking ahead, we see a risk that investment spending could drag on growth in 2017, as firms hold back on spending until uncertainty around elections in France and Germany meaningfully subsides. However, consumption spending is likely to remain robust, aided by falling unemployment and steady household credit growth.

Japan: 4Q GDP revised up on stronger investment spending

4Q GDP revised up; private investment spending stronger than expected

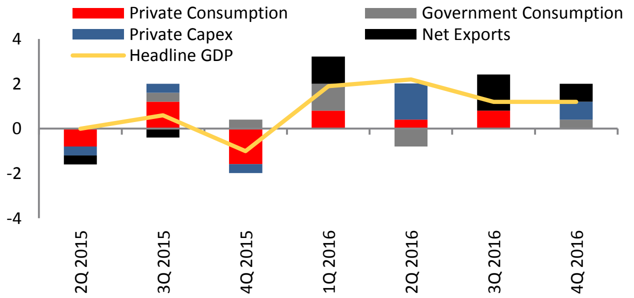
Japan's 4Q GDP was revised up to 1.2% q-o-q saar (1st estimate: 1%; 3Q: 1.2%), as second estimates showed that investment spending growth was stronger than previously expected. Specifically, private non-residential capex rose 8.4% q-o-q saar (1st estimate: 3.8%; 3Q: -1.3%), with a ramp up in investment spending on machinery and facilities by export-oriented sectors (engineering goods, transport, electronics). On the other hand, consumption growth remained flat (3Q:1.3%), and the pick-up in consumer confidence since September has yet to translate into a recovery in household spending.

Short-term tailwinds to economy in 2017, but protectionist trade policy could weigh on medium-term outlook

We expect the expansion of the economy for the fourth straight quarter to reduce the pressure on the BoJ to ease monetary policy by flattening the JGB yield curve at its 16 March meeting. However, the central bank is still likely to remain cautious on the economic and inflation outlook. We believe that GDP growth may remain well above its historical trend of 0.5% y-o-y in 1H2017, though medium-term risks to the economy persist. Over the next two quarters, we expect steady growth in private capex and exports given that machinery and export orders have been responding quickly to upticks in global growth. A modest recovery in public capex is also likely, as fiscal spending on disaster relief projects has seen some progress in 1Q2017. That said, risks of a sharp pull-back in investment spending in the export sector, if the US goes ahead with a highly protectionist border adjustment tax, will continue to weigh on the medium-term economic outlook. Consumption growth could remain lacklustre, as wage growth has not accelerated meaningfully despite the unemployment rate being at a 23-year low.

Fig. 8. Japan: Exports underpinned economy's recovery through 2016

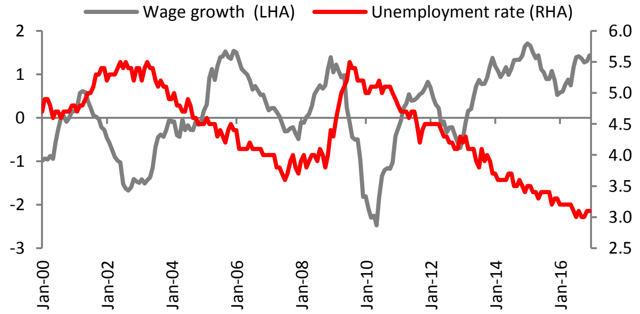
Contribution to real GDP growth (pp, q-o-q saar)



Source: Cabinet Office, Japan

Fig. 9. Japan: Acceleration in wage growth not commensurate with sharp fall in unemployment

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



Source: Ministry of Internal Affairs and Communications, Bloomberg

C. Emerging Market Economies

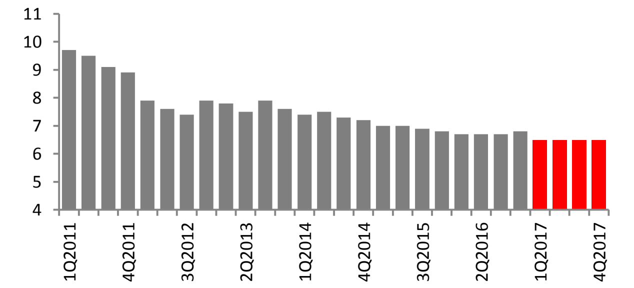
China: NPC backs currency liberalisation, sets lower growth target

Chinese government likely to accept gradual weakening of CNY against the USD

The Chinese Communist Party announced its annual economic, fiscal and monetary policy targets for 2017 at the annual National People's Congress last week. Party leaders lowered the growth target for 2017 to "around 6.5%" (6.5-7% last year). We believe that the preference for slower growth implies further capacity cuts at ailing state-owned firms and a renewed focus on curbing the growth of off-balance sheet and non-bank lending. Indeed, comments by Prime Minister Li Keqiang suggest that the government may even accept GDP growth slightly below the 6.5% target as the cost of weaning the economy off debt dependence. The other major announcement was a change in the government's view on FX policy. Compared to 2016, when the government aimed to maintain the CNY at "a stable and appropriate level", the policy preference this year will be to "make the CNY exchange rate more market driven and liberalised". We interpret this as an implicit acceptance of a weaker CNY this year as Fed rate hikes strengthen the USD. The fiscal deficit target was kept unchanged at 3% of GDP. Accordingly, we expect continued support for infrastructure investment in urban housing, mass transport networks and renewable energy, as in 2016, through direct and off-budget spending.

Fig. 10. China: Government likely to accept slower growth in 2017 as a cost of reducing financial stability risks

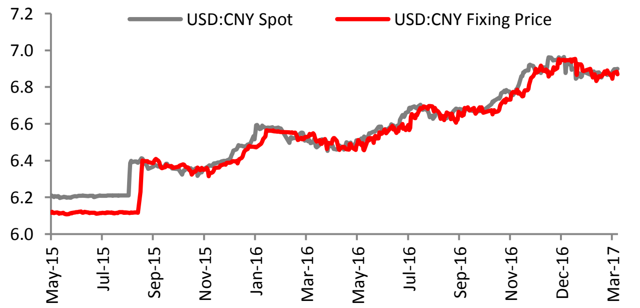
Real GDP growth (govt. projections in red bars), % change y-o-y



Source: National Bureau of Statistics, China

Fig. 11. China: PBoC should be comfortable with weaker CNY as long as depreciation is orderly

USD:CNY



Source: Bloomberg

We expect policy preferences to significantly impact commodities and local corporate debt market

We see these announcements as having three major implications for global asset markets. First, planned capacity cuts in the steel (50 million tons), coal (150 million tons) and power sectors are likely to have an impact on global commodity prices. A cut in excess capacity should support international steel and coal prices while at the same time limiting the demand for commodity inputs to these industries. We think the prices of copper, zinc and crude oil could be impacted by the government's decision to accept a lower rate of GDP and investment growth. Second, the government's endorsement of a market-driven CNY exchange rate could encourage a gradual depreciation of the currency in 2017 and we expect USD:CNY at c. 7.20 by end-2017. So long as this depreciation is orderly, we expect limited PBoC intervention in FX markets. A weaker CNY should also push up import prices for firms, improving their pricing power and allaying near-term concerns over corporate debt servicing. Finally, we see rising risks of a sell-off in Chinese corporate bond markets as the PBoC increases its scrutiny of high leverage in the corporate sector. We expect corporate debt default rates to rise this year, particularly for lower-rated property developers and manufacturers, which have benefited from the PBoC's accommodative monetary stance since 2H2015. Nevertheless, we consider some defaults by overleveraged lenders as essential to reducing long-term systemic financial risks in China, even at the cost of near-term asset market volatility.

II. Economic Calendar

Fig. 12. Upcoming events and data releases

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Feb	290.8B	--
	UAE	M2 Money Supply, m-o-m	Feb	0.4%	--
	UAE	CPI, y-o-y	Feb	2.3%	--
	Qatar	CPI, y-o-y	Feb	1.2%	--
	Oman	CPI, y-o-y	Feb	1.8%	--
	Bahrain	GDP Constant Prices, y-o-y	4Q	3.9%	--
Monday, 13 Mar					
3:50	Japan	Machine Orders, y-o-y	Jan	6.7%	-0.1%
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	-0.4%	0.1%
17:30	Eurozone	ECB President Mario Draghi Speaks in Frankfurt			
Tuesday, 14 Mar					
6:00	China	Retail Sales, YTD y-o-y	Feb	10.4%	10.6%
6:00	China	Fixed Assets, ex-Rural, YTD y-o-y	Feb	8.1%	8.2%
6:00	China	Industrial Production, YTD y-o-y	Feb	6%	6.2%
11:00	Germany	CPI, y-o-y	Feb F	2.2%	2.2%
14:00	Eurozone	Industrial Production SA, m-o-m	Jan	-1.6%	1.4%
16:00	India	CPI, y-o-y	Feb	3.2%	3.6%
Wednesday, 15 Mar					
8:30	Japan	Industrial Production, m-o-m	Jan F	-0.8%	--
13:30	UK	Jobless Claims Change	Feb	-42.4K	--
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Jan	2.6%	2.4%
13:30	UK	ILO Unemployment Rate, 3M/3M	Jan	4.8%	4.8%
13:30	UK	Employment Change, 3M/3M	Jan	37K	80K
16:30	US	CPI, m-o-m	Feb	0.6%	0%
16:30	US	CPI, ex-Food and Energy, m-o-m	Feb	0.3%	0.2%
16:30	US	CPI, y-o-y	Feb	2.5%	2.7%
16:30	US	CPI, ex-Food and Energy, y-o-y	Feb	2.3%	2.2%
16:30	US	Retail Sales Advance, m-o-m	Feb	0.4%	0.1%
16:30	US	Retail Sales, ex-Auto and Gas, m-o-m	Feb	0.7%	0.2%
16:30	US	Retail Sales Control Group, m-o-m	Feb	0.4%	0.2%
22:00	US	FOMC Rate Decision (Upper Bound)	15-Mar	0.75%	1%
22:00	US	FOMC Rate Decision (Lower Bound)	15-Mar	0.5%	0.75%
Thursday, 16 Mar					
	Japan	BOJ Policy Balance Rate	16-Mar	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	16-Mar	0%	0%
14:00	Eurozone	CPI, y-o-y	Feb F	2%	2%
14:00	Eurozone	CPI Core, y-o-y	Feb F	0.9%	0.9%
15:00	Turkey	Benchmark Repo Rate	16-Mar	8%	8%
15:00	Turkey	Overnight Lending Rate	16-Mar	9.25%	9.25%
16:00	UK	Bank of England Bank Rate	16-Mar	0.25%	0.25%
16:00	UK	BOE Asset Purchase Target	Mar	435B	435B
16:00	UK	BOE Corporate Bond Target	Mar	10B	10B
16:30	US	Housing Starts	Feb	1246K	1260K
16:30	US	Building Permits	Feb	1293K	1260K
16:30	US	Initial Jobless Claims	11-Mar	243K	240K
18:00	US	JOLTS Job Openings	Jan	5501	5562
Friday, 17 Mar					
17:15	US	Industrial Production, m-o-m	Feb	-0.3%	0.2%
18:00	US	U. of Mich. Sentiment	Mar P	96.3	97

* UAE time
Source: Bloomberg

Fig. 13. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Data						
	Saudi Arabia	Non-Oil Exports, y-o-y	Dec	-9.1%	--	-10.3%
	China	Foreign Reserves	Feb	$2998.2B	$2969B	$3005B
	China	M2 Money Supply, y-o-y	Feb	11.3%	11.4%	11.1%
	China	New Yuan Loans, CNY	Feb	2030B	920B	1170B
	China	Aggregate Financing, CNY	Feb	3738B	1400B	1150B
Monday, 6 Mar						
19:00	US	Factory Orders, m-o-m	Jan	1.3%	0.9%	1.2%
19:00	US	Factory Orders, ex-Trans, m-o-m	Jan	2.4%	--	0.3%
Tuesday, 7 Mar						
14:00	Eurozone	Gross Fix Cap, q-o-q	4Q	-0.7%	0.6%	0.6%
14:00	Eurozone	Govt Expenditure, q-o-q	4Q	0.1%	0.4%	0.4%
14:00	Eurozone	Household Consumption, q-o-q	4Q	0.3%	0.5%	0.4%
14:00	Eurozone	GDP SA, q-o-q	4Q F	0.4%	0.4%	0.4%
14:00	Eurozone	GDP SA, y-o-y	4Q F	1.7%	1.7%	1.7%
17:30	US	Trade Balance	Jan	-$44.3B	-$45.8B	-$45.8B
Wednesday, 8 Mar						
	China	Imports, y-o-y	Feb	16.7%	20%	38.1%
	China	Exports, y-o-y	Feb	7.9%	14%	-1.3%
	China	Trade Balance	Feb	$51.3B	$27.5B	-$9.15B
0:00	US	Consumer Credit	Jan	$14.8B	$18B	$17.3B
3:50	Japan	BoP Current Account Balance	Jan	¥1112.2B	¥270B	¥65.5B
3:50	Japan	GDP SA, q-o-q	4Q F	0.2%	0.4%	0.3%
3:50	Japan	GDP Annualized SA, q-o-q	4Q F	1.2%	1.5%	1.2%
3:50	Japan	GDP Private Consumption, q-o-q	4Q F	0%	0%	0%
3:50	Japan	GDP Business Spending, q-o-q	4Q F	0.9%	1.7%	2%
16:00	US	MBA Mortgage Applications	3-Mar	5.8%	--	3.3%
16:30	UK	Spring Budget statement				
17:15	US	ADP Employment Change	Feb	261K	187K	298K
Thursday, 9 Mar						
	Egypt	Urban CPI, y-o-y	Feb	28.1%	--	30.2%
	Egypt	CPI Core, y-o-y	Feb	30.9%	--	
5:30	China	CPI, y-o-y	Feb	2.5%	1.7%	0.8%
8:15	UAE	Dubai Economy Tracker SA	Feb	57.1	--	56.2
16:45	Eurozone	ECB Main Refinancing Rate	9-Mar	0%	0%	0%
16:45	Eurozone	ECB Marginal Lending Facility	9-Mar	0.25%	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	9-Mar	-0.4%	-0.4%	-0.4%
16:45	Eurozone	ECB Asset Purchase Target	Apr	EU80B	EU80B	EU80B
17:30	US	Initial Jobless Claims	4-Mar	223K	238K	243K
Friday, 10 Mar						
13:30	UK	Industrial Production, m-o-m	Jan	0.9%	-0.5%	-0.4%
13:30	UK	Industrial Production, y-o-y	Jan	4.3%	3.2%	3.2%
17:30	US	Change in Nonfarm Payrolls, '000	Feb	238K	200K	235K
17:30	US	Unemployment Rate	Feb	4.8%	4.7%	4.7%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.2%	0.3%	0.2%
17:30	US	Average Hourly Earnings, y-o-y	Feb	2.5%	2.8%	2.8%
17:30	US	Labor Force Participation Rate	Feb	62.9%		63%

* UAE time
Source: Bloomberg

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