

US highlights gradual hiking cycle; GCC states follow by largely raising deposit rates

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► **US: Raises interest rates, but gradual cycle expected**

The Fed raised interest rates by 25 bps on 16 December, bringing the fed funds target rate (FFTR) band to 0.25-0.5%, in line with our and market expectations. The interest on excess reserves (IOER) was raised to 0.5% (in line with the upper bound) and the overnight reverse repurchase rate increased to 0.25%. The post-meeting conference and statement provided an overall dovish tone – emphasising that the upcoming rate cycle will be gradual and data dependent. The median projection of the dot plot continues to suggest 100 bps of rate hikes in 2016, as it did in September. However, the average projection for 2016 was lowered by 19 bps, and the median for the end of 2017 was lowered by 25 bps. We continue to see two rate hikes in 2015, resulting in only a 50 bps increase in benchmark interest rates. This view is based on the weak inflation outlook and the fragile global growth picture. Notably, the Fed indicated that it will now place greater emphasis on inflation, rather than the labour market. However, there were some hawkish elements to the Fed's message. The policy statement upgraded the language on the economy and described the risks to the outlook for growth and the labour market as "balanced".

► **GCC: Countries follow US, but largely by raising deposit rates**

Most of the GCC countries followed the Fed by raising interest rates (Oman and Qatar had not indicated a change at the time of publishing). However, most of the GCC countries that announced hikes only raised their deposit rates. Both Saudi Arabia and Bahrain increased their central bank deposit rates by 25 bps, to 0.5%. Meanwhile, the UAE raised rates on the certificates of deposit (CDs) issued by the central bank by 25 bps. We believe the increases were aimed at i) showing commitment to the GCC currency pegs to the USD, and ii) reducing the risk of an outflow of capital looking for higher yields. Bahrain, Saudi Arabia and the UAE did not increase their benchmark lending rates. We believe this reflects the slowing economic activity and the already tightening banking sector liquidity. Only Kuwait raised its benchmark lending rate by 0.25 bps to 2.25%.

► **Saudi Arabia: Forecast to pull back spending in 2016**

We see the key event of this week as the likely release of Saudi Arabia's fiscal budget for 2016 (the release date has not yet been provided). We expect to see a contractionary budget, with planned government spending expected to fall from the 2015 budget. In actual expenditure terms (which tends to be higher than stated in the budget), we are forecasting a -8.3% drop in actual spending in 2016. This will be due to the removal of a number of one-off spending measures in 2015, alongside the pullback in wider government spending. Qatar announced its 2016 budget last week with planned government expenditure down -7.3%.

The next issue of Global Data Watch will be published on Monday 18 January 2016.

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I. Economic Calendar

Fig. 1. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
Monday 14 Dec						
3:50	Japan	Tankan Large Mfg Index	4Q	12	11	12
3:50	Japan	Tankan Large Mfg Outlook	4Q	10	11	7
3:50	Japan	Tankan Large Non-Mfg Index	4Q	25	23	25
14:00	Eurozone	Industrial Production SA, m-o-m	Oct	-0.3%	0.3%	0.6%
14:00	Eurozone	Industrial Production WDA, y-o-y	Oct	1.3%	1.4%	1.9%
16:00	India	CPI, y-o-y	Nov	5%	5.3%	5.4%
Tuesday 15 Dec						
13:30	UK	CPI, m-o-m	Nov	0.1%	-0.1%	0%
13:30	UK	CPI, y-o-y	Nov	-0.1%	0.1%	0.1%
13:30	UK	CPI Core, y-o-y	Nov	1.1%	1.2%	1.2%
14:00	Germany	ZEW Survey Current Situation	Dec	54.4	54.2	55
14:00	Germany	ZEW Survey Expectations	Dec	10.4	15	16.1
17:30	US	Empire Manufacturing	Dec	-10.7	-7	-4.56
17:30	US	CPI, m-o-m	Nov	0.2%	0%	0%
17:30	US	CPI, ex-Food and Energy, m-o-m	Nov	0.2%	0.2%	0.2%
17:30	US	CPI, y-o-y	Nov	0.2%	0.4%	0.5%
17:30	US	CPI, ex-Food and Energy, y-o-y	Nov	1.9%	2%	2%
Wednesday 16 Dec						
13:30	UK	Jobless Claims Change	Nov	0.2K	0.8K	3.9K
13:30	UK	Average Weekly Earnings 3M/y-o-y	Oct	3%	2.5%	2.4%
13:30	UK	Weekly Earnings ex Bonus 3M/y-o-y	Oct	2.4%	2.3%	2%
13:30	UK	ILO Unemployment Rate 3Mths	Oct	5.3%	5.3%	5.2%
14:00	Eurozone	CPI, m-o-m	Nov	0.1%	-0.2%	-0.1%
14:00	Eurozone	CPI, y-o-y	Nov F	0.1%	0.1%	0.2%
14:00	Eurozone	CPI Core, y-o-y	Nov F	0.9%	0.9%	0.9%
16:00	US	MBA Mortgage Applications	11-Dec	1.2%	--	-1.1%
17:30	US	Housing Starts	Nov	1062K	1130K	1173K
18:15	US	Industrial Production, m-o-m	Nov	-0.4%	-0.2%	-0.6%
23:00	US	FOMC Rate Decision (Upper Bound)	16-Dec	0.25%	0.5%	0.5%
23:00	US	FOMC Rate Decision (Lower Bound)	16-Dec	0%	0.25%	0.25%
Thursday 17 Dec						
3:50	Japan	Trade Balance	Nov	¥108.3B	-¥449.7B	-¥379.7B
3:50	Japan	Exports, y-o-y	Nov	-2.2	-1.6	-3.3
3:50	Japan	Imports, y-o-y	Nov	-13.4	-7.5	-10.2
13:00	Germany	IFO Business Climate	Dec	109	109	108.7
13:00	Germany	IFO Current Assessment	Dec	113.4	113.4	112.8
13:00	Germany	IFO Expectations	Dec	104.7	105	104.7
13:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Nov	-0.8%	0.5%	1.7%
13:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Nov	3.2%	2.2%	3.9%
	Egypt **	Deposit Rate	17-Dec	8.75%	--	8.75%
	Egypt **	Lending Rate	17-Dec	9.75%	--	9.75%
Friday 10 Dec						
	Japan	BOJ Annual Rise in Monetary Base	18-Dec	¥80T	¥80T	¥80T

* UAE time

** The Central Bank of Egypt postponed the scheduled interest rate decision until 24 December 2015

Source: Bloomberg

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