The Week Ahead: US personal spending and various GDP growth reports in focus

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US: Core PCE to be closely watched after inflation surprise

The focus of US data this week will be durable goods orders and personal spending data for January. Personal spending is expected to rise to 0.3% m-o-m in January (from 0% in December), in line with the pickup in retail sales. Consensus forecasts core PCE deflator to increase by 0.1% m-o-m, though we see some upside to that figure. The recent reweighting of CPI data, which closer reflects core PCE, points to stronger growth in January. Indeed, core inflation rose to 0.3% m-o-m in January, boosted by healthcare, clothing and new vehicle prices. This was the strongest monthly gain since August 2011. Meanwhile, durable goods orders growth is expected to rebound to 2.5% m-o-m, after a -5% contraction in December (largely reflecting seasonal adjustments). Increased orders of transportation items are likely to support the headline growth.

G4: Eurozone PMI and GDP reports for 4Q2015

Markets will closely watch the flash Eurozone PMI print (22 February) to gauge economic momentum ahead of ECB's March meeting. The ECB highlighted fresh growth risks last week, albeit largely stemming from outside the Eurozone. Later in the week the focus will shift to the second estimates of UK and US GDP for 4Q. In the US, consensus expects a downward revision to 0.4% q-o-q SAAR, from 0.7% in the initial print, on the back of weaker residential investment and government spending. The drag from inventories is also expected to be greater in 4Q, though this will be positive for growth. Consensus expects no change in the UK's GDP in the second reading, with growth remaining at 0.5% q-o-q.

Turkey: Central bank to remain on hold

We expect the CBRT to remain on hold at its 23 February meeting, despite the need for tighter monetary policy. Inflation accelerated to 9.6% y-o-y in January, from a recent low of 6.8% in July 2015. Our steady rate outlook is due to the TRY's recent stability and the lower oil prices, which reduce near-term upside pressure. However, second-round effects of tax hikes and the increase in minimum wages in January pose risks to the inflation outlook. Meanwhile, a technical adjustment of the interest rate corridor (to a single benchmark) is not expected, after the CBRT refrained from mentioning such a move in the January policy statement.

UK: To hold 'Brexit' referendum on 23 June

Prime Minister David Cameron has called a referendum on the UK's membership of the EU for 23 June. This is after the European Council approved new terms for its membership at the end of last week. The vote will be critical to: i) the UK's relationship with its largest trading partner; ii) the growth of the City of London; and iii) the ability of workers to move freely between the UK and the EU. Moreover, the voting patterns could have far-reaching consequences for the unity of the UK. Sentiment towards the UK is expected to remain weak ahead of the vote.

I. Recent Events and Data

A. MENA Economies

GCC: Saudi Arabia and Russia agree to freeze oil output levels

First coordinated oil output decision between OPEC members and non-OPEC country in 15 years

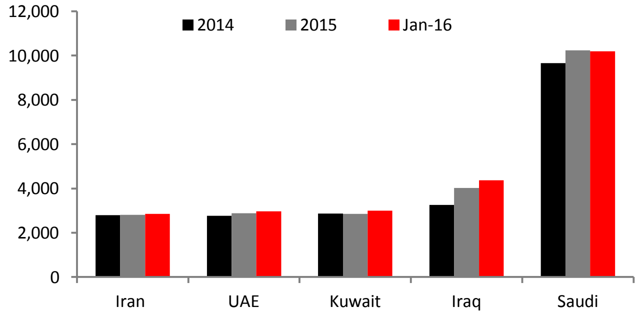
Top global oil exporters Russia and Saudi Arabia agreed last week to keep oil output at January 2016 levels. This was a bid to stabilise the oil price, and was the first tangible sign of OPEC and non-OPEC co-operation. Kuwait, Iraq, Qatar, and Venezuela also agreed to the move, and further negotiations are to take place with other oil exporters. We see Iran as being central to the effectiveness of the agreement. If the strategy is successful, it will reduce downside risks to the oil price by stopping new supply from entering the market, especially from Iran and Iraq. Thus, it would create a better foundation for the expected price recovery in 2H2016.

Production level freeze unlikely to change underlying supply/demand dynamics

However, we see a number of reasons to be cautious. We believe that Iran's focus will remain on increasing oil exports now that the sanctions have been removed. Even if the deal is adhered to and Iran participates, freezing production at January levels would still mean close to record high production levels. Thus, the deal is unlikely to change the supply/demand dynamics; the oil market remains oversupplied, and global output would need to fall for it to rebalance. This would require a sharper fall in US production and a decrease in OPEC production, in our view. We see Brent averaging USD41 p/b in 2016 and USD50 p/b in 2017.

Fig. 1. OPEC: Freezing oil output at January levels would mean record global production; Iran looking to raise output

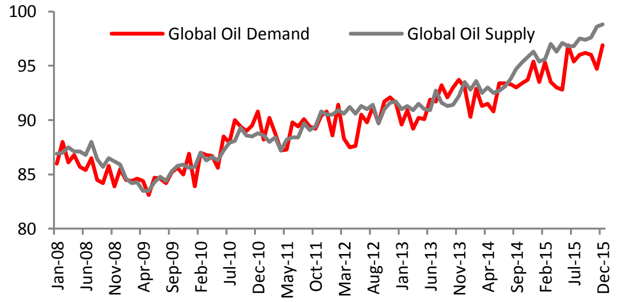
'000 bpd



Source: Bloomberg

Fig. 2. Global: Both OPEC and non-OPEC production would need to be cut to rebalance oil market

Million bpd



Source: Bloomberg

GCC: S&P downgrades ratings of Bahrain, Saudi Arabia, and Oman

Ratings cut two notches; Bahrain no longer investment grade

S&P has downgraded the long-term foreign currency sovereign ratings and outlooks for a number of oil-exporting countries on the back of a lower oil price assumption. Within the GCC, the ratings were downgraded two notches each for Bahrain (to BB, i.e. below investment grade), Oman (to BBB-), and Saudi Arabia (to A-). The downgrades will impact the cost of government borrowing, especially external. While Saudi Arabia's government has not borrowed externally, it has indicated that it might look to start this year. Foreign borrowing will be important for GCC countries in 2016 to reduce the drawdown of FX reserves and tightening in domestic banking sector liquidity.

We have highlighted in previous research the greater fiscal and economic pressure on the relatively hydrocarbon poorer-per-capita countries (Bahrain, Oman and Saudi Arabia), from the lower oil price. We expect wider fiscal deficits to result in a sharper erosion of FX reserves and debt buildup. This would require greater fiscal consolidation to reduce fiscal deficits, in turn having a greater drag on GDP growth. Amongst these countries, Saudi Arabia stands out due to the size of its FX reserves, which are close to 100% of GDP. We have highlighted that the richer hydrocarbon-per-capita exporters (UAE, Qatar, Kuwait) remain in a strong position, able to withstand the lower oil prices for longer given their substantial FX reserves.

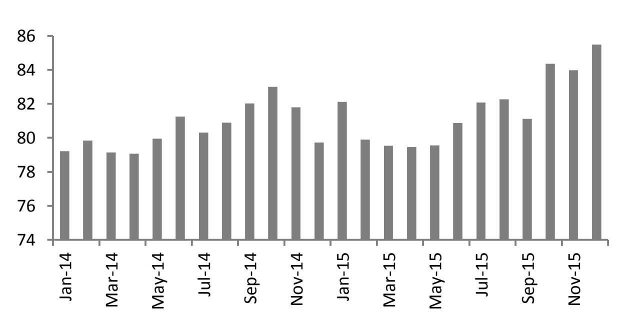
Fiscal deficits to remain wide with low oil prices

Saudi Arabia: Raises L-to-D limit to support bank lending

SAMA raised the L-to-D limit on commercial banks from 85% to 90% last week. The L-to-D regulation is to contain credit booms and the development of equity bubbles, thereby mitigating their impact on macroeconomic stability. We believe that the limit remains at a prudent level despite the increase. We see the move as aiming to create space for banks to continue lending and to support economic activity. Bank claims on the private sector rose to 85.5% of total deposits in December 2015, up from 79.7% at the end of 2014. However, SAMA's L-to-D calculation (for regulatory purposes) does not include long-term loans; adjusted for these, the ratio would likely have been around 81-82% in December 2015. Credit growth has outstripped deposit growth, causing liquidity to tighten. Based on deposit data for December 2015, we believe that loosening the L-to-D limit to 90% could free up around USD21 billion in additional lending. SAMA could lower the reserve requirement ratio (RRR) to boost liquidity if required.

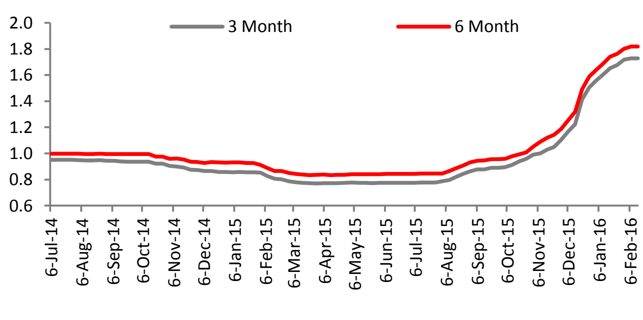
SAMA may also lower RRR to boost liquidity if required

Fig. 3. Saudi Arabia: Bank claims on private sector rise to 85.5% of total deposits at end 2015



Source: SAMA

Fig. 4. Saudi Arabia: Tightening banking sector liquidity reflected in rising interbank rates



Source: Bloomberg

System-wide deposit growth slowed to 1.9% y-o-y in December as government deposits contracted by -25.5% y-o-y. The Saudi government has been tapping its banking sector deposits to help cover its fiscal deficit, as well as drawing down FX reserves and increasing borrowing from the banking sector. Total credit growth remained robust at 10.5% y-o-y in December 2015, with private sector credit growth expanding 9.2% y-o-y. Government borrowing from the banking sector has been stronger, expanding 62.6% y-o-y in 2015, though still accounting for less than 10% of total bank loans. We continue to see government borrowing outpacing private sector credit growth in 2016 due to the need to continue funding the fiscal deficit. We expect private sector credit

Deficit funding likely to tighten banking sector liquidity further in 2016 growth to decelerate in line with our weaker non-oil GDP growth forecast for 2016. We foresee private sector credit growing 6% in 2016.

B. G4 Economies

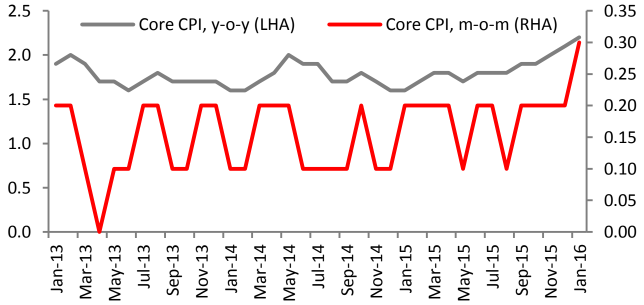
US: Core inflation surprises on the upside at 2.2% y-o-y in January

Various components drive pickup in core inflation

US headline inflation was unchanged (0% m-o-m) in January, despite the fall in energy prices. Core CPI was stronger than expected, rising 0.3% m-o-m, with broad-based gains. This was the fastest monthly growth since August 2011. Notably, vehicles, clothing, rents and medical costs grew strongly. In annual terms, core inflation strengthened to 2.2%. While the January data is a tentative sign that inflation is heading higher, this trend has to persist to build confidence in the recovery. Core inflation tends to be higher at the beginning of the year. A continued pickup in core CPI alongside an ongoing tightening in the labour market would support the outlook for rate increases by the Fed in 2016. We see two hikes this year in June and December.

Fig. 5. US: Monthly January core inflation rises at its fastest pace since August 2011, multiple drivers

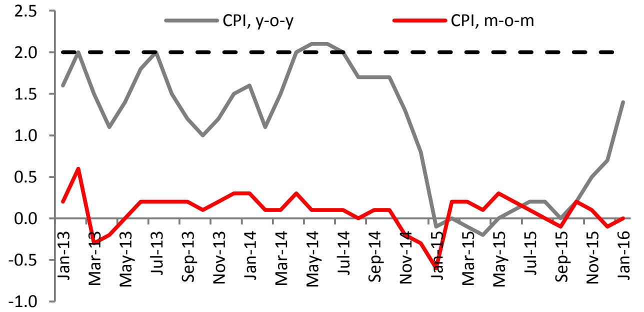
% change y-o-y (LHA); % change m-o-m (RHA)



Source: Bloomberg

Fig. 6. US: A lower y-o-y drag from oil also supports the rise in annual headline inflation

% change



Source: Bloomberg

Divisions in FOMC suggest no immediate action

FOMC January minutes: The January meeting was dominated by discussions of global economic and financial developments and the implications for the US economy. The key takeaway from the minutes was the divisions amongst the policymakers on how to interpret the financial market volatility. Committee members agreed that uncertainty had increased and that downside risks were on the rise. However, they were unable to agree on what these developments implied for the domestic economy. Most members felt that there was not yet sufficient evidence to conclude that the balance of risks had changed. However, a few felt that downside risks had definitely increased. With divisions in the FOMC and global market sentiment remaining fragile, we expect the Fed to leave rates unchanged on 16 March. Overall, the minutes suggested that policymakers have backed away from the four rate hikes signalled at the December meeting, though they have not committed to remaining on hold permanently.

Eurozone: Draghi reiterates ECB's willingness to act

Inflation expectations in focus, especially with lower oil price

ECB President Mario Draghi repeated at a hearing at the European Parliament last week that the bank would "review and possibly reconsider the monetary policy stance" at its next meeting (10 March). The two main focus areas for the ECB are: i) the impact of low oil prices on Eurozone wages and inflation expectations; and ii) whether the recent market turbulence, particularly in the financial sector, has impaired the monetary transmission mechanism. We believe that the above factors and the resilience of growth will play a crucial role in determining whether the QE programme is extended. We continue to expect a further reduction of -10 bps in the deposit rate to -0.4%, with the possibility of an expansion in the QE programme. The minutes from the January meeting, released last week, gave few new insights into which instruments the ECB might ultimately use. In line with expectations, the tone of the minutes was dovish.

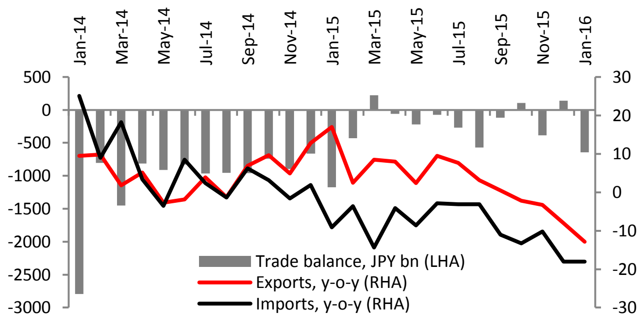
Japan: Weak January export numbers highlight GDP growth risks

Some seasonal factors likely reflected in exports to China

A sharp deterioration in exports in January pointed to further downside risks to Japan's growth outlook. We expect the slowdown in demand from EM economies and the strengthening in the JPY to cause net exports to drag on real GDP growth in 1Q2016. Exports fell by -12.9% y-o-y (consensus: -10.9%), the fourth consecutive month of contraction and by the most since 2009. Exports to China, Japan's largest trading partner, were down by almost -18% y-o-y. However, seasonal factors ahead of the Lunar New Year likely contributed to the steep pace of decline. Imports fell by 18% y-o-y, resulting in a widening in the adjusted trade surplus.

Fig. 7. Japan: January exports growth sees strongest contraction since 2009, in yearly terms

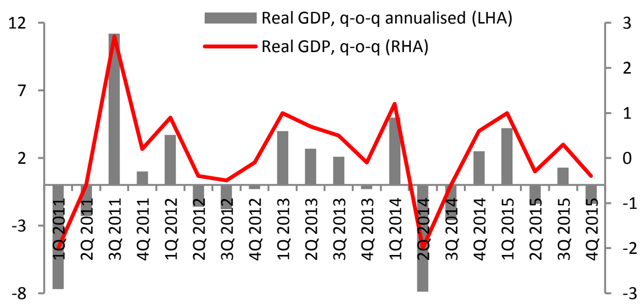
JPY billion (LHA); % change y-o-y (RHA)



Source: Bloomberg

Fig. 8. Japan: GDP contracts in 4Q2015 on back of lower private consumption

% change



Source: Bloomberg

Japan: Real GDP contracts in 4Q2015, led by private consumption

Weak private consumption a key challenge to economic outlook

Meanwhile, the challenges faced by the Japanese economy are reflected in the 4Q2015 GDP data. GDP growth contracted -0.4% q-o-q in 4Q, greater than the consensus expectation of a -0.2% fall. Thus, 4Q saw a reversal of 3Q's 0.3% q-o-q expansion. The 4Q contraction was driven entirely by a -0.8% q-o-q drop in private consumption. The numbers highlight the substantial weakness in consumption since the April 2014 consumption tax hike. Wage growth remained positive in 4Q, indicating higher savings levels (given the fall in spending). Demographic dynamics remain a key structural challenge to the consumption outlook. Net exports contributed a weak 0.1 ppt to headline GDP growth. Private sector business investment growth was solid at 1.4% q-o-q, surprising to the upside (consensus -0.2%). This was the second consecutive quarter of expansion. However, the weak domestic and external demand backdrops could cause investment to weaken this year. Given the external challenges, a pickup in domestic spending is vital for investment to continue to build momentum.

C. EM Economies

China: January data mixed, further policy support required

Significant rise in lending unlikely to continue

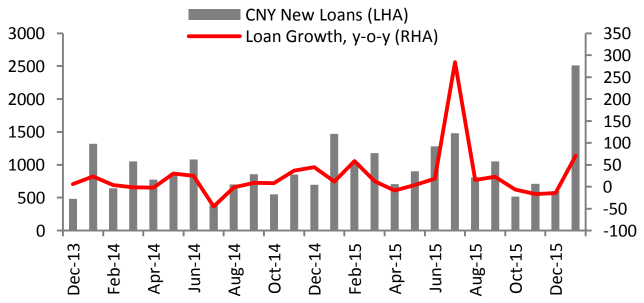
China's January money and credit data surprised on the upside despite continued capital outflows. However, the trade data surprised on the downside. New CNY loans came in above market expectations at RMB2.5 trillion, the highest reading on record. Lending to households and corporates both rose sharply. Despite the strong performance, we believe that the data do not necessarily reflect a pickup in underlying credit demand. The credit growth was likely supported by: i) better liquidity conditions; ii) seasonal factors; and iii) companies shifting out of FX liabilities into RMB debt amid exchange rate uncertainties. Consumer credit was likely supported by the recent easing of mortgage policies. Given these factors, the strong January credit growth is unlikely to be repeated. Moreover, the PBoC announced last week that some banks will face higher reserve ratio requirements, which will likely contain credit growth after advances by smaller lenders jumped in January. The PBoC noted that some banks no longer meet criteria for preferential reserve requirement ratios.

Policy may focus on fiscal side to bolster domestic demand

The disappointing trade (and especially export) data may necessitate the government stepping in more quickly with policy support to shore up domestic demand. Policymakers may focus on increasing fiscal stimulus in order to bolster investment and consumption. There are already indications that additional funds are being made available to local governments for new infrastructure projects. In the near term, the PBoC may look to reduce speculation on excessive CNY depreciation and reduce capital flight risks.

Fig. 9. China: Strong pace of new CNY loan growth unlikely to be sustained

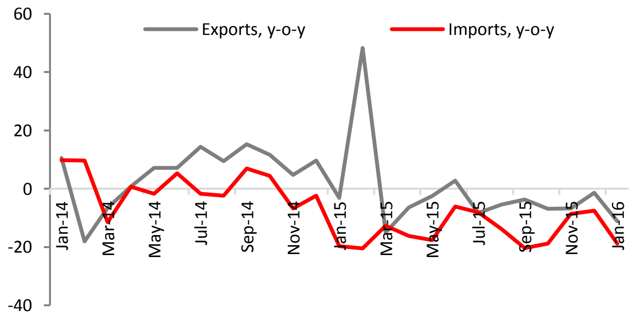
CNY billion (LHA); % change y-o-y (RHA)



Source: Bloomberg

Fig. 10. China: Weak export backdrop may turn focus to fiscal policy to bolster domestic demand

% change y-o-y



Source: Bloomberg

China: Trade surplus widens, though underlying developments weak

Deeper, -11.2% y-o-y contraction in export growth in January

China's trade surplus widened to a record USD63.3 billion in January, from USD60.1 billion in December. However, the export and import data both surprised on the downside, highlighting the weak external and domestic demand. Exports contracted -11.2% y-o-y, their biggest drop since March 2015 and compared to a -1.4% fall in December. Exports to most of China's major trading partners fell in January, but particularly those to ASEAN (-17.9% y-o-y) and the EU (-11.9% y-o-y). The size of the fall in exports in January suggests that the pickup in December was temporary and due to seasonal effects rather than a fundamental improvement.

Import volumes point to weak underlying demand

Imports were also much weaker in January than the market had expected, at -18.8% y-o-y. While the nominal drop was due largely to lower commodity prices, the weak domestic demand was reflected in the volume data. Import volumes of crude oil contracted by -4.6% in January. The fall in imports reflected the weak investment environment, with continued oversupply of physical capacity.

II. Economic Calendar

Fig. 11. Upcoming events and data releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jan	3.6%	--
	Kuwait	CPI, y-o-y	Jan	3%	--
Monday 22 Feb					
6:00	Japan	Nikkei Japan PMI Mfg	Feb P	52.3	52
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Feb P	52.3	52
13:00	Eurozone	Markit Eurozone Composite PMI	Feb P	53.6	53.3
18:45	US	Markit US Manufacturing PMI	Feb P	52.4	52.5
22:00	US	NY Fed's Potter Speaks in New York			
Tuesday 23 Feb					
11:00	Germany	GDP SA, q-o-q	4Q F	0.3%	0.3%
13:00	Germany	IFO Business Climate	Feb	107.3	106.3
13:00	Germany	IFO Current Assessment	Feb	112.5	112
13:00	Germany	IFO Expectations	Feb	102.4	101.6
14:00	UK	Bank of England Governor Mark Carney Testifies to Lawmakers			
17:30	US	Fed's Fischer Speaks in Houston on Monetary Policy			
19:00	US	Consumer Confidence Index	Feb	98.1	97.3
19:00	US	Existing Home Sales	Jan	5.5M	5.3M
19:00	US	Existing Home Sales, m-o-m	Jan	14.7%	-2.2%
Wednesday 24 Feb					
16:00	US	MBA Mortgage Applications	19-Feb	8.2%	--
18:45	US	Markit US Services PMI	Feb P	53.2	53.5
18:45	US	Markit US Composite PMI	Feb P	53.2	--
19:00	US	New Home Sales	Jan	544K	520K
19:00	US	New Home Sales, m-o-m	Jan	10.8%	-4.4%
22:15	US	Fed's Kaplan Speaks in Dallas			
Thursday 25 Feb					
4:00	US	Fed's Bullard Speaks in New York			
5:30	Japan	BOJ Kiuchi speaks in Kagoshima			
13:30	UK	GDP, q-o-q	4Q P	0.5%	0.5%
13:30	UK	Private Consumption, q-o-q	4Q P	0.9%	0.8%
14:00	Eurozone	CPI, m-o-m	Jan	0%	-1.4%
14:00	Eurozone	CPI, y-o-y	Jan F	0.2%	0.4%
14:00	Eurozone	CPI Core, y-o-y	Jan F	1%	1%
17:15	US	Fed's Lockhart to Give Opening Remarks at Banking Conference			
17:30	US	Initial Jobless Claims	20-Feb	262K	270K
17:30	US	Durable Goods Orders	Jan P	-5%	2.5%
17:30	US	Durables, ex-Transportation	Jan P	-1%	0.2%
17:30	US	Cap Goods Orders, Nondef ex-Air	Jan P	-4.3%	1%
21:00	US	Fed's Williams Speaks in New York			
Friday 26 Feb					
3:30	Japan	Natl CPI, y-o-y	Jan	0.2%	0%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Jan	0.1%	0%
14:00	Eurozone	Consumer Confidence	Feb F	-8.8	--
17:30	US	GDP Annualized, q-o-q	4Q S	0.7%	0.4%
17:30	US	Personal Consumption	4Q S	2.2%	2.2%
19:00	US	Personal Income	Jan	0.3%	0.4%
19:00	US	Personal Spending	Jan	0%	0.3%
19:00	US	PCE Deflator, m-o-m	Jan	-0.1%	0%
19:00	US	PCE Core, m-o-m	Jan	0.0%	0.1%
19:00	US	PCE Core, y-o-y	Jan	1.4%	1.5%

* UAE time
Source: Bloomberg

Fig. 12. Last week's data

Time*	Country	Data point	Period	Prior	Consensus	Actual
Released last week						
	China	New Yuan Loans, CNY	Jan	597.8B	1900B	2510B
	China	Aggregate Financing, CNY	Jan	1815.1B	2200B	3420B
Monday 15 Feb						
3:50	Japan	GDP SA, q-o-q	4Q P	0.3%	-0.2%	-0.4%
3:50	Japan	GDP Annualized SA, q-o-q	4Q P	1.3%	-0.8%	-1.4%
3:50	Japan	GDP Private Consumption, q-o-q	4Q P	0.4%	-0.6%	-0.8%
3:50	Japan	GDP Business Spending, q-o-q	4Q P	0.7%	-0.2%	1.4%
	China	Trade Balance	Jan	$60.1B	$60.6B	$63.3B
	China	Exports, y-o-y	Jan	-1.4%	-1.8%	-11.2%
	China	Imports, y-o-y	Jan	-7.6%	-3.6%	-18.8%
Tuesday 16 Feb						
13:30	UK	CPI, m-o-m	Jan	0.1%	-0.7	-0.8
13:30	UK	CPI, y-o-y	Jan	0.2%	0.3%	0.3%
13:30	UK	CPI Core, y-o-y	Jan	1.4%	1.3%	1.2%
13:30	UK	PPI Output NSA, m-o-m	Jan	-0.3%	-0.2%	-0.1%
13:30	UK	PPI Output NSA, y-o-y	Jan	-1.4%	-0.9%	-1%
14:00	Germany	ZEW Survey Current Situation	Feb	59.7	55	52.3
14:00	Germany	ZEW Survey Expectations	Feb	10.2	0	1
14:00	Eurozone	ZEW Survey Expectations	Feb	22.7	--	13.6
17:30	US	Empire Manufacturing	Feb	-19.4	-10	-16.6
Wednesday 17 Feb						
3:50	Japan	Machine Orders, m-o-m	Dec	-14.4%	4.4%	4.2%
3:50	Japan	Machine Orders, y-o-y	Dec	1.2%	-2.8%	-3.6%
13:30	UK	Jobless Claims Change	Jan	-15.2K	-3K	-14.8K
13:30	UK	Average Weekly Earnings, 3m/y-o-y	Dec	2.1%	1.9%	1.9%
13:30	UK	Weekly Earnings ex Bonus, 3m/y-o-y	Dec	1.9%	1.8%	2%
16:00	US	MBA Mortgage Applications	12-Feb	9.3%	--	8.2%
17:30	US	Housing Starts	Jan	1143K	1173K	1099K
17:30	US	Housing Starts, m-o-m	Jan	-2.8%	2%	-3.8%
17:30	US	Building Permits	Jan	1204K	1200K	1202K
17:30	US	Building Permits, m-o-m	Jan	-6.1%	-0.3%	-0.2%
Thursday 18 Feb						
3:50	Japan	Trade Balance	Jan	¥140.3B	-¥658.5B	-¥645.9B
3:50	Japan	Trade Balance Adjusted	Jan	¥15.3B	¥61.6B	¥119.4B
3:50	Japan	Exports, y-o-y	Jan	-8	-10.9	-12.9
3:50	Japan	Imports, y-o-y	Jan	-18	-15.9	-18
5:30	China	CPI, y-o-y	Jan	1.6%	1.9%	1.8%
5:30	China	PPI, y-o-y	Jan	-5.9%	-5.4%	-5.3%
17:30	US	Initial Jobless Claims	13-Feb	269K	275K	262K
Friday 19 Feb						
13:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Jan	-1.3%	0.7%	2.3%
13:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Jan	1.8%	3.4%	5%
13:30	UK	Retail Sales, Inc Auto Fuel, m-o-m	Jan	-1%	0.8%	2.3%
13:30	UK	Retail Sales, Inc Auto Fuel, y-o-y	Jan	2.3%	3.6%	5.2%
17:30	US	CPI, m-o-m	Jan	-0.1%	-0.1%	0%
17:30	US	CPI, ex-Food and Energy, m-o-m	Jan	0.2%	0.2%	0.3%
17:30	US	CPI, y-o-y	Jan	0.7%	1.3%	1.4%
17:30	US	CPI, ex-Food and Energy, y-o-y	Jan	2.1%	2.1%	2.2%
19:00	Eurozone	Consumer Confidence	Feb A	-6.3	-6.6	-8.8

* UAE time
Source: Bloomberg

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