The Week Ahead: Central banks in focus; Fed and BoE expected to remain on hold

Economics Team

Monica Malik, Ph.D.
Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

Thirumalai Nagesh
Economist
+971 (0)2 696 2704
Thirumalainagesh.venkatesh@adcb.com

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US: Fed dot plot and balance sheet guidance in spotlight

We expect the FOMC to keep interest rates steady at its 19-20 March meeting, with the overall tone continuing to point to a cautious stance. We now expect the Fed to hike rates only once in 2019, likely in September, after highlighting downside risks to our two-rate-hikes call over the last two months. Indeed, the focus of the meeting will be on the median "dot plot" projection, which is likely to be lowered to one rate hike for 2019, from the two forecast in December. In terms of economic projections, we foresee the core PCE inflation forecast for 2019 remaining unchanged at 2%, although we expect the GDP growth estimate to be lowered marginally to 2.2% for 2019 from the previous 2.3%. We believe that the Fed is likely to underline downside risks to the domestic and global economy. We expect Fed Chair Jerome Powell to reiterate his recent comments that the FOMC will remain patient and that it is in no hurry to change its current interest rate policy stance. We envisage the Fed needing more time to assess why inflationary pressures remain contained while labour market conditions remain tight and the economy continues to expand at a healthy pace. Focus will also be on the accompanying statement for any details regarding the end of balance sheet run-off (outlined in January FOMC minutes), including on timing.

UK: BoE to remain on hold with dovish tilt

We expect the BoE to keep its monetary policy steady at its 21 March meeting, with a unanimous vote. We do not foresee any major changes from the BoE at this point given the Brexit-related uncertainties and weakening growth momentum. The tone of the meeting is likely to remain dovish with the MPC likely highlighting the need for much greater clarity on the economic outlook before taking any further policy action. On the data front, the UK will release its February CPI inflation print and January labour market report this week. Consensus forecasts both headline and core inflation to remain steady at 1.8% y-o-y and 1.9% y-o-y respectively in February.

UK: Third meaningful vote and European Council meeting

The UK Parliament is expected to vote for a third time on Prime Minister Theresa May's Brexit deal either on 19 or 20 March, after MPs voted against a no-deal exit from the EU last week (page 3). The approval or disapproval of the Brexit deal in Parliament is likely to decide the length of the Article 50 extension, which is expected to be put forward for endorsement by the EU Council (21-22 March). A Parliamentary approval of the deal (not our core scenario) is likely to result in the government requesting a short extension of Article 50, ending on 30 June. However, the rejection of the deal could lead the government to request a long extension, possibly in the range of three months to one year. A long extension of Article 50 beyond 30 June 2019 would require the UK to take part in the EU Parliament elections in May 2019, which will be opposed staunchly by the Brexiters in our view. Moreover, rejection of PM May's deal will also keep the other options open, including a general election and a second Brexit referendum.

I. Recent Events and Data Releases

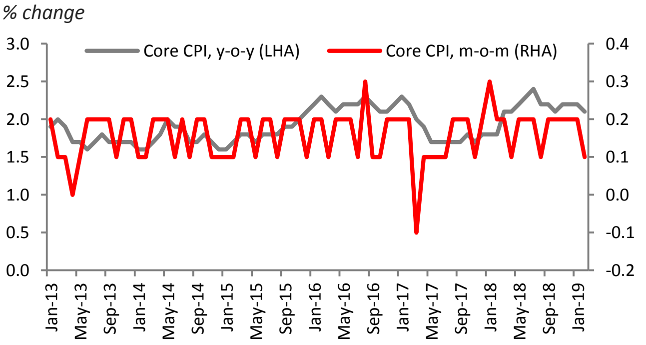
A. G4 Economies

US: Core inflation surprises to downside in February

Core goods inflation contracts by 0.2% m-o-m in February, led by medical equipment and used car prices

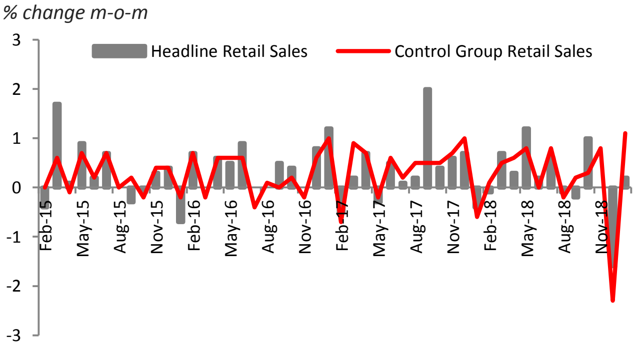
February core CPI inflation came in softer than the consensus estimate in both annual and monthly terms, indicating that price pressures were relatively subdued in the economy. Core CPI inflation decelerated to 0.1% m-o-m in February from 0.2% in January, taking the y-o-y print down to 2.1% (January: 2.2%). The moderation in monthly core inflation was largely due to the core goods component, which contracted by 0.2% m-o-m in February, led by a drop in medical equipment, used cars and trucks, as well as new vehicle segments. The fall in core goods inflation was unexpected, especially as greater import tariffs on Chinese goods are still in place. This also suggests that trade tariffs have had a limited or no impact on goods inflation. Meanwhile, core services inflation remained steady for a fifth consecutive month at 0.2% m-o-m in February, supported by stable shelter prices. On headline inflation, the monthly print accelerated to 0.2% m-o-m having been flat m-o-m over the previous three months, driven by both food and energy prices. Nevertheless, the y-o-y print decelerated to 1.5% from 1.6% in January. We believe that the softer-than-expected February inflation report will further support the Fed's patient approach at this point.

Fig. 1. US: Core inflation decelerates in both y-o-y and m-o-m terms in February, led by goods component



Source: Bureau of Labor statistics

Fig. 2. US: Retail sales growth volatile since 4Q2018 and expected to remain so in February and March 2019



Source: US Census Bureau

Retail sales growth rebounds in January, but December print is lowered markedly

Retail sales: Headline retail sales growth rebounded in January to 0.2% m-o-m after contracting sharply by -1.6% (revised down from -1.2%) in the previous month. Retail sales data remains volatile and we expect this to continue in the coming months given the extreme weather conditions and delayed tax refunds. The retail control group, which feeds into the GDP data, strengthened markedly in January to 1.1% m-o-m, although the December print was lowered to -2.3% from -1.7% previously. We believe that this downwards revision to the December data is likely to result in the 4Q GDP growth estimate being lowered.

UK: Parliament approves motion to extend Article 50

No-deal Brexit option now largely removed from Brexit playbook – supporting the GBP

The UK Parliament rejected both Prime Minister Theresa May's second meaningful vote and the no-deal Brexit amendment last week, although it approved the motion to extend Article 50, in line with our and the market's expectations. The key takeaway from last week's votes is that the no-deal Brexit option has now been largely removed. However, other event risks – including a general election, a second referendum and PM May making way for a new Conservative leader – still exist. The indications are that PM May is planning a third meaningful vote either on 19 or 20 March with the outcome eventually deciding whether the government will ask for a short delay (up to three months) or a longer extension (more than three months) of Article 50. The political developments suggest, however, that there is still no majority for any Brexit withdrawal agreement that will receive Parliamentary approval.

GBP volatility expected to remain while Brexit uncertainties continue

Any extension of Article 50 beyond 30 June 2019 would require the UK to take part in the EU Parliament elections in May 2019. Given the well-known divisions within the Conservative Party, we believe that the government will try to avoid holding European Parliament elections, but that could only be avoided if Parliament approves a withdrawal agreement before the extended deadline. The GBP strengthened markedly last week against the USD, touching a high of 1.3381 – a level not seen since June 2018. We expect the GBP:USD to remain volatile until the government provides a withdrawal agreement that can be approved in Parliament.

GDP growth for FY2019-20 lowered to 1.2% from 1.6% previously

2019 Spring statement: UK Chancellor of the Exchequer Philip Hammond presented his Spring statement on 13 March, but this was overshadowed by last week's Brexit votes. The Office for Budget Responsibility (OBR) lowered its GDP growth forecast for FY2019-20 (April – March) to 1.2%, from 1.6% previously. However, the 2020 growth projection was left at 1.4%, whilst the FY2020-21 and FY2021-22 estimates were both raised by 0.1pp to 1.6%. On the fiscal side, the OBR lowered its borrowing projections across the forecast period ending in FY2023-24 due to both higher tax receipts and lower public expenditure estimates.

Japan: BoJ remains on hold with wait-and-see approach, as expected

We expect BoJ to remain on hold throughout 2019

The BoJ kept its monetary policy steady at its 15 March meeting, including keeping the benchmark policy rate at -0.1% and the 10-year Japanese Government Bond (JGB) yield target under Yield Curve Control (YCC) at "around" 0% (+/-20bp). This was in line with our and market expectations. However, the policy statement highlighted increasing concerns that the slowdown in global growth is having a negative impact on industrial production and exports growth. On the inflation side, the BoJ Governor Haruhiko Kuroda said that price growth is still expected to reach the 2% inflation target. He also highlighted that moving away from that target is not desirable and that the BoJ is not planning to change the target. We envisage that domestic inflationary pressures will remain subdued and do not expect inflation to reach the BoJ's 2% target in the near-to-medium term. We also do not expect any additional easing from the BoJ in 2019, given the increasing concerns about the side effects of an extended period of negative interest rates on financial institutions. We forecast the BoJ to remain on hold throughout 2019.

B. Emerging Market Economies

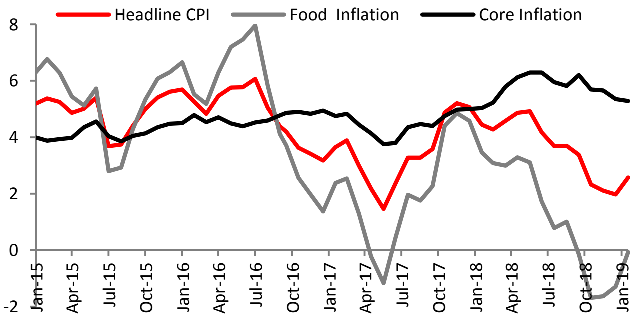
India: February headline inflation strengthens, but core softens

February inflation report unlikely to change RBI's dovish monetary policy stance in our view

Headline CPI inflation accelerated to 2.6% y-o-y in February (consensus: 2.4%) after easing to a 19-month low of 2% in January. The yearly rise in February inflation was largely due to the food subcomponent of the basket, which had a weaker base. Indeed, there was a smaller contraction in food prices of -0.1% y-o-y in February, from -1.3% in January. This was the fifth consecutive month of deflation in food prices. We expect fruit and vegetable prices to strengthen meaningfully in the coming months, resulting in headline inflation gradually moving close to the 4% level. We see this rise in prices coming from higher seasonal prices in the summer, and again due to the annual low base. Meanwhile, core inflation decelerated for a second consecutive month to 5.3% y-o-y in February (January: 5.4%), reflecting low input costs, moderating rental prices and increasing slack in the economy. We believe that the gap between headline and core inflation will gradually narrow and converge by early 2020. The softening core inflation print in February further supports our view that the RBI will continue its dovish monetary stance and cut the benchmark policy rate by another 25bps at its 4 April meeting.

Fig. 3. India: Headline inflation accelerates to 2.6% y-o-y in February from 2% in January

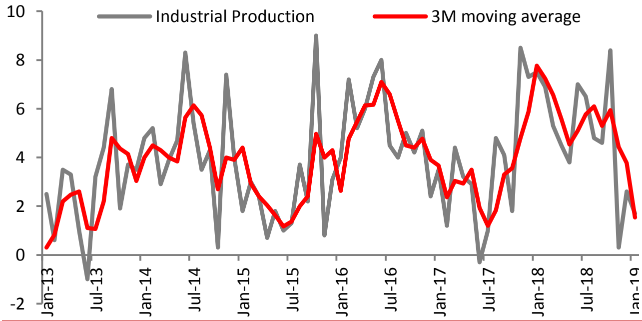
% change y-o-y



Source: India Central Statistical Organisation

Fig. 4. India: Industrial production growth softening sharply, led by weak manufacturing and electricity output

% change y-o-y



Source: India Central Statistical Organisation

Industrial production growth decelerates further to 1.7% y-o-y in February from 2.6% in December

Industrial production: January industrial production data released last week showed that India's weak economic momentum continued into 1Q2019. Industrial production growth decelerated to 1.7% y-o-y in January from 2.6% in December and an average of 4.4% in 10M FY2019 (April – March), led by a slowdown in manufacturing and electricity production. 12 of the 23 manufacturing sub-components recorded a contraction in February, up from 10 sectors in December. We expect economic growth to remain relatively weak in 1Q2019 due to the softening external and domestic demand backdrop.

Turkey: 4Q GDP growth contracts, led by weak domestic demand

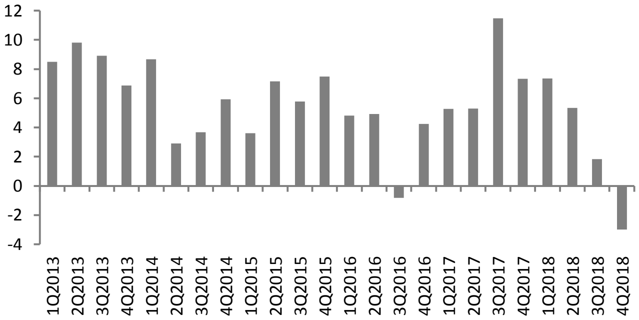
2018 full-year growth eases to 2.6%, down from 7.4% in 2017

Real GDP growth contracted by 3% y-o-y in 4Q (3Q: +1.8%; consensus: -2.5%), led by a sharp fall in household spending and investment activity. This is the lowest quarterly GDP growth print recorded since 2009. The drop in 4Q GDP led the full-year growth for 2018 to moderate to 2.6%, from 7.4% in 2017. The economic slowdown in 2018 was largely due to the marked softening in activity in 2H, led by the currency crisis and its pass-through effect to the economy. We believe that GDP growth will continue to contract in

2019 despite the government's fiscal loosening measures, including tax cuts for some consumer products (vehicles, furniture and white goods) in 4Q2018 to revive the slowing domestic demand. Weak domestic demand is also expected to result in inflationary pressures easing gradually in 2019, which in turn could result in the CBRT starting a rate-cut cycle from mid-2019, in our view.

Fig. 5. Turkey: GDP growth contracts by 3% y-o-y in 4Q2018 – lower than consensus forecast of -2.5%

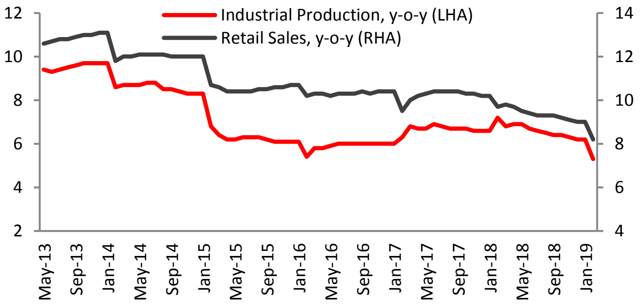
% change y-o-y



Source: Turkish Statistical Institute

Fig. 6. China: Industrial production growth decelerates to 5.3% y-o-y in 2M2018 - lowest point since 2009

% change y-o-y



Source: China's National Bureau of Statistics

China: Mixed data in 2M2019 warrants some caution at this point

Chinese data continues to highlight increasing headwinds to growth outlook in 2019

Incoming high-frequency data showed that domestic demand remains weak in early 2019 with both retail sales and industrial production growth softening to a multi-year low. Industrial output growth decelerated to 5.3% y-o-y in 2M2018 – the lowest point since 2009 – whilst retail sales growth also weakened to its lowest level since 2012 (8.2% y-o-y) in the first two months of 2019. However, there were some early signs of a pick-up in investment activity, driven by government-initiated road and rail projects. Fixed-asset investment (ex-rural) growth strengthened to 6.1% y-o-y from 5.9% in December, driven mainly by state-owned companies' investments. We expect investment activity to strengthen further in the coming months, supported by the expansionary fiscal policy measures announced by the government during the National People's Conference held in early March. However, private investment growth moderated to 5.5% y-o-y in 2M2019 from 8.7% in December, likely due to the Lunar New Year holiday season. The dichotomy between the investment and industrial production data suggests that the demand side is showing early signs of stabilisation but the production side is still seeing momentum weaken, potentially due to increasing external headwinds.

II. Economic Calendar

Fig. 7. Last week's data

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Feb	-2.4%	
	UAE	M2 Money Supply, m-o-m	Feb	-0.2%	
	Saudi Arabia	CPI, y-o-y	Feb	-1.9%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Jan	11.8%	
	Kuwait	CPI, y-o-y	Feb	0.4%	
	Kuwait	M2 Money Supply, y-o-y	Jan	4%	
	Bahrain	GDP Constant Prices, y-o-y	4Q	1.6%	
	Bahrain	CPI, y-o-y	Feb	1.4%	
	Qatar	GDP Constant Prices, y-o-y	4Q	2.2%	
	Qatar	CPI, y-o-y	Feb	-1.6%	
	Egypt	Trade Balance	Jan	-3872M	
Monday, 18 March					
3:50	Japan	Trade Balance	Feb	-¥1415.2B	¥305.1B
8:30	Japan	Industrial Production, y-o-y	Jan F	0%	
Tuesday, 19 March					
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Jan	3.4%	3.2%
13:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Jan	3.4%	3.4%
13:30	UK	ILO Unemployment Rate, 3M	Jan	4%	4%
14:00	Germany	ZEW Survey Expectations	Mar	-13.4	-11
18:00	US	Factory Orders	Jan	0.1%	0.3%
18:00	US	Durable Goods Orders	Jan F	0.4%	0.4%
Wednesday, 20 March					
3:50	Japan	BOJ Minutes of January Policy Meeting			
13:30	UK	CPI, m-o-m	Feb	-0.8%	0.4%
13:30	UK	CPI, y-o-y	Feb	1.8%	1.8%
13:30	UK	CPI Core, y-o-y	Feb	1.9%	1.9%
22:00	US	FOMC Rate Decision (Upper Bound)	20-Mar	2.5%	2.5%
22:00	US	FOMC Rate Decision (Lower Bound)	20-Mar	2.25%	2.25%
22:00	US	Interest Rate on Excess Reserves	21-Mar	2.4%	2.4%
Thursday, 21 March					
13:00	Eurozone	ECB Publishes Economic Bulletin			
13:30	UK	PSNB, ex-Banking Groups	Feb	-14.9B	0.4B
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Feb	1%	-0.4%
13:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Feb	4.2%	3.3%
16:00	UK	Bank of England Bank Rate	21-Mar	0.75%	0.75%
16:00	UK	BOE Corporate Bond Target	Mar	10B	10B
16:00	UK	BOE Asset Purchase Target	Mar	435B	435B
16:30	US	Philadelphia Fed Business Outlook	Mar	-4.1	5
18:00	US	Leading Index	Feb	-0.1%	0.1%
19:00	Eurozone	Consumer Confidence	Mar A	-7.4	-7.1
Friday, 22 March					
3:30	Japan	National CPI, y-o-y	Feb	0.2%	0.3%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Feb	0.8%	0.8%
3:30	Japan	National CPI, ex-Fresh Food, Energy, y-o-y	Feb	0.4%	0.4%
4:30	Japan	Nikkei Japan PMI Manufacturing	Mar P	48.9	
12:30	Germany	Germany Manufacturing PMI	Mar P	47.6	48
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Mar P	49.3	49.5
17:45	US	Markit US Manufacturing PMI	Mar P	53	53.6
18:00	US	Wholesale Inventories, m-o-m	Jan	1.1%	0.1%
18:00	US	Existing Home Sales	Feb	4.94M	5.1M
22:00	US	Monthly Budget Statement	Feb	$8.7B	-$227B

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC economies						
	UAE	Central Bank Foreign Assets	Jan	362.55B		347.9B
	Oman	CPI, y-o-y	Feb	0.2%		0.2%
Monday, 11 March						
3:50	Japan	Money Stock M2, y-o-y	Feb	2.3%	2.4%	2.4%
8:15	UAE	Dubai Economy Tracker SA	Feb	55.8		55.8
11:00	Germany	Industrial Production SA, m-o-m	Jan	0.8%	0.5%	-0.8%
11:00	Turkey	GDP, y-o-y	4Q	1.8%	-2.5%	-3%
11:00	Turkey	Current Account Balance	Jan	-1.5B	-0.7B	-0.8B
16:30	US	Retail Sales Advance, m-o-m	Jan	-1.6%	0%	0.2%
16:30	US	Retail Sales, ex-Auto and Gas	Jan	-1.6%	0.6%	1.2%
16:30	US	Retail Sales Control Group	Jan	-2.3%	0.6%	1.1%
Tuesday, 12 March						
13:30	UK	Trade Balance	Jan	-£3448M	-£3500M	-£3825M
13:30	UK	Industrial Production, m-o-m	Jan	-0.5%	0.2%	0.6%
13:30	UK	Industrial Production, y-o-y	Jan	-0.9%	-1.3%	-0.9%
13:30	UK	GDP, m-o-m	Jan	-0.4%	0.2%	0.5%
14:00	US	NFIB Small Business Optimism	Feb	101.2	102.5	101.7
16:00	India	CPI, y-o-y	Feb	2%	2.4%	2.6%
16:00	India	Industrial Production, y-o-y	Jan	2.6%	2%	1.7%
16:30	US	CPI, m-o-m	Feb	0%	0.2%	0.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	Feb	0.2%	0.2%	0.1%
16:30	US	CPI, y-o-y	Feb	1.6%	1.6%	1.5%
16:30	US	CPI, ex-Food and Energy, y-o-y	Feb	2.2%	2.2%	2.1%
Wednesday, 13 March						
3:50	Japan	Core Machine Orders, y-o-y	Jan	0.9%	-2.1%	-2.9%
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	-0.5%	-0.3%	0.4%
14:00	Eurozone	Industrial Production WDA, y-o-y	Jan	-4.2%	-2.1%	-1.1%
16:30	US	PPI Final Demand, m-o-m	Feb	-0.1%	0.2%	0.1%
16:30	US	Durable Goods Orders	Jan P	1.3%	-0.4%	0.4%
16:30	US	Cap Goods Shipments, Non-def, ex-Air	Jan P	0.1%	-0.2%	0.8%
Thursday, 14 March						
6:00	China	Industrial Production YTD, y-o-y	Feb	6.2%	5.6%	5.3%
6:00	China	Retail Sales YTD, y-o-y	Feb	9%	8.2%	8.2%
11:00	Turkey	Industrial Production, y-o-y	Jan	-10%	-8%	-7.3%
16:30	US	Import Price Index, m-o-m	Feb	0.1%	0.3%	0.6%
18:00	US	New Home Sales	Jan	652K	622K	607K
Friday, 15 March						
11:00	Turkey	Unemployment Rate	Dec	12.3%	12.8%	13.5%
14:00	Eurozone	CPI Core, y-o-y	Feb F	1%	1%	1%
14:00	Eurozone	CPI, y-o-y	Feb F	1.4%	1.5%	1.5%
16:30	US	Empire Manufacturing	Mar	8.8	10	3.7
17:15	US	Industrial Production, m-o-m	Feb	-0.4%	0.4%	0.1%
18:00	US	JOLTS Job Openings	Jan	7479	7225	7581
18:00	US	U. of Mich. Sentiment	Mar P	93.8	95.6	97.8
	Japan	BOJ Policy Balance Rate	15-Mar	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	15-Mar	0%	0%	0%
	India	Trade Balance	Feb	-$14725.6M	-$13700M	-$9595.4M
	India	Exports, y-o-y	Feb	3.7%		2.4%
	India	Imports, y-o-y	Feb	0%		-5.4%

* UAE time
Source: Bloomberg

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