

The Week Ahead: CBE expected to cut rates; important week for global events and data

► **Global: US core monthly CPI likely to remain steady in January**

A number of key US data releases are scheduled for this week, including January CPI inflation and industrial production, and December retail sales. Consensus expects core CPI inflation to remain steady for the fourth consecutive month at 0.2% m-o-m in January, with the rise in core goods prices likely offset by softer core services costs. However, the y-o-y print is forecast to decelerate to 2.1% in January, from 2.2% in December, due to high base effects. We believe the January CPI print is likely to support the Fed's view that upward inflationary pressures remain contained, limiting the need for immediate action (page 3). Attention will also be on a number of global events: i) US-China trade negotiations; ii) the US government shutdown as funding expires on 15 February; and iii) the UK Prime Minister Theresa May's address to Parliament on 13-14 February. Recent Brexit developments suggest that no material progress has been made in the Irish border backstop negotiations. Indications are that May could ask Parliament for more time to secure changes to her Brexit deal. Meanwhile, the UK will release its 4Q GDP, and January inflation and retail sales data this week.

► **Asia: India inflation and China trade data in focus**

January inflation data for India will be watched closely after the RBI made a surprising cut to the repo rate last week and lowered its inflation projections (page 4). Consensus forecasts headline inflation to strengthen to 2.6% y-o-y in January (December: 2.2%) after decelerating for six consecutive months since July. However, core inflation is expected to remain broadly steady at around 5.7%, supported by health and education costs. Focus will also be on China's trade data for January amid global growth slowdown concerns and unresolved trade tensions between the US and China. Consensus expects both export and import growth to have contracted for a second consecutive month in January, reflecting weak external and domestic demand. Elsewhere, Japan's 4Q GDP growth is forecast to have rebounded to 0.4% q-o-q, after contracting by 0.6% in 3Q due to adverse weather conditions.

► **Egypt: CBE likely to cut rates by 50-100 bps**

The CBE is expected to cut benchmark rates by 50-100 bps at its 14 February meeting, with the bank likely to take advantage of the improved external backdrop and signs of healthy capital inflows into Egypt (equity and debt). The CBE is also likely to take advantage of the recent disinflation trend, especially ahead of further subsidy reforms expected in mid-2019. Headline inflation has moderated from a peak of 17.7% y-o-y in October to 12.7% in January with the unwinding of the food price spike in 2H2018, though there was a moderate uptick in January from 12% in December. Inflation is within the bank's end-2018 target of 13% ($\pm 3\%$), but above the new 9% ($\pm 3\%$) target for 4Q2020. We expect the CBE to cut rates again at its end-March meeting if global conditions remain benign. However, there was no meaningful forward guidance in its post-December meeting statement, and consensus is divided on the rate outlook.

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I. Recent Events and Data Releases

A. MENA Economies

UAE: Federal development bank to sell bond following recent sovereign debt law

Emirates Development Bank, a state-owned institution that provides financing to citizens and SMEs, is planning a USD750 million bond sale in February, according to undersecretary at the UAE Ministry of Finance Younis Al Khoori, as quoted by Bloomberg. This would be the bank's first debt issuance since the institution started operating in 2015, with the proceeds to be passed to the UAE economy through loans to SMEs and housing projects. The UAE enacted its long-awaited public debt law in October 2018. We consider the law positive for broadening the federal government's funding sources and for lowering transfers from the emirate level. For further details, please see our note – **Economic Research Weekly: Global Data Watch 15-19 October 2018**, published on 15 October 2018. The UAE has passed a number of government initiatives since mid-2018 to bolster economic activity at an emirate and country-wide level. A key component of these plans is for SME development, to support growth and create employment opportunities. We expect the Emirates Development Bank to raise funds in line with this objective. However, we note that SME growth and demand for loans may remain weak due to the soft domestic backdrop and various challenges facing the economy (both internal and external). More direct measures to raise domestic demand and activity are likely to be needed, which in turn would support SME growth. Al Khoori also noted that the Finance Ministry does not intend to issue any public debt in the near term as the 2020-21 budget cycle has already been approved.

Emirates Development Bank looking to raise USD750 million in February

Meanwhile, Abu Dhabi enacted a new law last week to encourage private sector involvement in housing, infrastructure and education projects in the capital, as part of the three-year AED50 billion stimulus package "Ghadan 21". The law formalises the creation of a government body – the Abu Dhabi Investment Office (ADIO), which was established last year. The ADIO has a mandate to drive foreign direct investment and lead the public-private partnership programme. ADIO will work with government departments to identify key projects that will benefit from a PPP model.

Abu Dhabi looking to promote public-private partnerships

Saudi Arabia: USD3.1 billion allocated to help companies with expatriate labour fees

Saudi Arabia has approved a scheme to reimburse some firms for the rising cost of expatriate labour fees from 2017 onwards, and to waive the fee hikes for some who were unable to pay. The increase in expatriate labour costs has been one of the many challenges facing the private sector, and aimed at increasing Saudi employment levels and raising income for the government. The pressure on corporates has been compounded by a shift in the payment system, from an annual work permit renewal to a one-time lump-sum payment at the beginning of the year for all foreign workers employed – i.e. collective invoicing. The government is allocating SAR11.5 billion (USD3.1 billion) to reimbursement firms according to the royal decree. The reimbursement system is intended to significantly reduce pressure on private businesses, especially in labour-intensive sectors, such as construction. However, the payment mechanism and eligibility criteria will be central in our view. The decree indicates that the scheme will only be available to companies with a higher or equal number of Saudi employees versus expatriates. Thus, a number of labour-intensive sectors that are struggling to attract Saudi employees or are impacted by the higher cost of Saudi labour might see limited

Eligibility of scheme could make key sectors needing support exempt

benefits. A number of SMEs have closed in sectors requiring an increase in or 100% Saudiisation.

B. G4 Economies

UK: BoE cuts growth forecasts for 2019, citing Brexit uncertainty

The MPC unanimously voted to keep its benchmark policy rate steady at 0.75% last week, and signalled that the next rate hike is likely to be delayed. The tone of the meeting was more dovish than the markets expected, with the GDP growth forecast lowered significantly to 1.2% for 2019, from the previous 1.7%. The BoE highlighted Brexit-related uncertainty as the key reason for the downgrade and pointed out that this uncertainty is having a significant negative impact on investment activity. The BoE also acknowledged that downside risks to the global economy remain a major headwind in the short term. We believe the BoE's outlook on the economy is more balanced now compared to the hawkish bias seen in the November policy meeting. The BoE expects headline inflation to fall below its 2% target for much of 2019, partly reflecting lower crude oil prices. Due to the weak growth trajectory and contained inflation outlook, the BoE expects interest rate hikes over the next few years to be gradual and limited.

BoE to maintain wait-and-see approach until Brexit uncertainties diminish

We believe there is no need for a rate hike by the BoE in the near term, with consensus only seeing a potential increase in November. However, we highlight that a smooth UK withdrawal from the EU will remain critical for this. Our core scenario is that the UK parliament will extend Article 50 for three months as the 29 March deadline looms.

We expect no rate hike by BoE in near term

US: Service sector activity data point to healthy 1Q GDP growth

Incoming data from the US suggest that economic activity remained healthy in January despite the government shutdown in the early part of the month. ISM non-manufacturing activity continued to expand in January (56.7), albeit moderating slightly from the peak in late-2018. However, the government shutdown, tightening financial conditions and cyclical factors could weigh negatively on 1Q2019 growth. Meanwhile, trade data for November released last week suggest that the deficit narrowed to USD49.3 billion from USD55.7 billion in October. This narrowing, if it persisted into December, may have significantly boosted 4Q GDP growth. Overall, we see economic activity remaining healthy in the near term, with contained inflationary pressures.

ISM non-manufacturing activity points to healthy expansion in January

Recent communications from key FOMC members suggest that they remain positive about the US growth outlook in the near term, and do not see any fresh signs of inflationary pressures. Fed Chair Jerome Powell last week said that the US economy is in a "good place", with low unemployment and inflation close to 2%, though did not mention the interest rate outlook. Meanwhile, Randal Quarles expressed similar views, stating that the labour market is solid and that inflationary pressures remain muted. However, he added that increasing global risks pose a significant threat to the economic outlook. The overall tone suggests that the Fed will remain patient in raising interest rates until there is greater clarity on the global growth outlook.

Fed speakers highlight that US economy is experiencing goldilocks phase

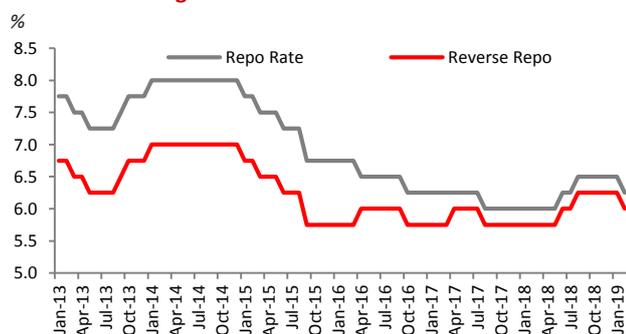
C. Emerging Market Economies

India: RBI makes surprise rate cut to support economic activity

The RBI cut its benchmark repo rate by 25bps to 6.25% at its 7 February meeting, surprising the market, which had expected a steady monetary policy. The monetary policy committee (MPC) was divided, with two of the six members voting for the status quo. Surprisingly, Michael Patra (RBI nominated), who was earlier viewed as being the most hawkish member, voted for a cut. The MPC changed its monetary policy stance to “neutral” from “calibrated tightening”, in line with our and consensus expectations. The tone of the meeting was more dovish under the leadership of new RBI governor Shaktikanta Das, with the MPC shifting its focus to supporting economic growth while inflation remains benign. The headline inflation forecast was lowered to 3.2-3.4% for 1HFY20 (April–September) from the 3.8-4.2% estimated in December, with the risks remaining broadly balanced. The MPC highlighted that there were a number of factors behind the lower inflation projections: i) the ongoing contraction in food prices, ii) weak rural demand, iii) contained crude oil prices and iv) softening household inflation expectations. Nevertheless, the committee also acknowledged that expansionary fiscal policy could stoke inflationary pressure, though it underlined that the impact could take time to be felt. Amid weak external demand, the real GDP growth forecast was also lowered to 7.2-7.4% for 1HFY20, from the 7.5% estimated in December.

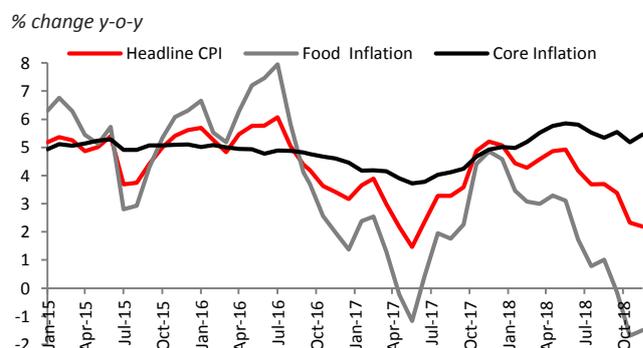
RBI cuts both inflation and growth forecasts for 1HFY20

Fig. 1. India: RBI reduced policy rates by 25 bps at February meeting



Source: RBI

Fig. 2. India: Moderation in food prices central to the deceleration in 2018 headline inflation



Source: India Central Statistical Organisation

The dovish monetary policy stance adopted by the MPC indicates a possibility of further rate cuts in the near term if inflation remains subdued. We see the potential for another 25bps rate cut at the 4 April meeting, though this would be dependent on a number of factors, including incoming inflation data for January and February, global financial market conditions and other idiosyncratic factors. We believe that headline inflation is likely to gradually pick up in 1H2019, with expansionary fiscal policy boosting household consumption ahead of the general election in mid-2019. Nevertheless, we still expect headline inflation to remain within the RBI’s target range of 4% (+/- 2 pp), supporting the outlook for further rate cuts.

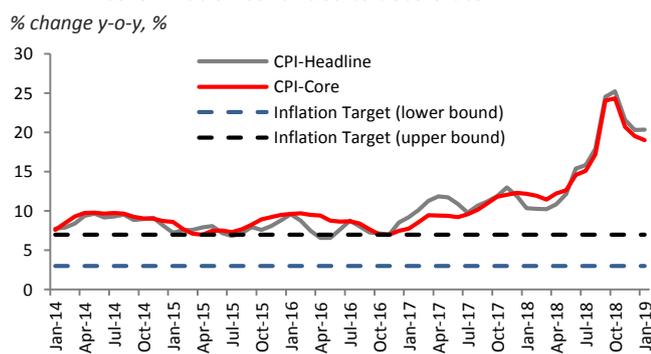
Inflation likely to rise in coming months, driven by pick-up in consumption activity

Turkey: Inflation accelerates in January, led by food prices

Headline inflation accelerated marginally to 20.4% y-o-y in January from 20.3% in December, driven by food prices. This strengthening was notable after the previous two months' deceleration. Food inflation reached a series high of 31% y-o-y in January, led by the sharp increase in fresh fruit and vegetable prices (64.1%) due to adverse weather conditions. However, food inflation excluding fresh fruits and vegetables remained broadly steady at 24% y-o-y in January; hence we believe that the one-off increase in fruit and vegetable prices will normalise gradually in the coming months. Meanwhile, core inflation eased to 19% y-o-y in January (December: 19.5%), with core goods prices decelerating at a faster pace than the rise in services inflation. Core goods inflation softened for the fourth consecutive month to 22.8% y-o-y in January (December: 24.7%), with a moderation in automobiles and clothing prices. We believe that the softening in core goods inflation was due to: i) a gradual strengthening of the TRY since early-September and ii) weakening domestic demand. Nevertheless, core services inflation saw a broad-based increase in the major sub-categories, reflecting lagged cost-related effects in transportation, communication and tourism-related services.

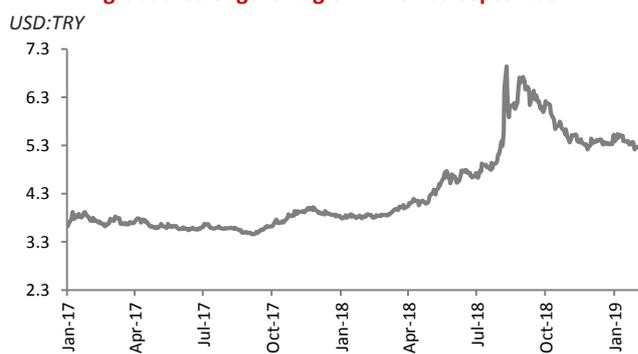
Headline inflation rises in January, but core remains steady

Fig. 3. Turkey: Headline inflation ticked up slightly in January; core inflation continued to decelerate



Source: Turkish Statistical Institute, CBRT

Fig. 4. Turkey: Deceleration in goods inflation largely due to gradual strengthening of TRY since September



Source: Bloomberg

We believe that the CBRT will retain its wait-and-see approach until headline inflation shows a clear downward trend. We believe that Turkish inflation will moderate gradually in 2019, supported by a number of factors, including declining import prices, softening domestic demand and weakening inflation expectations. We expect headline inflation to decelerate to around 15% y-o-y by end-December 2019, with the risks tilting further to the downside. If headline inflation surprises to the downside in the coming months, we believe the CBRT will initiate a rate-cut cycle, possibly from mid- 2019.

We expect CBRT to maintain wait-and-see approach until mid-2019

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	CPI, y-o-y	Jan	2.2%	
	Oman	CPI, y-o-y	Jan	0.8%	
	Qatar	CPI, y-o-y	Jan	-0.3%	
	China	Money Supply M2, y-o-y	Jan	8.1%	8.2%
	China	New Yuan Loans CNY	Jan	1080B	3000B
Monday, 11 February					
8:15	UAE	Dubai Economy Tracker SA	Jan	53.7	
13:30	UK	GDP, q-o-q	4Q P	0.6%	0.3%
13:30	UK	GDP, y-o-y	4Q P	1.5%	1.4%
13:30	UK	Trade Balance	Dec	-£2904M	-£3000M
13:30	UK	Industrial Production, y-o-y	Dec	-1.5%	-0.5%
	China	Foreign Reserves	Jan	\$3072.7B	\$3080B
Tuesday, 12 February					
8:30	Japan	Tertiary Industry Index, m-o-m	Dec	-0.3%	-0.1%
16:00	India	CPI, y-o-y	Jan	2.2%	
17:00	UK	BOE Governor Carney Speaks in London			
19:00	US	JOLTS Job Openings	Dec	6888	6832
21:45	US	Fed Chair Powell Speaks in Mississippi About Rural Poverty			
Wednesday, 13 February					
3:30	US	Fed's Mester Speaks on Economic Outlook and Monetary Policy			
4:30	US	Fed's George Speaks on the U.S. Economy			
12:05	Eurozone	ECB Governing Council Member Philip Lane Speaks in Dublin			
13:30	UK	CPI, m-o-m	Jan	0.2%	-0.7%
13:30	UK	CPI, y-o-y	Jan	2.1%	2%
13:30	UK	CPI Core, y-o-y	Jan	1.9%	1.9%
14:00	Eurozone	Industrial Production WDA, y-o-y	Dec	-3.3%	-3.3%
17:30	US	CPI, m-o-m	Jan	-0.1%	0.1%
17:30	US	CPI, ex-Food and Energy, m-o-m	Jan	0.2%	0.2%
17:30	US	CPI, y-o-y	Jan	1.9%	1.5%
17:30	US	CPI, ex-Food and Energy, y-o-y	Jan	2.2%	2.1%
17:50	US	Fed's Bostic to Speak to European Financial Forum in Dublin			
23:00	US	Monthly Budget Statement	Dec	-\$204.9B	-\$11B
Thursday, 14 February					
3:50	Japan	GDP SA, q-o-q	4Q P	-0.6%	0.4%
3:50	Japan	GDP Annualized SA, q-o-q	4Q P	-2.5%	1.4%
11:00	Turkey	Current Account Balance	Dec	0.99B	-1.5B
14:00	Eurozone	GDP SA, q-o-q	4Q P	0.2%	0.2%
17:30	US	Retail Sales Advance, m-o-m	Dec	0.2%	0.1%
17:30	US	Retail Sales, ex-Auto, m-o-m	Dec	0.2%	0%
17:30	US	Retail Sales Control Group	Dec	0.9%	0.4%
	Egypt	Lending Rate	14-Feb	17.75%	
	Egypt	Deposit Rate	14-Feb	16.75%	
	China	Exports, y-o-y	Jan	-4.4%	-3.2%
	China	Imports, y-o-y	Jan	-7.6%	-10.7%
Friday, 15 February					
5:30	China	CPI, y-o-y	Jan	1.9%	1.9%
13:30	UK	Retail Sales, incl-Auto Fuel, m-o-m	Jan	-0.9%	0.2%
13:30	UK	Retail Sales, incl-Auto Fuel, y-o-y	Jan	3%	3.4%
17:00	Eurozone	ECB's Coeure Speaks in New York			
18:15	US	Industrial Production, m-o-m	Jan	0.3%	0.1%
19:00	US	University of Michigan Sentiment	Feb P	91.2	93.5

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM data						
	Kuwait	M2 Money Supply, y-o-y	Dec	4.4%		4%
	India	Fiscal Deficit INR Crore	Dec	68042		-15168
	Egypt	Gross Official Reserves	Jan	42.55B		42.6B
Monday, 4 February						
3:50	Japan	Monetary Base, y-o-y	Jan	4.8%	4.6%	4.7%
11:00	Turkey	CPI, m-o-m	Jan	-0.4%	1%	1.1%
11:00	Turkey	CPI, y-o-y	Jan	20.3%	20.3%	20.4%
11:00	Turkey	CPI Core Index, y-o-y	Jan	19.5%	19%	19%
13:30	UK	UK Construction PMI	Jan	52.8	52.5	50.6
19:00	US	Factory Orders	Nov	-2.1%	0.3%	-0.6%
19:00	US	Durable Goods Orders	Nov F	0.8%	1.5%	0.7%
19:00	US	Durables, ex-Transportation	Nov F	-0.3%	0.1%	-0.4%
19:00	US	Cap Goods Shipments, Non-defence, ex-Air	Nov F	-0.1%	0.1%	-0.2%
Tuesday, 5 February						
4:30	Japan	Nikkei Japan PMI Composite	Jan	52		50.9
8:15	Egypt	Egypt PMI	Jan	49.6		48.5
8:15	Saudi Arabia	Saudi Arabia PMI	Jan	54.5		56.2
8:15	UAE	UAE PMI	Jan	54		56.3
9:00	India	Nikkei India PMI Composite	Jan	53.6		53.6
13:00	Eurozone	Markit Eurozone Composite PMI	Jan F	50.7	50.7	51
13:30	UK	Markit/CIPS UK Composite PMI	Jan	51.4	51.4	50.3
14:00	Eurozone	Retail Sales, m-o-m	Dec	0.8%	-1.6%	-1.6%
14:00	Eurozone	Retail Sales, y-o-y	Dec	1.8%	0.5%	0.8%
19:00	US	ISM Non-Manufacturing Index	Jan	58	57.1	56.7
Wednesday, 6 February						
11:00	Germany	Factory Orders, m-o-m	Dec	-0.2%	0.3%	-1.6%
11:00	Germany	Factory Orders WDA, y-o-y	Dec	-3.4%	-6.7%	-7%
17:30	US	Trade Balance	Nov	-\$55.7B	-\$54B	-\$49.3B
Thursday, 7 February						
11:00	Germany	Industrial Production SA, m-o-m	Dec	-1.3%	0.8%	-0.4%
11:00	Germany	Industrial Production WDA, y-o-y	Dec	-4%	-3.3%	-3.9%
13:00	India	RBI Repurchase Rate	7-Feb	6.5%	6.5%	6.25%
13:00	India	RBI Reverse Repo Rate	7-Feb	6.25%	6.25%	6%
13:00	India	RBI Cash Reserve Ratio	7-Feb	4%	4%	4%
16:00	UK	Bank of England Bank Rate	7-Feb	0.75%	0.75%	0.75%
16:00	UK	BOE Corporate Bond Target	Feb	10B	10B	10B
16:00	UK	BOE Asset Purchase Target	Feb	435B	435B	435B
Friday, 8 February						
3:50	Japan	BoP Current Account Balance	Dec	¥757.2B	¥469.3B	¥452.8B
11:00	Germany	Trade Balance	Dec	20.4B	16.5B	13.9B
11:00	Germany	Exports SA, m-o-m	Dec	-0.3%	0.4%	1.5%
11:00	Germany	Imports SA, m-o-m	Dec	-1.3%	0.5%	1.2%

* UAE time

Source: Bloomberg

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