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

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US: FOMC meeting, labour data and PCE inflation

The Fed is widely expected to keep the FFTR on hold at its 30 April - 1 May policy meeting, with the upper bound remaining steady at 2.5%. Focus will be on the post-meeting statement and press conference for any changes to the Fed's view on inflation and the growth outlook. We expect Fed Chair Jerome Powell to present a relatively positive view on economic growth and labour market conditions, but to strike a cautious tone on the inflation outlook, especially on longer-term expectations. On balance, the tone of the meeting is likely to remain broadly dovish (as in March), with the Fed reiterating its patient stance and data dependent approach. On the data front, PCE inflation (February and March) and the NFP report (April) are scheduled for this week. Consensus forecasts a solid labour report with 185K jobs created in April (March: 196K), and with unemployment remaining steady at 3.8% for the third consecutive month. Attention will also be on wage growth, after it surprised to the downside in two of the months of 1Q2019 (January and March). Consensus estimates wage growth to have returned to the 2018 average of 0.3% m-o-m in April (March: 0.1%), taking the y-o-y print to 3.3% (March: 3.2%). Meanwhile, core PCE inflation is forecast to have been 0.1% m-o-m in both February and March (January: 0.1%), taking the y-o-y print to 1.7% in March (January: 1.8%).

Europe: BoE on hold – voting pattern and projections in focus

We expect the BoE to keep rates steady at 0.75% on 2 May, although it will be interesting to see how the central bank plans to approach the six-month extension of article 50 to end-October. Focus will be on the voting pattern to see if there are any dissenting members calling for a rate hike. Our core view remains that the UK economy does not need any rate hikes in 2019, given the weak investor and consumer confidence due to Brexit-related uncertainties. The consensus forecasts the BoE's 2019 headline inflation projection to rise, reflecting the 16% rise in sterling-denominated crude prices since February, but 2020 and 2021 estimates remain unchanged. The BoE's GDP growth forecast for 1Q2019 is also expected to be raised to 0.4% q-o-q, from 0.3% in March, following the upside surprise in monthly GDP data in 2M2019. Separately, in the Eurozone, 1Q GDP growth and April inflation data are due this week. Consensus estimates GDP growth to have remained below its trend for the third consecutive quarter at 0.3% q-o-q in 1Q2019 (domestic demand driven), albeit accelerating marginally from 0.2% in 4Q and 0.1% in 3Q.

Turkey: Core inflation likely to soften to nine-month low in April

Turkey's April inflation report is expected to present a mixed picture, with rising headline inflation and weakening core inflation. Consensus forecasts that headline inflation accelerated to a five-month high of 20.4% y-o-y in April (March: 19.7%), led by food and fuel. However, core inflation is estimated to have softened to a nine-month low of 17.1% y-o-y in April (March: 17.5%). We believe that a weakening core inflation from end-2018 was largely behind the CBRT's less hawkish stance at its April meeting. (page 4).

I. Recent Events and Data Releases

A. MENA Economies

Saudi Arabia: Fiscal surplus in 1Q, SAMA's foreign assets rise in March

Government revenue rises by a robust 47.5% y-o-y in 1Q2019; SAMA's NFAs up USD15 billion in March

Finance Minister, Mohammed Al-Jadaan, announced at a conference last week that Saudi Arabia had realised a fiscal surplus of SAR27.8 billion (USD7.4 billion) in 1Q2019. This is against a deficit of SAR34.3 billion in 1Q2018. The full 1Q2019 figures have not yet been published, so the details are limited with only some headline figures announced by Al-Jadaan. Notably, both oil and non-oil income saw a marked y-o-y rise in 1Q, outpacing annual expenditure growth. Oil income rose by 48.2% y-o-y to SAR149 billion. The magnitude of the increase was difficult to reconcile with the oil price and production development, even when factoring in the quarterly dividend payments methodology (used from 2018) where payments are made in the subsequent quarter. We assumed that the strong acceleration in oil spending was due to higher transfers from Aramco when the headline data was released last week. This was subsequently confirmed by Al-Jaadan, who indicated that: "we received royalties, tax, dividends and special dividends in the first quarter" from Aramco. The transfer from Aramco could have been behind the USD15 billion (SAR56.3 billion) increase in SAMA's net foreign assets (NFAs) in March to USD493 billion. SAMA's NFAs were up USD3.6 billion in March YTD, likely supported by the 1Q fiscal surplus. Central government deposits with SAMA also rose sharply in March, up USD13.7 billion to USD155.5 billion. Non-oil revenue also saw a marked rise of 45.9% y-o-y in 1Q2019, to SAR76.3 billion, which we believe was likely boosted by transfers from SAMA and the PIF as no meaningful new fiscal reforms were implemented. The main change was a rise in the expat levy (by SAR200 per employee), which we see as insufficient to account for the significant increase in total non-oil income.

1Q fiscal surplus poses downside risks to our 2019 deficit forecast

Meanwhile, government spending rose by a solid c.8.4% y-o-y to SAR217.6 billion, with no further breakdown provided. The magnitude of the rise was in line with our expectation of a high-single-digit increase in government spending in 2019, which will be a key factor supporting a strengthening in non-oil activity. The 1Q fiscal surplus, which is around 1% of our GDP forecast for full-year 2019, poses downside risks to our 2019 fiscal deficit forecast of 7.1% of GDP. Nonetheless, we continue to expect Saudi Arabia to realise a deficit for full-year 2019, with the magnitude of transfers from Aramco (and potentially PIF and SAMA) unlikely to be sustained for the remainder of the year.

B. G4 Economies

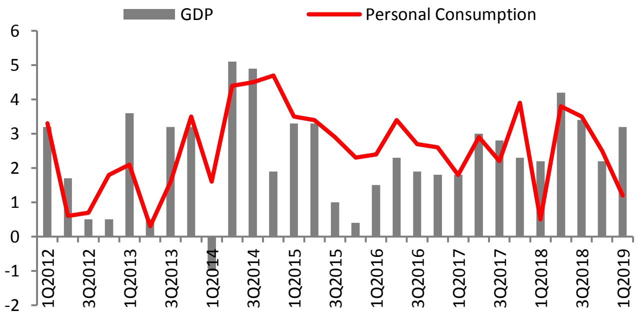
US: Solid 1Q GDP growth, but composition a concern

Personal consumption growth moderates to 1.2% q-o-q SAAR in 1Q, from 2.5% in 4Q

Headline GDP growth surprised to the upside and grew by 3.2% q-o-q SAAR in 1Q, versus 2.2% in 4Q2018 and a consensus forecast of 2.3%. The better-than-expected GDP growth was largely due to a rise in net exports (+1pp contribution) and inventories (+0.65pp contribution), which was probably transitory. The increase in inventories is likely to have been due to ongoing trade uncertainties with China. Moreover, these uncertainties are also likely to have boosted US exports, ahead of potential further tariffs being imposed. Excluding those two components, the underlying details of the 1Q GDP report are not that positive in our view, showing softening domestic demand. Personal consumption growth decelerated to 1.2% in 1Q (4Q2018: 2.5%), with the government shutdown in early January being one of the reasons for the slowdown. Fixed investment growth also softened to 1.5% in 1Q, from 3.1% in 4Q, reflecting a deceleration in non-residential investments and an ongoing contraction in residential investment. Indeed, the final domestic sales to private purchasers slowed to 1.3% in 1Q (4Q:2.6%) – the weakest growth rate since 2013. Looking ahead, the temporary boost from inventories and net exports is likely to fade in the upcoming quarter, dragging down headline growth. However, the incoming high-frequency data (retail sales and durable goods) suggests that consumer spending and investments are likely to gain momentum as we head into 2Q2019. On balance, the indications are that the US economy will continue to expand above its trend growth of 2% in 2019, albeit decelerating from the solid 1Q level.

Fig. 1. US: Real GDP growth strengthens to 3.2% q-o-q SAAR in 1Q, led by inventories and net exports

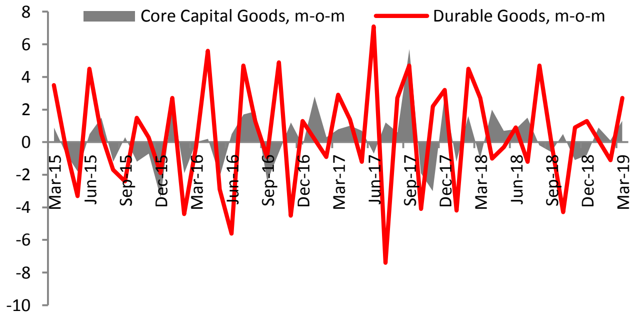
% change q-o-q SAAR



Source: Bureau of Economic Analysis

Fig. 2. US: Durable goods orders grow by a solid 2.7% m-o-m in March, bouncing back from -1.1% in February

% change m-o-m



Source: US Census bureau

Durable goods: Both headline and core durable goods orders surprised to the upside in March. Headline durable goods orders bounced back, growing by 2.7% m-o-m in March (consensus: 0.8%), from an upwardly revised -1.1% in February, indicating positive signs for production in the near term. The rising durable goods orders may moderate the accumulated inventory stock piles in the coming months. However, core capital goods shipments (which feed into GDP data) contracted by 0.2% m-o-m in March (consensus: +0.1%), from an upwardly revised +0.2% in February. The weakness in shipments could be due to temporary logistical issues in the Midwest region and is unlikely to continue in the coming months.

Japan: BoJ leaves monetary policy on hold; updates forward guidance

GDP growth for FY2018 lowered to 0.6%, from 0.9%

The BoJ revised its forward guidance at its 24-25 April policy meeting, but assured the market that it will keep the current low interest rates unchanged “at least through around spring 2020”. The tweak in the forward guidance makes it more time bound than the earlier guidance, which was for interest rates to remain extremely low for an extended period of time. The other monetary policy tools, including policy rates, yield curve control and asset purchases, were left unchanged. On economic forecasts, real GDP growth for FY2018 (April 2018 – March 2019) was lowered to 0.6%, from 0.9%, reflecting the slowdown in 1Q2019. FY2019 and FY2020 growth rates were also lowered to 0.8% (previously 0.9%) and 0.9% (1%), respectively, with the BoJ highlighting that the domestic economy is seeing headwinds from the global slowdown. We believe the domestic economy will see further downward pressure from 4Q2019 due to the government’s planned increase in consumption tax to 10% from the current 8%, effective from October 2019.

BoJ estimates show core inflation unlikely to reach 2%, even by end-FY2021

The BoJ left core CPI (ex-food) projections for FY2018 and FY2019 unchanged at 0.8% and 1.1%, respectively, but lowered the FY2020 estimate to 1.4% (from 1.5%). The BoJ forecasts show that core inflation is not expected to reach the 2% target until FY2021. We believe the inflation forecasts still look optimistic and see potential for downward revisions in the upcoming policy meetings. Overall, given the weak growth outlook and subdued inflationary pressures, we expect the BoJ to maintain its extremely accommodative monetary policy in 2019 and 2020. However, we do not see further monetary policy easing in the near term unless there is a sharp global economic slowdown.

Fig. 3. Median of BoJ policy board members' forecasts

	FY2018	FY2019	FY2020	FY2021
Real GDP growth, %				
April 2019 projections	0.6	0.8	0.9	1.2
January 2019 projections	0.9	0.9	1	-
CPI (ex-food), % change y-o-y				
April 2019 projections	0.8	0.9	1.3	1.6
January 2019 projections	0.8	0.9	1.4	-

Source: BoJ

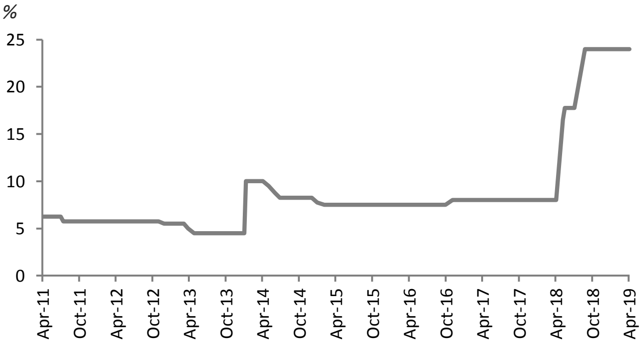
C. Emerging Market Economies

Turkey: CBRT keeps interest rates steady with less hawkish stance

CBRT's less hawkish stance leads to sharp weakening of USD:TRY after policy meeting

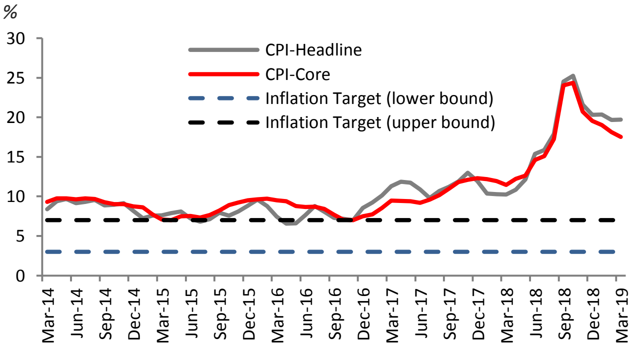
The CBRT kept its benchmark policy rate steady at 24% at its 25 April meeting, in line with our and the market's expectations. The tone of the monetary policy statement was less hawkish than that of the previous meetings, with the central bank removing the phrase "further monetary tightening will be delivered, if needed". In our view, the removal of this statement largely eliminates the chances of a rate hike in the near term, whilst increasing the possibility of a rate cut in 2H2019. However, the MPC reiterated that it will maintain a tight monetary policy stance until the inflation outlook shows a significant improvement. The CBRT re-emphasised that the weak domestic demand is resulting in some improvement in the inflation outlook, which was also evident in the softening core inflation. However, the central bank acknowledged that elevated food and import prices pose upside risks to the inflation outlook.

Fig. 4. Turkey: CBRT leaves benchmark policy rate unchanged at 24% at its April meeting



Source: CBRT

Fig. 5. Turkey: Core inflation decelerating at a faster pace than headline inflation in early 2019



Source: Turkish Statistical Institute, CBRT

Following the CBRT decision, the TRY weakened sharply against the USD, reaching 5.94 – the level last seen in mid-October 2018. The sharp TRY depreciation since early April also presents upside risks to imported inflation, which could delay the start of the rate cut cycle, in our view. We expect the CBRT to remain on hold in the next two meetings (June and July) and to initiate a rate cut cycle from September. We see potential for a total easing of 200bp in 2019, although higher oil prices and a further weakening in the TRY remain key risks.

We expect rate cut cycle to start from September

II. Economic Calendar

Fig. 6. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	Non-Oil Exports, y-o-y	Feb	-1.4%	
	Oman	Nominal GDP YTD, y-o-y	4Q	15.3%	
	Kuwait	M2 Money Supply, y-o-y	Mar	4.7%	
	Egypt	Trade Balance	Feb	-2787M	
Monday, 29 April					
12:00	Eurozone	M3 Money Supply, y-o-y	Mar	4.3%	4.2%
12:10	UK	Bank of England Governor Carney Speaks in London			
16:30	US	Personal Income	Mar	0.2%	0.4%
16:30	US	Personal Spending	Mar	--	0.7%
16:30	US	PCE Core Deflator, m-o-m	Mar	--	0.1%
16:30	US	PCE Core Deflator, y-o-y	Mar	--	1.7%
Tuesday, 30 April					
5:00	China	Manufacturing PMI	Apr	50.5	50.6
11:30	Turkey	Central Bank Inflation Report			
13:00	Eurozone	Unemployment Rate	Mar	7.8%	7.8%
13:00	Eurozone	GDP SA, q-o-q	1Q A	0.2%	0.3%
13:00	Eurozone	GDP SA, y-o-y	1Q A	1.1%	1.1%
18:00	US	Conference Board Consumer Confidence	Apr	124.1	126.5
Wednesday, 1 May					
12:30	UK	Mortgage Approvals	Mar	64.3K	64.5K
12:30	UK	Markit UK PMI Manufacturing SA	Apr	55.1	53.1
16:15	US	ADP Employment Change	Apr	129K	180K
18:00	US	ISM Manufacturing	Apr	55.3	55
18:00	US	ISM Prices Paid	Apr	54.3	55.7
22:00	US	FOMC Rate Decision (Upper Bound)	1-May	2.5%	2.5%
22:00	US	FOMC Rate Decision (Lower Bound)	1-May	2.25%	2.25%
22:00	US	Interest Rate on Excess Reserves	2-May	2.4%	2.4%
22:30	US	Fed Chair Powell Holds Press Conference After FOMC Meeting			
Thursday, 2 May					
5:45	China	Caixin China PMI Manufacturing	Apr	50.8	51
9:00	UK	UK Local Elections			
15:00	UK	Bank of England Bank Rate	2-May	0.75%	0.75%
15:00	UK	BOE Corporate Bond Target	May	10B	10B
15:00	UK	BOE Asset Purchase Target	May	435B	435B
15:30	UK	BOE's Carney speaks at press conference in London			
18:00	US	Factory Orders	Mar	-0.5%	1.4%
Friday, 3 May					
11:00	Turkey	CPI, y-o-y	Apr	19.7%	20.4%
11:00	Turkey	CPI Core Index, y-o-y	Apr	17.5%	17.1%
13:00	Eurozone	CPI Core, y-o-y	Apr A	0.8%	1%
13:00	Eurozone	CPI Estimate, y-o-y	Apr	1.4%	1.6%
16:30	US	Wholesale Inventories, m-o-m	Mar P	0.2%	0.2%
16:30	US	Change in Nonfarm Payrolls	Apr	196K	185K
16:30	US	Unemployment Rate	Apr	3.8%	3.8%
16:30	US	Average Hourly Earnings, m-o-m	Apr	0.1%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Apr	3.2%	3.3%
18:00	US	ISM Non-Manufacturing Index	Apr	56.1	57
19:30	US	Fed's Clarida Speaks at Hoover Institute Policy Conference			
21:45	US	Fed's Williams Speaks at Hoover Institute Policy Conference			

* UAE time
Source: Bloomberg

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