

## The Week Ahead: China 1Q GDP data and central bank comments in focus

### ► **US: Central bank comments and retail sales data**

The market will continue to focus on geopolitical risk and trade developments this week. We believe that any further escalation in geopolitical risk could raise crude oil supply concerns, which in turn could keep crude prices high in the near term. Moreover, volatility in the equity markets and flattening treasury curve will also be in the spotlight. A number of Fed speakers, including Randal Quarles, William Dudley, John Williams and Raphael Bostic, have speaking engagements this week ahead of the black-out period beginning on 21 April. We expect Fed members to reiterate their stance of gradual rate hikes although their views on treasury yield curve and the impact of rising crude price on the inflation outlook need to be watched closely. Meanwhile, the key US data releases this week will be retail sales and housing data. Consensus estimates retail sales growth rebounded to 0.4% m-o-m in March from a contraction of 0.1% in February. Moreover, housing starts and building permits were forecast to have accelerated in March.

### ► **UK: Headline inflation likely remained steady in March**

There are a number of key UK data releases this week, including inflation, retail sales for March and February's labour report. Consensus thinks headline inflation remained steady at 2.7% y-o-y in March, after decelerating surprisingly in February. However, core inflation is seen accelerating to 2.5% y-o-y in March, mainly driven by variations in the timing of Easter (air fares and package holiday prices). Meanwhile, retail sales (including auto fuels) are estimated to have contracted by -0.6% m-o-m in March after rising 0.8% in February, due to heavy snow-driven disruption in early-March. Despite steady headline inflation and weaker retail sales, it is thought average weekly earnings growth for February accelerated to 3% (January: 2.8%), though we remain cautious about sustained wage growth acceleration. Meanwhile, the unemployment rate is forecast to remain steady at 4.3% in February.

### ► **China: 1Q GDP data, December IP and retail sales**

We expect some moderation in China's economic activity in 1Q 2018, in line with the recent PMI surveys and trade data. Consensus estimates that real GDP growth decelerated to 1.5% q-o-q in 1Q (4Q 2017: 1.6%) but that the annual rate remained steady at 6.8% y-o-y. We believe that the Chinese government's deleveraging process to reduce overcapacity is likely to have softened economic growth marginally in 1Q. However, US tariffs on steel and aluminium exports are expected to have had a limited impact in 1Q, though this should be monitored closely over the rest of 2018. Meanwhile, high-frequency data for March is forecast to have improved marginally on the back of a seasonal pick-up in auto sales. Consensus thinks both retail sales and industrial production accelerated in March, to 9.7% y-o-y (9.4% previously) and 6.4% y-o-y (February: 6.2%) respectively. Separately, Japan will release its March inflation print, with headline inflation seen softening to 1.1% y-o-y, from 1.5% in February.

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## I. Recent Events and Data Releases

### A. MENA Economies

#### Saudi Arabia: Government issues first international bond in 2018

Saudi Arabia returned to the international bond market last week, raising USD11 billion. This is after increasing its USD10 billion syndicated loan by USD6 billion last month (for further details, please see our **Global Data Watch 5-9 March**, published on 5 March 2018). The paper was split into three tranches: i) a USD4.5 billion seven-year note at 140 bps over US Treasuries; ii) a USD3 billion 12-year note at 175 bps over US Treasuries; and iii) a USD3.5 billion 31-year note at 210 bps over US Treasuries. Demand for the paper was strong with an order book of over USD50 billion – more than four times oversubscribed. The overwhelming demand for the debt was likely due to the attractive pricing over the existing debt. Moreover, this was ahead of Qatar's planned return to the international bond market in about two years.

*Demand remains strong for USD bond issuance given attractive pricing offer*

We believe that the higher crude oil price and recent reform initiatives have boosted foreign investor confidence regarding Saudi Arabia's economic outlook. We had expected the government to utilise this positive sentiment and possibly frontload its international issuance plan in 2018. Notably, the ministry of finance has planned to raise USD31 billion from international markets in 2018 (2017: USD21.5 billion) to cover the government's expected fiscal deficit of USD52 billion. Moreover, given the relatively lower government debt to GDP ratio of 17% at end-2017, we see healthy demand for Saudi's sovereign debt issuance programme continuing. Moreover, the issuance of debt reduces the pace of the drawdown from the government's FX reserves. By raising domestic debt, the government could also increase the pace at which excess banking sector liquidity is absorbed, especially if the negative spread between Saibor and Libor widens again.

*We expect Saudi Arabia to frontload its USD bond issuance programme for 2018*

### B. G4 Economies

#### US: Slight hawkish tilt to March FOMC minutes

The minutes of the March FOMC meeting were marginally hawkish, though there were no major surprises that could alter the current gradual rate hike guidance. Notably, there was a unanimous view among the participants that the outlook for the economy beyond the current quarter had strengthened. "Most participants" also highlighted that the likelihood of inflation reaching the FOMC's 2% target had also increased in recent months. Thus, the increased confidence on inflation and the stronger growth outlook "implied that the appropriate path for the federal funds rate over the next few years would likely be slightly steeper than they had previously expected". This is largely in line with the dot plot projections released along with the monetary policy statement. Moreover, "several participants" argued that at some point it would likely become appropriate for the FOMC to set the FFRT above its longer-run normal level. There were also discussions about altering the statement language at some point to "gradually move from an accommodative stance to being a neutral or restraining factor for economic activity".

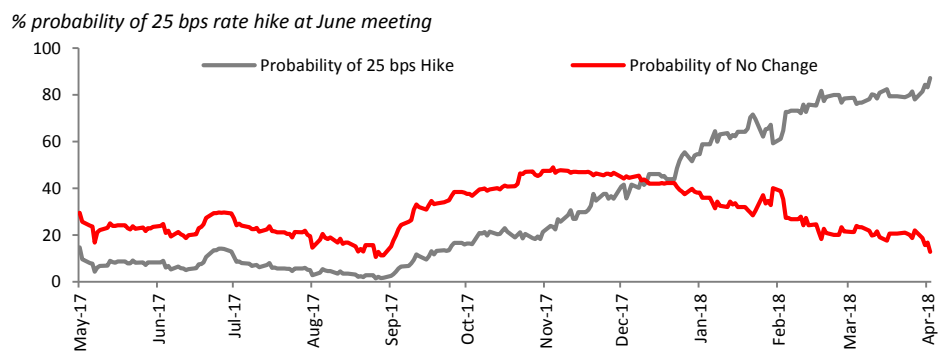
*Gradual interest rate hike guidance – June rate hike chances intact*

Regardless of the increasing confidence over the inflation outlook, a few participants cautioned that "despite increases in market-based measures of inflation compensation in recent months and the stabilization of some survey measures of inflation expectations, the levels of these indicators remained too low to be consistent with the Committee's 2% inflation objective". Similarly, the FOMC's views on the labour market were also

*Participants' views mixed over wage growth and inflation outlook*

mixed with a few participants suggesting that there was room for the labour market to strengthen somewhat further. However, several participants acknowledged a modest increase in wage growth, though most still described the pace of wage gains as moderate.

**Fig. 1. US: Market expectations of hike at June meeting remain above 85% after release of March FOMC minutes and inflation data**



Source: Bloomberg

Regarding fiscal policy, the expansionary budget agreement and tax reforms were expected to provide a “significant boost to output over the next few years”. However, the FOMC participants were uncertain about the magnitude and timing of the economic effects of the fiscal policy changes. With respect to tariff measures, “participants did not see the steel and aluminium tariffs, by themselves, as likely to have a significant effect on the national economic outlook, but a strong majority of participants viewed the prospect of retaliatory trade actions by other countries, as well as other issues and uncertainties associated with trade policies, as downside risks for the US economy.” In addition, a few participants expressed concern about the recent financial market volatility and stated that if the economy operates above its potential for a long time, alongside the accommodative financial conditions, this could also pose risks to stability over time. Overall, we continue to see a total of three 25bps FFTR hikes in 2018 with the next rate hikes in June and December.

*Escalation of tariff measures poses downside risks to economic outlook*

**Fig. 2. US: Key events to watch for trade tariff-related developments**

Date	Events
30-Apr-18	Exclusions for allies from US steel and aluminium tariffs expire
11-May-18	Section 301 comment period ends
12-May-18	President Trump decision on Iran deal expected
15-May-18	Public hearing on Section 301 tariffs
22-May-18	Section 301 Rebuttal period ends

Source: Bloomberg, ADCB

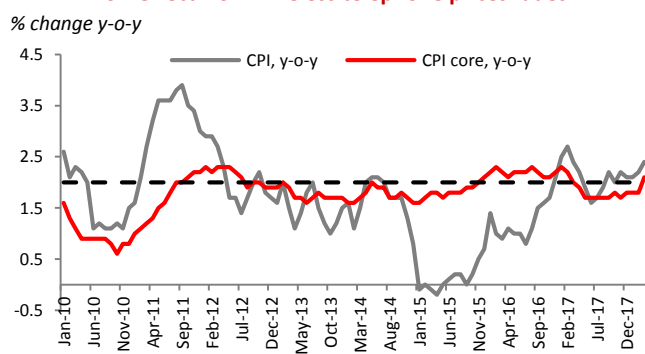
## US: Annual core inflation above 2% for first time since March 2017

The March CPI inflation report was broadly in line with the market’s expectations. Both headline and core inflation accelerated in March, the former to 2.4% y-o-y (February: 2.2%) and the latter to 2.1% y-o-y (February: 1.8%) as the one-off contraction in wireless telephone prices in 2017 fell out of the calculations. On a monthly basis, core inflation remained steady at 0.2% m-o-m in March, though headline inflation fell to -0.1% m-o-m

*We expect core inflation to accelerate further in 2Q 2018*

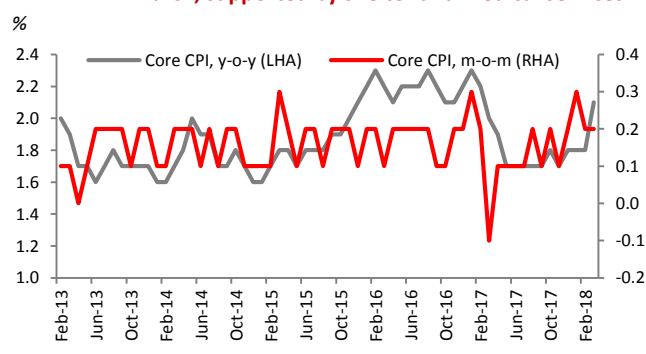
(February: 0.2%) on the back of a sharp decline in gasoline prices. Monthly core inflation was largely driven by a rise in shelter and medical services prices. Notably, the limits on mortgage deductibility from the Tax Cuts and Jobs Act (TCJA) have not appeared to negatively affect home prices yet. On the other hand, apparel, communication and used car sales contracted on a m-o-m basis in March. We expect this decelerating trend in auto prices to continue on the back of increased supply from off-lease vehicles entering the market. Looking ahead, core PCE inflation is expected to remain steady at 0.2% m-o-m in March whilst taking the annual reading closer to the Fed's 2% target.

**Fig. 3. US: Both headline and core inflation above 2% as one-off effect from wireless telephone prices fades**



Source: Bureau of Labor statistics

**Fig. 4. US: Core CPI inflation remained steady at 0.2% m-o-m in March, supported by shelter and medical services**



Source: Bureau of Labor statistics

## Eurozone: March minutes underline protectionism and EUR concerns

The minutes of the ECB's March monetary policy meeting largely reflected the dovish tone presented by President Mario Draghi during his post-meeting press conference. The governing council (GC) broadly agreed that the evidence of a sustained rise in inflation towards its 2% target was still not sufficient, though expressed some confidence that inflation would pick up gradually. The GC highlighted that the EUR appreciation remained a significant source of uncertainty and needed to be monitored closely. The members specifically pointed out that non-energy industrial goods price inflation, which is sensitive to exchange rates, was yet to show signs of a pass-through effect. However, the March inflation report released after the ECB meeting showed that non-energy industrial goods inflation moderated in March.

Regarding the growth outlook, the GC expressed increasing confidence though highlighted that the degree of remaining economic slack in the Eurozone was unclear. The ECB also voiced increasing concern regarding the US's protectionist measures. GC members stated that the impact of the protectionism measures could have negative confidence effects, which in turn could derail the synchronous global growth momentum. However, they saw the impact of trade tariffs on inflation as uncertain at this point.

Given the subdued underlying inflationary pressures and increasing downside risks to the global growth outlook, the GC argued that "prudence, patience and persistence" with regard to monetary policy were still warranted. Members also agreed that an ample degree of monetary accommodation was still necessary. Regarding forward guidance, the GC mentioned that the three criteria of "convergence, confidence and resilience" would be considered when deciding the timing to end the asset purchase programme. Members also reiterated that policy rates would remain at current levels "well past the

*EUR appreciation remains significant source of uncertainty to inflation outlook*

*ECB highlighted increasing concerns regarding US protectionism measures*

*We expect ECB to extend asset purchases for another three months to December*

end of the net asset purchases". Overall, the ECB communication suggests that the ending of the asset purchase programme will be gradual. Thus, we continue to expect the ECB to extend the asset purchase programme for another three months to December, albeit at a slower rate of EUR15 billion per month.

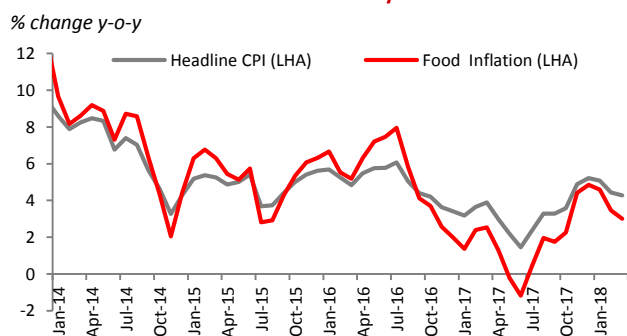
## C. Emerging Market Economies

### India: Headline inflation softens in March but core inflation picks up

Headline inflation eased to a five-month low of 4.3% y-o-y in March (February: 4.4%), though it came in higher than the consensus expectation of 4.1%. The moderation was due to a softening in both food and fuel prices. Food inflation, with a weight of 45.9% in the basket, continued its downtrend, moderating to 3% y-o-y (February: 3.5%; January: 4.6%). Fuel prices also decelerated in March, despite of persistently higher global crude prices. However, core inflation (ex-food, fuel and light) accelerated to 5.2% y-o-y in March, after remaining steady at 5% in the previous three months. The pick-up in core inflation was due to a broad-based pick-up in prices under the miscellaneous category (including Health, Education, Transport and Communication). Overall, despite diverging trends in headline and core inflation, both remained within the RBI's inflation target range (4 +/-2%). Meanwhile, industrial activity showed solid momentum in March, growing by 7.1% y-o-y, albeit moderating from 7.4% in February. Notably, an acceleration in capital and infrastructure goods growth suggests that the outlook for investment growth remains robust for FY2018-19 (April – March).

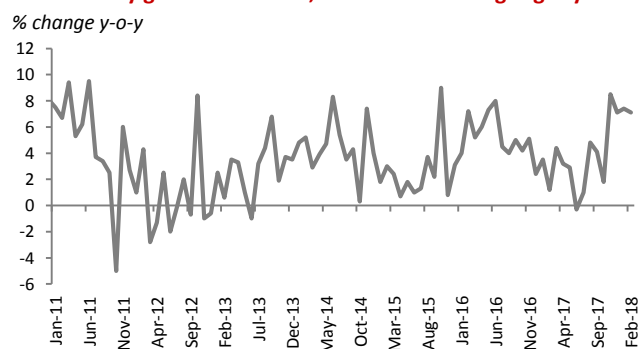
*Headline inflation decelerates less than expected in March*

**Fig. 5. India: Headline inflation decelerates to 4.3% y-o-y in March from 4.4% in February on softer food inflation**



Source: India Central Statistical Organisation

**Fig. 6. India: Industrial production remains healthy at 7.1% y-o-y growth in March, albeit decelerating slightly**



Source: India Central Statistical Organisation

We expect headline inflation to accelerate in the coming months as the softer food inflation in 2017 provides support to y-o-y calculations. Moreover, persistently higher crude oil prices and a Minimum Support Price (MSP) hike for Kharif crops present upside risks to the inflation outlook in 1HFY2018-19. Moreover, the upcoming monsoon season will also remain critical for the near-term inflation outlook. Thus, we expect the RBI to keep the repo rate steady at 6%, with a neutral stance in 2018.

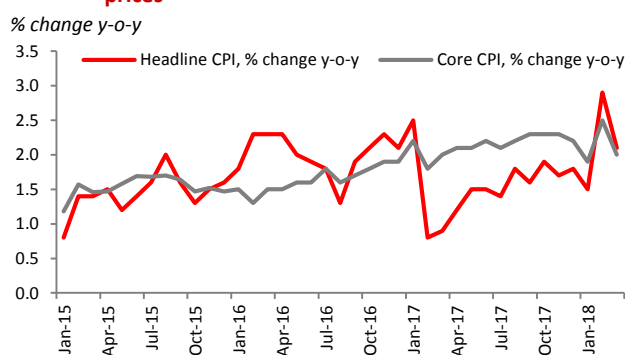
*RBI to remain on hold with neutral stance in 2018*

## China: CPI inflation softer than expectations in March

Headline CPI inflation decelerated to 2.1% y-o-y in March (February: 2.9%) – substantially lower than the consensus expectation of 2.6%. The moderation in inflation was broad-based in March. Notably, food price inflation eased sharply to 2.1% y-o-y (February: 4.4%), largely due to softer fresh vegetable and pork prices. However, we expect food inflation to increase slightly in 2Q2018, driven by upwards price pressures on agricultural and processed food products. Meanwhile, non-food price inflation also weakened to 2.1% y-o-y in March (February: 2.5%) on the back of moderating travel-related services following the Lunar New Year holidays. Moreover, producer price inflation also slowed to 3.1% y-o-y in March from 3.7% in February, supporting the slowdown in demand.

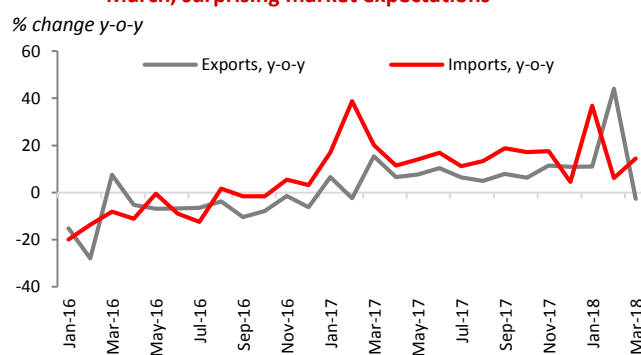
*Both CPI and PPI inflation softened in March*

**Fig. 7. China: Inflation softened in March due to weaker food prices**



Source: National Bureau of Statistics of China

**Fig. 8. China: Exports growth contracts by 2.7% y-o-y in March, surprising market expectations**



Source: National Bureau of Statistics of China

We expect both CPI and PPI inflation to remain soft in the coming months. However, there are likely to be some upside risks to food inflation if China imposes its proposed 25% tariffs on imported US soybean. The consensus expects a tariff on US soybean to add 0.2-0.5 ppt to China's headline inflation. Thus, even under the worst-case scenario of a trade dispute between the US and China, headline inflation is expected to remain around the PBoC's 3% target. Moreover, the expected moderation in 2018 GDP growth is also seen supporting the benign inflation outlook for 2018. Given the favourable inflation outlook, we believe that the PBoC's monetary policy will remain neutral in 2018. While delivering a speech at the Boao Forum, PBoC Governor Yi Gang highlighted that the central bank will continue its prudent monetary policy but stands ready to normalise policies along with other central banks.

*We expect PBoC to maintain neutral monetary policy stance in 2018*

## II. Economic Calendar

Fig. 9. The week ahead

Time *	Country	Event	Period	Prior	Consensus
<b>GCC Economies</b>					
	UAE	M2 Money Supply, m-o-m	Mar	0.6%	
	UAE	CPI, y-o-y	Mar	4.5%	
	UAE	Central Bank Foreign Assets	Mar	339.8B	
	Saudi Arabia	CPI, y-o-y	Mar	2.9%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Feb	18%	
	Kuwait	CPI, y-o-y	Mar	0.8%	
	Bahrain	CPI, y-o-y	Mar	3.1%	
	Oman	Nominal GDP YTD, y-o-y	4Q	10.1%	
<b>Monday, 16 Apr</b>					
16:30	US	Empire Manufacturing	Apr	22.5	18.6
16:30	US	Retail Sales Advance, m-o-m	Mar	-0.1%	0.4%
16:30	US	Retail Sales, ex-Auto, m-o-m	Mar	0.2%	0.2%
16:30	US	Retail Sales Control Group	Mar	0.1%	0.3%
21:15	US	Fed's Bostic Speaks on the Economy and Rural Markets			
<b>Tuesday, 17 Apr</b>					
6:00	China	GDP, y-o-y	1Q	6.8%	6.8%
6:00	China	Retail Sales, y-o-y	Mar	9.4%	9.7%
6:00	China	Industrial Production, y-o-y	Mar	6.2%	6.4%
12:30	UK	Claimant Count Rate	Mar	2.4%	
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Feb	2.8%	3%
12:30	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Feb	2.6%	2.8%
12:30	UK	ILO Unemployment Rate, 3M	Feb	4.3%	4.3%
16:30	US	Housing Starts	Mar	1236K	1266K
17:15	US	Fed's Williams Speaks on Economic Outlook			
17:15	US	Industrial Production, m-o-m	Mar	0.9%	0.4%
17:15	US	Capacity Utilization	Mar	77.7%	77.9%
18:00	US	Fed's Quarles to Testify Before House Financial Services panel			
21:10	US	Fed's Evans Discusses Economic Outlook			
<b>Wednesday, 18 Apr</b>					
1:40	US	Fed's Bostic to Speak on Economy at Bloomberg Event			
3:50	Japan	Trade Balance	Mar	¥2.6B	¥499.2B
12:30	UK	CPI, y-o-y	Mar	2.7%	2.7%
12:30	UK	CPI Core, y-o-y	Mar	2.4%	2.5%
12:30	UK	PPI Output NSA, y-o-y	Mar	2.6%	2.3%
13:00	Eurozone	CPI, y-o-y	Mar F	1.4%	1.4%
22:00	US	U.S. Federal Reserve Releases Beige Book			
23:15	US	Fed's Dudley Speaks on Economic Outlook			
<b>Thursday, 19 Apr</b>					
0:30	US	Fed's Quarles Speaks in Washington			
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Mar	0.6%	-0.4%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Mar	1.1%	1.4%
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Mar	0.8%	-0.6%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Mar	1.5%	1.9%
17:10	US	Fed's Quarles Speaks at Institute of International Finance			
18:00	US	Leading Index	Mar	0.6%	0.3%
<b>Friday, 20 Apr</b>					
2:45	US	Fed's Mester Speaks on Economic Outlook and Policy			
3:30	Japan	National CPI, y-o-y	Mar	1.5%	1.1%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Mar	1%	0.9%
8:30	Japan	Tertiary Industry Index, m-o-m	Feb	-0.6%	0%
18:00	Eurozone	Consumer Confidence	Apr A	0.1	-0.1%

\* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time *	Country	Event	Period	Prior	Consensus	Actual
<b>EM Countries</b>						
	UAE	Dubai Economy Tracker SA	Mar	55.8		55.3
	Oman	CPI, y-o-y	Mar	0.5%		0.1%
	Qatar	CPI, y-o-y	Mar	0.8%		0.4%
	Egypt	Urban CPI, y-o-y	Mar	14.4%		13.3%
	Egypt	Urban CPI, m-o-m	Mar	0.3%		1%
	China	Money Supply M2, y-o-y	Mar	8.8%	8.9%	8.2%
	China	New Yuan Loans CNY	Mar	839.3B	1175.5B	1120B
	India	Exports, y-o-y	Mar	4.5%		-0.7%
<b>Monday, 9 Apr</b>						
3:50	Japan	BoP Current Account Balance	Feb	¥607.4B	¥2196B	¥2076B
3:50	Japan	Trade Balance BoP Basis	Feb	-¥666.6B	¥249.7B	¥188.7B
11:30	UK	Halifax House Prices, m-o-m	Mar	0.5%	0.1%	1.5%
<b>Tuesday, 10 Apr</b>						
10:00	Japan	Machine Tool Orders, y-o-y	Mar P	39.5%		28.1%
14:00	US	NFIB Small Business Optimism	Mar	107.6	107	104.7
16:30	US	PPI Final Demand, m-o-m	Mar	0.2%	0.1%	0.3%
16:30	US	PPI Final Demand, y-o-y	Mar	2.8%	2.9%	3%
18:00	US	Wholesale Inventories, m-o-m	Feb F	1.1%	0.8%	1%
<b>Wednesday, 11 Apr</b>						
3:50	Japan	Core Machine Orders, m-o-m	Feb	8.2%	-2.5%	2.1%
3:50	Japan	PPI, y-o-y	Mar	2.6%	2%	2.1%
5:30	China	PPI, y-o-y	Mar	3.7%	3.3%	3.1%
5:30	China	CPI, y-o-y	Mar	2.9%	2.6%	2.1%
12:30	UK	Trade Balance	Feb	-£2949	-£2600	-£965
12:30	UK	Industrial Production, m-o-m	Feb	1.3%	0.4%	0.1%
12:30	UK	Manufacturing Production, m-o-m	Feb	0%	0.2%	-0.2%
16:30	US	CPI, m-o-m	Mar	0.2%	0%	-0.1%
16:30	US	CPI, ex-Food and Energy, m-o-m	Mar	0.2%	0.2%	0.2%
16:30	US	CPI, y-o-y	Mar	2.2%	2.4%	2.4%
16:30	US	CPI, ex-Food and Energy, y-o-y	Mar	1.8%	2.1%	2.1%
22:00	US	Monthly Budget Statement	Mar	-\$215.2B	-\$186B	-\$208B
<b>Thursday, 12 Apr</b>						
3:50	Japan	Money Stock M2, y-o-y	Mar	3.2%	3.2%	3.2%
13:00	Eurozone	Industrial Production SA, m-o-m	Feb	-0.6%	0.1%	-0.8%
16:00	India	CPI, y-o-y	Mar	4.4%	4.1%	4.3%
16:00	India	Industrial Production, y-o-y	Feb	7.4%	6.8%	7.1%
16:30	US	Import Price Index, m-o-m	Mar	0.3%	0.1%	0%
<b>Friday, 13 Apr</b>						
18:00	US	JOLTS Job Openings	Feb	6228	6024	6052
18:00	US	U. of Mich. Sentiment	Apr P	101.4	100.3	97.8
18:00	US	U. of Mich. 1 Yr Inflation	Apr P	2.8%		2.7%

\* UAE time

Source: Bloomberg

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