

The Week Ahead: Fed to hike, important events and data week for the UK

► **US: Fed widely expected to hike, focus on forward guidance**

The Fed is expected to raise the fed funds target rate (FFTR) by 25bps to 1.75% (the upper bound) at its 21 March meeting. Market focus will be on the forward guidance, particularly on the “dot plot” projections, economic forecasts and post-meeting communication. We expect a moderately hawkish tone, with some FOMC members likely to upgrade their interest rate projections. However, we see the median dot plot to remain steady at three hikes for 2018. The median dot plot for 2019 and long-term interest rates are likely to be upgraded with one additional rate hike. We also expect the GDP growth forecast for 2018 to be revised up to 2.9% (December: 2.5%) with the Fed citing the expansionary fiscal policy, whilst the unemployment rate is likely to be revised down to 3.8% (December: 3.9%). However, inflation projections are expected to remain steady for 2018. Jerome Powell’s first post-meeting press conference will likely be in line with his recent congressional testimony, with the solid economic momentum highlighted.

► **GCC: Most to follow Fed in hiking, Saudi raises ahead of Fed**

We see GCC central banks following the Fed by raising rates, albeit with some differences. The Central Bank of the UAE is expected to increase its repo rate (lending rate) by 25 bps to 2%, whilst Bahrain is forecast to raise its benchmark lending and deposit rates. However, we expect Kuwait and Qatar to keep their benchmark lending rates steady at 2.75% and 5% respectively to limit upside pressure on market lending rates, especially as there is still a margin with the FFTR. Qatar Central Bank raised its repo rate in December by 25 bps to 2.5%, but kept its overnight lending facility at 5%. We believe that given signs of banking sector stability (including capital inflows) and the headwinds to the non-oil sector the repo rate could be kept steady this time. Meanwhile, SAMA raised its deposit and lending rates on 15 March, ahead of the Fed. For further details please see our note – Saudi Arabia Economic Update: **SAMA raises interest rates ahead of US Fed, showing change in policy focus**, published on 16 March 2018.

► **UK: Important data week; BoE guidance in focus**

A number of key UK data releases (inflation, retail sales and labour) are scheduled ahead of the BoE policy meeting on 22 March. We expect the BoE to remain on hold, with focus on the forward guidance being critical in gauging the possibility of a May hike. We believe the BoE will reiterate its message from the February minutes which noted that “monetary policy would need to be tightened somewhat earlier and by a somewhat greater degree”. Recent communication from the MPC members also reinforces this view. However, the upcoming data is unlikely to support the BoE’s view as both headline and core inflation are expected to soften to 2.8% y-o-y (January: 3%) and 2.5% (January: 2.7%) respectively in February. Focus will also be on the EU summit (22-23 March) with a transition period deal likely to be endorsed by the EU leaders, which in turn could allow them to mandate Chief Negotiator Michel Barnier to negotiate a trade deal with the UK.

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I. Recent Events and Data Releases

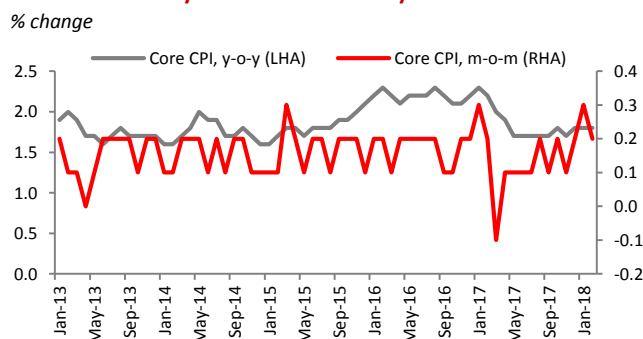
A. G4 Economies

US: Annual core inflation steady in February, in line with expectations

Both headline and core inflation for February came in line with market expectations after surprising to the upside on a monthly basis in January. The data indicated that the January rise was due to one-off factors, including seasonal, thus limiting fears of a sharp pick-up in underlying inflationary pressure that could have led the Fed to hike rates at a faster pace than anticipated. Core inflation decelerated to 0.2% m-o-m in February (January: 0.3%), though the annual reading remained steady for a third consecutive month at 1.8%. However, there were some surprises within the sub-components with apparel and motor vehicle insurance prices accelerating sharply for the second month in a row, which was offset by a contraction in vehicle and medical goods prices. Moreover, shelter prices remained steady. Meanwhile, headline inflation also moderated to 0.2% m-o-m in February (January: 0.5%) due to a weakening in energy prices, though the annual reading accelerated slightly to 2.2% (January: 2.1%). Looking ahead, we expect annual core inflation to strengthen sharply from March as the one-off adjustment in wireless services prices falls out of the calculation. Thus, we see y-o-y core inflation accelerating in 2Q2018, albeit with additional price pressures likely to emanate only gradually from the tight labour market conditions feeding into wage growth.

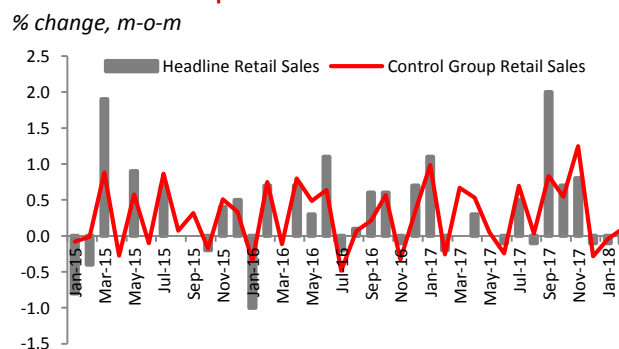
Headline inflation softens to 0.2% m-o-m in February from 0.5% in January

Fig. 1. US: Core inflation moderates to 0.2% m-o-m in February from 0.3% in January



Source: Bureau of Labor Statistics

Fig. 2. US: Retail sales contract by 0.1% m-o-m in February – same as in previous two months



Source: US Census Bureau

February retail sales: Headline retail sales continued to surprise to the downside for a third consecutive month, contracting by 0.1% m-o-m in February – the same as the revised January print but lower than the consensus estimate of +0.3%. The decline was mainly due to a fall in motor vehicle, gasoline and furniture prices, though the contraction was partially offset by a sharp rise in building materials and non-store retail sales. The retail sales control group, which feeds into the personal consumption data, also remained subdued expanding at 0.1% m-o-m (January: flat) – below the consensus estimate of 0.4%. We believe that the muted retail sales in the first two months of the quarter suggest a moderation in consumer spending in 1Q2018 – this is similar to the pattern that we have seen in recent years in 1Q. Overall, the lower monthly inflation print in February and subdued retail sales data make us believe that the Fed will continue to hike interest rates in a gradual manner with a total of three 25bps FFTR hikes in 2018, including one at the upcoming March meeting.

Headline retail sales contract again in February

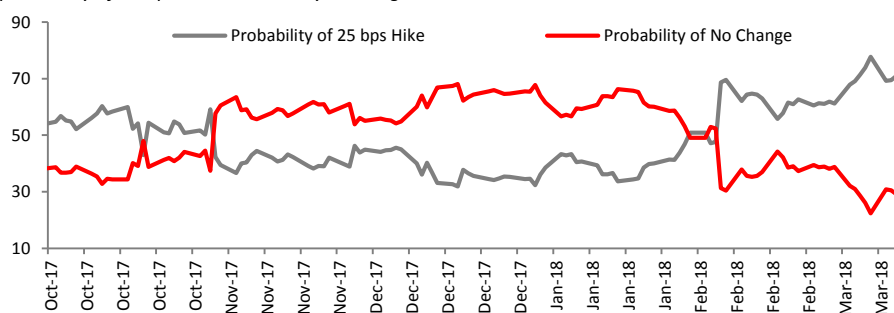
UK: Spring Budget statement lowers borrowing estimates, as expected

UK Chancellor of the Exchequer Philip Hammond presented his spring statement last week and lowered the government’s borrowing projections across the forecast period until FY2022-23 (Apr.-Mar.). The public sector net borrowing forecast was lowered to GBP45.2 billion (1.8% of GDP) in FY2017-18 from GBP49.9 billion (1.9% of GDP) in the autumn estimates. The reduced borrowing requirements also lowered the government’s bond (Gilt) issuance projections to GBP102.9 billion for FY2018-19 from GBP115.1 billion in FY2017-18. However, the chancellor highlighted that the improvement in public finances was cyclical and not structural, implying that the carry forward to future years was relatively small. In addition, the Office for Budget Responsibility (OBR) upgraded its GDP growth forecast for 2018 to 1.5% from 1.4% whilst keeping 2019 and 2020 growth forecasts unchanged at 1.3%. The budget statement also underlined that inflation will decelerate to around 2% by the end of this year due to the unwinding of the sterling-driven rise in imported inflation.

OBR revises up GDP growth forecast to 1.5% in 2018, from 1.4% in November estimate

Fig. 3. UK: Market expectation of BoE interest rate hike at May meeting around 70%

% probability of 25 bps rate hike at May meeting



Source: Bloomberg

Despite the revisions to growth and borrowing projections, there were no new policy announcements, in line with the Treasury’s previous guidance. However, the chancellor highlighted that he would set out a detailed spending review in November whilst presenting the autumn budget. Regarding the Brexit settlement, the OBR estimated that the divorce bill would cost GBP37.1 billion, with around 75% falling due within the five-year forecast period. Overall, we believe that the spring statement will have little impact on the BoE’s monetary policy stance for 2018. We expect one 25bps rate hike in 2018 followed by two in 2019.

Brexit financial settlement estimated at GBP37.1 billion

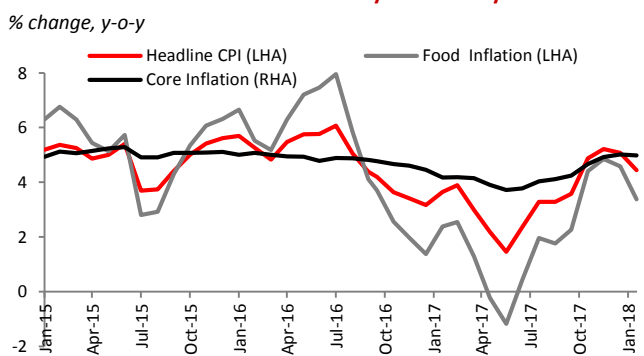
B. Emerging Market Economies

India: February headline inflation moderates but core remains steady

Headline inflation softened sharply to 4.4% y-o-y in February – lower than the consensus estimate of 4.7% and January print of 5.1%. However, core inflation remained steady at 5% y-o-y in February. The deceleration in headline inflation was mainly driven by food and fuel prices. Food inflation softened to 3.4% y-o-y in February (January: 4.6%) as there was a broad-based deceleration in major sub-components on the back of new seasonal harvest arrivals. Notably, vegetable prices decelerated sharply to 17.6% y-o-y after hovering above 20% in the last three months. Moreover, fuel inflation also moderated in February (6.8% y-o-y vs 7.7% in January), partly reflecting the limited pass-through of higher crude oil price into government-administered pump prices. However, the other major sub-categories were largely unchanged, keeping core inflation steady in February.

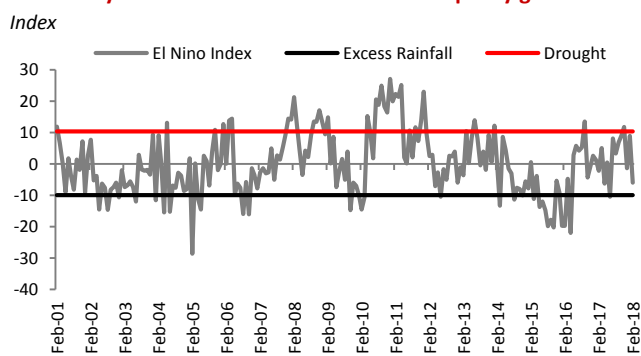
Core inflation remains steady at 5% y-o-y in February

Fig. 4. India: Headline inflation falls more than expected but core inflation remains sticky in February



Source: Central Statistical Organisation

Fig. 5. India: El Nino index points to normal monsoon this year but will remain critical for RBI policy guidance



Source: Commonwealth Bureau of Meteorology

Indicators of economic activity: Industrial production recorded a strong reading for a third consecutive month, suggesting that the impact of the implementation of GST and demonetisation has largely faded. Industrial production growth accelerated to 7.5% y-o-y in January (December: 7.1%), beating the consensus expectation of 6.4%, mainly driven by the manufacturing and electricity sectors. Notably, capital goods production recorded a 19-month high of 14.6% y-o-y in January whilst recording above 10% growth for the third month in a row. Overall, the data clearly suggests that the economic recovery is on a stronger footing and we expect the underlying momentum to strengthen on the back of expansionary fiscal policy. We believe that the RBI will express increasing confidence in India's growth outlook whilst remaining cautious over near-term inflation risks. We therefore expect the RBI to remain on hold in 1H2018 with the upcoming monsoon rains and crude oil prices likely to decide its course of action.

January industrial production growth accelerates to 7.5% y-o-y from 7.1% in December

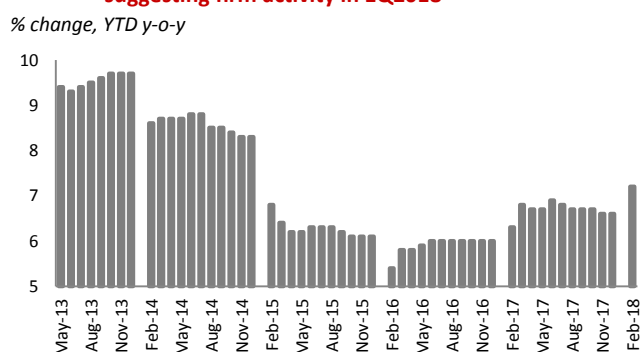
China: Economic activity remains robust in early-2018

China's economic activity data for Jan-Feb registered solid growth, suggesting that domestic demand remains firm. Industrial production growth accelerated to 7.2% y-o-y in 2M2018 – higher than both the consensus estimate and the December print of 6.2%. Notably, this was the fastest pace of growth since early-2015 but it merits some caution in terms of its interpretation for two reasons: i) different timings of the Lunar New Year;

China data suggests firm economic activity in Jan-Feb

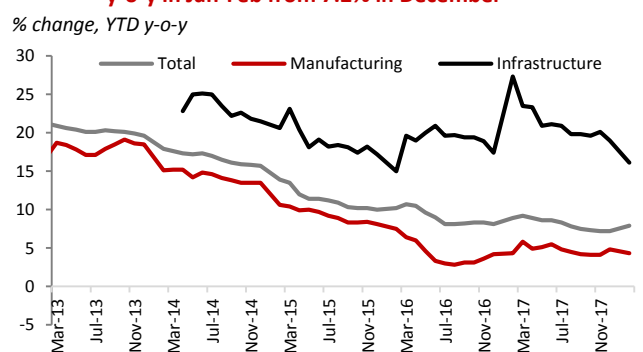
and ii) favourable calendar effects. However, the pick-up in industrial production was broad-based with mining, manufacturing and utilities growing at a faster pace. Moreover, fixed asset investment growth also picked up to 7.9% y-o-y in 2M2018 (December: 7.2%), largely driven by the infrastructure and property segments. In addition, retail sales growth also edged up to 9.7% y-o-y in 2M, led by auto and household appliances. Overall, the activity suggests a robust start to 2018 but we await the March data before confirming the underlying momentum.

Fig. 6. China: Industrial production accelerates in Jan-Feb, suggesting firm activity in 1Q2018



Source: National Bureau of Statistics of China

Fig. 7. China: Fixed asset investment growth picks up to 7.9% y-o-y in Jan-Feb from 7.2% in December



Source: National Bureau of Statistics of China

Beyond the data releases, the ongoing National People’s Congress (NPC) meeting has been a major event, and continued to outline a number of key policy directions for the medium-term outlook. The economic policy focus has continued to revolve around high-quality and sustainable growth with GDP growth and inflation targets for 2018 set at around 6.5% and 3%, respectively. The NPC proposed to merge the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC) to strengthen the country’s financial supervision and tasked the PBoC to draft laws and regulations for the merged entity. Moreover, the PBoC will also take additional responsibility to assess systematic risks and financial regulatory reforms. We believe that these reforms are largely in line with the government’s continuing efforts to tighten management of the financial sector, including its crack-down on shadow banking activities. Key economic positions were confirmed, further suggesting a continuation in economic policy. Liu He, an economic adviser to China’s President Xi Jinping, was elected by parliament to be a vice premier, while deputy PBOC governor Yi Gang was chosen to take over the helm at the central bank.

Government sets 2018 GDP growth and inflation targets at around 6.5% and 3% respectively

II. Economic Calendar

Fig. 8. The week ahead

Time *	Country	Event	Period	Prior	Consensus
MENA data					
	UAE	M2 Money Supply, m-o-m	Feb	0.1%	
	UAE	Central Bank Foreign Assets	Feb	326B	
	UAE	CPI, y-o-y	Feb	4.8%	
	Saudi Arabia	CPI, y-o-y	Feb	3%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Jan	17.2%	
	Bahrain	CPI, y-o-y	Feb	2.8%	
	Bahrain	GDP Constant Prices, y-o-y	4Q	3.6%	
	Qatar	CPI, y-o-y	Feb	0.9%	
	Kuwait	M2 Money Supply, y-o-y	Jan	3.8%	
	Kuwait	CPI, y-o-y	Feb	1%	
	Egypt	Trade Balance	Jan	-3294M	
	Egypt	GDP Constant, q-o-q	4Q	68.1%	
Monday, 19 Mar					
3:50	Japan	BOJ Summary of Opinions			
3:50	Japan	Trade Balance	Feb	-¥944.1B	¥89.1B
Tuesday, 20 Mar					
10:00	Japan	Machine Tool Orders, y-o-y	Feb F	39.5%	
13:30	UK	CPI, m-o-m	Feb	-0.5%	0.50%
13:30	UK	CPI, y-o-y	Feb	3%	2.80%
13:30	UK	CPI Core, y-o-y	Feb	2.7%	2.50%
19:00	Eurozone	Consumer Confidence	Mar A	0.1	0
Wednesday, 21 Mar					
13:30	UK	Claimant Count Rate	Feb	2.3%	
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Jan	2.5%	2.6%
13:30	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Jan	2.5%	2.6%
13:30	UK	ILO Unemployment Rate 3Mths	Jan	4.4%	4.4%
13:30	UK	PSNB ex-Banking Groups	Feb	-10B	1.3B
16:30	US	Current Account Balance	4Q	-\$100.6B	-\$125B
18:00	US	Existing Home Sales	Feb	5.4M	5.5M
22:00	US	FOMC Rate Decision (Upper Bound)	21-Mar	1.5%	1.75%
22:00	US	FOMC Rate Decision (Lower Bound)	21-Mar	1.25%	1.5%
Thursday, 22 Mar					
8:30	Japan	All Industry Activity Index, m-o-m	Jan	0.5%	-1.8%
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Mar P	58.6	58.1
13:00	Germany	IFO Business Climate	Mar	115.4	114.6
13:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Feb	0.1%	0.4%
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Feb	0.1%	0.4%
16:00	UK	Bank of England Bank Rate	22-Mar	0.5%	0.5%
16:00	UK	BOE Asset Purchase Target	Mar	435B	435B
16:00	UK	BOE Corporate Bond Target	Mar	10B	10B
17:45	US	Markit US Manufacturing PMI	Mar P	55.3	55.6
18:00	US	Leading Index	Feb	1%	0.5%
Friday, 23 Mar					
3:30	Japan	National CPI, y-o-y	Feb	1.4%	1.5%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Feb	0.9%	1%
16:10	US	Fed's Bostic Speaks on the Economic Outlook			
16:30	US	Durable Goods Orders	Feb P	-3.6%	1.7%
16:30	US	Durables, ex-Transportation	Feb P	-0.3%	0.5%
16:30	US	Capital Goods Ship Nondefence, ex-Air	Feb P	-0.1%	0.4%
18:00	US	New Home Sales	Feb	593K	624K

* UAE time

Source: Bloomberg

Fig. 9. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA data						
	Oman	CPI, y-o-y	Feb	1.1%		0.5%
	Egypt	Production Index, m-o-m	Jan	-1.8%		9.3%
Monday, 12 Mar						
10:00	Japan	Machine Tool Orders, y-o-y	Feb P	48.8%		39.5%
16:00	India	CPI, y-o-y	Feb	5.1%	4.7%	4.4%
16:00	India	Industrial Production, y-o-y	Jan	7.1%	6.4%	7.5%
22:00	US	Monthly Budget Statement	Feb	-\$192B	-\$216.9B	-\$215.2B
Tuesday, 13 Mar						
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	0%	-0.3%	-0.6%
16:30	US	CPI, m-o-m	Feb	0.5%	0.2%	0.2%
16:30	US	CPI, ex-food and energy, m-o-m	Feb	0.3%	0.2%	0.2%
16:30	US	CPI, y-o-y	Feb	2.1%	2.2%	2.2%
16:30	US	CPI, ex-food and energy, y-o-y	Feb	1.8%	1.8%	1.8%
Wednesday, 14 Mar						
3:50	Japan	BOJ Minutes of Policy Meeting				
3:50	Japan	Core Machine Orders, m-o-m	Jan	-9.3%	5.2%	8.2%
6:00	China	Retail Sales YTD, y-o-y	Feb	10.2%	9.8%	9.7%
6:00	China	Industrial Production YTD, y-o-y	Feb	6.6%	6.2%	7.2%
6:00	China	Fixed Assets, ex-rural YTD, y-o-y	Feb	7.2%	7.0%	7.9%
10:30	India	Wholesale Prices, y-o-y	Feb	2.8%	2.5%	2.5%
14:00	Eurozone	Industrial Production SA, m-o-m	Jan	0.4%	-0.5%	-1%
16:30	US	Retail Sales Advance, m-o-m	Feb	-0.1%	0.3%	-0.1%
16:30	US	Retail Sales, ex-auto, m-o-m	Feb	0.1%	0.4%	0.2%
16:30	US	Retail Sales Control Group	Feb	0.0%	0.4%	0.1%
16:30	US	PPI Final Demand, m-o-m	Feb	0.4%	0.1%	0.2%
16:30	US	PPI Final Demand, y-o-y	Feb	2.7%	2.8%	2.8%
Thursday, 15 Mar						
16:30	US	Empire Manufacturing	Mar	13.1	15	22.5
16:30	US	Import Price Index, m-o-m	Feb	0.8%	0.2%	0.4%
16:30	US	Philadelphia Fed Business Outlook	Mar	25.8	23	22.3
	India	Exports, y-o-y	Feb	9.1%		4.5%
	India	Imports, y-o-y	Feb	26.1%		10.4%
Friday, 16 Mar						
8:30	Japan	Industrial Production, m-o-m	Jan F	-6.6%		-6.8%
14:00	Eurozone	CPI, y-o-y	Feb F	1.3%	1.2%	1.1%
16:30	US	Housing Starts	Feb	1329K	1290K	1236K
16:30	US	Building Permits	Feb	1377K	1320K	1298K
17:15	US	Industrial Production, m-o-m	Feb	-0.3%	0.4%	1.1%
17:15	US	Capacity Utilization	Feb	77.4%	77.7%	78.1%
18:00	US	JOLTS Job Openings	Jan	5667	5917	6312
18:00	US	University of Michigan Sentiment	Mar P	99.7	99.3	102

* UAE time

Source: Bloomberg

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