The Week Ahead: UK data releases, Fed and ECB minutes in spotlight

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Global: Central bank comments and UK inflation

Key events in the US this week will be the May FOMC minutes, Fed Chair Jerome Powell's speech (25 May) and April durable goods data. We expect the minutes of the May FOMC meeting to highlight a detailed discussion regarding inclusion of a "symmetric" inflation target in the statement, the flattening yield curve and risks around trade and geopolitical tensions. Markets will particularly look to glean how comfortable the Fed is with core inflation moving above its 2% target. In the UK, attention will be on April inflation, retail sales and the second print of 1Q GDP. Consensus estimates headline inflation remained steady at 2.5% y-o-y in April, though core inflation decelerated to 2.2% (March: 2.3%), reflecting the ongoing moderation of earlier GBP depreciation pass-through and Easter timing effects. Any upward revisions to 1Q GDP data and reversal in April retail activity (March: -0.5 m-o-m) could strengthen the BoE's argument that underlying economic activity remains relatively healthy. This in turn will also increase market expectations of a 25 bps rate hike in August. Meanwhile, patience and persistence are expected to have remained the ECB's main guidance in the April meeting minutes regarding monetary policy, given the soft inflation and weak 1Q GDP growth.

Oil: We increase our Brent crude forecasts for 2018 and 2019

We have revised up our average Brent forecasts to USD70.8 p/b (USD64.8 p/b previously) for 2018 and USD66 p/b (USD60 p/b earlier) for 2019. We highlighted upside risks to our oil price forecast from the US's withdrawal from the Joint Comprehensive Plan of Action (JCPOA) when we raised our forecasts in April. For further details, please see our note – **Oil & GCC Update: Raising our oil price forecasts; revising our GCC projections**, published on 30 April 2018. The sanctions outlined by the US on Iran were much wider than markets had expected, adding additional upside pressure and volatility to the oil price. For further details, please see our note – **Oil Update: Impact of US withdrawal from Iran nuclear deal**, published on 9 May 2018. Brent crude reached a three and a half year high in May, touching USD80 p/b. Reduced OPEC production – as a result of the production cut agreement as well as the disruption including in Venezuela – also continues to support the price. We do not foresee any supply shortages as the physical market is amply supplied and there is sufficient global capacity to counterbalance any drop in Iranian exports (likely only visible in 4Q2018). However, the current uncertainties (including geopolitical) will keep the oil price elevated in the near term.

Egypt: CBE kept benchmark rates on hold at its May meeting

The CBE kept policy rates steady at its 17 May meeting (page 2). We had expected a further 100 bps rate cut, though had highlighted a weaker conviction given the monthly rise in consumer prices in April. We believe that the higher oil price and recent EGP weakness were key factors behind the decision. We maintain our expectation that the CBE will remain on hold for the next few meetings (June, August and September) whilst it assesses the impact of the subsidy reforms on inflation.

I. Recent Events and Data Releases

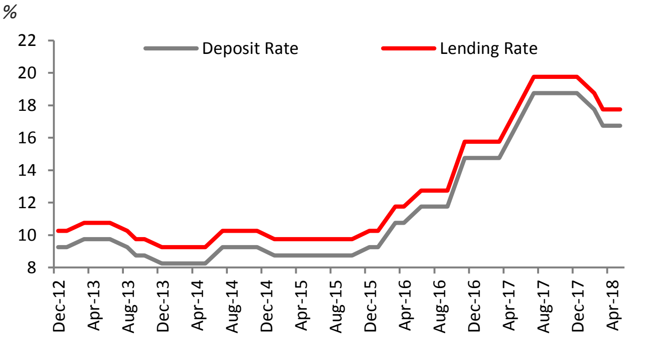
A. MENA Economies

Egypt: CBE kept benchmark rates on hold at May meeting

Rising external risks a key factor for CBE remaining on hold

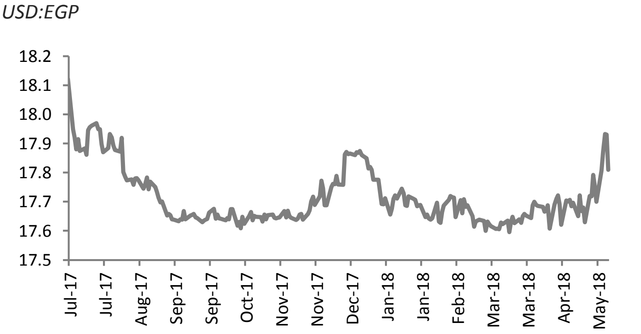
The CBE kept policy rates steady at its 17 May meeting, with the overnight deposit rate unchanged at 16.75% and the overnight lending rate at 17.75%. We had expected a further 100 bps rate cut, as in the February and March meetings, though had highlighted a weaker conviction given the monthly rise in consumer prices in April. We believe that the rise in oil prices was a key factor in the bank's decision; Brent crude reached an intra-day high of USD80 p/b on the day of the meeting. Indeed, the CBE noted that the high oil price in April and May provided a material "upside risk to the domestic inflation outlook". Continuing on the external front, the statement highlighted risks related to "tightening financial conditions", which we believe likely reflects the weakening in the EGP since April driven by portfolio outflows. The CBE also outlined domestic risks to the inflation outlook from potential fiscal reform measures, the evolution of inflation expectations and demand-side pressures. Real GDP growth is continuing to strengthen, accelerating to 5.4% in 1Q2018 according to the planning ministry.

Fig. 1. Egypt: Benchmark rates kept steady in May after 200 bps of cuts in 2018



Source: Central Bank of Egypt

Fig. 2. Egypt: EGP weakens against USD since April due to portfolio outflows, also seen in other EMs



Source: Bloomberg

We see CBE remaining on hold for upcoming meeting

We maintain our expectation that the CBE will remain on hold for the next few meetings (June, August and September) whilst it assesses the impact of the subsidy reforms on inflation, alongside factors such as global sentiment and portfolio flows to emerging markets, especially as the Fed continues to raise rates. Notably, we see shift in the monetary policies of other energy importing emerging market countries with the rise in oil price and the related weakening in their currencies. We now see the RBI in India hiking benchmark rates twice in 2H2018 (page 4). However, a rate hike is not our core scenario for Egypt given the already tight monetary conditions. Moreover, CBE Governor Amer noted that the CBE could intervene if the EGP weakens beyond its comfort level, which could provide some support to portfolio flows.

Completion of third review would result in USD2 billion being disbursed

Third IMF review: The IMF and Egyptian authorities reached a staff-level agreement on the third review of Egypt's economic reform programme at the end of last week. The agreement is subject to approval from the IMF's Executive Board and the completion of the review will make available a further USD2 billion to Egypt. This will bring the total disbursements under the programme to c.USD8 billion, according to the IMF.

B. G4 Economies

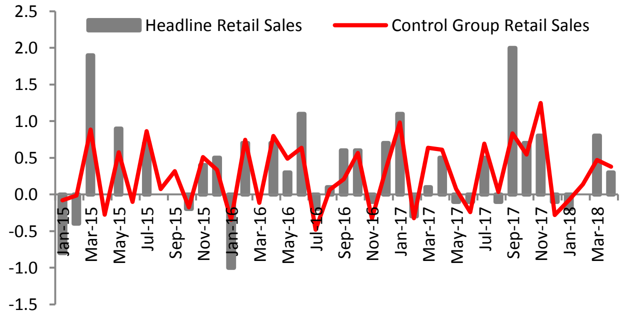
US: Retail sales and industrial production remain solid in April

High-frequency data continues to suggest robust economic activity into 2Q

Retail sales grew at a robust pace for the second consecutive month in April, suggesting that strong consumer spending will feed positively into 2Q GDP growth after a subdued 1Q. Core retail sales (ex-auto and gas) grew by a healthy 0.3% m-o-m in April (consensus: 0.4%), marginally lower than the March print which was revised up to 0.4%. There was a broad-based pick-up in retail activity in April, which was partly supported by delayed tax refund payments. The retail sales control group, which feeds into GDP growth, also grew by a solid 0.4% m-o-m (March: 0.5%), in line with consensus expectations. Moreover, there were upward revisions to retail activity for both March and February, suggesting that 1Q GDP growth could be revised upwards to 2.4% q-o-q SAAR in the second print (first print: 2.3%) due on 30 May.

Fig. 3. US: Retail sales control group grows by solid 0.4% m-o-m in April, though slightly lower than 0.5% in March

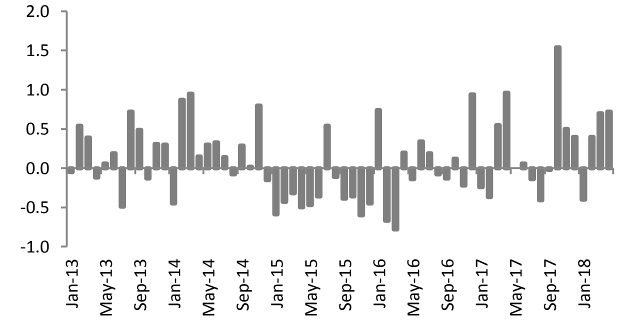
% change, m-o-m



Source: US Census Bureau

Fig. 4. US: Industrial production accelerates further in April, driven by mining and manufacturing sectors

% change, m-o-m



Source: Federal Reserve

Mining and manufacturing activity accelerates in April

Industrial production: surprised to the upside and grew by 0.7% m-o-m in April (consensus: 0.6%), matching the upwardly revised March print. This was due to a strengthening in manufacturing and mining activity. Notably, all the major manufacturing sub-sectors recorded growth in April, reflecting a broad-based pick-up in activity. The increase in mining output reflects further gains in the oil and gas sector as shale producers increased production to take advantage of the higher crude oil prices. On an annual basis, mining sector activity grew by 10.6% y-o-y in April, slightly higher than 10.3% in 1Q.

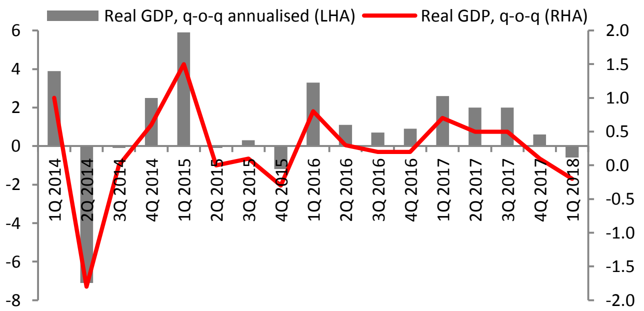
Japan: GDP growth falls in 1Q on weak domestic and external demand

Japanese economy contracts for the first time since 2015

Japan's GDP contracted by 0.2% q-o-q in 1Q, lower than the consensus estimate of 0% and 4Q's 0.1%. This was the first negative growth since 4Q2015, ending Japan's longest period of expansion in almost three decades. There was a broad-based slowdown in economic activity, including a contraction in private investment, flat personal consumption growth and a slowdown in export growth. This was partly due to disruptions caused by heavy snowfall. The drop in investment activity remains a key concern; gross fixed capital formation fell by 0.3% q-o-q in 1Q (4Q: 0%), with private residential investment subtracting 0.1% from headline GDP growth. The drawdown in inventories continued for a third consecutive quarter, which deducted another 0.1% from the 1Q growth figure. The ongoing drawdown in inventories could be positive for 2Q GDP growth, especially if there is a reversal in both domestic and external demand. Some of the temporary factors, including the snowfall effect, will likely fade in 2Q. Positively, Japanese export growth accelerated to 7.8% y-o-y in April, up from 2.1% in March.

Fig. 5. Japan: GDP growth declines surprisingly in 1Q after expanding for eight consecutive quarters

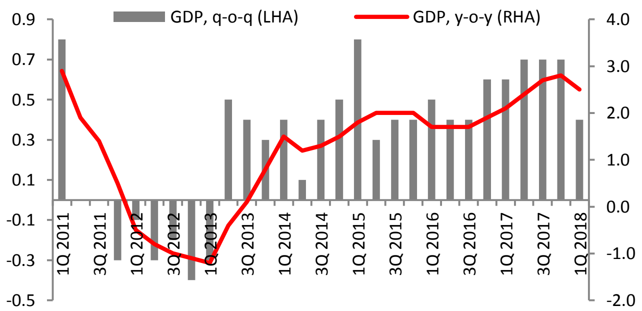
% change



Source: Economic and Social Research Institute Japan

Fig. 6. Eurozone: Headline GDP growth sees marked slowdown in 4Q, albeit with regional variations

% change



Source: Eurostat

Eurozone: 1Q GDP growth maintained at 0.4% q-o-q in second print

Marked slowdown in German and French economic growth in 1Q

Eurozone GDP growth was unrevised at 0.4% q-o-q in the second estimate, albeit with some regional variations. This was a marked slowdown in activity in 1Q after solid 0.7% q-o-q growth in the previous three quarters. Notably, Dutch, French and German economic growth slowed down significantly from 4Q. The sudden drop in 1Q activity has been attributed to a number of factors, including labour strikes in France and Germany and the bad weather conditions across the region. However, Italy and Spain grew at a steady pace. We remain cautious at this point on the underlying economic momentum and await high-frequency data to confirm that the overall growth trajectory remains intact once these one-off factors that hampered 1Q activity fade. The detailed breakdown of GDP by expenditure will be available on 7 June.

C. Emerging Market Economies

India: Inflation surprises to upside in April

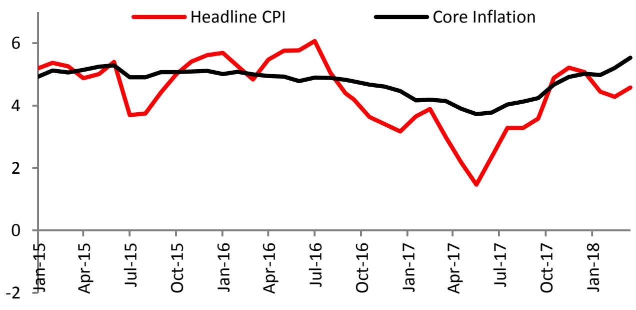
Both headline and core inflation strengthen in April

Headline inflation accelerated to 4.6% y-o-y in April (March: 4.3%), surprising the market, which had expected a small rise to 4.4%. The unexpected acceleration was due to higher fruit prices kept food inflation steady at 3% y-o-y in April, whilst consensus was factoring in a further deceleration in food price growth. However, the fuel component decelerated to 5.2% y-o-y in April (March: 5.7%) as retail fuel prices were kept steady (from 24 April to 13 May) ahead of the Karnataka state elections. We believe that inflation could have been even higher if the impact of higher crude prices had been fully passed on to consumers. Meanwhile, core inflation (excluding food, fuel and housing) strengthened sharply to a 44-month high of 5.2% y-o-y in April from 4.6% in the previous month. This was due to the broad-based pick-up – including housing, transportation, education, health, household goods and services prices – reflecting the weak y-o-y base.

We believe that the risks to headline inflation have increased further from May the back of the high crude prices, INR depreciation and potentially from the government's proposed minimum support price hikes for Kharif crops. We expect government-administered oil companies to raise their retail fuel prices at a faster rate from mid-May, including some compensation for the steady April prices alongside the further move up in crude oil prices. Moreover, the unfavourable base in the next two months will also provide additional momentum to the increasing inflation.

Fig. 7. India: Both headline and core inflation accelerate in April, increasing possibility of RBI raising repo rate

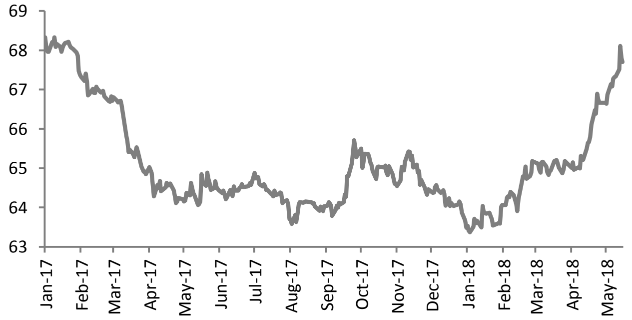
% change, y-o-y



Source: India Central Statistical Organisation

Fig. 8. India: INR continues to depreciate against USD on back of rising crude prices

USD:INR



Source: Bloomberg

We expect two 25 bps rate hikes by RBI in 2018 – in August and October

We expect the RBI to raise its inflation projections at its 4-6 June policy meeting. The tone of the RBI's June meeting is likely to be significantly more hawkish with more MPC members arguing for pre-emptive rate hikes as early as the August meeting to contain the inflationary pressures. Thus, we now see a 25 bps rate hike by the RBI at its August policy meeting followed by another 25 bps hike in October. The repo rate hikes will also limit capital outflows, especially as the Fed continues to raise interest rates gradually.

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
GCC Economies					
	UAE	CPI, y-o-y	Apr	3.4%	
	UAE	CPI, m-o-m	Apr	-0.7%	
	UAE	M2 Money Supply, m-o-m	Apr	0.7%	
	UAE	Central Bank Foreign Assets	Apr	336.3B	
	Saudi Arabia	CPI, y-o-y	Apr	2.8%	
	Bahrain	CPI, y-o-y	Apr	2.6%	
	Kuwait	CPI, y-o-y	Apr	0.6%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Mar	35.8%	
Monday, 21 May					
3:50	Japan	Trade Balance	Apr	¥797.3B	¥444B
11:00	Eurozone	ECB's Nowotny, CNB's Rusnik Speak at Conference in Prague			
20:15	US	Fed's Bostic Speaks to Atlanta Economics Club			
Tuesday, 22 May					
12:30	UK	PSNB, ex-Banking Groups	Apr	1.3B	8.5B
18:00	US	Richmond Fed Manufacturing Index	May	-3	8
Wednesday, 23 May					
4:30	Japan	Nikkei Japan PMI Manufacturing	May P	53.8	
8:30	Japan	All Industry Activity Index, m-o-m	Mar	0.4%	0.1%
12:00	Eurozone	Markit Eurozone Manufacturing PMI	May P	56.2	56
12:30	UK	CPI, m-o-m	Apr	0.1%	0.5%
12:30	UK	CPI, y-o-y	Apr	2.5%	2.5%
12:30	UK	CPI Core, y-o-y	Apr	2.3%	2.2%
12:30	UK	PPI Output NSA, m-o-m	Apr	0.2%	0.3%
12:30	UK	PPI Output NSA, y-o-y	Apr	2.4%	2.3%
17:45	US	Markit US Manufacturing PMI	May P	56.5	56.5
18:00	US	New Home Sales	Apr	694K	679K
18:00	Eurozone	Consumer Confidence	May A	0.4	0.5
22:00	US	FOMC Meeting Minutes	2-May		
Thursday, 24 May					
10:00	Germany	GDP SA, q-o-q	1Q F	0.3%	0.3%
12:00	Eurozone	ECB Publishes Financial Stability Review			
12:15	US	Fed's Dudley Speaks on Reference Rate Reform at BoE Event			
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Apr	-0.5%	0.4%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Apr	1.1%	0.4%
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Apr	-1.2%	0.8%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Apr	1.1%	0.2%
12:30	Eurozone	ECB's Praet Speaks in Brussels			
15:30	Eurozone	ECB Publishes the Accounts of April Governing Council meeting			
18:00	US	Existing Home Sales	Apr	5.6M	5.6M
Friday, 25 May					
3:30	Japan	Tokyo CPI, y-o-y	May	0.5%	0.5%
12:30	UK	GDP, q-o-q	1Q P	0.1%	0.1%
12:30	UK	GDP, y-o-y	1Q P	1.2%	1.2%
12:30	UK	Private Consumption, q-o-q	1Q P	0.3%	0.1%
16:30	US	Durable Goods Orders	Apr P	2.6%	-1.4%
16:30	US	Durables, ex-Transportation	Apr P	0.1%	0.5%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Apr P	-0.8%	0.4%
17:00	US	Fed's Powell Joins Riksbank's 350th Anniversary Conference			
17:15	Eurozone	ECB's Coeure Speaks in Stockholm			
18:00	US	University of Michigan Sentiment	May F	98.8	98.8
19:45	US	Fed's Kaplan, Evans and Bostic Speak at Dallas Fed			

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Oman	CPI y-o-y	Apr	0.1%		0.6%
	Qatar	CPI y-o-y	Apr	0.4%		0.1%
	Egypt	Lending Rate	17-May	17.75%		17.75%
	Egypt	Deposit Rate	17-May	16.75%	15.75%	16.75%
Monday, 14 May						
3:50	Japan	PPI y-o-y	Apr	2.1%	2%	2%
10:00	Japan	Machine Tool Orders y-o-y	Apr P	28.1%		22%
10:30	India	Wholesale Prices y-o-y	Apr	2.5%	2.9%	3.2%
16:00	India	CPI y-o-y	Apr	4.3%	4.4%	4.6%
Tuesday, 15 May						
6:00	China	Retail Sales y-o-y	Apr	10.1%	10%	9.4%
6:00	China	Industrial Production y-o-y	Apr	6.0%	6.4%	7%
8:30	Japan	Tertiary Industry Index m-o-m	Mar	0.1%	-0.2%	-0.3%
10:00	Germany	GDP SA q-o-q	1Q P	0.6%	0.4%	0.3%
12:30	UK	Claimant Count Rate	Apr	2.4%		2.5%
12:30	UK	Jobless Claims Change	Apr	15.7K		31.2K
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Mar	2.8%	2.6%	2.6%
12:30	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Mar	2.8%	2.9%	2.9%
12:30	UK	ILO Unemployment Rate, 3M	Mar	4.2%	4.2%	4.2%
13:00	Eurozone	GDP SA q-o-q	1Q P	0.4%	0.4%	0.4%
13:00	Eurozone	GDP SA y-o-y	1Q P	2.5%	2.5%	2.5%
16:30	US	Empire Manufacturing	May	15.8	15	20.1
16:30	US	Retail Sales Advance m-o-m	Apr	0.8%	0.3%	0.3%
16:30	US	Retail Sales, ex-Auto m-o-m	Apr	0.4%	0.5%	0.3%
16:30	US	Retail Sales Control Group	Apr	0.5%	0.4%	0.4%
	India	Exports y-o-y	Apr	-0.7%		5.2%
Wednesday, 16 May						
3:50	Japan	GDP SA q-o-q	1Q P	0.1%	0%	-0.2%
3:50	Japan	GDP Annualized SA q-o-q	1Q P	0.6%	-0.1%	-0.6%
8:30	Japan	Industrial Production m-o-m	Mar F	1.2%		1.4%
13:00	Eurozone	CPI Core y-o-y	Apr F	0.7%	0.7%	0.7%
13:00	Eurozone	CPI y-o-y	Apr F	1.3%	1.2%	1.2%
16:30	US	Housing Starts	Apr	1336K	1310K	1287K
17:15	US	Industrial Production m-o-m	Apr	0.7%	0.6%	0.7%
Thursday, 17 May						
3:50	Japan	Core Machine Orders m-o-m	Mar	2.1%	-3%	-3.9%
18:00	US	Leading Index	Apr	0.4%	0.4%	0.4%
Friday, 18 May						
3:30	Japan	National CPI y-o-y	Apr	1.1%	0.7%	0.6%

* UAE time
Source: Bloomberg

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