

The Week Ahead: US government shutdown, central banks take centre stage

► US: Government shutdown and 4Q GDP data

All eyes will be on the US government shutdown, the likely impact on global markets and economic momentum, and negotiations to break the deadlock. Consensus estimates that the shutdown is likely to cut 0.1pp from GDP growth for each week of closure (see page 2). As with previous shutdowns, Congress will likely pass legislation to pay government employees retroactively once a deal is secured, thus reducing the impact on consumption. Nevertheless, we still expect a short-term effect, especially on government spending. The key data releases this week will be the first reading of 4Q2017 GDP and December durable goods orders. Consensus expects 4Q GDP growth to have remained strong albeit moderating to 3% q-o-q SAAR, from 3.2% in 3Q. We expect private consumption to remain the major driver with robust support from retail spending during the holiday season. Capital expenditure is also expected to have remained solid with investment activity seen rising particularly in the oil and gas sector. Meanwhile, the UK will release its 4Q GDP data, which is expected to have moderated to 1.4% y-o-y (3Q: 1.7%). Separately, attention will also be on the annual World Economic Forum in Davos.

► Eurozone: ECB forward guidance in spotlight

Market attention will also be on the ECB's forward guidance at its 25 January monetary policy meeting. This is especially after the minutes of the December meeting highlighted the need for forward guidance adjustments in the near future. We expect no major changes to the language as yet and believe that any such changes are more likely in March, when the ECB will have new economic forecasts. Rather, we see attention again shifting to the recent EUR appreciation, as suggested by recent comments from ECB members. The tone of the meeting will likely be dovish with President Mario Draghi reiterating the necessity for loose monetary policy, in our view. Looking ahead to the March meeting, we envisage that the next change to the ECB's language could be a modification to the following phrase – "we stand ready to increase the asset purchase programme (APP) in terms of size and/or duration".

► Japan: BoJ to keep monetary policy steady

The BoJ is expected to keep its monetary policy unchanged at its 23 January meeting. We believe that the central bank will keep its 10-year yield target at 0% with no changes to asset purchase levels. The focus of the meeting will be on tapering as the recent BoJ data indicated that it has reduced the pace of its JGB purchases. We expect Governor Haruhiko Kuroda to allay fears of tapering talks and reiterate the necessity of loose monetary policy to achieve the central bank's inflation target (2%). Meanwhile, the BoJ will also release its 'Outlook Report' with its latest economic projections. We expect the FY2018 (April-March) inflation forecast to be revised down to 1.3% (October: 1.4%) whilst keeping the FY2019 projection (1.8%) and the timing to achieve the inflation target unchanged. Despite the recent pick-up in economic momentum and the upside surprise in the November inflation data, we continue to view the BoJ's inflation projections as optimistic.

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I. Recent Events and Data Releases

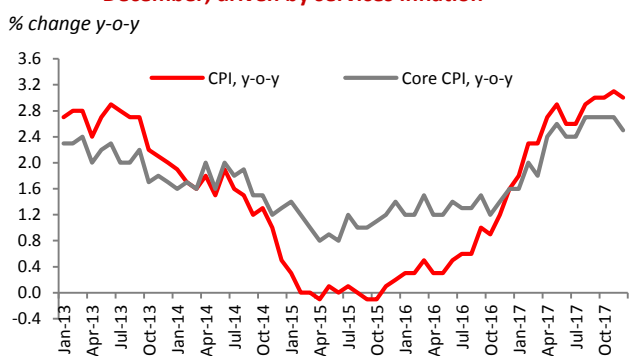
A. G4 Economies

UK: Core inflation softer than expected

Headline inflation decelerated slightly to 3% y-o-y in December after reaching a 68-month high of 3.1% in November. Core inflation also eased to 2.5% y-o-y in December (November: 2.7%), below the consensus expectation of 2.6%. The moderation (headline and core) was mainly due to a sharp deceleration in air fares, which in turn eased transportation prices to 3.5% y-o-y in December (November: 4.5%). Recreational inflation also decelerated, particularly reflecting the soft prices for games and toys. However, petrol and diesel prices increased in December on the back of rising crude oil prices. The December inflation print clearly suggests that goods inflation remains firm whereas services inflation decelerated sharply. We expect this trend to continue in the upcoming months with domestic price pressures remaining subdued on the back of weaker wage growth and softer rental prices.

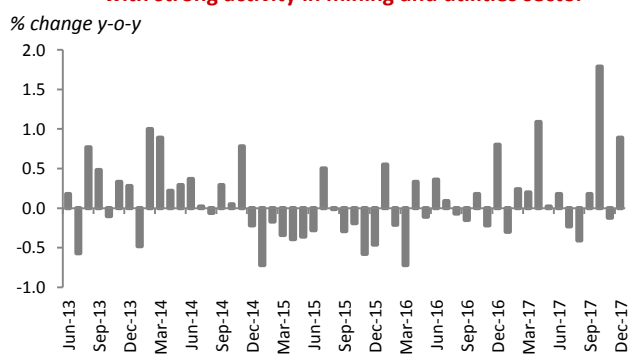
Core inflation surprises to downside, slowing to 2.5% y-o-y in December

Fig. 1. UK: Headline inflation moderates to 3% y-o-y in December, driven by services inflation



Source: Office for National Statistics

Fig. 2. US: Industrial production rebounded in December, with strong activity in mining and utilities sector



Source: Federal Reserve

We believe that the waning GBP pass-through effect will remain crucial if price pressures are to be contained in the coming months. The recent appreciation of the GBP is also likely to play an important role in shaping the 2018 inflation outlook. However, rising crude oil prices remain a key upside risk. We expect the BoE to revise down its inflation projections by mid-2018 due to the weaker services inflation. With inflation moderating, we expect the BoE to remain on hold in 2018. Recent speeches from BoE members have also suggested that the monetary policy guidance should remain intact at the upcoming monetary policy meetings.

Inflation expected to moderate in upcoming months as GBP pass-through effect wanes

US: Government shuts down as Senate rejects stop gap funding bill

The US federal government has shut down after talks between Democrats and Republicans failed to break the deadlock on Friday on extending the short-term appropriations bill. The negotiations are likely to continue though there were no positive signs from either side of the leadership. The last government shutdown, under President Barack Obama's administration in October 2013, lasted for 16 days. The shutdown is

Length of shutdown will determine economic impact

likely to have a short-term impact on government spending with non-critical employees staying at home from Monday. We expect closure to have a very minor impact if it lasts for a few days but it could have a multiplier effect if it lasts longer. The major departments that will be impacted are the Internal Revenue Service, and the health, justice and transportation departments. Many State and Defense department activities will continue during the shutdown but bills will not be paid until the spending bill is passed. Consensus estimates that the shutdown is likely to cut 0.1pp from GDP growth for each week of closure. The impact on private consumption could be greater if the delay lasts beyond 29 January due to delays to tax rebates.

US: Industrial production accelerated in December, beating expectations

Industrial production rebounded in December to end 2017 on a solid note (Fig. 2), largely in line with other higher frequency data showing solid momentum in the economy heading into 2018. Industrial output accelerated to 0.9% m-o-m in December (November: -0.1%), mainly driven by the mining and utilities sectors. The mining sector continued to grow at a solid pace with oil and gas extraction seen rising on the back of rising crude oil prices. However, overall the rise in industrial production was broad based. Utilities sector growth also accelerated to 5.6% m-o-m in December, suggesting that consumer demand has been robust. The demand for business equipment, particularly transit, defence and space equipment, suggests that capital spending remained robust in 4Q. However, manufacturing production growth moderated to 0.1% m-o-m in December though has remained in positive territory for four consecutive months. Capacity utilisation also accelerated to 77.9% in December (November: 77.2%), again driven by the mining and utilities sectors, though indicating support for future investment.

Mining sector leads production activity into 2018

B. Emerging Market Economies

China: GDP growth stable in 4Q driven by services sector

China's GDP growth remained steady at 6.8% y-o-y in 4Q2017, beating the consensus expectation of 6.7%. On an annual basis, the Chinese economy grew by 6.9% in 2017, up from 6.7% in 2016 – its first acceleration since 2010. This was well above the government's target of 6.5% for the year. The growth was mainly driven by the services sector, which expanded at a solid pace of 8.3% in 4Q, up from 8% in 3Q. The primary sector also provided support. However, growth in the secondary sector (industrial, manufacturing and construction) moderated to 5.7% in 4Q from 6% in 3Q, reflecting the government's new regulations enacted to rein in leveraging activities. We believe that this trend will further strengthen in 2018 as the government has shifted its attention towards high-quality development. The PBoC is also expected to keep its monetary policy tight to support the government's ongoing efforts to contain systemic financial risks. Overall, we expect a tightening, albeit gradual, in fiscal and monetary policy in 2018.

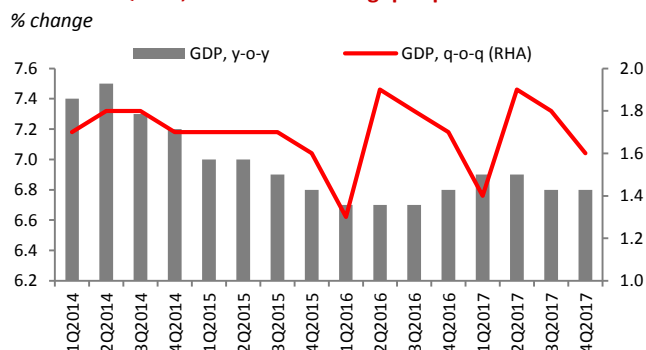
Services sector continues to underpin GDP growth in 2017

Meanwhile, the high-frequency data for December presented mixed signals but remained broadly in line with recent trends. Fixed asset investment growth remained steady at 7.2% YTD y-o-y in December, though the downtrend that started in March (9.2%) looks intact. We expect weaker fixed asset investment activity to feed into 2018 GDP growth, particularly led by softer real estate, infrastructure and mining investments. Meanwhile, growth in retail sales moderated to 9.4% y-o-y in December from 10.2% in November, dragged down by auto sales, communication appliances and daily-used items. If this trend continues, this could weigh on consumption growth in 1Q2018.

Fixed investment growth expected to remain weak in 2018

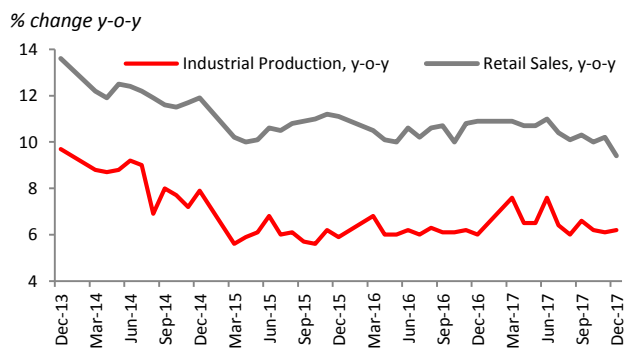
However, industrial production picked up slightly to 6.2% y-o-y in December (November: 6.1%), matching the three-year average growth exactly.

Fig. 3. China: GDP growth remains steady on annual basis in 4Q2017, albeit decelerating q-o-q



Source: National Bureau of Statistics

Fig. 4. China: December Retail sales and industrial production continue to weaken



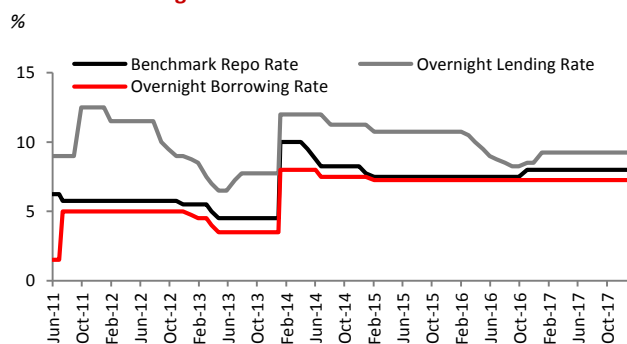
Source: National Bureau of Statistics

Turkey: CBRT keeps rates on hold whilst maintaining hawkish stance

The CBRT kept all key interest rates unchanged at its January meeting, in line with our and the market's expectations. The tone of the meeting was moderately hawkish with explicit forward guidance of a tight monetary policy stance until the inflation outlook becomes consistent with the target. The central bank also inserted a new phrase stating that the improvement in inflation outlook should be "independent of base effects and temporary factors", which are likely to be reflected in the 1Q2018 inflation data. This clearly suggests that the bank remains concerned over the near-term inflation outlook as TRY depreciation in 2017 and demand-side pressure continue to feed into inflation. Rising crude oil prices and the introduction of new electricity tariffs from January add to the underlying price pressure. We expect inflation to remain in double digits in 1H2018, before moderating slightly towards the 9-10% range in 2H. Thus, we believe that the tight monetary policy stance will remain in place in 1H2018. The CBRT will also remain concerned over capital outflows on the back of the expected widening benchmark rate differential with the US.

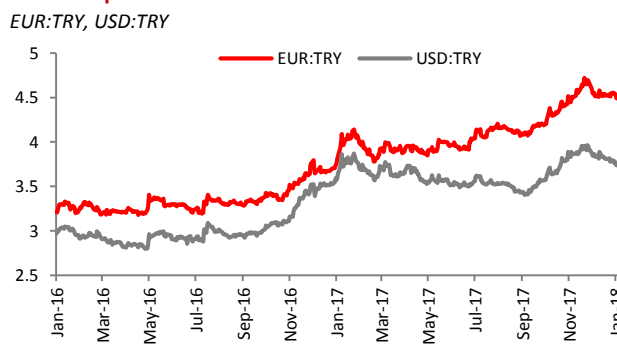
Tight monetary policy stance likely until meaningful deceleration in inflation

Fig. 5. Turkey: CBRT keeps policy rates steady at 18 January meeting



Source: CBRT

Fig. 6. Turkey: TRY remains under pressure, with rising political tensions and interest rate differentials



Source: Bloomberg

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
MENA data					
	UAE	M2 Money Supply, m-o-m	Dec	0.4%	
	UAE	CPI, y-o-y	Dec	1.7%	
	UAE	Central Bank Foreign Assets	Dec	330.3B	
	Saudi Arabia	CPI, y-o-y	Dec	0.1%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Nov	13.1%	
	Bahrain	CPI, y-o-y	Dec	2.9%	
	Bahrain	M2 Money Supply, y-o-y	Nov	3.3%	
	Kuwait	CPI, y-o-y	Dec	1.5%	
	Oman	Nominal GDP YTD, y-o-y	3Q	12.3%	
	Egypt	Production Index, m-o-m	Dec	3.8%	
Monday, 22 Jan					
17:30	US	Chicago Fed Nat Activity Index	Dec	0.2	0.2
Tuesday, 23 Jan					
	Japan	BOJ 10-Yr Yield Target	23-Jan	0%	0%
	Japan	BOJ Policy Balance Rate	23-Jan	-0.1%	-0.1%
8:30	Japan	All Industry Activity Index, m-o-m	Nov	0.3%	0.9%
14:00	Germany	ZEW Survey Expectations	Jan	17.4	17.7
19:00	US	Richmond Fed Manufacturing Index	Jan	20	18
19:00	Eurozone	Consumer Confidence	Jan A	0.5	0.6
19:00	US	Senate Holds Confirmation Hearing for Fed Nominee Goodfriend			
Wednesday, 24 Jan					
3:30	US	Fed's Evans Makes Introductory Remarks			
3:50	Japan	Trade Balance	Dec	112.2B	520B
13:30	UK	Claimant Count Rate	Dec	2.3%	
13:30	UK	Jobless Claims Change	Dec	5.9K	
13:30	UK	Average Weekly Earnings, 3m/y-o-y	Nov	2.5%	2.5%
13:30	UK	ILO Unemployment Rate, 3mths	Nov	4.3%	4.3%
13:50	China	China Economic Adviser Liu He Speaks in Davos			
18:45	US	Markit US Manufacturing PMI	Jan P	55.1	55
19:00	US	Existing Home Sales	Dec	5.8M	5.7M
Thursday, 25 Jan					
13:00	Germany	IFO Business Climate	Jan	117.2	117
16:45	Eurozone	ECB Main Refinancing Rate	25-Jan	0%	0%
16:45	Eurozone	ECB Marginal Lending Facility	25-Jan	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	25-Jan	-0.4%	-0.4%
19:00	US	New Home Sales	Dec	733K	675K
19:00	US	Leading Index	Dec	0.4%	0.5%
Friday, 26 Jan					
3:30	Japan	National CPI, y-o-y	Dec	0.6%	1.1%
3:50	Japan	BOJ Minutes of Policy Meeting			
13:00	Eurozone	M3 Money Supply, y-o-y	Dec	4.9%	4.9%
13:00	Eurozone	ECB Survey of Professional Forecasters			
13:30	UK	GDP, q-o-q	4Q A	0.4%	0.4%
13:30	UK	GDP, y-o-y	4Q A	1.7%	1.4%
17:30	US	GDP Annualized, q-o-q	4Q A	3.2%	3%
17:30	US	Personal Consumption	4Q	2.2%	3.6%
17:30	US	Durable Goods Orders	Dec P	1.3%	0.9%
17:30	US	Cap Goods Orders, Non def-ex air	Dec P	-0.2%	0.6%
17:30	US	Cap Goods Shipments, Non def-ex air	Dec P	-0.1%	0.4%

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM data						
	Qatar	CPI, y-o-y	Dec	0.2%		0.6%
	Egypt	Production Index, m-o-m	Nov	-1.2%		3.8%
	India	Exports, y-o-y	Dec	30.6%		12.4%
	India	Wholesale Prices, y-o-y	Dec	3.9%	4%	3.6%
Monday, 15 Jan						
3:50	Japan	Money Stock M2, y-o-y	Dec	4%	4%	3.6%
Tuesday, 16 Jan						
3:50	Japan	PPI, y-o-y	Dec	3.6%	3.2%	3.1%
8:30	Japan	Tertiary Industry Index, m-o-m	Nov	0.2%	0.3%	1.1%
13:30	UK	CPI, m-o-m	Dec	0.3%	0.4%	0.4%
13:30	UK	CPI, y-o-y	Dec	3.1%	3%	3%
13:30	UK	CPI Core, y-o-y	Dec	2.7%	2.6%	2.5%
13:30	UK	PPI Output NSA, y-o-y	Dec	3.1%	2.9%	3.3%
17:30	US	Empire Manufacturing	Jan	19.6	19	17.7
Wednesday, 17 Jan						
3:50	Japan	Core Machine Orders, m-o-m	Nov	5%	-1.4%	5.7%
14:00	Eurozone	CPI, y-o-y	Dec F	1.4%	1.4%	1.4%
18:15	US	Industrial Production, m-o-m	Dec	-0.1%	0.5%	0.9%
Thursday, 18 Jan						
6:00	China	GDP, y-o-y	4Q	6.8%	6.7%	6.8%
6:00	China	Retail Sales, y-o-y	Dec	10.2%	10.2%	9.4%
6:00	China	Industrial Production, y-o-y	Dec	6.1%	6.1%	6.2%
8:30	Japan	Industrial Production, m-o-m	Nov F	0.6%		0.5%
17:30	US	Housing Starts	Dec	1303K	1295K	1302K
Friday, 19 Jan						
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Dec	1%	-1%	-1.5%
13:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Dec	1.5%	2.6%	1.4%
19:00	US	Univ of Michigan Sentiment	Jan P	95.9	97	94.4

* UAE time

Source: Bloomberg

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