

The Week Ahead: Central banks in focus; CBRT to cut liquidity lending rate

► Eurozone: ECB to remain on hold with dovish tilt

The ECB is expected to keep monetary policy steady at its 26 April meeting, with the tone of the meeting likely to remain dovish. ECB President Mario Draghi is likely to reiterate “patience, persistence, and prudence” regarding monetary policy. The tone on inflation should remain cautious with underlying inflation seen rising only gradually. The impact of the EUR appreciation from 2H2017 on imported inflation is likely to be highlighted in the statement. The governing council is also expected to acknowledge the recent moderation in economic activity though still express confidence on the growth outlook. We expect the ECB to wait until June, when new economic projections are released, to provide additional clues on the QE programme followed by an extension being announced in July. We expect the asset purchase programme to be extended for another three months to December, albeit at a slower pace of EUR15 billion per month (currently EUR30 billion). Separately, the BoJ is also expected to keep its monetary policy unchanged at its 27 April meeting.

► Turkey: CBRT likely to raise liquidity lending rate in April

We see the CBRT raising its late liquidity window lending rate (end-of-day borrowing facility for banks to meet temporary liquidity needs) by 100 bps to 13.75% at its 25 April meeting. However, we do not envisage any adjustments to its other policy rates, including the one-week repo rate and overnight interest rates. We also do not expect the CBRT to intervene in the FX market to keep the exchange rate steady. The tone of the meeting is likely to remain hawkish with inflationary pressures expected to remain persistently high in 2018. These pressures emanate from i) recent depreciation of the TRY, ii) accommodative fiscal policy, and iii) higher energy prices. President Recep Tayyip Erdogan’s call for an early presidential election on 24 June is expected to put ongoing pressure on the central bank to keep the key benchmark rates and the TRY steady.

► US and UK: First print of 1Q GDP data

Key data releases from the US this week are the first print of 1Q GDP, March durable goods and housing data. Consensus estimates that 1Q GDP growth softened to 2% q-o-q SAAR (4Q: 2.9%), reflecting the usual seasonal slowdown. The moderation is likely to have been broad-based with personal consumption, investments and government spending softening. Net exports are also likely to have contributed negatively on the back of the widening trade balance. The main support to real GDP growth is envisaged to come from inventories, though its volatile nature adds to forecasting uncertainties. We do not see the forecast moderation in 1Q GDP data to have any impact on the Fed’s guidance for gradual interest rate hikes. In the UK, 1Q GDP growth is estimated to have slowed to 0.3% q-o-q, from 0.4% in 4Q. The softer 1Q GDP growth alongside with faster than anticipated deceleration in inflation is likely to prompt the BoE to proceed with just one 25 bps interest rate hike in 2018 (page 2).

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I. Recent Events and Data Releases

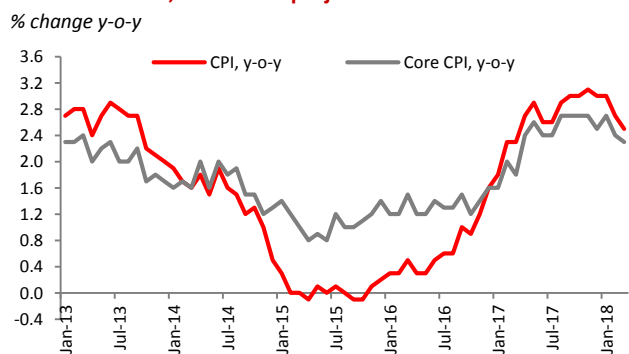
A. G4 Economies

UK: Mixed data, Carney's comments raise interest rate uncertainties

The UK data again presented a mixed picture with inflation decelerating at a faster pace whilst the labour market is tightening further. Both headline and core inflation surprised to the downside for a second consecutive month in March. CPI inflation eased to 2.5% y-o-y in March (consensus and February: 2.7%) – the lowest reading since March 2017. Notably, this was lower than the BoE's projection of 2.8% for March. The moderation in inflation was mainly due to goods prices, which softened to 2.4% y-o-y in March (February: 3%) as the pass-through effect of the GBP's depreciation faded at a faster pace than anticipated. Thus, core inflation also softened to 2.3% y-o-y in March from 2.5% in the previous month. However, services inflation accelerated slightly to 2.5% y-o-y in March (from 2.4% in February), driven by package holidays. Despite the small uptick in services inflation, we still see subdued domestic inflationary pressures. Meanwhile, the UK's unemployment rate fell to a 42-year low of 4.2% in February – lower than the consensus estimate of 4.3%. Wage growth (ex-bonuses) also accelerated to 2.8% 3M y-o-y in February (January: 2.6%), though average weekly earnings remained steady at 2.8%. Overall, the labour market continued to tighten, though some of the yearly pickup in wage growth reflects with soft base in early 2017.

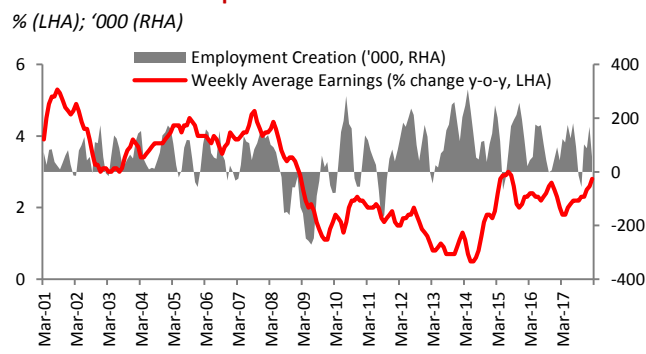
Headline inflation softens to 2.5% y-o-y in March from 2.7% in February

Fig. 1. UK: Both headline and core inflation decelerate in March, below BoE projections



Source: Office for National Statistics

Fig. 2. UK: Wage growth (ex-bonuses) picks up in February, in line with expectations



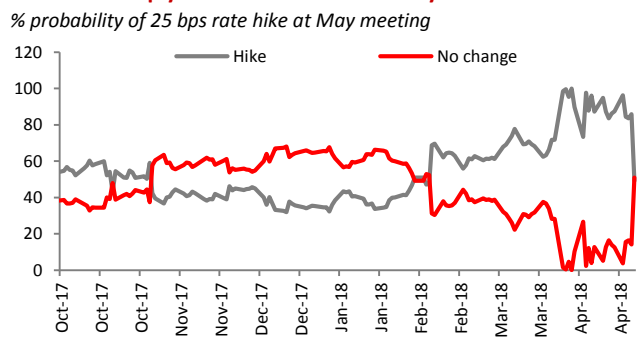
Source: Office for National Statistics

Given the downside surprises in inflation in both February and March, we expect the BoE to lower its inflation projections at its May meeting. The recent appreciation of the GBP is also likely to keep inflationary pressures in check, though rising crude prices are likely to partially offset this, in our view. The dovish comments from BoE governor Mark Carney last week also created more uncertainty regarding the timing of the BoE's next interest rate hike. Market probability of a May rate hike fell sharply to 50% at the end of last week, with GBP:USD also weakening, after Carney noted in an interview that he is "conscious that there are other meetings over the course of this year". He noted that an interest rate rise is still "likely" this year, but any increases will be gradual. Carney's comments last week were a departure from the BoE's relatively more hawkish tone recently. We have been arguing that given signs of softening economic activity in 1Q2018, the disinflation outlook and ongoing Brexit uncertainties, the potentially faster

Market expectations of a May rate hike have fallen following the March inflation data and Carney's comments

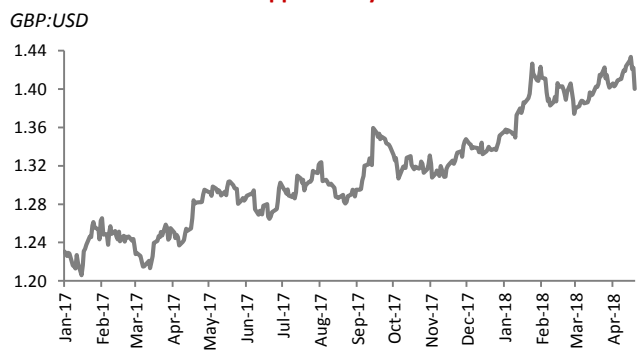
pace of interest rate hikes outlined by the BoE was not necessary. We are expecting just a 25 bps rate hike by the BoE in 2018, the same as in 2017, either in May or August.

Fig. 3. UK: Market expectations of BoE rate hike in May fall sharply to 50% after Mark Carney's dovish comments



Source: Bloomberg

Fig. 4. UK: GBP weakens after Carney's speech last week: GBP has been supported by reduced Brexit fears



Source: Bloomberg

US: Richard Clarida nominated for Fed vice chair role

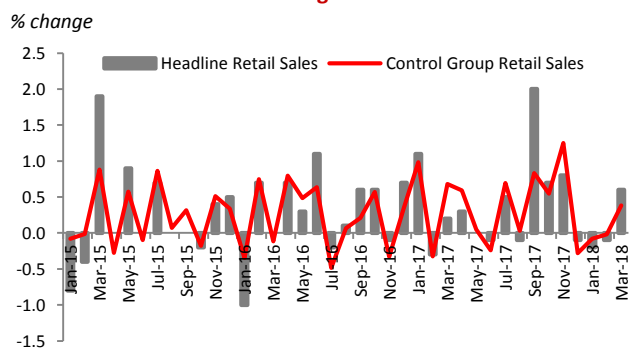
US President Donald Trump nominated Richard Clarida last week as the next vice chair of the Federal Reserve. The vice chair role has been vacant since Stanley Fischer resigned from the post in October. The president also chose Michelle Bowman for one of the open Fed governor positions. The President had already nominated Marvin Goodfriend to the Fed board in November, who is yet to be approved and is awaiting a full Senate confirmation vote. If all three members are approved by the Senate, there will be just one open position on the Federal Reserve board. We believe that the nominations are consistent with the Fed's current stance of gradual interest rate hikes. Notably, Clarida was one of the early proponents of R-star, arguing that the long-run equilibrium interest rate is much lower now compared to the pre-global financial crisis era. Moreover, the other notable R-star supporter John Williams will also be taking over the FOMC vice chair role in mid-June to replace William Dudley. Thus, we believe that the Fed will proceed with gradual interest rate hikes.

Gradual interest rate hikes to continue in 2018

The recent commentary from Fed members continues to suggest that the FOMC will maintain its gradual rate hiking stance in 2018. New York Fed's William Dudley last week argued that there were no compelling reasons for aggressive monetary tightening and added that a total of three to four 25 bps rate hikes in 2018 would still be considered gradual. Moreover, the focus of the Fed members last week was on the inverted yield curve, which is seen as an early signal for recessions. However, both John Williams and Randal Quarles argued that they do not see the current flattening of the yield curve as a signal of recession. By contrast, James Bullard, a non-voting member, expressed concerns over the same and expects the yield curve to be inverted within six months. Thus, we expect the Fed to have a lengthy discussion about the possibility of an inverted yield curve at its May policy meeting.

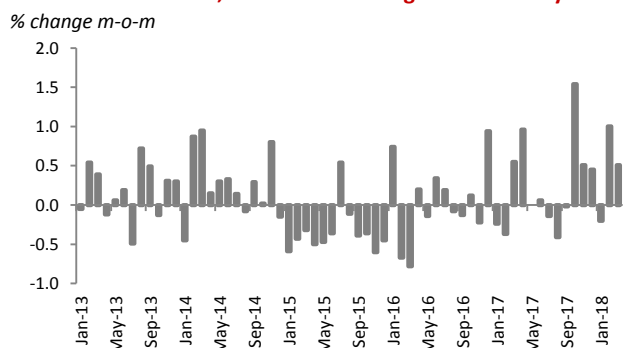
Flattening yield curve up for discussion at May FOMC meeting

Fig. 5. US: Retail sales growth accelerates to 0.6% m-o-m in March after remaining subdued in 2M2018



Source: Bureau of Labor Statistics

Fig. 6. US: Industrial production grows by healthy 0.5% m-o-m in March, albeit decelerating from February's 1.1%



Source: Federal Reserve

US: Retail sales and industrial production remain healthy in March

High-frequency data continues to suggest some build up in momentum in March, albeit insufficient to counter the softening in 1Q GDP growth. Headline retail sales accelerated to 0.6% m-o-m in March after contracting by 0.1% in February (consensus: 0.4%). There was a broad-based pick-up in retail activity in March after relatively muted spending following the holiday season in 2M2018. Notably, vehicles and parts (weight: 20.5%) rebounded strongly and contributed 0.4% to the monthly growth. The retail sales control group, which feeds into GDP growth, accelerated to 0.4% m-o-m in March after remaining flat in February. Despite the March acceleration in sales, we expect real consumer spending to have remained softer in 1Q though expect solid activity in 2Q given the strong consumer confidence levels. Meanwhile, industrial production also surprised to the upside and grew by 0.5% m-o-m in March (consensus: 0.3%), albeit moderating from 1.1% in February. All of the major industrial sub sectors recorded growth in March. The utilities sector grew at a robust pace in March, driven by demand for both electricity and heating with the colder weather. Moreover, high-tech industrial activity accelerated sharply to 1.2% m-o-m in March (February: 0.5%).

Retail sales control group accelerates to 0.4% m-o-m in March from 0% in February

B. Emerging Market Economies

China: PBoC cuts RRR to manage liquidity conditions

The PBoC unexpectedly reduced its reserve requirement ratio (RRR) for most banks (large commercial banks, city commercial banks, rural cooperatives and foreign banks) by 1 ppt, effective from 25 April. After the cut, the RRR will be 16% for large banks and 14% for smaller ones. We believe that this move is intended to boost interbank liquidity conditions whilst still maintaining a prudent monetary policy stance. The PBoC highlighted that this reduction will likely release CNY1.3 trillion of liquidity into the system, which banks can partly use to pay back any maturing Medium-term Lending Facility (MLF) loans to the central bank. According to PBoC calculations, the 1Q repayment of MLF will be c. CNY900 billion (payment due end-April), whilst CNY400 billion will be considered a new injection. Thus, the degree of monetary easing will be relatively limited and implies that the central bank is still looking to reduce overall corporate debt. This is especially as any additional funds available must be used to provide loans to small and micro enterprise, thereby likely reducing their funding cost.

PBoC cuts reserve requirement ratio for banks in surprise move – though not broad monetary easing

We believe that the PBoC will continue its “stable and neutral” monetary policy stance in 2018 whilst actively managing liquidity conditions in the economy. However, further RRR cuts cannot be ruled out given the additional CNY4 trillion of MLF outstanding after this repayment and still relatively high RRR. That said, we think that the PBoC will continue with tighter financial regulations to limit off-balance-sheet lending, though the pace of deleveraging will likely depend on the scale of the escalation in trade tensions with the US.

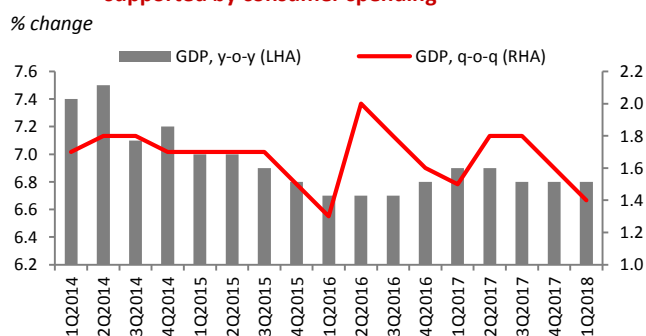
PBoC likely to continue with neutral monetary policy in 2018

China: GDP growth steady at 6.8% y-o-y in 1Q

China’s GDP growth remained steady at 6.8% y-o-y in 1Q – as in 4Q2017 and in line with the consensus expectations. Domestic driver continued to underpin economic growth in 1Q though external demand weakened. Household consumption remained the major driver of economic growth and contributed 5.3 ppts to real GDP growth, supported by increased seasonal spending during the Chinese New Year. We expect consumption activity to moderate slightly in the upcoming quarters as seasonality fades. Investment activity also remained robust in 1Q and contributed 2.1 ppts to growth. However, external demand was weak and contributed negatively (-0.6 ppts) to GDP growth. We expect overall growth to moderate gradually over the rest of 2018 due to weaker infrastructure investment, tighter regulations, and a softening fiscal support. March data already showed some tentative signs of a moderation in industrial production and fixed asset investment (FAI) growth, likely due to weakening infrastructure and manufacturing investment. Increasing trade tensions remains an additional risk. However, there could be a softening in the Chinese government’s policy of deleveraging if trade tensions with the US escalate further, in an attempt to support domestic firms.

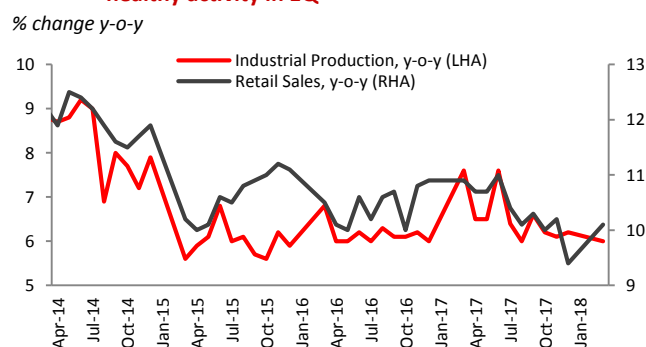
Consumption activity remains robust in 1Q

Fig. 7. China: 1Q GDP growth remains steady at 6.8% y-o-y, supported by consumer spending



Source: National Bureau of Statistics of China

Fig. 8. China: High frequency data highlight continued healthy activity in 1Q



Source: National Bureau of Statistics of China

II. Economic Calendar

Fig. 9. The week ahead

Time *	Country	Event	Period	Prior	Consensus
GCC Economies					
	UAE	M2 Money Supply, m-o-m	Mar	0.6%	
	UAE	Dubai Airport Cargo Volume, y-o-y	Mar	-0.6%	
	UAE	CPI, y-o-y	Mar	4.5%	
	Saudi Arabia	CPI, y-o-y	Mar	2.9%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Feb	18%	
	Qatar	Trade Balance Month	Mar	14053M	
Monday, 23 Apr					
4:30	Japan	Nikkei Japan PMI Manufacturing	Apr P	53.1	
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Apr P	56.6	56.1
16:30	US	Chicago Fed Nat Activity Index	Mar	0.9	0.3
17:45	US	Markit US Manufacturing PMI	Apr P	55.6	55.2
18:00	Eurozone	ECB's Coeure Speaks in Frankfurt			
18:00	US	Existing Home Sales	Mar	5.54M	5.55M
Tuesday, 24 Apr					
10:00	Japan	Machine Tool Orders, y-o-y	Mar F	28.1%	
12:00	Germany	IFO Business Climate	Apr	103.2	102.8
12:30	UK	PSNB, ex-Banking Groups	Mar	1.3B	3B
13:30	Eurozone	ECB's Villeroy Speaks in London			
17:00	US	FHFA House Price Index, m-o-m	Feb	0.8%	0.6%
18:00	US	New Home Sales	Mar	618K	630K
18:00	US	Richmond Fed Manufacturing Index	Apr	15	16
18:00	US	Conference Board Consumer Confidence	Apr	127.7	126
Wednesday, 25 Apr					
8:30	Japan	All Industry Activity Index, m-o-m	Feb	-1.8%	0.5%
11:00	Eurozone	ECB's Villeroy, Knot, Lane Speak in Paris			
Thursday, 26 Apr					
10:00	Germany	GfK Consumer Confidence	May	10.9	10.8
15:45	Eurozone	ECB Main Refinancing Rate	26-Apr	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	26-Apr	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	26-Apr	-0.4%	-0.4%
16:30	Eurozone	ECB President Draghi's Media Briefing After Policy Decision			
16:30	US	Advance Goods Trade Balance	Mar	-\$75.4B	-\$74.7B
16:30	US	Wholesale Inventories, m-o-m	Mar P	1%	0.6%
16:30	US	Durable Goods Orders	Mar P	3%	1.4%
16:30	US	Durables, ex-Transportation	Mar P	1%	0.4%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Mar P	1.4%	0.4%
19:00	US	Kansas City Fed Manufacturing Activity	Apr	17	17
Friday, 27 Apr					
3:30	Japan	Jobless Rate	Mar	2.5%	2.5%
3:30	Japan	Tokyo CPI, y-o-y	Apr	1%	0.8%
3:50	Japan	Retail Trade, y-o-y	Mar	1.7%	1.5%
3:50	Japan	Industrial Production, m-o-m	Mar P	2%	0.5%
3:50	Japan	Industrial Production, y-o-y	Mar P	1.6%	2%
12:30	UK	GDP, q-o-q	1Q A	0.4%	0.3%
12:30	UK	GDP, y-o-y	1Q A	1.4%	1.4%
16:30	US	GDP Annualized, q-o-q	1Q A	2.9%	2%
16:30	US	Personal Consumption	1Q A	4%	1.2%
16:30	US	Core PCE, q-o-q	1Q A	1.9%	2.5%
18:00	US	University of Michigan Sentiment	Apr F	97.8	98
	Japan	BOJ 10-Yr Yield Target	27-Apr	0%	
	Japan	BOJ Policy Balance Rate	27-Apr	-0.1%	

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time *	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Central Bank Foreign Assets	Mar	339.8B		336.2B
	Kuwait	CPI, y-o-y	Mar	0.8%		0.6%
	Bahrain	CPI, y-o-y	Mar	3.1%		2.6%
	Oman	Nominal GDP YTD, y-o-y	4Q	10.1%		8%
Monday, 16 Apr						
16:30	US	Empire Manufacturing	Apr	22.5	18.4	15.8
16:30	US	Retail Sales Advance, m-o-m	Mar	-0.1%	0.4%	0.6%
16:30	US	Retail Sales, ex-Auto, m-o-m	Mar	0.2%	0.2%	0.2%
16:30	US	Retail Sales Control Group	Mar	0%	0.4%	0.4%
Tuesday, 17 Apr						
6:00	China	GDP, y-o-y	1Q	6.8%	6.8%	6.8%
6:00	China	Retail Sales, y-o-y	Mar	9.4%	9.7%	10.1%
6:00	China	Industrial Production, y-o-y	Mar	6.2%	6.3%	6%
12:30	UK	Claimant Count Rate	Mar	2.4%		2.4%
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Feb	2.8%	3%	2.8%
12:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Feb	2.6%	2.8%	2.8%
12:30	UK	ILO Unemployment Rate, 3M	Feb	4.3%	4.3%	4.2%
16:30	US	Housing Starts	Mar	1295K	1267K	1319K
16:30	US	Building Permits	Mar	1321K	1321K	1354K
17:15	US	Industrial Production, m-o-m	Mar	1%	0.3%	0.5%
17:15	US	Capacity Utilization	Mar	77.7%	77.9%	78%
Wednesday, 18 Apr						
3:50	Japan	Trade Balance	Mar	¥2.6B	¥499.2B	¥797.3B
12:30	UK	CPI, m-o-m	Mar	0.4%	0.3%	0.1%
12:30	UK	CPI, y-o-y	Mar	2.7%	2.7%	2.5%
12:30	UK	CPI Core, y-o-y	Mar	2.4%	2.5%	2.3%
12:30	UK	PPI Output NSA, m-o-m	Mar	0.0%	0.1%	0.2%
12:30	UK	PPI Output NSA, y-o-y	Mar	2.6%	2.3%	2.4%
13:00	Eurozone	CPI, y-o-y	Mar F	1.4%	1.4%	1.3%
13:00	Eurozone	CPI, m-o-m	Mar	0.2%	1%	1%
Thursday, 19 Apr						
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Mar	0.4%	-0.4%	-0.5%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Mar	1.2%	1.4%	1.1%
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Mar	0.8%	-0.6%	-1.2%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Mar	1.5%	1.9%	1.1%
16:30	US	Philadelphia Fed Business Outlook	Apr	22.3	21	23.2
18:00	US	Leading Index	Mar	0.7%	0.3%	0.3%
Friday, 20 Apr						
3:30	Japan	Natl CPI, y-o-y	Mar	1.5%	1.1%	1.1%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Mar	1%	0.9%	0.9%
8:30	Japan	Tertiary Industry Index, m-o-m	Feb	-0.4%	0%	0%
18:00	Eurozone	Consumer Confidence	Apr A	0.1	-0.1	0.4

* UAE time

Source: Bloomberg

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