The Week Ahead: Global inflation and China export data in spotlight

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US: Core inflation expected to rise marginally in September

The key US data release this week will be CPI inflation for September with consensus forecasting core inflation accelerated to 0.2% m-o-m in September, (August: 0.1%), taking the y-o-y print to 2.3% (August: 2.2%). Shelter prices are expected to have been the key driver. We believe that inflation expectations are well anchored at this point, with core PCE likely to hover around the Fed's 2% target level in the near-term. However, labour-related inflation remains benign, as indicated in the September NFP report (page 3). Core inflation around the Fed's target level will allow the FOMC to continue with the rate hiking cycle, with another 25bps increase in December, followed by three additional hikes in 2019. Fed Chair Jerome Powell last week highlighted that the US economy is experiencing "a remarkably positive set of economic circumstances" and suggested that the FOMC may raise rates above the neutral rate (2.75-3%). We believe that the upcoming Fed speakers, including John Williams, Raphael Bostic and Chris Evans, are likely to convey similar views on the economy and interest rate outlook.

Europe: UK monthly GDP data and ECB minutes

Elsewhere, UK August GDP and industrial production data will be the key releases this week. Consensus expects August monthly GDP data remained steady at 0.6% on a 3M/3M basis, likely supported by strong activity in the services sector. This in turn is estimated to boost 3Q GDP growth to a solid 0.5% q-o-q, higher than the BoE's forecast of 0.4%. Despite that, we do not see the BoE raising interest rates until there is more clarity on Brexit and the UK's future relationship with the EU. Separately, in the Eurozone, the ECB will publish its minutes of the 12-13 September monetary policy meeting. We expect them to be broadly in line with the post-meeting statement, highlighting that the asset purchase programme will end in December, with interest rates to remain at present levels at least through the summer of 2019.

EM: India inflation and China trade data for September

Consensus expects India's headline inflation accelerated to 4% y-o-y in September from 3.7% in August, driven by higher crude oil prices and a weaker INR. However, food inflation, which was a key factor in taking headline inflation to a 10-month low in August, likely remained weak in September. However, we see it rising gradually from November once the higher minimum support prices for crops feeds into the data. Citing the benign inflation in recent months, RBI last week kept rates on hold, but noted that the risks to the inflation outlook are skewed to the upside (page 4). We expect the RBI to maintain its hawkish stance in the near-term, with the next 25bps rate hike likely in December. Meanwhile, China will release its trade data this week. Consensus estimates that export growth softened to 8.7% y-o-y in September (August: 9.8%), likely due to the impact of higher trade tariffs. To support the weakening economy, the PBOC yesterday reduced its reserve requirement ratio by 100bp for banks, effective from 15 October. This will release CNY1,200 billion of liquidity in to the economy.

I. Recent Events and Data Releases

A. MENA Economies

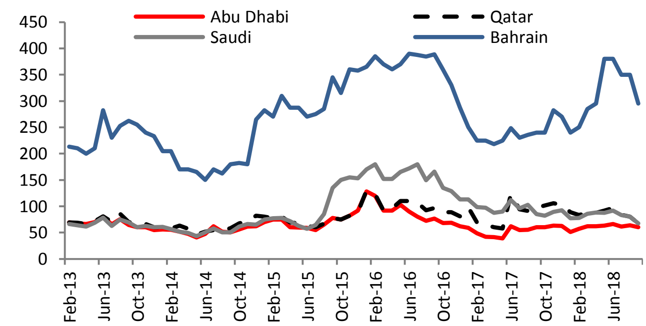
Bahrain: USD10 billion support package announced

GCC countries pledge USD10 billion in aid to Bahrain

The vital and much awaited GCC support package to Bahrain was announced at the end of last week. GCC countries (Kuwait, Saudi Arabia and the UAE) pledged USD10 billion in aid to Bahrain which should significantly reduce short-term funding pressures. The size of the overall package is significant - accounting for c.28% of Bahrain's 2017 GDP - and should cover around half the government's financing needs, including debt repayments. The exact breakdown of the package has not yet been provided, though a source cited in the media suggested it will be in the form of a long-term, interest-free loan provided in stages. The GCC support will be spread over five years and will be linked to Bahrain's "Fiscal Balance Program", which aims to balance the budget by 2022. Indeed, over the weekend, Bahrain released details of its fiscal adjustment plan, which outlines its plans to implement various reforms including tax (VAT introduction), subsidies and a pullback in expenditure, amongst others. Regarding subsidies, the government is looking to save BHD189 million through increases in electricity and water prices.

Fig. 1. Bahrain: Bahrain CDS spreads likely to narrow further in upcoming months

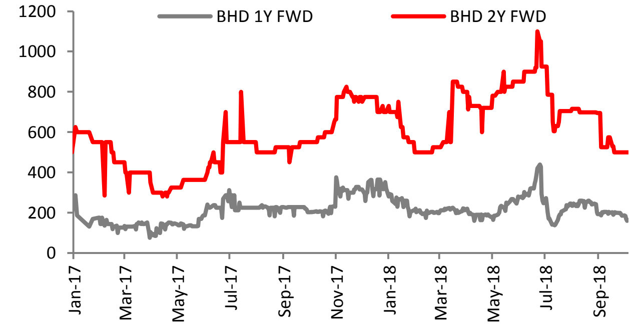
Basis points



Source: Bloomberg

Fig. 2. Bahrain: BHD strengthens on forward market since initial announcement of GCC aid package in July

BHD 1 year and 2 year forwards, swap points



Source: Bloomberg

Implementation of reform measures will be critical to Bahrain's medium-term outlook

Critically, the GCC support removes currency and debt risks for Bahrain, and opens access to the international debt capital markets, in our view. We see the medium-term aid package alongside the fiscal reforms programme as providing greater assurances to international investors over near-term risks. We believe that Bahrain will be able to cover the remainder of its external funding requirement through returning to the debt market. However, no timeframes were provided in the Fiscal Balance Program and we believe that the market will need to see some indications of the reform timeline to be reassured on implementation. We see potential risks to implementation given the broad and deep nature of the fiscal adjustment plan and believe that real non-oil economic expansion will slow markedly as a result of the outlined consolidation.

B. G4 Economies

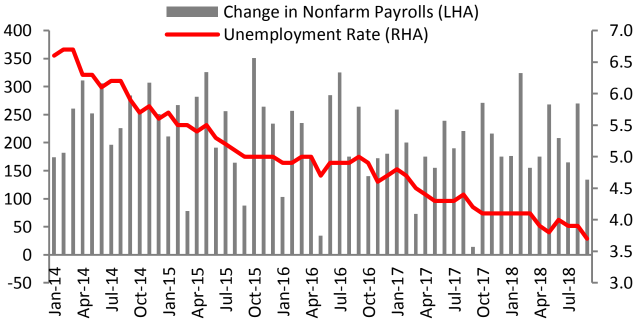
US: Unemployment rate falls to lowest level since 1969

Labour market slack continues to diminish but wage growth still subdued

The September labour report surprised markets, though uncertainties and distortions were expected given the impact of recent hurricanes. Despite the weather-related impact, the details suggest solid labour market conditions, with a fall in the unemployment rate and upward revisions to job creation in the previous two months. The US economy added 134K jobs in September, lower than the market expectation of 185K, with the August data revised up markedly to 270K, from 201K in the previous estimate. The moderation in September job creation was largely due to a fall in employment in the leisure and hospitality (-17K) and retail trade (-20K) sectors, reflecting the impact of bad weather conditions. However, other key sectors, including manufacturing (18K), construction (23K) and professional & business services (54K) continued to show solid momentum. We believe that payroll growth will rebound in October as weather-related disruptions fade.

Fig. 3. US: September moderation in jobs due to hurricane-related effect on leisure and hospitality sectors

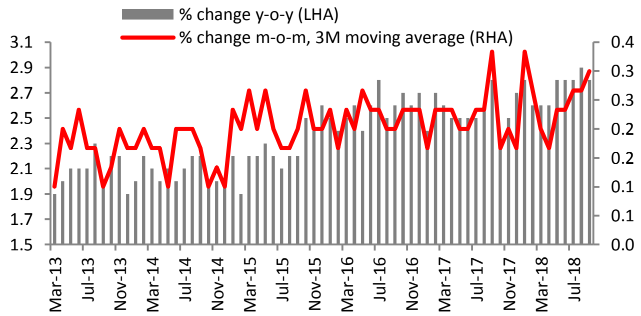
'000(LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 4. US: Wage growth steady in September, but revised down for August

% change



Source: Bureau of Labor Statistics

Meanwhile, the unemployment rate fell to a 49-year low of 3.7% in September (consensus: 3.8%), from 3.9% in August, suggesting that labour market slack continued to diminish. Nevertheless, wage growth remained steady at 0.3% m-o-m in September, with the August figure revised down marginally to 0.3% from 0.4%. Overall, the data suggests that the labour market continues to tighten but wage growth is seen rising only gradually. Indeed, this report is unlikely to change the Fed's gradual rate hike narrative and we continue to expect another 25 bps rate hike in December followed by three additional hikes in 2019.

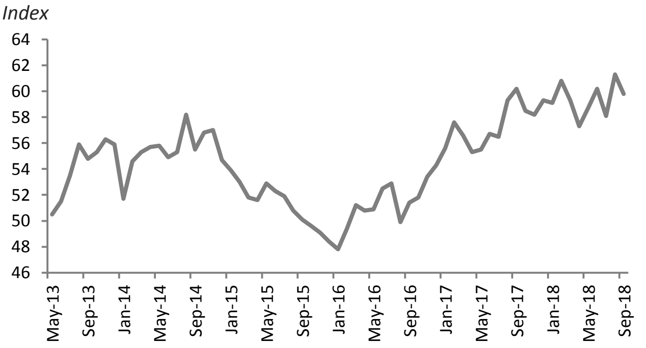
US: ISM manufacturing activity moderates slightly in September

ISM manufacturing activity moderates slightly in September

The ISM manufacturing index eased somewhat to 59.8 in September after reaching a 14-year high of 61.3 in August. Despite the moderation, manufacturing activity remained elevated, suggesting ongoing solid expansion in the sector. The marginal fall in the headline index was largely due to new orders, which dropped by 3.3 points in September. The other major components were largely unchanged compared to the previous month. Moreover, there were no indications that Hurricane Florence had any impact on manufacturing activity as the production sub-component rose by 0.6 points to 63.9 in

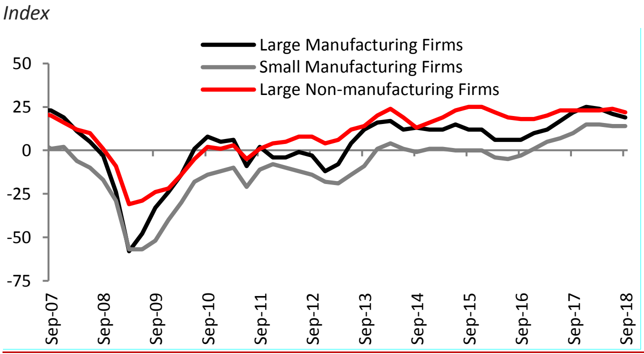
September. The respondents continued to provide anecdotal evidence of tariffs affecting prices; however, there were no signs of tariff-related price pressures in data yet.

Fig. 5. US: ISM manufacturing activity moderates slightly but still points to solid expansion



Source: Institute for Supply Management

Fig. 6. Japan: Tankan survey suggests some moderation in manufacturing activity in 3Q2018



Source: Bank of Japan

Japan: Tankan survey highlights moderation in business sentiment

Business sentiment softens slightly in 3Q2018

The BoJ's Tankan survey suggested that business sentiment softened further in 3Q though remained in expansionary territory. The large manufacturers' index moderated to 19 in 3Q from 21 in the previous quarter. This is the third consecutive quarter of moderation after reaching a 15-year high of 26 in 4Q2017. Looking more closely at the details, the data suggests that capital spending plans were still robust with a 13.4% increase in FY2018 (April-March) expenditure. We believe that this is likely to remain supportive of domestic demand in the coming quarters. Moreover, the manufacturers indicated that the weaker JPY against the USD has been supportive of exports, though they expect the USD/JPY to strengthen and average 107.29 in 2H FY2018. Overall, business sentiment appears to be relatively firm going into 4Q2018. On the prices front, the manufacturers underlined that input prices are rising at a slightly faster pace than output prices, putting some downside pressure on profitability. However, we still do not see any meaningful signs of a pick-up in inflation and thus expect price pressures to remain subdued in the near term.

C. Emerging Market Economies

India: RBI on hold but stance changes to "calibrated tightening"

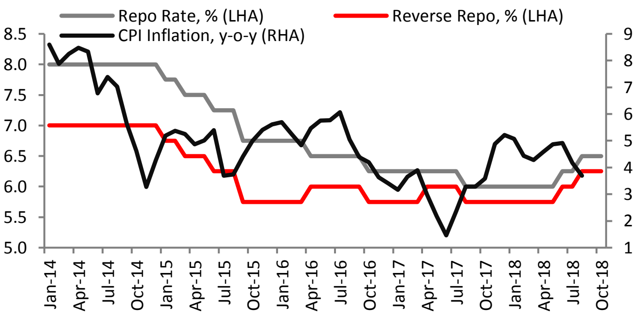
Monetary policy stance changes to "calibrated tightening", from "neutral"

After two successive rate hikes, the RBI surprised the markets by holding the repo rate at 6.5% at its 5 October meeting. Five out of six members voted to maintain the status quo, with external member Chetan Ghate voting in favour of a 25bps hike. However, the MPC changed its monetary policy stance to "calibrated tightening" from "neutral", with another external member Ravindra Dholakia dissenting against the change. The RBI highlighted that the decision to keep rates on hold was due to a relatively subdued inflation print in recent months. The central bank lowered its inflation projection to c.4.2% in 2HFY19 (September-March) from 4.8%, though noted that the risks to the inflation outlook are tilted to the upside. The RBI pointed that this revision was on the expectation that food inflation will remain subdued in the coming months, whilst also assuming that the crude oil price would average USD80 p/b and USD:INR would average

72.5. When asked about the INR weakness, RBI governor Urjit Patel highlighted that they will not use interest rates to support the INR. However, we still expect the RBI to intervene in the FX market to reduce volatility. On the growth front, the RBI left its GDP growth forecast unchanged at 7.4% for FY19 (April-March), though lowered its FY20 estimate to 7.4% from 7.5% in August.

Fig. 7. India: RBI leaves policy rates unchanged at October meeting in surprise move

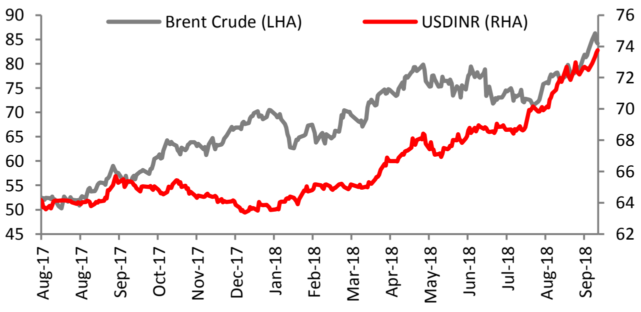
% (LHA); % change y-o-y (RHA)



Source: RBI, India Central Statistical Organisation

Fig. 8. India: USDINR touches new high of 74 last week, after RBI decides to keep policy rates on hold

p/b (LHA); USD:INR (RHA)



Source: Bloomberg

We expect RBI to raise repo rate by 25bps in December, followed by another hike in 1Q2019

We believe the RBI will raise its repo rate by 25bps at its December policy meeting, followed by another hike in 1Q2019. We think that the risks to the inflation outlook are tilted to the upside given the elevated crude price and weaker INR. The government's recent cut in excise duty for both petrol and diesel by INR2.5 p/l is likely to provide some relief to consumers in the short-term but is unlikely to alter the upward trajectory in pump prices, in our view. Any further depreciation in the INR is also expected to put additional pressure on imported inflation in the upcoming months. Thus, we expect the RBI to maintain a hawkish tone until we see some moderation in global crude prices and stabilisation in the INR. Moreover, the effect of higher government spending ahead of the next general election is likely to keep inflationary pressures to the upside until May.

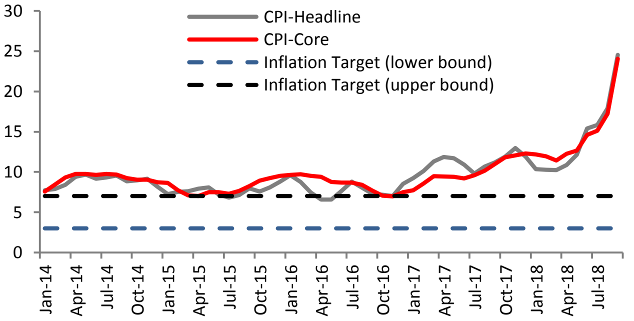
Turkey: Headline inflation hits 24.5% y-o-y in September

TRY weakness and un-anchored inflation expectations push inflation to 24.5% y-o-y in September

Headline inflation accelerated sharply to 24.5% y-o-y in September, beating both the consensus expectation of 21.1% and the August print of 17.9%. The upside surprise was largely due to the FX depreciation-related pass-through effect. The upside cost pressures were notable in the food, transportation and miscellaneous components. Core inflation strengthened to 24.1% y-o-y in September from 17.2% in August, indicating that the cost-push upside pressure was broad-based. We see further upside inflationary pressures in the coming months, with headline inflation likely touching 30% in the upcoming months. Following the September inflation report, Turkey's Finance Minister Berat Albayrak noted that the government expects to release an action plan soon to rein in inflation. With inflation expectations unanchored, we think that it will take at least six to nine months before we see any meaningful moderation in inflationary pressure.

Fig. 9. Turkey: Both headline and core inflation accelerate sharply in September, led by TRY depreciation effects

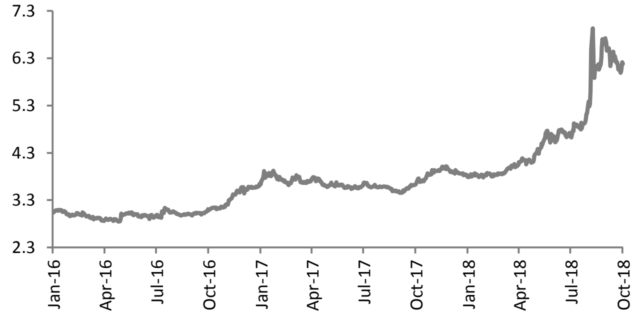
% change y-o-y



Source: Turkish Statistical Institute, CBRT

Fig. 10. Turkey: TRY stabilises at around 6 against USD, though still remains weak

USD:TRY



Source: Bloomberg

CBRT likely to maintain hawkish monetary policy stance at October meeting

Despite the CBRT's 625bps rate hike in September, the real weighted average cost of funding has again shifted back into negative territory. This is likely to open up the possibility of another rate hike as early as October, though we believe that the central bank could wait for another inflation print before raising rates any further. Moreover, the sharp slowdown in economic activity will likely place the CBRT in a tough position in terms of finding the right balance between supporting economic growth and containing inflation.

II. Economic Calendar

Fig. 11. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Aug	3.8%	
	UAE	Dubai Economy Tracker SA	Sep	55.2	
	Saudi Arabia	GDP Constant Prices, q-o-q	2Q	-1.6%	
	Saudi Arabia	Unemployment Rate (Saudis)	2Q	12.9%	
	Qatar	GDP Constant Prices, y-o-y	2Q	1.4%	
	Qatar	CPI, y-o-y	Sep	0.6%	
	Oman	CPI, y-o-y	Sep	1.1%	
	Egypt	Gross Official Reserves	Sep	44.4B	--
	Egypt	Urban CPI, y-o-y	Sep	14.2%	--
	China	Money Supply M2, y-o-y	Sep	8.2%	8.5%
	China	Exports, y-o-y	Sep	9.8%	8.7%
	China	Imports, y-o-y	Sep	19.9%	14.5%
Monday, 8 October					
5:45	China	Caixin China PMI Composite	Sep	52	
10:00	Germany	Industrial Production SA, m-o-m	Aug	-1.1%	0.3%
Tuesday, 9 October					
3:50	Japan	BoP Current Account Balance	Aug	¥2009.7B	¥1889.6B
12:30	UK	FPC statement from its meeting on 3 October			
14:00	US	NFIB Small Business Optimism	Sep	108.8	108
16:00	US	Fed's Kaplan Speaks to Economic Club of New York			
17:30	Eurozone	ECB's Francois Villeroy de Galhau speaks in Paris			
18:35	UK	BOE's Broadbent testifies to Parliament			
Wednesday, 10 October					
3:50	Japan	Core Machine Orders, m-o-m	Aug	11.0%	-3.7%
5:10	US	Fed's Williams Speaks on Recent Monetary Policy Developments			
12:30	UK	Trade Balance	Aug	-£111	-£1150
12:30	UK	Industrial Production, m-o-m	Aug	0.1%	0.1%
12:30	UK	Manufacturing Production, m-o-m	Aug	-0.2%	0.1%
12:30	UK	GDP, 3m-o-3m	Aug	0.6%	0.6%
13:00	UK	BOE's Haldane speaks in London.			
16:30	US	PPI Final Demand, m-o-m	Sep	-0.1%	0.2%
16:30	US	PPI Final Demand, y-o-y	Sep	2.8%	2.7%
20:15	US	Fed's Evans Speaks on Economy and Monetary Policy			
Thursday, 11 October					
2:00	US	Fed's Bostic Speaks on Economic Outlook			
3:50	Japan	PPI, y-o-y	Sep	3%	2.9%
11:00	Turkey	Current Account Balance	Aug	-1.75B	2.5B
16:30	US	CPI, m-o-m	Sep	0.2%	0.2%
16:30	US	CPI, y-o-y	Sep	2.7%	2.4%
16:30	US	CPI, ex-Food and Energy, m-o-m	Sep	0.1%	0.2%
16:30	US	CPI, ex-Food and Energy, y-o-y	Sep	2.2%	2.3%
	US	Monthly Budget Statement	Sep	-$214.1B	$93B
Friday, 12 October					
3:50	Japan	Money Stock M2, y-o-y	Sep	2.9%	2.9%
8:30	Japan	Tertiary Industry Index, m-o-m	Aug	0.1%	0.3%
10:00	Germany	CPI EU Harmonized, y-o-y	Sep F	2.2%	2.2%
13:00	Eurozone	Industrial Production SA, m-o-m	Aug	-0.8%	0.4%
16:00	India	CPI, y-o-y	Sep	3.7%	4%
16:00	India	Industrial Production, y-o-y	Aug	6.6%	
16:30	US	Import Price Index, m-o-m	Sep	-0.6%	0.2%
18:00	US	University of Michigan Sentiment	Oct P	100.1	100.6

* UAE time

Source: Bloomberg

Fig. 12. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Economies						
	UAE	Dubai Airport Cargo Volume, y-o-y	Aug	4.8%		-2.3%
	UAE	UAE PMI	Sep	55		55.3
	Saudi Arabia	Saudi Arabia PMI	Sep	55.1		53.4
	Bahrain	CPI, y-o-y	Aug	2.7%		1.9%
	Bahrain	GDP Constant Prices, y-o-y	2Q	-1.2%		2.4%
	Egypt	Egypt PMI	Sep	50.5		48.7
Monday, 1 October						
03:50	Japan	Tankan Large Manufacturing Index	3Q	21	22	19
09:00	India	India PMI Manufacturing	Sep	51.7		52.2
11:00	Turkey	Turkey PMI Manufacturing	Sep	46.4		42.7
12:30	UK	Mortgage Approvals	Aug	65.2K	64.5K	66.4K
12:30	UK	Markit UK PMI Manufacturing SA	Sep	53	52.5	53.8
13:00	Eurozone	Unemployment Rate	Aug	8.2%	8.1%	8.1%
17:45	US	Markit US Manufacturing PMI	Sep F	55.6	55.6	55.6
18:00	US	Construction Spending, m-o-m	Aug	0.2%	0.4%	0.1%
18:00	US	ISM Manufacturing	Sep	61.3	60	59.8
18:00	US	ISM Prices Paid	Sep	72.1	71.4	66.9
Tuesday, 2 October						
03:50	Japan	Monetary Base, y-o-y	Sep	6.9%		5.9%
12:30	UK	Markit/CIPS UK Construction PMI	Sep	52.9	52.9	52.1
Wednesday, 3 October						
04:30	Japan	Nikkei Japan PMI Composite	Sep	52		50.7
11:00	Turkey	CPI, y-o-y	Sep	17.9%	21.1%	24.5%
11:00	Turkey	CPI Core Index, y-o-y	Sep	17.2%	19.3%	24.1%
12:30	UK	Markit/CIPS UK Composite PMI	Sep	54.2	53.9	54.1
13:00	Eurozone	Retail Sales, y-o-y	Aug	1%	1.7%	1.8%
16:15	US	ADP Employment Change	Sep	168K	184K	230K
18:00	US	ISM Non-Manufacturing Index	Sep	58.5	58	61.6
Thursday, 4 October						
18:00	US	Factory Orders	Aug	-0.5%	2.1%	2.3%
18:00	US	Durable Goods Orders	Aug F	4.5%	4.5%	4.4%
Friday, 5 October						
10:00	Germany	Factory Orders, m-o-m	Aug	-0.9%	0.8%	2%
13:00	India	RBI Repurchase Rate	5-Oct	6.5%	6.75%	6.5%
13:00	India	RBI Reverse Repo Rate	5-Oct	6.25%	6.5%	6.25%
13:00	India	RBI Cash Reserve Ratio	5-Oct	4%	4%	4%
16:30	US	Trade Balance	Aug	-$50B	-$53.6B	-$53.2B
16:30	US	Change in Nonfarm Payrolls	Sep	270K	185K	134K
16:30	US	Change in Manufacturing Payrolls	Sep	5K	15K	5K
16:30	US	Unemployment Rate	Sep	3.9%	3.8%	3.7%
16:30	US	Average Hourly Earnings, m-o-m	Sep	0.3%	0.3%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Sep	2.9%	2.8%	2.8%

* UAE time
Source: Bloomberg

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