

## The Week Ahead: China's 4Q GDP data and central banks in focus

### ► Eurozone: ECB to remain on hold with dovish tone

The focus for this week's ECB meeting will be on any changes in communication, with monetary policy forecast to remain steady. We expect the ECB to reiterate that interest rates will remain at present levels "at least through the summer of 2019". The tone of the meeting is likely to remain dovish with the post-meeting press conference expected to be dominated by questions on the growth outlook. We believe the ECB could change the balance of risks to the growth outlook to "tilting to the downside" from "broadly balanced". ECB President Mario Draghi last week highlighted that recent economic growth has been weaker than expected, though he expressed confidence that the slowdown is unlikely to lead to a recession. We see potential for no rate hikes by the ECB this year, given the recent slowdown in economic activity and weak inflation dynamics. The Governing Council (GC) is also likely to discuss the rolling over of the TLTRO (targeted longer-term refinancing operations) to maintain favourable liquidity conditions, though the announcement could be delayed until March.

### ► Japan: BoJ likely to revise down inflation projections

The Bank of Japan (BoJ) is forecast to retain its accommodative monetary policy stance at its 23 January meeting. This includes keeping the benchmark policy rate at -0.1%, the 10-year JGB yield target at around 0% (+/- 20bps) and the pace of JGB asset purchases at JPY80 trillion. We believe that Governor Haruhiko Kuroda will reaffirm the BoJ's commitment to accommodative monetary policy until inflation reaches its target of 2%, which is unlikely in the near to medium term. Market attention will be on new economic projections, especially the inflation forecasts. Consensus widely expects inflation to be significantly revised down for 2019 on the back of limited underlying price pressure and a moderation in global crude prices since October (page 3). The real GDP growth projections are expected to be left unchanged in January from the October forecasts, although the MPC may highlight the downside risks to the growth outlook emanating from a slowdown in major economies.

### ► Global: China 4Q GDP data and alternative Brexit plan in focus

A key data announcement for this week was China's 4Q GDP, released early Monday morning. GDP growth slowed to 6.4% y-o-y in 4Q (3Q: 6.5%), in line with consensus and the softest print since early 2009. A number of factors contributed to this deceleration, including i) weakening exports growth, ii) soft investment activity, and iii) lower consumer demand. The recent policy measures from the PBoC to reduce the RRR by 100 bps and the government proposal to reduce VAT in the near term are expected to provide some support. However, a de-escalation of trade tensions between the US and China will remain critical to stabilising economic growth. Separately, UK PM Theresa May will present her alternative Brexit plan to Parliament on 21 January, with the Commons vote on 29 January. In the US, the government shutdown continues with no signs of a compromise as yet, delaying some of the key economic data releases.

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## I. Recent Events and Data Releases

### A. G4 Economies

#### UK: May's government survives no confidence vote; Plan B in focus

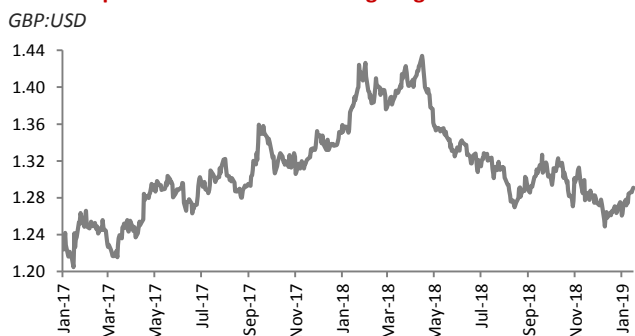
The Parliament rejected Prime Minister Theresa May's Brexit deal on 15 January, with an astounding 432 MPs voting against the bill versus 202 in favour. The 230-vote margin was the biggest defeat for a government in the House of Commons since the 1920s. However, May survived a parliamentary no-confidence vote with the support of 325 votes to 306. We expect the political backdrop to remain volatile with internal fractures in the Conservative party emerging as the prime minister looks to build a wider consensus within Parliament. The size of the government's defeat suggests that it needs to identify what form of Brexit agreement is likely to pass, possibly making the deal more attractive to 'Remainers' and those looking for a softer Brexit to gain wider support. Market attention will therefore now be on PM May's alternative Brexit plan, which is scheduled to be presented to Parliament on 21 January, with the vote taking place on 29 January.

*Alternative Brexit plan to be presented to Parliament on 21 January*

We believe that the UK is unlikely to leave the EU without a deal, though this will probably require an extension of Article 50 negotiations beyond 29 March. Recent events suggest that there is broad-based support among parliamentarians to avoid a chaotic exit from the EU, but there appears to be no majority for any particular Brexit plan at this point. Furthermore, a soft Brexit looks more likely than no deal in our view, though this would need compromise from both the Conservative and Labour leaderships. Meanwhile, a second Brexit referendum will remain an option if the various parties fail to reach an amicable solution in the near term.

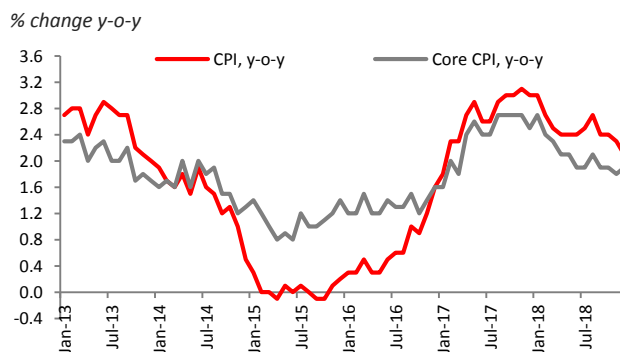
*Soft Brexit looks more feasible at this point*

**Fig. 1. UK: GBP pricing in an eventual Brexit deal, despite political tensions remaining heightened**



Source: Bloomberg

**Fig. 2. UK: Headline inflation moderates for third consecutive month in December**



Source: UK Office for National Statistics

#### UK: Headline inflation softens to two-year low in December

CPI inflation decelerated to 2.1% y-o-y in December (consensus 2.1%) from 2.3% y-o-y in November. This was the lowest headline rate since February 2017. The moderation was largely due to lower energy prices and lower airfares versus the same period in the previous year. However, core inflation increased marginally to 1.9% y-o-y in December, up from 1.8% y-o-y in November, driven by non-energy industrial goods. Despite the marginal uptick in core inflation, the data suggests that domestically generated inflation

*Headline inflation moderated to 2.1% in December, in line with expectations*

remains subdued, with services inflation decelerating to 2.4% y-o-y in December from 2.5% in the previous month. Notably, services inflation averaged 2.4% in 2018, down from 2.7% in 2017, in part reflecting the softening domestic demand. Indeed, we believe that headline inflation is likely to stay close to the BoE's 2% target in the coming months. However, Brexit-related uncertainties and their impact on GBP could alter the inflation backdrop, in our view.

### Japan: Core inflation eased to a 7-month low in December

Headline CPI inflation decelerated sharply to just 0.3% y-o-y in December, from 0.8% in November, led by food and energy prices. Core CPI inflation (excluding fresh food) also weakened for a second consecutive month to 0.7% y-o-y in December (November: 0.9%), printing lower than the consensus expectation of 0.8%. The moderation in the BoJ's preferred measure of core inflation continues to suggest that underlying inflation remains subdued despite the recent pickup in wage growth. Furthermore, the recent decline in global crude oil prices and the government's decision to provide subsidies for pre-school education are expected to weigh negatively on inflation in the near term. Indeed, we believe that the BoJ is likely to revise down its inflation projections in the upcoming policy meeting on 23 January. Overall, given the weak inflation backdrop, we expect the BoJ to continue with its accommodative monetary policy stance in 2019.

*We expect BoJ to revise down its inflation projections at its 23 January policy meeting*

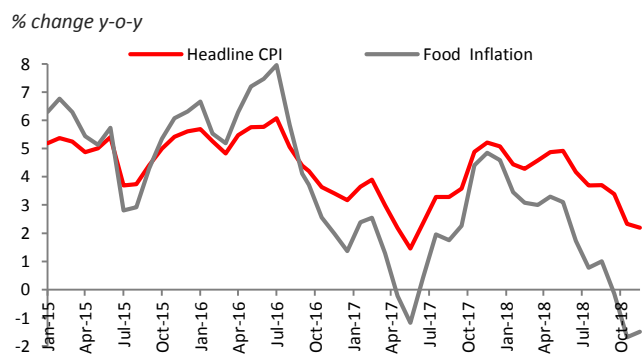
## B. Emerging Market Economies

### India: Soft December inflation print opens up rate cut debate

Headline inflation decelerated to an 18-month low of 2.2% y-o-y in December from 2.3% in November. CPI inflation averaged 2.6% in 4Q2018, slightly lower than the RBI's estimate of 2.7% at the December policy meeting. The soft print in December was largely due to a third consecutive month of contracting food prices. Fuel price growth also decelerated sharply to 4.5% y-o-y in December (November: 7.2%), in line with the moderation in global crude costs. However, core inflation (ex-food, tobacco and fuel) remained steady at 5.7% y-o-y, with an increase in health and educational prices offset by moderating housing and transportation costs.

*Headline inflation decelerates in December but core reading remains steady*

**Fig. 3. India: Food inflation remains subdued and contracts for third consecutive month in December**



Source: India Central Statistical Organisation

**Fig. 4. India: G-Sec market starts to price in rate cut given weak inflation backdrop**



Source: Bloomberg

With headline inflation remaining close to the RBI’s lower-end target of 2% for the second consecutive month, we expect the MPC to return to a neutral stance at its February meeting from the current “calibrated tightening stance”. New RBI governor Shaktikanta Das’s dovish message during his inaugural address also indicates that the next policy action leans towards a rate cut. We also envisage that the RBI will shift its focus to supporting growth at the upcoming monetary policy meetings amid rising concerns over the global growth outlook. Moreover, the Fed’s guidance for a more patient approach regarding further FFTR hikes provides space for the RBI to ease monetary policy in the near term.

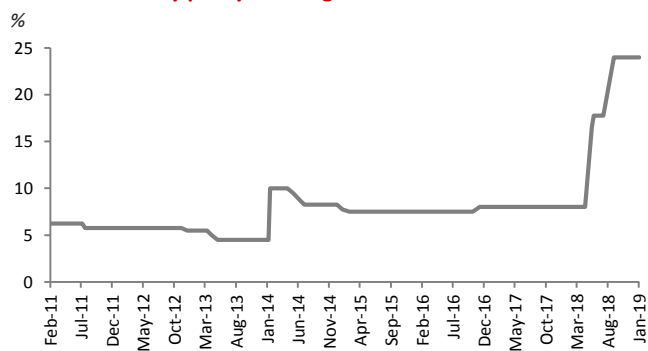
*RBI expected to return to neutral stance from the current “calibrated tightening”*

### Turkey: CBRT on hold with wait-and-see stance

The CBRT kept its key benchmark interest rates steady at its 16 January meeting, including the one-week repo rate at 24%. There were no major changes to the monetary policy statement that altered the hawkish stance. The only notable change was the introduction of a new sentence highlighting that the “current account balance is expected to maintain its improving trend”. The CBRT also reiterated that it will retain its tight stance until the inflation outlook displays significant improvement. This suggests that the CBRT is in no rush to ease policy in 1Q2019. We believe that steady interest rates are critical for anchoring the TRY and inflation expectations while also allowing the central bank to regain credibility. Notably, markets had been expecting a hint from the CBRT about a potential rate cut at its 6 March meeting ahead of the local elections.

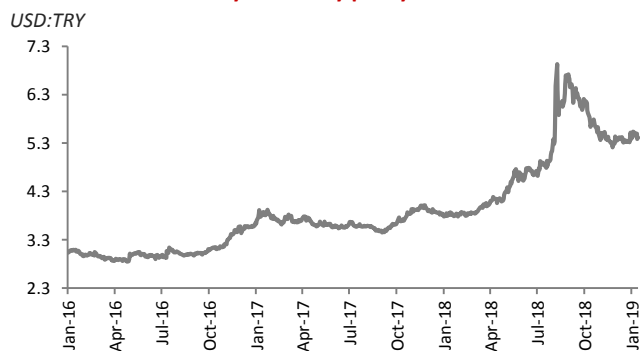
*CBRT made no major changes to monetary policy statement in January*

**Fig. 5. Turkey: CBRT keeps benchmark repo rate at 24% at January policy meeting**



Source: CBRT

**Fig. 6. Turkey: TRY remains largely stable against USD given CBRT’s steady monetary policy stance**



Source: Bloomberg

We envisage that the CBRT will remain patient and keep policy rates on hold at its 6 March MPC meeting, though we see the possibility of a gradual easing cycle starting from mid-2019. This would give the CBRT more time to see a meaningful deceleration in inflation in 1H2019. Inflation has already shown some signs of easing, falling to 20.3% y-o-y in December from a peak of 25.2% in October. Following the CBRT’s steady guidance, the TRY strengthened marginally to 5.32 against the USD from 5.45 before the meeting.

*We expect CBRT to initiate gradual rate-easing cycle from mid-2019*

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	M2 Money Supply, m-o-m	Dec	1.8%	
	UAE	Central Bank Foreign Assets	Dec	346.27B	
	UAE	CPI, y-o-y	Dec	1.3%	
	Saudi Arabia	CPI, y-o-y	Dec	2.8%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Nov	9.8%	
	Bahrain	CPI, y-o-y	Dec	0.7%	
	Kuwait	CPI, y-o-y	Dec	0.1%	
	Oman	Budget Balance Month	Nov	-126.9M	
	Oman	Nominal GDP YTD, y-o-y	3Q	15.1%	
<b>Monday, 21 January</b>					
6:00	China	Retail Sales, y-o-y	Dec	8.1%	8.1%
6:00	China	Industrial Production, y-o-y	Dec	5.4%	5.3%
6:00	China	GDP, y-o-y	4Q	6.5%	6.4%
6:00	China	GDP SA, q-o-q	4Q	1.6%	1.5%
6:00	China	GDP YTD, y-o-y	4Q	6.7%	6.6%
18:00	Eurozone	Bank of Portugal Governor Speaks at Conference			
20:00	UK	BOE's Place, Fried Speaks in London			
<b>Tuesday, 22 January</b>					
13:30	UK	Claimant Count Rate	Dec	2.8%	
13:30	UK	Jobless Claims Change	Dec	21.9K	
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Nov	3.3%	3.3%
13:30	UK	ILO Unemployment Rate, 3M	Nov	4.1%	4.1%
13:30	UK	PSNB, ex-Banking Groups	Dec	7.2B	1.9B
13:30	UK	BOE's Broadbent Speaks in London			
14:00	Germany	ZEW Survey Current Situation	Jan	45.3	43.3
14:00	Germany	ZEW Survey Expectations	Jan	-17.5	-18.5
19:00	US	Existing Home Sales	Dec	5.32M	5.24M
<b>Wednesday, 23 January</b>					
3:50	Japan	Trade Balance	Dec	-¥737.3B	-¥35.3B
8:30	Japan	All Industry Activity Index, m-o-m	Nov	1.9%	-0.4%
11:00	Turkey	Consumer Confidence Index	Jan	58.2	
19:00	US	Richmond Fed Manufacturing Index	Jan	-8	-2
19:00	Eurozone	Consumer Confidence	Jan A	-6.2	-6.5
	Japan	BOJ Policy Balance Rate	23-Jan	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	23-Jan	0%	0%
	Japan	BOJ Outlook Report			
<b>Thursday, 24 January</b>					
4:30	Japan	Nikkei Japan Manufacturing PMI	Jan P	52.6	
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Jan P	51.4	51.3
16:45	Eurozone	ECB Main Refinancing Rate	24-Jan	0%	0%
16:45	Eurozone	ECB Marginal Lending Facility	24-Jan	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	24-Jan	-0.4%	-0.4%
18:45	US	Markit US Manufacturing PMI	Jan P	53.8	53.5
19:00	US	Leading Index	Dec	0.2%	-0.1%
<b>Friday, 25 January</b>					
13:00	Germany	IFO Business Climate	Jan	101	100.6
13:00	Germany	IFO Expectations	Jan	97.3	97.1
13:00	Eurozone	ECB Survey of Professional Forecasters			

\* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>EM Economies</b>						
	Oman	CPI, y-o-y	Dec	1.1%		0.8%
	China	Foreign Direct Investment, y-o-y CNY	Dec	-26.3%		24.9%
	China	Money Supply M2, y-o-y	Dec	8%	8.1%	8.1%
	China	New Yuan Loans, CNY	Dec	1250B	825B	1080B
<b>Monday, 14 January</b>						
10:30	India	Wholesale Prices, y-o-y	Dec	4.6%	4.5%	3.8%
16:00	India	CPI, y-o-y	Dec	2.3%	2.2%	2.2%
	China	Trade Balance	Dec	\$41.9B	\$51.6B	\$57.1B
	China	Exports, y-o-y	Dec	5.4%	2%	-4.4%
	China	Imports, y-o-y	Dec	3%	4.5%	-7.6%
<b>Tuesday, 15 January</b>						
3:50	Japan	Money Stock M2, y-o-y	Dec	2.3%	2.4%	2.4%
17:30	US	Empire Manufacturing	Jan	11.5	10	3.9
17:30	US	PPI Final Demand, m-o-m	Dec	0.1%	-0.1%	-0.2%
17:30	US	PPI Final Demand, y-o-y	Dec	2.5%	2.5%	2.5%
	India	Trade Balance	Dec	-\$16670.7M	-\$14500M	-\$13077M
	India	Exports, y-o-y	Dec	0.8%	--	0.3%
	India	Imports, y-o-y	Dec	4.3%	--	-2.4%
<b>Wednesday, 16 January</b>						
3:50	Japan	Core Machine Orders, m-o-m	Nov	7.6%	3%	0%
3:50	Japan	PPI, y-o-y	Dec	2.3%	1.8%	1.5%
8:15	UAE	Dubai Economy Tracker SA	Dec	55.3		53.6
8:30	Japan	Tertiary Industry Index, m-o-m	Nov	2.2%	-0.6%	-0.3%
13:30	UK	CPI, m-o-m	Dec	0.2%	0.2%	0.2%
13:30	UK	CPI, y-o-y	Dec	2.3%	2.1%	2.1%
13:30	UK	CPI Core, y-o-y	Dec	1.8%	1.8%	1.9%
17:30	US	Import Price Index, m-o-m	Dec	-1.9%	-1.3%	-1%
<b>Thursday, 17 January</b>						
14:00	Eurozone	CPI Core, y-o-y	Dec F	1%	1%	1%
14:00	Eurozone	CPI, m-o-m	Dec	-0.2%	0%	0%
14:00	Eurozone	CPI, y-o-y	Dec F	1.9%	1.6%	1.6%
17:30	US	Philadelphia Fed Business Outlook	Jan	9.4	9	17
	Egypt	Trade Balance	Nov	-4565M		
<b>Friday, 18 January</b>						
3:30	Japan	National CPI, y-o-y	Dec	0.8%	0.3%	0.3%
3:30	Japan	National CPI, ex- Fresh Food, y-o-y	Dec	0.9%	0.8%	0.7%
8:30	Japan	Industrial Production, m-o-m	Nov F	-1.1%		-1%
8:30	Japan	Industrial Production, y-o-y	Nov F	1.4%		1.5%
13:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Dec	1.0%	-0.8%	-1.3%
13:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Dec	3.5%	3.8%	2.6%
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Dec	1.3%	-0.8%	-0.9%
13:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Dec	3.4%	3.6%	3%
18:15	US	Industrial Production, m-o-m	Dec	0.4%	0.2%	0.3%
19:00	US	U. of Mich. Sentiment	Jan P	98.3	96.8	90.7
19:00	US	U. of Mich. Expectations	Jan P	87	86.5	78.3

\* UAE time

Source: Bloomberg

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