

The Week Ahead: Central banks take centre stage; Fed to hike rates

► **US: Fed expected to hike; forward guidance in focus**

Central bank meetings will be the key events this week, alongside the release of May inflation data for the US and UK. Consensus estimates that US core CPI inflation accelerated to 0.2% m-o-m in May (April: 0.1%) driven by rents and other services, taking the annual reading to 2.2% (April: 2.1%). Given the sustained up-tick in inflation in recent months, solid economic momentum and robust labour market conditions, the Fed is widely expected to raise the FFTR by 25 bps to 2% (the upper bound) and the interest rate on excess reserves (IOER) by 20 bps to 1.95% at its 12-13 June meeting. There could be some meaningful changes to the policy statement after FOMC members discussed potential adjustments to the forward guidance language at the May meeting. Some of the phrases outlining the Fed's accommodative stance could be removed, given that the economy is close to full employment and the FFTR is moving closer to the neutral rate. The median dots are likely to remain broadly steady, as are the economic projections – though the unemployment rate forecasts could be lowered moderately. Separately, the BoJ is expected to keep its monetary policy steady at its 15 June meeting, including the 10-year yield target at 0%.

► **GCC: Central banks largely set to follow Fed in raising rates**

We see most GCC central banks raising their benchmark rates in line with the Fed. The Central Bank of the UAE is expected to increase its repo rate (lending rate) by 25 bps to 2.25%. In Saudi, SAMA is also likely to hike by the same magnitude, maintaining the 50 bps spread between its repo rate and the FFTR (upper bound). Saibor is again trading at a premium to US Libor since end-April, but the differential is just c.16 bps. However, we envisage that Qatar will again keep its benchmark lending rates steady at 5% to limit upside pressure on market lending rates, especially as there is still a margin with the FFTR.

► **Eurozone: ECB to discuss end of QE programme**

Comments from ECB Chief Economist Peter Praet last week suggested that the ECB will discuss the end of the quantitative easing (QE) programme at its 14 June policy meeting. Thus, the Governing Council (GC) could announce the end of the programme this week, though we might have to wait until July for the details. We envisage the upcoming meeting likely having similarities to the September 2017 one when President Mario Draghi announced that “the bulk of the decisions” regarding policy adjustments would probably be taken at the next meeting. We expect the GC to extend its asset purchase programme for another three months (October-December), albeit at a slower pace of EUR15 billion per month (currently EUR30 billion). Given the weak economic momentum in early 2018 and the rise in the oil price, we believe that the ECB's growth projection could be reduced and the headline inflation forecast raised. In the UK, MPs will vote on the Brexit Withdrawal Bill on 12 July, which has been amended by the House of Lords. The government could be defeated on some amendments, thereby placing pressure on Prime Minister Theresa May to modify the government's Brexit plans.

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I. Recent Events and Data Releases

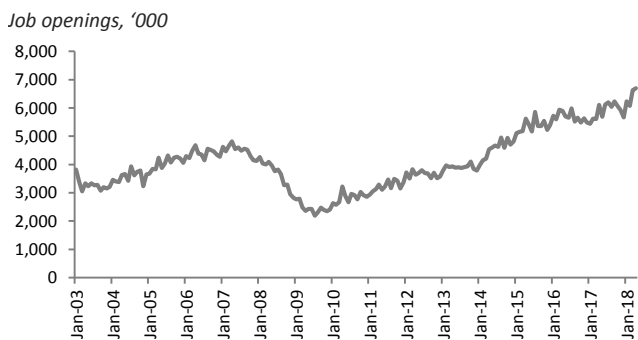
A. G4 Economies

US: April JOLTS data points to solid labour market conditions

The JOLTS data for April continued to suggest a further tightening in labour market conditions. JOLTS jobs openings accelerated to a new historical high of 6,698K in April from 6,633K in March. Job openings were seen across all sectors with the largest increases seen in professional and business services and durable goods manufacturing. The hiring rate also strengthened to 3.8% in April (March: 3.7%) with total hiring rising to 5,578K in April from 5,486K the previous month. The increasing job openings alongside steady hiring suggests a shortage of skilled workers in a number of key sectors. Meanwhile, the quits rate remained unchanged at 2.3% in April. Separately, other high frequency data, including ISM non-manufacturing activity, continued to suggest that business activity and confidence strengthened further in May, boding well for 2Q GDP growth.

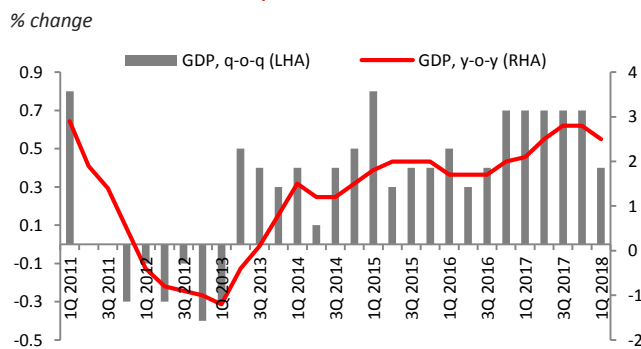
Job openings reached a new record high of 6,698K in April, reflecting shortage of skilled workers

Fig. 1. US: Job openings rise to new series high in April with vacancies across a number of sectors



Source: Bureau of Labor Statistics

Fig. 2. Eurozone: 1Q GDP growth slows to 0.4% q-o-q, down from 0.7% in 4Q2017



Source: Eurostat

Eurozone: 1Q GDP growth maintained at 0.4% q-o-q in final estimate

The Eurozone's 1Q GDP growth rate was unrevised at 0.4% q-o-q in the final estimate, though down from 0.7% in 4Q. This slowdown was mainly due to a contraction in net trade, which subtracted 0.1 ppt from 1Q GDP growth. Investment growth slowed to 0.5% q-o-q in 1Q (4Q: 1.3%) but we remain cautious about reading too much into the 1Q data given the impact of one-off factors such as the labour strikes in Germany and France. However, the major surprise came from household spending growth, which accelerated to 0.5% q-o-q in 1Q from 0.2% in 4Q. This is despite high-frequency data suggesting that retail activity slowed markedly in 1Q due to bad weather conditions. Indeed, this positive momentum in consumer spending could feed positively into 2Q GDP growth as well.

Moderation in 1Q GDP growth rate due to contraction in net trade and weak investment activity

B. Emerging Market Economies

India: RBI hikes repo rate by 25 bps to 6.25%; neutral stance maintained

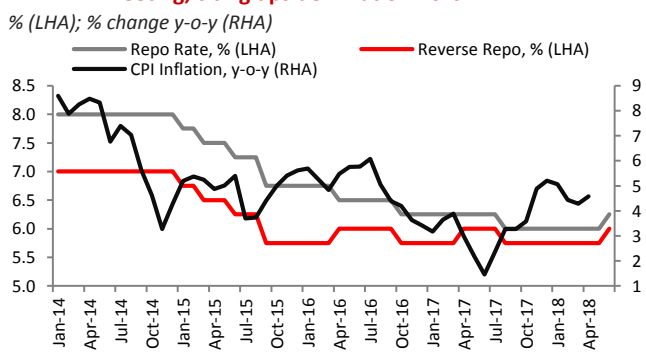
The RBI raised its repo rate by 25 bps to 6.25% in an unexpected move last week. We and the consensus were expecting the rate to be held at 6% whilst anticipating a potential August rate hike. This was the first rate hike since 2014 with the stage set for another potential 25 bps rate hike before year-end. Notably, the MPC members voted unanimously to raise the repo rate – the first undivided decision since June 2017, suggesting that all the members were concerned about the acceleration in core inflation and upside pressures emanating from the elevated crude prices and INR depreciation. Despite the rate hike, the RBI retained its earlier “neutral” stance, suggesting that the rate-hiking cycle will largely depend on the incoming data with the next hike not yet pre-determined. We believe that the neutral guidance was also to limit the market pricing for steeper rate hikes at a time when financial conditions have tightened.

Unanimous vote within MPC to raise rates in June

The RBI revised up its inflation forecast for 2H FY2018-19 (April-March) to 4.7% (4.4% previously), with risks tilted to the upside. The central bank highlighted that upside risks to inflation were coming from high crude oil prices, the rise in household inflation expectations (likely feeding into wages and input prices), house rent allowances, the hike in the minimum support price (MSP) for Kharif crops, and monsoon developments. We believe that the RBI will remain vigilant regarding inflationary developments as its expansionary fiscal policy poses additional risk to the inflation outlook. On the growth front, the RBI kept its FY2018-19 GDP growth forecast at 7.4% from the April meeting. The central bank expressed increasing confidence on the growth outlook on the back of rising investment activity in the construction sector. We expect another 25 bps rate hike in 2018, though the timing of the hike (August/October) will largely depend on the monsoon and the crude price.

We expect another 25 bps rate hike at either the August or October policy meetings

Fig. 3. India: RBI hikes rates in surprise move at June meeting, citing upside inflation risks



Source: RBI

Fig. 4. India: Government securities already pricing in further 25 bps rate hike in 2018



Source: Bloomberg

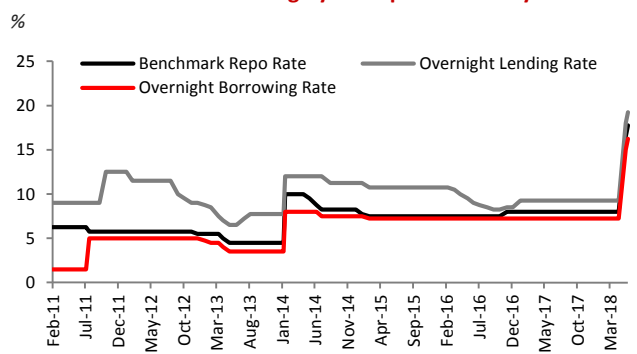
Turkey: CBRT unexpectedly raises one-week repo rate to 17.75%

The CBRT raised its one-week repo rate by 125bps to 17.75% last week, surprising the consensus which had not expected any change. The overnight borrowing and lending rates were also increased to 16.25% and 19.25%, respectively, in line with the recently announced monetary policy simplification process. This takes the CBRT’s total monetary policy tightening to 500bps in 2018 so far. The committee felt that further tightening in

CBRT hikes key policy rate again by 125 bps to 17.75%

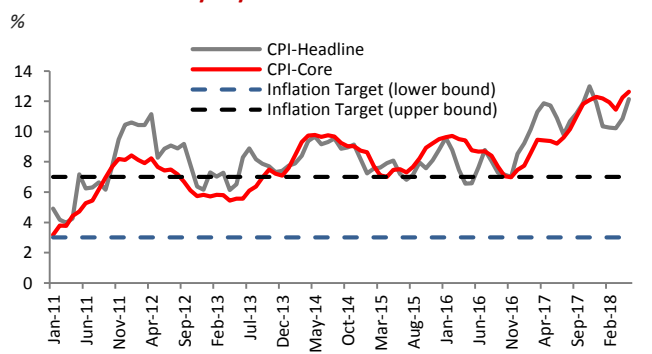
monetary policy was necessary due to inflation expectations posing upside risks to the inflation outlook. The statement reiterated that a tight monetary policy stance will be maintained until the inflation outlook displays significant improvement. Moreover, the central bank added that further monetary tightening will be delivered, if necessary, keeping the door open for further rate hikes. The TRY strengthened following the unexpected rate hike.

Fig. 5. Turkey: CBRT hikes key policy rate by further 125 bps in June after raising by 300 bps at end-May



Source: CBRT

Fig. 6. Turkey: Core inflation accelerates to series high in May to 12.6% y-o-y



Source: Turkish Statistical Institute

Turkey: Headline inflation rises to six-month high in May

Headline inflation accelerated to 12.2% y-o-y in May from 10.9% in April, in line with the market’s expectations. This is the highest reading in six months and well above the central bank’s upper bound target of 7%. The pick-up in headline inflation was mainly driven by food and energy prices. Energy price growth accelerated to 15.2% y-o-y in May (April: 12%), reflecting the elevated global crude prices and TRY depreciation. Core inflation (C-index) also rose to a series high of 12.6% y-o-y in May (April: 12.24% in April), driven by both core goods and services inflation. Core goods inflation strengthened to an all-time high of 16% y-o-y in May (April: 15.5%), led largely by price increases in durable goods (automobile and white goods). This also reflects the effects of the TRY’s depreciation on imported inflation. Meanwhile, services inflation also accelerated on the back of rising highway passenger transport fares, while the pick-up in tourism activity led the price increases. The rise in services inflation was despite rental inflation remaining flat in May.

Headline inflation strengthens further in May, led by crude and food prices

We believe that underlying inflationary pressures and still-elevated crude prices pose upside risk to Turkey’s medium-term inflation outlook. The ongoing rise in inflation expectations and the eroding margins of corporates due to the TRY’s devaluation add further upward price pressures. Stabilisation of the TRY and a moderation in crude prices remain key to limiting upwards price pressures. We expect headline inflation to peak at around c.15% y-o-y by the end of 3Q 2018 with some moderation likely in 4Q due to waning FX pass-through effects.

Headline inflation expected to peak around c.15% y-o-y by end of 3Q 2018

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
EM Economies					
	UAE	Dubai Economy Tracker SA	May	53.9	
	Qatar	CPI, y-o-y	May	0.1%	
	Egypt	Trade Balance	Apr	-3395M	
	Egypt	GDP Constant, q-o-q	1Q	4.1%	
	China	Money Supply M2, y-o-y	May	8.3%	8.5%
	China	New Yuan Loans CNY	May	1180B	1200B
Monday, 11 June					
3:50	Japan	Core Machine Orders, m-o-m	Apr	-3.9%	2.4%
12:30	UK	Trade Balance	Apr	-£3091	-£2500
12:30	UK	Industrial Production, m-o-m	Apr	0.1%	0.1%
12:30	UK	Manufacturing Production, m-o-m	Apr	-0.1%	0.3%
Tuesday, 12 June					
12:30	UK	Claimant Count Rate	May	2.5%	
12:30	UK	Jobless Claims Change	May	31.2K	
12:30	UK	Average Weekly Earnings, 3M y-o-y	Apr	2.6%	2.5%
12:30	UK	Weekly Earnings, ex-Bonus, 3M y-o-y	Apr	2.9%	2.9%
12:30	UK	ILO Unemployment Rate 3M	Apr	4.2%	4.2%
13:00	Eurozone	ZEW Survey Expectations	Jun	2.4	
16:00	India	CPI, y-o-y	May	4.6%	4.8%
16:00	India	Industrial Production, y-o-y	Apr	4.4%	6%
16:30	US	CPI, m-o-m	May	0.2%	0.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	May	0.1%	0.2%
16:30	US	CPI, y-o-y	May	2.5%	2.7%
16:30	US	CPI, ex-Food and Energy, y-o-y	May	2.1%	2.2%
Wednesday, 13 June					
12:30	UK	CPI, y-o-y	May	2.4%	2.4%
12:30	UK	CPI Core, y-o-y	May	2.1%	2.1%
13:00	Eurozone	Industrial Production SA, m-o-m	Apr	0.5%	-0.7%
16:30	US	PPI Final Demand, m-o-m	May	0.1%	0.3%
22:00	US	FOMC Rate Decision (Upper Bound)	13-Jun	1.75%	2%
22:30	US	Fed's Powell Holds Press Conference Following FOMC Decision			
Thursday, 14 June					
6:00	China	Retail Sales, y-o-y	May	9.4%	9.6%
6:00	China	Industrial Production, y-o-y	May	7%	7%
8:30	Japan	Industrial Production, m-o-m	Apr F	0.3%	
12:30	UK	Retail Sales, Incl-Auto Fuel, m-o-m	May	1.6%	0.5%
15:45	Eurozone	ECB Main Refinancing Rate	14-Jun	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	14-Jun	0.3%	0.3%
15:45	Eurozone	ECB Deposit Facility Rate	14-Jun	-0.4%	-0.4%
16:30	US	Retail Sales Advance, m-o-m	May	0.2%	0.4%
16:30	US	Retail Sales Control Group	May	0.5%	0.4%
16:30	US	Import Price Index, m-o-m	May	0.3%	0.5%
Friday, 15 June					
13:00	Eurozone	CPI, y-o-y	May F	1.2%	1.9%
16:30	US	Empire Manufacturing	Jun	20.1	18.5
17:15	US	Industrial Production, m-o-m	May	0.7%	0.3%
18:00	US	University of Michigan Sentiment	Jun P	98	98.5
	Japan	BOJ Policy Balance Rate	15-Jun	-0.1%	-0.1%
	Japan	BOJ 10-yr Yield Target	15-Jun	0%	0%
	India	Exports, y-o-y	May	5.2%	
	India	Imports, y-o-y	May	4.6%	

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	UAE PMI	May	55.1		56.5
	Saudi Arabia	Saudi Arabia PMI	May	51.4		53.2
	Egypt	Egypt PMI	May	50.1		49.2
	Egypt	Gross Official Reserves	May	44B		44.1B
Monday, 4 June						
3:50	Japan	Monetary Base, y-o-y	May	7.8%		8.1%
12:30	UK	Markit/CIPS UK Construction PMI	May	52.5	52	52.5
18:00	US	Factory Orders	Apr	1.7%	-0.5%	-0.8%
18:00	US	Durable Goods Orders	Apr F	-1.7%		-1.6%
18:00	US	Durables, ex-Transportation	Apr F	0.9%		0.9%
18:00	US	Capital Goods Shipments, Non-def, ex-Air	Apr F	0.8%		0.9%
Tuesday, 5 June						
4:30	Japan	Nikkei Japan PMI Composite	May	53.1		51.7
5:45	China	Caixin China PMI Composite	May	52.3		52.3
9:00	India	Nikkei India PMI Composite	May	51.9		50.4
12:00	Eurozone	Markit Eurozone Composite PMI	May F	54.1	54.1	54.1
12:30	UK	Markit/CIPS UK Composite PMI	May	53.2	53.4	54.5
13:00	Eurozone	Retail Sales, y-o-y	Apr	1.5%	1.7%	1.7%
17:45	US	Markit US Composite PMI	May F	55.7	55.7	56.8
18:00	US	JOLTS Job Openings	Apr	6633	6350	6698
18:00	US	ISM Non-Manufacturing Composite	May	56.8	57.7	58.6
Wednesday, 6 June						
13:00	India	RBI Repurchase Rate	6-Jun	6%	6%	6.25%
13:00	India	RBI Reverse Repo Rate	6-Jun	5.75%	5.75%	6%
13:00	India	RBI Cash Reserve Ratio	6-Jun	4%	4%	4%
16:30	US	Nonfarm Productivity	1Q F	0.7%	0.6%	0.4%
16:30	US	Unit Labor Costs	1Q F	2.7%	2.8%	2.9%
16:30	US	Trade Balance	Apr	-\$47.2B	-\$49B	-\$46.2B
Thursday, 7 June						
10:00	Germany	Factory Orders, m-o-m	Apr	-1.1%	0.8%	-2.5%
11:30	UK	Halifax House Prices, m-o-m	May	-3.1%	1%	1.5%
13:00	Eurozone	GDP SA, q-o-q	1Q F	0.4%	0.4%	0.4%
13:00	Eurozone	GDP SA, y-o-y	1Q F	2.5%	2.5%	2.5%
	China	Foreign Reserves	May	\$3124.9B	\$3106.5B	\$3110.6B
Friday, 8 June						
3:50	Japan	BoP Current Account Balance	Apr	¥3122.3B	¥2076.5B	¥1845.1B
3:50	Japan	GDP SA, q-o-q	1Q F	-0.2%	-0.1%	-0.2%
3:50	Japan	GDP Annualized SA, q-o-q	1Q F	-0.6%	-0.4%	-0.6%
10:00	Germany	Industrial Production SA, m-o-m	Apr	1.7%	0.3%	-1%
	China	Trade Balance	May	\$28.3B	\$33.3B	\$24.9B
	China	Exports, y-o-y	May	12.6%	11.1%	12.6
	China	Imports, y-o-y	May	21.5%	18%	26%

* UAE time

Source: Bloomberg

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