The Week Ahead: US NFP the key data release

Monica Malik, Ph.D.
Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

Contents

US: All eyes on labour data this week

The consensus is for job creation to have remained solid at 220K in August, above the six-month moving average of 213K and 215K in July. The August reading has historically tended to come in below the consensus, then be revised up. Unemployment is forecast to fall to 5.2% in August, from 5.3% in July, reflecting the ongoing recovery in the jobs market. However, slack in the labour market is expected to remain, with wage growth staying steady at 0.2% m-o-m. The August labour data is to be the last main release ahead of the FOMC's 16-17 September meeting. The Fed has placed emphasis on the labour market to meet both its growth and inflation objectives, and a reading above 200K should meet this requirement.

US: Data supportive, though markets providing headwinds

US data released last week remained solid, including personal spending and capital goods orders. This points to the buildup in economic momentum that the Fed has been looking for, though without any inflation. Real GDP growth for 2Q2015 was revised up to 3.7% q-o-q SAAR, substantially stronger than the market had expected. We believe that this keeps a September interest rate hike (our core scenario) very much in play. The volatility in global markets also eased at the end of last week, which we believe is essential for a September hike. Comments by FOMC members indicated that global market turmoil and the softer growth outlook in China have weakened the case for raising rates, though this could reverse quickly. However, if the volatility persists, the interest rate liftoff may be moved to October or December. We still believe that the Fed has a strong desire to move in 2015. Therefore, we see a postponement to 2016 only if the global market uncertainties persist and feed into economic data, which we believe is unlikely.

Eurozone: ECB interest rates to remain on hold

The ECB is expected to leave monetary policy unchanged at its 3 September meeting. The focus will likely be on the updated staff projections, with the renewed oil price decline possibly leading to a downward revision to the ECB's inflation forecast. We would not expect a forecast change to have any near term monetary policy implications. A dovish message could also help to avoid any short term EUR re-appreciation linked to market volatility. Much of the EUR strengthening earlier last week had been reversed by the end. Elsewhere, India publishes its 2Q GDP data this week. The consensus expects a slight moderation in headline GDP growth to 7.4% y-o-y, from 7.5% in 1Q. We believe that 2Q GDP could be higher than the consensus due to a pickup in trade, construction, and government expenditure.

I. Recent Data and Events

A. MENA Economies

UAE: Lowers fuel prices for September, reflecting market developments

Gasoline prices cut by some -8% m-o-m in September, diesel around -9% lower

The Ministry of Energy has announced lower fuel (gasoline and diesel) prices for September, the second month of partially deregulated prices. The lower prices m-o-m in September and the weaker outlook for global oil prices point to a more muted impact of the fuel reforms on headline inflation. The average increase in gasoline prices for August and September has been around 19-20%, which is likely to result in a combined 0.6-0.8 ppt increase in headline inflation for the two months versus the July level. On the diesel side, much will depend on the extent to which corporates pass on the lower costs. We expect some deceleration in transport inflation from the lower diesel prices.

Fig. 1. UAE: Fuel prices cut for September, reflecting weaker crude prices

	AED per litre			% change, m-o-m	
	Regulated Price	Aug-15	Sep-15	Aug-15	Sep-15
Unleaded gasoline 98 (Super)	1.83	2.25	2.07	23	-8
Unleaded gasoline 95 (Special)	1.72	2.14	1.96	24.4	-8.4
Gasoline E Plus 91	1.61	2.07	1.89	28.6	-8.7
Diesel (Abu Dhabi)	2.35	2.05	1.86	-12.8	-9.3
Diesel (Dubai)	2.9	2.05	1.86	-29.3	-9.3

Source: UAE Ministry of Energy

Oil likely oversold with China-led market volatility

Following the initial partial deregulation of the fuel price in August, market movements seem to be playing a greater role in setting subsequent prices. The fall in September prices likely reflects the sharp decrease in global crude prices in August. We see limited further downside risks to crude prices, and therefore do not expect fuel prices to be lowered again for October. We believe that the oil price has been oversold with the China-led market volatility, and could gradually increase if markets stabilise. Indeed, crude prices rebounded at the end of last week, to USD50 p/b for Brent. Nevertheless, the lower m-o-m fuel prices for September reflect the benefit of reducing fuel subsidies in a weak oil price environment. Moreover, the fact that the lower gasoline prices were passed on to the consumer, when we believe that they have likely not been fully liberalised, indicates a desire to balance fiscal reform with limiting the impact on growth.

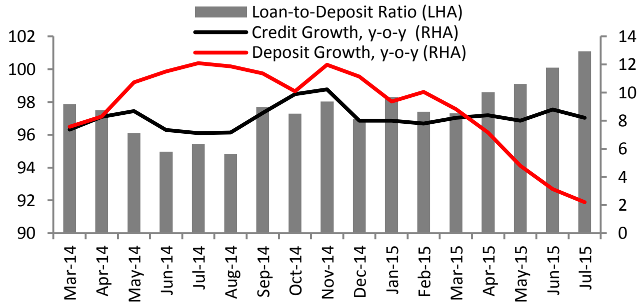
UAE: Credit growth moderates in July, seasonal factors impact

Credit growth moderates marginally to 8.2% y-o-y in July

System wide credit growth moderated to 8.2% y-o-y (0.3% m-o-m) in July, from 8.8% y-o-y (1% m-o-m) in June. We believe that this moderation largely reflects the quieter summer season. However, we expect credit growth to be weaker in 2H2015 – on the back of signs of softer economic activity – than the solid expansion seen in 1H (0.8% m-o-m on average). In a departure from previous months, private sector credit growth contracted -0.3% m-o-m in July, led by the corporate sector (-0.9%). We believe that the overall weaker corporate credit growth so far in 2015 (compared to the levels seen in 2014) reflects a more cautious approach by businesses in light of the weaker oil price. Retail credit growth accelerated to 1.2% m-o-m, which we partly attribute to increased borrowing for summer holidays.

Fig. 2. UAE: Continued y-o-y deceleration in deposit growth contributing to tightening banking sector liquidity

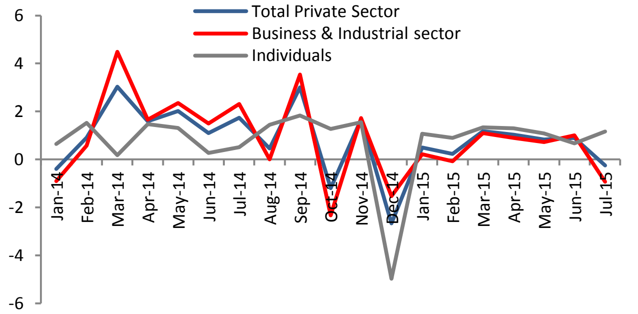
Ratio (LHA); % change y-o-y (RHA)



Source: Central Bank of the UAE

Fig. 3. UAE: Corporate credit growth drags down total private sector credit growth in July

% change m-o-m



Source: Central Bank of the UAE

Deposit growth weak at 2.2% y-o-y

Total deposits in the banking sector fell -0.6% m-o-m in July, the second consecutive monthly drop. This led deposit growth to moderate to 2.2% y-o-y. Banking sector liquidity is tightening, with credit growth outpacing deposit growth, though liquidity remains comfortable.

Saudi Arabia: Expresses support for currency pegs; looking to pull back spending

Maintaining market share will be main objective of GCC oil producers

We expect the GCC members of OPEC to continue with their policy of maintaining strong oil production despite the double dip in prices. This is despite certain other OPEC members indicating that they would like to meet to discuss production cuts to support prices. We believe that the GCC producers will continue to look to defend market share, especially ahead of increased oil exports from Iran next year. US output has been more resilient so far in 2015 than initially expected, though an adjustment lower is still expected in 2H2015 and into 2016. Overall, the GCC economies remain in a stronger fiscal position than many of the other oil producers, and are able to continue with their oil policy. A cutback in OPEC production would likely only support non-OPEC output, especially if there is some initial price support. Meanwhile, we continue to highlight that we do not expect any changes to the GCC currency pegs to the USD. Speculation on the SAR forwards market partially eased last week, after a senior SAMA official indicated that the central bank remains committed to the peg.

Saudi Arabia looking to rationalise spending

However, with the sharply lower oil price, there is a need to retrench spending and progress with fiscal reforms. There are indications that Saudi Arabia is looking to tighten its fiscal policy, after a highly expansionary stance in 1H2015. Riyadh is working with advisers to review capital expenditure. We believe that lowering government spending will be critical to narrowing the fiscal deficit from 2015's estimated level of some 18% of GDP. Other fiscal reforms are also required (subsidies, tax reforms), though we do not expect progress on this front in the short term. While there will likely be greater rationalisation in capital expenditure, core projects (especially in the social sphere) are expected to continue. Domestic reforms (taxes on undeveloped land), changes to senior government positions and institutions suggest a proactive stance aimed at removing bottlenecks to Saudi Arabia's economic development plans. The need remains to progress with projects to upgrade infrastructure (utilities and housing).

To some degree, the removal of the succession bonus payment (made in 1Q2015) will result in weaker government spending in 2016.

B. G4 Economies

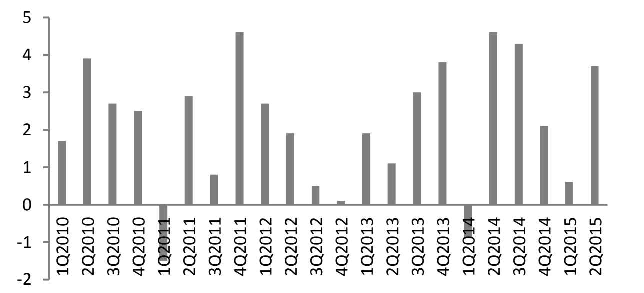
US: 2Q GDP data revised up on stronger investment and private consumption

Private investment sees particularly strong upward revision

US 2Q real GDP growth was revised up to 3.7% q-o-q SAAR in the second reading, from 2.3% in the initial print. The scale of the upward revision surprised the market, and the driver of the stronger growth was also positive. The revision was driven mainly by substantially higher private investment growth (to 5.2% q-o-q from 0.3%), though most GDP components saw a stronger reading in the second estimate. The stronger investment growth was consistent with the positive revisions to durable goods orders. Personal consumption growth was also revised moderately higher (to 3.1% q-o-q, from 2.9% previously). Part of the robust 2Q performance was due to a catchup in investment and personal spending following the harsh weather and one-off factors in 1Q. GDP growth is expected to moderate to a more sustainable level in 2H versus the 2Q reading, while still remaining solid.

Fig. 4. US: 2Q GDP sharply revised up to 3.7% q-o-q SAAR, on back of stronger private investment

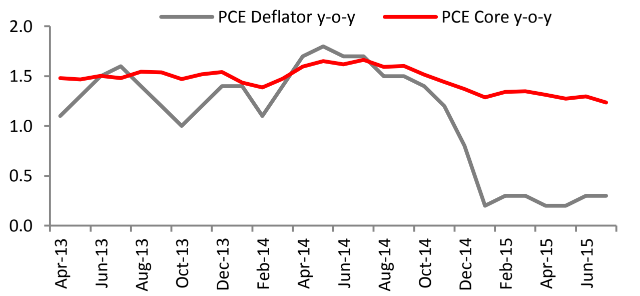
% change q-o-q (SAAR)



Source: Bloomberg

Fig. 5. US: Inflation remains weak, despite economic growth indicators showing solid activity

% change y-o-y



Source: Bloomberg

Personal spending growth remains steady at 0.3% m-o-m in July

Personal spending: Growth came in at 0.3% m-o-m in July, unchanged from the upwardly revised 0.3% m-o-m in June (up from 0.2% m-o-m initially). It was only slightly below the consensus of 0.4% m-o-m. Despite the steady increase in consumption, inflation remained muted. The core PCE rose 0.1% m-o-m in July, for a fourth straight month and in line with expectations. On a y-o-y basis, the core PCE price index moderated to 1.2%, down from 1.3% in June.

Goods orders point to pickup in corporate investment

Capital goods orders: These were strong in July, surprising on the upside. Durable goods orders increased 2% m-o-m, following an upwardly revised 4.1% m-o-m surge in June. Non-defence capital goods orders (excluding aircraft) rose a robust 2.2% m-o-m in July; this was the highest level since June 2014. This indicator is an important leading gauge of business investment, and tentatively indicates that corporate spending was gaining momentum, though further data are required to see whether a trend is building.

US: Comments by Fed members highlight potential headwinds to September rate hike from stock market volatility

Global market volatility may delay Fed in raising rates...

Comments by FOMC members last week indicated that the global stock market turmoil has weakened the case for raising interest rates in September. FOMC Vice Chairman William Dudley said that a September rate increase is looking “less compelling” than it was a few weeks ago, though he cautioned against overreacting to short term developments. Consequently, market developments, alongside economic data, will also be important to the Fed’s decision making regarding a September hike in the coming weeks.

... though could fade quickly

However, the door still remains open for a September rate hike (our core scenario) if market volatility calms. Fed Vice Chairman Stanley Fischer highlighted at the Jackson Hole symposium that the volatility on global markets could ease quickly, paving the way for a rate hike. Moreover, he highlighted that with inflation low, the Fed could “probably remove accommodation at a gradual pace” and that the Fed “should not wait until inflation is back to 2% to begin tightening”. Early last week, Atlanta Fed President Dennis Lockhart said that he continues to expect a first rate hike in 2015, though that the stronger USD, weaker CNY, and falling oil prices complicate the outlook. We believe that the strong data out of the US last week, especially 2Q GDP, keeps a September interest rate hike very much in play. The August labour data, released this week, will be critical.

Germany: Net exports support 2Q GDP growth

Domestic drivers disappointing in 2Q

Germany’s 2Q GDP growth was confirmed at a solid 0.4% q-o-q in 2Q, in line with 1Q. Net exports were the main positive growth driver, contributing 0.7 ppt. Exports grew 2.2% q-o-q, whilst imports expanded 0.8%. However, the other areas were disappointing – consumer spending grew a modest 0.2% q-o-q, and investment in plant & equipment declined -0.4%. Meanwhile, the August IFO business climate index surprised on the upside, rising to a three month high. The index came in at 108.3, above the 108 seen in July and the consensus expectation of 107.6. This suggests continued solid economic growth into 3Q.

Eurozone: Weak EUR remains essential for Europe’s ongoing recovery

Credit growth momentum rising

Given the support to Eurozone growth from external demand, a key objective of the ECB will likely be to avoid a strengthening in the EUR. A weak EUR is QE's most tangible result, and in line with this, ECB Executive Board Member Peter Praet indicated that the central bank is ready to expand or extend its bond buying program if necessary. He highlighted that the recent developments in the world economy and on commodity markets have increased the downside risk to achieving the 2% inflation target. This message will likely be echoed at the ECB’s meeting this week, when we expect monetary policy to be kept steady.

Meanwhile, the latest credit data show a continued buildup in loan growth momentum in the Eurozone. Loan growth to the private sector accelerated to 1.4% y-o-y in July (from 0.9% in June). Positively, the July pickup was driven by stronger loan growth to non-financial corporates (up to 0.9% y-o-y in July, from 0.2% in June). However, retail credit growth continued to expand at a faster pace in July (1.9% y-o-y).

C. Emerging Market Economies

China: Cuts interest rates and RRR to support growth; further measures expected

Twin policy steps aimed at calming markets and supporting growth

The PBoC announced a combination of interest rate cuts and a lowering of the reserve requirement ratio (RRR) on 25 August, aimed at bolstering economic activity and market sentiment following the sharp falls in the stock market. The monetary loosening was also likely in response to tighter banking sector liquidity following the weakening of the CNY earlier in August. The measures announced include:

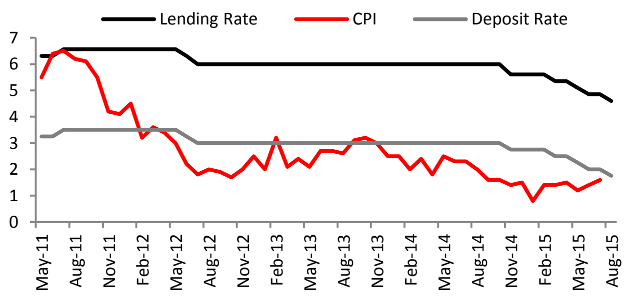
- A 25 bps cut in the one year lending rate (to 4.6%) and deposit rate (1.75%), effective 26 August. This was the fifth rate cut since November 2014, and both rates are at historical lows. The lending rate is now substantially below the 5.3% level seen in 2009 during the financial crisis.

- The RRR was cut by 50 bps for all banks effective 6 September. There was an additional 50 bps reduction for rural financial institutions, and an additional 300 bps cut for financial leasing and auto financing companies.

- As a further step towards interest rate liberalisation, the PBoC removed the interest rate ceiling for deposits with maturities above one year.

Fig. 6. China: Low inflation levels provide space for further interest rate cuts

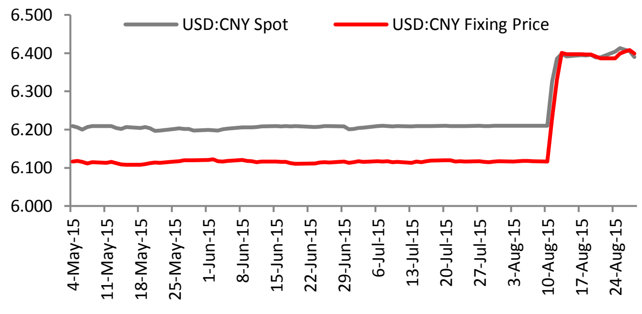
%



Source: Bloomberg

Fig. 7. China: CNY weakens only very gradually over last two weeks

USD/CNY



Source: Bloomberg

We continue to expect further interest and RRR cuts in 2015

The policy was in line with our expectations, though it points to a more direct approach to support China's growth outlook and a refocusing on fundamentals (as opposed to the recent focus on the stock market). The RRR cut will likely be the most significant element of the PBoC action, and is expected to inject CNY650-700 billion into the banking sector. However, the 50 bps reduction will largely offset the liquidity drain seen in August following the PBoC's increased FX intervention. As such, we expect further monetary easing in order for China to meet its 7% growth target for 2015, including a further 25-50 bps of rate cuts and a 50-100 bps lowering of the RRR before the end of the year. Low inflation and market rates remaining high in real terms provide space for further monetary easing, especially as the foundations of any economic recovery remain uncertain.

Policy support on all fronts, but more complex policy mix

China is now supporting the economy through various channels, including making multiple interest rate cuts, increasing liquidity, weakening the CNY, and implementing expansionary fiscal policy. With the further expected monetary loosening, GDP growth should come close to the government's target in 2015, and possibly rise into 2016. However, a sharper reduction in interest rates is unlikely, as this would place downward pressure on the CNY and risk capital flight, adding stress to the financial system. The expected weakening of the CNY over the next year is likely to be gradual to avoid a currency war that could spark a broader financial crisis.

II. Economic Calendar

Fig. 8. Upcoming Events and Data Releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	Bahrain	M2, y-o-y	Jun	6.6%	--
	Qatar	M2, y-o-y	Jul	9.9%	
	Bahrain	CPI, y-o-y	Jul	1.7%	--
Monday, 31 Aug					
3:50	Japan	Industrial Production, m-o-m	Jul P	1.1%	0.1%
4:50	Japan	Industrial Production, y-o-y	Jul P	2.3%	0.8%
13:00	Eurozone	CPI Estimate, y-o-y	Aug	0.2%	0.1%
13:00	Eurozone	CPI Core, y-o-y	Aug A	1%	0.9%
16:00	India	GDP, y-o-y	2Q	7.5%	7.4%
Tuesday, 1 Sept					
5:00	China	Manufacturing PMI	Aug	50	49.7
5:35	Japan	Nikkei Japan PMI Mfg	Aug F	51.9	--
9:00	India	Nikkei India PMI Mfg	Aug	52.7	--
11:55	Germany	Markit/BME Germany Manufacturing PMI	Aug F	53.2	53.2
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Aug F	52.4	52.4
12:30	UK	Markit UK PMI Manufacturing SA	Aug	51.9	52
13:00	Eurozone	Unemployment Rate	Jul	11.1%	11.1%
17:45	US	Markit US Manufacturing PMI	Aug F	52.9	52.9
18:00	US	ISM Manufacturing	Aug	52.7	52.5
21:10	US	Fed's Rosengren to Speak on Economic Outlook			
Wednesday, 2 Sept					
16:15	US	ADP Employment Change	Aug	185K	200K
18:00	US	Factory Orders	Jul	1.8%	0.9%
18:00	US	Factory Orders, ex-Trans	Jul	0.5%	--
22:00	US	US Federal Reserve Releases Beige Book			
Thursday, 3 Sept					
9:30	UAE	UAE PMI	Aug	55.8	--
9:30	Saudi Arabia	Saudi Arabia PMI	Aug	57.7	--
13:00	Eurozone	Retail Sales, m-o-m	Jul	-0.6%	0.5%
15:45	Eurozone	ECB Main Refinancing Rate	3-Sep	0.05%	0.05%
15:45	Eurozone	ECB Deposit Facility Rate	4-Sep	-0.2%	-0.2%
16:30	US	Initial Jobless Claims	29-Aug	271K	275K
16:30	US	Trade Balance	Jul	-USD43.8B	-USD43B
18:00	US	ISM Non-Manf. Composite	Aug	60.3	59
Friday, 4 Sept					
16:30	US	Change in Nonfarm Payrolls	Aug	215K	220K
16:30	US	Unemployment Rate	Aug	5.3%	5.2%
16:30	US	Average Hourly Earnings, m-o-m	Aug	0.2%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Aug	2.1%	2.1%
16:30	US	Labour Force Participation Rate	Aug	62.6%	--

* UAE time
Source: Bloomberg

Fig. 9. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
GCC data						
	Saudi	M2 Money Supply, y-o-y	Jul	12.4%	--	10.2%
	Kuwait	CPI, y-o-y	Jul	3.5%	--	3.6%
Tuesday, 25 Aug						
6:00	China	Conference Board China July Leading Economic Index				
10:00	Germany	GDP SA, q-o-q	2Q F	0.4%	0.4%	0.4%
10:00	Germany	GDP NSA, y-o-y	2Q F	1.6%	1.6%	1.6%
12:00	Germany	IFO Business Climate	Aug	108	107.6	108.3
12:00	Germany	IFO Current Assessment	Aug	113.9	113.9	114.8
12:00	Germany	IFO Expectations	Aug	102.3	102	102.2
17:45	US	Markit US Composite PMI	Aug P	55.7	--	55
17:45	US	Markit US Services PMI	Aug P	55.7	--	55.2
18:00	US	Consumer Confidence Index	Aug	91	93.4	101.5
18:00	US	Richmond Fed Manufact. Index	Aug	13	10	0
	Japan	Cabinet Office Monthly Economic Report for August				
Wednesday, 26 Aug						
5:45	China	Westpac-MNI Consumer Sentiment	Aug	114.5	--	116.5
16:30	US	Durable Goods Orders, m-o-m	Jul	4.1%	-0.4%	2%
16:30	US	Capital Goods Orders, ex-aircrafts, m-o-m	Jul	1.4%	0.3%	2.2%
16:30	US	Capital Goods Orders, nondefense ex-aircrafts, m-o-m	Jul	0.9%	-0.1%	0.6%
Thursday, 27 Aug						
10:00	UK	Nationwide House PX, m-o-m	Aug	0.4%	0.4%	0.3%
16:30	US	GDP Annualized, q-o-q saar	2Q S	2.3%	3.2%	3.7%
16:30	US	Personal Consumption, q-o-q saar	2Q S	2.9%	3.1%	3.1%
16:30	US	Initial Jobless Claims	22-Aug	277K	274K	271K
	US	Kansas City Fed Hosts Symposium in Jackson Hole, Wyoming				
Friday, 28 Aug						
3:30	Japan	Natl CPI, y-o-y	Jul	0.4%	0.2%	0.2%
3:50	Japan	Retail Trade, y-o-y	Jul	1%	1.1%	1.6%
12:30	UK	GDP, q-o-q	2Q P	0.7%	0.7%	0.7%
12:30	UK	GDP, y-o-y	2Q P	2.6%	2.6%	2.6%
13:00	Eurozone	Economic Confidence	Aug	104	103.8	104.2
13:00	Eurozone	Consumer Confidence	Aug F	-6.8	--	-6.9
16:00	Germany	CPI, y-o-y	Aug P	0.2%	-0.1%	0.2%
16:30	US	Personal Income	Jul	0.4%	0.4%	0.4%
16:30	US	Personal Spending	Jul	0.3%	0.4%	0.3%
16:30	US	PCE Deflator, y-o-y	Jul	0.3%	0.3%	0.3%
16:30	US	PCE Core, m-o-m	Jul	0.1%	0.1%	0.1%
16:30	US	PCE Core, y-o-y	Jul	1.3%	1.3%	1.2%
18:00	US	U. of Mich. Sentiment	Aug F	92.9	93	91.9

* UAE time
Source: Bloomberg

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