The Week Ahead: Chinese data to dominate releases; BoE to maintain policy

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

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Asia: Chinese macroeconomic data for August to be released

The key focus this week will be on Chinese macroeconomic data for August, including trade, credit, and inflation. Markets will look to gauge the impact of the fall in the Chinese stock market on the real economy. Any indications of a hard landing would likely lead to further volatility in Chinese and global markets, alongside expectations of fresh stimulus measures from Beijing. Export data is expected to remain weak, hampered by a loss of competitiveness. The CNY depreciated by about 3% against the USD in August, insufficient to boost China's exports tangibly in the near term. The consensus is for China's inflation in August to have risen to 1.9% y-o-y (from 1.6% in July), with some strengthening in domestic demand. Meanwhile, China last week introduced measures to reduce speculation in the stock market and against the CNY.

UK: BoE to keep monetary policy steady

We expect the BoE to keep rates and the asset purchase programme on hold at its 10 September meeting. The focus will be on the bank's assessment of the recent China-led market volatility and weakening commodity prices, and the voting pattern of the Monetary Policy Committee (MPC). The tone of the minutes (released on the same day as the meeting) could be more dovish, even though the UK trades relatively little with China. In comments last week, BoE Governor Mark Carney indicated that the recent events have not yet changed the MPC's monetary policy strategy. We continue to see February 2016 as the liftoff point for UK interest rates.

US: No meaningful data releases this week; NFPs disappoint

There are no significant data releases from the US this week. Markets will continue to digest the August labour report, which will be viewed in conjunction with market developments ahead of the FOMC's 16-17 September meeting. While the headline job growth disappointed (173K), the rest of the August labour data was solid. Overall, the data showed "some" further improvement, as required by the Fed. We therefore stick to our core scenario that the Fed will hike on 17 September, barring any sharp increase in market volatility. However, if turbulence is high over the next two weeks, the interest rate liftoff may be moved to October or December.

GCC: August PMI indicates strengthening in non-oil activity

Headline PMI for the UAE and Saudi Arabia strengthened in August, despite the drop in the oil price. The data point to non-oil activity remaining comfortably in expansionary territory. Nevertheless, we attribute some of the August strengthening in the PMI to a catchup effect following Ramadan and the summer period. The double-dip in the oil price is likely to impact private sentiment in 2H2015.

I. Recent Data and Events

A. MENA Economies

UAE: PMI data point to solid domestic demand, rising to six-month high

Indications of domestic demand solid

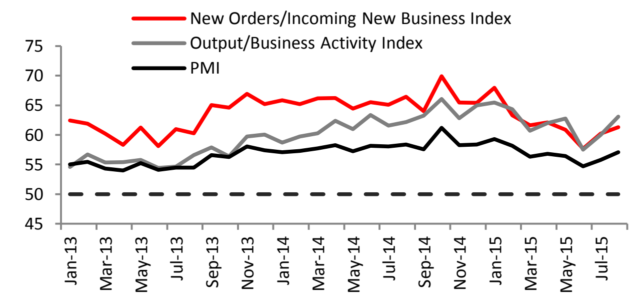
The PMI data pointed to a m-o-m pickup in non-oil activity in August. This was the second monthly increase in the PMI, indicating that the slower activity in June was due largely to the start of Ramadan. Headline PMI strengthened to 57.1 (a reading above 50 indicates expansion), which was its highest reading since February 2015. This was up from 55.8 in July and 54.7 in June. Particularly positive was the continued rise in new orders, which reflected solid underlying demand. New orders increased to a healthy 61.3 in August, from 60.2 in July. The data point to this rise being driven by domestic demand; export order growth slowed in August to 54.4, its lowest reading in two years. Other key components also increased, including business activity, which strengthened to a robust 63.1.

August data could have been supported by catchup

We attribute the strong data partly to a catchup following the Ramadan period. Moreover, the survey suggested that promotional events supported business activity and output. The overall data give some comfort by suggesting that that the slower economic activity in June was temporary. The PMI data were in line with our view that non-oil activity remains comfortably expansionary. Nevertheless, the lower oil price, strong USD, and weakening regional demand are providing headwinds to the macroeconomic environment.

Fig. 1. UAE: PMI rises to six-month high in August, indicating solid macroeconomic environment

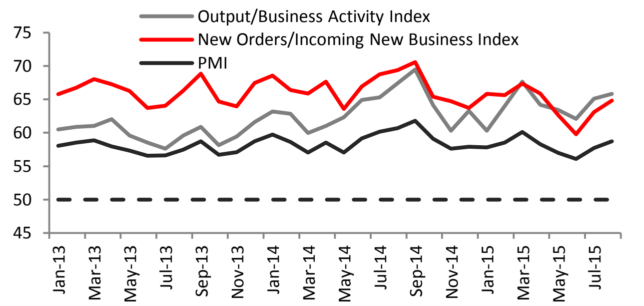
Index reading above 50 indicates expansion



Source: Markit Economics

Fig. 2. Saudi Arabia: Non-oil activity particularly strong in August, likely supported by investments

Index reading above 50 indicates expansion



Source: Markit Economics

Saudi Arabia: PMI index rises to 58.7 in August, pointing to solid non-oil activity

New orders and business output comfortably above 60

The PMI data also pointed to a strengthening in Saudi Arabia's non-hydrocarbon activity in August, with a catchup due to seasonal factors again likely contributing. The headline PMI reading rose to 58.7 in August, up from 57.7 in July and 56.1 in June. A number of key subcomponents of the index saw stronger readings of above 60, pointing to solid expansion in underlying activity. These included new orders at 64.8 in August (63.1 in July) and output at a robust 65.8 (65.1 in July).

Move down in oil price since July a key risk

We continue to see strong government spending and progress with the investment programme underpinning domestic demand and non-oil activity. GDP data for 2Q2015 showed that real non-oil growth remained broadly steady at 3.1% y-o-y, despite the removal of the support provided by the succession bonus payment in 1Q. Moreover, a strong increase in Saudi Arabia's refining capacity is boosting manufacturing output, which is likely being reflected in the strong PMI data. Nevertheless, we see risks from the move down in the oil price since July 2015, which is likely to impact consumer and corporate sentiment. For more details of 2Q GDP developments, please see our note – **Saudi Arabia: Real GDP growth accelerates in 2Q on higher oil production (31 August 2015)**.

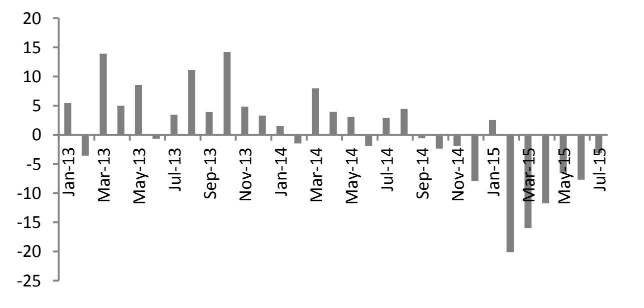
Saudi Arabia: NFAs fall at a weaker pace in July as government starts issuing bonds

Government drawing down NFAs and deposits in banking sector to cover fiscal deficit

Monetary data showed a moderation in the drawdown of net foreign assets (NFAs) in July, compared to the previous months. We attribute this largely to the government starting to issue debt in July to cover part of the fiscal deficit and broaden its finding sources. NFAs held at SAMA fell -0.5% m-o-m in July, compared to -1.2% m-o-m in June. This was the weakest drop in NFAs so far in 2015; they averaged -1% m-o-m in 1H2015. Government deposits in the banking sector also fell at a more moderate pace in July, by -0.8% m-o-m (versus -1.3% m-o-m in June).

Fig. 3. Saudi Arabia: NFAs held by SAMA fall in July by smallest amount in six months

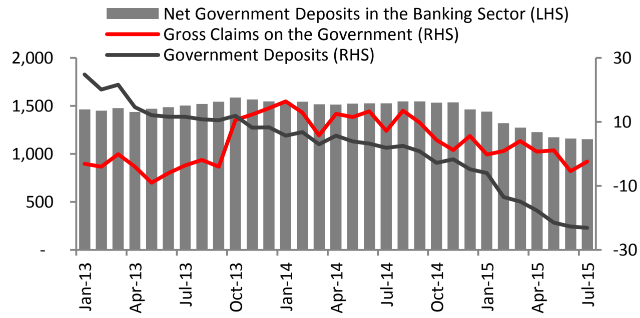
USD billion



Source: SAMA

Fig. 4. Saudi Arabia: Net government deposits in banking sector were broadly stable in July

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



Source: SAMA

Further debt issuances expected in 2H to limit FX reserve erosion

The July debt issuance (USD15 billion) had been placed privately with Saudi Arabian quasi-sovereign institutions. However, the Finance Ministry's SAR20 billion (USD5.3 billion) of bonds issued in August were accessible to local banks and financial institutions. This was the first time that banks had been able to buy sovereign debt since 2007. We expect further bond issuance in 2015 given our budget deficit forecast and the government's low debt. Market indications suggest that Saudi Arabia is looking to issue some SAR100 billion before year end, including the SAR20 billion last week. As such, we continue to expect a weaker drawdown of NFAs and government deposits in the banking sector compared to 1H. Meanwhile, the banking sector's non-statutory deposits with SAMA fell for a second consecutive month in July. We see the June and July fall as a possible move to free up liquidity in anticipation of the expected sovereign bond issuance.

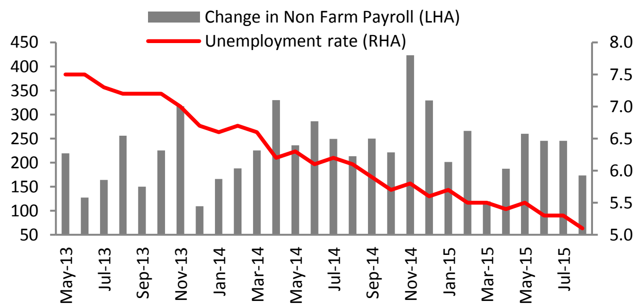
Egypt: "Supergiant" gas field discovered, positive medium-term economic implications

Equivalent to 46% of Egypt's gas reserves before discovery

Italian energy company Eni announced last week that it had discovered the "supergiant" Zohr gas field in deep waters off Egypt. The company said that the field could hold 30 trillion cubic feet (tcf) of gas, equivalent to 5.5 billion barrels of oil. This would represent around 46% of Egypt's gas reserves before the find (65.2 tcf at end 2014), and be equivalent to around 15 years' worth of domestic consumption. The discovery has a number of important economic implications for Egypt, including supporting the fiscal and current account positions. In the medium term, the reduced need for imports could eventually lower the trade deficit by some 0.7% of GDP per annum (based on FY2014-15 data). The bulk of the Zohr field's gas is expected to be supplied to the Egyptian domestic market, with some potential for exports. Egypt's economy suffers from severe gas shortages, creating a significant bottleneck for the industrial sector. ENI has initially indicated that it could take 30-36 months to start production.

Fig. 5. US: Unemployment falls to 5.1% in August, despite weaker-than-expected job growth

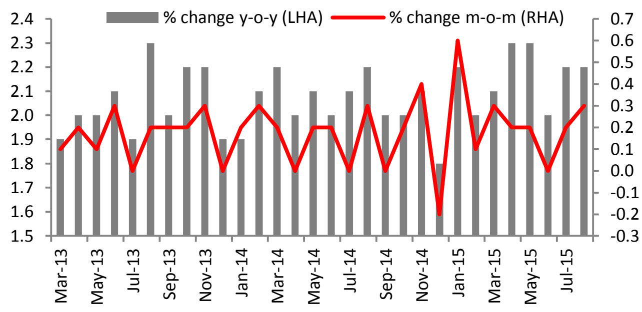
'000 (LHA), % (RHA)



Source: Bloomberg

Fig. 6. US: Wage growth rises to 0.3% m-o-m in August; still weak, but higher than consensus

% change



Source: Bloomberg

B. G4 Economies

US: Job creation in August disappoints at 173K; revisions likely

August data tends to see significant upward revisions

NFPs increased by 173K in August, below market expectations of 217K. Although the headline number disappointed, the rest of the report was solid. The prior two months' payrolls were revised up by 44K in total, leaving average job growth of 221K for the three months and 205K for the six months. Moreover, as we highlighted in last week's Global Data Watch, August NFPs tend to underestimate in their first reading, and are subsequently given significant upward revisions. Since 2000, August payrolls have been revised up by an average 35K.

Unemployment falls to 5.1% in August, matching Fed's longer-term forecast

On the positive side, the unemployment rate dropped more than expected, to 5.1% in August from 5.3% in July. This was the lowest rate since April 2008, and matched the Fed's median forecast for longer-term unemployment. Importantly, the fall in the unemployment rate was due more to previously unemployed people finding jobs, and less to unemployed people dropping out of the labour force. Average hourly earnings, though remaining weak, came in above the consensus. Wages increased 0.3% m-o-m (versus 0.2% in July), and 2.2% on a yearly basis.

US domestic economy sufficiently strong, though China and financial market turmoil remain risks

The labour data showed the "some" further improvement required by the Fed, in our view. As such, we retain our expectation of a 25 bps increase in the Federal Funds Target Rate on 17 September. Moreover, in his speech at Jackson Hole, Fed Vice Chairman Stanley Fischer emphasised that the Fed judges the current factors holding down US inflation to be transitory. However, the China-led concerns over EM growth and financial market volatility remain key risks. We believe that if markets remain calm in the coming two weeks, then the labour data will be sufficient for a rate hike. However, if turbulence is high, then the interest rate liftoff may be moved to October or December.

ECB: Reduces forecasts, increases borrowing limits

Growth and inflation forecasts revised lower

The ECB kept its monetary policy unchanged last week, in line with expectations. However, the post-meeting statement and revisions were significantly bearish, heightening expectations that the ECB will extend its QE programme. The bank cut its growth and inflation forecasts on the back of the recent market volatility, EM weakness (particularly in China), and the lower oil price. The downward revisions to the 2015 to 2017 forecasts were sharper than expected – under the new forecasts, inflation does not even reach the 2% target in 2017. The new projections point to weak recovery in the Eurozone. GDP growth was revised lower, to 1.4% in 2015 (from 1.5%), 1.7% in 2016 (from 1.9%), and 1.8% in 2017 (from 2%). The ECB has attached downside risks to its latest forecasts, given that the cut-off date for the projections was 12 August, thus predating most of the recent market turbulence and the further drop in oil prices.

Technical measures introduced to extend QE programme if required

Significantly, ECB President Mario Draghi said explicitly for the first time that the bond buying program may run beyond September 2016, and that the bank may adjust its size and composition. Moreover, Draghi announced technical measures to increase the scope of the ECB's QE programme. The self-imposed limit on how much of each bond issue the ECB can buy was raised to a 33% share, from 25%. However, the Governing Council has not yet discussed any potential changes to the asset purchase program.

Weak EUR currently a priority, in our view

We believe that the ECB's assessment of the recent market volatility on the Eurozone's growth outlook and monetary conditions might have been excessively negative. The domestic outlook is relatively healthy, leading growth indicators are largely improving, lending is increasing, and unemployment is falling. However, the external outlook is moderating. We believe that this ultra-dovish statement was likely aimed at reducing any appreciation pressures on the EUR in the shorter-term, especially during heightened market volatility. Draghi also highlighted the divergence of monetary policies with the US. Nevertheless, with the new inflation forecasts effectively saying that the current QE programme is insufficient to meet the ECB's inflation, we believe that QE is likely to continue beyond September 2016.

C. Emerging Market Economies

India: 2Q real GDP growth weaker than expected, further rate cuts likely

Consumption growth decelerates in 2Q

India's GDP growth moderated to 7% y-o-y in 2Q2015, from 7.5% in 1Q. This was below the consensus of 7.4% y-o-y growth. Private consumption, which accounts for 59% of GDP, was a key area of disappointment, with growth decelerating to 7.4% y-o-y in 2Q (from 7.9% in 1Q). However, this was at odds with wider high frequency data, which pointed to a pickup in urban spending. This included domestic passenger car sales rising 8.7% y-o-y in 2Q, more than double the pace seen in 1Q. Consequently, we believe that rising urban spending could result in stronger consumption growth for the remainder of the year. The pass-through of earlier benchmark interest rate cuts by commercial banks and lower energy prices should also support consumption. Investment growth continued to strengthen after bottoming out in 4Q2014; it came in at 4.9% y-o-y in 2Q2015 versus 4.1% in 1Q.

Softer growth recovery supports outlook for earlier rate cut

Nevertheless, the relatively slow recovery and weak inflation environment support the outlook for an additional rate cut. We expect a further 25 bps interest rate cut in 1Q2016, on the back of signs of a limited underlying buildup in inflationary pressure. The RBI could move earlier if the potential US rate hike has a benign impact on inflation, food prices remain in check, and there is greater transmission of the earlier rate cuts. We believe that the RBI could wait for the September inflation reading (when the favourable base effect is removed from inflation data). This removal should lead inflation to pick up; the RBI expects it to begin rising in September. However, if the August inflation data sufficiently shows a limited buildup, then a 25 bps rate cut on 29 September is possible.

Fig. 7. India: Real GDP growth decelerates to 7%, pointing to slow buildup in economic momentum

% change y-o-y

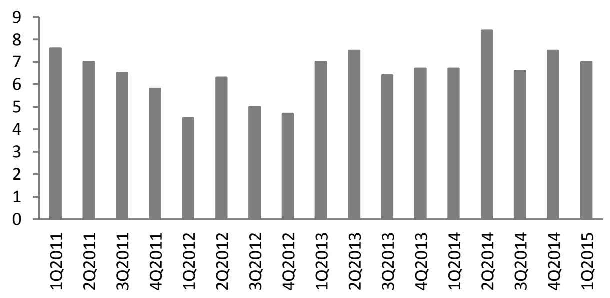
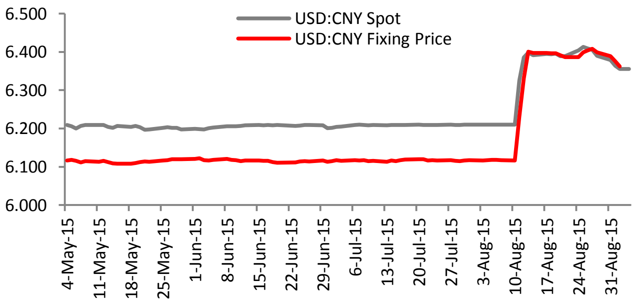


Fig. 8. China: CNY strengthens against USD last week, following measures to reduce currency speculation

USD/CNY



Source: Bloomberg

China: PBoC looking to reduce CNY and stock market speculation

China reducing expectations of strong CNY weakening

The PBoC announced last week that from 15 October, banks must hold the equivalent of 20% of FX forward positions with the central bank for a year at 0% interest. The reserves are to be denominated in USD. Reuters reported that the base for calculating reserves will be the nominal value of new contracts that clients sign with banks to purchase USD, or banks' actual USD sales to clients. We see this move as aiming to dampen speculative CNY positions and stem the FX reserve decline linked to the recent interventions to stabilise the CNY. China has been moving to reduce expectations of strong CNY depreciation following the initial August devaluation. Earlier last week, Premier Li Keqiang commented that the CNY is unlikely to decline further.

In an additional move to reduce stock market speculation, the margin requirements for non-hedging futures contracts will rise to 40% of contract values from 7 September, from 30%. Margin requirements for hedging futures contracts are also to rise, to 20% from 10%.

II. Economic Calendar

Fig. 9. Upcoming Events and Data Releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	Kuwait	M2 Money Supply, y-o-y	Jul	4.1%	--
	Oman	CPI, y-o-y	Aug	0.5%	--
	Saudi Arabia	Non-Oil Exports, y-o-y	Jul	-21.1%	--
	China	New Yuan Loans	Aug	CNY1,480B	CNY800B
	China	Aggregate Financing	Aug	CNY718.8B	CNY1,000B
Monday, 7 Sept					
	Egypt	Gross Official Reserves	Aug	$18.6B	--
10:00	Germany	Industrial Production SA, m-o-m	Jul	-1.4%	1.1%
10:00	Germany	Industrial Production, y-o-y	Jul	0.6%	0.3%
Tuesday, 8 Sept					
	China	Trade Balance	Aug	$43B	$48B
	China	Exports, y-o-y	Aug	-8.3%	-6.7%
	China	Imports, y-o-y	Aug	-8.1%	-8%
3:50	Japan	Trade Balance, BoP basis	Jul	¥102.6B	¥78.7B
3:50	Japan	GDP SA, q-o-q	2Q F	-0.4%	-0.4%
3:50	Japan	GDP Annualized SA, q-o-q	2Q F	-1.6%	-1.8%
3:50	Japan	GDP Private Consumption, q-o-q	2Q F	-0.8%	-0.8%
13:00	Eurozone	GDP SA, q-o-q	2Q P	0.3%	0.3%
13:00	Eurozone	GDP SA, y-o-y	2Q P	1.2%	1.2%
14:00	US	NFIB Small Business Optimism	Aug	95.4	96
Wednesday, 9 Sept					
9:15	UAE	Dubai Economy Tracker SA	Aug	53.1	--
12:30	UK	Industrial Production, m-o-m	Jul	-0.4%	0.1%
15:00	US	MBA Mortgage Applications	4-Sep	11.3%	--
Thursday, 10 Sept					
	Egypt	Urban CPI, y-o-y	Aug	8.4%	--
	Egypt	Urban CPI, m-o-m	Aug	0.7%	--
3:50	Japan	Machine Orders, m-o-m	Jul	-7.9%	3.3%
5:30	China	CPI, y-o-y	Aug	1.6%	1.9%
15:00	UK	BOE Asset Purchase Target	Sep	375B	375B
15:00	UK	Bank of England Bank Rate	10-Sep	0.5%	0.5%
16:30	US	Initial Jobless Claims	5-Sep	282K	275K
Friday, 11 Sept					
	Eurozone	Euro Finance Ministers, Central Bankers Meet in Luxembourg			
16:00	India	Industrial Production, y-o-y	Jul	3.8%	--
18:00	US	U. of Mich. Sentiment	Sep P	91.9	91.2
18:00	US	U. of Mich. Current Conditions	Sep P	105.1	--

* UAE time
Source: Bloomberg

Fig. 10. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
GCC data						
	Saudi Arabia	Real GDP Growth, y-o-y	2Q	2.4%	--	3.8
	Qatar	M2, y-o-y	Jul	9.9%	--	8.7%
Monday, 31 Aug						
3:50	Japan	Industrial Production, m-o-m	Jul P	1.1%	0.1%	-0.6%
4:50	Japan	Industrial Production, y-o-y	Jul P	2.3%	0.8%	0.2%
13:00	Eurozone	CPI Estimate, y-o-y	Aug	0.2%	0.1%	0.2%
13:00	Eurozone	CPI Core, y-o-y	Aug A	1%	0.9%	1.0%
16:00	India	GDP, y-o-y	2Q	7.5%	7.4%	7%
Tuesday, 1 Sept						
5:00	China	Manufacturing PMI	Aug	50	49.7	49.7
5:35	Japan	Nikkei Japan PMI Mfg	Aug F	51.9	--	51.7
9:00	India	Nikkei India PMI Mfg	Aug	52.7	--	52.3
11:55	Germany	Markit/BME Germany Manufacturing PMI	Aug F	53.2	53.2	53.3
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Aug F	52.4	52.4	52.3
12:30	UK	Markit UK PMI Manufacturing SA	Aug	51.9	52	51.5
13:00	Eurozone	Unemployment Rate	Jul	11.1%	11.1%	10.9%
17:45	US	Markit US Manufacturing PMI	Aug F	52.9	52.9	53
18:00	US	ISM Manufacturing	Aug	52.7	52.5	51.1
Wednesday, 2 Sept						
16:15	US	ADP Employment Change	Aug	177K	200K	190K
18:00	US	Factory Orders	Jul	2.2%	0.9%	0.4%
18:00	US	Factory Orders, ex-Trans	Jul	0.6%	--	-0.6%
22:00	US	U.S. Federal Reserve Releases Beige Book				
Thursday, 3 Sept						
9:30	UAE	UAE PMI	Aug	55.8	--	57.1
9:30	Saudi Arabia	Saudi Arabia PMI	Aug	57.7	--	58.7
13:00	Eurozone	Retail Sales, m-o-m	Jul	-0.2%	0.5%	0.4%
15:45	Eurozone	ECB Main Refinancing Rate	3-Sep	0.05%	0.05%	0.05%
15:45	Eurozone	ECB Deposit Facility Rate	4-Sep	-0.2%	-0.2%	-0.2%
16:30	US	Initial Jobless Claims	29-Aug	270K	275K	282K
16:30	US	Trade Balance	Jul	-$45.2B	-$42.2	-$41.9
18:00	US	ISM Non-Manf. Composite	Aug	60.3	58.2	59
Friday, 4 Sept						
16:30	US	Change in Nonfarm Payrolls	Aug	245K	217K	173K
16:30	US	Unemployment Rate	Aug	5.3%	5.2%	5.1%
16:30	US	Average Hourly Earnings, m-o-m	Aug	0.2%	0.2%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Aug	2.2%	2.1%	2.2%
16:30	US	Labour Force Participation Rate	Aug	62.6%	--	62.6%

* UAE time
Source: Bloomberg

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