Economic Research

بنك أبوظبي التجاري
ADCB

Global Data Watch 10-14 October

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The Week Ahead: FOMC minutes and Chinese monetary data key releases

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US: FOMC minutes and September retail sales in focus

Political developments will remain centre stage as markets and political commentators dissect the second US presidential election debate (9 October). Polls indicate that Hillary Clinton's lead over Donald Trump has widened since the first debate on 26 September. Economics wise, focus will be on the minutes of the 21 September FOMC meeting (11 October). The minutes are expected to show the divisions in the committee over the inflation outlook and degree of slack in the labour market. Three members voted for a rate hike, whilst three expected no increase in rates in 2016 (reflected in the 'dot plot'). Markets will look to see if the minutes reinforce the overall message of the post-meeting communication – i.e. the case for an interest rate hike had increased but further evidence was required. A number of FOMC members are also scheduled to speak this week, including Fed Chair Janet Yellen (14 October). Meanwhile, September retail sales (due 14 October) are likely to rebound following the weak performance in August (-0.3%). Consensus estimates that retail sales saw solid growth of 0.6% m-o-m, partly supported by auto sales. Control group sales, which exclude areas such as autos and gasoline, and feed into the GDP calculation, are also expected to see a solid recovery to 0.3% m-o-m (August: -0.1%).

China: Lending data likely to moderate from high levels

Monetary data from China for September is due this week, including that for aggregate and household lending. Overall lending conditions are likely to have remained supportive of households, though we expect some moderation in loan demand from corporates and the government. We estimate aggregate lending moderated to RMB1.35 trillion in September (RMB1.47 trillion in August), partly reflecting lower government borrowing and the impact of measures undertaken by the government to clamp down on off-balance sheet lending to corporates, especially in the real estate sector. On the other hand, we expect new yuan loans to pick up further to RMB1 trillion (RMB949 billion previously), as household credit demand is likely to have remained robust ahead of the October festive season.

India: New MPC debut marks significant policy shift

The first Monetary Policy Committee (MPC) meeting of the RBI under the new governor surprised the markets last week with a 25 bps cut in the repo rate (page 5). There was also a significant shift in the MPC's inflation targeting as it dropped its hard target of 4% by March 2018 for a range (2-6%) and lowered its preferred neutral real interest rate to 1.25% (1.5-2% previously). However, we do not expect a further repo rate cut before March 2017, with inflation likely to remain close to the RBI's target of 5%. Nevertheless, the downward revision of the neutral real money market rate has vital implications for financial markets, in our view. With this change and more flexibility over the inflation rate, we expect the RBI to be more tolerant of higher money-market liquidity. This should be structurally supportive of bond prices, so long as inflation remains within the RBI's targeted range over the next five years.

I. Recent Events and Data Releases

A. MENA Economies

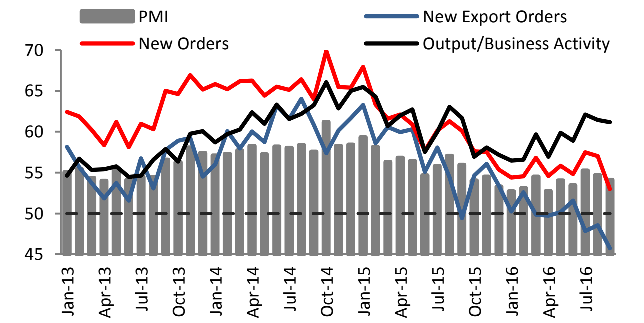
GCC: PMI data show further moderation in non-oil activity in September

Weak external demand continues to impact UAE's non-oil activity

PMIs moderated further in both Saudi Arabia and the UAE in September, indicating a weakening in non-oil activity. In the UAE, the headline reading fell to 54, down from 54.7 in August due largely to new export orders, which dropped notably to 45.7 in September (August: 48.5). A reading below 50 indicates a contraction in activity. As we have highlighted in previous research, the UAE's externally facing sectors are being impacted by the soft external demand (including from the wider GCC) and the strong USD. This is being reflected in a number of sectors including trade, tourism, and logistics. Moreover, new orders moderated by -5 points to 53, which we believe reflects the still-cautious stance being taken by corporates and individuals.

Fig. 1. UAE: New orders remain in contractionary territory since July, reflecting weak external demand

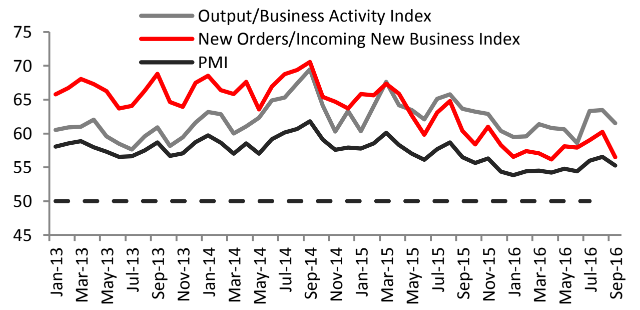
Index, above 50 indicates expansion



Source: Markit Economics

Fig. 2. Saudi Arabia: PMI data suggest stronger economic activity q-o-q in 3Q; we expect a deterioration

Index, above 50 indicates expansion



Source: Markit Economics

Saudi non-oil activity likely contracting despite PMI showing solid growth

Saudi Arabia's headline PMI fell more sharply than the UAE's in September, to 55.3 (August: 56.6). The decrease was due largely to the new orders component, though the readings for employment and output also declined. We remain unconvinced of Saudi Arabia's PMI reading, which continued to indicate strong positive growth in non-oil activity and an overall acceleration in 3Q from 2Q levels. Indicators of economic activity and other interim data point to a q-o-q deterioration in economic activity in 3Q. Moreover, we continue to foresee negative y-o-y non-oil GDP growth in 3Q, and expect it to deteriorate in 4Q as a result of the cuts to public sector benefits and salaries.

Bahrain: Returns to debt market, raising USD2 billion

Demand for paper strong, supported by pricing

Bahrain returned to the bond market last week, raising USD2 billion. The issue was divided equally between a seven-year sukuk at 5.625% and a 12-year conventional bond at 7%. The generous pricing supported demand, with the combined order book closing at in excess of USD7 billion. The pricing was below the initial guidance, alongside being a relative improvement from the February issuance. Foreign borrowing remains critical to financing Bahrain's fiscal deficit, whilst GCC funding is supporting investment activity.

B. G4 Economies

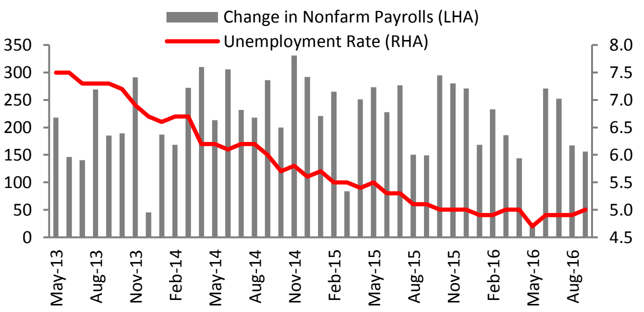
US: September NFP solid, but below market expectation

Labour market still tightening – supportive of December rate hike

The headline NFP data came in below consensus expectations, but the underlying numbers showed healthy gains and a continued tightening in the labour market. We believe that the September numbers were sufficient for a December rate hike (our core scenario) though they did not indicate any urgency for a November increase. The US economy added 156K jobs in September, below the 172K estimated by markets. However, the August figure was revised up to 167K (from 151K initially). Historically the September print also tends to see upward revisions. The data shows that the pace of jobs growth has slowed, especially from the 2015 level, though this is to be expected given the economy's proximity to full employment. Both the three- and six-month jobs growth remains respectable at 192K and 169K, respectively. Monthly prints in the 150-180K range are still comfortably above the Fed's estimate of breakeven rate of employment growth (90-100K). The September jobs growth came from the private sector (167K), led by services, with the government payrolls falling by 11K. Manufacturing jobs continued to contract (-13K), though, positively, job losses in the mining sector are showing signs of moderating.

Fig. 3. US: Pace of jobs growth slows in August and September, but remains above Fed's breakeven estimate of employment growth

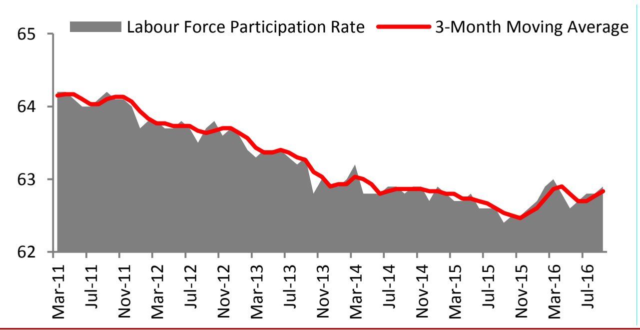
'000s (LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 4. US: Participation rate increases by 0.5 ppts from August 2015, implying 1.2 million people have entered the labour market

%



Source: Bureau of Labor Statistics

Unemployment rate rises, but due to greater labour force participation

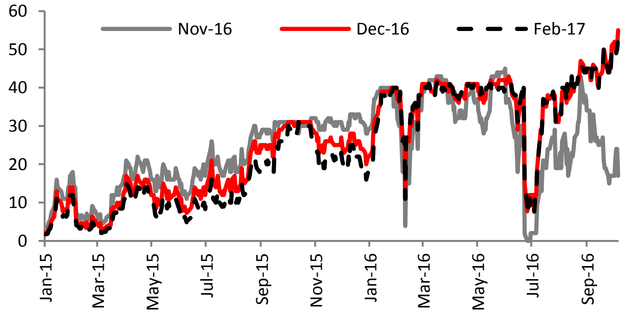
The unemployment rate ticked up to 5% from 4.9% in August, though this was the same level as in December 2015. This rise was in line with the increase in the participation rate to 62.9% in September (August: 62.8%), as workers re-enter the market and actively seek employment. The weak point remains wage growth, which has largely remained within the 2.4-2.6% y-o-y range in 2016. This is up from the average 2.3% y-o-y growth in 2015, but still shows a very gradual build-up in wage increases. As such, we continue to expect a shallow rate hiking cycle.

Very shallow rate hiking cycle expected

FOMC members: Again highlighted that the case for raising interest rates before the end of 2016 is compelling. Cleveland Fed President Loretta Mester noted that the November meeting should be viewed as being "live", despite its proximity to the US presidential election. However, Mester was already a hawk in the FOMC, and was one of the three dissenters who voted to raise rates at the September meeting. We continue to see December as the most likely timing for a 25 bps rate increase. The rate hiking cycle looks likely to remain slow and very cautious. New York Fed President William Dudley has noted that the Fed should be cautious in raising interest rates given its limited ability to respond to a recession.

Fig. 5. US: Market now sees 55% probability of 25 bps rate hike in December 2016, following NFP data

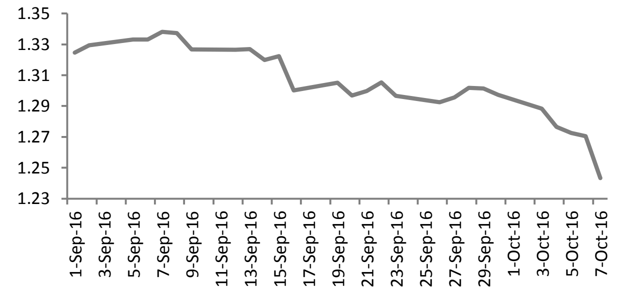
Probability of a 25 bps rate hike at FOMC meetings



Source: Bloomberg

Fig. 6. UK: GBP falls as Brexit uncertainty rises; Article 50 to be invoked before end-March 2017

GBP:USD



Source: Bloomberg

UK: Prime Minister May announces formal Brexit timetable

EU politicians unlikely to make full concessions to UK in post-Brexit trade deal

UK Prime Minister Theresa May announced last week that the UK would formally begin discussions to leave the EU by March 2017, by invoking Article 50 of the EU's Lisbon Treaty. No concrete proposals for the UK's new relationship with the EU have yet been tabled, though the timeframe sets a tentative date for Brexit sometime in 1Q2019. May tried to assuage market concerns and investment uncertainty by saying that all business rules currently in place in the UK will remain unchanged upon exit. However, we believe that the UK would find it tough to retain all of its trade privileges within the European Single Market given its insistence on having full control over immigration. Furthermore, we believe that EU politicians are unlikely to be generous in making tariff and non-tariff concessions to the UK as part of any deal, especially in light of their desire to maintain a strong public image ahead of the elections in Germany and France next year.

We expect growth to decelerate in coming quarters as firms factor in Brexit costs

UK economic data released in 3Q2016 showed resilience despite the June Brexit vote, with investment uncertainty appearing to have been calmed by monetary easing and the sharply weaker GBP. The absence of the immediate prospect of Article 50 being invoked also helped sentiment. However, following last week's announcement, we expect business sentiment to deteriorate somewhat in 4Q2016 and 2017; corporates may well begin to pull back spending and hiring as Brexit becomes more of a reality. As a result, we expect GDP growth to decelerate to 0.1% q-o-q by 4Q2017 (from 0.6% q-o-q in 2Q2016).

GBP depreciation unlikely to have big positive impact on UK's trade deficit or exports

Meanwhile, the GBP has emerged as a real-time indicator of market concerns over Brexit, as the currency depreciated sharply last week. That said, we believe that the 6% depreciation of the GBP within a few minutes on 7 October was more likely due to technical factors. We believe that the sharp GBP sell-off of about 4% since the announcement of the timing of formal Brexit negotiations last week is at best likely to have a limited impact on the UK's current account deficit and net exports. The UK's export strength lies in the services sector, with some areas unlikely to benefit from GBP depreciation currently under way, until there is greater clarity over the extent of the access the UK's financial and business services firms will have to the Single Market in the new EU-UK trade deal. However, the manufacturing sector and tourism will continue to benefit from the weak GBP.

Japan: Tankan surveys again highlight lacklustre economic backdrop

Weak domestic and external demand reduce corporate capex requirements

The BoJ's 3Q Tankan survey showed corporate sentiment remaining weak. Sentiment among large manufacturers remained unchanged at 6 despite the BoJ's latest policy initiative and the consensus expecting a moderate improvement (to 8). Meanwhile, the outlook for the non-manufacturing sector moderated marginally to 16, from 17 in 2Q and versus the consensus expectation of 18. We believe that the lacklustre data continued to reflect both the weak domestic demand and ongoing headwinds to export competitiveness from the strong JPY. As such, the capex forecast within the survey was almost unchanged. The data did show a further improvement in lending conditions and lower interest rates on loans, supported by the BoJ's negative interest rate policy. However, we expect corporate credit demand to remain weak until domestic consumer spending or external growth pick up. Weakening the JPY and increasing consumer spending remain critical, in our view. The inflation expectations of Japanese corporates have not increased despite the changes to the BoJ's policies in September. Weak oil prices, the strong JPY and moderate wage growth continue to drag on inflation expectations.

C. Emerging Market Economies

India: RBI surprises markets with rate cut

New MPC changes assessment of neutral real rates, adopts flexible inflation target

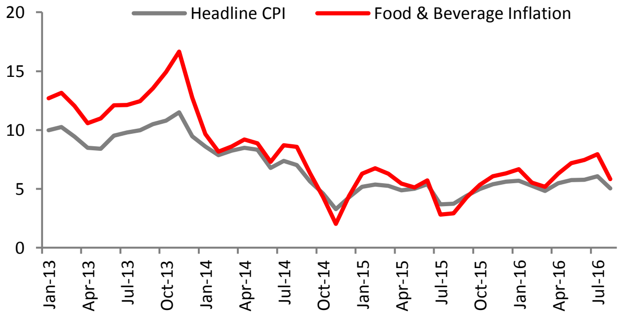
The RBI surprised financial markets at its meeting last week, cutting its policy rate by 25 bps to 6.25%. We and the consensus had expected a rate cut at its December meeting. This was the first monetary policy meeting under Governor Urjit Patel and the newly appointed MPC, which voted unanimously to cut rates. Considering its post-policy comments, our initial impression is that the new MPC is slightly more relaxed about attaining its inflation targets than the previous leadership, and prefers lower policy rates. In a notable move, the RBI lowered its preferred neutral real money market interest rate down to 1.25% (from 1.5-2% previously), suggesting that aggressive monetary easing by major global central banks had allowed India to keep policy rates low without adversely affecting capital flows or the INR. The MPC also dropped its hard inflation target of 4% y-o-y by March 2018, opting instead to keep inflation in a flexible range of 2-6% y-o-y.

We do not foresee any policy rate cuts in 2HFY17

That said, we do not expect the RBI to make any rate cuts until March 2017, despite indications of a more relaxed approach by new MPC members towards inflation. The cut last week was partly due to previous success in bringing the inflation rate down and to take advantage of US rates remaining on hold. We believe that another rate cut would be justified only if headline inflation were to fall below 5% y-o-y. This would allow the RBI to cut policy rates without impacting its new preferred neutral real rate (1.25%). We see some upside risk to inflation vis-à-vis the RBI's March 2017 target of 5%, on account of a possible pickup in consumer non-food spending and slightly higher energy prices relative to 1HFY2017. We believe that the RBI will have limited room to cut rates even in FY18 (April 2017 – March 2018), as the introduction of the Goods and Services Tax (GST) will likely keep inflation at the upper end of its 2-6% target range through FY18.

Fig. 7. India: We expect inflation to stabilise at current levels in 2HFY17 following food price driven drop in August

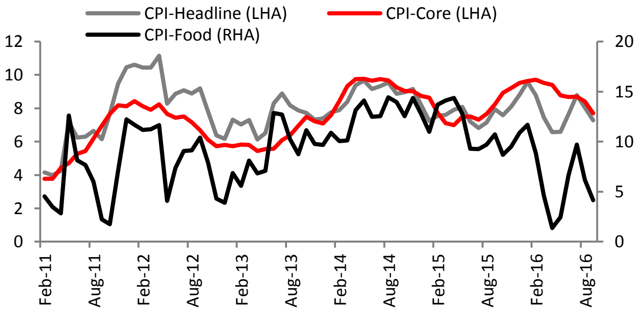
% change y-o-y



Source: Central Statistical Organisation

Fig. 8. Turkey: Easing food inflation key factor behind drop in September headline inflation

% change y-o-y



Source: Central Bank of the Republic of Turkey

Turkey: Inflation drops significantly in September

Slowing inflation should create room for overnight rate cut in October

Inflation slowed sharply in September, to 7.3% y-o-y (consensus: 7.9%; August: 8%), driven chiefly by a sizeable deceleration in food inflation (3.9%, versus 5.9% in August). We expect headline inflation to remain in the 7.2-7.5% range in 4Q2016, considering the ample food supplies in domestic markets following the ban on Turkish food imports by Russia since June and the government's recent cuts to gas prices. However, we expect the renewed bout of TRY depreciation since September to offset these disinflationary impulses, keeping headline CPI above the CBRT's inflation target range of 3-7%. Nevertheless, the recent easing in inflation should offer the central bank room to cut the overnight rate by another -25 bps to 8% at its 20 October meeting, in line with its goal of reducing its spread over the benchmark repo rate (currently 7.5%). That said, a rate hike by the Fed in December could force the CBRT to refrain from cutting the overnight rate any further, as a Fed hike would reduce the real yield spread between Turkish and US rates. This could pose a risk to the short-term capital flows needed to balance Turkey's large current account deficit, as these flows tend to be highly sensitive to real yield differentials.

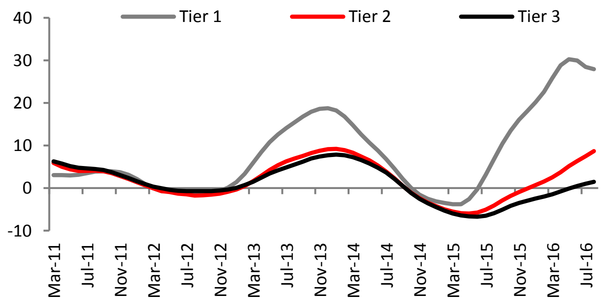
China: New government measures to rein in property prices

Property price restrictions do not imply reversal of government policies to encourage home ownership

The Chinese authorities last week announced new measures to cool property price speculation in five Tier 1 cities (including Shenzhen). This came in response to the double digit increases in property prices experienced in these cities in 3Q2016, fuelled by rising housing mortgage loans. The measures included an increase in down payment requirements for second home buyers to 70% (from 30-50% previously). Purchase and sale restrictions were also placed on non-resident buyers. We believe that these measures are intended to target property price bubbles selectively in some cities, and that they do not signal a reversal in the government's medium-term goal of encouraging home ownership and investing in social housing projects. Rather, we expect the PBoC to continue encouraging mortgage lending to households in mid-tier and smaller cities, where price rises have been relatively modest, inventory levels are high, and household balance sheets are lighter. The impact of these restrictions on Chinese growth in 4Q2016 and 1Q2017 is likely to be limited, as we do not expect a change in the level of monetary and fiscal support to the economy.

Fig. 9. China: Property price increases in 2016 have been concentrated in Tier 1 cities

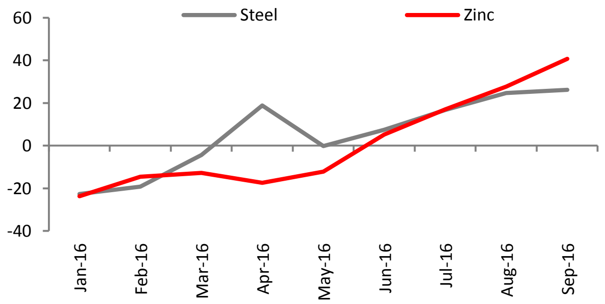
% change y-o-y



Source: National Bureau of Statistics of China

Fig. 10. Global: Metals prices increase sharply in anticipation of rising housing demand in large Chinese cities

% change y-o-y



Source: Bloomberg

Metal prices could be adversely impacted as builders postpone construction

However, commodity markets could be strongly impacted by the curbs on property ownership in Tier 1 Chinese cities. Steel and zinc prices rose sharply in 3Q2016 in anticipation of a pickup in housing construction to cater to the rising demand in large cities. These prices are likely to unwind from their current levels due to the government's proactive measures to rein in property market speculation.

II. Economic Calendar

Fig. 11. Upcoming Events and Data Releases

Time *	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	September Cement Output, YTD y-o-y			
	Saudi Arabia	CPI, y-o-y	Sep	3.3%	--
	UAE	CPI, y-o-y	Aug	1.8%	--
	UAE	September Dubai, Abu Dhabi Home Prices by Cluttons			
	Qatar	GDP Constant Prices, y-o-y	2Q	1.1%	--
	Qatar	CPI, y-o-y	Sep	2.9%	--
	Oman	CPI, y-o-y	Sep	1.3%	--
	Oman	Nominal GDP, YTD y-o-y	2Q	-12.2%	--
	China	New Yuan Loans, CNY	Sep	948.7B	1000B
	China	Aggregate Financing, CNY	Sep	1469.7B	1390B
	China	Money Supply M2, y-o-y	Sep	11.4%	11.6%
	India	Exports, y-o-y	Sep	-0.3%	--
Monday, 10 Oct					
	Egypt	Urban CPI, y-o-y	Sep	15.5%	--
	Egypt	CPI Core, y-o-y	Sep	13.3%	--
16:00	India	Industrial Production, y-o-y	Aug	-2.4%	-0.3%
17:00	Eurozone	Euro-Area Finance Ministers Meet in Luxembourg			
Tuesday, 11 Oct					
3:50	Japan	BoP Current Account Balance	Aug	¥1938.2B	¥1502.7B
3:50	Japan	Trade Balance BoP Basis	Aug	¥613.9B	¥116.5B
5:30	US	Fed's Evans Speaks on Economy and Policy in Sydney			
8:15	UAE	Dubai Economy Tracker SA	Sep	55.7	--
13:00	Eurozone	ZEW Survey Expectations	Oct	5.4	--
Wednesday, 12 Oct					
3:50	Japan	Machine Orders, m-o-m	Aug	4.9%	-5.3%
13:00	Eurozone	Industrial Production SA, m-o-m	Aug	-1.1%	1.5%
15:00	US	MBA Mortgage Applications	7-Oct	2.9%	--
16:00	US	Fed's Dudley Speaks at Fireside Chat in Albany			
17:40	US	Fed's George Speaks at Chicago Fed's Payments Conference			
18:00	US	JOLTS Job Openings	Aug	5871	5800
22:00	US	US Fed Releases Minutes from Sept. 20-21 FOMC Meeting			
12-13 Oct	US	Esther George, Keynote, 16th Annual Chicago Payments Symposium			
Thursday, 13 Oct					
	China	Trade Balance	Sep	$52.1B	$53B
	China	Exports, y-o-y	Sep	-2.8%	-3.3%
	China	Imports, y-o-y	Sep	1.5%	0.7%
8:30	Japan	Tertiary Industry Index, m-o-m	Aug	0.3%	-0.2%
16:00	India	CPI, y-o-y	Sep	5.1%	4.7%
16:30	US	Initial Jobless Claims	8-Oct	249K	--
20:15	US	Fed's Harker Speaks on Economic Outlook in Philadelphia			
Friday, 14 Oct					
3:50	Japan	Money Stock M2, y-o-y	Sep	3.3%	3.4%
3:50	Japan	Money Stock M3, y-o-y	Sep	2.8%	2.9%
3:50	Japan	PPI, y-o-y	Sep	-3.6%	-3.2%
5:00	US	Fed's Kashkari Speaks at Town Hall in Missoula, Montana			
5:30	China	CPI, y-o-y	Sep	1.3%	1.6%
16:30	US	Retail Sales Advance, m-o-m	Sep	-0.3%	0.6%
16:30	US	Retail Sales, ex-Auto, m-o-m	Sep	-0.1%	0.5%
18:00	US	U. of Mich. Sentiment	Oct P	91.2	92
20:00	US	Fed Chair Yellen Speaks at Boston Fed Conference			

* UAE time
Source: Bloomberg

Fig. 12. Last Week's Data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Data						
	Saudi Arabia	GDP Constant Prices, y-o-y	2Q	1.5%	--	1.4%
	UAE	M2 Money Supply, m-o-m	Aug	0.9%	--	-0.6%
	UAE	Dubai Airport Cargo Volume, y-o-y	Aug	-1.2%	--	-3.1%
	Qatar	M2 Money Supply, y-o-y	Aug	-5.2%	--	-6%
	Kuwait	June Budget Balance, YTD y-o-y				
Monday, 3 Oct						
03:50	Japan	Tankan Large Mfg Index	3Q	6	7	6
03:50	Japan	Tankan Large Mfg Outlook	3Q	6	8	6
03:50	Japan	Tankan Large Non-Mfg Index	3Q	19	18	18
03:50	Japan	Tankan Large Non-Mfg Outlook	3Q	17	18	16
03:50	Japan	Tankan Large All Industry Capex	3Q	6.2%	6.5%	6.3%
09:00	India	Nikkei India PMI Mfg	Sep	52.6	--	52.1
12:30	UK	Markit UK PMI Manufacturing SA	Sep	53.4	52.1	55.4
18:00	US	Construction Spending, m-o-m	Aug	-0.3%	0.3%	-0.7%
18:00	US	ISM Manufacturing	Sep	49.4	50.3	51.5
18:00	US	ISM Prices Paid	Sep	53	53.5	53
Tuesday, 4 Oct						
03:50	Japan	Monetary Base, y-o-y	Sep	24.2%	--	22.7%
09:30	India	RBI Repurchase Rate	4-Oct	6.5%	6.5%	6.25%
Wednesday, 5 Oct						
	Egypt	Gross Official Reserves	Sep	16.6B	--	19.6B
04:30	Japan	Nikkei Japan PMI Services	Sep	49.6	--	48.2
08:15	Saudi Arabia	Saudi Arabia PMI	Sep	56.6	--	55.3
08:15	Egypt	Egypt PMI	Sep	47	--	46.3
08:15	UAE	UAE PMI	Sep	54.7	--	54.1
09:00	India	Nikkei India PMI Services	Sep	54.7	--	52
12:30	UK	Markit/CIPS UK Services PMI	Sep	52.9	52.2	52.6
15:00	US	MBA Mortgage Applications	30-Sep	-0.7%	--	2.9%
16:15	US	ADP Employment Change	Sep	177K	165K	154K
16:30	US	Trade Balance	Aug	-$39.5B	-$39.2B	-$40.7B
18:00	US	ISM Non-Manf. Composite	Sep	51.4	53	57.1
18:00	US	Factory Orders	Aug	1.4%	-0.2%	0.2%
18:00	US	Durable Goods Orders, m-o-m	Aug	0%	0%	0.1%
18:00	US	Durable Goods Orders ex-Transport, m-o-m	Aug	-0.4%		-0.2%
Thursday, 6 Oct						
16:30	US	Initial Jobless Claims	1-Oct	254K	256K	249K
Friday, 7 Oct						
	China	Foreign Reserves	Sep	$3185.2B	$3180B	$3166.4B
11:30	UK	Halifax House Prices, m-o-m	Sep	-0.3%	0%	0.1%
12:30	UK	Industrial Production, m-o-m	Aug	0.1%	0.2%	-0.4%
12:30	UK	Manufacturing Production, m-o-m	Aug	-0.9%	0.4%	0.2%
16:30	US	Change in Nonfarm Payrolls	Sep	167K	170K	156K
16:30	US	Unemployment Rate	Sep	4.9%	4.9%	5%
16:30	US	Average Hourly Earnings, m-o-m	Sep	0.1%	0.3%	0.2%
18:00	US	Wholesale Inventories, m-o-m	Aug F	-0.1%	-0.1%	-0.2%

* UAE time
Source: Bloomberg

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