بنك أبوظبي التجاري ADCB

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The Week Ahead: Focus remains on Trump's policies; Yellen testifies before Congress

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US: We maintain our interest-rate outlook

Global uncertainty has increased following Donald Trump's surprising presidential election victory. Risk assets initially sold off sharply, though this was followed by a quick rebound with initial signs of a more conciliatory approach and a tone down in rhetoric. Markets will continue to digest Trump's new administration and policies over the coming weeks and months as they become more defined. The Republican clean sweep makes fiscal easing and deregulation an expected outcome. Economic policy indications have pointed to a pro-growth and reflationary stance (tax cuts and fiscal stimulus), albeit with greater trade protectionism. We continue to expect the Fed to raise interest rates at the December meeting given the ongoing tightening in the labour market and energy-led pick-up in inflation. This is on the basis that financial conditions remain stable (page 3).

Global: Central bank comments and inflation data in focus

Fed Chair Yellen testifies before Congress's Joint Economic Committee this week (17 November) and markets will look for any clues for how monetary policy will develop following the election. A number of Fed members also have speaking engagements this week. So far, comments from Fed members continue to suggest rates will be hiked in December, with markets seeing an 84% chance of one. The key US data releases will be inflation and retail sales for October. Retail sales are forecast to remain solid (up 0.6% y-o-y), boosted by autos and gasoline spending. Meanwhile, headline inflation is expected to accelerate to 0.4% m-o-m driven by energy prices. UK inflation for October is also predicted to strengthen to 1% y-o-y, reflecting both the higher energy prices and fall in the GBP. Meanwhile, a number of ECB governing council members also have speeches planned for this week, which could provide further clues for the December meeting where we expect to see an extension of the QE programme by another nine months.

Egypt: IMF approves USD12 billion loan agreement

The IMF's Executive Board approved a three-year USD12 billion Extended Fund Facility (EFF) on 11 November, with an initial loan tranche of USD2.75 billion immediately disbursed to the CBE (page 2). The remainder of the loan will be distributed over the next three years subject to five reviews of required reforms. The IMF support raises confidence over the medium-term outlook for the Egyptian government's structural reform programme, and reduces short-term concerns over Egypt not covering its external funding requirements. Nevertheless, the short-term macro backdrop is set to remain challenging due to the impact of recent reforms and the weak external backdrop. Meanwhile, we expect the CBE to remain on hold on 17 November, after it front-loaded a 300bps hike earlier this month. We still see the potential for further hikes if the EGP comes under greater downward pressure.

I. Recent Events and Data Releases

A. MENA Economies

Egypt: IMF approves USD12 three-year loan programme

USD2.75 billion disbursed immediately

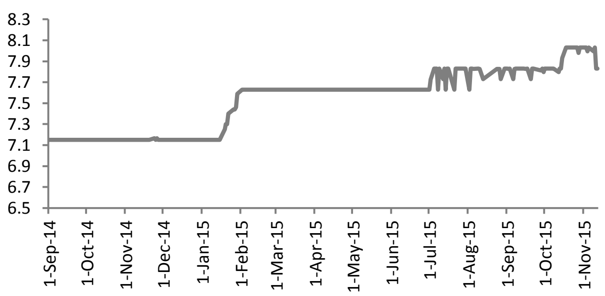
The IMF's Executive Board approved a three-year USD12 billion Extended Fund Facility (EFF) for Egypt on 11 November, immediately disbursing an initial loan tranche of USD2.75 billion to the CBE. The remainder of the loan will be distributed over the next three years subject to five reviews of required reforms. The loan will have to be repaid in 10 years with a 4.5 year grace period. The programme comes a week after the EGP was floated and fuel prices were raised, and is the largest of its kind extended to a Middle Eastern country. The IMF loan will be accompanied by some USD6 billion in bilateral financing contributed by China, GCC countries and bank loans.

The IMF support raises confidence over the medium-term outlook for the economy and implementation of the Egyptian government's structural reform programme. The broad objectives are to restore macroeconomic stability and promote inclusive growth. Key components are:

- Maintaining a flexible exchange rate regime to improve external competitiveness, support exports and tourism, and attract foreign investment. This will also allow the CBE to rebuild its international reserves.
- Monetary policy will focus on containing inflation and bringing it down to mid-single digits over the medium term.
- Strengthening government revenues, with the introduction of VAT in August 2016 as an important step. Further reforms to energy subsidies are also an important component.
- Strengthening social protection programmes: About 1% of GDP from fiscal savings will be directed to additional food subsidies and cash transfers to the elderly and poor families.
- Boosting growth through reforms, which include improving the business climate and facilitating access to finance for SMEs.

Fig. 1. Egypt: EGP draws some support from the IMF programme

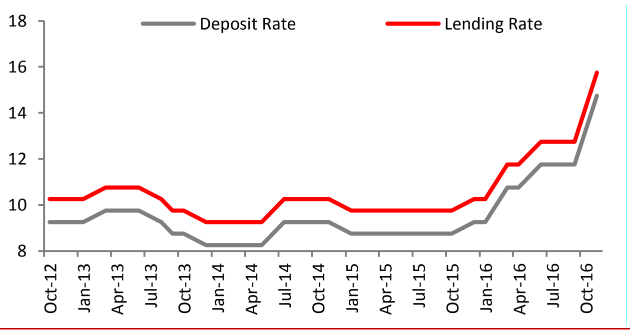
USD:EGP



Source: Bloomberg

Fig. 2. Egypt: No change in rates expected at CBE's 17 November meeting following 300 bps increase

%



Source: Central Bank of Egypt

External funding requirement to remain high – despite direct and indirect IMF support

The programme is positive for the medium-term outlook, though we see downside pressure on short-term GDP growth from the recent reform. Inflation is set to accelerate following the EGP float and fuel reforms, which will impact individuals and corporates.

The direct loan, bilateral funding and some expected gradual increase in inflows (T-bills, stock market, etc.) will help to reduce concerns over Egypt not covering its external funding requirements. Moreover, the government plans to issue USD2-2.5 billion worth of international bonds in 2016. We think FX reserves could reach around USD24-25 billion by end-2016, a level not seen since just after the 2011 revolution. Nevertheless, external funding requirements will remain high, requiring the need for further borrowing. The recovery in tourism is expected to remain weak due to security concerns and soft global growth dampening Suez Canal receipts.

Saudi Arabia: Delayed payments to private sector to be cleared

Payments should result in pick-up in non-oil GDP growth in 2016

The Council of Economic and Development Affairs (CEDA) is looking to clear delayed payments to the private sector before end-2016, according to the Saudi Press Agency last week. The government has set aside SAR100 billion (USD26.7 billion) to pay private sector companies, according to official documents cited by Reuters. The Council authorised the payments to begin immediately, though there have been signs that payments to contractors and private-sector companies began in October. We believe that these payments should support a pickup in economic activity in 4Q2016.

Fees for some municipal services to increase in December

We believe that a more moderate fiscal consolidation stance should result in positive, albeit still weak, real non-oil GDP growth in 2017. Highlighting the ongoing fiscal retrenchment programme, CEDA also announced that it has cancelled a number of projects, valued at up to USD266.7 billion. Moreover, the government announced an increase in municipal fees (due to become effective on 9 December). These will include fees for services such as issuing business licences and charges, such as those for operating telecommunications towers and bank ATMs. These changes will mostly affect corporates, particularly banks, consumer staples and telecommunications companies. However, to limit the impact, the fee increase was less than originally approved by the cabinet in August. Moreover, a number of areas saw postponements to such fee increases, such as for rubbish collection and the approval of real-estate development plans.

Indications of public sector wage increases for nationals in 2017

Qatar: There have been reports in the media that Qatar will increase the salaries of Qatari government employees. This is a rare sign of increased spending in the GCC as energy prices remain low. According to the initial indications, the basic salaries for some Qataris could double, though salaries for non-Qataris are due to remain steady. We expect the impact of any pay rise to be limited on real non-oil activity. Most of the higher spending will be met by imports. The planned move nevertheless reflects Qatar's more comfortable fiscal position than some other GCC countries. We continue to see the country's investment programme as the main driver of non-oil activity.

B. G4 Economies

US: We maintain our interest-rate outlook following the presidential election

Greater policy change expected – but how will campaign rhetoric translate into actual economic priorities?

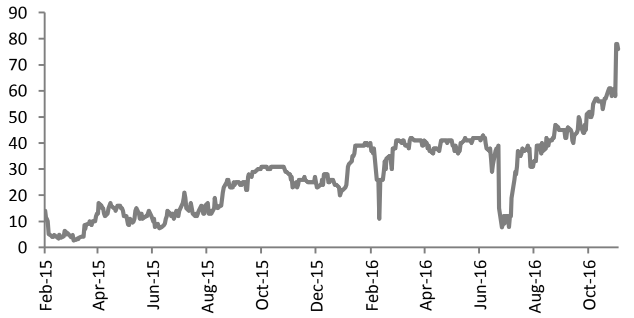
Economic and political policy uncertainties have increased following the election of Donald Trump as the next president of the US. The upcoming weeks and months will provide greater clarity on the key issues that the new administration will prioritise. The upcoming Trump presidency, together with the Republican-controlled Senate and House of Representatives, is likely to lead to greater policy changes. On the economic front, Trump has highlighted tax reforms and increased government spending on infrastructure to support growth and create jobs. Trump has outlined personal and business tax cuts, which would reduce tax revenues by an estimated 2% of GDP over a 10-year period. A significant part of this reduction would come from reducing the corporate income tax rate to 15%. There are also expectations of greater repatriation, with US companies given a one-off opportunity to bring home cash held abroad at a tax rate of just 10%. This has increased hopes that the cash will be deployed for investment spending. Meanwhile, Trump's infrastructure plan calls for up to USD1 trillion in additional spending over 10 years, most of it privately financed. More protectionist policies were also outlined, which could eventually lead to weaker global trade flows and global productivity and higher domestic inflation. So far, markets are pricing in limited disruptions to trade.

Our core scenario envisages December rate hike

We maintain our US interest-rate outlook, including a 25bps rate hike at the FOMC's December meeting. This is on the basis that financial conditions do not tighten following a shift to risk-off mode. We believe that the ongoing progress in the labour market and the recent pick-up in inflation warrant the increase in rates. This view was supported by comments by one FOMC member following the election. San Francisco Fed President John Williams highlighted that he still believes that gradual interest-rate rises make sense even after the surprising election result, and that decisions will be data-dependent. St. Louis Fed President James Bullard indicated that the possibility of regulatory reform and stronger growth outweighed any concern over financial market volatility for now, though will not dramatically change monetary policy. Meanwhile, Fed Vice Chair Stanley Fischer noted that economic growth prospects appear strong enough for the Fed to proceed with a gradual increase in interest rates.

Fig. 3. US: Markets see 84% chance of 25bps rate hike at Fed's December meeting

Probability of 25bps rate hike at December meeting



Source: Bloomberg

Fig. 4. US: Job openings data continue to reflect solid demand for labour

Total job openings, million (SA)

Source: Bureau of Labor Statistics

Looser fiscal policy could add to inflationary pressure and prompt faster rate hikes in medium term

At this point, we continue to expect one 25 bps rate hike in 2017; new economic policy uncertainty could result in softer personal spending and consumption in early 2017. However, we continue to highlight upside risks to our rate forecast due to the expected pick-up in inflationary pressure in 1Q on higher y-o-y energy prices. In the medium term, Trump's outlined policy objectives are likely to result in moderately higher US GDP growth as tax cuts and spending increases kick in. The greater fiscal stimulus may become a source of upside risk to inflation, especially given that the economy is already close to full employment. However, we expect to see a limited impact from fiscal reforms in 2017 given the time required to pass new tax legislation and increase spending levels. As such, we could see more frequent increases in the FFTR in 2018 and beyond, though this will also depend on the composition of the FOMC as a number of changes are expected in 1Q2018. We see the potential for the Fed to become more hawkish from 2018. Greater rate increases will be supportive for the medium-term USD outlook, especially as the ECB and BoJ remain accommodative.

Jolts: Limited data was released from the US last week, with the main release being the job-opening numbers. The data continued to show a healthy labour market, with September JOLTS job openings rising to 5.49 million in September from 5.45 million the previous month. Consequently, the job openings rate ticked up by 0.1 ppt.

C. Emerging Market Economies

China: External demand remains weak; some build-up in local demand

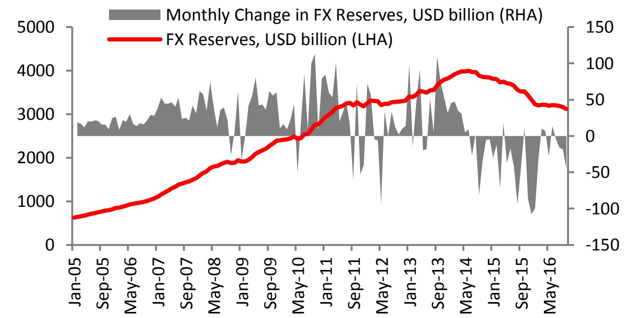
Overall, Chinese data for October continued to show some build-up in domestic economic momentum, supported by the government's efforts to boost infrastructure spending and property investment. Producer price inflation accelerated to 1.2% y-o-y in October, above the consensus expectation of 0.9% and up from 0.1% in September. Price increases in mining, raw materials and processing industries in particular saw solid increases. Construction activity and supply shortages should continue to support producer prices going forward, though weaker commodity prices are expected to act as a drag in November.

Much of the fall in October's FX reserves related to currency valuations

FX reserves: China's FX reserves posted a fourth consecutive monthly drop in October. FX reserves moderated to USD3.12 trillion in October, down from USD3.17 trillion in September, missing consensus expectations of USD3.13 trillion. This was the largest monthly decline since January 2016 and exceeded the previous three months combined. However, much of the drop seems to have been due to currency moves (around USD20 billion) due to the falls in the JPY and EUR against the USD (on growing expectations of a Fed rate hike). Capital outflows likely remained substantial in October but are estimated to have eased compared to the September levels. The weakening in the CNY and rising debt levels have been factors behind the capital outflows. The PBoC is widely believed to have sold USDs to cushion the weakening of the CNY. Indeed, with increasing signs that economic momentum is starting to stabilise, this reduces the need for a competitive devaluation of the CNY to boost demand, even if the export outlook remains weak.

Fig. 5. China: FX reserves fell by USD45.7 billion in October, second largest drop in 2016

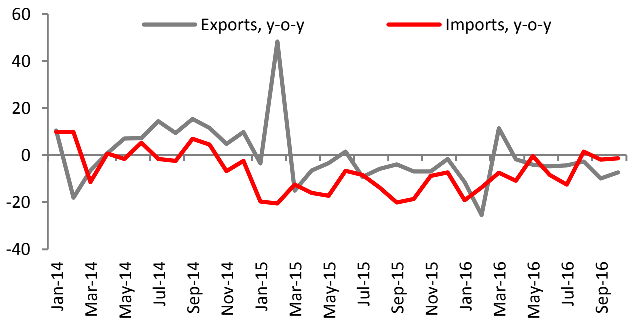
USD billion



Source: People's Bank of China

Fig. 6. China: Import growth reflects moderate pickup in domestic demand

% change y-o-y



Source: Customs General Administration PRC

Weak external demand remains key headwind to economic outlook

Trade data: There was some improvement in trade data for October with both exports and imports seeing a narrower contraction. However, the improvement was below market expectations. Export growth, for example, fell by -7.3% y-o-y in October, from -10% in September (consensus: -6% y-o-y). The data point to external demand having remained weak across the board, though there was some improvement in exports to the US and Japan. The weak external demand remains a notable challenge for the Chinese economy. There are few signs of a turnaround with exports having contracted in nine of the past 10 months. Much of the yearly improvement in October was from the low base effect.

Imports suggest pick-up in domestic demand

The contraction in import growth narrowed to -1.4% y-o-y in October (September: -1.9%, consensus: -1%). Positively, ordinary imports (for domestic demand) edged up into positive territory, expanding by 2.4% y-o-y (September: -0.4%). This points to some moderate improvement in domestic demand. Imports of major commodities continued to grow. We expect the stabilisation in China to continue to be driven by investment-led domestic demand.

II. Economic Calendar

Fig. 7. Upcoming events and data releases

Time*	Country	Event	Period	Prior	Consensus
Monday, 14 Oct					
3:50	Japan	GDP, SA q-o-q	3Q P	0.2%	0.2%
3:50	Japan	GDP Private Consumption, q-o-q	3Q P	0.2%	0%
3:50	Japan	GDP Business Spending, q-o-q	3Q P	-0.1%	0.2%
4:01	UK	Rightmove House Prices, m-o-m	Nov	0.9%	--
4:01	UK	Rightmove House Prices, y-o-y	Nov	4.2%	--
6:00	China	Industrial Production, YTD y-o-y	Oct	6%	6.1%
6:00	China	Retail Sales, YTD y-o-y	Oct	10.4%	10.4%
6:00	China	Fixed Assets, ex-Rural, YTD y-o-y	Oct	8.2%	8.2%
	US	UK Prime Minister Theresa May Speaks at Lord Mayor's Banquet			
Tuesday, 15 Nov					
2:00	US	Fed's Lacker Speaks at Washington College in Chestertown, MD			
13:30	UK	CPI, m-o-m	Oct	0.2%	0.3%
13:30	UK	CPI, y-o-y	Oct	1%	1.1%
13:30	UK	CPI Core, y-o-y	Oct	1.5%	1.4%
13:30	UK	PPI Output, NSA m-o-m	Oct	0.2%	0.4%
14:00	Germany	ZEW Survey Current Situation	Nov	59.5	61.6
14:00	Germany	ZEW Survey Expectations	Nov	6.2	8.1
14:00	Eurozone	ZEW Survey Expectations	Nov	12.3	--
14:00	Eurozone	GDP, SA q-o-q	3Q P	0.3%	0.3%
14:00	Eurozone	GDP SA, y-o-y	3Q P	1.6%	1.6%
14:00	UK	BOE's Carney, Shafik, Saunders at Treasury Committee Hearing			
16:00	India	CPI, y-o-y	Oct	4.31%	4.15%
16:30	US	Fed's Rosengren Speaks to Portland, Maine Chamber of Commerce			
17:30	US	Retail Sales Advance, m-o-m	Oct	0.6%	0.6%
17:30	US	Retail Sales, ex-Auto, m-o-m	Oct	0.5%	0.5%
17:30	US	Retail Sales Control Group	Oct	0.1%	0.4%
22:30	US	Fed's Fischer Speaks at Brookings Institution Market Liquidity			
22:30	US	Federal Reserve President Robert Kaplan Speaks in Dallas			
Wednesday, 16 Nov					
13:30	UK	Jobless Claims Change	Oct	0.7K	2K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Sep	2.3%	2.4%
16:45	US	Fed's Kashkari Speaks to the Economics Club of New York			
Thursday, 17 Nov					
13:30	US	Retail Sales, ex-Auto Fuel, m-o-m	Oct	0%	0.4%
13:30	US	Retail Sales, ex Auto Fuel, y-o-y	Oct	4%	5.4%
14:00	Eurozone	CPI, y-o-y	Oct F	0.4%	0.5%
14:00	Eurozone	CPI Core, y-o-y	Oct F	0.8%	0.8%
17:30	US	Housing Starts	Oct	1047K	1155K
17:30	US	CPI, m-o-m	Oct	0.3%	0.4%
17:30	US	CPI, ex-Food and Energy, m-o-m	Oct	0.1%	0.2%
17:30	US	CPI, y-o-y	Oct	1.5%	1.6%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	2.2%	2.2%
18:10	US	Fed's Dudley Gives Welcoming Remarks at Conference in New York			
19:00	US	Janet Yellen Testifies to Joint Economic Committee on Economy			
21:30	US	Fed's Brainard Speaks in New York			
	Egypt	Deposit Rate	17-Nov	14.75%	--
	Egypt	Lending Rate	17-Nov	15.75%	--
Friday, 18 Nov					
18:30	US	Fed's George Speaks in Houston			
18:30	US	Fed's Dudley Gives Welcoming Remarks, Answers Questions in NY			
22:30	US	Fed's Kaplan Speaks in Houston			

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
	Oman	CPI, y-o-y	2Q	1.3%	--	2%
	China	Aggregate Financing, CNY	Oct	1720.9B	1000B	896.3B
	China	New Yuan Loans, CNY	Oct	1220B	672B	651.3B
	China	Money Supply M2, y-o-y	Oct	11.5%	11.4%	11.6%
Monday, 7 Oct						
12:30	UK	Halifax House Prices, m-o-m	Oct	0.3%	0.2%	1.4%
12:30	UK	Halifax House Price, 3Mths y-o-y	Oct	5.8%	4.9%	5.2%
13:09	China	Foreign Reserves	Oct	$3166.4B	$3132.5B	$3120.7B
14:00	Eurozone	Retail Sales, m-o-m	Sep	-0.2%	-0.3%	-0.2%
14:00	Eurozone	Retail Sales, y-o-y	Sep	1.2%	1.2%	1.1%
19:00	US	Labor Market Conditions Index Change	Oct	-0.1	-1.5	0.7
	Egypt	Net Reserves	Oct	19.6B	--	19B
	Egypt	Gross Official Reserves	Oct	19.6B	--	19.1B
Tuesday, 8 Nov						
6:40	China	Trade Balance	Oct	$41.99B	$51.7B	$49.06B
6:40	China	Exports, y-o-y	Oct	-10%	-6%	-7.3%
6:40	China	Imports, y-o-y	Oct	-1.9%	-1%	-1.4%
13:30	UK	Industrial Production, m-o-m	Sep	-0.4%	0%	-0.4%
13:30	UK	Manufacturing Production, m-o-m	Sep	0.2%	0.4%	0.6%
19:00	US	JOLTS Job Openings	Sep	5453	5488	5486
Wednesday, 9 Nov						
3:50	Japan	BoP Current Account Balance	Sep	¥2000.8B	¥2020B	¥1821B
3:50	Japan	Trade Balance BoP Basis	Sep	¥243.2B	¥668.8B	¥642.4B
5:30	China	CPI, y-o-y	Oct	1.9%	2.1%	2.1%
5:30	China	PPI, y-o-y	Oct	0.1%	0.9%	1.2%
8:15	UAE	Dubai Economy Tracker SA	Oct	55.1	--	53.2
16:00	US	MBA Mortgage Applications	4-Nov	-1.2%	--	-1.2%
18:00	Eurozone	ECB's Nouy Speaks in Brussels				
19:00	US	Wholesale Inventories, m-o-m	Sep F	0.2%	0.2%	0.1%
Thursday, 10 Nov						
3:50	Japan	Machine Orders, m-o-m	Sep	-2.2%	-1.5%	-3.3%
3:50	Japan	Machine Orders, y-o-y	Sep	11.6%	4.1%	4.30%
17:30	US	Initial Jobless Claims	5-Nov	265K	260K	254K
17:30	US	Continuing Claims	29-Oct	2023K	2025K	2041K
	Egypt	Urban CPI, y-o-y	Oct	14.1%	--	--
	Egypt	CPI Core, y-o-y	Oct	13.9%	--	--
Friday, 11 Nov						
16:00	India	Industrial Production, y-o-y	Sep	-0.7%	0.5%	0.7%
19:00	US	U. of Mich. Sentiment	Nov P	87.2	87.9	91.6

* UAE time
Source: Bloomberg

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