The Week Ahead: US and UK 3Q GDP data to take centre stage

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US: 3Q GDP to strengthen despite softer consumption growth

GDP growth is forecast to accelerate to 2.5% q-o-q SAAR (consensus), up from 1.4% in 2Q. The pickup is expected on the back of a greater positive contribution from net exports and firmer non-residential investment. Net exports are expected to add around 0.6-0.7 ppt to headline growth, with interim data showing stronger growth in exports than imports. Meanwhile, the energy sector is estimated to provide some moderate support to non-residential investment due to a small increase in rig count. However, housing starts data points to a further decline in residential investment (as in 2Q), despite strong demand for new single family accommodation. Private consumption is forecast to moderate to 2.6% q-o-q SAAR in 3Q after the strong rebound in 2Q (4.3%). We believe headline growth of around 2.5% would be supportive of a December rate hike by the Fed, even though it would be the first solid quarter for growth in the past four quarters. Several Fed members are due to speak early this week, ahead of the blackout period preceding the 2 November FOMC meeting.

Europe: UK 3Q GDP and Eurozone monetary data in focus

Data releases next week will provide more colour on the short-term impact of the Brexit vote on the UK's economic activity and effectiveness of the ECB's QE policy since it started purchasing corporate bonds. In the UK, 3Q GDP growth is likely to decelerate sizeably to 0.3% q-o-q (0.7% previously), albeit still avoiding a contraction. Uncertainty is likely to have more severely impacted construction and industrial activity, whereas services sector growth is likely to have held up better. A full breakdown will only be provided in November, including the external components where we could see support from the weaker GBP. Meanwhile in the Eurozone, money supply and credit data for September will be out, and markets expect credit growth to have remained subdued (unchanged at 1.7% y-o-y). Lending data from peripheral economies (notably Italy) are expected to remain particularly weak, given the banking sector's woes. September inflation numbers from Germany and France released this week are likely to show some pick-up, mainly on account of a weaker EUR and lower drag from energy prices. However, underlying price pressures should still remain weak due to lacklustre demand.

Saudi Arabia: Bond to reduce short-term funding pressure

Saudi Arabia's initial jumbo USD17.5 billion sovereign bond will provide vital funding relief for the economy (page 2). With domestic funding sources stretched, it should deliver some short-term respite from the tightening liquidity conditions. We expect a significant portion of the funds raised to be placed as deposits in the domestic banking system. On the growth front, there is likely to be an increase in the government's payment of arrears, supported by this issuance. This comes after signs of increased payment delays in 3Q and further weakening in economic activity.

I. Recent Events and Data Releases

A. MENA Economies

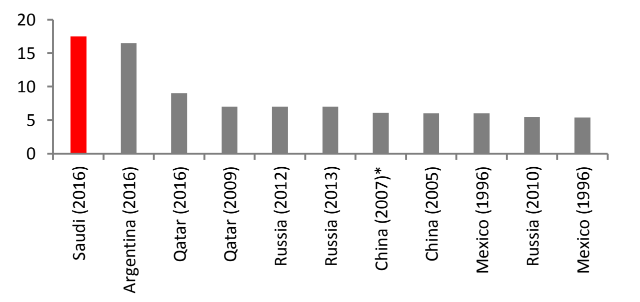
Saudi Arabia: Sovereign bond to reduce short-term funding pressure

Strong demand for debt supports relatively tight pricing

Saudi Arabia raised USD17.5 billion in its debut foreign bond sale, which was the biggest ever by an emerging-market country. Demand for the debt was strong, with a total order book of USD67 billion. Due to the strong demand, Saudi Arabia paid only a slight premium compared with Qatar, despite being rated two notches lower than Qatar by Moody's. The bond was split into three tranches: i) a USD5.5 billion five-year tranche at 135 bps over US Treasuries (around 2.6% yield); ii) a USD5.5 billion 10-year tranche at 165 bps over (3.4%); and iii) a 6.5 billion 30-year tranche at 210 bps over (4.6%). The tight pricing for the 30-year tranche was particularly notable. The robust demand bodes well for Saudi Arabia continuing to tap the international debt market. The issuance will also support the development of the debt capital market. With total government debt remaining low as a percentage of GDP (we estimate 17% at end 2016), Saudi Arabia has space to raise its debt level further. However, investors will look for greater economic transparency and signs of further fiscal consolidation going forward.

Fig. 1. Global: Largest sovereign debt sales by emerging market economies

USD billion

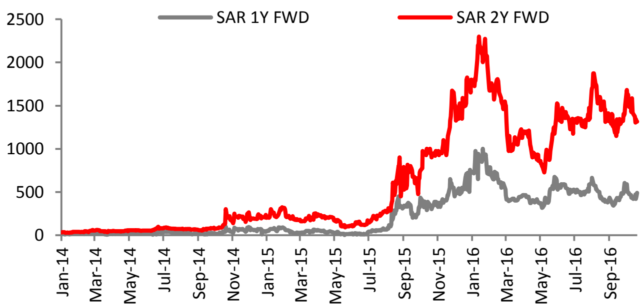


* China Ministry of Railways

Source: Dealogic

Fig. 2. Saudi Arabia: SAR strengthens on forward markets following sovereign debt issuance

Swap points



Source: Bloomberg

Average monthly falls in FX reserves to moderate in 2017

With domestic funding sources stretched, the issuance should deliver some short-term respite from the tightening liquidity conditions. We expect a significant portion of the funds to be placed as deposits in the domestic banking system. We also expect a rise in the net foreign assets (NFAs) of the Saudi Arabian Monetary Agency (SAMA). With further external government debt issuance expected, the fall in Saudi Arabia's FX reserves should moderate and reduce concerns over the sustainability of the SAR's peg to the USD. We expect the monthly drawdowns from SAMA's FX reserves to slow to an average USD3-3.5 billion per month in 2017, down from USD6.8 billion per month in 8M2016. On the growth front, there is likely to be an increase in the government's payment of arrears, supported by the issuance. This comes after signs of increased payment delays in 3Q and further weakening in economic activity. For further details on Saudi Arabia's economic outlook please see our note – **Vital funding relief from sovereign bond; structural challenges remain**, published on 20 October 2016.

B. G4 Economies

US: Headline inflation rises on weaker drag from oil prices

Core inflation moderates as medical prices remain steady on monthly basis

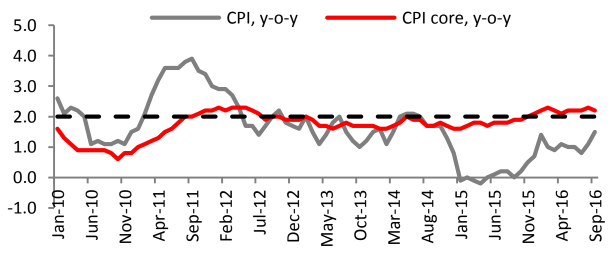
Consumer inflation accelerated to 1.5% y-o-y in September, in line with consensus and up from 1.1% in August. This was the largest annual increase since October 2014. The pick-up was largely driven by a smaller drag from energy prices, with a jump in gasoline prices accounting for more than half of the increase in the CPI. Electricity prices also saw a marked rise, the largest since December 2014. However, core inflation softened to 2.2% y-o-y in September, down from 2.3% in the previous month. Core prices continued to weaken on a monthly basis, including for apparel (-0.7%), new vehicles (-0.1%) and used vehicles (-0.3%). On the services front, medical care prices were unchanged and were central to the deceleration in core CPI. The key area seeing solid price increases was rents, with equivalent rent accelerating by 0.36% m-o-m. We continue to expect the shortage in housing and strong demand to support investment in the residential segment.

Headline inflation likely to exceed 2% target in February and March 2017

Recent comments from the Fed indicate that it needs to see further signs of a build-up in inflationary pressure before raising rates. We believe that the acceleration in headline inflation in September and the further gains expected in the coming months support the outlook for a December rate hike (our core scenario). We expect headline inflation to rise above the Fed's 2% target in February and March 2017, again due to the low base effect from energy prices. However, we believe that the Fed will overlook transitory factors. We continue to see a very gradual rate hiking cycle in 2017, with only one 25 bps rate hike in December. However, if the higher energy prices start to be reflected in core prices, we see the possibility of an earlier hike in mid-2017.

Fig. 3. US: Headline inflation accelerates in September with smaller drag from energy prices

% change y-o-y



Source: Bureau of Labor Statistics

Fig. 4. Eurozone: Inflation expectations still below early 2016 levels, despite recent rise in fuel prices

% change y-o-y, 5 years forward looking

Source: Bloomberg

Europe: ECB hints at QE extension in December

ECB hints at QE extension in its December meeting

The ECB kept monetary policy steady at its October meeting last week. However, President Draghi categorically denied any consideration of QE tapering among the Governing Council members and gave a strong indication there would be a further extension in the asset purchase timeframe at its December meeting. The post-policy statement specifically stated that the ECB intends to maintain a "substantially" accommodative policy stance until inflation shows signs of sustained moves towards its 2% target. Given these statements, we expect the ECB to extend QE by another nine months (current programme ends in March 2017) in its December meeting, when its experts will submit their recommendations as to how to address the scarcity in buyable sovereign bonds.

In our view, while the ECB has clearly shown its preference for further monetary easing, it still seems undecided over how to bring it about. We believe the bank needs to make one of two changes to its QE programme to avoid a halt in its monthly asset purchases in 1Q2017 due to a scarcity of safe assets. First, it could discard the rules that prevent it from buying any sovereign bonds with yields lower than -0.4%, which would allow it to buy a greater share of German sovereign bonds. Such a measure would likely meet substantial opposition from the German government and the banking sector, given the risk to savers and pension funds from an increasingly negative yield on sovereign bonds. The other, more viable alternative in our view, is for the ECB to change the proportion in which it buys the sovereign bonds by country. The ECB could stop buying the sovereign bonds in proportion to economic weight. This has skewed purchases overwhelmingly towards German and French bonds, which have extremely negative yields for short-term debt. Some quota from Germany and France could be shifted in favour of peripheral countries like Spain and Italy.

We expect ECB to make significant changes to QE framework in December meeting

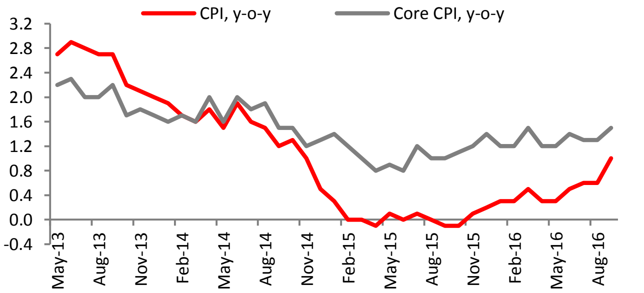
UK: Inflation pick-up reduces chances of BoE easing in November

Inflation picked up in the UK in September to 1% y-o-y (consensus: 0.9%, August: 0.6%), positively surprising the market. Looking at the details, the jump in inflation was due mainly to a sharp rebound in prices for clothing, footwear and restaurants, which had seen price cuts in the summer to reduce inventories. Given the sharp depreciation in GBP in October, we expect further acceleration in inflation in 4Q2016. Steadily firming inflation, combined with a still-resilient labour market, should persuade the BoE to refrain from any further monetary easing in its meeting on 3 November. We also expect the BoE to remain on hold in 1Q2017, as a rebound in oil prices in GBP terms from 1Q2016 levels should continue to push up headline inflation closer to the BoE's 2% target.

Pick-up in inflation in September should dissuade BoE from easing further in November

Fig. 5. UK: CPI jumps sharply in September; greater pick-up expected in 4Q due to GBP depreciation

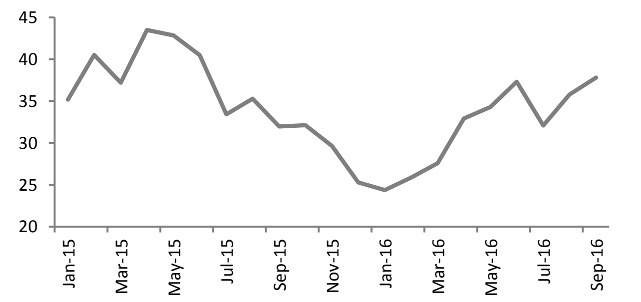
% change y-o-y



Source: Office for National Statistics

Fig. 6. UK: Further upside risks to inflation from Brent prices in GBP terms, which are now at 1Q2015 levels

Brent crude, GBP/bbl



Source: Bloomberg

Meanwhile, the unemployment rate for August remained stable at 4.9% y-o-y, with the number of jobs added between June and August rising by 106K (consensus: 76K; May-July: 176K). The pace of wage growth remained unchanged at 2.3% y-o-y. We expect the

Labour markets should remain resilient until 1H2017 labour market to remain resilient in the short term, at least until 1H2017, after which the impact of Brexit-related uncertainty on the economy will be more acutely felt.

C. Emerging Market Economies

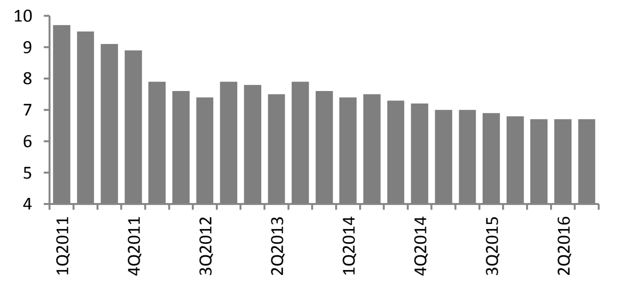
China: Growth remains stable in 3Q, cushioned by property market

GDP growth remained stable in 3Q but is likely to slow in 4Q due to measures taken to cool property market

China's GDP grew by 6.7% y-o-y in 3Q, unchanged from 2Q and in line with market expectations. Economic growth in the first three quarters has been in line with the government's yearly target of 6.5-7% y-o-y, suggesting that the authorities have had some success with their objective of 'economic rebalancing'. However, the dependence on growth in property sector investment remains concerning, in our view, given that much of the growth in 3Q was driven by a steady pick-up in real estate and construction activity.

Fig. 7. China: GDP growth in 3Q remained stable and in line with government's target for 2016

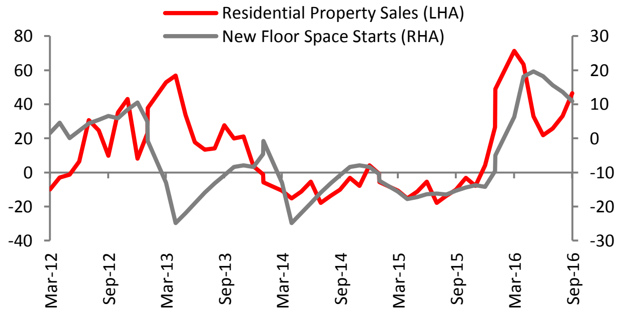
% change y-o-y



Source: National Bureau of Statistics

Fig. 8. China: Pick-up in residential sales and housing starts in 3Q underpinned economy

% change y-o-y



Source: National Bureau of Statistics

We expect some moderation in economic growth in 4Q, reflecting measures to dampen property speculation

The impact of a mini-boom in the property market was visible across all components of GDP growth. Consumption was bolstered by generous housing mortgages and stronger sales of homes and home appliances. Real estate investment, coupled with infrastructure spending, supported industrial output (unchanged from 2Q at 6% y-o-y) despite a significant weakening in exports. Given these trends and the measures undertaken by some big-city governments to rein in property speculation, we expect economic growth to moderate to 6.5% y-o-y in 4Q2016. However, with full-year growth for 2016 likely to achieve the target set at the beginning of the year, we do not expect any further monetary stimulus in the form of policy rate or RRR cuts this year. Rather, infrastructure spending by the government, particularly in renewable energy, environmental sustainability and urban social infrastructure, is likely to keep growing by double-digit figures, offsetting the impact of slow private sector investment. Export growth is likely to remain lacklustre due to weak demand from developed markets despite our expectation of further CNY depreciation against the USD in the coming quarters.

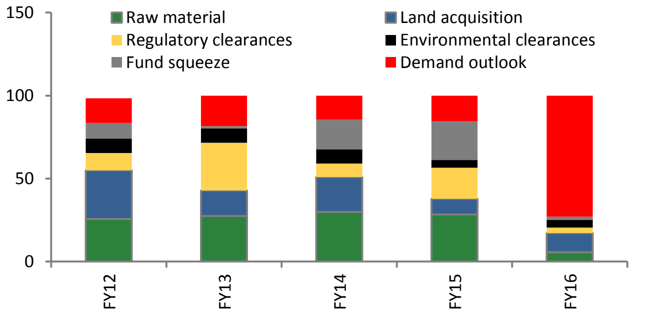
India: MPC minutes more dovish; we now expect rate cut in 1Q2017

MPC remains very comfortable about inflation outlook; we expect another 25 bps cut in February

The minutes of the RBI's new MPC revealed that the committee members remain very comfortable with the inflation trajectory and are unanimously in favour of easing policy rates further to support the investment cycle. In particular, they feel that the recent decline in food inflation will likely offset the upward pressure on prices from public sector salary hikes and the recent minimum wage increases in some states, keeping inflation close to its 5% y-o-y target by March 2017. Given this diagnosis and the fact that there was no special emphasis on the upside risks to inflation that the RBI had highlighted until August, we expect the central bank to cut rates by 25 bps from 6.25% to 6% in its February meeting.

Fig. 9. India: Weak demand outlook and bad loans cause slowdown in investment cycle

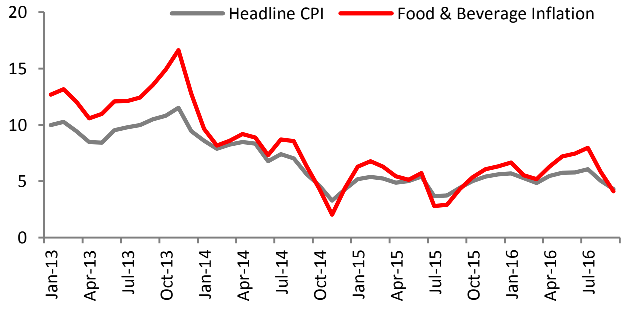
% of project value, for which reasons provided for delay



Source: Centre for Monitoring Indian Economy

Fig. 10. India: Much of decline in prices in September driven by weaker food prices

% change y-o-y



Source: Central Statistical Office

RBI's medium-term policy guidance was somewhat unclear, which could increase sensitivity of capital flows and INR to EM risk sentiment

However, we have a different view of inflation trends than the RBI and believe that premature monetary easing might result in higher prices and a weaker INR in 2H2017, forcing the RBI to reverse its monetary stance sometime next year. We remain sceptical that rate cuts can revive the investment cycle. Project-level data by the CMIE show that weak external demand and bad loans rather than a higher interest rate burden are the major impediments to investment recovery. Furthermore, the RBI's silence on certain key aspects of the inflation outlook was puzzling, which creates greater uncertainty about monetary policy guidance in our view. First, there was no mention in the MPC discussions of the downward revision to the "real neutral interest rate", which was cited by the members in their post policy meeting press conference in October as the main reason behind the rate cut. Second, there were no details on the RBI's timeline for reducing inflation to its medium-term target of 4%. We think that this lack of clarity in terms of medium-term monetary policy guidance is unlikely to firmly anchor inflation expectations, which are critical to long-term price stability. Consequently, we expect liquidity, capital flows and currency to now be more sensitive to sharp turns in EM risk sentiment, much as in Turkey, Brazil and Indonesia. That said, we do not expect a sharp pick-up in inflation above the RBI's 2-6% target, at least until 1H2017.

Turkey: CBRT keeps rates steady after seven consecutive cuts

CBRT holds off on overnight lending rate cut citing risk from weaker TRY

The CBRT held off on cutting its Overnight Lending Rate in its monetary policy meeting last week, choosing to keep it at 8.25% against consensus expectations. This is after the CBRT lowered its Overnight Lending Rate by 250 bps in 2016. The CBRT highlighted some concerns which had already been flagged by us before. The central bank now sees a greater risk of current account widening in the coming quarters, given the recent sell-off in the TRY. Further, in its post policy meeting statement, the CBRT changed its assessment of domestic liquidity conditions, no longer considering them tight. We believe this to be an indicator of a greater preference by the central bank for a neutral policy stance over the coming quarters. Given an imminent Fed rate hike in December, we expect the CBRT to refrain from further narrowing its interest rate corridor (between overnight lending rate and repo rate) through rate cuts in end-2016. In 2017 too, its monetary stance will remain dependent on TRY movements and external funding dynamics.

II. Economic Calendar

Fig. 11. Upcoming events and data releases

Time	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	CPI, y-o-y	Sep	3.3%	--
	Bahrain	CPI, y-o-y	Sep	2.6%	--
	UAE	CPI, y-o-y	Sep	0.6%	--
	UAE	Dubai's September Real Estate Sales, YTD y-o-y			
	UAE	Central Bank Foreign Assets	Sep	299.3B	--
	UAE	Dubai Airport Cargo Volume, y-o-y	Sep	-3.1%	--
	Qatar	GDP Constant Prices, y-o-y	2Q	1.1%	--
	Kuwait	CPI, y-o-y	Sep	2.9%	--
	Bahrain	CPI, y-o-y	Sep	2.6%	--
Monday, 24 Oct					
3:50	Japan	Trade Balance Adjusted	Sep	¥408.4B	¥245B
3:50	Japan	Exports, y-o-y	Sep	-9.6%	-11.9%
4:30	Japan	Nikkei Japan PMI Mfg	Oct P	50.4	--
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Oct P	52.6	52.7
12:00	Eurozone	Markit Eurozone Services PMI	Oct P	52.2	52.4
16:30	US	Chicago Fed Nat Activity Index	Sep	-0.6	-0.1
17:00	US	Fed's Dudley Speaks at U.S. Treasury Market Event in New York			
17:05	US	Fed's Bullard Speaks on Economy, Monetary Policy in Arkansas			
17:45	US	Markit US Manufacturing PMI	Oct P	51.5	51.5
21:30	US	Fed's Evans Speaks in Chicago			
Tuesday, 25 Oct					
12:00	Germany	IFO Business Climate	Oct	109.5	109.6
18:00	US	Consumer Confidence Index	Oct	104.1	101
18:00	US	Richmond Fed Manufact. Index	Oct	-8	-4
19:30	Germany	Draghi Gives Lecture in Berlin at DIW Economic Institute			
21:20	US	Fed's Lockhart Speaks on Community Development			
Wednesday, 26 Oct					
15:00	US	MBA Mortgage Applications	21-Oct	0.6%	--
16:30	US	Wholesale Inventories m-o-m	Sep P	-0.2%	0.1%
18:00	US	New Home Sales	Sep	609K	600K
Thursday, 27 Oct					
12:00	Eurozone	M3 Money Supply, y-o-y	Sep	5.1%	5.1%
12:30	UK	GDP, q-o-q	3Q A	0.7%	0.3%
12:30	UK	GDP, y-o-y	3Q A	2.1%	2.1%
16:30	US	Durable Goods Orders, m-o-m	Sep P	0.1%	0.1%
16:30	US	Durables, ex-Transportation, m-o-m	Sep P	-0.2%	0.2%
16:30	US	Cap Goods Orders, Non-def ex-Air, m-o-m	Sep P	0.9%	-0.1%
16:30	US	Initial Jobless Claims	22-Oct	260K	255K
18:00	US	Pending Home Sales, m-o-m	Sep	-2.4%	1.1%
Friday, 28 Oct					
3:30	Japan	Natl CPI, y-o-y	Sep	-0.5%	-0.5%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Sep	-0.5%	-0.5%
11:30	Eurozone	ECB's Coeure Speaks in Frankfurt			
13:00	Eurozone	Consumer Confidence	Oct F	-8	-8
16:30	US	GDP Annualized, q-o-q	3Q A	1.4%	2.5%
16:30	US	Personal Consumption	3Q A	4.3%	2.6%
16:30	US	GDP Price Index	3Q A	2.3%	1.4%
16:30	US	Core PCE, q-o-q	3Q A	1.8%	1.6%
18:00	US	U. of Mich. Sentiment	Oct F	87.9	88.2

* UAE time
Source: Bloomberg

Fig. 12. Last week's data

Date Time	Country	Event	Period	Prior	Consensus	Actual
MENA and China Data						
	China	New Yuan Loans CNY	Sep	948.7B	1000B	1220B
	China	Aggregate Financing CNY	Sep	1469.7B	1390B	1720B
	China	Money Supply M2, y-o-y	Sep	11.4%	11.6%	11.5%
	Oman	CPI, y-o-y	Sep	1.3%	--	1.3%
	Qatar	CPI, y-o-y	Sep	2.9%	--	2.6%
	Kuwait	M2 Money Supply, y-o-y	Aug	1%	--	2.8%
Monday, 17 Oct						
3:01	UK	Rightmove House Prices, m-o-m	Oct	0.7%	--	0.9%
16:30	US	Empire Manufacturing	Oct	-2	1	-6.8
17:15	US	Industrial Production, m-o-m	Sep	-0.5%	0.1%	0.1%
Tuesday, 18 Oct						
	India	RBI releases minutes of Oct MPC meeting				
12:00	Eurozone	ECB Bank Lending Survey				
12:30	UK	CPI, y-o-y	Sep	0.6%	0.9%	1%
16:30	US	CPI, y-o-y	Sep	1.1%	1.5%	1.5%
16:30	US	CPI, ex-Food and Energy, y-o-y	Sep	2.3%	2.3%	2.2%
Wednesday, 19 Oct						
0:00	US	Total Net TIC Flows	Aug	$118B	--	$73.8B
6:00	China	Industrial Production, y-o-y	Sep	6.3%	6.4%	6.1%
6:00	China	Retail Sales, y-o-y	Sep	10.6%	10.7%	10.7%
6:00	China	Fixed Assets ex-Rural, YTD y-o-y	Sep	8.1%	8.2%	8.2%
6:00	China	GDP, y-o-y	3Q	6.7%	6.7%	6.7%
8:30	Japan	All Industry Activity Index, m-o-m	Aug	0.2%	0.2%	0.2%
12:30	UK	Claimant Count Rate	Sep	2.3%	2.2%	2.3%
12:30	UK	Jobless Claims Change	Sep	7.1K	3.2K	0.7K
12:30	UK	ILO Unemployment Rate	Aug	4.9%	4.9%	4.9%
15:00	US	MBA Mortgage Applications	14-Oct	-6%	--	0.6%
16:30	US	Housing Starts	Sep	1150K	1175K	1047K
16:30	US	Building Permits	Sep	1152K	1165K	1225K
Thursday, 20 Oct						
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Sep	-0.1%	0.2%	0%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Sep	6.2%	4.4%	4%
15:00	Turkey	CBRT Benchmark Policy Rate	20-Oct	7.5%	7.5%	7.5%
15:00	Turkey	CBRT Overnight Lending Rate	20-Oct	8.25%	8%	8.25%
15:45	Eurozone	ECB Main Refinancing Rate	20-Oct	0%	0%	0%
15:45	Eurozone	ECB Deposit Facility Rate	20-Oct	-0.4%	-0.4%	-0.4%
15:45	Eurozone	ECB Asset Purchase Target	Oct	EU80B	EU80B	EU80B
16:30	US	Initial Jobless Claims	15-Oct	247K	250K	260K
16:30	US	Philadelphia Fed Business Outlook	Oct	12.8	6	9.7
18:00	US	Existing Home Sales	Sep	5.3M	5.35M	5.47M

* UAE time

Source: Bloomberg

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