Global Data Watch 26-30 September 26 September 2016

The Week Ahead: Oil in spotlight as major producers meet to discuss output

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Oil: OPEC and Russia meet in Algiers to discuss output

We remain sceptical that a deal to limit output will be struck between OPEC and Russia at an informal meeting scheduled for 28 September. This is despite more signs of conciliation between Iran and Saudi Arabia. Notably, Saudi Arabia indicated (for the first time in two years) that it would be willing to cut production if Iran froze output at current levels (3.6 million b/d). However, Riyadh and Tehran were then unable to reach an agreement after two days of preparatory talks in Vienna. Moreover, Iran, Iraq, Libya and Nigeria continue to argue that they should be permitted to increase production. Russia is only expected to join the discussion after OPEC members reach a deal between themselves. Nevertheless, we expect to see verbal support for the oil price, with the potential for future joint action being highlighted, if required.

OPEC: Production notably higher than in January

Even if an agreement is reached, the critical issue remains the level at which oil production will be capped. OPEC output is around 600K b/d higher than in January, and this strong production is a key factor in the oil market remaining oversupplied. Saudi Arabia did not indicate what level it was willing to cut production to, after a strong output increase over the summer (to around 10.7 million b/d in July and August). Higher seasonal demand and increased refining capacity supported this increase, though it may also have been an attempt to improve its negotiating hand as other OPEC members also raised output. Saudi oil exports could remain steady into 4Q2016, despite a natural decline in total production, as domestic demand moderates and with a number of refinery maintenance stoppages scheduled. We maintain our Brent crude forecasts of USD46 p/b in 2016 and USD54 p/b in 2017, expecting some very gradual tightening of the oil market led by reduced upstream investment and tentative signs of a moderation in inventories (though still historically high). Moreover, the ability of key producers (Saudi Arabia, Russia and Iran) to increase output is likely to be limited.

Global: BoJ and Fed still in focus, US personal spending data

The BoJ will release the summary of opinions from its 20-21 September meeting (30 September) at which it introduced its QQE programme (page 3). Markets were unconvinced by the new programme, which was broadly seen as being policy neutral. The opinions will be closely scrutinised for details, with limited specifics released so far. Meanwhile, in the US a number of FOMC members are scheduled to speak this week. We expect the overall message to continue to point to a rate hike at the end of the year. However, politics will take centre stage, with the first US presidential election debate on 26 September. The polls have tightened over the last few weeks, pointing to a competitive race for the White House. Data wise, consensus expects personal spending moderated to 0.1% m-o-m in August, with auto sales weaker (in line with retail data) and spending on utilities lower.

I. Recent Data and Events

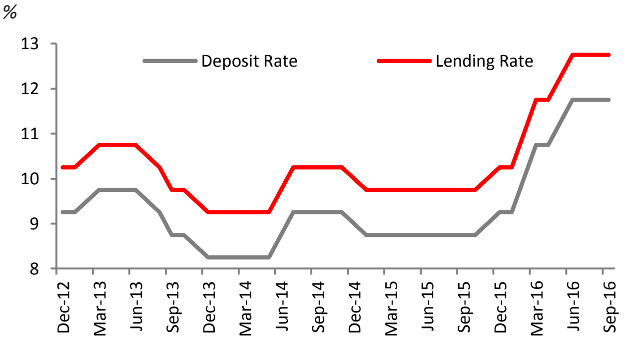
A. MENA Economies

Egypt: CBE maintains interest rates, surprising market

CBE maintaining space to raise rates later in year

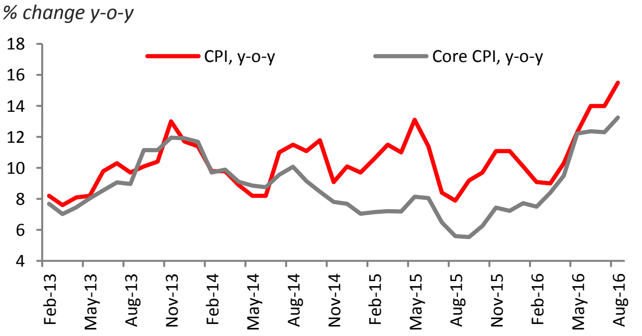
The CBE kept benchmark interest rates on hold at its 22 September policy meeting (overnight deposit rate 11.75%, overnight lending rate 12.75%). Consensus was expecting a 50 bps hike (with some looking for a 200 bps rise) after inflation accelerated to 15.5% in August. The CBE noted that many of the factors pushing inflation up were transitory, whilst demand-side factors continued to pose "downside risks to the inflation outlook". Reflecting the weakening growth backdrop, the CBE noted that real GDP growth moderated to 4.3% y-o-y in 9M2015-16, down from 4.8% in the corresponding period of the previous year. We believe that the decision not to increase at this point was likely due to maintaining the space to raise rates in the future, especially against a backdrop of slowing growth. We expect at least a further 100 bps of hikes in 4Q2016, after the introduction of VAT and the expected devaluation of the EGP (following the formalisation of the IMF agreement). A sharp increase in inflation following the introduction of VAT could potentially delay the expected EGP devaluation. The central bank has already raised key policy rates by 250 basis points this year.

Fig. 1. Egypt: CBE keeps rates steady in September, for second consecutive meeting, after 250 bps of hikes in 1H2016



Source: Central Bank of Egypt

Fig. 2. Egypt: Inflation to see further upside pressure in 4Q2016 with introduction of VAT and expected EGP devaluation



Source: Central Bank of Egypt

B. G4 Economies

US: Fed on hold at September meeting, but indicates a hike is close

Fed needs to see further signs of inflation and momentum in labour market before raising rates

The Fed kept monetary policy steady at its September meeting (20-21), in line with our expectations and the consensus. The decision to remain on hold was largely due to the need to "wait for further evidence of continued progress toward its objectives". We believe that this includes both the inflation and labour market fronts. On the labour front, the post-meeting statement noted that the unemployment rate has remained steady despite solid job gains.

Three voting members wanted to raise rates at September meeting

However, the communication strongly signalled that the FOMC is on track to raise rates before the year-end if the economy stays on its current course. There were two significant changes to the statement: i) near-term risks to the economic outlook "appear roughly balanced"; and ii) "the case for an increase in the federal funds rate has strengthened". The more hawkish tone was also partly due to the lack of discussion of the recent weakening in economic data (rather the statement highlighted the improvement in overall data since the previous meeting in July). Most notably, three members dissented, voting for a rate hike (Kansas City Fed President Esther George, Cleveland Fed President Loretta Mester and Boston Fed President Eric Rosengren), which substantially increases the outlook for a December increase. This was the first time that three members have dissented in the same direction since September 2011, and only the fifth time in the last 30 years. The FOMC remains divided, with the dot plot indicating that three other members are not supportive of another rate hike this year (14 of the 17 expect a rate hike by year end).

Fig. 3. US: Summary of FOMC's median economic projections, %

	2016	2017	2018	2019	Longer run
Real GDP growth, 4Q y-o-y					
September	1.8	2	2	1.8	1.8
June	2	2	2	na	2
Unemployment rate, 4Q average					
September	4.8	4.6	4.5	4.6	4.8
June	4.7	4.6	4.6	na	4.8
PCE inflation, 4Q y-o-y					
September	1.3	1.9	2	2	2
June	1.4	1.9	2	na	2
Core PCE inflation, 4Q y-o-y					
September	1.7	1.9	2	2	na
June	1.7	1.9	2	na	na
Median FFTR, year end					
September	0.6	1.1	1.9	2.6	2.9
June	0.9	1.6	2.4	na	3

Source: Federal Reserve

Fed sees more gradual rate hiking cycle for 2017, than earlier projections

December remains our base-case scenario for a 25 bps rate hike, and we view the statement and post-meeting conference as being supportive of our outlook. We believe that a hike at the 2 November meeting is unlikely (despite Fed Chair Janet Yellen's indication that the meeting will be "live"), with limited new data before the meeting and the US presidential election the following week. Looking forward, the Fed projected a less aggressive rise in interest rates next year, with two 25 bps hikes now forecast versus three previously. As such, the median dot for 2017 moderated to 1.125% from 1.625% previously (also due to the Fed now seeing just one hike in 2016 from two at the June meeting). The longer-run interest rate forecast was lowered to 2.9% from 3% at the June meeting. We currently expect the Fed to raise rates twice in 2017 but see a risk of just one increase.

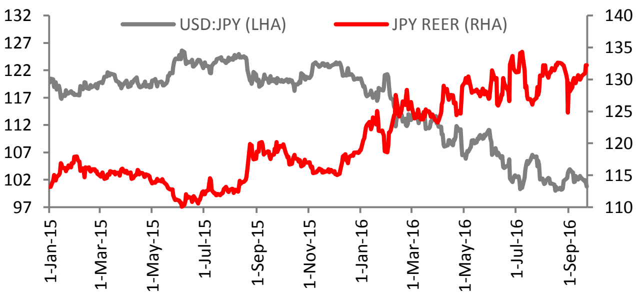
Japan: BoJ shifts policy focus to yield curve; limited economic impact expected

Shift in stance to managing JGB yield, from size of purchases

The BoJ announced a new monetary policy framework at its 20-21 September meeting – "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control". There are two major components to this policy: i) yield-curve control, both short- and long-term; and ii) a commitment to exceeding the inflation target of 2%. Overall, the bank's stance is targeting long-term interest rates rather than just relying on passively expanding the money supply to meet its elusive inflation target. Meanwhile, the BoJ maintained its benchmark rate at -0.1% (which acts as an anchor to short-dated bond yields) at the September meeting. These changes came after a comprehensive review of the BoJ's policy, which was requested by Governor Haruhiko Kuroda at the last board meeting in July. Overall, the markets have been relatively unconvinced by the bank's latest moves, especially given the limited details released so far. Last week's moves do not offer additional loosening in monetary policy at this point but rather a change in the mechanism and a strengthening in forward guidance.

Fig. 4. Japan: JPY strengthens following QQE announcement, reflecting underwhelming response from markets to new programme

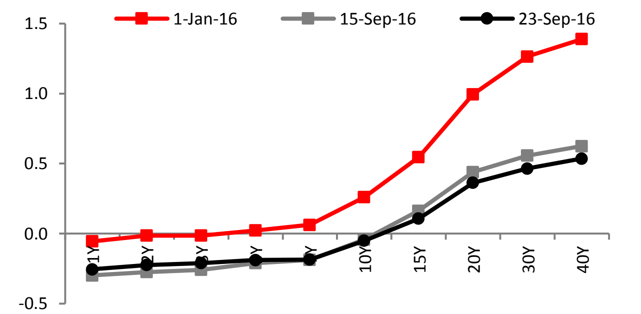
USD:JPY (LHA); JPY REER (RHA)



Source: Bloomberg

Fig. 5. Japan: Yield curves have flattened substantially since negative interest rates were introduced in January, partly reflecting falling inflation expectations

%



Source: Bloomberg

Limited details so far – BoJ expects annual size of purchases to remain roughly in line with current levels

Under its new framework, the BoJ will buy long-term Japanese government bonds (JGBs) to keep 10-year bond yields at the current level ("around 0%"). The aim is to manage the yield curve by anchoring the 10-year rate whilst preventing the detrimental impact of excessive curve flattening (seen after negative interest rates were introduced in January). Concerns over negative interest rates in the banking sector were also a factor behind the new stance. Limited details were provided, though the programme implies greater flexibility in the purchase of JGBs. However, the BoJ indicated that its JGB purchases will remain more or less in line with the current pace (annual accumulation of JPY80 trillion) despite short-term variations. Moreover, the BoJ dropped the 7-12 year average maturity target for its JGB holdings, which importantly allows a shortening of maturities purchased if needed to steepen the yield curve. Markets are uncertain whether the BoJ will actually be able to control the yield curve. We still expect a further 10 bps cut to the benchmark interest rate in the next six months to boost short-term activity, though the BoJ will try to limit the possible negative implications with the new QQE framework.

Impact on economic activity to remain limited, despite promise of ultra-loose monetary policy for longer

Meanwhile, by announcing that it would allow inflation to overshoot its 2% target before tapering asset purchases, the BoJ left the door open for maintaining its ultra-loose policy for longer than previously expected. We do not believe that the bank's commitment to letting inflation overshoot its target will have any material effect on inflation expectations. This is especially as inflation expectations remain so far below the target level. The strengthening of the JPY remains a key headwind to the short-term inflation outlook. With inflation expectations not expected to rise as a result of QQE (thereby reducing the real interest rate outlook) in our view, the impact on weakening the JPY will likely be limited. This supports the outlook for a further rate cut. We also do not expect the shift to QQE to boost economic activity, which we believe will require more unconventional monetary policies, greater fiscal support and structural reforms. Furthermore, we do not expect to see fiscal policy actively respond to the low longer-term JGB interest rate outlook in the short term, which could result in the fiscal space being increased through lower debt financing.

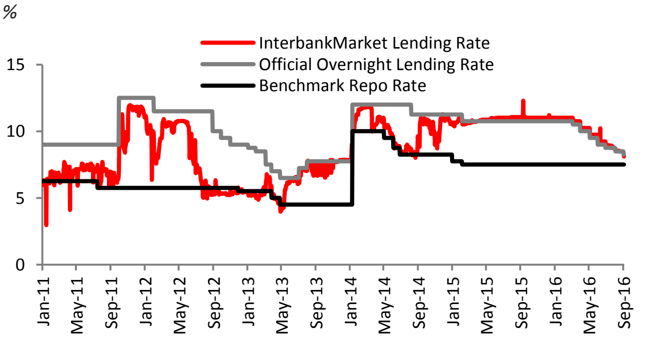
C. Emerging Market Economies

Turkey: CBRT more cautious on growth and inflation risks

CBRT cuts overnight lending rate by further 25 bps, bringing it closer to repo rate

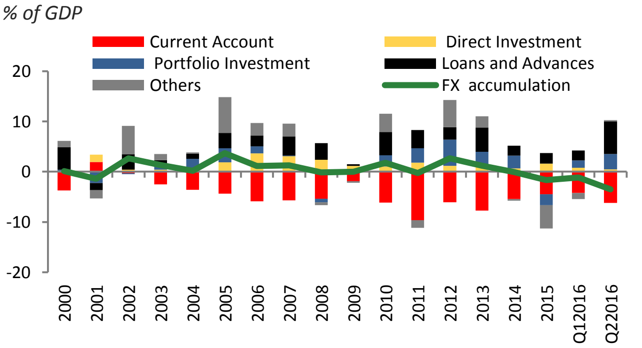
The CBRT continued with its monetary policy harmonisation last week, cutting the overnight lending rate by another 25 bps to 8.25% (previous: 8.5%), while keeping the benchmark repo rate unchanged at 7.5%. In line with our expectations, the CBRT's growth outlook for 2H2016 sounded more cautious, highlighting the risk from declining tourism revenues. We expect growth in 2H2016 to print slightly under 3% y-o-y, with investment and exports being the major drags. Further, we do not expect inflation to fall significantly towards the CBRT's 3-7% y-o-y target despite a weakening in growth, as potential TRY weakening could elevate import price pressures (consumption activity has remained solid). Moreover, the CBRT acknowledged these risks in its statement, saying that the "recent tax increases and other cost factors" could limit the improvement in inflation. Therefore, we only expect a very cautious pace of cuts to overnight lending rates, especially as the CBRT's comes closer to its objective of bringing benchmark overnight rate in line the repo rate. Future interest rate moves will also remain sensitive to risk aversion in EM assets, given the external funding risks. As such, we do not see a case for outright monetary easing through cuts to the benchmark repo rate this year, despite a weakening in growth.

Fig. 6. Turkey: Overnight lending rate lowered by 250 bps so far in 2016; pace of cuts to moderate



Source: Central Bank of the Republic of Turkey

Fig. 7. Turkey: Current account deficit increasingly funded by volatile portfolio inflows



Source: Central Bank of the Republic of Turkey

Turkey downgraded to sub-investment grade by Moody's

In another important development, Moody's became the second major credit rating agency to downgrade Turkey (to sub-investment grade of Ba1 from Baa3). The reasons for the downgrade – the risk of a sudden reversal in capital flows and FX reserves erosion – were similar to the concerns highlighted in our research. We believe that this downgrade could increase the pace of selling in Turkish bonds, since many emerging market investment management funds with a mandate to put capital into investment-grade assets will have to liquidate some Turkish holdings. This could pose a risk to Turkey's BoP dynamics. In 2Q2016, the country's current account deficit was -6.2% of GDP, of which half was funded through portfolio flows from the aforementioned investment management firms. We see BoP funding-related risks as the biggest near-term challenge to Turkey's economy.

II. Economic Calendar

Fig. 8. Upcoming events and data releases

Date Time	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	CPI, y-o-y	Aug	3.8%	--
	Saudi Arabia	GDP Constant Prices, y-o-y	2Q	1.5%	--
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Aug	2082.7B	--
	UAE	CPI, y-o-y	Aug	1.8%	
	UAE	Dubai Airport Cargo Volume, y-o-y	Aug	-1.2%	--
	UAE	Central Bank Foreign Assets	Aug	315.3B	--
	Oman	Nominal GDP YTD, y-o-y	2Q	-12.2%	
	Kuwait	CPI, y-o-y	Aug	3.1%	--
	Qatar	GDP Constant Prices, y-o-y	2Q	1.1%	--
Monday, 26 Sep					
26-28 Sep		15th International Energy Forum in Algiers			
09:30	Japan	BOJ Kuroda makes a speech in Osaka			
18:00	Eurozone	ECB's Draghi Speaks at European Parliament in Brussels			
18:00	US	New Home Sales	Aug	654K	600K
21:30	US	Fed's Kaplan Speaks in San Antonio Moderated Q&A			
Tuesday, 27 Sep					
12:00	Eurozone	M3 Money Supply, y-o-y	Aug	4.8%	4.9%
18:00	US	Consumer Confidence Index	Sep	101.1	98.8
Wednesday, 28 Sep					
		OPEC and Russia to meet informally on the side lines of International Energy Forum			
16:30	US	Durable Goods Orders, m-o-m	Aug P	4.4%	-1.5%
16:30	US	Durables ex-Transportation, m-o-m	Aug P	1.3%	-0.5%
18:10	US	Fed's Bullard Makes Introductory Remarks on Community Banking			
21:30	US	Fed's Evans Speaks on Community Banking in St. Louis			
Thursday, 29 Sep					
00:35	US	Fed's Mester Speaks on Economic Outlook and Policy			
03:15	US	Fed's George Speaks to Minority Bankers in Kansas City			
03:50	Japan	Retail Trade, y-o-y	Aug	-0.2%	-1.7%
10:35	Japan	Kuroda Speaks at Security Association Conference			
12:30	UK	Mortgage Approvals	Aug	60.9K	60.2K
13:00	US	Fed's Harker Speaks in Dublin, Ireland			
16:30	US	GDP Annualized, q-o-q	2Q T	1.1%	1.3%
16:30	US	Personal Consumption	2Q T	4.4%	4.4%
16:30	US	Core PCE, q-o-q	2Q T	1.8%	1.8%
16:30	US	Initial Jobless Claims	24-Sep	252K	260K
16:50	US	Fed's Lockhart Speaks to the Future of Florida Forum			
18:00	US	Fed's Powell Speaks on Community Banking in St. Louis			
22:00	US	Fed's Kashkari Speaks at Town Hall in South Dakota			
Friday, 30 Sep					
03:30	Japan	Natl CPI, y-o-y	Aug	-0.4%	-0.5%
03:30	Japan	Natl CPI Ex Fresh Food, y-o-y	Aug	-0.5%	-0.4%
03:50	Japan	BOJ Summary of Opinions at Sept.20-21 Meeting			
03:50	Japan	Industrial Production, m-o-m	Aug P	-0.4%	0.4%
05:45	China	Caixin China PMI Mfg	Sep	50	50.1
13:00	Eurozone	Unemployment Rate	Aug	10.1%	10%
13:00	Eurozone	CPI Estimate, y-o-y	Sep	0.2%	0.4%
16:30	US	Personal Income	Aug	0.4%	0.2%
16:30	US	Personal Spending	Aug	0.3%	0.1%
18:00	US	U. of Mich. Sentiment	Sep F	89.8	90

* UAE time
Source: Bloomberg

Fig. 9. Last week's data

Time*	Country	Data Point	Period	Prior	Consensus	Actual
Emerging market data						
	Oman	CPI, y-o-y	Aug	1.3%	--	1.3%
	India	Current Account Balance, USD bn	2Q	-0.3	2.7	-0.3
Monday, 19 Sep						
03:01	UK	Rightmove House Prices, m-o-m	Sep	-1.2%	--	0.7%
Tuesday, 20 Sep						
16:30	US	Housing Starts, '000	Aug	1212K	1190K	1142K
16:30	US	Building Permits, '000	Aug	1144K	1164K	1139K
Wednesday, 21 Sep						
	Japan	BoJ Asset Purchase Target		¥80T	¥80T	¥80T
	Japan	BoJ Policy Rate		-0.1%	-0.1%	-0.1%
03:50	Japan	Exports, y-o-y	Aug	-14%	-4.5%	-9.6%
03:50	Japan	Imports, y-o-y	Aug	-24.7%	-16.6%	-17.3%
03:50	Japan	Adjusted Trade Balance	Aug	¥340.2B	¥494B	¥408B
15:00	US	MBA Mortgage Applications	16-Sep			
22:00	US	FOMC Interest Rate Decision		0.5%	0.5%	0.5%
22:00	US	Fed Summary of Economic Projections				
Thursday, 22 Sep						
	Egypt	Benchmark Deposit Rate		11.75%	12.25%	11.75%
15:00	Turkey	Benchmark Repurchase Rate		7.5%	7.5%	7.5%
15:00	Turkey	Overnight Lending Rate		8.5%	8.25%	8.25%
16:30	US	Initial Jobless Claims	17-Sep			
18:00	US	Existing Home Sales	Aug	5.38M	5.45M	5.33M
18:00	Eurozone	Consumer Confidence	Sep	-8.5	-8.2	-8.2
Friday, 23 Sep						
04:30	Japan	Nikkei Manufacturing PMI	Sep	49.5		50.3
12:00	Eurozone	Markit Manufacturing PMI	Sep	51.7	51.5	52.6
12:00	Eurozone	Markit Services PMI	Sep	52.8	52.8	52.1
17:45	US	Markit Manufacturing PMI	Sep	52	52	51.4

* UAE time
Source: Bloomberg

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