

The Week Ahead: US NFP data and OPEC meeting in focus

► **US: NFP and PCE data to be released, second print of 3Q GDP**

Consensus expects a healthy nonfarm report for November, with 175K jobs created and the unemployment rate holding at 4.9%. Warmer weather likely supported jobs growth in a number of sectors, though seasonal holiday-related hiring may have been softer. Hourly earnings growth is estimated to have decelerated to 0.2% m-o-m in November (from a robust 0.4% m-o-m in October), albeit with the annual rate remaining steady at 2.8% y-o-y. Meanwhile, 3Q GDP growth is expected to be revised upwards in its second print to 3% q-o-q SAAR, up from 2.9% in the initial reading. Most of the adjustment is forecast to come from stronger consumer spending growth of 2.3% q-o-q SAAR, from 2.1% (first print). The personal spending data for October is also expected to reflect the recent upward revisions in retail spending. Notably, the minutes of the November FOMC meeting implied that the data bar was low for the Fed to raise rates at the December meeting.

► **OPEC: Ministerial council meeting to finalise production cuts**

OPEC oil ministers meet on 30 November to finalise details of the proposed cap on production agreed in September. OPEC countries decided to cut output to between 32.5-33 million barrels per day (bpd) in September, with details to be concluded by November. A number of recent statements suggest that progress has been made towards an agreement, though Iran and Iraq's stance will be critical. Iraq was looking to be exempt, while Iran wanted space to increase supply. Russia's cooperation will also likely be a key requirement for some OPEC members to support the agreement. OPEC production has increased from September, and reducing output will be central to rebalancing the oil market. OPEC production stood at 33.6 million bpd in October, up from 33.4 million in September. A move to the lower end of the target would imply a significant cut to production (c.1.1 million bpd from October levels), substantially reducing the global supply overhang. We believe that a cut of this magnitude could add USD7-10 p/b to the oil price. However, if a deal is not reached, the oil price could fall to the low USD40 p/b levels, placing downside risks to our 2017 average oil price forecast of USD54 p/b.

► **India: GDP growth to recover in 3Q, downside risk in 4Q**

We expect GDP growth (due 30 November) to have rebounded to 7.5% y-o-y in 3Q2016 (7.1% y-o-y in 2Q), in line with the consensus. Consumption activity, which took a breather in 2Q, is likely to have been boosted in 3Q by a combination of stronger farm incomes and public sector pay hikes. In addition, we are also likely to see a pick-up in capex activity to growth of 2% y-o-y in 3Q (after a contraction of -1.9% y-o-y in 2Q), reflecting higher infrastructure spending and investment in export capacity. However, we are more concerned over India's growth from 4Q2016 onwards, following the government's demonetisation programme. Recent comments from banking officials suggested that the currency shortage is likely to persist even in 1Q2017, which adds downside risk to our recently reduced real GDP growth forecast of 7.4% y-o-y for FY17 (April 2016-March 2017).

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Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	6

I. Recent Events and Data Releases

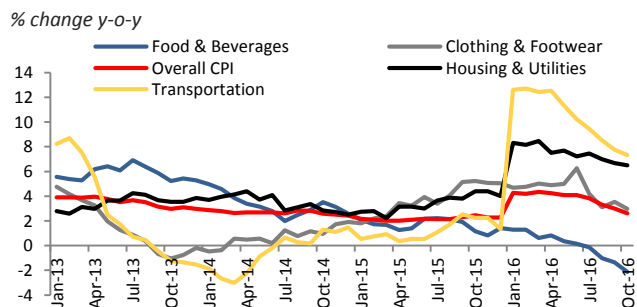
A. MENA Economies

Saudi Arabia: Consumer inflation softens on weaker domestic demand

Consumer inflation slowed to 2.6% y-o-y (-0.1% m-o-m) in October – the lowest yearly rate of inflation seen in 2016 so far. Headline inflation was above 4% in 1H2016 but has since decelerated. Part of the softening has been due to lower food price increases. However, we believe that the weaker domestic demand environment is also being reflected in the inflation data. This is especially after Saudi Arabia reduced public sector wages and benefits in early October, which would have placed further downwards pressure on private consumption after a reduction in subsidies earlier in the year. There has been a deceleration in clothing and footwear prices, which we believe reflects the softer demand. Low global inflation and the strong USD contributed to a limited build-up in inflationary pressure. Nevertheless, inflation continues to be driven by the areas that have seen subsidy reforms (fuel and utilities). These two components continued to see the strongest price increases in October, with transportation rising 7.3% y-o-y and housing & utilities up 6.5%. Within the housing and utility component, lower rental prices have contributed to the deceleration in inflation in this component. This again reflects the weaker economic backdrop, including drop in investments.

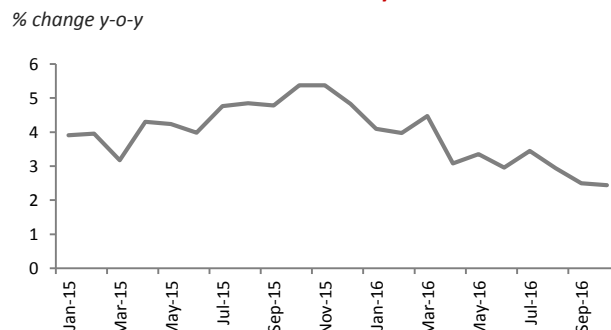
Headline inflation decelerates to 2.6% y-o-y in October, down from 4.3% in January

Fig. 1. Saudi Arabia: Weaker food prices and domestic demand behind deceleration in inflation



Source: General Authority for Statistics

Fig. 2. Saudi Arabia: Housing inflation (sub-index) moderates on weaker economic activity



Source: General Authority for Statistics

B. G4 Economies

US: No surprises from FOMC November minutes; Fed on course to raise rates

The minutes of the FOMC's meeting on 1–2 November were in line with our expectations, with no surprises regarding the policy outlook. The minutes indicate that the committee members had largely decided to raise interest rates at the December meeting. The minutes showed that "most participants" thought "that it could well become appropriate to raise the target range for the federal funds rate relatively soon". Moreover, they indicated that the bar for a 25 bps hike was relatively low and we believe that the data since the November meeting has generally surprised to the upside. The minutes noted that economic data would only need to show "some further evidence of continued

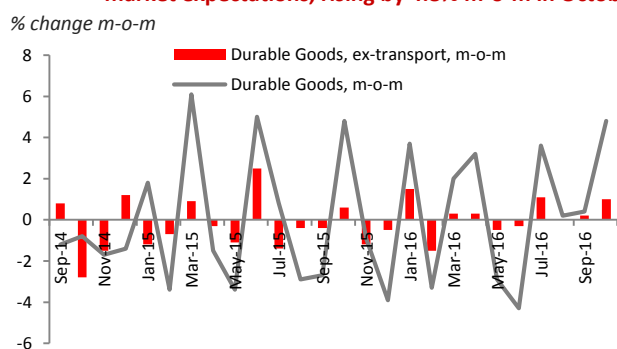
Low data bar to raise rates in December

progress". The November minutes were very much in line with Fed Chair Janet Yellen's recent comments that a rate hike could be appropriate "relatively soon".

We continue to expect a 25 bps increase at the 13–14 December meeting, though we have now raised our interest rate outlook to two 25 bps hikes in 2017 (up from one previously). This is based on our expectation that the new administration's fiscal policy will be more accommodative. The November minutes also showed a discussion of the Fed's longer-run policy framework, including the composition and size of the Fed's balance sheet. However, no clear direction was provided on this front. We do not expect any changes to the size of the balance sheet or its structure in 2017. Yellen noted that the Fed would "proceed cautiously" and would communicate any intended policy changes well in advance.

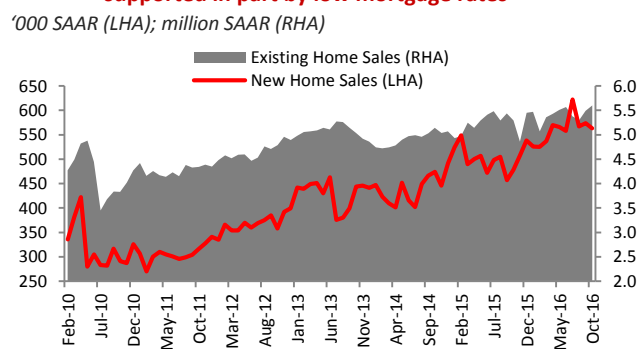
We now expect two rate hikes in 2017 – with greater fiscal stimulus

Fig. 3. US: Durable goods orders came in substantially above market expectations, rising by 4.8% m-o-m in October



Source: US Census Bureau

Fig. 4. US: Existing home sales reach 9-year high in October, supported in part by low mortgage rates



Source: National Association of Realtors

Meanwhile, data out last week remained strong. October durable goods orders came in substantially above consensus expectations. Headline orders rose by 4.8% m-o-m, whilst the 0.4% m-o-m increase in core capital goods orders pointed to a pick-up in investment activity. Existing home sales rose to their highest level in over nine years, further indicating strong consumer sentiment at the beginning of 4Q. Existing home sales rose 2% m-o-m in October (consensus: -0.6%) to an annual rate of 5.6 million units. Sales were supported by the ongoing improvement in the labour market and mortgage rates remaining low.

Last week's data beat consensus expectations

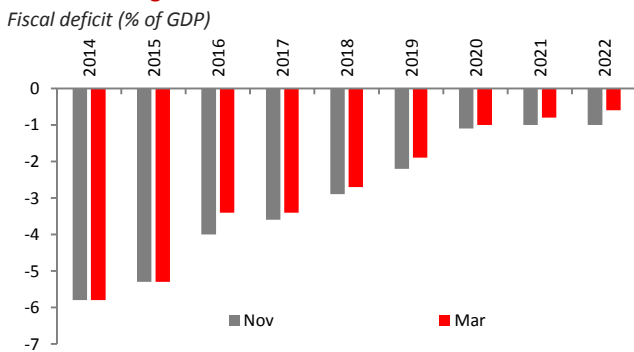
UK: More fiscal flexibility, but no significant stimulus yet

The UK's mid-year autumn budget statement (2016-17) last week fell short of market expectations of a sizable fiscal stimulus to the economy after the Brexit vote. The only notable public spending programme announced by the government was the National Productivity Investment Fund. This programme is slated to invest GBP23 billion (1.2% of GDP) on affordable housing and urban infrastructure in FY2016-17 (April 2016 - March 2017). This could provide a significant boost to GDP growth, if implemented in this short time period. The government also pushed out to 2021 the previous administration's target of balancing the budget and bringing down the public debt (previously by 2020). We view this approach as sensible, as the government retains its fiscal flexibility to spend in the medium term when the costs of Brexit to economic growth become more apparent. Indeed, the Brexit vote has not had a noticeable adverse impact on GDP

No short-term spending stimulus announced, as government looks to maintain fiscal space

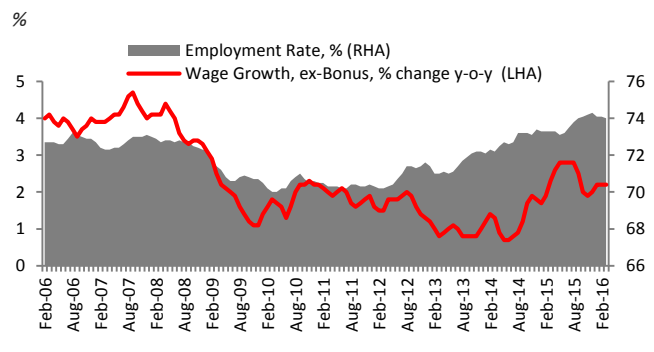
growth so far, nullifying the urgency of a massive fiscal stimulus this year. In a data release last week, UK GDP for 3Q2016 remained relatively stable at 0.5% q-o-q (0.7% q-o-q previously), despite the shock of the Brexit vote.

Fig. 5. UK: Government forecasts slower pace of fiscal consolidation, accounting for Brexit-led slowdown in GDP growth



Source: Office for Budget Responsibility, ADCB estimates

Fig. 6. UK: Government expects wage growth to return to 3-4% after Brexit (2019); we see downside risk to this forecast



Source: Office for National Statistics

That said, we believe that the government’s estimate of additional medium-term borrowing (GBP122 billion until 2021), based on the economic projections of the Office for Budget Responsibility (OBR), is very optimistic. This is especially as the government does not fully factor in the long-term impact of Brexit on investment and employment growth, in our view. In particular, we remain sceptical of the OBR’s forecast of GDP growth stabilising around 2.1% y-o-y by 2019, after Brexit is implemented. We believe that the UK’s more limited access to the EU market post Brexit is likely to have a long-term adverse impact on its attractiveness as an investment destination. Furthermore, the OBR’s forecast of steady wage growth between 3-4% y-o-y post-Brexit assumes an acceleration in wage growth from the current levels, which is unlikely in a post-Brexit labour market where some firms might be shifting bases out of UK. Looking ahead, we expect further easing in fiscal policy from 2018 onwards, as the costs of Brexit and stagnating productivity growth create the need for greater infrastructure spending.

Government’s borrowing estimates are very optimistic

C. Emerging Market Economies

Turkey: CBRT delivers surprise rate hike, FX RRR for banks lowered

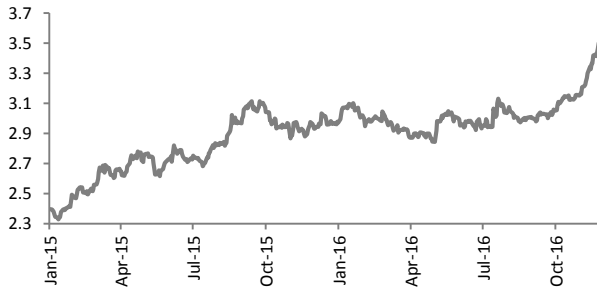
The CBRT surprised the markets last week by raising its benchmark repo rate by 50 bps to 8% for the first time in almost three years. In addition, the overnight lending rate, which forms the upper bound of the CBRT’s interest rate corridor, was also hiked by 25 basis points to 8.5%. Furthermore, the CBRT also cut the FX reserve requirement ratio (RRR) for Turkish banks by 50 bps, which should release close to USD1.5 billion in USD liquidity into money markets. In our previous research, we had highlighted the rising possibility of such moves by the CBRT, following the sharp -14% decline in the TRY since October. We expect last week’s action to push up average real interest rates by about 30 bps and address the dollar shortages in the short run. This could limit volatility in the TRY ahead of the FOMC meeting in mid-December. However, we believe that the CBRT will need to be more consistent in its commitment to contain external vulnerabilities,

CBR tightening may limit TRY volatility ahead of December FOMC meeting

through policy rate hikes and provision of FX liquidity. This is necessary to ensure greater stability in the TRY and foreign capital flows over the next year.

Fig. 7. Turkey: Sharp TRY depreciation since October likely behind the CBRT's rate hikes

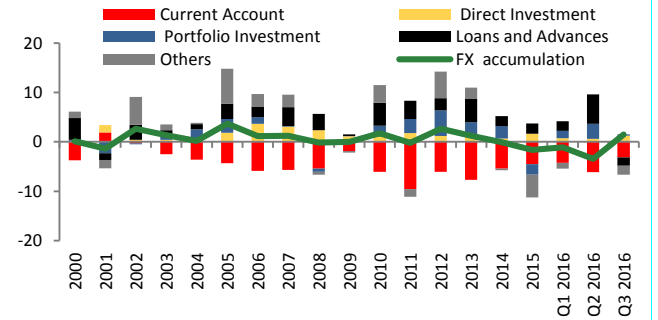
USD: TRY



Source: Bloomberg

Fig. 8. Turkey: BoP situation improved in 3Q, though currency depreciation in 4Q could again pressure FX reserves

% of GDP



Source: CBRT

II. Economic Calendar

Fig. 9. Upcoming events and data releases

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Oct	2050B	--
	Saudi Arabia	M2 Money Supply, y-o-y	Oct	-3.3%	--
	Kuwait	CPI, y-o-y	Oct	3.8%	--
	UAE	CPI, y-o-y	Sep	0.6%	--
	UAE	October Dubai, Abu Dhabi Home Prices by Cluttons			
Monday, 28 Nov					
13:00	Eurozone	M3 Money Supply, y-o-y	Oct	5%	5%
18:00	Eurozone	ECB's Draghi Speaks at European Parliament in Brussels			
Tuesday, 29 Nov					
3:30	Japan	Jobless Rate	Oct	3%	3%
3:50	Japan	Retail Trade, y-o-y	Oct	-1.7%	-1.6%
14:00	Eurozone	Consumer Confidence	Nov F	-6.1	-6.1
17:30	US	GDP Annualized, q-o-q SAAR	3Q S	2.9%	3%
17:30	US	Personal Consumption, q-o-q SAAR	3Q S	2.1%	2.3%
17:30	US	GDP Price Index, y-o-y	3Q S	1.5%	1.5%
17:30	US	Core PCE, y-o-y	3Q S	1.7%	1.7%
19:00	US	Consumer Confidence Index	Nov	98.6	101.3
Wednesday, 30 Nov					
		OPEC Meeting: 171st Meeting in Vienna			
3:50	Japan	Industrial Production, m-o-m	Oct P	0.6%	0.1%
11:00	UK	Bank of England Publishes Financial Stability Report			
14:00	Eurozone	CPI Estimate, y-o-y	Nov	0.5%	0.6%
14:00	Eurozone	CPI Core, y-o-y	Nov A	0.8%	0.8%
16:00	India	GDP, y-o-y	3Q	7.1%	7.5%
17:00	US	Fed's Kaplan Speaks in New York			
17:15	US	ADP Employment Change	Nov	147K	160K
17:30	US	Personal Income, m-o-m	Oct	0.3%	0.4%
17:30	US	Personal Spending, m-o-m	Oct	0.5%	0.5%
18:45	US	Chicago Purchasing Manager	Nov	50.6	52.5
19:00	US	Pending Home Sales, m-o-m	Oct	1.5%	0.1%
20:45	US	Fed Governor Powell Speaks in Washington			
21:35	US	Fed's Mester on Economic Outlook and Monetary Policy			
23:00	US	US Federal Reserve Releases Beige Book			
Thursday, 1 Dec					
14:00	Eurozone	Unemployment Rate	Oct	10%	10%
17:30	US	Fed's Mester Gives Opening Remarks at Financial Stability Conf			
17:30	US	Initial Jobless Claims	26-Nov	251K	253K
19:00	US	Construction Spending, m-o-m	Oct	-0.4%	0.6%
19:00	US	ISM Manufacturing	Nov	51.9	52.2
19:00	US	ISM Prices Paid	Nov	54.5	54.3
Friday, 2 Dec					
3:50	Japan	Monetary Base, y-o-y	Nov	22.1%	--
17:30	US	Change in Nonfarm Payrolls	Nov	161K	175K
17:30	US	Unemployment Rate	Nov	4.9%	4.9%
17:30	US	Average Hourly Earnings, m-o-m	Nov	0.4%	0.2%
17:30	US	Average Hourly Earnings, y-o-y	Nov	2.8%	2.8%
17:45	US	Fed Governor Brainard speaks in Washington			
18:45	US	ISM New York	Nov	49.2	--
22:00	US	Fed's Tarullo Speaks at Financial Stability Conference			

* UAE Time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Data						
	Saudi Arabia	CPI, y-o-y	Oct	3%	--	2.6%
	UAE	M2 Money Supply, m-o-m	Oct	1.4%	--	0.3%
	Oman	Nominal GDP, YTD y-o-y	2Q	-12.2%	--	-11.1%
Monday, 21 Nov						
3:50	Japan	Trade Balance	Oct	¥497.6B	¥610B	¥496.2B
3:50	Japan	Exports, y-o-y	Oct	-6.9%	-8.5%	-10.3%
8:30	Japan	All Industry Activity Index, m-o-m	Sep	0.2%	0%	0.2%
17:30	US	Chicago Fed Nat Activity Index	Oct	-0.23	0	-0.08
Tuesday, 22 Nov						
13:30	UK	PSNB ex Banking Groups	Oct	9.7B	6B	4.8B
19:00	US	Richmond Fed Manufact. Index	Nov	-4	0	4
19:00	Eurozone	Consumer Confidence	Nov A	-8	-7.8	-6.1
19:00	US	Existing Home Sales	Oct	5.49M	5.43M	5.6M
Wednesday, 23 Nov						
	UK	Autumn Budget Statement				
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Nov P	53.5	53.3	53.7
13:00	Eurozone	Markit Eurozone Services PMI	Nov P	52.8	52.9	54.1
13:00	Eurozone	Markit Eurozone Composite PMI	Nov P	53.3	53.3	54.1
16:00	US	MBA Mortgage Applications	18-Nov	-9.2%	--	5.5%
17:30	US	Durable Goods Orders, m-o-m	Oct P	0.4%	1.2%	4.8%
17:30	US	Durables Ex-Transportation, m-o-m	Oct P	0.2%	0.2%	1%
17:30	US	Cap Goods Orders Nondef Ex-Air, m-o-m	Oct P	-1.4%	0.3%	0.4%
17:30	US	Initial Jobless Claims	19-Nov	233K	250K	251K
18:45	US	Markit US Manufacturing PMI	Nov P	53.4	53.4	53.9
19:00	US	New Home Sales	Oct	574K	590K	563K
19:00	US	U. of Mich. Sentiment	Nov F	91.6	91.6	93.8
23:00	US	U.S. Fed Releases Minutes from November 1-2 FOMC Meeting				
Thursday, 24 Nov						
4:00	Japan	Nikkei Japan PMI Mfg	Nov P	51.4	--	51.1
13:00	Germany	Ifo Business Climate	Nov	110.4	110.5	110.4
13:00	Germany	Ifo Current Assessment	Nov	115.1	115	115.6
13:00	Germany	Ifo Expectations	Nov	105.9	106	105.5
Friday, 25 Nov						
3:30	Japan	Natl CPI, y-o-y	Oct	-0.5%	0.2%	0.1%
3:30	Japan	Natl CPI Ex-Fresh Food, y-o-y	Oct	-0.5%	-0.4%	-0.4%
3:30	Japan	Natl CPI Ex-Food, Energy y-o-y	Oct	0%	0.1%	0.2%
13:30	UK	GDP, q-o-q	3Q P	0.5%	0.5%	0.5%
13:30	UK	GDP, y-o-y	3Q P	2.3%	2.3%	2.3%
13:30	UK	Private Consumption, q-o-q	3Q P	0.9%	0.8%	0.7%
13:30	UK	Government Spending, q-o-q	3Q P	0%	0.4%	0.4%
13:30	UK	Gross Fixed Capital Formation, q-o-q	3Q P	1.6%	-1%	1.1%
13:30	UK	Exports, q-o-q	3Q P	-1%	1%	0.7%
13:30	UK	Imports, q-o-q	3Q P	1.3%	-0.1%	-1.5%
17:30	US	Wholesale Inventories, m-o-m	Oct P	-0.1%	0.2%	-0.4%
17:30	US	Retail Inventories, m-o-m	Oct	0%	--	-0.4%
18:45	US	Markit US Services PMI	Nov P	54.8	54.7	54.7

* UAE Time

Source: Bloomberg

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