The Week Ahead: US nonfarm payrolls the key data release

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US: Labour and manufacturing data in focus

This week brings numerous important US data releases, including NFPs, ISM manufacturing (January) and personal income and spending (December). Consensus forecasts that a solid 190K jobs were created in January, albeit down from 292K in December. The unemployment rate is estimated to have held steady at 5%. Average hourly earnings are expected to have increased by 0.3% m-o-m (versus 0% in December), though decelerating in annual terms to 2.2% y-o-y (versus 2.5%). Meanwhile, the consensus is for a moderate improvement in US manufacturing activity in January, with the ISM index expected to inch up to 48.5 from 48 in December. We see downside risks to the consensus estimate from the sluggish global demand and continued contraction in the oil sector. Elsewhere, China will take centre stage of the global manufacturing PMI releases for January.

Central Banks: BoE and RBI expected to remain on hold

We expect the BoE to retain its current monetary policy stance at its 4 February meeting. The focus will again be on the MPC's voting pattern, updated GDP growth and inflation forecasts, and the tone of the minutes. We expect a cautious stance, in line with recent comments from Governor Mark Carney. The BoE is likely to cut its projections, with the renewed decline in oil prices weighing on the inflation outlook. Moreover, recent data point to a moderate weakening in the GDP growth outlook. We see a first rate hike only in November 2016. We also expect the RBI to remain on hold at its 2 February meeting. While the lower oil price could provide space for further rate cuts going forward, we expect the RBI to wait to gauge the impact of the government's FY2016-17 budget on the inflation outlook. The budget is to be released on 28 February, potentially leaving the door open to a 25 bps cut in April if it is balanced.

Japan: BoJ institutes negative interest rates

The BoJ surprised markets on 29 January by adopting a new policy of negative rates for some bank reserves. This marked a significant change in the BoJ's easing methodology, combining negative rates with the QE programme. The new framework establishes a multi-tier deposit rate system, under which the BoJ will charge a negative rate of -0.1% on any marginal increase in financial institutions' current account balances with the central bank. We see this as a move to spur lending and reduce appreciation pressure on the JPY. However, we remain unconvinced of how effective the measures will be in stimulating growth and inflation. Interest rates were already low ahead of the BoJ's move. Moreover, the ECB's recent experience suggests that negative interest rates may not actively weaken the currency to the same extent as a QE programme.

I. Recent Events and Data

A. MENA Economies

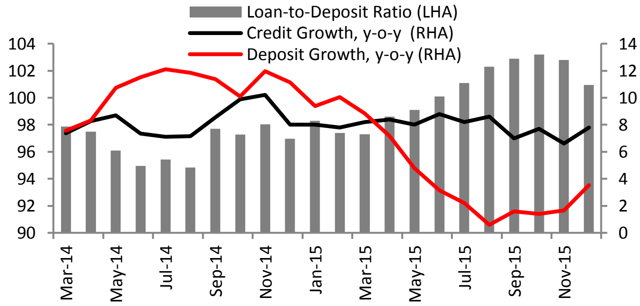
UAE: Banking sector liquidity loosens in December with stronger deposit growth

Lending falls m-o-m in December, led by government and GREs

Banking sector liquidity improved in December, with deposits growing m-o-m while loans fell. System wide deposits increased by 1.5% m-o-m as banks pushed to raise deposits. This boosted y-o-y deposit growth to 3.5% in December, from just 1.6% in November. Meanwhile, total lending fell by -0.3% m-o-m, led by lower government (-0.2%) and GRE (-0.9%) borrowing. In annual terms, credit growth (7.8% y-o-y) remained substantially stronger than annual deposit growth. However, the L-to-D ratio moderated to 100.9% in December (from 102.8% in November) due to the pickup in deposits and monthly contraction in credit.

Fig. 1. UAE: L-to-D ratio moderates in December as deposit growth accelerates m-o-m

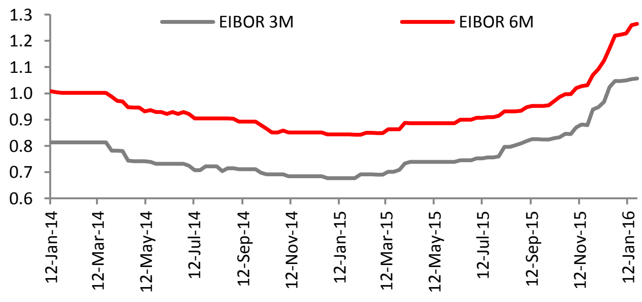
L-to-D ratio (LHA); % change y-o-y (RHA)



Source: Central Bank of the UAE

Fig. 2. UAE: Continued rise in interbank rates in January 2016 implies further liquidity tightening

%



Source: Bloomberg

Annual credit growth expected to moderate in 2016 with softer economic backdrop

We expect the overall trends seen in 2015 to continue this year, with banking sector liquidity tightening further. The ongoing fiscal deficit will likely lead the government and GREs to continue drawing down their banking sector deposits. We also foresee credit growth to the government outstripping private sector loan growth. We expect the latter to moderate on weaker demand, with market rates rising and spending plans reduced (corporate and retail). Moreover, we see credit conditions tightening in 2016. As a result, we expect credit growth to decelerate to the mid-single digits in 2016.

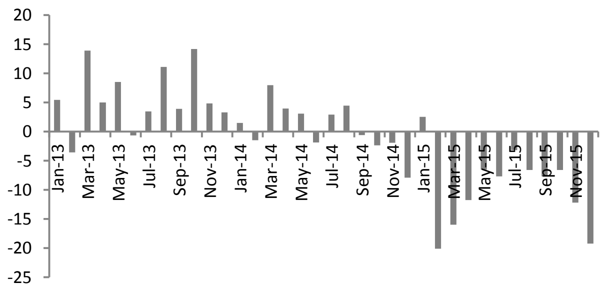
Saudi Arabia: Net foreign asset drawdown increases sharply in December

SAMA's NFAs fall by -USD19.2 billion in December, second largest drop in 2015

SAMA's net foreign assets (NFAs) fell by a sharp USD19.2 billion m-o-m in December to USD608.9 billion. This was the second largest fall in 2015 (after February), and the third largest drawdown since January 1997. December's drop was almost double the average decrease seen in the previous 11 months. We believe that December's sharp reduction reflected the ongoing fall in the oil price and the need to draw on reserves to cover government spending. The latest move down in oil prices in December and January means that deeper fiscal adjustment will be required to reduce the drawdown in FX reserves. While Saudi Arabia's FX reserve position remains strong, the size of the fiscal deficit (and thus the erosion of NFAs) is unsustainable. SAMA's NFAs fell by USD115.4 billion (-15.9% y-o-y) in 2015, bringing its reserves to a post September 2012 low in December.

Fig. 3. Saudi Arabia: SAMA's NFAs fall by USD19.2 billion in December; second largest drop in 2015

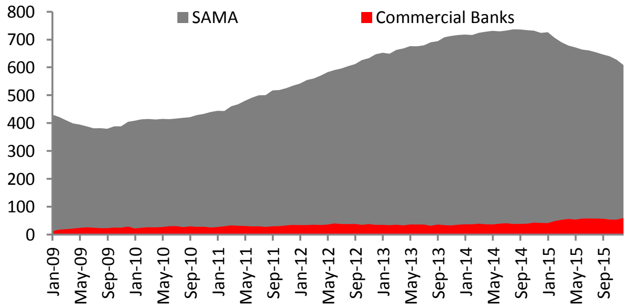
Change in SAMA's NFAs, USD billion



Source: SAMA

Fig. 4. Saudi Arabia: NFA position remains strong, though measures to reduce pace of fall are vital

USD billion



Source: SAMA

Banking sector liquidity tightens further in December

Meanwhile, other monetary data showed liquidity tightening further in December, with total deposits falling by -1.2% m-o-m and system wide credit growth of 0.9% m-o-m. The loan-to-deposit ratio increased to 85.5%, up from 84% in November. Private consumption indicators remained solid in December, though we expect them to moderate in 1Q2016 on the back of the recently announced fiscal reform measures. However, point of sale transaction data indicated a shift to spending on smaller ticket items in December; while sales volume growth remained solid at 9% m-o-m, growth in the value of sales decelerated sharply to 6% m-o-m (from 11.8% m-o-m in November).

Egypt: Increases cap on FX deposits for importers of essential goods

FX deposit cap eased for essential goods only

The Central Bank of Egypt (CBE) last week eased restrictions on foreign currency cash deposits held at commercial banks. The monthly limit on how much can be added to deposits was raised to USD250,000 (from USD 50,000) for a select group of importers. This easing was for importers of "essential goods" such as foodstuffs, capital machinery, industrial components, and medicines. Policy makers also removed the daily ceiling (previously USD10,000), provided that the monthly cap is not breached. Limits for other sectors and individuals remain in place. We see the move as an attempt to address the acute USD shortage in the economy, which has severely hampered access to imports and dragged on growth (including investment). The cap was introduced in February 2015 to reduce the downward pressure on the EGP and remove the parallel market. The EGP has weakened on the curb market following this latest move.

Overvalued EGP resulting in tighter monetary policy

While we expect the move to help meet essential import demand, the key issue remains the overvalued EGP. The recent FX policy moves suggest that policymakers are trying to reduce downward pressure on the EGP via import restrictions and external aid, in the hope that FDI and tourism will eventually pick up. Indeed, Egypt raised the import tariff rate on a range of consumer good on 31 January in an attempt to reduce the country's import bill and demand for USD. The higher tariffs affect hundreds of items such as household appliances, clothing, shoes, and watches amongst others.

Customs tariffs were raised by as much as 100% on some fruits and nuts, whilst duties on other goods were increased between 25% to 50%. The strong EGP policy is creating a number of economic headwinds, including tighter monetary policy. The CBE kept interest rates unchanged at its 28 January meeting, in line with our forecast. We had not expected the ECB to move after raising rates by 50 bps in December.

B. G4 Economies

US: Fed becomes more bearish; March hike still open, though unlikely

Global market volatility highlighted, though overall economic assessment balanced

The Fed kept monetary policy (including interest rates) unchanged at its 26-27 January meeting, as had been widely expected. Also as anticipated, the tone of the statement was more bearish on the back of the global market volatility. The FOMC said that it was "closely monitoring global economic and financial developments". Moreover, a prior reference to the risks to the economic outlook being "balanced" was removed. Nevertheless, the statement continued to point to a wait-and-see approach. The FOMC added that it was still "assessing [the] implications" of the global economic and financial developments for the outlook. This implies to us that the Fed wants to retain the option of a March hike, though not to lean strongly in any direction at this point.

We continue to expect next rate hike in June; inflation outlook downgraded

The overall assessment of the recent economic developments was balanced, in our view. The FOMC outlined the improvement in the labour market, and reported that it expected further tightening. However, it also noted that "growth slowed late last year", due in part to the slowing inventory accumulation and "moderate" rather than "solid" household and business spending. The forward looking assessment was less certain. Most significantly, the FOMC reduced its inflation forecasts, saying that "inflation is expected to remain low in the near term, in part because of further declines in energy prices". The committee added the "monitoring" language, which has in the past been a precursor to it remaining on hold. We continue to expect the Fed to keep rates unchanged at the March meeting, and to make its next hike in June. The Fed's next update will be at Chair Janet Yellen's Humphrey-Hawkins testimony (10-11 February), a week after the January jobs numbers are released.

US: 4Q GDP growth slows to 0.7% q-o-q (SAAR), net exports and inventories drag

Continued headwinds from strong USD and hydrocarbon sector

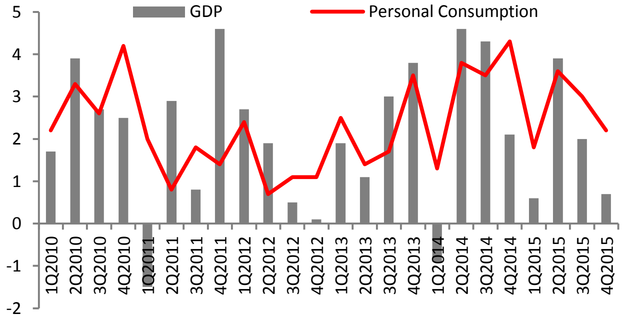
GDP growth moderated to 0.7% q-o-q (SAAR) in 4Q, just shy of the consensus expectation of 0.8%. This was a marked slowdown from the 2% expansion seen in 3Q. Trade and inventories continued to drag, with each slicing 0.5 ppt from headline GDP growth. Exports fell by -2.5% q-o-q SAAR in 4Q, whilst imports rose by 1.1%. Final domestic demand growth also slowed in 4Q. Private consumption growth moderated to 2.2% q-o-q SAAR from 3% q-o-q in 3Q, albeit beating the consensus expectation of 1.8% SAAR. The deceleration in private consumption growth was due partly to the unseasonably warm weather, which weakened spending on utilities. Meanwhile, business fixed investment growth also softened, in part reflecting the ongoing sharp contraction in oil and gas well drilling. Overall, the data continued to reflect the headwinds from sluggish global growth, the stronger USD, and the rapid contraction in the hydrocarbon sector.

Drag from inventories expected to weaken

GDP growth is expected to rebound to above 2% in 1Q and beyond, with a weaker drag from inventories. Domestic demand should continue to expand at a moderate pace, led by private consumption.

Fig. 5. US: GDP growth slows sharply in 4Q2015, private consumption also moderates

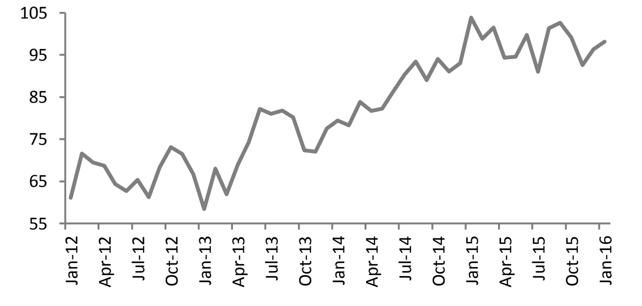
% change, q-o-q SAAR



Source: Bloomberg

Fig. 6. US: Consumer confidence rises in January despite significant global market volatility

Index



Source: Bloomberg

Consumer confidence: US consumer sentiment remains buoyant despite the local and global equity volatility. The consumer confidence index rose to 98.1 in January, above its long-term average of 93 and the December reading of 96.3. The data suggest some underlying strength in private consumption despite the slowdown in 4Q. Central to the cheerful sentiment is optimism regarding the labour market, including anticipation of greater job availability. Meanwhile, data out last week pointed to a healthy housing market. New homes sales increased by 10.8% m-o-m (9.9% y-o-y), versus the consensus expectation of 2% m-o-m. The main drivers remained employment gains and attractive mortgage rates.

Consumer confidence rises above long term average in January; housing data buoyant

UK: 4Q GDP growth accelerates moderately to 0.5% q-o-q

The UK's 4Q GDP growth came in at 0.5% q-o-q, in line with the consensus and up from 0.4% in 3Q. However, the annual growth moderated to 1.9% y-o-y in 4Q, down from 2.1% in 3Q. While the data eased concerns of a sharp GDP growth slowdown, they clearly pointed to weaker expansion than that seen over the last two years. The service sector remained the main growth driver, accelerating by 0.1 ppt to 0.7% q-o-q. The expansion was driven by business services and finance, as well as the distribution, hotel and restaurant sector. Manufacturing output was flat in 4Q after two straight quarters of contraction. This was despite a continued fall in resource extraction (-1.4% q-o-q). Meanwhile, construction activity fell by -0.1% q-o-q.

Service sector remains main growth driver

For 2015, the UK economy expanded by 2.2%, slowing from 2.9% in 2014, when it was the fastest growing advanced economy. The IMF expects the country's GDP growth to remain around 2.2% in 2016.

Japan: Surprises markets by adopting negative interest rates

The BoJ surprised markets on 29 January by adopting negative interest rates. The new monetary policy framework establishes a multi-tier deposit rate system under which the BoJ will charge a negative rate of -0.1% on any marginal increase in financial institutions' current account balances with the central bank. The decision was passed with a narrow majority (five votes to four) and marks a significant change in the BoJ's easing methodology, combining negative rates with the QE programme. The asset purchase programme was kept steady at JPY80 trillion per year, with a majority of eight votes to one. The BoJ said in the accompanying monetary policy statement that it will

Marked shift in BoJ's easing policy; further cuts possible not set a lower boundary for yields on its JGB purchases, suggesting that it can continue to meet its asset purchase targets even with interest rates negative. The bank said that it may cut the interest rate further into negative territory if it deems this necessary. Meanwhile, it further extended the timeframe for achieving its 2% inflation target to 1H FY2017-18 from 2H FY2016-17, citing lower oil prices.

Multi-tier deposit interest rate framework introduced

Under the new multi-tier deposit interest rate framework (effective from 16 February 2016), a positive deposit rate of 0.1% will apply to the basic balance of financial institutions (i.e. the average amount of current accounts held from January to December 2015). A zero rate will apply to the required reserves held by banks. The negative interest rate of -0.1% will be applied to any marginal increase in current account balances in excess of these amounts. We see this as a move to: i) spur lending by banks (and subsequently a pickup in housing investment and corporate capex through declining financing costs); and ii) offset the recent JPY strength. The BoJ may also have wanted to stimulate wage increases and capex plans for the coming year by moving in January. Indeed, BoJ Governor Haruhiko Kuroda said that the policy action was mainly to counter the risk of a delay in reversing the deflationary mindset and diminishing the business confidence of Japanese companies.

Measure should hold back JPY appreciation, though downside pressure could be limited

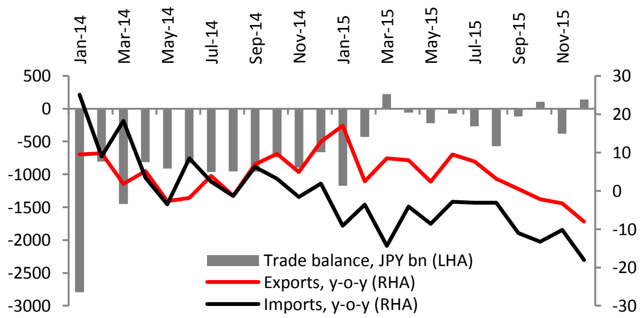
However, we remain unconvinced over the effectiveness of the policy in spurring growth and inflation. We continue to see downside risk to the BoJ's growth and inflation forecasts (even after they were lowered), and thus ongoing pressure for additional easing. Interest rates were already low ahead of the bank's move. The negative interest rate policy should hold back JPY appreciation as Japanese demand for foreign assets strengthens and inflows to the country weaken. However, the ECB's recent experience suggests that negative interest rates may not actively weaken the currency to the same extent as a QE programme. The JPY softened against the USD following the BoJ's announcement, though it remained within its recent range. Meanwhile, the benefits of a weaker JPY are likely to be limited by the softening Asian demand backdrop. The pace of JPY weakening versus the RMB will be critical from a trade perspective, going forward.

Weak data ahead of BoJ's move indicate economic deceleration

The BoJ's move followed a week of poor data that indicated that the Japanese economy is losing momentum. The data pointed to the economy expanding only moderately in 4Q2016, with a particular weakening seen in consumption activity. Household spending fell by -4.4% y-o-y in December, versus -2.9% in November Furthermore, the trade (please see next page) and IP data continued to reflect contagion from the slowdown in China. Meanwhile, headline inflation in Japan moderated to 0.2% y-o-y in December, from 0.3% in November. A further slowdown in inflation looks inevitable this year, and not just due to lower commodity prices.

Fig. 7. Japan: Exports contract for third consecutive month in December

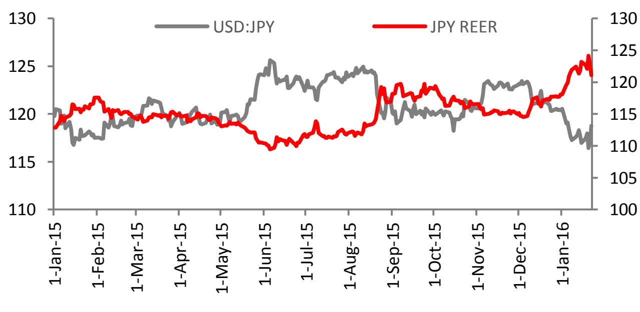
JPY billion (LHA); % change y-o-y (RHA)



Source: Bloomberg

Fig. 8. Japan: Export competitiveness impacted by JPY strengthening from December 2015

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



Rise in REER index indicates strengthening

Source: Bloomberg

Trade data point to weakening external and domestic demand

December trade data: December's trade figures came in weaker than expected, highlighting the risks from the slowing external demand. The value of exports contracted by -8% y-o-y (-3.3% y-o-y in November), down for a third consecutive month and marking the largest drop since September 2012. Meanwhile, export volumes fell by -4.4% y-o-y in December. The fall in the value of exports reflected the ongoing slowdown in China (Japan's biggest trading partner), to which exports fell -8.6% y-o-y in December. It also reflected the strengthening in the JPY's real effective exchange rate (REER) in December.

Nonetheless, the trade balance strengthened to a JPY140.2 billion surplus (from a -JPY384.6 billion deficit in November), with imports falling harder than exports. Imports fell -18% y-o-y in December (-10.2% in November), largely on the back of the lower commodity prices. Non-commodity imports also fell, including electrical machinery (-11.2% y-o-y) and transport equipment (-20.1% y-o-y). The import data continued to reflect weak growth momentum and a potential economic slowdown in December.

II. Economic Calendar

Fig. 9. Upcoming events and data releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	UAE	Dubai Airport Cargo Volume, y-o-y	Dec	3.8%	--
Monday 1 Feb					
5:00	China	Manufacturing PMI	Jan	49.7	49.6
6:00	Japan	Nikkei Japan PMI Mfg	Jan F	52.4	--
9:00	India	Nikkei India PMI Mfg	Jan	49.1	--
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Jan F	52.3	52.3
13:30	UK	Markit UK PMI Manufacturing SA	Jan	51.9	51.6
17:30	US	Personal Income	Dec	0.3%	0.2%
17:30	US	Personal Spending	Dec	0.3%	0.1%
17:30	US	PCE Deflator, m-o-m	Dec	0%	0%
17:30	US	PCE Deflator, y-o-y	Dec	0.4%	0.4%
17:30	US	PCE Core, m-o-m	Dec	0.1%	0.1%
17:30	US	PCE Core, y-o-y	Dec	1.3%	1.4%
19:00	US	ISM Manufacturing	Jan	48	48.5
22:00	US	Fed's Fischer Speaks on Economy and Policy in New York			
Tuesday 2 Feb					
9:30	India	RBI Cash Reserve Ratio	2-Feb	4%	4%
9:30	India	RBI Repurchase Rate	2-Feb	6.75%	6.75%
9:30	India	RBI Reverse Repo Rate	2-Feb	5.75%	5.75%
14:00	Eurozone	Unemployment Rate	Dec	10.5%	10.5%
22:00	US	Fed's George Speaks on U.S. Economy in Kansas City			
Wednesday 3 Feb					
5:45	China	Caixin China PMI Composite	Jan	49.4	--
6:00	Japan	Nikkei Japan PMI Composite	Jan	52.2	--
6:30	Japan	BOJ Kuroda speaks in Tokyo			
9:00	India	Nikkei India PMI Composite	Jan	51.6	--
9:30	Saudi Arabia	Emirates NBD Saudi Arabia PMI	Jan	54.4	--
9:30	Egypt	Emirates NBD Egypt PMI	Jan	48.2	--
9:30	UAE	Emirates NBD UAE PMI	Jan	53.3	--
14:00	Eurozone	Retail Sales, m-o-m	Dec	-0.3%	0.3%
14:00	Eurozone	Retail Sales, y-o-y	Dec	1.4%	1.5%
16:00	US	MBA Mortgage Applications	29-Jan	8.8%	--
17:15	US	ADP Employment Change	Jan	257K	190K
Thursday 4 Feb					
16:00	UK	Bank of England Bank Rate	4-Feb	0.5%	0.5%
16:00	UK	BOE Asset Purchase Target	Feb	375B	375B
16:00	UK	Bank of England Inflation Report			
17:30	US	Initial Jobless Claims	30-Jan	278K	280K
19:00	US	Factory Orders	Dec	-0.2%	-2.8%
19:00	US	Durable Goods Orders	Dec F	-5.1	--
19:00	US	Durables, ex-Transportation	Dec F	-1.2	--
19:00	US	Cap Goods Orders, Nondef ex-Air	Dec F	-4.3	--
Friday 5 Feb					
17:30	US	Trade Balance	Dec	-$43.2B	-$42.85B
17:30	US	Change in Nonfarm Payrolls	Jan	292K	190K
17:30	US	Unemployment Rate	Jan	5%	5%
17:30	US	Average Hourly Earnings, m-o-m	Jan	0%	0.3%
17:30	US	Average Hourly Earnings, y-o-y	Jan	2.5%	2.2%
17:30	US	Labor Force Participation Rate	Jan	62.6%	--

* UAE time
Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Data point	Period	Prior	Consensus	Actual
GCC data						
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Dec	2355.6B	--	2283.4B
Monday 25 Jan						
3:50	Japan	Trade Balance	Dec	-¥384.6B	¥117B	¥140.2B
3:50	Japan	Exports, y-o-y	Dec	-3.3%	-7%	-8%
3:50	Japan	Imports, y-o-y	Dec	-10.2%	-16.4%	-18%
13:00	Germany	IFO Business Climate	Jan	108.6	108.4	107.3
13:00	Germany	IFO Current Assessment	Jan	112.8	112.6	112.5
13:00	Germany	IFO Expectations	Jan	104.6	104.1	102.4
Tuesday 26 Jan						
18:00	US	S&P/CaseShiller 20-City Index NSA	Nov	182.8	183.1	182.9
18:00	US	S&P/CS Composite-20, y-o-y	Nov	5.5%	5.7%	5.8%
18:45	US	Markit US Services PMI	Jan P	54.3	54	53.7
18:45	US	Markit US Composite PMI	Jan P	54		53.7
19:00	US	Consumer Confidence Index	Jan	96.3	96.5	98.1
Wednesday 27 Jan						
11:00	UK	Nationwide House Px NSA, y-o-y	Jan	4.5%	4.7%	4.4%
11:00	UK	Nationwide House PX, m-o-m	Jan	0.8%	0.6%	0.3%
16:00	US	MBA Mortgage Applications	22-Jan	9%	--	8.8%
19:00	US	New Home Sales	Dec	491K	500K	544K
19:00	US	New Home Sales, m-o-m	Dec	4.3%	2%	10.8%
23:00	US	FOMC Rate Decision (Lower Bound)	27-Jan	0.25%	0.25%	0.25%
23:00	US	FOMC Rate Decision (Upper Bound)	27-Jan	0.50%	0.50%	0.50%
Thursday 28 Jan						
3:50	Japan	Retail Trade, y-o-y	Dec	-1.1%	0.2%	-1.1%
3:50	Japan	Retail Sales, m-o-m	Dec	-2.5%	1.0%	-0.2%
13:30	UK	GDP, q-o-q	4Q A	0.4%	0.5%	0.5%
13:30	UK	GDP, y-o-y	4Q A	2.1%	1.9%	1.9%
17:30	US	Initial Jobless Claims	23-Jan	294K	281K	278K
17:30	US	Durable Goods Orders	Dec P	-0.5%	-0.7%	-5.1%
17:30	US	Durables ex-Transportation	Dec P	-0.5%	-0.1%	-1.2%
17:30	US	Cap Goods Orders Nondef ex-Air	Dec P	-1.1%	-0.2%	-4.3%
19:00	US	Pending Home Sales, m-o-m	Dec	-1.1%	0.8%	-0.2%
	Egypt	Deposit Rate	28-Jan	9.25%	--	9.25%
	Egypt	Lending Rate	28-Jan	10.25%	--	10.25%
Friday 29 Jan						
	Japan	BoJ Annual Rise in Monetary Base	29-Jan	¥80T	¥80T	¥80T
3:30	Japan	Natl CPI, y-o-y	Dec	0.3%	0.2%	0.2%
3:30	Japan	Natl CPI,ex-Food & Energy, y-o-y	Dec	0.9%	0.9%	0.8%
3:50	Japan	Industrial Production, m-o-m	Dec P	-0.9%	-0.3%	-1.4%
3:50	Japan	Industrial Production, y-o-y	Dec P	1.7%	-0.6%	-1.6%
9:00	Japan	Natl CPI, ex-Fresh Food & Energy, y-o-y	Dec	1.2%	1.2%	1.3%
13:00	Eurozone	M3 Money Supply, y-o-y	Dec	5%	5.2%	4.7%
14:00	Eurozone	CPI Estimate, y-o-y	Jan	0.2%	0.4%	0.4%
14:00	Eurozone	CPI Core, y-o-y	Jan A	0.9%	0.9%	1%
17:30	US	GDP Annualised, q-o-q	4Q A	2%	0.8%	0.7%
17:30	US	Personal Consumption	4Q A	3%	1.8%	2.2%
19:00	US	U. of Mich. Sentiment	Jan F	93.3	93	92

* UAE time
Source: Bloomberg

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