The Week Ahead: Inflation data and Japan's BoJ meeting in focus

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Global: US, Eurozone, UK to release October inflation data

Key global economies are to release inflation data this week, including the US, Eurozone, and UK. Headline inflation is expected to remain weak at around zero in annual terms in each of these three areas. However, comments by central bankers continue to highlight the sharply differing views on the inflation outlook, especially between the US and the Eurozone. Most Fed officials expect inflation to return to the 2% target as temporary factors fade. A number of prominent Fed members reiterated their support for a December interest rate liftoff last week, and the JOLTS data showed the labour market continuing to improve. Meanwhile, ECB President Mario Draghi reiterated his concerns over the weaker growth and inflation outlooks. The minutes of the FOMC and ECB's October meetings are to be released this week. Markets will be looking for any further details of the potential measures that the ECB might announce at its December meeting.

Japan: Returns to a technical recession in 3Q

Japan released its preliminary 3Q GDP data on 16 November, with growth contracting by -0.8% q-o-q SAAR (above consensus expectations of -0.2%). This means that Japan entered its second technical recession since April 2014, when the sales tax rate was increased. There was a rebound in private consumption and exports in 3Q, despite the slowing demand from China. Business investment and falling inventories were behind the contraction as Japanese corporates held back spending with the weak demand backdrop (external and domestic). We do not expect the BoJ to announce any further monetary loosening at its 19 November meeting, keeping policy on hold. Economic data and market movements have been mixed since the last meeting, with some positive developments. Nevertheless, we expect further monetary stimulus to be announced in 1H2016.

Egypt: Moves to support EGP, though devaluation looks likely

Egypt introduced a number of measures to support the EGP last week, possibly ahead of a devaluation and a move to a more flexible exchange rate. These included two of the country's largest state banks launching EGP savings certificates with above-market interest rates. The CBE also injected much-needed USD liquidity into the banking system. Moreover, in a surprise move, the CBE strengthened the EGP against the USD for the first time since 2013. These moves could be initial steps towards weakening the currency, with the higher EGP deposit rates and USD injections aimed at limiting downside pressure following a devaluation. The strengthening of the EGP last week could have been to establish two-way volatility in preparation for a more flexible exchange-rate regime. We believe that a significant EGP devaluation will be hard to avoid given the continuing FX shortages, which are having a marked impact on the economy. These shortages will likely be exacerbated by the expected decrease in tourism revenues following the Russian airliner disaster.

I. Recent Data and Events

A. MENA Economies

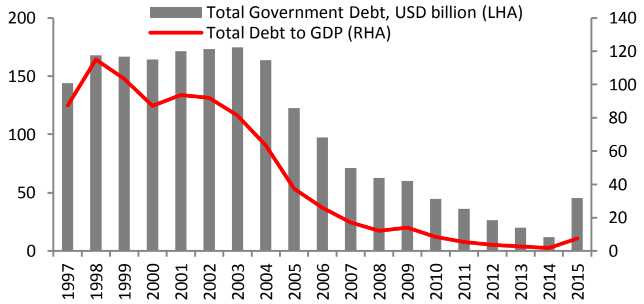
Saudi Arabia: Likely to issue international bonds in 2016

Government debt all held domestically thus far

Saudi Arabia is looking to tap the international bond market for the first time ever in 2016, the Financial Times reports. The issuance of international debt would be a seminal departure for Saudi Arabia, which has thus far only issued domestic sovereign debt. The government launched a domestic bond programme in June 2015, its first since 2007. Overall, Saudi Arabia is expected to sell SAR75-100 billion of bonds to the local market in 2015, with the programme continuing in 2016. Tapping the international market should help to cover the fiscal deficit whilst reducing pressure on domestic banking-sector liquidity. It should also provide a benchmark for foreign corporate issuances, which remain limited so far. Banking-sector liquidity has tightened as a result of the bond programme and lower government deposits in the sector. The tightening liquidity has been reflected in the rise in interbank lending rates since August 2015.

Fig. 1. Saudi Arabia: Government debt to rise to around 7% of GDP in 2015; debt all domestically held thus far

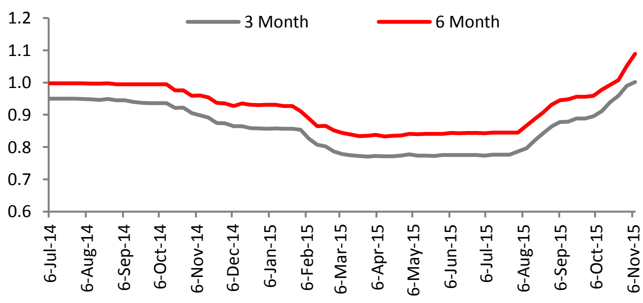
USD billion (LHA), % of GDP (RHA)



Source: SAMA, ADCB estimates

Fig. 2. Saudi Arabia: Interbank rates rise since August with government debt programme

%



Source: Bloomberg

Debt programme reduces need to draw down government FX reserves to cover deficit

We continue to foresee a mix of bond issuance (domestic and international), FX reserves, and government deposit drawdowns being used to fund the expected fiscal deficit in 2016. Saudi Arabia's net foreign assets fell from a peak of USD737.1 billion in August 2014 to a three-year low of USD647 billion in September 2015. With debt at 1.6% of GDP in 2014 (all domestically held), Saudi Arabia has substantial room to increase its debt levels. We estimate that total government debt will rise to some 7% of GDP in 2015 following the domestic debt issuances this year. The Financial Times quoted Saudi officials as saying that the kingdom could increase its debt levels to as much as 50% of GDP within five years.

Domestic debt likely to continue dominating issuances in 2016

We expect domestic debt to continue dominating government issuances in 2016, with banking sector liquidity remaining sufficient. The size of the initial foreign bond issuance could be in the region of USD1-2 billion in 2016, according to officials quoted by Reuters. The cost of issuing external government debt for Saudi Arabia will likely be higher than for Qatar and Abu Dhabi given the country's weaker credit rating. Saudi sovereign CDS rates have diverged from most of their GCC peers on the back of concerns over the narrowing fiscal space and medium-term sustainability of the country's spending policy. Meanwhile, Bahrain has a much weaker credit profile than Saudi Arabia. We continue to expect some fiscal tightening in Saudi Arabia in 2016 despite the potential move to tap international debt markets.

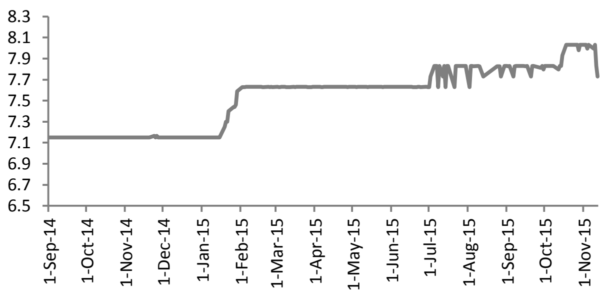
Egypt: Moves to support EGP, though weakening looks inevitable

Moves aim to reduce downside pressure on the EGP following a possible devaluation

Egypt introduced a number of measures to support the EGP last week, possibly ahead of a devaluation and a move to a more flexible exchange rate. The measures are likely aimed at reducing the subsequent selling pressure on the EGP. Two of Egypt's largest state banks launched EGP savings certificates with an interest rate of 12.5%. This is above the average EGP interest rate at banks of around 10%. There are already indications that other banks are following suit, raising the interest rates on their main products or launching new savings schemes. Markets are viewing the certificates as a pre-emptive step towards a CBE rate hike in December, especially in light of the US Fed's expected move. The case for a December hike is supported by the rise in inflation. Headline urban consumer price inflation accelerated to 9.7% y-o-y in October, from 9.2% y-o-y in September. This was the third straight month of acceleration, which was driven by expansive price increases across both the food and non-food categories.

Fig. 3. Egypt: CBE allows EGP to strengthen against USD after three rounds of gradual weakening

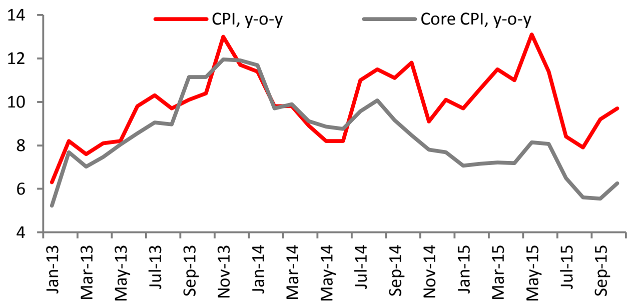
EGP to USD



Source: Bloomberg

Fig. 4. Egypt: Any further EGP weakening should add to inflationary pressure, including food inflation

%



Source: Bloomberg

EGP strengthened against USD on 11 November, possibly to establish two-way volatility

Further measures included the CBE injecting USD liquidity into the banking sector and strengthening the EGP against the USD. The injection of FX liquidity was also likely aimed at helping to meet essential import requirements, alongside supporting the EGP. The Egyptian media has indicated that the CBE is to provide banks with liquidity to cover 25% of their trade finance loans to importers, though no figure has been provided. Meanwhile, the CBE strengthened the EGP against the USD by around 2.5% to EGP7.73 on 11 November. This was the first strengthening since 2013, and followed the EGP being softened by around 11% against the USD in 2015 in three rounds. The strengthening could be the first step towards establishing two-way volatility in preparation for a more flexible exchange-rate regime. The CBE followed a similar policy framework in 2003-05, when Egypt also faced FX shortages and the EGP was weakened.

Weaker tourism revenue outlook likely to add to pressure for EGP devaluation

Further, more meaningful devaluation of the EGP looks likely, in our view, with the currency remaining overvalued and USD shortages looking set to continue. The parallel market remains, and the EGP stood at around EGP8.71 at the end of last week despite the CBE's injections of USD into the economy. The USD shortage is having a marked impact on the economy, resulting in corporates experiencing difficulties in funding vital imports. The shortages are resulting in weaker domestic investment, while foreign investment into Egypt has been affected on the back of expectations of an EGP devaluation and concerns over the repatriation of profits. Markets are increasingly seeing a weakening as inevitable and necessary to prevent the economy from continuing to suffer from FX shortages. The Russian airliner disaster in the Sinai Peninsula will likely add to EGP depreciation pressure with lower tourism revenues. Tourism is one of Egypt's largest employers and FX generators. Egypt is bracing for a revenue drop of EGP2.2 billion per month due to Russia's decision to halt flights to the country and the UK's move to suspend travel to Sharm el-Sheikh, according to Tourism Minister Hisham Zazou.

Any further EGP devaluation would add to inflationary pressure and could further delay fiscal reforms

However, further EGP weakening would upwardly pressure Egypt's inflation and possibly further delay the introduction of fiscal reforms, namely the implementation of VAT. Egypt is the world's largest wheat importer at 11 million tonnes per year, according to the UN Food and Agriculture Organisation. As such, a weakening in the EGP would stoke upward pressure on food prices. Moreover, a number of Egyptian corporates have been borrowing in USD to meet their import requirements, and would be impacted by any EGP devaluation.

B. G4 Economies

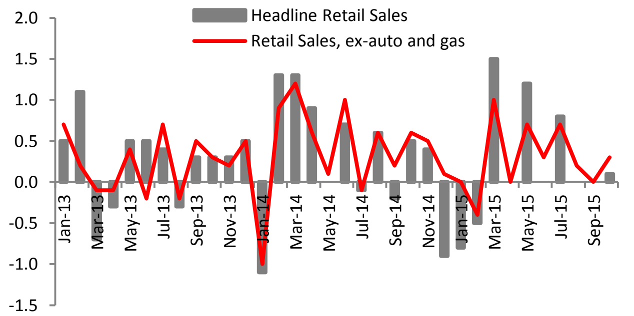
US: Retail sales data disappoint, JOLTs data indicate ongoing labour market improvement

Retail sales momentum remains weak in October, though price discounting may have continued

US retail sales for October came in weaker than the market had expected, with a surprise decline in automobile purchases. Retail sales increased 0.1% m-o-m (0.3% consensus) following zero growth in September and August. Both retail sales ex-autos and control group sales grew 0.2% m-o-m. Nominal car sales fell -0.5% m-o-m, having risen 1.4% in September. The decline was likely due to heavy price discounting to attract buyers, as the volume of car sales increased in October. Whilst the October data showed subdued momentum in retail sales, this is expected to be temporary. The pickup in jobs growth and low inflation should continue to support disposable income and consumption going forward.

Fig. 5. US: October retail sales remain weak and come in below consensus

% change m-o-m



Source: Bloomberg

Fig. 6. US: Total job openings continue to rise in September, reflecting labour market improvement

Total job openings, million

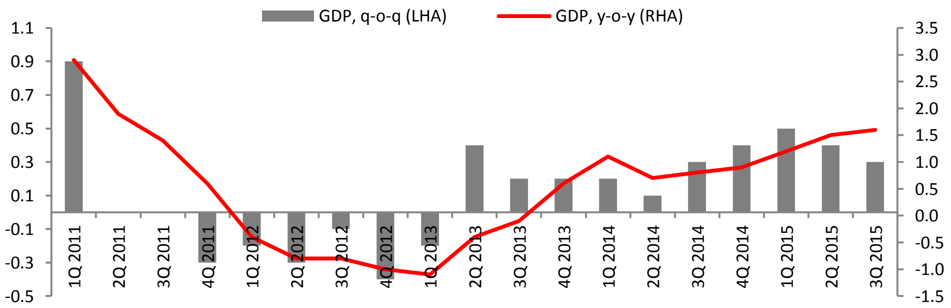
Source: Bloomberg

September JOLTS data strong, point to rising labour demand

We do not expect the Fed's prevailing bias for a December interest rate liftoff to change. Labour data are still improving, and a number of Fed members continue to indicate their support for a December rate hike. The September Job Openings and Labor Turnover Survey (JOLTS) supported the message from the October employment report that the US labour market is continuing to improve. Total job openings – an indication of labour demand – rose by 149K to 5.526 million in September. This was the second highest reading since the series was launched in December 2000, and lifted the job openings rate to 3.7% in September, from 3.6% in August. We see the improving labour market as central to the expected December rate rise. FOMC Vice Chairman William Dudley noted last week that the unemployment rate "could fall to an unsustainably low level", which would threaten to boost inflation. Moreover, St. Louis Fed President James Bullard reiterated his support for a December liftoff, expressing concern that the US economy could otherwise become stuck in a low interest rate trap.

Fig. 7. Eurozone: Growth momentum moderating; expectations increasing of further ECB monetary loosening in December

% change



Source: Bloomberg

Eurozone: Growth decelerates to 0.3% q-o-q 3Q

Softening growth in 3Q likely due to weaker external demand

Eurozone GDP growth slowed to 0.3% q-o-q in 3Q, below consensus expectations and the 0.4% growth seen in 2Q. The GDP components, when released, will provide a better view on the growth dynamics. Data from the various Eurozone countries continue to point to domestic demand having remained solid in 3Q. However, the net exports component is expected to have deteriorated on the back of the weakening external demand and solid imports. The data point to growth momentum softening on a quarterly basis since 2Q2015, and challenges increasing on the external front. On a country basis, GDP growth in Germany and France was in line with consensus expectations, while growth in Italy and the Netherlands fell short.

Markets pricing in 97% chance of 10 bps cut in ECB deposit rate in December

The softer 3Q growth adds to pressure on the ECB to take action in December. We and the market expect the bank to cut the deposit rate by 10 bps in December, to -0.3%. Moreover, the asset purchase programme will likely be extended beyond the current September 2016 end date. The size of the monthly purchases (currently EUR60 billion) could be increased to EUR65-70 billion. ECB President Mario Draghi's comments last week highlighted the downside risks to core inflation and growth. Draghi noted that "signs of a sustained turnaround in core inflation have somewhat weakened", and reiterated his stance that he was ready to add to the stimulus programme.

UK: Unemployment falls to lowest since April 2008

Employment rises sharply, by 177K in July-September

Data show the UK labour market continuing to gain traction in the three months to September. We believe that the tightening labour market will be central to the BoE raising interest rates in mid-2016, which would be earlier than the market is expecting. The unemployment rate fell to a seven-year low of 5.3% in July-September. Moreover, 177K jobs were created, which was much greater than the consensus forecast of 120K. These data are consistent with much of the remaining slack in the labour market being eroded by year end. The one disappointment was that wage growth did not accelerate, remaining at 3% y-o-y for July-September (where it had been in June-August) versus the consensus expectation of 3.2%. Nevertheless, the figure was solid, especially given the near-zero inflation rate.

C. Emerging Market Economies

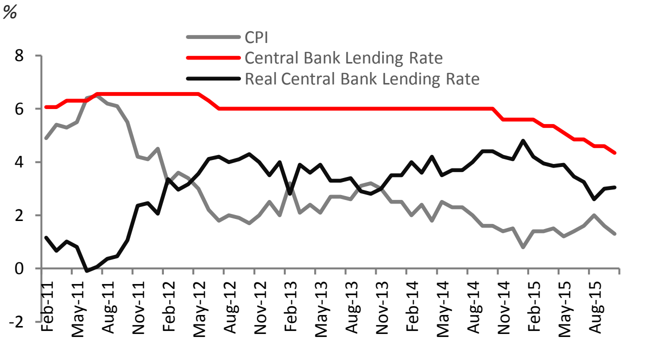
China: October data continue to show weak economic backdrop

Investment growth moderates further, but consumption activity is solid

Headline data on real activity remained lacklustre in October, and continued to point to a weak growth backdrop. Most areas saw data coming in below the consensus, including industrial activity and investments. Fixed asset investment growth moderated marginally, to 10.2% y-o-y in 10M2015, from 10.3% in 9M. Property investment growth decelerated to 2% y-o-y from 2.6%. However, the data pointed to consumption activity remaining solid (11% y-o-y in October versus 10.9% in September) despite the weaker inflation.

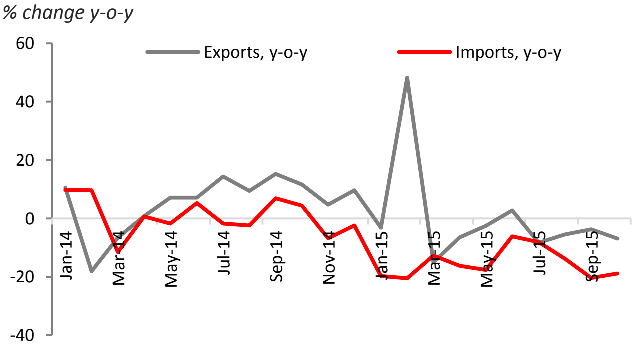
The further moderation in inflation will likely support a further interest rate cut, with the PBoC looking to lower real interest rates. We expect benchmark rates to be cut in early 2016. We forecast a further 50 bps reduction in the RRR in 4Q2015, aimed at offsetting capital outflows and ensuring ample liquidity. Meanwhile, with trade data pointing to weak external demand, we expect further fiscal measures to be introduced to bolster domestic growth.

Fig. 8. China: Room to cut benchmark lending rates further to lower real interest rates



Source: Bloomberg

Fig. 9. China: October trade data point to weak domestic and external demand



Source: Bloomberg

Inflation softens to 1.3% y-o-y in October

Inflation: China's October inflation data showed deflationary pressure intensifying, with CPI decelerating to 1.3% y-o-y in October. This was against the consensus expectation of 1.5% y-o-y and the 1.6% seen in September. The deceleration was due largely to softer food price inflation, though non-food inflation remained stable at low levels.

Import volumes continue to reflect weak domestic demand

Trade data: The trade data for October pointed to ongoing lacklustre demand, with both imports and exports coming in below market expectations. Imports contracted by -18.8% y-o-y in October in value terms (versus -20.4% y-o-y in September), below the market's expectation of a -15.2% fall. The slightly smaller contraction in imports compared to September was due in part to decreased drag from commodity prices. However, import volume growth for major commodities, including coal and iron, remained anaemic in October. Weakness in China's property market, overcapacity in the manufacturing sector, and slower government spending on infrastructure have contributed to the country's economic slowdown and falling demand for commodities.

Exports to ASEAN countries fall sharply in October

Exports contracted by -6.9% y-o-y in October, versus -3.7% in September and the consensus expectation of -3.2%. Exports to developed economies fell, including to the US (-0.9% y-o-y), EU (-2.9%), and Japan (-7.7%). Meanwhile, the fall in exports to ASEAN countries was more marked, dropping by a sharp -10.9% y-o-y in October, versus -6% in September. The data reflect the headwinds to Chinese exports from weakening external demand and the strong CNY. On a trade weighted basis, the CNY is currently around 8.5% stronger than it was a year ago.

II. Economic Calendar

Fig. 10. Upcoming Events and Data Releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Oct	4.3%	--
	UAE	CPI, m-o-m	Oct	0.3%	--
Monday 16 Nov					
3:50	Japan	GDP Annualized SA, q-o-q	3Q P	-0.7%	-0.2%
3:50	Japan	GDP Private Consumption, q-o-q	3Q P	-0.7%	0.4%
3:50	Japan	GDP Business Spending, q-o-q	3Q P	-0.9%	-0.5%
4:01	UK	Rightmove House Prices, m-o-m	Nov	0.6%	--
4:01	UK	Rightmove House Prices, y-o-y	Nov	5.6%	--
12:30	Eurozone	ECB's Vitor Constancio speaks at Euro Finance Week			
14:00	Eurozone	CPI, m-o-m	Oct	0.2%	0.1%
14:00	Eurozone	CPI, y-o-y	Oct F	0%	0%
14:00	Eurozone	CPI Core, y-o-y	Oct F	1%	1%
Tuesday 17 Nov					
13:30	UK	CPI, m-o-m	Oct	-0.1%	0.2%
13:30	UK	CPI, y-o-y	Oct	-0.1%	-0.1%
13:30	UK	CPI Core, y-o-y	Oct	1%	1%
14:00	Germany	ZEW Survey Current Situation	Nov	55.2	55.2
14:00	Germany	ZEW Survey Expectations	Nov	1.9	6
14:00	Eurozone	ZEW Survey Expectations	Nov	30.1	--
17:30	US	CPI, m-o-m	Oct	-0.2%	0.2%
17:30	US	CPI, ex-Food and Energy, m-o-m	Oct	0.2%	0.2%
17:30	US	CPI, y-o-y	Oct	0%	0.1%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	1.9%	1.9%
18:15	US	Industrial Production, m-o-m	Oct	-0.2%	0.1%
18:15	US	Capacity Utilisation	Oct	77.5%	77.5%
Wednesday 18 Nov					
0:30	US	Fed's Tarullo Speaks on Shadow Banking at Brookings Institute			
16:00	US	MBA Mortgage Applications	13-Nov	-1.3%	--
17:00	US	Fed's Dudley, Mester and Lockhart Panel on Payments System			
17:30	US	Housing Starts	Oct	1206K	1155K
17:30	US	Housing Starts, m-o-m	Oct	6.5%	-3.8%
17:30	US	Building Permits	Oct	11053K	1149K
17:30	US	Building Permits, m-o-m	Oct	-4.8%	3.9%
21:00	US	Fed's Kaplan Discusses Economic Conditions, Policy in Houston			
23:00	US	US Fed Releases Minutes from Oct. 27-28 FOMC Meeting			
Thursday 19 Nov					
	Japan	BOJ Annual Rise in Monetary Base	19-Nov	¥80T	--
	Japan	Bank of Japan Monetary Policy Statement			
3:50	Japan	Trade Balance	Oct	-¥115.8B	-¥250.6B
3:50	Japan	Exports, y-o-y	Oct	0.5	-2
3:50	Japan	Imports, y-o-y	Oct	-11	-8.9
7:00	Japan	Bank of Japan Policy Statement/Kuroda Press Conference			
12:30	Eurozone	ECB's Peter Praet speaks at Europe Finance Week			
13:30	UK	Retail Sales, ex- Auto and Fuel, m-o-m	Oct	1.7%	-0.6%
13:30	UK	Retail Sales, ex-Auto and Fuel, y-o-y	Oct	5.9%	3.9%
16:30	Eurozone	ECB account of the monetary policy meeting			
21:30	US	Fed's Lockhart Speaks on US Economy in Atlanta			
Friday 20 Nov					
11:00	Japan	BOJ Kuroda makes a speech in Tokyo			
18:00	US	Fed's Bullard Speaks on Economy in Arkansas			
19:00	Eurozone	Consumer Confidence	Nov A	-7.7	-7.5

* UAE Time
Source: Bloomberg

Fig. 11. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
MENA Data						
	Egypt	Urban CPI, y-o-y	Oct	9.2%	--	9.7%
	Egypt	CPI Core, y-o-y	Oct	5.6%	--	6.3%
Monday 9 Nov						
9:15	UAE	Dubai Economy Tracker SA	Oct	56	--	51.4
Tuesday 10 Nov						
3:50	Japan	BoP Current Account Balance	Sep	¥1653.1B	¥2154B	¥1468.4B
3:50	Japan	Trade Balance BoP Basis	Sep	-¥326.1.1B	¥85.3B	¥82.3B
5:30	China	CPI, y-o-y	Oct	1.6%	1.5%	1.3%
17:30	US	Import Price Index, m-o-m	Oct	-0.6%	-0.1%	-0.5%
19:00	US	Wholesale Inventories, m-o-m	Sep	0.3%	0.1%	0.5%
Wednesday 11 Nov						
9:30	China	Retail Sales, y-o-y	Oct	10.9%	10.9%	11%
9:30	China	Retail Sales YTD, y-o-y	Oct	10.5%	10.6%	10.6%
9:30	China	Industrial Production, y-o-y	Oct	5.7%	5.8%	5.6%
9:30	China	Industrial Production YTD, y-o-y	Oct	6.2%	6.2%	6.1%
9:30	China	Fixed Assets, ex-Rural, YTD y-o-y	Oct	10.3%	10.2%	10.2%
13:30	UK	Jobless Claims Change	Oct	0.5K	1.4K	3.3K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Sep	3%	3.2%	3%
13:30	UK	ILO Unemployment Rate 3Mths	Sep	5.4%	5.4%	5.3%
16:00	US	MBA Mortgage Applications	6-Nov	-0.8%	--	-1.3%
Thursday 12 Nov						
3:50	Japan	Machine Orders, m-o-m	Sep	-5.7%	3.1%	7.5%
12:01	China	New Yuan Loans CNY	Oct	1050B	800B	513.6B
12:01	China	Money Supply M2, y-o-y	Oct	13.1%	13.2%	13.5%
14:00	Eurozone	Industrial Production SA, m-o-m	Sep	-0.4%	-0.1%	-0.3%
16:00	India	CPI, y-o-y	Oct	4.4%	4.9%	5%
17:30	US	Initial Jobless Claims	7-Nov	276K	270K	276K
19:00	US	JOLTS Job Openings	Sep	5377K	5400K	5526K
Friday 13 Nov						
8:30	Japan	Industrial Production, m-o-m	Sep F	1%	--	1.1%
8:30	Japan	Industrial Production, y-o-y	Sep F	-0.9%	--	-0.8%
8:30	Japan	Capacity Utilisation, m-o-m	Sep	-0.9%	--	1.5%
14:00	Eurozone	GDP SA, q-o-q	3Q A	0.4%	0.4%	0.3%
14:00	Eurozone	GDP SA, y-o-y	3Q A	1.5%	1.7%	1.6%
17:30	US	Retail Sales Advance, m-o-m	Oct	0%	0.3%	0.1%
17:30	US	Retail Sales, ex-Auto	Oct	-0.4%	0.4%	0.2%
17:30	US	Retail Sales Control Group	Oct	0.1%	0.4%	0.2%
19:00	US	U. of Mich. Sentiment	Nov P	90	91.5	93.1
19:00	US	U. of Mich. Current Conditions	Nov P	102.3	--	104.8
19:00	US	U. of Mich. Expectations	Nov P	82.1	--	85.6

* UAE time

Source: Bloomberg

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