

The Week Ahead: ECB to remain on hold; Turkey to cut overnight interest rate

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► **Europe: No change in ECB policy, comments in focus**

We expect monetary policy to remain steady at the ECB's 21 April meeting, after the comprehensive package of monetary loosening measures that was introduced in March. We believe the ECB will require a number of months to gauge the impact of the package. We expect President Mario Draghi to give a strong message that the bank has further space to manoeuvre, if required, especially given the recent criticism from Germany. Markets will closely watch for Draghi's assessment of the economic and inflation outlooks. There could be further information on the policy measures announced in March, including regarding the inclusion of investment grade corporate debt in the QE programme. In the UK, the focus will be on labour (20 April) and retail sales (21 April) data. This should provide an indication of corporate and private activity amidst the Brexit uncertainties.

► **Global: Japan March trade and US housing data in focus**

Data from Japan will be closely watched ahead of the BoJ's 27-28 April meeting. Key releases this week will include trade data for March, with consensus expecting an even wider trade surplus with a greater yearly contraction in imports. Japan realised its largest trade surplus in February in four years. Overall, the trade data reflects both a weak domestic and external backdrop. The strong JPY is acting as a significant drag on external competitiveness and is threat to the inflation outlook. In the US, the focus will remain on the US earnings season. The key economic data will be housing related, including new housing starts and existing home sales.

► **Turkey: Further cut in the overnight lending rate expected**

We expect the CBRT to lower the benchmark overnight lending rate by 50 bps at its 20 April meeting, after the surprise 25 bps cut in March. Central bank guidance indicates that it is looking to narrow the interest rate corridor; other key benchmark interest rates were kept steady at the March meeting. In our view the CBRT is looking to front load cuts in the overnight lending rate, given the TRY stability and gradual outlook for the Fed's hiking cycle. However, the change in the central bank governor and several committee members in the coming months could provide some uncertainty. The April meeting will be the first under new governor, Murat Cetinkaya.

► **Oil: No agreement on oil production freeze in Doha**

Key OPEC producers and Russia failed to agree an oil output cap at January levels at the 17 April meeting in Doha. Expectations of an output freeze have contributed to the rise in oil prices since the January lows. Oil prices fell following the meeting, despite the sharp drop in Kuwaiti production on the back of an oil workers strike (page 3). Going forward, the fall in US production and the pace at which Iran increases output will be critical for the rebalancing of the oil market.

Contents

I.	Recent Events and Data	2
II.	Economic Calendar	7

I. Recent Events and Data

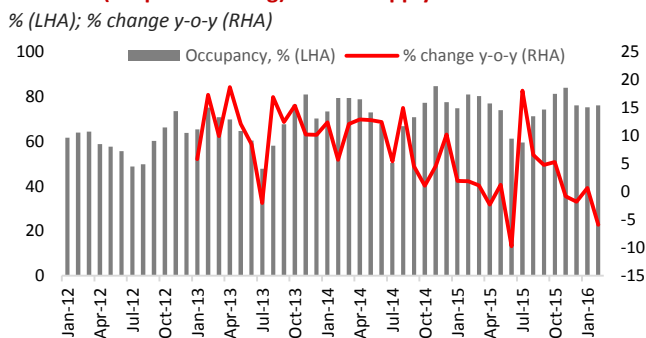
A. MENA Economies

UAE: Abu Dhabi announces new fees to broaden government revenues

Abu Dhabi announced new fees last week, which will be positive for raising government revenues and broadening revenue streams. The latest moves highlight that Abu Dhabi and the broader UAE remain among the most proactive in the region in reforming for the low oil price environment. The fees relate to the tourism sector and the value of rental contracts, and are broadly similar to those introduced previously by Dubai. On the tourism front, Abu Dhabi has introduced a 4% municipality fee, alongside an AED15 per night charge on hotel bills. The fees are to be collected by the Abu Dhabi Tourism & Culture Authority and deposited into the government’s budget. We expect the charges to be passed on to customers, and to be absorbed easily without impacting sector performance. The introduction of the tourism fee in Dubai in March did not impact tourism demand despite room rates generally being higher there than in Abu Dhabi. Official data show that tourism to Abu Dhabi rose by 10 y-o-y in November, while guest nights increased by 22% y-o-y.

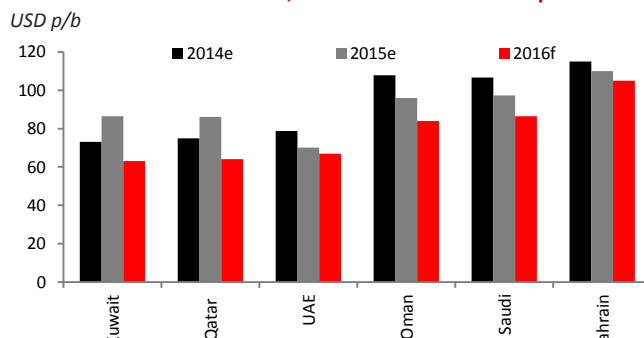
Tourism-linked fees unlikely to impact sector performance adversely

Fig. 1. Abu Dhabi: Hotel occupancy holds up relatively well (despite declining) as new supply enters market



Source: STR Global

Fig. 2. GCC: Budget breakeven oil prices forecast to fall in 2016 with reforms, but to remain above oil prices



Source: IMF, regional central banks, ADCB estimates

On the rental side, a 3% municipal fee will be charged on the annual value of expatriates’ lease contracts. The minimum charge will be AED450 per year, and the fee backdated to the beginning of March. National who rent will be exempt from the fee. The Abu Dhabi Water & Electricity Authority will collect the charge monthly via utility bills, which should make payment easier. Dubai already collects a municipal property tax of 5% of the rental value through bills issued by the Dubai Electricity & Water Authority every month. We believe that the rental fee, alongside the lower oil price and previous fiscal reforms, will contribute to a deceleration in private consumption in 2016. This is especially so given the large share of rent in expatriates’ spending baskets. Job losses in certain sectors and weak pay increases should also contribute to a deceleration in consumption.

Fiscal reforms to contribute to private consumption deceleration in 2016e

Nevertheless, we see the overall impact of the fiscal reforms as positive from a structural perspective, especially given the medium-term outlook for oil. While the rise in oil prices since March has provided some relief, the price still remains substantially below GCC countries’ budget breakeven prices. The GCC’s fiscal adjustment

Fiscal adjustments by GCC countries still in early stages

programmes are in the early stages, though the UAE's is comparatively more advanced. Thus, the GCC countries face wider budget deficits and lower growth over the coming years.

Kuwait: Parliament approves bill to raise utility prices

Kuwait has moved closer to raising utility prices after its National Assembly approved a bill to lift water and power tariffs. Power charges for apartments will rise gradually from the current flat rate of two fils (KWD0.002) per kilowatt to 15 fils (KWD0.015) per kilowatt. Water prices will also more than double. The higher charges will impact expatriates and non-GCC businesses. The implementation of the new prices could take some time, even once the bill has received final approval. Kuwaiti media are suggesting that the new rates will only be applied once smart power meters are installed, which could take up to a year. During the parliamentary debate, Electricity and Water Minister Ahmad al-Jassar said that the government was paying around USD8.8 billion annually to subsidise power and water production. We estimate that this is equivalent to 8% of 2016 nominal GDP.

Kuwait lags other GCC countries in fiscal reforms, needs parliamentary support

Oil workers strike: Kuwait oil output fell by around 60% to 1.1 million bpd on 17 April as more than 7,000 oil workers begun an open-ended strike. Kuwait's average oil production in March stood at 2.8 million bpd. The protest is against government plans to introduce a new payroll scheme for industry employees. The proposal would result in cut to wages, benefits and incentives. Kuwait Petroleum has indicated that it will continue to provide fuel to the local market and can meet demand from its international customers. Continuation of the strike would have a marked impact on government revenues, though the emergency response would likely increase with time. From a global standpoint, the drop in Kuwaiti production removes much of the excess production. The length of the protest will be critical.

Kuwaiti oil production falls by c.60% on 17 April

Saudi Arabia: Fitch downgrades rating, catching up with other agencies

Fitch downgraded Saudi Arabia's long-term foreign currency Issuer Default Rating (IDR) to AA- from AA last week. Its outlook on the long-term IDRs remains negative. The main factor behind the downgrade was Fitch's downward revision of its oil price assumptions for 2016 (to USD35 p/b) and 2017 (to USD45 p/b) and the impact on the fiscal and external balances. Fitch estimates that Saudi Arabia's sovereign net foreign asset (SNFA) position will decline to 78% of GDP in 2017, from 113% in 2014. Fitch noted that this would result in Saudi Arabia's SNFA to GDP ratio being considerably less than half of those of Kuwait, Abu Dhabi and Qatar, though it would remain among the highest in the world. We see Fitch's downgrade as largely catching up with previous cuts by other agencies. S&P lowered Saudi Arabia's credit rating by two notches to A- in February, having already lowered it by one to A+ in October 2015.

Lower oil price outlook largely behind downgrade

B. G4 Economies

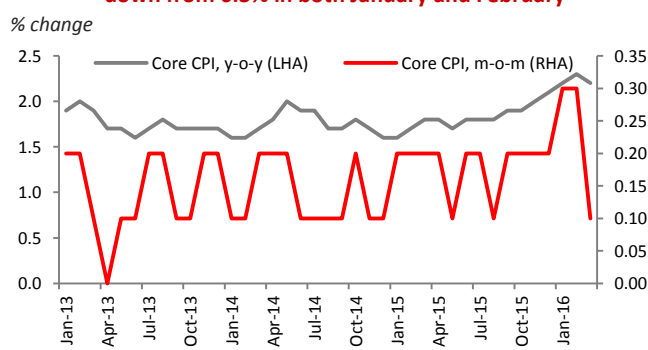
US: Soft March inflation, after two months of solid pickup

The March CPI report was softer than expected, with both headline and core inflation rising by just 0.1% m-o-m. Consensus had expected price growth of 0.2% m-o-m for both core and headline inflation. The deceleration was driven by the sectors that were behind the strong monthly readings in January and February, notably clothing,

Weak support for headline inflation from the rise in gasoline prices in March

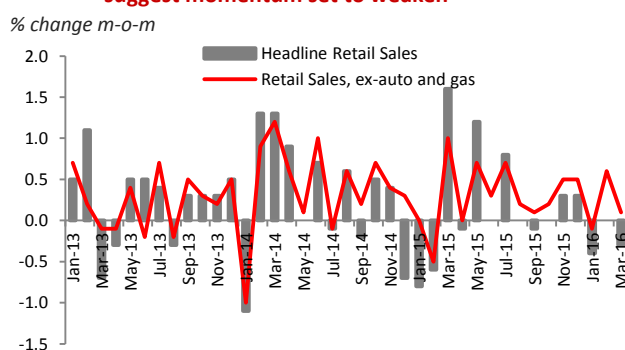
healthcare and rents. Clothing prices fell sharply in March, food prices also dropped, whilst both energy and shelter provided less of a boost than the market expected. We had highlighted that some of the rise in inflation in 2M2016 was likely seasonal and the March data points to weaker core inflation than at the beginning of the year. However, there should be some support to inflation with the drag from a strengthening USD likely to moderate in 2016. Notably, the support to headline inflation from the rise in gasoline prices was moderate after the seasonal adjustments. Retail gasoline prices rose by 12% m-o-m in March. The higher gasoline price could be more fully reflected in the April data.

Fig. 3. US: Core inflation moderates to 0.1% m-o-m in March, down from 0.3% in both January and February



Source: Bloomberg

Fig. 4. US: Retail sales disappoint in March; auto stocks suggest momentum set to weaken



Source: Bloomberg

Retail sales: March retail sales also disappointed, coming in below consensus expectations. Headline retail sales fell -0.3% m-o-m, versus the market’s forecast of a 0.1% expansion. The fall was due largely to a -2.1% m-o-m drop in motor vehicle sales in March, with increasing signs that households are buying fewer automobiles after record purchases last year. Control group sales, which correspond most closely to the consumer spending component of GDP, grew 0.1% m-o-m in March compared to the consensus expectation of 0.4%. However, the January and February readings for control group sales were revised up to a respective 0.3% and 0.1% m-o-m. Thus, private consumption should still provide a solid contribution to real GDP growth in 1Q. The quarterly annualised growth in control sales increased to 1.9% for 1Q2016, from just 0.8% following the February report and 1.6% in 4Q2015.

Softness of March data raises concerns over 2Q private consumption outlook

However, the March readings raise concerns about the pace of retail spending and private consumption growth into 2Q, and potential downside risks. Retail sales remain lacklustre despite the labour market strengthening, which is starting to boost wages. Part of the weakness is likely linked to the global market volatility and uncertainty experienced in 1Q. We also expect less support for retail spending in 2016 from the oil price, especially in 2H. We believe that the Fed will want to see some pickup in retail sales and inflation before raising rates again.

Fed likely to look for signs of stronger personal spending before raising rates

UK: BoE keeps interest rates on hold in unanimous vote

The BoE again kept monetary policy steady at its April meeting, as widely expected. The benchmark interest rate remained at 0.5% and the stock of QE purchases at GBP375 billion. The vote to keep rates on hold was unanimous. The MPC continued to reiterate that interest rates would likely need to increase over the next three years, albeit highlighting key areas of short-term risk especially over the Brexit vote. The BoE noted that uncertainty over the EU referendum could cause “some softening” in growth in

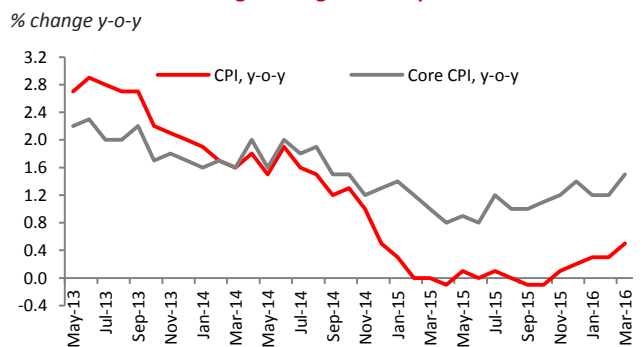
Uncertainty related to EU referendum in focus

1H2016 and that there were already some signs that uncertainty has begun to weigh on certain areas of activity. These include decisions on capital expenditure and commercial property transactions, which are being postponed pending the outcome of the vote. Moreover, the MPC highlighted that they will respond “cautiously” to upcoming data, with the effect of the referendum making macroeconomic and financial market data harder to interpret. Outside the EU referendum, the BoE highlighted that there had been limited developments to change the broad outlook for activity and inflation.

Inflation: Consumer price inflation rose to a 15-month high of 0.5% y-o-y in March. This was up from 0.3% y-o-y in February and higher than the consensus expectation of 0.4%. Core inflation strengthened to 1.5% y-o-y in March, from 1.2% in February. The acceleration in March was largely a result of higher airfares linked with the earlier timing of Easter, and an increase clothing prices. Inflation is thus expected to moderate somewhat in April. However, we expect it to pick up from mid-2016 due to the weaker GBP and fading base effect of low oil prices. The May inflation report (due on 12 May) will be an important indicator of how the MPC gauges the upside risk to inflation. The expected rise in inflation should support a first rate hike in 1Q2017. With increased signs of weakening economic growth momentum, we see risks firmly tilted to liftoff in 2017, rather than in end-2016. Meanwhile, wage growth so far has been insufficient to generate domestic inflationary pressure.

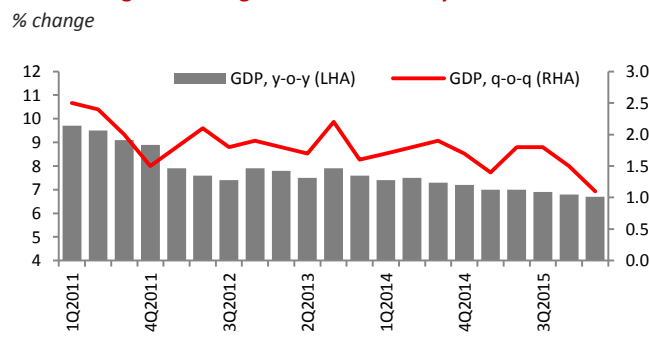
March inflation reaches 15-month high, though likely to fall back in April

Fig. 5. UK: Stronger March inflation driven by early timing of Easter feeding into higher transportation costs



Source: Bloomberg

Fig. 6. China: GDP growth moderates to 6.7% y-o-y in 1Q, but signs of stronger economic activity in March



Source: Bloomberg

C. Emerging Market Economies

China: 1Q GDP growth decelerates to 6.7% y-o-y, but March activity stronger

China's GDP growth moderated marginally to 6.7% y-o-y in 1Q2016, in line with market expectations and from 6.8% in 4Q2015. This is within the government’s targeted annual growth range of 6.5-7%. The deceleration was largely on the back of a further slowdown in both the industrial and services sectors. There were some positive signs within the data, with a strengthening in infrastructure and real estate investment growth to 10.7% y-o-y. Positively, interim data also points to a pickup in economic activity in March; industrial production, fixed asset investment, credit and retail sales data all surprised to the upside.

Some signs of pickup in economic activity in March – on fiscal and monetary support

We believe the stabilisation in growth in 1Q and pickup in activity in March was supported by monetary easing, greater fiscal support and the continued property market recovery in prime and second-tier cities. The rise in commodity prices (from the January lows) could also have encouraged industrial restocking to a degree, alongside greater investment by the government. Import volumes of major commodities strengthened in 1Q. The import volume of copper grew 29.4% y-o-y in 1Q (accelerating from 14.7% y-o-y in 4Q2015), while that of crude strengthened to 13.4% in 1Q (from 8.8%). We expect the government to maintain its accommodative policy stance to bolster growth further, amidst weak external demand and as the economy rebalances. We continue to expect a total 50 bps of rate cuts and 200 bps of reserve ratio cut for the rest of 2016.

Further monetary and fiscal support needed to support economic momentum – challenges remain substantial

Inflation: We see China's inflation environment as supportive of further easing, despite remaining relatively elevated. CPI inflation was 2.3% y-o-y in March, unchanged from its February level, though slightly below the consensus expectation of 2.4%. We see the recent rise in prices as temporary. There are already indications that food prices are starting to stabilise on a monthly basis, albeit continuing to rise in yearly terms. Food price inflation accelerated to 7.6% y-o-y in March, from 7.3% in February. Higher food prices have been the main factor behind the rise in inflation, and have been due mainly to a supply shock rather than a pickup in demand. Meanwhile, non-food inflation remained subdued and unchanged at 1% y-o-y.

Higher food prices still main contributor to consumer inflation

II. Economic Calendar

Fig. 7. Upcoming events and data releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Mar	306.1B	--
	UAE	CPI, y-o-y	Mar	2.2%	--
	Saudi Arabia	CPI, y-o-y	Mar	4.2%	--
Monday 18 Apr					
	Egypt	Trade Balance	Feb	-2633M	--
	Kuwait	February Crude Oil Exports			
	Saudi Arabia	February Crude Oil Exports			
3:01	UK	Rightmove House Prices, m-o-m	Apr	1.3%	--
3:01	UK	Rightmove House Prices, y-o-y	Apr	7.6%	--
10:30	India	Wholesale Prices, y-o-y	Mar	-0.9%	-0.7%
16:30	US	Fed's Dudley Gives Opening Remarks at Economics Conference			
20:30	US	Fed's Kashkari Speaks in Minneapolis			
Tuesday 19 Apr					
3:00	US	Fed's Rosengren to Speak at Central Conn State University			
12:00	Eurozone	ECB Bank Lending Survey			
13:00	Germany	ZEW Survey Current Situation	Apr	50.7	50.8
13:00	Germany	ZEW Survey Expectations	Apr	4.3	8
13:00	Eurozone	ZEW Survey Expectations	Apr	10.6	--
16:30	US	Housing Starts	Mar	1178K	1170K
16:30	US	Housing Starts, m-o-m	Mar	5.2%	-0.7%
16:30	US	Building Permits	Mar	1177K	1200K
16:30	US	Building Permits, m-o-m	Mar	-2.2%	2%
Wednesday 20 Apr					
3:50	Japan	Trade Balance	Mar	¥242.2B	¥819.1B
3:50	Japan	Exports, y-o-y	Mar	-4	-7.1
3:50	Japan	Imports, y-o-y	Mar	-14.2	-16.5
12:30	UK	Claimant Count Rate	Mar	2.1%	2.1%
12:30	UK	Jobless Claims Change	Mar	-18K	-10K
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Feb	2.1%	2.3%
12:30	UK	Weekly Earnings, ex Bonus, 3M/y-o-y	Feb	2.2%	2.1%
12:30	UK	ILO Unemployment Rate, 3Mths	Feb	5.1%	5.1%
15:00	US	MBA Mortgage Applications	15-Apr	10%	--
18:00	US	Existing Home Sales	Mar	5.08M	5.26M
18:00	US	Existing Home Sales, m-o-m	Mar	-7.1%	3.5%
Thursday 21 Apr					
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Mar	-0.2%	-0.3%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Mar	3.8%	4.1%
12:30	UK	Retail Sales, inc Auto Fuel, m-o-m	Mar	-0.4%	-0.1%
15:45	Eurozone	ECB Main Refinancing Rate	21-Apr	0%	0%
15:45	Eurozone	ECB Deposit Facility Rate	21-Apr	-0.4%	-0.4%
15:45	Eurozone	ECB Marginal Lending Facility	21-Apr	0.25%	0.25%
16:30	US	Initial Jobless Claims	16-Apr	253K	265K
18:00	Eurozone	Consumer Confidence	Apr A	-9.7	-9.3
Friday 22 Apr					
6:00	Japan	Nikkei Japan PMI Mfg	Apr P	49.1	49.5
11:00	Eurozone	Euro-Area Finance Ministers, Central Bankers Meet in Amsterdam			
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Apr P	51.6	51.9
12:00	Eurozone	Markit Eurozone Services PMI	Apr P	53.1	53.3
17:45	US	Markit US Manufacturing PMI	Apr P	51.5	52
	Egypt	Egypt Sovereign Debt to Be Rated by Moody's			

* UAE time

Source: Bloomberg

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