

The Week Ahead: After Fed's 25 bps hike, focus shifts to GCC budgets for 2017

► US: Fed now sees three rate hikes in 2017

The Fed raised the FFTR by 25 bps to 0.75% (upper bound) on 14 December, in line with our and market expectations. The main surprise came from a more hawkish "dot plot", with the Fed's median forecast now pointing to three interest rate hikes of 25 bps each in 2017, from two previously (September). The trajectory remains three hikes in each of 2018 and 2019. There were limited upward revisions to the FOMC's GDP forecasts for 2017 to 2019, implying that the Fed is not yet factoring in a marked increase in fiscal support from the new administration. The increase in the Fed's rate hike projection was likely due to the tightening in the labour market (with the unemployment rate falling to 4.6% in November), alongside some indications that inflation expectations are ticking up. Nevertheless, the meeting statement preserved a cautious tone, with the Fed highlighting that it will continue to monitor risks. We maintain our view that the Fed will raise rates twice in 2017 (mid- and end-2017), with the potential of three in 2018 as the fiscal stimulus increases.

► GCC: Central banks follow Fed by raising deposit rates

The UAE and Saudi Arabia followed the Fed by raising their benchmark deposit rates by 25 bps, but kept their lending rates steady. The UAE raised rates on the certificates of deposit (CDs) issued by the central bank by 25 bps. We believe the rate increases were aimed at showing commitment to the GCC currency pegs to the USD, whilst trying to reduce the upside pressure on market lending rates. Nevertheless, we believe that the 25 bps rate hike by the Fed was already priced into regional interbank rates. Bahrain and Qatar raised benchmark central bank lending and deposit rates, whilst Kuwait increased its lending rate. The US-led monetary tightening in 2017 will be an additional headwind to GCC economies in 2017, alongside supporting a stronger USD (negatively impacting non-oil exports of goods and services).

► GCC: Dubai and Saudi budgets to be released in December

Dubai and Saudi Arabia are expected to announce their 2017 government budgets shortly. In Dubai, we believe that the fiscal position will remain strongly expansionary, with planned government spending likely seeing double-digit growth. This is after budgeted government expenditure rose by 12% in 2016. We foresee a focus on infrastructure spending in the build up to Expo 2020. Meanwhile in Saudi Arabia, we expect an easing in the pace of fiscal austerity, after deep cuts in spending and fiscal reforms in 2016. Saudi Arabia's push to secure a joint OPEC and non-OPEC production cut was likely aimed at reducing the degree of fiscal austerity required. We still expect a fall in overall planned government spending of c.5%, including reducing current expenditure. However, we believe that there will be some effort to increase investment (especially social infrastructure) to support non-oil GDP growth and diversification objectives.

The next issue of Global Data Watch will be published on Monday 16 January 2017.

Economics Team

Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

Monica.Malik@adcb.com

Shailesh Jha

Economist

+971 (0)2 696 2704

Shailesh.Jha@adcb.com

Contents

I. Economic Calendar	2
----------------------	---

I. Economic Calendar

Fig. 1. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Data						
	Qatar	CPI, y-o-y	Oct	2.2%	--	2%
	Oman	CPI, y-o-y	Nov	2%	--	1.9%
	China	M2 Money Supply, y-o-y	Nov	11.6%	11.5%	11.4%
	China	New Yuan Loans, RMB	Nov	651.3B	720B	794.6B
	China	Aggregate Financing, RMB	Nov	887B	1100B	1740B
	India	Exports, y-o-y	Nov	9.6%		2.3%
Monday, 12 Dec						
11:00	Turkey	GDP, y-o-y	Nov	3.1%	0.3%	-1.8%
Tuesday, 13 Dec						
6:00	China	Industrial Production, y-o-y	Nov	6.1%	6.1%	6.2%
6:00	China	Retail Sales, y-o-y	Nov	10%	10.2%	10.8%
6:00	China	Fixed Asset Investment, y-o-y	Nov	8.3%	8.3%	8.3%
13:30	UK	CPI, y-o-y	Nov	0.9%	1.1%	1.2%
13:30	UK	CPI core, y-o-y	Nov	1.2%	1.3%	1.4%
16:00	India	CPI, y-o-y	Nov	4.2%	3.9%	3.6%
Wednesday, 14 Dec						
3:50	Japan	Tankan Large Manufacturing Index	4Q	6	10	10
3:50	Japan	Tankan Large Non-Manufacturing Index	4Q	18	19	18
13:30	UK	Jobless Claims Change	Nov	13.3K	6.5K	2.4K
13:30	UK	Employment Change, 3M/3M	Nov	49K	50K	-6K
13:30	UK	Unemployment Rate	Nov	4.8%	4.8%	4.8%
13:30	UK	Weekly Earnings, 3M y-o-y	Nov	2.3%	2.4%	2.5%
14:00	Eurozone	Industrial Production, m-o-m	Oct	-0.9%	0.1%	-0.1%
17:30	US	Retail Sales, m-o-m	Nov	0.6%	0.3%	0.1%
17:30	US	Retail Sales, ex-Auto, m-o-m	Nov	0.6%	0.4%	0.2%
17:30	US	Retail Sales Control Group, m-o-m	Nov	0.6%	0.3%	0.1%
18:15	US	Industrial Production, m-o-m	Nov	0.1%	-0.3%	-0.4%
23:00	US	FOMC Fed Funds Rate (Upper Bound)		0.5%	0.75%	0.75%
23:00	US	FOMC Fed Funds Rate (Lower Bound)		0.25%	0.5%	0.5%
Thursday, 15 Dec						
4:30	Japan	Manufacturing PMI	Dec	51.3		51.9
13:00	Eurozone	Manufacturing PMI	Dec	53.7	53.7	54.9
13:00	Eurozone	Services PMI	Dec	53.8	53.8	53.1
13:30	UK	Retail Sales ex-Auto, m-o-m	Nov	1.9%	0%	0.5%
17:00	UK	BoE benchmark Bank Rate		0.25%	0.25%	0.25%
17:00	UK	BoE Asset Purchase Target		GBP435B	GBP435B	GBP435B
17:00	UK	BoE Corporate Bond Purchase Target		GBP10B	GBP10B	GBP10B
17:30	US	CPI, y-o-y	Nov	1.6%	1.7%	1.7%
17:30	US	CPI ex-Food and Energy, y-o-y	Nov	2.1%	2.2%	2.1%
17:30	US	Initial Jobless Claims	10-Dec	258K	254K	255K
17:30	US	Manufacturing PMI	Dec P	54.1	54.5	54.2
Friday, 16 Dec						
14:00	Eurozone	CPI, y-o-y	Nov	0.5%	0.6%	0.6%
14:00	Eurozone	CPI core, y-o-y	Nov	0.8%	0.8%	0.8%
17:30	US	Housing Starts	Nov	1340K	1235K	1090K
17:30	US	Building Permits	Nov	1260K	1240K	1201K

* UAE time

Source: Bloomberg

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC (“ADCB”) to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.