

## The Week Ahead: Fed stays put, but leaves door open for hike in 2015

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### ► US: Fed stays put, citing global weakness and low inflation

The Fed left the target range for the federal funds target rate (FFTR) unchanged at 0-0.25% at its 17 September policy meeting. We had been looking for a first rate hike of 25 bps, though we had cited risks of a delay from global developments. The heightened economic uncertainty abroad and weak inflation environment were the main reasons for keeping the FFTR on hold. The overall message from the Fed was dovish; the FOMC noted that the “recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term.” On inflation, the statement highlighted that market based measures of inflation expectations have “moved lower”, while earlier statements had had expectations “remaining low”. In the post-meeting statement, Fed Chair Janet Yellen highlighted risks linked with the drop in equity prices, further USD appreciation, and widening risk spreads. Meanwhile, the Fed’s inflation projections for 2015-2017 and GDP growth forecasts for 2016 and 2017 were lowered slightly.

### ► We still expect 25 bps rate rise in 2015, likely in December

The post-meeting comments and statements seemed to aim to characterise the steady policy approach at the September meeting as more of a risk management exercise than a shift in policy. Yellen highlighted that there had been no fundamental change in the Fed’s outlook. The new policy rate projections still point to a single 25 bps policy rate hike by the end of 2015, followed by 100 bps of rate increases in 2016. We now believe that the Fed is likely to wait until December to hike rates by 25 bps, when there should be more clarity on the impact of the global market turbulence. One key takeaway from the Fed’s decision was the emphasis on external risks, which will likely determine the timing of the rate increase. Moreover, we believe that it will take some time for China’s policies aimed at supporting domestic growth to take hold and reverse some of the slowdown there. We see risks of a shallower rate path in 2016, with the possibility of just two additional 25 bps hikes. The long-run projection of the “neutral” FFTR was lowered to 3.5%.

### ► Key releases this week: US durable goods data and flash PMI

A number of Fed members are due to speak this week, and markets will be watching carefully for any further clarification on the FOMC’s stance. The main US data releases will be durable goods – which will provide some indication of the impact of global developments on the US manufacturing sector – and housing. Flash estimates of manufacturing business surveys from various countries will be published next week, with Chinese data likely to show some improvement in sentiment. Meanwhile, Greece will again be in the spotlight after the weekend’s parliamentary elections. Whoever is elected will have to oversee the austerity measures demanded by Greece’s creditors as part of the bailout deal.

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## I. Recent Data and Events

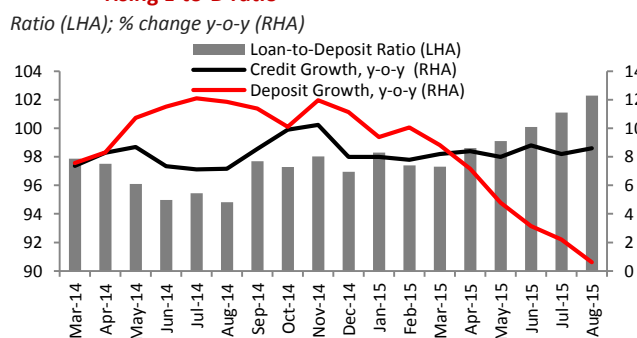
### A. MENA Economies

#### UAE: Banking sector liquidity tightens further in August

Banking sector liquidity tightened further in August as deposits fell m-o-m for the third consecutive month and credit growth remained strong. Total loan growth accelerated to 8.6% y-o-y (0.9% m-o-m) in August, from 8.2% y-o-y (0.3% m-o-m) in July. Both government and private sector credit growth accelerated, by a respective 14.7% y-o-y and 6.3% y-o-y. Total deposits fell -0.3% m-o-m in August, having dropped -0.6% m-o-m in July. This led deposit growth to moderate to just 0.6% y-o-y in August, from 11.1% y-o-y in December 2014. Total bank deposits were up AED 9.5 billion in 8M2015, compared with an AED143.1 billion increase in 8M2014. The loan-to-deposit ratio increased to 102.3%, from 101.1% in July. The tightening banking sector liquidity is being reflected in rising interbank rates.

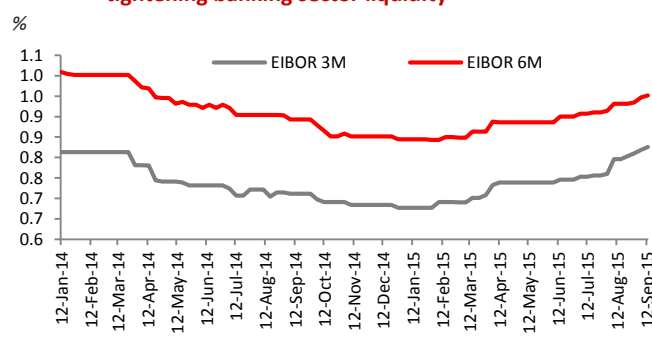
*Deposit growth slows to just 0.6% y-o-y in August*

**Fig. 1. UAE: Tightening banking sector liquidity reflected in rising L-to-D ratio**



Source: Central Bank of the UAE

**Fig. 2. UAE: Interbank rates continue to rise on back of tightening banking sector liquidity**



Source: Bloomberg

#### Kuwait: May issue domestic debt to help fund fiscal deficit

Kuwait plans to issue KWD denominated bonds by the end of 2015 to help cover the expected budget deficit, according to Finance Minister Anas Al Saleh. Kuwait may also sell USD denominated bonds if deemed necessary. No indications of the amount or timing have been given. We believe that Kuwait is in one of the best positions among the GCC countries to cover its fiscal deficit, having enjoyed strong fiscal surpluses and a buildup in FX reserves for some years. Kuwait has recently been seeing a pickup (albeit gradual) in much needed investment spending after years of delay, which should help to bolster the economy. However, this has not caused credit growth to accelerate; rather, it decelerated to 5.2% y-o-y in July, from 6.2% in December 2014. Banking sector liquidity remains ample due to the weak credit growth; the loan-to-deposit ratio stood at 80.7% in June.

*Credit growth weak despite signs of pickup in investment activity*

#### Saudi Arabia: Issues further SAR20 billion debt

Saudi Arabia returned to the debt market last week with SAR20 billion (USD5.33 billion) issued to banks across three tranches. The maturities and coupons were the same as for

*Maturities and coupons same as in August*

the previous offering in August (also SAR20 billion). The five-year tranche carried a coupon of 1.92%, the seven-year portion of 2.34%, and the 10-year issue of 2.65%. As we have highlighted in previous research, we believe that the bond issuance is aimed at broadening the range of funding sources and slowing the drawdown of FX reserves. Market indications suggest that Saudi Arabia is looking to issue some SAR100 billion before year end, including the SAR40 billion raised thus far. For more details of Saudi Arabia’s bond programme, please see **Global Data Watch 17-21 August 2015**.

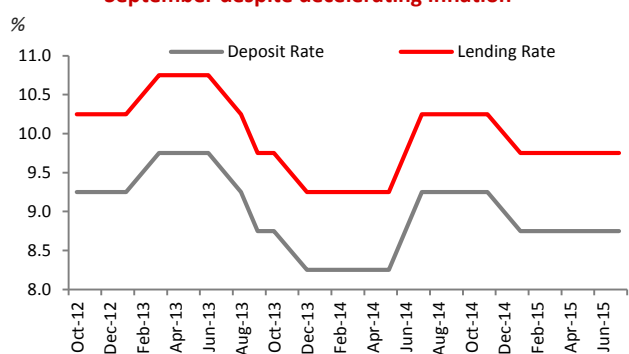
**Egypt: Interest rates kept steady; timing of VAT introduction critical for next move**

The CBE kept interest rates unchanged at its September meeting last week, in line with our expectations. The overnight deposit rate remains at 8.75% and the overnight lending rate at 9.75%. The CBE continues to highlight that the rates are currently appropriate given the balance of risks surrounding its inflation and GDP outlooks. We still see interest rates remaining unchanged for the remainder of the year, despite signs of weakening inflation, as the government looks to progress with its fiscal reform programme. Critical will be the introduction of VAT in FY2015-16 (July-June), though no indications have been given regarding timing. A single unified rate of VAT is expected, with a broader base than the current GST. The Ministry of Finance estimates that the introduction of VAT could add 2.5-3 pp to headline inflation. We believe that the central bank is also likely to look to gauge the impact of the expected US rate hike on capital flows to Egypt (and wider emerging markets).

*Egypt could look to weaken EGP against lower inflation backdrop*

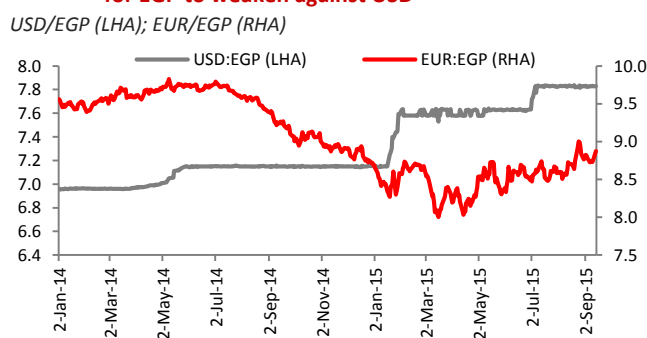
However, we believe that the CBE could look to weaken the EGP against the USD. The strong EGP is impacting export competitiveness and capital inflows. We see capital inflows as being more important to Egypt’s growth outlook than the potential benefits from an interest rate reduction.

**Fig. 3. Egypt: CBE keeps benchmark interest rates flat in September despite decelerating inflation**



Source: Central Bank of Egypt

**Fig. 4. Egypt: Weaker inflation environment provides space for EGP to weaken against USD**



Source: Bloomberg

Egyptian President Abdel Fattah El Sisi swore in a new government on 19 September, a week after the previous cabinet resigned. Sixteen replacements were made to the 33 member cabinet. The main economic posts were unchanged, including the finance and investment ministers. This was in line with our expectation that there would be no change in policy. The interior, justice, and defence ministers also kept their posts.

*Key economic ministerial posts unchanged*

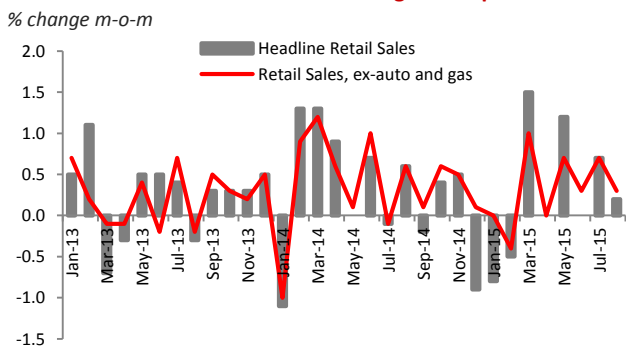
## B. G4 Economies

### US: Retail spending solid, inflation moderates

US retail sales were solid in August despite the global market volatility. The data point to robust private consumption activity in 3Q, with this item remaining the main driver of real GDP growth. Headline retail sales rose 0.2% m-o-m in August, with the July reading being upwardly revised to 0.7% m-o-m (from 0.6% earlier). The monthly moderation in retail sales growth in August was due largely to lower fuel prices; there was a -1.8% m-o-m fall in gas station receipts on the back of the lower gasoline prices. However, most other areas saw sales increase, with 10 of the 13 major retail categories seeing positive growth in August. Core control sales, which excludes volatile components and feeds into the GDP calculation, rose 0.4% m-o-m in August, beating the consensus expectation of 0.3% growth.

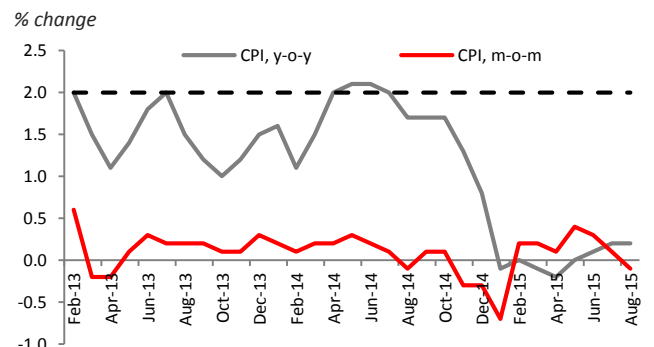
*Retail spending continues to point to healthy private spending in 3Q*

**Fig. 5. US: Retail sales remain solid in August, though growth decelerates on back of lower gasoline prices**



Source: Bloomberg

**Fig. 6. US: Consumer inflation steady y-o-y, but contracts m-o-m**



Source: Bloomberg

**Consumer inflation:** This remained benign in August, at just 0.2% y-o-y, in line with the consensus and steady versus July. Core inflation also remained stable in August at 1.8% y-o-y. The headline CPI fell -0.1% m-o-m, dragged lower by a -2% m-o-m decline in energy prices. The Fed's comments following its September meeting indicate that some pickup would be required in inflationary expectations in order for rates to be raised. Commodity price developments will thus be critical. The fading base effect in energy prices should provide some support to headline inflation from the end of 2015.

*Inflation (y-o-y) remains steady in August*

### Japan: Keeps monetary policy on hold

The BoJ kept its monetary policy unchanged at its September meeting, in line with expectations; this included its annual asset purchase of JPY80 trillion. The BoJ retained its overall expectation of continuing moderate economic recovery. However, it was less upbeat on the back of slowing emerging market demand, and reduced its expectations for export and output growth. We continue to view the BoJ's overall message as optimistic. This could delay the introduction of further monetary stimulus, with the bank still looking for recovery in 3Q. Meanwhile, we expect pressure to increase on the government to create a fiscal stimulus package to boost growth in 2H2015. The August

*BoJ's assessment of economy still looks optimistic – trade data point to downside growth risks*

trade data surprised moderately to the downside, suggesting a risk of lower than expected 3Q growth. Both export and import figures fell short of market expectations. August exports rose 3.1% y-o-y, versus market expectations of 4.3% and July's 7.6% increase. The economic slowdown in emerging market (mainly Chinese) demand was largely behind the weaker export growth. Exports to Asia fell -1.1% y-o-y, with a -4.6% decline in exports to China. However, exports to the US rose a solid 11.1% y-o-y, driven by transportation equipment.

### UK: Inflation returns to 0% growth in August, led by oil price

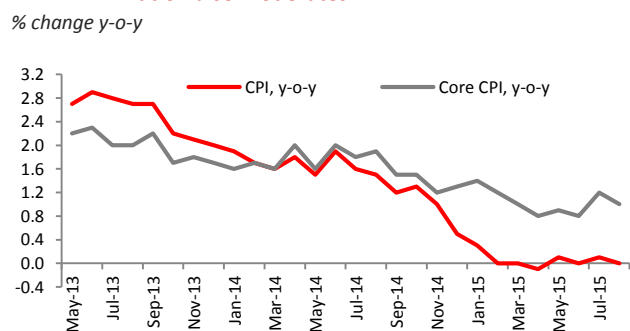
CPI inflation decelerated to 0% y-o-y in August (in line with the consensus), down from 0.1% y-o-y in July. Core inflation also moderated, to 1% y-o-y from 1.2% y-o-y in July. The main factor behind the softening in headline inflation was August's oil price decrease, especially at the end of the month. Meanwhile, core inflation decelerated on the back of falling clothing (following strong growth in July) and transport (oil related) costs. We expect headline inflation to remain around 0% during the coming months, before starting to increase gradually around year end. This rise is expected on the back of a fading base effect in energy prices, as well as a slight pickup in services as the labour market tightens.

*Core inflation shows no buildup of price pressure*

The BOE continues to emphasise wage growth as the key driver of domestic inflationary pressure. The labour data released last week were strong, following recent softening in UK data. Headline earnings growth came in higher than the market had expected at 2.9% y-o-y in July, versus 2.6% in June and the consensus of 2.5%. The rise was driven by the finance, construction, and hospitality sectors. Excluding bonuses, wages also grew at 2.9% y-o-y, their fastest pace in more than six years. The jobless rate fell to 5.5%, its lowest level since 2008. Our expectation of a February 2016 interest rate hike is based largely on the tightening in the labour market.

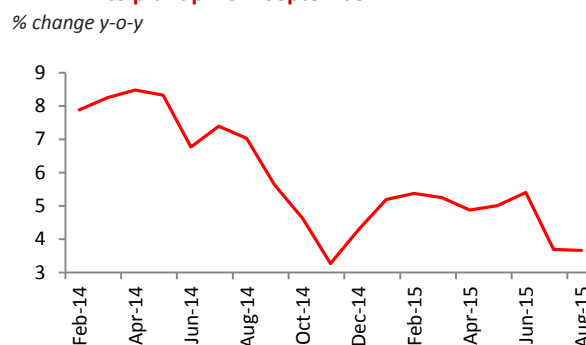
*July data point to labour market tightening*

**Fig. 7. UK: Consumer inflation returns to 0% in August, core inflation also moderates**



Source: Bloomberg

**Fig. 8. India: Consumer inflation broadly steady in August, set to pick up from September**



Source: Bloomberg

## C. Emerging market economies

### India: Inflation steady at 3.7% y-o-y (supported by favourable base)

India's consumer inflation printed at 3.7% y-o-y in August (versus the 3.6% consensus), while the July number was revised down to 3.7% (from 3.8% previously). Core inflation (ex-food and fuel) remained soft at 4.9% y-o-y (unchanged from July). The steady inflation in August (rounded) was due largely to food price stabilisation. The latest data

*Food price inflation stable in August*

continued to point to contained headline and core inflation, albeit supported by the favourable base effect, which the RBI will likely “look through”.

Headline Inflation is forecast to pick up in September with the removal of the favourable base effect and indications of upward pressure on food prices on the back of the weak recent monsoon rains. Nevertheless, consumer inflation is expected to remain below the RBI's 6% target for January 2016 due to lower commodity prices. We expect a further 25 bps interest rate cut in 1Q2016. However, we believe that the RBI could move earlier if food prices remain in check and there is greater transmission of the earlier rate cuts. The RBI may well wait until the September headline inflation data are released to gauge the magnitude of the expected pickup in inflation.

*We see RBI cutting rates by another 25 bps in 1Q2016*

### **China: Utilises unused local funds to support project spending**

China's central government has seized around CNY1 trillion from local governments which failed to spend their budget allocations, Reuters reports. The underspending is seen as being linked to reluctance by officials to progress on big ticket projects while authorities are cracking down on corruption. This is delaying investment plans, resulting in a strained relationship between the local and central governments. Meanwhile, fiscal data for August already show a sharp rise in total government spending, reflecting attempts to boost economic activity. Total government expenditure growth accelerated to 26% y-o-y in August, its largest rise since April 2015 (33% y-o-y). For 8M2015, fiscal expenditure rose 14.8% y-o-y to over CNY10 trillion. China is now using all available policy tools, including monetary and fiscal, to support growth.

*Beijing increasing fiscal stimulus to boost economic activity*

## II. Economic Calendar

**Fig. 9. Upcoming Events and Data Releases**

Time*	Country	Data point	Period	Prior	Consensus
<b>Expected this week</b>					
	Kuwait	Crude Oil Exports, million bpd	Jul	1.895	
	Saudi Arabia	Crude Oil Exports, million bpd	Jul	7.365	
	UAE	CPI, y-o-y	Aug	4.4%	--
<b>Monday, 21 Sept</b>					
3:01	UK	Rightmove House Prices, m-o-m	Sep	-0.8%	--
3:01	UK	Rightmove House Prices, y-o-y	Sep	6.4%	--
10:00	Germany	PPI, m-o-m	Aug	0%	-0.3%
10:00	Germany	PPI, y-o-y	Aug	-1.3%	-1.6%
18:00	US	Existing Home Sales	Aug	5.6M	5.5M
18:00	US	Existing Home Sales, m-o-m	Aug	2%	-1.6%
21:00	US	Fed's Lockhart Speaks on Economy in Atlanta			
<b>Tuesday, 22 Sept</b>					
11:30	Eurozone	ECB Supervisory Chair Daniele Nouy Speaks in Paris			
18:00	Eurozone	Consumer Confidence	Sep A	-6.9	-7
18:00	US	Richmond Fed Manufact. Index	Sep	0	2
<b>Wednesday, 23 Sept</b>					
2:30	US	Fed's Lockhart Speaks on Economy in Alabama			
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Sep P	52.3	52
12:00	Eurozone	Markit Eurozone Services PMI	Sep P	54.4	54.2
12:00	Eurozone	Markit Eurozone Composite PMI	Sep P	54.3	54
15:00	US	MBA Mortgage Applications	18-Sep	-7%	--
17:00	Eurozone	ECB President Mario Draghi Quarterly Hearing in Brussels			
17:45	US	Markit US Manufacturing PMI	Sep P	53	52.8
20:30	US	Fed's Lockhart Speaks on Economy in Columbus, Georgia			
<b>Thursday, 24 Sept</b>					
5:35	Japan	Nikkei Japan PMI Mfg	Sep P	51.7	51.2
8:30	Japan	All Industry Activity Index, m-o-m	Jul	0.3%	0%
10:00	Germany	GfK Consumer Confidence	Oct	9.9	9.8
12:00	Germany	IFO Business Climate	Sep	108.3	107.9
12:00	Germany	IFO Current Assessment	Sep	114.8	114.7
12:00	Germany	IFO Expectations	Sep	102.2	101.4
16:30	US	Initial Jobless Claims	19-Sep	264K	275K
16:30	US	Durable Goods Orders, m-o-m	Aug	2.2%	-2.3%
16:30	US	Durables, ex-transportation, m-o-m	Aug	0.4%	0.1%
16:30	US	Cap Goods Orders, Non-def ex-air, m-o-m	Aug	2.1%	-0.2
18:00	US	New Home Sales	Aug	507K	515K
18:00	US	New Home Sales, m-o-m	Aug	5.4%	1.6%
<b>Friday, 25 Sept</b>					
1:00	US	Fed Chair Janet Yellen to Deliver Lecture at Amherst			
3:30	Japan	Natl CPI, y-o-y	Aug	0.2%	0.1%
3:30	Japan	Natl CPI, ex-food and Energy, y-o-y	Aug	0.6%	0.7%
16:30	US	GDP Annualized, q-o-q	2Q T	3.7%	3.7%
16:30	US	Personal Consumption	2Q T	3.1%	3.2%
17:15	US	Fed's Bullard to Speak on Monetary Policy in St. Louis			
17:45	US	Markit US Composite PMI	Sep P	55.7	--
17:45	US	Markit US Services PMI	Sep P	56.1	55.6
18:00	US	U. of Mich. Sentiment	Sep F	85.7	87

\* UAE time

Source: Bloomberg

Fig. 10. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
<b>GCC Data</b>						
	Oman	CPI, y-o-y	Aug	0.5%	--	0.1%
	Qatar	CPI, y-o-y	Aug	1.6%	--	1.2%
<b>Monday, 14 Sept</b>						
13:00	Eurozone	Industrial Production SA, m-o-m	Jul	-0.3%	0.3%	0.6%
13:00	Eurozone	Industrial Production, y-o-y	Jul	1.5%	0.7%	1.9%
16:00	India	CPI, y-o-y	Aug	3.7%	3.6%	3.7%
<b>Tuesday, 15 Sept</b>						
07:00	Japan	Bank of Japan Policy Statement/Kuroda Press Conference				
	Japan	BOJ Annual Rise in Monetary Base	15-Sep	¥80T	¥80T	¥80T
12:30	UK	CPI, m-o-m	Aug	-0.2%	0.2%	0.2%
12:30	UK	CPI, y-o-y	Aug	0.1%	0%	0%
12:30	UK	CPI Core, y-o-y	Aug	1.2%	1%	1%
13:00	Germany	ZEW Survey Current Situation	Sep	65.7	64	67.5
13:00	Germany	ZEW Survey Expectations	Sep	25	18.3	12.1
16:30	US	Retail Sales Advance, m-o-m	Aug	0.7%	0.3%	0.2%
16:30	US	Retail Sales, ex-Auto and Gas, m-o-m	Aug	0.7%	0.4%	0.3%
16:30	US	Retail Sales Control Group, m-o-m	Aug	0.6%	0.3%	0.4%
16:30	US	Empire Manufacturing	Sep	-14.9	-0.5	-14.7
17:15	US	Industrial Production, m-o-m	Aug	0.9%	-0.2%	-0.4%
<b>Wednesday, 16 Sept</b>						
12:30	UK	Jobless Claims Change	Aug	-6.8K	-5K	1.2K
13:00	Eurozone	CPI, m-o-m	Aug	-0.6%	0%	0%
13:00	Eurozone	CPI, y-o-y	Aug F	0.2%	0.2%	0.1%
13:00	Eurozone	CPI Core, y-o-y	Aug F	1%	1%	1%
15:00	US	MBA Mortgage Applications	11-Sep	-6.2%	--	-7%
16:30	US	CPI, m-o-m	Aug	0.1%	-0.1%	-0.1%
16:30	US	CPI, ex-Food and Energy, m-o-m	Aug	0.1%	0.1%	0.1%
16:30	US	CPI, y-o-y	Aug	0.2%	0.2%	0.2%
16:30	US	CPI, ex-Food and Energy, y-o-y	Aug	1.8%	1.9%	1.8%
16:30	US	Real Avg Weekly Earnings, y-o-y YoY	Aug	2%	--	2.3%
<b>Thursday, 17 Sept</b>						
	Egypt	Deposit Rate, %	17-Sep	8.75%	--	8.75%
	Egypt	Lending Rate, %	17-Sep	9.75%	--	9.75%
3:50	Japan	Trade Balance	Aug	-¥268.4B	-¥540B	-¥569.7B
3:50	Japan	Exports, y-o-y	Aug	7.6%	4.3%	3.1%
3:50	Japan	Imports, y-o-y	Aug	-3.2%	-2.5%	-3.1%
16:30	US	Housing Starts	Aug	1161K	1160K	1126K
16:30	US	Initial Jobless Claims	12-Sep	275K	275K	264K
22:00	US	FOMC Rate Decision (Upper Bound)	17-Sep	0.25%	0.5%	0.25%
<b>Friday, 18 Sept</b>						
3:50	Japan	BOJ Minutes for Aug. 6-7 Meeting				

\* UAE Time

Source: Bloomberg



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