

## The Week Ahead: Fed on hold, while BoJ expected to ease further

### ► US: FOMC guidance to be closely watched for changes

In an important events and data week, the Fed's meeting (26-27 April) will take centre stage. With monetary policy expected to remain steady, the tone and guidance of the FOMC's statement will be of particular interest. There are no new forecasts or a press conference in conjunction with this meeting. Markets will look to gauge if there are any indications that the FOMC is seriously considering a June rate hike. A strong signal, such as ahead of the December 2015 meeting, is not expected. Indeed, the Fed is likely to continue to adopt a cautious tone, highlighting risks to the domestic and global economy. The statement will likely highlight some recent moderation in economic expansion. However, an important sign would be if the Fed's statement is less dovish (than in March) and there is a downgrade in the risk assessment in particular regarding global financial markets, a key concern of the Fed in March. We continue to expect two 25 bps hikes in 2016, in June and December, though the June rate hike will be a close call. This will depend on global market stability, alongside some indications of a pickup in inflation and wider economic activity.

### ► Japan: Further easing pressure amid strong JPY, falling inflation

The BoJ remains under significant pressure to loosen monetary policy further at its 27-28 April meeting, given additional signs of a loss in economic momentum, dampened inflation expectations, and to counter JPY strength. The recent Kumamoto earthquake adds support for the BoJ to ease further. An expansion in the asset purchase programme of around JPY10 trillion is most likely, largely centred on ETFs. Meanwhile, we cannot rule out a cut in interest rates, despite the poor sentiment around negative interest rates. The BoJ made some amendments to the interest rate framework in March, which could lead the way to additional cuts. We believe that any rate cuts would likely target funding for lending programmes, currently at 0% (the introduction of negative interest rates focused on excess financial institution reserves at the central bank). Given the weak domestic and external fundamentals, we remain sceptical that further easing would boost credit growth or raise inflation close to the 2% target. So far, there has been no pick-up in bank lending, despite a substantial rise in the monetary base due to the QE programme. Structural reforms and fiscal support are required, in our view.

### ► G4: First 1Q GDP estimates for US, UK and Eurozone

The first 1Q GDP prints out of the US, UK and Eurozone are expected to show a weak growth backdrop. In the US, consensus expects GDP growth to moderate to 0.6% q-o-q saar in 1Q, down from 1.4% in 4Q2015. Private consumption expansion likely slowed, whilst business fixed investment likely contracted. The UK is also forecast to see a deceleration in real GDP growth to 0.4% q-o-q in 1Q, from 0.6% in 4Q. Meanwhile, Eurozone growth is expected to be broadly stable. There is some moderate upside risk, given signs of a pickup in private and government spending.

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## I. Recent Events and Data

### A. MENA Economies

#### GCC: Saudi Arabia increases loan to USD10 billion; Abu Dhabi looking to issue debt

Saudi Arabia has increased the size of its first international sovereign loan in 15 years on the back of strong international demand. The size of the syndicated loan was increased to USD10 billion, from the USD6-8 billion that the country was initially looking to borrow. The pricing is competitive, reflecting the strong demand, at 120 bps above LIBOR, Bloomberg reports. The loan will have a tenor of five years and should be signed off before the end of April. There is strong demand from the US, Europe, Japan, and China, despite recent downgrades by two rating agencies. We believe that the low interest rate, ample liquidity, and rise in the oil price from its January lows are supporting demand. Saudi Arabia's low debt is also likely a factor. We believe that the syndicated loan is also aimed at testing demand for a sovereign bond issuance by Saudi Arabia. In the GCC, foreign debt issuances and syndicated borrowing will be important in reducing the drawdown of FX reserves and domestic tightening in the banking sector.

*Saudi Arabia's loan likely aimed partly at testing demand for sovereign bond*

Meanwhile, Abu Dhabi's government is conducting a roadshow for an external bond issuance. This would be the emirate's first bond issuance since 2009. Demand for the bond should be high given Abu Dhabi's strong fundamentals, including its low debt and strong net foreign asset position. Abu Dhabi's last bond was a USD3 billion issuance in April 2009, split between tranches of five and 10 years. We expect further GCC sovereign bond issuances in 2016 and over the medium term.

*Strong GCC sovereign bond issuance expected in medium term*

### B. G4 Economies

#### US: Increased positivity on economy, though adjustment still gradual

Fed speakers provided an improved outlook on the US economy last week, which boosted sentiment. New York Fed President William Dudley highlighted that US economic conditions were "mostly favourable" and that "economic conditions have finally warranted the start of US monetary policy normalisation". Moreover, he reiterated that he was confident that inflation would rise to its 2% target level over the next few years as labour market conditions tighten further and the transitory factors that have been holding inflation down dissipate. Boston Fed President Eric Rosengren indicated that he expects the US economy to pick up in 2Q2016, alongside ongoing jobs growth. Rosengren noted that "the very shallow path of rate increases implied by financial futures market pricing would likely result in an overheating that necessitates the Fed eventually raising interest rates more quickly than is desirable".

*Fed members Dudley and Rosengren sound more hawkish despite recent data being softer*

Dudley and Rosengren's comments were more hawkish than recent communications from the Fed. Nevertheless, Dudley highlighted that monetary policy adjustments would be gradual and cautious, as the US continues to face significant uncertainties and headwinds. We continue to see the Fed raising rates twice in 2016, in the middle and at the end of the year, by 25 bps each time. However, we believe that this would require some signs of economic activity picking up q-o-q in 2Q. March US data have been disappointing, including inflation and retail sales.

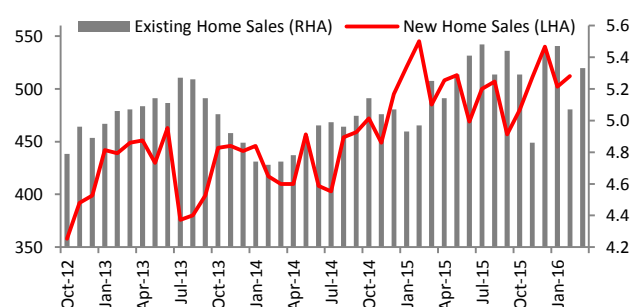
*Gradual approach to monetary policy normalisation*

**Housing data:** The March numbers were positive overall, showing the housing sector continuing to recover. Existing home sales growth rebounded to 5.1% m-o-m, above the consensus expectation of 3.9% and February's -7.3% contraction. The rise in sales was supported by improved supply, especially in the midrange of the market. The data pointed to a strong start to the spring selling season, likely supported by low mortgage rates and ongoing labour market improvements. Housing starts for March were weak, falling -8.8% m-o-m versus the consensus expectation of -1.1%. However, this followed strong growth in February. Overall, the housing sector remains a bright spot in the US, and should continue to drive residential investment.

*Strong existing home sales in March point to solid start to spring selling season*

**Fig. 1. US: Existing home sales rebound strongly in March after falling in February**

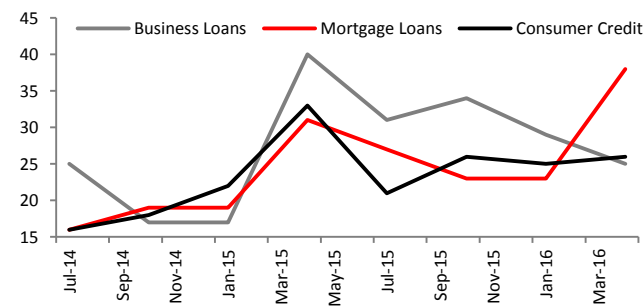
'000 units (LHA); million units (RHA)



Source: Bloomberg

**Fig. 2. Eurozone: ECB bank lending survey shows consumer credit and mortgage demand rising**

Net % of favourable responses



Source: Bloomberg

## Eurozone: ECB - no change in policy stance; notes some improvement in credit demand

The April ECB meeting was a non-event compared to the March meeting, at which important monetary easing measures were introduced: a deposit rate cut, and extension of asset purchase limits and their duration. The emphasis this time was on announcement of details of the Corporate Sector Purchase Programme, CSPP (announced in March and to be introduced in June) and a defence of its monetary policy actions. Regarding corporate bond purchases, the ECB will buy investment grade EUR-denominated bonds issued by non-financial companies in the Eurozone (including foreign subsidiaries). However, the ECB will retain flexibility on the composition and monthly purchase volume of such bonds. Meanwhile, defending ECB policy, President Mario Draghi quoted the central bank's survey of Eurozone lenders who overwhelmingly responded that proceeds of funds from the asset purchase programme were being used to reduce the price and terms of credit to borrowers, mainly in the household sector.

*Monetary policy steady – as widely expected*

The outlook for growth and inflation was broadly unchanged since the last meeting, with Draghi hinting that headline inflation could remain negative in the near term before rebounding towards year-end. Looking ahead, ECB meetings until July are likely to see no change in monetary stance, though the political debate around the appropriateness of its QE policies, notably by German politicians, might force Draghi to defend the central bank's independence and provide further insights into how monetary easing is helping the economy. In 2H2016, we might once again see the focus return to the question of the extension of asset purchases beyond March 2017.

*No change in policy expected before 2H2016*

**ECB 1Q lending survey:** This suggested that the ECB's liquidity injection via the TLTRO programme is translating slowly into lending recovery, at least in the mortgage segment (see Fig. 2). The broad picture was of household credit recovering steadily, with net loan demand for mortgages up 13 ppt q-o-q (to 38% favourable, from 25%). However, borrowing sentiment in the industrial sector remained hamstrung, due mainly to a sharp fall in companies' long-term fixed investment plans. Sentiment was down 4 ppt q-o-q (to 25% favourable, from 29%). We believe that this reflects the adverse impact of financial market volatility and a cooling of the economic outlook for China and other EMs since the beginning of the year. Looking ahead, improvements in the supply of funds and easing credit standards are likely to support lending in the Eurozone, particularly in the household sector, which has low leverage. A recovery in industrial sector lending still appears less imminent amidst the prevailing global demand weakness and Brexit concerns.

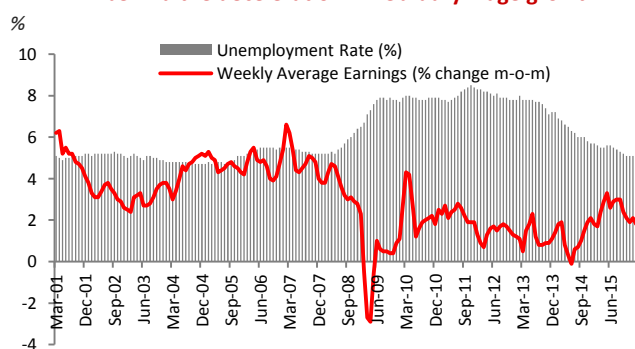
*ECB 1Q lending survey largely positive, though weaker global demand weighs on recovery*

## UK: Weak retail and employment data point to decelerating economic momentum in 1H

UK labour data showed employment creation decelerating sharply and jobless claims picking up in February. The volatility in the series means that it is too early to draw medium-term conclusions. With unemployment in the UK at 5.1%, its lowest level since 2005, some levelling off in job creation was expected; the figure was a mere 20K in the three months to February (having risen by 200K+ in 4Q15). Although jobless claims rose for the first time since October 2012 (to 6.7K), we believe that this may well prove to have been a one-off, as there was no corresponding increase in the participation rate. Weekly earnings growth also moderated in February, to 1.8% 3m/y-o-y (versus 2.1% 3m/y-o-y previously), though this was due mainly to a drop in annual financial sector bonuses and less generous public sector salaries. Adjusted for these effects, private sector wages actually rose 2.5% 3m/y-o-y (2.4% 3m/y-o-y previously).

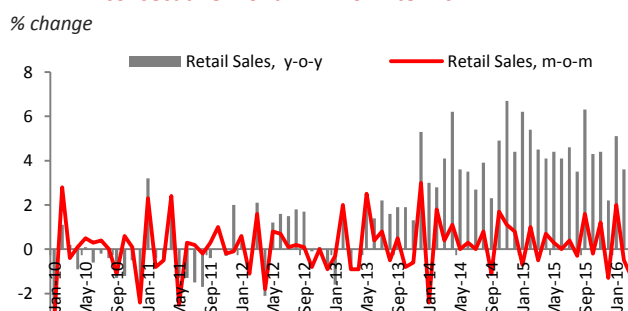
*Further data needed to gauge degree of labour market weakness fully*

**Fig. 3. UK: Weaker pay rises in the financial and public sector behind the deceleration in February wage growth**



Source: Bloomberg

**Fig. 4. UK: Retail sales disappoint, contracting for the second consecutive month in m-o-m terms**



Source: Bloomberg

**Retail sales:** Retail sales (ex-auto and fuel) fell -1.6% m-o-m in March, more sharply than the consensus expectation of -0.1%. This was the second consecutive monthly decline. A number of one-offs likely contributed to the greater contraction, including Easter falling earlier this year and poor weather. In headline terms, lower monthly fuel prices depressed the data, though this pointed to a weak inflation backdrop. Nevertheless, the overall data suggest that household spending growth softened in 1Q.

*One-offs likely exacerbated fall in retail sales in March*

We believe that Brexit uncertainty is starting to feed into UK activity and data, including consumer and corporate sentiment. Earlier in April, we pushed out our forecast for the BoE's first interest rate hike to 1Q2017. Wage inflation needs to be stronger to support core inflation, in our view, though oil's base effect should support headline inflation in 2H2016.

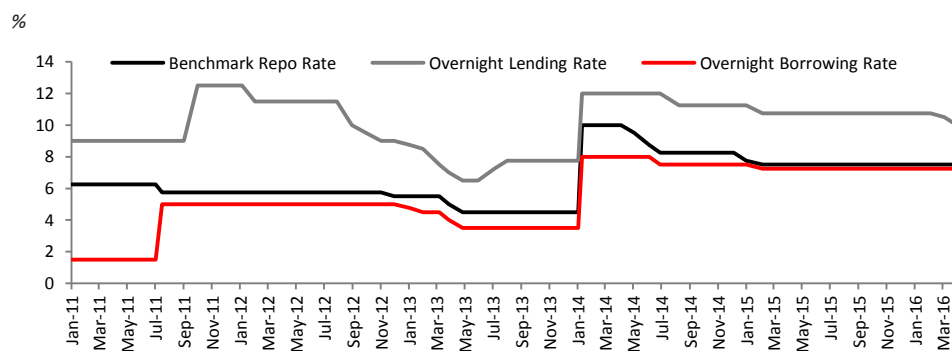
## C. EM Economies

### Turkey: Cuts key policy rates to ease banking liquidity; policy outlook remains cautious

The CBRT cut its benchmark overnight lending rate last week by 50 bps to 10%, in line with our expectation. Other key benchmark rates were held steady, including the repo rate at 7.5%. We believe that the CBRT is looking to simplify its monetary policy toolkit, improve policy transmission, and narrow the interest rate corridor (the difference between the overnight lending rate and the benchmark repo rate). We believe that increasing TRY stability, a more gradual pace of monetary tightening by the US Fed, and a decline in global financial volatility allowed the CBRT opportunistically to lower the cost of funding for its banks via this rate cut. At present, 40% of banking liquidity is provided at the overnight lending rate, and the 50 bps cut is likely to lower the weighted average overnight funding cost for banks by 30-50 bps (from its current 9%).

*Overnight lending rate cut by 50 bps, following 25 bps cut in March*

**Fig. 5. Turkey: CBRT lowers benchmark overnight lending rate, but keeps others steady to narrow interest rate corridor**



Source: Bloomberg

That said, the bank noted in its post-meeting statement that the improvement in core inflation had “only been limited” and “justified a tight monetary stance”. With inflation in February at 7.5% y-o-y, above the 7% y-o-y upper limit of the bank's target range (5% +/-2%), we believe that room to lower the benchmark repo rate further is limited. Looking ahead, the minutes of last week's meeting and the Q2 inflation report due on Tuesday 26 April will provide a clearer sense of the underlying assumptions behind the bank's inflation and growth outlook.

*Inflation developments critical for CBRT's next moves*

## II. Economic Calendar

Fig. 6. Upcoming events and data releases

Time*	Country	Data point	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	M2 Money Supply, m-o-m	Mar	0%	--
<b>Monday 25 Apr</b>					
12:00	Germany	IFO Business Climate	Apr	106.7	107.1
12:00	Germany	IFO Current Assessment	Apr	113.8	113.8
18:00	US	New Home Sales	Mar	512K	520K
18:00	US	New Home Sales, m-o-m	Mar	2%	1.6%
<b>Tuesday 26 Apr</b>					
16:30	US	Durable Goods Orders, m-o-m	Mar P	-3%	1.9%
16:30	US	Durables, ex-Transportation, m-o-m	Mar P	-1.3%	0.5%
16:30	US	Cap Goods Orders, Nondef ex-Air, m-o-m	Mar P	-2.5%	0.7%
17:00	US	S&P/CaseShiller 20-City Index, NSA	Feb	182.56	182.83
17:45	US	Markit US Services PMI	Apr P	51.3	52
18:00	US	Consumer Confidence Index	Apr	96.2	96
<b>Wednesday 27 Apr</b>					
05:30	China	Industrial Profits, y-o-y	Mar	-4.7%	--
12:00	Eurozone	M3 Money Supply, y-o-y	Mar	5%	5%
12:30	UK	GDP, q-o-q	1Q A	0.6%	0.4%
12:30	UK	GDP, y-o-y	1Q A	2.1%	2%
18:00	US	Pending Home Sales, m-o-m	Mar	3.5%	0.5%
22:00	US	FOMC Rate Decision (Upper Bound)	27-Apr	0.5%	0.5%
22:00	US	FOMC Rate Decision (Lower Bound)	27-Apr	0.25%	0.25%
<b>Thursday 28 Apr</b>					
	Japan	BOJ Annual Rise in Monetary Base	28-Apr	¥80T	¥80T
	Japan	BOJ Basic Balance Rate	28-Apr	0.1%	--
	Japan	BOJ Macro Add-On Balance Rate	28-Apr	0%	--
	Japan	BOJ Policy Rate	28-Apr	-0.1%	--
03:30	Japan	Natl CPI, y-o-y	Mar	0.3%	0%
03:30	Japan	Natl CPI Ex Food, Energy, y-o-y	Mar	0.8%	0.8%
03:50	Japan	Retail Sales, m-o-m	Mar	-2.3%	0.5%
03:50	Japan	Industrial Production, m-o-m	Mar P	-5.2%	2.8%
16:30	US	Initial Jobless Claims	23-Apr	247K	260K
16:30	US	GDP, Annualised q-o-q	1Q A	1.4%	0.6%
16:30	US	Personal Consumption	1Q A	2.4%	1.7%
16:30	US	Core PCE, q-o-q	1Q A	1.3%	1.9%
	Egypt	Deposit Rate	28-Apr	10.75%	--
	Egypt	Lending Rate	28-Apr	11.75%	--
<b>Friday 29 Apr</b>					
13:00	Eurozone	Unemployment Rate	Mar	10.3%	10.3%
13:00	Eurozone	CPI Estimate, y-o-y	Apr	--	--
13:00	Eurozone	CPI Core, y-o-y	Apr A	1%	0.9%
13:00	Eurozone	GDP SA, q-o-q	1Q A	0.3%	0.4%
13:00	Eurozone	GDP SA, y-o-y	1Q A	1.6%	1.4%
16:30	US	Personal Income	Mar	0.2%	0.3%
16:30	US	Personal Spending	Mar	0.1%	0.2%
16:30	US	PCE Deflator, m-o-m	Mar	-0.1%	0.1%
16:30	US	PCE Deflator, y-o-y	Mar	1%	0.8%
16:30	US	PCE Core, m-o-m	Mar	0.1%	0.1%
16:30	US	PCE Core, y-o-y	Mar	1.7%	1.5%

\* UAE time

Source: Bloomberg

Fig. 7. Last week's data

Time*	Country	Data point	Period	Prior	Consensus	Actual
<b>GCC Data</b>						
	Oman	CPI, y-o-y	Mar	0.3%	--	0.1%
<b>Monday 18 Apr</b>						
	Egypt	Trade Balance	Feb	-2633M	--	-3018M
	Kuwait	February Crude Oil Exports Fall to 2.16 million b/d	Feb			
	Saudi Arabia	February Crude Oil Exports Fall to 7.55 million b/d	Feb			
3:01	UK	Rightmove House Prices, m-o-m	Apr	1.3%	--	1.3%
3:01	UK	Rightmove House Prices, y-o-y	Apr	7.6%	--	7.3%
10:30	India	Wholesale Prices, y-o-y	Mar	-0.9%	-0.7%	-0.9%
<b>Tuesday 19 Apr</b>						
12:00	Eurozone	ECB Bank Lending Survey				
13:00	Germany	ZEW Survey Current Situation	Apr	50.7	50.8	47.7
13:00	Germany	ZEW Survey Expectations	Apr	4.3	8	11.2
13:00	Eurozone	ZEW Survey Expectations	Apr	10.6	--	21.5
16:30	US	Housing Starts	Mar	1194K	1166K	1089K
16:30	US	Housing Starts, m-o-m	Mar	6.9%	-1.1%	-8.8%
16:30	US	Building Permits	Mar	1177K	1200K	1086K
16:30	US	Building Permits, m-o-m	Mar	-2.2%	2%	-7.7%
<b>Wednesday 20 Apr</b>						
3:50	Japan	Trade Balance	Mar	¥242.2B	¥834.6B	¥755B
3:50	Japan	Trade Balance Adjusted	Mar	¥150.4B	¥450B	¥276.5B
3:50	Japan	Exports, y-o-y	Mar	-4%	-7.0%	-6.80%
3:50	Japan	Imports, y-o-y	Mar	-14.2%	-16.6%	-14.9%
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Feb	2.1%	2.3%	1.8%
12:30	UK	Weekly Earnings, ex Bonus, 3M/y-o-y	Feb	2.2%	2.1%	2.2%
12:30	UK	ILO Unemployment Rate, 3Mths	Feb	5.1%	5.1%	5.1%
15:00	Turkey	Overnight lending rate	20-Apr	10.50%	10.00%	10.00%
15:00	US	MBA Mortgage Applications	15-Apr	10%	--	1.3%
18:00	US	Existing Home Sales	Mar	5.07M	5.28M	5.33M
18:00	US	Existing Home Sales, m-o-m	Mar	-7.3%	3.9%	5.1%
<b>Thursday 21 Apr</b>						
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Mar	-0.3%	-0.3%	-1.6%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Mar	3.7%	3.8%	1.8%
12:30	UK	Retail Sales, inc Auto Fuel, m-o-m	Mar	-0.5%	-0.1%	-1.3%
12:30	UK	Retail Sales, inc Auto Fuel, y-o-y	Mar	3.6%	4.4%	2.7%
15:45	Eurozone	ECB Main Refinancing Rate	21-Apr	0.00%	0.00%	0.00%
15:45	Eurozone	ECB Deposit Facility Rate	21-Apr	-0.40%	-0.40%	-0.40%
15:45	Eurozone	ECB Marginal Lending Facility	21-Apr	0.25%	0.25%	0.25%
16:30	US	Initial Jobless Claims	16-Apr	253K	265K	247K
18:00	Eurozone	Consumer Confidence	Apr A	-9.7	-9.3	-9.3
18:00	US	Leading Index	Mar	-0.1%	0.4%	0.2%
<b>Friday 22 Apr</b>						
6:00	Japan	Nikkei Japan PMI Mfg	Apr P	49.1	49.5	48.0
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	51.5
12:00	Eurozone	Markit Eurozone Services PMI	Apr P	53.1	53.3	53.2
12:00	Eurozone	Markit Eurozone Composite PMI	Apr P	53.1	53.3	53.0
17:45	US	Markit US Manufacturing PMI	Apr P	51.5	52	50.8

\* UAE time

Source: Bloomberg



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