

## The Week Ahead: Focus on US data and RBI rate decision

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### ► **US: September NFP and personal spending data to be released**

US labour data (2 October) will be the key release in a data-heavy week, and are forecast to show healthy gains. The consensus is for a solid 202K rise in nonfarm payrolls in September, with the unemployment rate remaining at 5.1%. We also expect an upward revision to the August number from the initial 173K reading. Wage growth is forecast to moderate to 0.2% m-o-m, from 0.3% in August. However, annual wage growth is expected to accelerate to 2.4% y-o-y in September (from 2.2% in August), following three months of wage increases (m-o-m). Meanwhile, personal spending growth is estimated to have remained steady at 0.3% m-o-m in August, though without any signs of meaningful price increases (core PCE deflator is expected to have remained weak at 0.1% m-o-m). Finally, risks of a US government shutdown have moderated following the resignation of US House Speaker John Boehner at the end of last week. Markets are expecting a “continuing resolution” to be passed for the temporary extension of funds to the federal government by 30 September (fiscal year end).

### ► **India: RBI to meet, consensus for rate cut**

The RBI will meet this week (29 September), with the consensus being for a 25 bps cut in benchmark rates. This would bring the repo rate to 7% and the reverse repo rate to 6%. Consumer inflation printed at 3.7% y-o-y in August, weaker than the RBI’s projection of 4%. The January 2016 CPI target of 6% looks likely to be undershot, though inflation is expected to pick up from September with the removal of the favourable base effect. Moreover, the previous 75 bps of RBI rate cuts have largely been passed on by commercial banks. This was a key condition for the RBI to cut rates further. However, the RBI could strike a cautious tone, citing monsoon and Fed related risks.

### ► **Asia: China manufacturing data and Japan Tankan survey**

China is to release September manufacturing PMI data on 1 October. The flash estimate for the Caixin manufacturing PMI released last week came in below the consensus, showing a continued contraction in manufacturing activity. Beijing has stepped up efforts to boost investment and ease credit conditions, and the ongoing weakness supports our outlook that the government will implement further near term loosening measures to stabilise growth. Elsewhere, the softening activity in China will likely be reflected in Japan’s quarterly Tankan survey (1 October). We expect the survey to show a moderation in sentiment in both the manufacturing and non-manufacturing sectors, reflecting weakening external demand.

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## I. Recent Data and Events

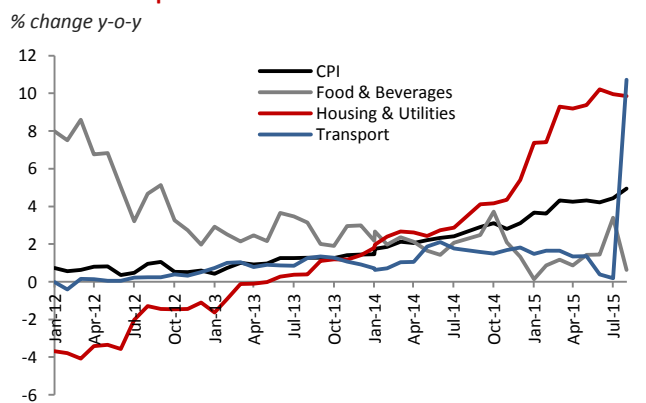
### A. MENA Economies

#### UAE: Inflation accelerates to 4.9% y-o-y in August with fuel reforms

The UAE's headline inflation strengthened to 4.9% y-o-y (0.9% m-o-m) in August, from 4.4% y-o-y (0.3% m-o-m) in July. The acceleration came on the back of the fuel price liberalisation in August, which saw gasoline prices increase by around 23%. While diesel prices were lowered in August, the impact on consumer inflation will likely be muted. Diesel is used mainly in the heavy transportation and logistics sectors, and the effect will depend on corporates passing their fuel cost savings on to consumers. The rise in inflation in August was muted somewhat by lower food & beverage inflation – the segment saw a -0.5% y-o-y contraction, versus 3.4% growth in July. We see the strong July food price inflation as having been linked to Eid, and thus transitory. Moreover, clothing prices continued to contract in August (-3.9% y-o-y) with the strong USD and weak global inflation environment. Fuel prices were reduced in September from their August levels, which we believe will result in inflation decelerating y-o-y. Nevertheless, the UAE continues to experience the strongest consumer price inflation in 2015 among the GCC countries due to its subsidy reforms. We continue to view the reforms as positive, with the benefits to fiscal sustainability outweighing the negative impact on inflation and consumption.

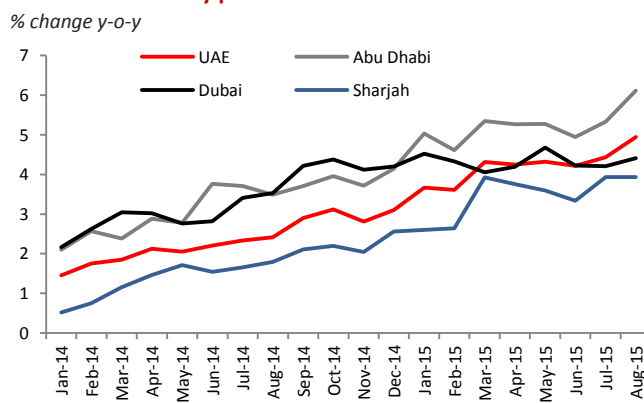
*Transportation costs rise 10.7% y-o-y with fuel reforms*

**Fig. 1. UAE: Liberalisation of fuel prices in August reflected in transportation inflation**



Source: UAE National Bureau of Statistics

**Fig. 2. UAE: Abu Dhabi continues to see strongest inflation with utility price reforms**



Source: UAE National Bureau of Statistics

At the emirate level, Abu Dhabi continued to see stronger inflation than Dubai. Abu Dhabi's headline inflation accelerated to 6.1% y-o-y in August (from 5.4% in July), with the utility reforms (introduced in January) also being reflected in the annual rise. Rental inflation also remained stronger in Abu Dhabi (12.2% y-o-y in August), with the tighter housing market. Meanwhile, in Dubai, housing inflation decelerated for a third consecutive month to 6.7% y-o-y in August. However, the fall in rental prices will likely take some time to filter into the inflation data. The August rise in Dubai's headline inflation was more moderate than in Abu Dhabi, coming in at 4.4% y-o-y versus 4.2% in July.

*Abu Dhabi's inflation accelerates more strongly than Dubai's in August*

## B. G4 Economies

### US: Fed comments point to 2015 interest rate hike

Comments by Fed members last week indicated that the FOMC is looking to raise rates in 2015. We expect the Fed to increase the federal funds target rate (FFTR) by 25 bps in December. Significantly, the tone of Fed Chair Janet Yellen's speech last week was more hawkish than in her post-FOMC press briefing on 17 September. Yellen highlighted that both she and the majority of her FOMC colleagues currently anticipate that it will be appropriate to increase the FFTR in 2015, followed by gradual tightening thereafter. Yellen highlighted that the prospects for the US economy appeared generally solid, though some slack remained in labour markets. This slack, alongside the lower energy prices and USD appreciation, have been keeping inflation below the Fed's target levels. The global uncertainties were downplayed, with Yellen indicating that any headwinds were unlikely to have a significant impact on policy.

*Tone of Yellen's speech more hawkish than in comments following September FOMC meeting*

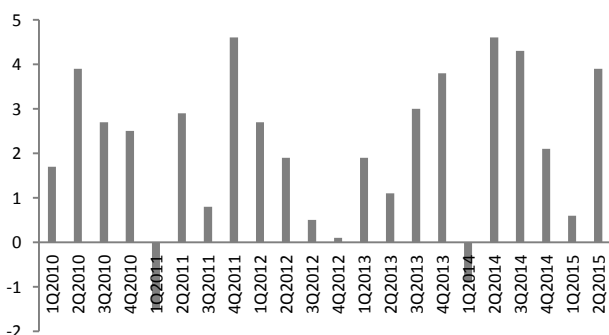
Earlier in the week, Federal Reserve Bank of Atlanta President Dennis Lockhart said that while recent market volatility raised the risks to the US economic and inflation outlooks, he remained confident that the Fed will raise rates this year. Lockhart also mentioned that he believed that worries about the state of the global economy had become exaggerated, and were being given too much weight versus continued growth, healthy consumption, and other US strengths. Meanwhile, St. Louis Federal Reserve President James Bullard said that it was unclear whether policymakers will have sufficient new data by October to support a rate hike, bolstering our expectation of a December liftoff.

*New data likely insufficient to warrant October rate hike*

**2Q GDP data:** This measure was revised up to 3.9% q-o-q SAAR, from 3.7% previously. The upward revision came largely on the back of stronger private consumption growth of 3.6% q-o-q, versus 3.1% in the previous estimate. Consequently, consumption contributed 2.4 pp to real GDP growth in 2Q. The interim data point to a solid outlook for economic activity in 3Q (albeit moderating q-o-q), again driven by consumption.

**Fig. 3. US: 2Q real GDP growth revised up to 3.9% q-o-q SAAR on stronger consumption growth**

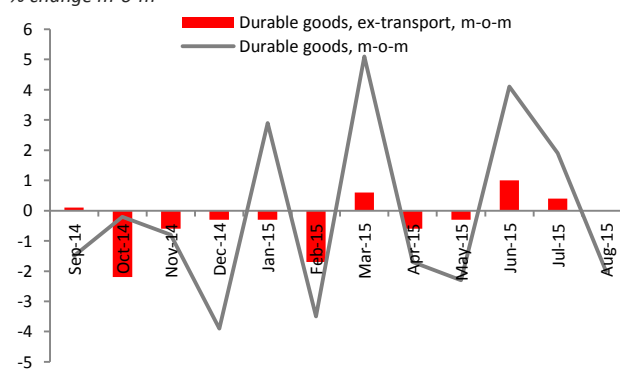
% change, q-o-q SAAR



Source: Bloomberg

**Fig. 4. US: Core durable goods orders contract in August after two months of solid growth**

% change m-o-m



Source: Bloomberg

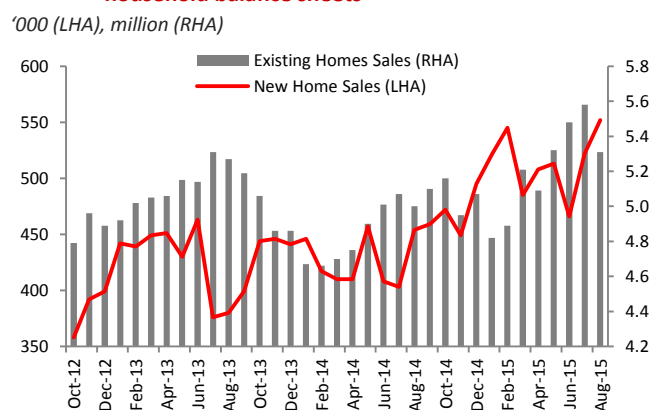
**Durable goods orders:** These declined -2% m-o-m in August, marginally less than the market's expectation of a -2.3% m-o-m fall. The contraction had been expected following two consecutive months of gains, which were due partly to strong aircraft

*Core capital goods orders fall in August after two consecutive months of growth*

and car sales. Core capital goods (ex-defence goods and aircraft), which indicate business investment activity, fell by -0.2% m-o-m, following two months of gains. The data point to a moderate decline in industrial activity in August, likely impacted by global economic uncertainties and financial market volatility. However, the overall trend for 3Q is being boosted by the solid domestic demand environment.

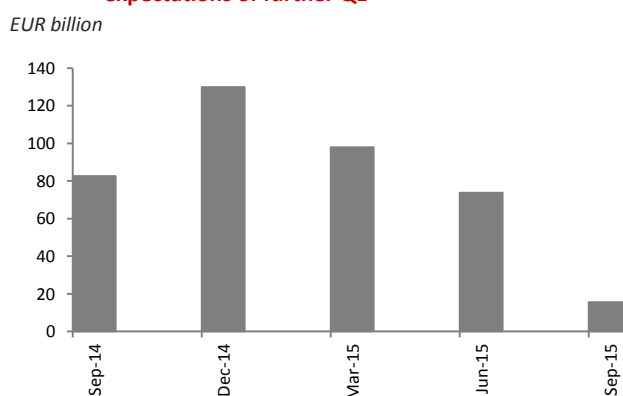
**Housing sector:** Housing data for August were mixed. Previously owned sales fell -4.8% m-o-m in August to an annualized rate of 5.3 million, disappointing the market expectation of 5.5 million. This brought the y-o-y rise down (versus July) to 6.2% in August. The moderation in housing activity from earlier in the summer may have been due partly to affordability. However, new home sales were robust in August, rising 5.7% m-o-m to 552k SAAR, partly reflecting the more moderate price increases seen in the sector. This was the strongest pace of growth since February 2008. Nevertheless, disregarding the volatility of the monthly data, the upward trend and underlying drivers of housing and related construction remain intact. The rise in personal income is supporting household balance sheets. Moreover, mortgage rates remain low, and in most cases fixed. With the expected ongoing momentum in the labour market and gradual pace of interest rate increases, US housing sector recovery looks likely to continue to support construction activity and economic growth.

**Fig. 5. US: Housing sector benefitting from improving household balance sheets**



Source: Bloomberg

**Fig. 6. Eurozone: Weak adoption of fifth TLTRO increases expectations of further QE**



Source: Bloomberg

## Eurozone: ECB highlights rising risks, but too soon for new measures

Comments from ECB President Mario Draghi, at the quarterly hearing before the European Parliament's Economic and Monetary Affairs Committee, were broadly in line with previous statements. Draghi highlighted that downside risks to GDP and inflation have increased with the slowing growth in emerging markets, stronger EUR, and falling commodity prices. Draghi said that price growth will take longer than previously expected to rise back to around the ECB's 2% target, and that the bank is ready to beef up its asset buying program if necessary. We continue to expect the ECB to extend its programme beyond September 2016, when the current one ends. However, we do not expect an announcement of any new programme in the coming months. Draghi stated that more time was needed to judge with sufficient confidence whether downside risks to the inflation outlook were likely to materialise, and to gauge the impact of ongoing measures. We continue to see a weak EUR as a key ECB objective, and believe that the bank will look to talk down the common currency in case of any strengthening.

*We continue to expect QE programme to be extended beyond September 2016*

Meanwhile, demand for the fifth Targeted Longer Term Refinancing Operation (TLTRO) remained weak. Eurozone banks took up just EUR 15.5 billion last week, substantially below the consensus of EUR 70 billion. This highlighted banks' ample liquidity, despite the pickup in credit growth. The take up of the previous TLTRO (in June) was EUR73.8 billion. The limited demand adds to expectations that the ECB will enact further QE to increase its balance sheet to around EUR3 trillion.

*Demand for fifth TLTRO limited at just EUR15.5 billion*

### **Greece: Syriza wins second emphatic victory; implementation of bailout programme now in focus**

Alexis Tsipras won a resounding election victory in Greece, with his Syriza party's majority barely diminished compared to its emphatic win in January; the party lost just four seats versus the January election. The strong victory will make it easier for Tsipras to reinstate trusted members of the cabinet who served during the often turbulent seven-month coalition that he formed after his first win. Syriza has again entered a coalition with the nationalist Independent Greeks (ANEL) rather than broadening its partner base. The coalition thus has a majority of just five seats (155 of 300); the small majority continues to add to political risk.

*Coalition government has slim parliamentary majority*

The coalition government is now tasked with implementing the program. The next three months will be critical for passing new legislation, including measures previously deemed too politically difficult. These will include legislation on the 2016 state budget and a three-year fiscal strategy, the recapitalising banks, pension and tax reforms, and the sale of government assets. However, Tsipras is likely to look to secure debt relief after creditors complete their first review of the EUR86 billion bailout programme in October. We do not consider that the bailout package will be sustainable from a debt or growth perspective without some degree of debt forgiveness. The IMF estimates that Greece's debt-to-GDP ratio could rise to 200% in the next two years without debt relief.

*Debt forgiveness remains critical to success of third bailout programme*

## **C. Emerging market economies**

### **Turkey: Interest rates kept on hold**

The CBRT left its main one week repo rate at 7.5% in last week's meeting, in line with expectations. The overnight lending and borrowing rates were kept at a respective 10.75% and 7.25%, and there were limited changes to the accompanying statement. The CBRT cited risks to inflation expectations and vowed to keep TRY liquidity in check. The decision by the US Fed at its 17 September meeting to keep rates unchanged has bought the CBRT more time, in our view. However, we continue to expect the CBRT to tighten its monetary policy stance alongside the US Fed in order to support much needed capital inflows.

*CBRT likely to move with Fed – capital inflows critical for economic outlook*

### **China: Flash manufacturing PMI weaker than expected**

The September Caixin manufacturing PMI flash reading came in at 47, below the market's expectation of 47.5 and August's 47.3 reading. This was the lowest flash PMI reading since March 2009, highlighting substantial and ongoing weakness in the manufacturing sector. A reading below 50 indicates a contraction in activity, and this was the third straight fall from June's 49.4. The ongoing weakness supports our outlook

*Third month of deteriorating manufacturing activity*

that the government will implement further near term easing measures to stabilise growth.

The additional weak numbers from China could strengthen the Fed's resolve to exercise caution regarding any rate liftoff. We continue to see December as a likely point for the US to start raising rates; by then, China could be showing signs of improvement on the back of the stimulus measures. Despite the continued weakness in activity indicators, monetary conditions have become more accommodative, and there are signs that credit growth has stabilised.

*China developments could keep  
Fed cautious*

## II. Economic Calendar

**Fig. 7. Upcoming Events and Data Releases**

Time*	Country	Data point	Period	Prior	Consensus
<b>Expected this Week</b>					
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Aug	2479.8B	--
	UAE	Dubai Airport Cargo Volume, y-o-y	Aug	8%	--
	Qatar	GDP Constant Prices, y-o-y	2Q	4.1%	--
<b>Monday 28, Sept</b>					
12:00	Eurozone	EU's Moscovici Speaks in Berlin			
16:30	US	Personal Spending	Aug	0.3%	0.3%
16:30	US	PCE Deflator, m-o-m	Aug	0.1%	0%
16:30	US	PCE Deflator, y-o-y	Aug	0.3%	0.3%
16:30	US	PCE Core, m-o-m	Aug	0.1%	0.1%
16:30	US	PCE Core, y-o-y	Aug	1.2%	1.3%
18:00	US	Pending Home Sales, m-o-m	Aug	0.5%	0.4%
21:30	US	Fed's Evans Speaks on Monetary Policy in Milwaukee			
<b>Tuesday 29, Sept</b>					
1:00	US	Fed's Williams speaks at UCLA on Economic Outlook			
9:30	India	RBI Repurchase Rate	Sep-29	7.25%	7%
9:30	India	RBI Reverse Repo Rate	Sep-29	6.25%	6%
13:00	Eurozone	Consumer Confidence	Sep F	-7.1	--
18:00	US	Consumer Confidence Index	Sep	101.5	96
<b>Wednesday 30, Sept</b>					
3:50	Japan	Industrial Production, m-o-m	Aug P	-0.8%	1%
3:50	Japan	Industrial Production, y-o-y	Aug P	0%	1.8%
3:50	Japan	Retail Trade, y-o-y	Aug	1.8%	1.2%
3:50	Japan	Retail Sales, m-o-m	Aug	1.2%	0.5%
12:30	UK	GDP, q-o-q	2Q F	0.7%	0.7%
12:30	UK	GDP, y-o-y	2Q F	2.6%	2.6%
13:00	Eurozone	Unemployment Rate	Aug	10.9%	10.9%
13:00	Eurozone	CPI Estimate, y-o-y	Sep	0.1%	0%
13:00	Eurozone	CPI Core, y-o-y	Sep A	0.9%	0.9%
16:15	US	ADP Employment Change	Sep	190K	190K
23:00	US	Fed's Yellen, Bullard Speak on Community Banking in St. Louis			
<b>Thursday 1, Oct</b>					
3:50	Japan	Tankan Large Mfg Index	3Q	15	13
3:50	Japan	Tankan Large All Industry Capex	3Q	9.3%	8.5%
4:00	US	Fed's Brainard Speaks on Community Banking in St. Louis			
5:00	China	Manufacturing PMI	Sep	49.7	49.7
16:30	US	Initial Jobless Claims	Sep-26	267K	272K
18:00	US	ISM Manufacturing	Sep	51.1	50.6
22:30	US	Fed's Williams Gives Outlook Speech to Salt Lake Area			
<b>Friday 2, Oct</b>					
3:30	Japan	Jobless Rate	Aug	3.3%	3.3%
16:30	US	Change in Nonfarm Payrolls	Sep	173K	202K
16:30	US	Unemployment Rate	Sep	5.1%	5.1%
16:30	US	Average Hourly Earnings, m-o-m	Sep	0.3%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Sep	2.2%	2.4%
16:30	US	Labour Force Participation Rate	Sep	62.6%	--
18:00	US	Factory Orders	Aug	0.4%	-1.3%
21:00	US	Fischer Addresses Boston Fed Conference on Monetary Policy			

\* UAE time

Source: Bloomberg

Fig. 8. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
<b>GCC Data</b>						
	UAE	CPI, y-o-y	Aug	4.4%	--	4.9%
<b>Monday, 21 Sept</b>						
3:01	UK	Rightmove House Prices, m-o-m	Sep	-0.8%	--	0.9%
3:01	UK	Rightmove House Prices, y-o-y	Sep	6.4%	--	6.4%
10:00	Germany	PPI, m-o-m	Aug	0%	-0.3%	-0.50%
10:00	Germany	PPI, y-o-y	Aug	-1.3%	-1.6%	-1.7%
18:00	US	Existing Home Sales	Aug	5.6M	5.5M	5.3M
18:00	US	Existing Home Sales, m-o-m	Aug	1.8%	-1.6%	-4.8%
<b>Tuesday, 22 Sept</b>						
18:00	Eurozone	Consumer Confidence	Sep A	-6.9	-7	-7.1
18:00	US	Richmond Fed Manuf. Index	Sep	0	2	-5
<b>Wednesday, 23 Sept</b>						
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Sep P	52.3	--	
12:00	Eurozone	Markit Eurozone Services PMI	Sep P	54.4	--	
12:00	Eurozone	Markit Eurozone Composite PMI	Sep P	54.3	--	
15:00	US	MBA Mortgage Applications	18-Sep	-7.00%	--	
17:45	US	Markit US Manufacturing PMI	Sep P	53	53.5	
<b>Thursday, 24 Sept</b>						
5:35	Japan	Nikkei Japan PMI Mfg	Sep P	51.7	51.2	50.9
8:30	Japan	All Industry Activity Index, m-o-m	Jul	0.5%	0%	0.2%
10:00	Germany	GfK Consumer Confidence	Oct	9.9	9.8	9.6
12:00	Germany	IFO Business Climate	Sep	108.4	107.9	108.5
12:00	Germany	IFO Current Assessment	Sep	114.8	114.7	114
12:00	Germany	IFO Expectations	Sep	102.2	101.4	103.3
16:30	US	Initial Jobless Claims	19-Sep	264K	272K	267K
16:30	US	Durable Goods Orders, m-o-m	Aug	1.9%	-2.3%	-2%
16:30	US	Durables, ex-transportation, m-o-m	Aug	0.4%	0.1%	0%
16:30	US	Cap Goods Orders, Non-def ex-air, m-o-m	Aug	2.1%	-0.2%	-0.2%
18:00	US	New Home Sales	Aug	522K	515K	552K
18:00	US	New Home Sales, m-o-m	Aug	12%	1.6%	5.7%
<b>Friday, 25 Sept</b>						
3:30	Japan	Natl CPI, y-o-y	Aug	0.2%	0.1%	0.2%
3:30	Japan	Natl CPI, ex-food and Energy, y-o-y	Aug	0.6%	0.7%	0.8%
16:30	US	GDP Annualized, q-o-q	2Q T	3.7%	3.7%	3.9%
16:30	US	Personal Consumption	2Q T	3.1%	3.2%	3.6%
17:45	US	Markit US Composite PMI	Sep P	55.7	--	55.3
17:45	US	Markit US Services PMI	Sep P	56.1	55.6	55.6
18:00	US	U. of Mich. Sentiment	Sep F	85.7	86.5	87.2

\* UAE time

Source: Bloomberg



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