

The Week Ahead: US labour data and India budget in focus

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► US: January nonfarm payrolls the key release

Consensus forecasts that a solid 193K jobs were created in February, up from 151K in January. The storms in the North East at the end of January pose a possible risk, in areas such as construction. However, if they do prove to be a factor, they should be temporary and their absence provide support to the March data. The unemployment rate is estimated to have held steady at 4.9%. Average hourly earnings growth is forecast to have moderated to 0.2% m-o-m, after the robust expansion in January of 0.5%. Nevertheless, in annual terms wage growth should remain steady at 2.5% y-o-y. Other key US data releases this week will be the ISM surveys for February. The ISM manufacturing index for February is expected to increase moderately, after showing signs of bottoming out in January.

► Eurozone: Inflation and unemployment data

The Eurozone will release inflation (February) and unemployment data (January) this week. There is greater attention on Eurozone data ahead of the ECB's 10 March meeting. Inflation in February, released 29 February, is forecast to moderate to 0% y-o-y from 0.3% in January on the back of the renewed decline in energy prices. One of the ECB's key concerns is low oil prices feeding into wage and inflation expectations. Moreover, the strengthening of the EUR in February and the continued large output gap are also likely to contribute. The wider data also points to economic activity losing momentum, alongside the weakening inflation outlook. At the very minimum, we expect a -10 bps cut in the benchmark deposit rate to -0.4%, with the possibility of an expansion in the QE programme.

► India: FY2016-17 fiscal budget

India's FY2016-17 (April-March) budget is due to be released today, with expectations of a slower fiscal consolidation path than originally outlined. The pre-announced fiscal target is 3.5% of GDP. In the customary pre-budget economic survey, the government outlined the case for a wider deficit for higher public sector wages and capital expenditure. The fiscal stance is critical for the RBI's next move. Elsewhere in Asia, China's annual National People's Congress will begin on 5 March. The GDP growth target is expected to be set at 6.5%-7%, supported by monetary and fiscal loosening.

► Oman: Moody's cuts sovereign rating by two notches

Moody's downgraded Oman's government long-term issuer rating by two notches to A3 and placed it on review for further downgrade. This follows a two notch downgrade by S&P earlier in February. The structural shift lower of the oil price was the main reason for the downgrade. We have highlighted in our research the greater economic challenges for Bahrain, Oman and Saudi Arabia within the GCC under the low oil price environment. Please see our note **GCC Economic Update: Adjusting to a low oil price environment**, published on 25 February 2016.

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I. Recent Events and Data

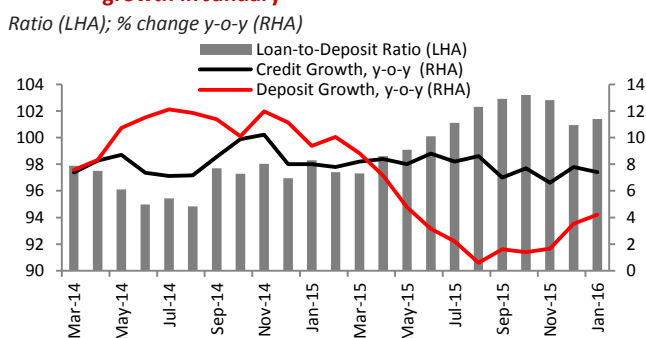
A. MENA Economies

UAE: Banking-sector liquidity tightens further in January

Central bank data for January pointed to ongoing pressure on banking-sector liquidity, with deposits remaining steady (0% m-o-m). Non-residents' deposits fell -3.6% m-o-m, offset by domestic deposits rising 0.4% m-o-m. A full breakdown of the January deposit data has not yet been made available. However, data for 4Q2015 indicate an expansion in private (retail) and GRE deposits. On a yearly basis, deposit growth accelerated to 4.2% in January, from 3.5% in December.

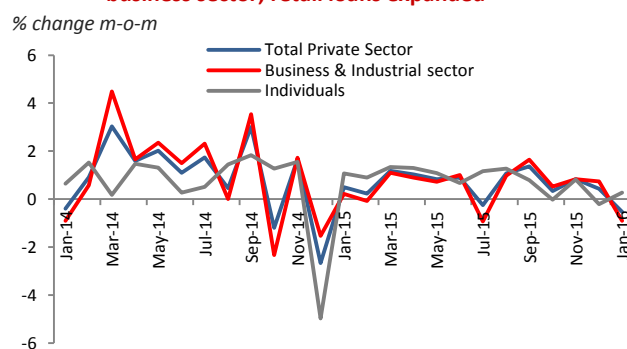
System-wide deposits flat m-o-m in January

Fig. 1. UAE: Credit growth continues to outpace deposit growth in January



Source: Central Bank of the UAE

Fig. 2. UAE: Private-sector credit contracts in January, due to business sector; retail loans expanded



Source: Central Bank of the UAE

Meanwhile, credit again grew faster than deposits at 0.4% m-o-m (7.4% y-o-y). The credit expansion was driven by the GRE sector, where it grew by a robust 5.5% m-o-m in January, whilst both government (-0.4% m-o-m) and private (-0.5% m-o-m) borrowing fell. The L-to-D ratio rose to 101.4% in January (from 100.9% in December), reflecting the stronger credit growth. Despite the overall expected trend of credit growth decelerating, we see a risk of banking-sector liquidity tightening further.

Strong growth in credit to GREs in January

Saudi Arabia: Inflation accelerates sharply to 4.3% y-o-y in January

Consumer inflation jumped to 4.3% y-o-y in January, up from 2.3% in December. The rise came on the back of the subsidy reforms introduced in December and January, which aimed to narrow the fiscal deficit. The reforms included raising fuel and electricity prices for individuals. Transportation costs rose the most, increasing 10.4% m-o-m (12.6% y-o-y) versus -0.5% m-o-m (1.3% y-o-y) in December. Gasoline prices increased 50-67% (depending on the grade). The housing & utility component saw the second-largest increase, driven largely by utilities. Housing & utility inflation accelerated to 4.8% m-o-m (8.3% y-o-y), up from 0.1% m-o-m (4% y-o-y) in December.

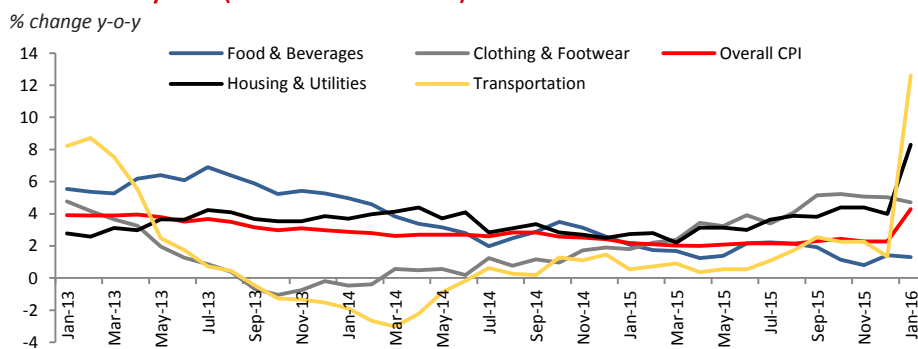
Subsidy reforms behind rise in inflation; transportation and utility lead

Saudi Arabia also raised utility (water & electricity), energy and feedstock prices for corporates, though we expect relatively limited feedthrough to consumer prices. Moreover, there were no signs of secondary inflation in other categories, whilst

No upward pressure from imported goods

imported inflation remained weak. Both food (-0.6% m-o-m) and clothing & footwear (-0.5% m-o-m) prices contracted on a monthly basis. We expect Saudi Arabia's real non-oil GDP growth to decelerate sharply in 2016, to 0.9% (from 3.6% in 2015) following the reduction in subsidies and pullback in government spending. We see inflation averaging 4.4% in 2016.

Fig. 3. Saudi Arabia: January inflation accelerates to 4.3% on higher transportation and utility costs (linked to fiscal reforms)



Source: Central Department of Statistics and Information

Saudi Arabia: Issues floating rate bonds, first in a decade

Saudi Arabia issued five-, seven- and 10-year floating-coupon notes last week at the top end of the price guidance range, Bloomberg reported. The amount sold had not been published at the time of publishing. Notably, this was the first time in a decade that Saudi Arabia had offered notes with floating-rate coupons. We see the move as a way to maintain demand for government debt amidst tightening liquidity and rising market rates. The Saudi government has been issuing SAR20 billion of domestic bonds to banks every month to finance the deficit. We expect the government to continue borrowing from the banking sector and tapping its domestic deposits in 2016, causing banking-sector liquidity to tighten further.

Floating rate likely aimed at maintaining demand for government debt

Oman: Moody's cuts sovereign rating by two notches

Moody's downgraded Oman's government long-term issuer rating by two notches to A3 from A1 and placed it on review for further downgrade. This follows a two notch downgrade by S&P earlier in February. The structural shift lower of the oil price was the main driver, affecting government finances, economic performance and the balance of payments. We have highlighted in our research the greater economic challenges for Bahrain, Oman and Saudi Arabia under the low oil price environment within the GCC. Please see our note: **GCC Economic Update: Adjusting to a low oil price environment**, published on 25 February 2016.

Lower structural oil price to impact economic outlook

Moody's expects Oman's government debt to rise to more than 35% of GDP by year-end 2018, from only 5% in 2014. In addition to increased debt issuance, the government will make use of its financial assets to cover the budget shortfalls. This will lower the stock of government financial assets to around 55% of GDP by 2018 from an estimated 85% in 2015. Therefore, the Omani government's net creditor position will weaken significantly to only 19% of GDP, from 73% according to Moody's.

Government debt to rise and financial assets to fall

Bahrain: Issues USD600 million of international bonds

Bahrain tapped international debt markets last week for USD600 million. The bond comprised: i) a USD275 million, five-year tranche with a yield of 5.95%; and ii) a USD325 million, 10-year tranche at 7.65%. The yields were 25 bps higher than for the (subsequently cancelled) bond that Bahrain had been looking to place just before S&P downgraded its sovereign rating two notches to below investment grade in February. We see foreign borrowing by the GCC countries as essential for covering their deficits (which are expected to widen with the lower oil price) in 2016. Foreign borrowing will help to reduce the drawdown of FX reserves and limit the tightening in domestic banking-sector liquidity.

Yields 25 bps higher following sovereign downgrade

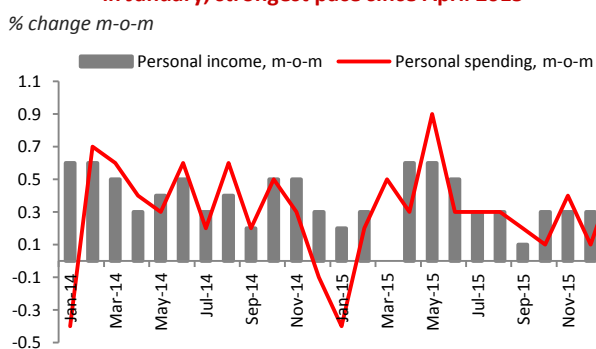
B. G4 Economies

G4: Economic activity surveys reflect weakening confidence

A number of surveys point to weakening business and consumer confidence, including the PMI and Ifo in Germany. Flash February PMI data for the Eurozone, US and Japan came in weak and below market expectations. The weakness was due mainly to softening demand being reflected in declining current output and new orders. Meanwhile, US consumer sentiment declined 5.6 points in February to 92.2. Nevertheless, the consumer confidence index remains high on a historical basis, and within its post-2014 range. Overall, the data raise concerns that global market volatility and fears of a slowdown in growth are feeding into domestic activity, a key concern for the ECB. With signs of further economic weakness, we expect more monetary easing by the ECB and BoJ. In the US, the pace of job and wage growth remains critical, in our view. Richmond Fed President Jeffrey Lacker highlighted last week that ongoing strength in the US job market would give the Fed justification for multiple interest-rate increases this year.

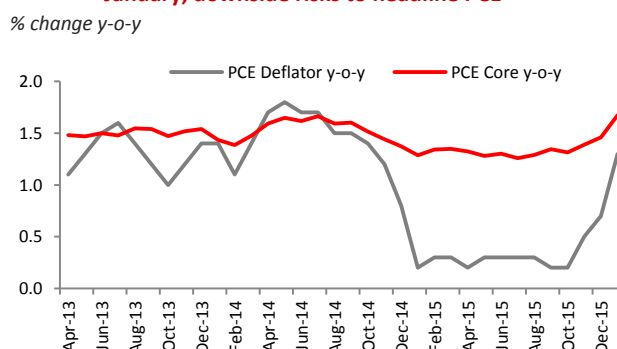
Consumer and business sentiment weakening

Fig. 4. US: Personal spending increases by a solid 0.5% m-o-m in January, strongest pace since April 2015



Source: Bloomberg

Fig. 5. US: Core PCE deflator strengthens to 1.7% y-o-y in January, downside risks to headline PCE



Source: Bloomberg

US: Strong start to the year for personal spending

Both personal spending and income rose by a strong 0.5% m-o-m in January, pointing to a robust start to the year for private consumption. Consensus had expected a rise in personal spending of 0.3% m-o-m and of personal income by 0.4% m-o-m. There were also increased signs of a build up in price pressure. The core PCE deflator rose to 0.3%

Monthly rise in core PCE deflator indicates gradual pickup in inflation

m-o-m in January, leading to a rise in the annual rate to 1.7% y-o-y. This was the largest monthly increase since January 2012 and followed a 0.1% gain in December. Core PCE deflator is the Fed’s preferred measure of inflation, and is not far off its inflation target of 2%. While risks remain for the inflation outlook, continued monthly gains in the PCE deflator should support further rate hikes in 2016. We expect two hikes of 25 bps each in 2016 in June and December.

Durable goods orders: New orders rose in January by the most in 10 months as demand picked up broadly. This is in line with recent manufacturing data, which shows a strengthening in sectors linked to domestic demand. However, external demand (strong USD and weak global demand) and the oil sector remain drags overall. Headline durable goods orders accelerated to 4.9% m-o-m, beating the consensus forecast of 2.5%. Stripping out volatile defence and air components, core durable goods orders increased at a healthy 3.9% m-o-m. The data suggest some recovery in business investment spending into Q1 2016.

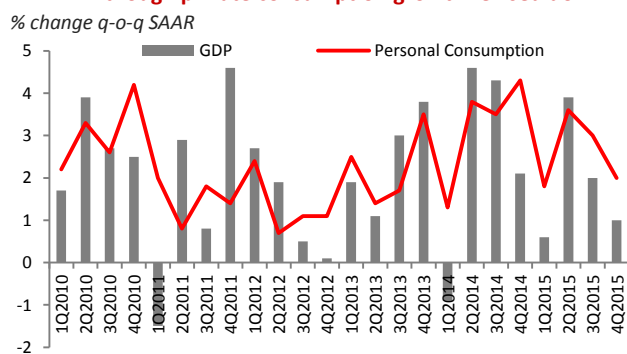
Healthy domestic demand reflected in durable goods orders

US: Surprise upward revision in 4Q GDP growth

US 4Q GDP growth was revised up to 1% q-o-q saar in the second reading, from 0.7%. This surprised expectations as consensus was forecasting a downward revision to 0.4%. The two main drivers of the revision were inventories and trade. Inventories were increased to USD81.7 billion, from USD68.6 billion, contributing an additional 0.3pp to GDP growth. Under the new figures, net exports contributed 0.2pp to overall growth. The improvement was on the back of lower import growth. Thus, the revision does not in fact point to stronger underlying activity or demand. The data so far for 1Q indicate a pickup in GDP growth on stronger private consumption and investment.

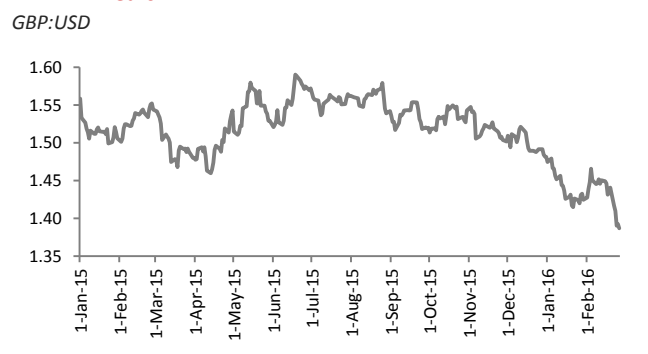
Revision does not point to stronger underlying demand in 4Q

Fig. 6. US: 4Q real GDP growth revised up to 1% q-o-q saar, though private consumption growth revised down



Source: Bloomberg

Fig. 7. UK: GBP comes under substantial pressure over Brexit fears



Source: Bloomberg

UK: Brexit developments to dominate sentiment

Brexit-related developments will likely continue to dominate GBP and UK asset performances until the referendum on 23 June. These will likely take precedence over economic data releases or policy statements. The GBP has come under strong downward pressure as divisions within the ruling Conservative party have come to the fore. The decision of Boris Johnson to take up the “exit” side of the debate gives that campaign an identifiable, charismatic leader. Moreover, polls are currently showing a

GDP under significant pressure from referendum uncertainties

wide range of possible results, adding to the uncertainty. Upcoming polls will likely be particularly influential on the GBP's performance.

The main UK developments last week were a speech by BoE governor Mark Carney to lawmakers and the second GDP-data print. There were no surprises from Carney, whose overall tone was dovish; he mentioned a "referendum premium" on the GBP. He reiterated his view that interest rates are likely to rise from their record low of 0.5% over the next three years as the economy continues to grow. However, he noted that rate cuts and a broadening of the bond-buying programme were possible as he sought to counter concerns that the BoE might be running out of policy tools to boost economic activity. Meanwhile, the UK 4Q real GDP growth estimate remained steady at 0.5% q-o-q, as in the first reading. Indications of economic activity suggest that private consumption is holding up well in 1Q (0.7% q-o-q), as also reflected in recent retail-sales data. However, the "Brexit" impact will likely be more marked in 1H2016; consumer confidence plunged to its lowest level in almost three years in February as jitters rose. Moreover, there could be further pressure on business investment from Brexit (and wider global) uncertainties. Business investment fell -1.2% q-o-q in 4Q2015.

4Q GDP estimate unchanged at 0.5% q-o-q

C. Emerging Market Economies

Turkey: Benchmark interest rates kept steady at February meeting

The CBRT kept its policy rates steady at its February meeting, in line with our forecast and market expectations. Moreover, there were limited changes to the post-meeting statement. We continue to expect interest rate rises in Turkey to be delayed despite the recent uptick in inflation. The TRY's recent stability against the USD and the lower oil prices reduce near-term pressure to raise rates. Moreover, credit growth has slowed recently, which will likely be an important factor in the CBRT's rate decision.

No meaningful change in post-meeting statement

Nevertheless, we continue to see the need for higher interest rates in Turkey. Inflation is expected to remain above the CBRT's target rate. The second-round effects of tax hikes and the increase in minimum wages in January pose risks to the inflation outlook. Moreover, medium-term inflation expectations are increasing as monetary policy remains on hold amidst rising inflation.

Inflation expectations increasing, higher interest rates required

II. Economic Calendar

Fig. 8. Upcoming events and data releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jan	3.6%	
	UAE	Dubai Airport Cargo Volume, y-o-y	Jan	5.2%	--
	Qatar	January Foreign Trade Balance, y-o-y			
Monday 29 Feb					
3:50	Japan	Industrial Production, y-o-y	Jan P	-1.9%	-3.8%
3:50	Japan	Retail Trade, y-o-y	Jan	-1.1%	0.1%
3:50	Japan	Retail Sales, m-o-m	Jan	-0.3%	-0.1%
13:30	UK	Mortgage Approvals	Jan	70.8K	74K
14:00	Eurozone	CPI Estimate, y-o-y	Feb	0.3%	0%
14:00	Eurozone	CPI Core, y-o-y	Feb A	1%	0.9%
18:00	US	ISM Milwaukee	Feb	50.36	50
19:00	US	Pending Home Sales, m-o-m	Jan	0.1%	0.5%
19:00	US	Pending Home Sales NSA, y-o-y	Jan	3.1%	4.1%
	India	Fiscal Deficit INR Crore	Jan	4662	--
Tuesday 1 Mar					
5:45	China	Caixin China PMI Mfg	Feb	48.4	48.4
6:00	Japan	Nikkei Japan PMI Mfg	Feb F	50.2	--
9:00	India	Nikkei India PMI Mfg	Feb	51.1	--
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Feb F	51	51
13:30	UK	Markit UK PMI Manufacturing SA	Feb	52.9	52.3
14:00	Eurozone	Unemployment Rate	Jan	10.4%	10.4%
18:05	Eurozone	ECB's Lautenschlaeger Speaks in New York			
19:00	US	ISM New Orders	Feb	51.5	--
19:00	US	ISM Manufacturing	Feb	48.2	48.5
Wednesday 2 Mar					
12:30	Eurozone	ECB Executive Board Member Coeure Speaks in Frankfurt			
16:00	US	MBA Mortgage Applications	26-Feb	-4.3%	--
17:15	US	ADP Employment Change	Feb	205K	185K
19:00	US	Fed's Williams Speaks in San Ramon, California			
Thursday 3 Mar					
5:30	Japan	BOJ Nakaso speaks in Naha			
5:45	China	Caixin China PMI Composite	Feb	50.1	--
9:30	Saudi Arabia	Saudi Arabia PMI	Feb	53.9	--
9:30	Egypt	Egypt PMI	Feb	48	--
9:30	UAE	UAE PMI	Feb	52.7	--
12:30	UK	Halifax House Prices, m-o-m	Feb	1.7%	0%
12:30	UK	Halifax House Price, 3Mths/Year	Feb	9.7%	10.4%
14:00	Eurozone	Retail Sales, m-o-m	Jan	0.3%	0.1%
14:00	Eurozone	Retail Sales, y-o-y	Jan	1.4%	1.3%
17:30	US	Initial Jobless Claims	27-Feb	272K	270K
19:00	US	Factory Orders	Jan	-2.9%	2.1%
19:00	US	Factory Orders, ex-Trans	Jan	-0.8%	--
Friday 4 Mar					
17:30	US	Trade Balance	Jan	-\$43.4B	-\$43.3B
17:30	US	Change in Nonfarm Payrolls	Feb	151K	193K
17:30	US	Unemployment Rate	Feb	4.9%	4.9%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.5%	0.2%
17:30	US	Average Hourly Earnings, y-o-y	Feb	2.5%	2.5%
17:30	US	Labor Force Participation Rate	Feb	62.7%	--

* UAE time

Source: Bloomberg

Fig. 9. Last week's data

Time*	Country	Data point	Period	Prior	Consensus	Actual
GCC data						
	Saudi Arabia	CPI, y-o-y	Jan	2.3%	--	4.3%
	Kuwait	CPI, y-o-y	Jan	3%	--	3.3%
	Kuwait	CPI, y-o-y	Jan	0.9%	--	0.1%
Monday 22 Feb						
6:00	Japan	Nikkei Japan PMI Mfg	Feb P	52.3	52	50.2
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Feb P	52.3	52	51
13:00	Eurozone	Markit Eurozone Services PMI	Feb P	53.6	53.4	53
13:00	Eurozone	Markit Eurozone Composite PMI	Feb P	53.6	53.3	52.7
18:45	US	Markit US Manufacturing PMI	Feb P	52.4	52.4	51
Tuesday 23 Feb						
11:00	Germany	GDP SA, q-o-q	4Q F	0.3%	0.3%	0.3%
13:00	Germany	IFO Business Climate	Feb	107.3	106.3	105.7
13:00	Germany	IFO Current Assessment	Feb	112.5	112	112.9
13:00	Germany	IFO Expectations	Feb	102.3	101.6	98.8
19:00	US	Consumer Confidence Index	Feb	97.8	97.2	92.2
19:00	US	Richmond Fed Manufact. Index	Feb	2	2	-4
19:00	US	Existing Home Sales	Jan	5.45M	5.33M	5.47M
19:00	US	Existing Home Sales, m-o-m	Jan	12.1%	-2.5%	0.4%
Wednesday 24 Feb						
16:00	US	MBA Mortgage Applications	19-Feb	8.2%	--	-4.3%
18:45	US	Markit US Services PMI	Feb P	53.2	53.5	49.8
18:45	US	Markit US Composite PMI	Feb P	53.2	--	50.1
19:00	US	New Home Sales	Jan	544K	520K	494K
19:00	US	New Home Sales, m-o-m	Jan	8.2%	-4.4%	-9.2%
Thursday 25 Feb						
13:00	Eurozone	M3 Money Supply, y-o-y	Jan	4.7%	4.7%	5%
13:30	UK	GDP, q-o-q	4Q P	0.5%	0.5%	0.5%
13:30	UK	GDP, y-o-y	4Q P	1.9%	1.9%	1.9%
13:30	UK	Private Consumption, q-o-q	4Q P	0.8%	0.8%	0.7%
14:00	Eurozone	CPI, m-o-m	Jan	0%	-1.4%	-1.4%
14:00	Eurozone	CPI, y-o-y	Jan F	0.4%	0.4%	0.3%
14:00	Eurozone	CPI Core, y-o-y	Jan F	1%	1%	1%
17:30	US	Initial Jobless Claims	20-Feb	262K	270K	272K
17:30	US	Durable Goods Orders	Jan P	-4.6%	2.9%	4.9%
17:30	US	Durables, ex-Transportation	Jan P	-0.7%	0.3%	1.8%
17:30	US	Cap Goods Orders, Nondef ex-Air	Jan P	-3.7%	1%	3.9%
Friday 26 Feb						
3:30	Japan	Natl CPI, y-o-y	Jan	0.2%	0%	0%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Jan	0.1%	0%	0%
14:00	Eurozone	Consumer Confidence	Feb F	-8.8	--	-8.8
17:30	US	GDP Annualized, q-o-q	4Q S	0.7%	0.4%	1%
17:30	US	Personal Consumption	4Q S	2.2%	2.2%	2%
19:00	US	Personal Income	Jan	0.3%	0.4%	0.5%
19:00	US	Personal Spending	Jan	0.1%	0.3%	0.5%
19:00	US	PCE Deflator, m-o-m	Jan	-0.1%	0%	0.1%
19:00	US	PCE Deflator, y-o-y	Jan	0.7%	1.1%	1.3%
19:00	US	PCE Core, m-o-m	Jan	0.1%	0.2%	0.3%
19:00	US	PCE Core, y-o-y	Jan	1.5%	1.5%	1.7%

* UAE time

Source: Bloomberg

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