Economic Research

بنك أبوظبي التجاري ADCB

Global Data Watch 3-7 April 3 April 2017

The Week Ahead: US labour data in focus, RBI expected to remain on hold

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US: March NFP data and FOMC minutes the key releases

Momentum of US data will be in focus after expectations of fiscal support to boost economic activity in the near term have diminished. Consensus is expecting another solid NFP report for March (7 April) with 175K jobs created and wage growth of 0.3% m-o-m. The unemployment rate is forecast to remain steady at 4.7% in March. Data in line with market expectations would indicate a healthy labour market, especially after 235K jobs were created in February as the warmer seasonal weather resulted in some hiring being pulled forward. Moreover, it would raise confidence that private consumption will strengthen in 2Q2017, after moderating in 1Q (page 3). Also important will be the minutes of the 14-15 March FOMC meeting (5 April), when the FFTR was raised by 25 bps to 1% (upper bound). There will be particular focus on the Fed's economic assessment, the degree of slack in the labour market and its impact on inflation, and the balance of risks. The post-meeting statement noted that the decision to raise interest rates in March was driven more by economic fundamentals than by expectation of greater fiscal support. A number of FOMC members have speaking engagements this week and could continue to indicate support for two further rate hikes in 2017, as has been the case since the March meeting.

India: RBI to keep policy rates on hold, with neutral stance

The RBI is likely to keep its benchmark repo rate unchanged at 6.25% in its 6 April monetary policy meeting. In our view, the RBI will want more clarity on the inflation trajectory before making its next move, as drivers have recently diverged. On the one hand, lower oil prices and a stronger INR have reduced the "external risks" to inflation, highlighted by the RBI in its last meeting. On the other hand, the monsoon forecasts for 2017 have indicated a likely rainfall deficit, which could push up food prices in 2H2017. Inflation has already ticked up in 1Q2017 on higher food prices. Other than the announcement on the policy rate, markets will also closely follow the RBI's plans to absorb the excess liquidity in interbank markets and tackle the rapid strengthening in the INR over the past few weeks.

Eurozone: ECB minutes and EU summit in Malta in limelight

Markets will closely follow the minutes of the March ECB meeting (6 April), given that there were significant changes to the forward guidance by the ECB in its post-policy statement on 9 March. Specifically, the minutes are likely to provide more contours on what prompted the ECB's assessment of risks to the economic outlook as being "less negative" than in its January statement. Meanwhile, Eurogroup finance ministers will meet in Malta (7 April) to discuss the resumption of bailout payments to Greece. Preliminary media reports suggest some signs of compromise between the EU and IMF on Greece's fiscal and structural reform targets. Markets will watch whether EU leaders set a date at this meeting for an Athens visit by a bailout review team.

I. Recent Events and Data Releases

A. MENA Economies

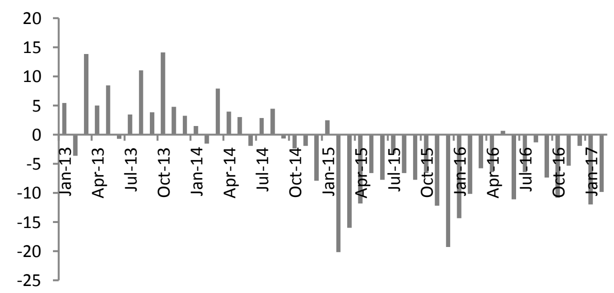
Saudi Arabia: Another sharp drop in SAMA's NFAs; economic indicators weak

SAMA's NFAs fell by USD9.8 billion in February to USD506.9 billion

SAMA's NFAs saw another sharp drop in February, of USD9.8 billion, after contracting by USD12 billion in January. We have previously highlighted the greater magnitude of the drawdown from FX reserves in early 2017 despite the strengthening in the oil price. We believe that this reflects the government's recent focus on tapping FX reserves to cover its budget deficit, with reduced reliance on domestic channels aimed at supporting liquidity conditions in the banking system. Thus, foreign borrowing will be important to reduce FX reserve drawdown and maintain comfortable liquidity conditions in the banking sector. We expect Saudi Arabia to return to the international debt capital market in the next few months. To ensure ample liquidity in the banking system, the government again did not issue domestic debt in February (or March), continuing the trend since October 2016. Consequently, the annual increase in the banking sector's holdings of local government bonds has moderated further to 81.4% y-o-y in February, down from a recent peak of 217.9% in July 2016. However, government deposits in the banking system have continued to fall, albeit at a more moderate pace in February.

Fig. 1. Saudi Arabia: SAMA's NFAs see another large drop as focus remains on supporting banking sector liquidity

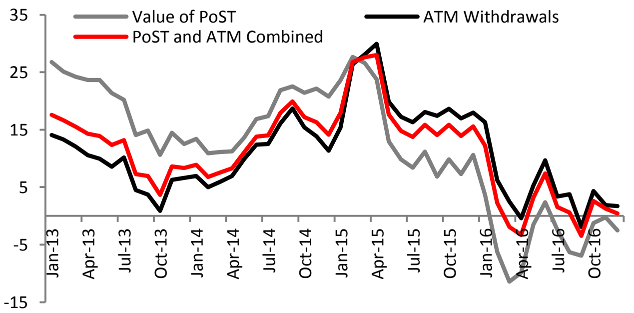
Monthly change in SAMA's NFAs, USD billion



Source: SAMA

Fig. 2. Saudi Arabia: Indicators of private consumption remain weak

% change y-o-y, 3M moving average



Source: SAMA

Private sector credit growth slows to just 0.3% y-o-y

SAMA data (credit growth, trade financing and proxies of private consumption) also continued to reflect weak demand in the economy. We are not seeing any pick-up in economic activity into 2017 despite the payment of contractors by the government. Corporates and consumers remain cautious and there are limited signs of a pick-up in government investment activity. Indeed, private-sector credit growth slowed to just 0.3% y-o-y in January – its slowest pace of growth since December 2009. This reflects the payment of government arrears over the last few months and limited investment by the private sector. Despite the weak credit growth (total: 0.1% m-o-m), the system-wide loan-to-deposit ratio rose marginally to 88.9%, with a 0.9% m-o-m fall in banking sector deposits. The fall in deposits was largely due to lower demand deposits, possibly indicating a shift into time deposits by the private sector, given a lower requirement for working capital due to cuts in spending plans. Meanwhile, new letters of credit for private sector imports contracted by 20.3% y-o-y in January whilst the combined value of ATM withdrawals and point-of sales transactions were down -10.2% m-o-m and -1.1% y-o-y (from an already low yearly base).

Egypt: CBE remains on hold, continuing to highlighting transience of inflation rise

CBE highlights that cost-push inflation is already starting to moderate

The CBE kept benchmark interest rates on hold at its 30 March meeting, in line with our and consensus expectations. The overnight deposit rate remained at 14.75% and the overnight lending rate at 15.75% for the fourth consecutive meeting. The steady policy was despite headline consumer inflation accelerating to 30.2% y-o-y and core inflation to 33.1% y-o-y in February. The CBE continues to highlight that the rise in inflation is transitory, with signs already of fading cost-push inflationary pressures as reflected in the monthly rise in inflation. The monthly increases in headline inflation moderated to 2.6% m-o-m in February 2017, from an average of c. 4% between November and January. As we have highlighted, we believe that inflation is likely close to peaking, though will remain high in the double digits until 4Q2017. As such, we do not see the CBE lowering rates anytime soon. We expect interest rates to remain on hold for the next two quarters, with the next move dependent on the pace of fiscal reform. The central bank will look to maintain its policy space to raise rates later in the year if required, especially as further fiscal reforms are likely in 2017. However, if the pace of reform is slower than expected, the CBE could look to lower interest rates in 4Q2017, as the yearly inflation rate falls.

B. G4 Economies

US: Personal consumption growth soft in February but underlying conditions solid; core PCE rising steadily

Personal spending growth weaker in February, but underlying conditions supportive for 2Q rebound

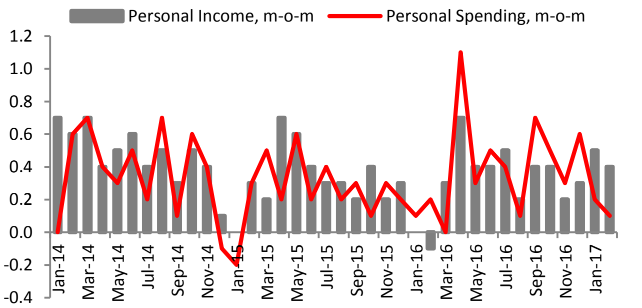
Personal spending grew by 0.1% m-o-m in February, below consensus expectations of a 0.2% expansion. Part of the softening in personal spending in 1Q2017 is likely due to payback from strong growth in 4Q2016. US 4Q GDP growth (final print) was revised up to 2.1% q-o-q SAAR (consensus: 2%, prior: 1.9%) on the back of stronger private consumption growth. Household spending for 4Q was revised up to a robust 3.5% q-o-q SAAR, up from 3% in the previous estimate. Part of the weaker consumption growth in 1Q was likely due to the warmer seasonal weather, resulting in softer spending on utilities. The steady rise in personal income in February of 0.4% m-o-m, after 0.5% in January, bodes well for consumer spending. The February rise in income was driven by higher wages. Moreover, consumer confidence, as measured by the Conference Board Index, surged to 125.6 in March. This was the strongest reading since December 2000 and substantially surpassed consensus expectations of 114. The March rise was driven by an increase in both the present situation and future expectations indices. The reading is also positive for the consumption outlook, though we await developments in April which could reflect reduced fiscal stimulus expectations.

Core PCE inflation continues to rise, supportive of further monetary policy normalisation

Meanwhile, the headline PCE deflator strengthened to 2.1% y-o-y on higher energy prices. Core PCE (the Fed's preferred gauge of inflation) grew by 0.2% m-o-m and 1.8% y-o-y. The steady rise in core PCE to 1.8% y-o-y should be supportive of the Fed further normalising monetary policy in 2017, if signs of a pickup in economic momentum continue. In particular, this would include signs of ongoing tightening in the labour market and businesses becoming more confident of their ability to increase prices as the economic outlook improves. Fed members continued to suggest the possibility of two further rate hikes in 2017 last week, including Vice Chair Stanley Fisher. We believe that upcoming data will be critical for these decisions, including the March NFP data.

Fig. 3. US: The rise in personal income should be supportive of private consumption in 2Q2017

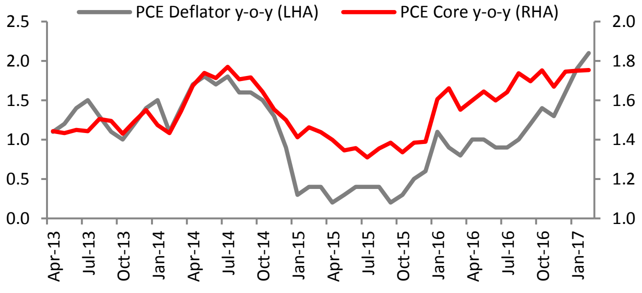
% change m-o-m



Source: Bureau of Economic Analysis

Fig. 4. US: Core PCE inflation steadily rising, headline breaches Fed's 2% target in February

% change y-o-y



Source: Bureau of Economic Analysis

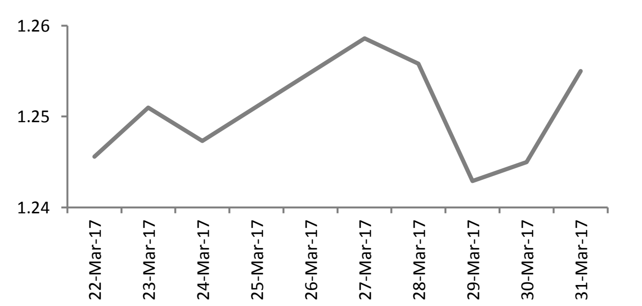
UK: Government formally triggers Brexit; differences emerge between EU and UK on Brexit roadmap

Markets largely unperturbed by formal Brexit commencement

The UK commenced the Brexit process last week by formally triggering Article 50 of the Lisbon Treaty. As per the treaty's stipulations, the UK will exit the EU by March 2019. The country's domestic financial markets took the announcement in their stride, with little movement in equity prices and UK sovereign yields, as the timetable for Brexit had already been set by Prime Minister Theresa May in her January speech. We see the potential for greater market volatility closer to 29 April when EU members will formally publish their guidelines for Brexit negotiations. However, there already appear to be significant differences in the visions for Brexit and a new EU-UK trade deal between the two negotiating parties. The UK's proposal for Brexit urges simultaneous talks over a new EU-UK trade deal alongside Brexit formalities. However, an initial draft of the negotiation guidelines released by the EU last week suggests that no trade talks with the UK will begin unless it agrees to compensation for exiting the EU of EUR40-60 billion and guarantees the rights of EU citizens living in the UK.

Fig. 5. UK: GBP recovers quickly following widely expected Brexit announcement on 29 March

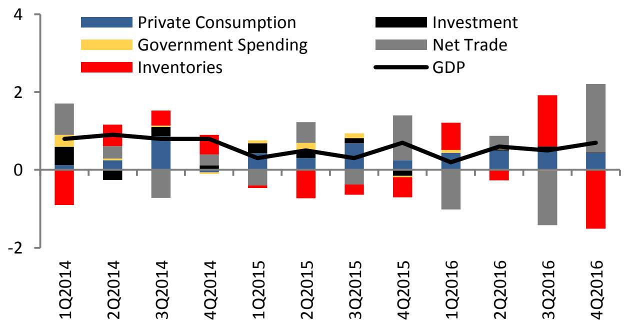
GBP:USD



Source: Bloomberg

Fig. 6. UK: GDP expected to soften in 2017 as consumption spending eases on higher inflation

PP contribution to real GDP growth, % change y-o-y



Source: Office for National Statistics

Brexit talks and new trade treaty must be completed within two years

Assuming that there is a compromise on these initial disagreements, the Brexit timetable will still remain tight due to the federal nature of the EU. Formal Brexit talks are likely to begin only in June after the EU's guidelines for Brexit are approved by its members.

Thereafter, any Brexit agreement with the UK will need ratification by national parliaments through a qualified majority (72% of the votes). A new EU-UK trade deal that follows this agreement will have to be finalised and ratified within the remaining 12-15 months before the UK is out of the EU. As an alternative to this tight schedule, the UK has proposed a "transitional phase" where it still enjoys some privileges of the EU after Brexit until a new trade deal is hammered out. EU members have made such a "transitional phase" conditional on acceptance of all EU laws by the UK in the interim period, including those on immigration.

We expect uncertainty around future EU-UK trade deal to begin impacting economic growth

The economic performance of the UK economy has surpassed market expectations since the Brexit vote last June, led by robust consumer spending. However, we expect uncertainty around future EU-UK trading relations to begin to impact economic growth, predominantly through the investment channel. In our view, investors are likely to significantly defer their spending plans from 2H2017 onwards as they digest the impact of a new EU-UK trade deal on their businesses. Any signs of a meaningful reduction in the UK's Single Market privileges in the services sector (financial services, professional services, and biotech R&D) could adversely affect FDI and capex (including in real estate). Furthermore, sovereign yields could be pushed higher in the coming years if the UK agrees to pay an "exit bill" from the EU, especially as such expenses were not factored into the Spring budget statement released last month. We expect consumption growth to soften as well, as a GBP-driven pick-up in inflation weighs on real incomes. Consequently, we expect growth to slow to 1.5% y-o-y in 2017 (1.8% y-o-y). GDP growth could remain stuck at these levels in the medium term (3-5 years) if a trade deal is not finalised before March 2019.

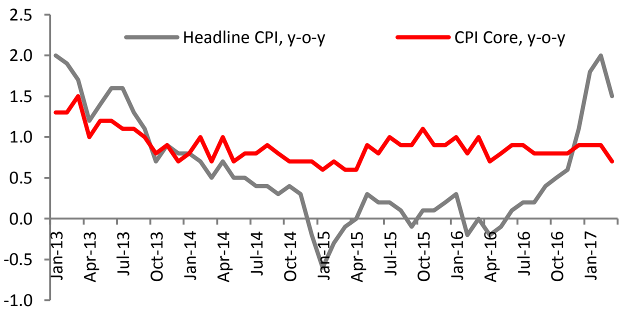
Eurozone: Inflation softens, as energy and food prices pull back

Both headline and core inflation softened in March

Eurozone inflation decelerated to 1.5% y-o-y in March (consensus: 1.8%; February: 2%), significantly undershooting market expectations. Much of the slowdown was driven by an unwinding of favourable base effects in energy and food prices, with growth slowing to 7.3% y-o-y (9.3% in February) and 1.8% y-o-y (2.5% in February) respectively. Meanwhile, core inflation also eased to 0.7% y-o-y (0.9% previously), albeit due to one-off effects impacting services prices.

Fig. 7. Eurozone: Headline Inflation eased sharply in March; albeit we expect core inflation dip to be one-off

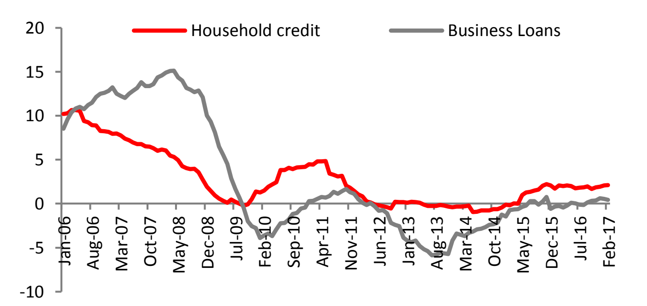
% change y-o-y



Source: Eurostat

Fig. 8. Eurozone: Sluggish credit demand key reason for muted underlying inflation

% change y-o-y



Source: European Central Bank

Weak credit demand and excess capacity have tied down underlying inflationary pressures

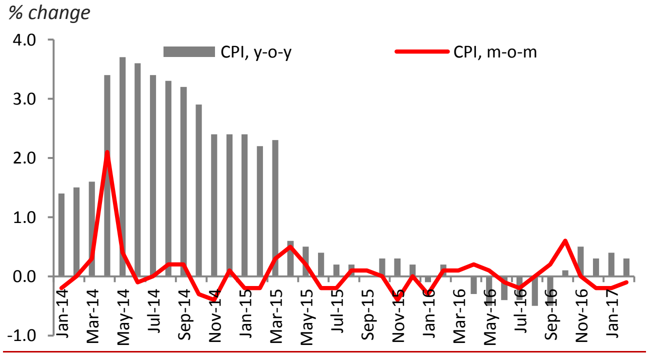
The latest inflation print supports our view that underlying price pressures in the Eurozone remain muted, and there is a strong likelihood of headline CPI coming in slightly below the ECB's forecast of 1.7% y-o-y for 2017. In particular, inflation in non-energy industrial goods, an indicator of aggregate investment demand, has remained stuck at near-zero levels, despite a substantial depreciation in the EUR. This points to the scale of overcapacity in the economy, which has improved only gradually since the announcement of the ECB's QE programme in March 2015. Furthermore, the signs of a pick-up in credit demand have been weak; monetary data for February showed a stagnation in both yearly industrial and household loan growth. The latest inflation print and monetary data will likely temper market expectations of a tapering in QE asset purchases by the ECB this year. We expect a cautious cut in monthly asset purchases by the ECB following the reduction to EUR60 billion this month (from EUR80 billion). We expect the next reduction in 2Q2018 only, which should be followed by another two to three quarters in which the central bank keeps policy rates at current levels.

Japan: Some support for inflation from resilient household spending

Tight labour market and pick-up in exports to support near-term inflation outlook

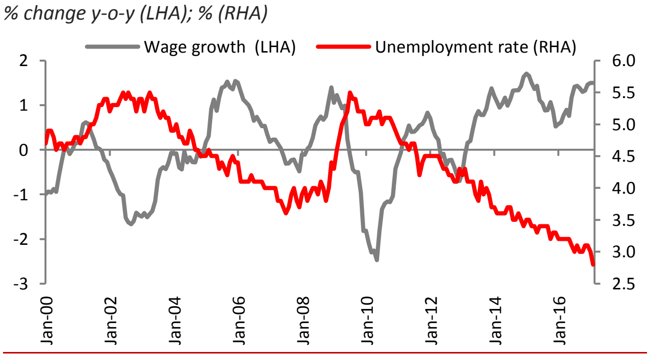
Inflation rose by 0.3% y-o-y in February (consensus: 0.2%; January: 0.4%), marking the fifth consecutive month out of deflation for the Japanese economy. The underlying details were more encouraging, with core prices up 0.2% (January: 0.1%), mainly on account of a significant pick-up in the prices of household goods and clothing. The pick-up in prices of these discretionary items is further evidence of a short-term uplift in consumer spending, complementing the resilience seen in other trackers of consumer activity (retail sales, consumer confidence and core household spending). Furthermore, support for consumer prices is likely to also come from the labour market, which has continued to tighten. The unemployment rate fell to 2.8% in February (3% previously), its lowest level since 1994, and the job-to-applicants ratio recently shows a reduction in the skill mismatch. We consider the near-term outlook for inflation and consumer spending (three to six months) to be positive for Japan, given the recent rise in exports and industrial production (4.8% y-o-y in February after 3.7% y-o-y in January).

Fig. 9. Japan: Recent inflation dynamics have been constructive, supported by consumer spending



Source: Ministry of Internal Affairs and Communication

Fig. 10. Japan: Wage growth has remained modest, even as unemployment rate has fallen to all-time lows



Source: Ministry of Internal Affairs and Communication

However, BoJ to maintain accommodative monetary stance

Nevertheless, we do not expect the inflation drivers (labour market, fiscal policy and export-led economic recovery) to be powerful enough to push headline CPI close to or above the BoJ's 2% target by mid-2018 for two reasons. First, despite the tightening in labour markets to a 23-year high, wage growth has not accelerated commensurately. Indeed, the spring wage hikes announced by employers so far this year have been weaker than in 2016, limiting the medium-term purchasing power of consumers. Furthermore, the recent weakness in the USD, following tempered expectations of a fiscal stimulus and rising policy uncertainty, has begun to weigh on the JPY through safe haven flows. Consequently, we expect the BoJ to continue to emphasise its commitment to its yield curve target programme, keeping in place its accommodative monetary stance to alleviate disinflationary pressures.

C. Emerging Market Economies

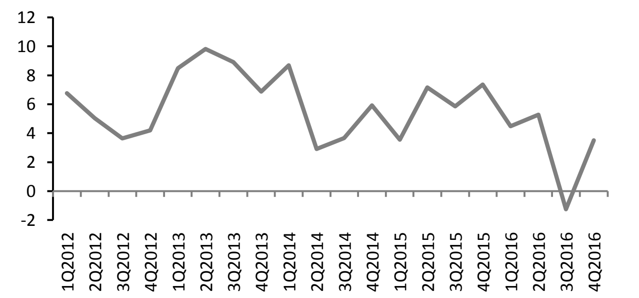
Turkey: GDP rebounds in 4Q2016, but 2017 outlook weaker

Rebound mostly driven by pent-up activity from 3Q

Turkey's GDP expanded by 3.5% y-o-y in 4Q2016 (consensus: 1.9%, 3Q: -1.3%), at a significantly stronger pace than market expectations. In our view, much of this rebound was the result of a resumption in economic activity that had been halted in 3Q due to the turmoil surrounding the attempted coup against President Recep Erdogan. Specifically, household consumption and tourism volumes saw the strongest rebound following the coup-related disruption. Even so, on an aggregate basis, GDP growth in 2016 slowed to 2.9% (6.1% y-o-y in 2016).

Fig. 11. Turkey: GDP growth rebounded strongly in 4Q2016, but remained below 2015 levels

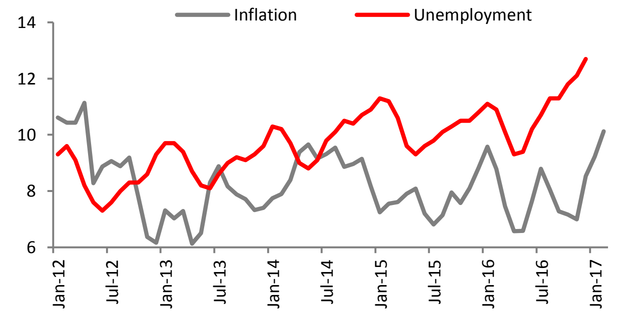
% change y-o-y



Source: Turkey State Institute of Statistics

Fig. 12. Turkey: Consumption likely to be squeezed by rising unemployment and inflation

% change y-o-y (inflation), % (unemployment)



Source: Turkey State Institute of Statistics

Referendum-related uncertainties will weigh on growth in 2017

We expect growth to weaken further in 2017 to 2.3% y-o-y (consensus: 2.5% y-o-y), as the uncertainty around the constitutional referendum and the resulting political structure weighs on investment decisions. A weaker TRY (on a y-o-y basis), accompanied by stretched foreign debt positions of corporates is likely to be an additional headwind to investment growth. Furthermore, we expect household consumption to soften, despite the tax breaks and fiscal incentives announced by the government in its 2017 budget, as double digit inflation and a pick-up in the unemployment rate are likely to drag down household spending.

II. Economic Calendar

Fig. 13. The week ahead

Time	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Feb	2.3%	--
	Qatar	CPI, y-o-y	Mar	0.7%	--
	Qatar	GDP Constant Prices, y-o-y	4Q	3.7%	--
	Qatar	M2 Money Supply, y-o-y	Feb	-0.8%	--
	Bahrain	GDP Constant Prices, y-o-y	4Q	3.9%	--
	Egypt	Net Reserves	Mar	26.5B	--
	Egypt	Gross Official Reserves	Mar	26.6B	--
	China	Foreign Reserves	Mar	$3005.1B	$3007.5B
Monday, 3 Apr					
3:30	Japan	Nikkei Japan PMI Manufacturing	Mar F	52.6	--
3:50	Japan	Tankan Large Manufacturing Index	1Q	10	14
3:50	Japan	Tankan Large Non-Manufacturing Index	1Q	18	19
3:50	Japan	Tankan Large All Industry Capex	1Q	5.5%	-0.3%
5:45	China	Caixin China PMI Manufacturing	Mar	51.7	51.7
9:00	India	Nikkei India PMI Manufacturing	Mar	50.7	--
11:00	Turkey	CPI, y-o-y	Mar	10.1%	10.7%
12:30	UK	Markit UK PMI Manufacturing SA	Mar	54.6	55
13:00	Eurozone	Unemployment Rate	Feb	9.6%	9.5%
17:45	US	Markit US Manufacturing PMI	Mar F	53.4	53.5
17:45	US	Markit US Composite PMI	Mar F	53.2	--
18:00	US	ISM Manufacturing	Mar	57.7	57.2
18:30	US	Fed's Dudley Speaks at Press Briefing in New York			
23:00	US	Fed's Harker Speaks in Philadelphia on Fintech			
Tuesday, 4 Apr					
1:00	US	Fed's Lacker Speaks in Lexington, Virginia			
8:15	UAE	UAE PMI	Mar	56	--
8:15	Saudi Arabia	Saudi Arabia PMI	Mar	57	--
18:00	US	Factory Orders, m-o-m	Feb	1.2%	0.9%
18:00	US	Durable Goods Orders, m-o-m	Feb F	1.7%	--
Wednesday, 5 Apr					
0:30	US	Fed's Tarullo speaks at Princeton University			
15:00	US	MBA Mortgage Applications	31-Mar	-0.8%	--
16:15	US	ADP Employment Change	Mar	298K	195K
18:00	US	ISM Non-Manf. Composite	Mar	57.6	57
22:00	US	FOMC Meeting Minutes	15-Mar	--	--
Thursday, 6 Apr					
13:00	India	RBI Repurchase Rate	6-Apr	6.25%	6.25%
15:30	Eurozone	ECB account of the monetary policy meeting			
16:30	US	Initial Jobless Claims	1-Apr	258K	250K
17:30	US	Fed's Williams Speaks on a Panel in Frankfurt			
Friday, 7 Apr					
	Eurozone	EU Summit in Valletta, Malta			
4:00	Japan	Labor Cash Earnings, y-o-y	Feb	0.3%	0.5%
12:30	UK	Industrial Production, m-o-m	Feb	-0.4%	0.2%
12:30	UK	Industrial Production, y-o-y	Feb	3.2%	3.7%
16:30	US	Change in Nonfarm Payrolls	Mar	235K	175K
16:30	US	Unemployment Rate	Mar	4.7%	4.7%
16:30	US	Average Hourly Earnings, m-o-m	Mar	0.2%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Mar	2.8%	2.7%
16:30	US	Labor Force Participation Rate	Mar	63%	

* UAE time

Source: Bloomberg

Fig. 14. Last week's data

Time	Country	Event	Period	Prior	Consensus	Actual
MENA Data						
	UAE	Dubai Airport Cargo Volume, y-o-y	Feb	3.4%	--	-1.9%
	Saudi Arabia	GDP Constant Prices, y-o-y	4Q	0.9%	--	1.2%
	Saudi Arabia	M2 Money Supply, y-o-y	Feb	3%	--	3.1%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Feb	1937.5B	--	1900.7B
	Kuwait	CPI, y-o-y	Feb	3.3%	--	3.2%
	Oman	CPI, y-o-y	Feb	1.8%	--	2.4%
Monday, 27 Mar						
12:00	Eurozone	M3 Money Supply, y-o-y	Feb	4.8%	4.9%	4.7%
12:00	Germany	IFO Business Climate	Mar	111.1	111.1	112.3
Tuesday, 28 Mar						
18:00	US	Conf. Board Consumer Confidence	Mar	116.1	114	125.6
Wednesday, 29 Mar						
3:50	Japan	Retail Sales, m-o-m	Feb	0.2%	0.3%	0.2%
Thursday, 30 Mar						
	Egypt	GDP Constant, q-o-q	4Q	3.9%	--	-1.7%
	Egypt	Deposit Rate	30-Mar	14.75%	14.75%	14.75%
	Egypt	Lending Rate	30-Mar	15.75%	--	15.75%
16:30	US	GDP Annualized, q-o-q SAAR	4Q T	1.9%	2%	2.1%
16:30	US	Personal Consumption, q-o-q SAAR	4Q T	3%	3%	3.5%
16:30	US	GDP Price Index, q-o-q SAAR	4Q T	2%	2%	2.1%
16:30	US	Core PCE, q-o-q SAAR	4Q T	1.2%	1.2%	1.3%
16:30	US	Initial Jobless Claims	25-Mar	261K	247K	258K
Friday, 31 Mar						
3:30	Japan	Jobless Rate	Feb	3%	3%	2.8%
3:30	Japan	CPI, y-o-y	Feb	0.4%	0.2%	0.3%
3:30	Japan	CPI, ex-Fresh Food, y-o-y	Feb	0.1%	0.2%	0.2%
3:50	Japan	Industrial Production, y-o-y	Feb P	3.7%	4.8%	3.9%
11:00	Turkey	GDP, y-o-y	4Q	-1.3%	1.9%	3.5%
12:30	UK	GDP, q-o-q	4Q F	0.7%	0.7%	0.7%
13:00	Eurozone	CPI Estimate, y-o-y	Mar	2%	1.8%	1.5%
13:00	Eurozone	CPI Core, y-o-y	Mar A	0.9%	0.8%	0.7%
16:30	US	Personal Income, m-o-m	Feb	0.5%	0.4%	0.4%
16:30	US	Personal Spending, m-o-m	Feb	0.2%	0.2%	0.1%
16:30	US	PCE Deflator, y-o-y	Feb	1.9%	2.1%	2.1%
16:30	US	PCE Core, y-o-y	Feb	1.8%	1.7%	1.8%
18:00	US	U. of Mich. Sentiment	Mar F	97.6	97.6	96.9%

* UAE time
Source: Bloomberg

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