

## The Week Ahead: Important week with ECB meeting and US labour data

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### ► Eurozone: Further ECB easing expected on 3 December

We expect the ECB to announce further monetary easing at its 3 December meeting, driven by the low inflation outlook. We foresee the bank cutting the deposit facility rate by at least -10 bps to -0.3%. We also expect the ECB to extend its asset purchase programme by at least a year (from the current September 2016 end date) and to increase the size of the monthly purchases to EUR65-70 billion (from the current EUR60 billion). The ECB has become increasingly apprehensive over the deterioration in the inflation outlook, which is due partly to weak energy prices. Concerns over the poor domestic economic momentum and global uncertainties also appear likely to support further easing. Eurozone economic activity has been insufficient to erode spare capacity in a meaningful way. The Governing Council will have updated economic staff projections at its December meeting with which to reassess the case for further easing. Markets will continue to focus on diverging monetary policy trends between the ECB and the US Fed. However, a -10 bps deposit rate cut by the ECB and a 25 bps hike in the FFTR are already priced in. Separately, we expect the RBI to keep India's interest rates on hold.

### ► US: November NFPs the key data release

Jobs data will be central to the Fed's interest rate decision at its 15-16 December meeting. The consensus is for a healthy 200K jobs to have been created in November (data due on 4 December), though this would be down from the 271K jobs added in October. The unemployment rate is forecast to have remained at 5% in November, though wage growth is expected to have moderated to 0.2% m-o-m (from 0.4% in October). We believe that monthly nonfarm payroll growth of 140K or above would be sufficient to meet the FOMC's requirement of further improvements in the labour market in order to start raising rates. Fed Chair Janet Yellen testifies to Congress on Thursday, and is expected to continue to hint at a December liftoff followed by a weak hiking cycle.

### ► Oil: OPEC unlikely to change output policy

OPEC members will also meet on 4 December to review their production policy. We do not expect overall output policy to change. Markets responded recently to comments made at a Saudi cabinet meeting which highlighted the Kingdom's role in stabilising the oil market and its willingness to work with all oil producers. This was widely viewed as an indication that output will be cut somewhat. However, we understand this to mean that Saudi Arabia will need to see cuts from non-OPEC members and will not move unilaterally. One potential change could be an increase in OPEC's production ceiling as Indonesia rejoins the group after a seven-year hiatus. Going forward, OPEC will likely need to deal with high oil production from Iran. Recent comments from Iranian Oil Minister Bijan Namdar Zanganeh indicated that OPEC should make room for increased Iranian crude production within the group's ceiling of 30 million bpd.

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## I. Recent Data and Events

### A. MENA Economies

#### Saudi Arabia: NFA drawdown moderates in October

Monetary data for Saudi Arabia continue to reflect a sharp deterioration in the fiscal balance. Net foreign assets (NFAs) held by SAMA continued to fall in October, by -USD6.6 billion. This brought SAMA's NFAs down to USD640.4 billion, their lowest level since December 2012. However, the data point to a moderation in government spending growth versus previous months, with a decrease in the pace of NFA drawdowns. The drop in SAMA's NFAs in October was the mildest since August 2015. Moreover, government deposits at SAMA and commercial banks both rose m-o-m in October, for the first time in 2015. Saudi Arabia has been looking to cut back on non-essential spending, and these data provide tentative indications of a gradual pullback. However, the government continued to increase its borrowing from the banking sector, including loans and bonds.

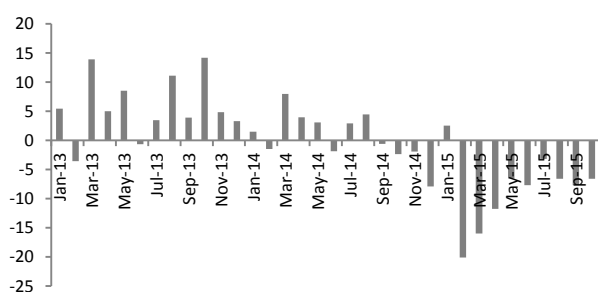
*Government deposits at SAMA and commercial banks increase in October*

Despite the rise in government deposits with commercial banks, total deposits in the banking sector contracted by -3.1% m-o-m in October. As such, the loan-to-deposit ratio increased to 84.4%, from 81.1% in September. Total credit growth decelerated to 5.5% y-o-y in October, from 11.3% y-o-y in December 2014.

*Banking sector liquidity continues to tighten*

**Fig. 1. Saudi Arabia: Fall in SAMA's NFAs moderates in October**

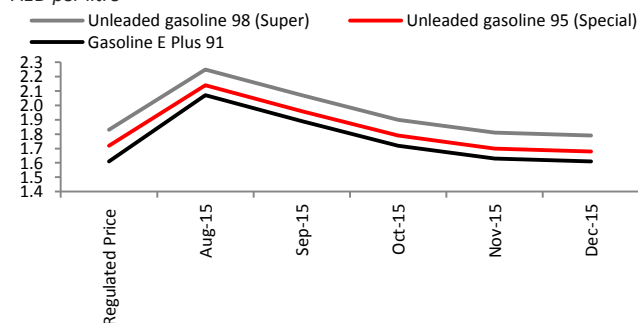
USD billion



Source: SAMA

**Fig. 2. UAE: December gasoline prices to be in line with or below previously regulated prices**

AED per litre



Source: UAE Ministry of Energy

#### UAE: Fuel prices to be reduced in December

The UAE announced December fuel prices last week. Both gasoline and diesel are to be reduced from their November levels, reflecting global price developments. Gasoline prices (95 and 98) have been below their regulated levels since the start of November 2015, and the December reduction will bring Gasoline E Plus 91 in line with the previously regulated price (prices were liberalised in August 2015). The lower fuel prices should help reduce inflation in 4Q2015, in line with our house view. The UAE's consumer price inflation softened to 3.7% y-o-y in October from 4.3% in September. On a monthly basis, the CPI fell -0.4% m-o-m. The yearly moderation was due partly to a deceleration in transportation price inflation to just 1.6% y-o-y (-4.1% m-o-m) in October.

*All gasoline prices are now lower than the regulated price*

## B. G4 Economies

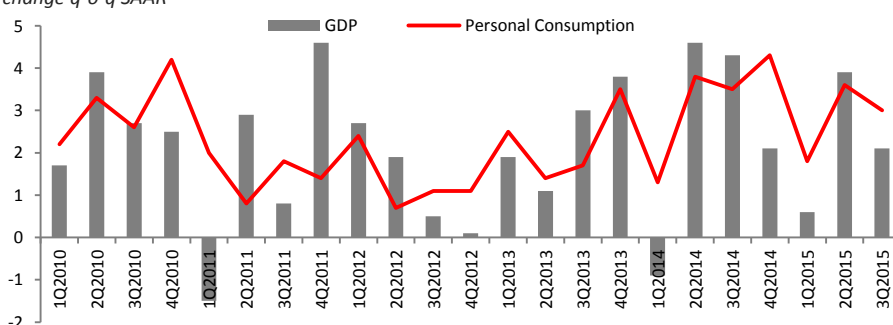
### US: 3Q GDP growth revised up to 2.1% q-o-q

US 3Q GDP growth was revised up to 2.1% q-o-q SAAR last week. This was in line with the consensus and up from 1.5% in the initial reading. The strengthening in growth was due mainly to a smaller drag from inventories (of -0.6 pp versus -1.4 pp initially); this more than compensated for the downward revisions to exports and personal consumption. Consumer spending was revised down to 3% SAAR (from 3.2%), though it remained strong, supported by lower petrol prices and housing market gains. We see the changes (versus the first reading) as reflecting a weakening in the quality of the growth drivers. Nevertheless, the solid pace of expansion should support a December interest rate hike. The 3Q growth rate should help the US economy to achieve roughly 1.9% growth in 2H2015, close to its long-term potential and sufficient for a December rate increase. However, there are signs that consumer spending is softening in 4Q (please see below), and the inventory overhang is also expected to increase.

*Drag from inventories weaker, but private consumption growth revised down*

**Fig. 3. US: 3Q GDP growth revised up on inventories, private consumption growth lowered**

% change q-o-q SAAR

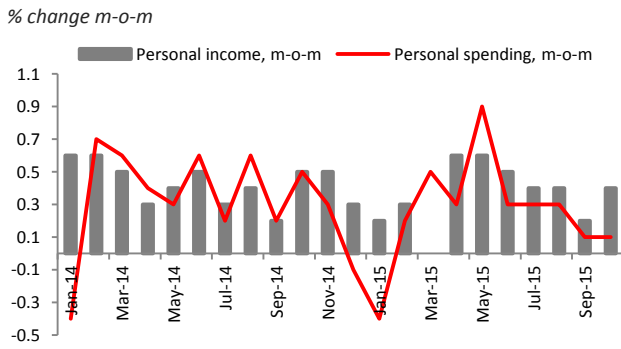


Source: Bloomberg

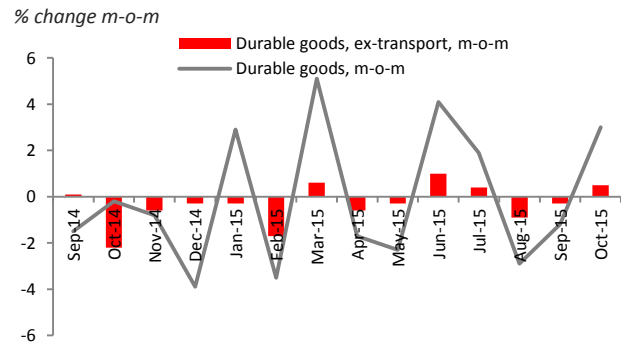
Wider data from the US last week were mixed. Durable goods came in stronger than the consensus for October, while personal spending remained weak.

**Personal spending:** Consumer spending remained subdued in October, rising just 0.1% m-o-m. This was in line with the September rate, but lower than the consensus of 0.3% m-o-m. We had seen downside to the consensus after the weak retail sales data for October. Income gains accelerated to 0.4% m-o-m, resulting in the savings rate jumping to its highest level in almost three years. The recent deceleration in personal spending growth may have been caused partly by rising rents and medical costs diverting money from discretionary spending. For 2016, there is still optimism that wage growth will pick up on the back of the tightening labour market, supporting consumer spending.

*October personal spending weaker than expected*

**Fig. 4. US: Personal spending growth remains weak in September and October at 0.1% m-o-m**

Source: Bloomberg

**Fig. 5. US: Durable goods orders rebound in October, but concerns over headwinds remain**

Source: Bloomberg

**Durable goods orders:** Durable goods orders rose by a solid 3% m-o-m in October, above the consensus of 1.7%. However, this followed two consecutive months of decline. Meanwhile, non-defence capital goods orders (ex-aircraft), a closely watched proxy for business spending plans, jumped 1.3% m-o-m following a 0.4% increase in September. We see these data as positive, though we continue to highlight the sector's headwinds, including the strong USD and deep spending cuts by energy firms.

## Eurozone: November PMI reaches four year high

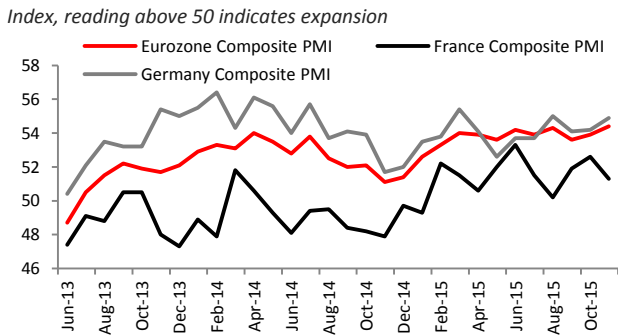
Business activity in the Eurozone strengthened at its fastest pace since mid-2011 in November. The Eurozone's flash composite PMI index rose to 54.4, above the consensus of 54 and October's 53.9. There were particularly strong gains in the output, employment, and new orders components. At the country level, France's composite PMI slowed due to the service sector. This was likely due to the terrorist attacks in Paris, though the decrease was less than might have been expected. The weaker activity in France was offset by a stronger PMI reading in Germany. Both the manufacturing and service surveys rose from October and beat the consensus. Overall, the data point to a pickup in economic momentum in 4Q2015, with a probable increase in domestic activity. Moreover, external demand was likely boosted by the weakening EUR. Nevertheless, the November survey showed a continued lack of pickup in inflationary pressure despite the rise in output and job creation. Economic spare capacity remains high, and substantially stronger growth will be required to erode this.

**Ifo data:** German business confidence rose unexpectedly in November, indicating that the economy was sufficiently robust to weather the global slowdown and Volkswagen AG's emissions scandal. The German Ifo Business Climate Index rose unexpectedly to 109 in November, its highest level since July 2014. Both the assessment of the current situation (113.4) and future expectations (104.7) increased solidly, coming in above the consensus. Moreover, the Ifo Business Climate Index for the German service sector rose to its highest level since the series was launched in 2005. The readings, in conjunction with the PMI data, support the outlook for 4Q. However, the 3Q Ifo survey overstated the strength in the manufacturing sector compared to actual factory orders and output data.

*Strong gains in key output, employment, and new orders components in November*

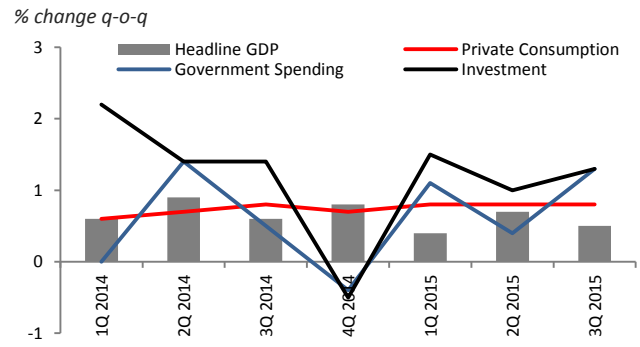
*November Ifo survey points to pickup in German economic activity in 4Q*

**Fig. 6. Eurozone: PMI rises in November on stronger German reading, weaker EUR likely supportive**



Source: Bloomberg

**Fig. 7. UK: Investment and government spending accelerate in 3Q, boosting domestic demand**



Source: Bloomberg

**UK: Carney uncertain on rate hike timing**

In his testimony to the UK Treasury Committee, BoE Governor Mark Carney again sounded vague about when interest rates will start to rise. He mentioned that the hiking cycle would be consistent with the strength of the domestic economy. He also indicated that interest rates will remain low, even with any (gradual) increases. Meanwhile, BoE Chief Economist Andy Haldane’s testimony had a bearish tone, saying that he saw more downside risks to growth and inflation than had been indicated in the bank’s most recent economic outlook. Moreover, Haldane reiterated his view that the BoE’s next move might actually be a rate cut.

*Carney indicates only gradual hiking cycle with interest rates being kept low*

We continue to see the possibility of a 25 bps rate hike in mid-2016, though markets are pricing in a first hike only in 2017. The second reading of 3Q GDP data showed a positive underlying domestic demand environment, though GDP growth remained steady at 0.5% q-o-q. Consumer spending growth remained solid at 0.8% q-o-q for a third consecutive quarter, whilst investment growth accelerated to 1.3% q-o-q (from 1% in 2Q). Real government spending rose by a robust 1.3% q-o-q in 3Q, despite the government’s austerity plans. Thus, domestic demand grew 1% q-o-q in 3Q, its fastest pace in two years. However, there was substantial drag from net trade, which subtracted -1.5 ppt from 3Q GDP growth as import growth rose sharply and export growth fell.

*Underlying UK GDP data show solid domestic demand environment*

The government loosened its fiscal policy in its autumn spending review. Chancellor George Osborne dropped an unpopular plan to scrap certain benefits for low earners, and eased other deep cuts made in the budget. Stronger-than-forecast tax receipts and lower debt interest payments allowed the chancellor to ease the spending cuts announced earlier in the year. There was also an increase in capital expenditure. Moreover, Osborne raised some taxes (including on second homes and rental properties), enabling a GBP9 billion cut to forecast borrowing between FY2015-16 and FY2020-21. The overall impact of these changes on GDP growth will likely be muted, with few major policy announcements expected.

*Economic impact of fiscal loosening to be moderate*

## C. Emerging Market Economies

### Turkey: Interest rates kept on hold, rising economic headwinds

The CBRT retained its existing monetary stance last week, leaving all key rates unchanged as expected. The policy rate stayed at 7.5% and the ON deposit and lending rates remained at 7.25% and 10.75%. The CBRT indicated that it will retain a tight liquidity stance for as long as it deems necessary. We believe that the bank will follow the US Fed in raising interest rates in December to support capital inflows and the TRY. Moreover, a tight monetary policy will be required to lower inflation expectations, especially after the government decided to go ahead with a minimum-wage increase of 30%. Meanwhile, the long-awaited formation of Turkey's cabinet was announced last week. Markets will be watching closely for economic policy formulation as well as any pressure being put on institutions such as the CBRT.

*Tight liquidity stance to be retained*

The economic outlook faces additional headwinds from the heightened tensions between Russia and Turkey. Russian President Vladimir Putin signed a decree over the weekend imposing a raft of economic sanctions against Turkey. The decree, effective immediately, will severely impact Russian tourism to Turkey, banning charter flights there. Visitors from Russia make up more than 10% of tourists to Turkey, the second-highest number after those from Germany. Moreover, numerous Turkish imports to Russia have been banned. The sanctions are likely to impact Turkey's growth and current account, placing additional pressure on the TRY.

*Economic outlook deteriorates after Russian sanctions*

## II. Economic Calendar

**Fig. 8. Upcoming Events and Data Releases**

Time*	Country	Data point	Period	Prior	Consensus
<b>Expected this week</b>					
	Bahrain	GDP Constant Prices, y-o-y	3Q	3.7%	--
	UAE	Dubai Airport Cargo Volume, y-o-y	Oct	0.3%	--
	Egypt	Gross Official Reserves	Nov	16.4B	--
<b>Monday 30 Nov</b>					
3:50	Japan	Industrial Production, m-o-m	Oct P	1.1%	1.8%
3:50	Japan	Industrial Production, y-o-y	Oct P	-0.8%	-0.9%
3:50	Japan	Retail Trade, y-o-y	Oct	-0.1%	0.9%
3:50	Japan	Retail Sales, m-o-m	Oct	0.8%	0.3%
5:00	Japan	BOJ Kuroda makes a speech in Nagoya			
13:30	UK	Mortgage Approvals	Oct	68.9K	69.9K
16:00	India	GDP, y-o-y	3Q	7%	7.3%
18:45	US	Chicago Purchasing Manager	Nov	56.2	54
19:00	US	Pending Home Sales, m-o-m	Oct	-2.3%	1%
<b>Tuesday 1 Dec</b>					
5:35	Japan	Nikkei Japan PMI Mfg	Nov F	52.8	--
5:45	China	Caixin China PMI Mfg	Nov	48.3	48.3
9:00	India	Nikkei India PMI Mfg	Nov	50.7	--
9:30	India	RBI Cash Reserve Ratio	1-Dec	4%	4%
9:30	India	RBI Repurchase Rate	1-Dec	6.75%	6.75%
9:30	India	RBI Reverse Repo Rate	1-Dec	5.75%	5.75%
14:00	Eurozone	Unemployment Rate	Oct	10.8%	10.8%
19:00	US	ISM Manufacturing	Nov	50.1	50.5
21:45	US	Fed's Evans Speaks on Economy and Policy in East Lansing			
<b>Wednesday 2 Dec</b>					
5:00	US	Fed's Brainard Speaks on Lower Neutral Rates in Stanford CA			
14:00	Eurozone	CPI Estimate, y-o-y	Nov	0.1%	0.2%
14:00	Eurozone	CPI Core, y-o-y	Nov A	1.1%	1.1%
17:10	US	Fed's Lockhart Speaks on U.S. Economy in Florida			
17:15	US	ADP Employment Change	Nov	182K	190K
23:00	US	US Federal Reserve Releases Beige Book			
<b>Thursday 3 Dec</b>					
0:40	US	Fed's Williams Delivers Outlook Speech in Portland, Oregon			
13:00	Eurozone	Markit Eurozone Composite PMI	Nov F	54.4	54.4
14:00	Eurozone	Retail Sales, m-o-m	Oct	-0.1%	0.2%
14:00	Eurozone	Retail Sales, y-o-y	Oct	2.9%	2.6%
16:45	Eurozone	ECB Main Refinancing Rate	3-Dec	0.05%	0.05%
16:45	Eurozone	ECB Deposit Facility Rate	3-Dec	-0.2%	-0.3%
16:45	Eurozone	ECB Marginal Lending Facility	3-Dec	0.3%	0.3%
17:30	US	Initial Jobless Claims	28-Nov	260K	270K
19:00	US	Yellen Appears Before Congressional Joint Economic Committee			
19:00	US	Factory Orders	Oct	-1%	1.4%
22:10	US	Fed Vice Chair Fischer Speaks at Financial Stability Conference			
<b>Friday 4 Dec</b>					
17:30	US	Change in Nonfarm Payrolls	Nov	271K	200K
17:30	US	Unemployment Rate	Nov	5%	5%
17:30	US	Average Hourly Earnings, m-o-m	Nov	0.4%	0.2%
17:30	US	Average Hourly Earnings, y-o-y	Nov	2.5%	2.3%
17:30	US	Labor Force Participation Rate	Nov	62.4%	--
17:30	US	Trade Balance	Oct	-\$40.8B	-\$40.7B

\* UAE time

Source: Bloomberg

Fig. 9. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
<b>GCC data</b>						
	UAE	CPI, y-o-y	Oct	4.3%		3.7%
	UAE	CPI, m-o-m	Oct	0.3%	--	-0.4%
	Kuwait	CPI, y-o-y	Oct	3.1%	--	3.2%
	Kuwait	CPI, m-o-m	Oct	0.2%	--	0.1%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Oct	2426.1B	--	2401.3B
<b>Monday 23 Nov</b>						
12:30	Germany	Markit/BME Germany Manufacturing PMI	Nov P	52.1	52	52.6
12:30	Germany	Markit Germany Services PMI	Nov P	54.5	54.4	55.6
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Nov P	52.3	52.3	52.8
13:00	Eurozone	Markit Eurozone Services PMI	Nov P	54.1	54.1	54.6
18:45	US	Markit US Manufacturing PMI	Nov P	54.1	54	52.6
19:00	US	Existing Home Sales	Oct	5.55M	5.4M	5.36M
19:00	US	Existing Home Sales, m-o-m	Oct	4.7%	-2.7%	-3.4%
<b>Tuesday 24 Nov</b>						
5:35	Japan	Nikkei Japan PMI Mfg	Nov P	52.4	--	52.8
13:00	Germany	Ifo Business Climate	Nov	108.2	108.2	109
13:00	Germany	Ifo Current Assessment	Nov	112.7	112.4	113.4
13:00	Germany	Ifo Expectations	Nov	103.9	104	104.7
14:00	UK	BOE's Carney and Haldane Testify to UK Treasury Committee				
17:30	US	GDP Annualised, q-o-q	3Q S	1.5%	2.1%	2.1%
17:30	US	Personal Consumption, q-o-q	3Q S	3.2%	3.2%	3%
17:30	US	GDP Price Index	3Q S	1.2%	1.2%	1.3%
17:30	US	Core PCE, q-o-q	3Q S	1.3%	1.3%	1.3%
19:00	US	Consumer Confidence Index	Nov	99.1	99.5	90.4
<b>Wednesday 25 Nov</b>						
16:00	US	MBA Mortgage Applications	20-Nov	6.2%	--	-3.2%
17:30	US	Personal Income, m-o-m	Oct	0.2%	0.4%	0.4%
17:30	US	Personal Spending, m-o-m	Oct	0.1%	0.3%	0.1%
17:30	US	PCE Deflator, m-o-m	Oct	-0.1%	0.2%	0.1%
17:30	US	PCE Deflator, y-o-y	Oct	0.2%	0.3%	0.2%
17:30	US	PCE Core, m-o-m	Oct	0.2%	0.1%	0%
17:30	US	PCE Core, y-o-y	Oct	1.3%	1.4%	1.3%
17:30	US	Durable Goods Orders, m-o-m	Oct P	-0.8%	1.7%	3%
17:30	US	Durables, ex-Transportation, m-o-m	Oct P	-0.1%	0.3%	0.5%
17:30	US	Initial Jobless Claims	21-Nov	272K	270K	260K
19:00	US	New Home Sales	Oct	447K	500K	495K
19:00	US	New Home Sales, m-o-m	Oct	-12.9%	6.8%	10.7%
<b>Thursday 26 Nov</b>						
13:00	Eurozone	M3 Money Supply, y-o-y	Oct	4.9%	4.9%	5.3%
16:00	Germany	GfK Consumer Confidence	Dec	9.4	9.2	9.3
<b>Friday 27 Nov</b>						
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Oct	-0.1%	-0.1%	-0.1%
3:30	Japan	Natl CPI, ex-Food and Energy, y-o-y	Oct	0.9%	0.8%	0.7%
13:30	UK	GDP, q-o-q	3Q P	0.5%	0.5%	0.5%
13:30	UK	GDP, y-o-y	3Q P	2.3%	2.3%	2.3%
13:30	UK	Private Consumption, q-o-q	3Q P	0.8%	0.7%	0.8%
14:00	Eurozone	Economic Confidence	Nov	106.1	105.9	106.1
14:00	Eurozone	Business Climate Indicator	Nov	0.44	0.45	0.36
14:00	Eurozone	Consumer Confidence	Nov F	-6.0	--	-5.9

\* UAE time

Source: Bloomberg



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