

## The Week Ahead: Central banks in the spotlight; IMF talks also in focus

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### ► **US: 17 September FOMC minutes to be released**

This week will be dominated by global central bank related events, including the release of the FOMC's mid-September minutes on 8 October. These should provide more detailed reasoning behind the Fed's decision to leave interest rates on hold on 17 September, and will likely show that it was a close decision to keep the FFTR unchanged. The market will look to gauge the likelihood of a rate hike in 2015 and the criteria required by the Fed. The minutes are expected to be more dovish than recent comments by Fed members, which have largely pointed to a rate hike in 2015. However, the more hawkish tone was taken before the release of the weak September NFP numbers last Friday, which could point to a further delay in the much anticipated December rate hike. A number of Fed members are scheduled to speak this week, and their comments will be all the more important following the disappointing NFP data.

### ► **BoE and BoJ expected to keep rates on hold**

The BoE is expected to remain on hold this week, with only one Monetary Policy Committee (MPC) member expected to vote for a hike. More important will be the BoE's assessment of the UK economy. Following the US payroll data, markets have pushed out the expectation of a first rate hike by the BoE to early 2017. We still believe that the bank may raise in February 2016 on the back of the tighter labour market and weaker economic linkages to China. We also expect the BoJ to remain on hold at its 7 October meeting, likely waiting for its 30 October meeting – when the semi-annual report is released – to announce any further easing. Recent Japanese economic data have surprised to the downside, failing to indicate the expected 3Q recovery. Finally, the IMF is to hold its annual meeting in Peru on 9-11 September, and update its World Economic Outlook. The IMF's outlook is likely to show an expectation of deteriorating global growth, whilst the debate will probably focus on China's growth and the timing of a US rate hike.

### ► **India: RBI expected to remain on hold for rest of 2015**

We see the RBI keeping rates on hold for the remainder of 2015 following its deeper-than-expected cuts last week, when it lowered benchmark rates by 50 bps, bringing the repo rate to 6.75% and the reverse repo rate to 5.75%. The deeper cuts were driven by the weakening in global activity and the bank's outlook for commodity prices to remain contained for some time, with the latter being particularly important. We see the possibility of a further 25 bps cut in 1H2016 if commodity price inflation remains weak. The overall the tone of the statement and post-meeting comments indicate that the RBI is now more confident that inflation will remain contained.

*Please be advised that the next issue of Global Data Watch will be published on Monday 26 October.*

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## I. Recent Data and Events

### A. G4 economies

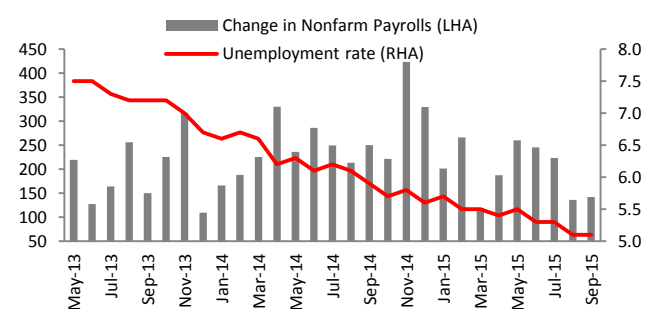
#### US: September NFPs weak, August data revised down

September nonfarm payroll growth disappointed at 142K, substantially below the market's expectation of 201K. Moreover, the number of jobs created in July and August was revised down by a combined 59K. The number of new jobs for August was cut by 37K to 136K, in sharp contrast to the upward revision expected. The revisions and September outturn have lowered the three-month moving average to 167K and the six-month average to 199K. The unemployment rate held steady at 5.1% in September, though this was due partly to a 0.2 pp fall in the participation rate to 62.4%. There was no monthly wage growth (i.e. 0% m-o-m), though August wage growth was revised up to 0.4% m-o-m (from 0.3% m-o-m previously).

*Softness in all areas of labour report, including zero monthly wage growth*

**Fig. 1. US: Jobs growth weak in September at just 142K; August figure revised down to 136K**

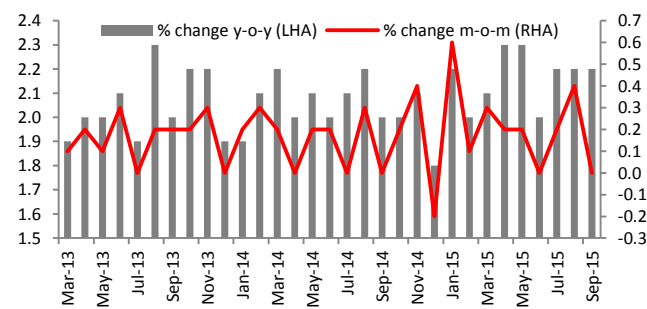
'000 (LHA); % (RHA)



Source: Bloomberg

**Fig. 2. US: No m-o-m change in wages in September; wage growth remains steady at 2.2% y-o-y**

% change



Source: Bloomberg

September marked a second consecutive month of weak employment data. It was the first time since mid-2013 that US jobs grew at such a slow pace for two consecutive months. Wider data for consumer spending remained solid, as did non-manufacturing data. Nevertheless, the deterioration in the labour data presents significant risk to a December rate increase. Moreover, the manufacturing data reinforce fears that the China-led global economic slowdown is negatively impacting the US recovery (as is the strong USD). The ISM manufacturing index moderated to 50.2 in September, just marginally within expansionary territory, from 51.1 in August. The more forward-looking new orders index fell to 50.1 in September (from 51.7), and the new export orders index remained in the contraction zone at 46.5.

*Manufacturing indicators weakening*

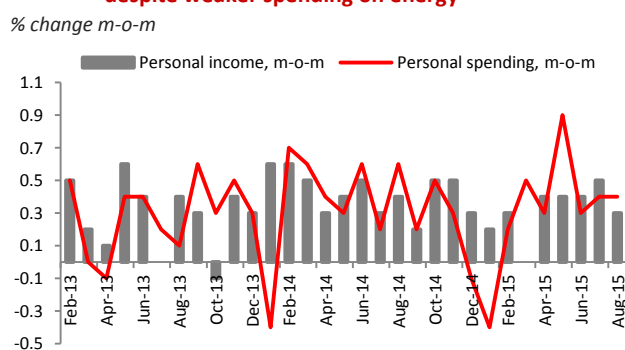
**Fed speaker:** Fed members gave mixed messages regarding the US's interest rate outlook last week. This raised further questions over the central bank's ability to manage its guidance at this critical juncture. New York Fed President William Dudley and San Francisco Fed President John Williams both signalled support for an interest rate hike this year. Dudley indicated that the Fed's inflation target could be reached in 2016, faster than many policy makers anticipate, and that an October rate hike was a possibility. However, Chicago Fed President Charles Evans expressed a significantly more dovish view, calling for rates to stay around zero until mid-2016.

*Fed speakers providing mixed messages, impacting credibility*

Overall, there has been some backtracking following the very dovish tone of the Fed’s post-FOMC press conference. Fed members have highlighted that the decision to keep rates unchanged in September was close, and that a liftoff later in 2015 is still on the table. However, markets are increasingly disregarding comments by Fed members. These have included Fed Chair Janet Yellen indicating that most members favour a rate increase in 2015. However, this position has become more challenging with the deteriorating global outlook and weak US jobs data. We believe that the September labour data effectively remove any chance of an October rate hike. A December cut would require an improvement in labour activity, in our view.

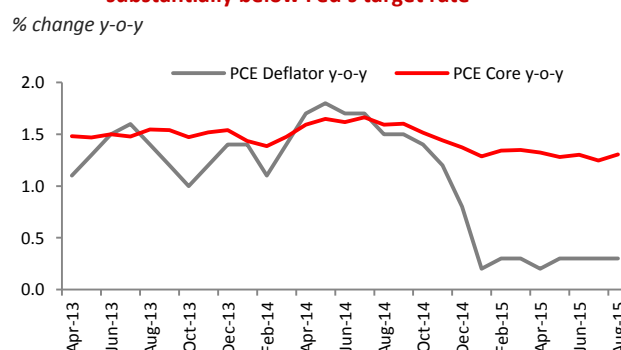
*Fed statements point to 2015 rate hike, though comments were made before the weak September jobs data*

**Fig. 3. US: Personal spending growth solid at 0.4% m-o-m despite weaker spending on energy**



Source: Bloomberg

**Fig. 4. US: Inflation remains weak; core PCE deflator still substantially below Fed’s target rate**



Source: Bloomberg

**Personal spending:** The data for August provided some moderate upside surprises. Expenditure growth was a solid 0.4% m-o-m in August, versus the market’s expectation of a 0.3% increase. The July data were upwardly revised to 0.4% m-o-m growth, from 0.3% previously. The August rise was particularly notable given that expenditure on gasoline and other energy goods dropped -2.1% m-o-m. The motor vehicles and housing areas saw solid spending growth in August. The data continued to point to healthy private consumption in 3Q. Inflation remained weak, with goods price inflation subdued. The core PCE deflator (the Fed’s preferred gauge of inflation) remained steady at 0.1% m-o-m in August, in line with the market’s expectation and unchanged from July. On a yearly basis, the PCE deflator rose moderately to 1.3% y-o-y, though this was still substantially below the Fed’s 2% target.

*Data point to healthy personal consumption in 3Q*

Meanwhile, consumer sentiment remained buoyant in September, pointing to private consumption remaining the main GDP growth driver. The consumer confidence index rose to 103 points (its second highest level since 2007), versus the market’s expectation of 96.8. The main drivers were positive assessments of the current employment and income situation.

*Consumer sentiment remains strong in September*

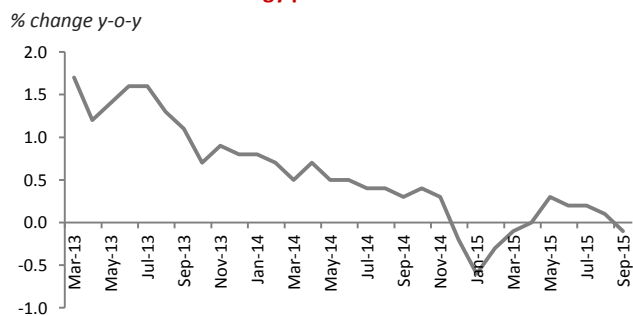
**Eurozone: Inflation turns negative in September as energy prices drag**

Consumer prices fell -0.1% y-o-y in September (preliminary estimate), their first contraction since March and below the consensus of zero growth. Central to the September fall was greater drag from energy prices, which dropped -8.9% y-o-y. Meanwhile, core inflation remained unchanged (though weak) at 0.9% y-o-y. With core inflation forecast to remain lacklustre, we expect the ECB to extend its QE programme

*Greater drag from energy prices in September*

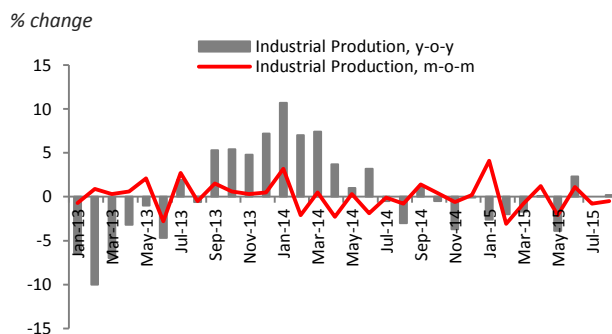
beyond September 2016, when the current one ends. However, we do not expect any new programme to be announced in the coming months.

**Fig. 5. Eurozone: Headline inflation contracts in September with lower energy prices**



Source; Bloomberg

**Fig. 6. Japan: Industrial production weakens with moderation in external demand**



Source: Bloomberg

## Japan: Latest data point to absence of growth drivers

The latest data from Japan continued to point to a softening industrial outlook on the back of weakening external demand. Japan's factory output fell unexpectedly for a second straight month in August, by -0.5% m-o-m, versus the market's expectation of 1% growth. Shipments also contracted, by -0.5% m-o-m, reflecting weaker exports. August retail sales growth also came in weaker than expected, at 0.8% y-o-y versus the consensus of 1.2%. The latest data point to an absence of any meaningful growth engines, either domestic or external, and raise concerns over 3Q real GDP growth. The data are likely to place additional pressure on the BoJ ahead of its 7 and 30 October meetings. The bank is to release its semi-annual economic outlook at its 30 October meeting, which will be critical in assessing whether it will look to add further stimulus. We believe that any further monetary policy loosening will be announced at the 30 October meeting. We believe that the BoJ's September Tankan survey should slightly reduce calls for further monetary easing. However, given the recent deterioration in overall activity, the risk of further easing has increased. The timing will be heavily dependent on upcoming data and market trends.

*Industrial production and retail sales weaker than expected in August*

The 3Q Tankan survey showed sentiment weakening in September compared to June, though there were some positive surprises, and overall the moderation was less contained than the market had expected. Large companies saw current business conditions deteriorate moderately, and the manufacturing index slipped to 12, from 15 in 2Q. However, the non-manufacturing index strengthened to 25 from 23, likely supported by the tourism and real estate sectors. In contrast, the business conditions DI among large non-manufacturers improved to 25, from 23 in the June survey. The improvement was a positive surprise, as the market had expected a slight downturn in service sector sentiment.

*Sentiment stronger in service sector than in manufacturing*

## B. Emerging Market Economies

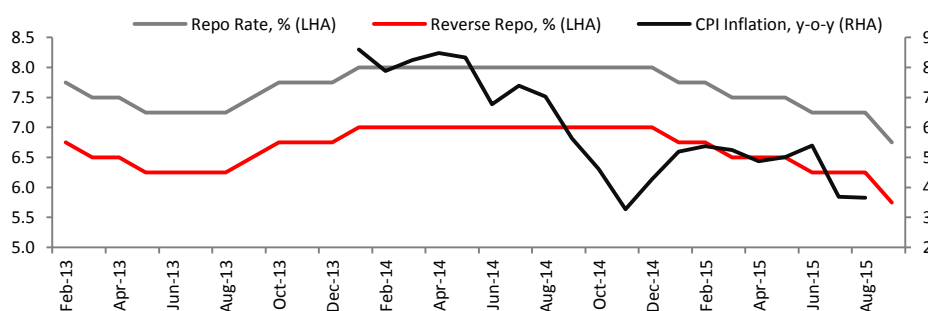
### India: RBI cuts rates by 50 bps, more than market expected

The RBI cut its benchmark interest rates by 50 bps on 29 September, more than the market’s expectation of a 25 bps cut. This brought the repo rate to 6.75% and the reverse repo rate to 5.75%. The deeper cuts were driven by the weakening in global activity and the bank’s outlook for commodity prices to remain contained for some time, with the latter being particularly important. The 50 bps cut was also likely made partly to encourage greater transmission by commercial banks. The RBI had already cut rates by 75 bps in 2015 (i.e. before the September reduction), yet the median lending rate by banks had fallen only 30 bps despite ample banking sector liquidity. This was limiting the support to GDP growth from the looser monetary policy. RBI Governor Raghuram Rajan said that “Investment is likely to respond more strongly if there is more certainty about the extent of monetary stimulus in the pipeline, even if transmission is slow”. The lower interest rates should be positive for private sentiment and support recovery in personal consumption, in our view.

*RBI front loading rate cuts with weaker commodity price outlook*

**Fig. 7. India: RBI cuts benchmark rates by 50 bps in September as January inflation target expected to be met**

% (LHA), % change y-o-y (RHA)



Source; RBI, Bloomberg

We do not expect any further rate cuts in 2015, with the front loading of cuts indicating that the RBI is confident that its 6% inflation target for January 2016 will be met. This is despite the expected rise in inflation from September, with agriflation likely to be higher as the favourable base effect is removed. Moreover, the favourable base effect in energy prices should also fade from November 2015. Rajan indicated that policy will now focus on bringing inflation down to 5% by March 2017. We see the possibility of a further 25 bps rate cut in 1H2016 if commodity prices remain weak. The RBI kept the door open to further cuts by retaining the phrase “accommodative stance” in its monetary policy statement. Overall, the tone of the statement and post-meeting comments indicated that the RBI is more confident that inflation will remain contained. However, in the medium term, the RBI will likely look to government reforms to reduce structural drivers of inflation. These are to include focusing on government spending and the fiscal balance, as well as tax and land reforms.

*Door left open to further easing – RBI seems more confident on inflation outlook*

## II. Economic Calendar

**Fig. 8. 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	
	Oman	CPI, y-o-y	Sep	0.1%	--
	Egypt	Net Reserves	Sep	18.1b	--
	Egypt	Gross Official Reserves	Sep	18.1b	--
<b>Monday 5, October</b>					
5:35	Japan	Nikkei Japan PMI Services	Sep	53.7	--
5:35	Japan	Nikkei Japan PMI Composite	Sep	52.9	--
8:30	Egypt	Emirates NBD Egypt PMI	Sep	51.2	--
9:30	UAE	Emirates NBD UAE PMI	Sep	57.1	--
9:30	Saudi Arabia	Emirates NBD Saudi Arabia PMI	Sep	58.7	--
12:00	Eurozone	Markit Eurozone Services PMI	Sep F	54	54
12:00	Eurozone	Markit Eurozone Composite PMI	Sep F	53.9	53.9
12:30	UK	Markit/CIPS UK Services PMI	Sep	55.6	56
12:30	UK	Markit/CIPS UK Composite PMI	Sep	55.1	54.9
13:00	Eurozone	Retail Sales, m-o-m	Aug	0.4%	0%
13:00	Eurozone	Retail Sales, y-o-y	Aug	2.7%	1.7%
17:00	Eurozone	Euro-Area Finance Ministers Meet in Luxembourg			
18:00	US	ISM Non-Manf. Composite	Sep	59	57.5
<b>Tuesday 6, Oct</b>					
9:00	India	Nikkei India PMI Services	Sep	51.8	--
9:00	India	Nikkei India PMI Composite	Sep	52.6	--
10:00	Germany	Factory Orders, m-o-m	Aug	-1.4%	0.5%
11:00	Eurozone	EU Finance Ministers Hold Meeting in Luxembourg			
16:30	US	Trade Balance	Aug	-\$41.9B	-\$47.1B
21:00	Eurozone	ECB's Draghi Speaks in Frankfurt			
<b>Wednesday 7, Oct</b>					
	China	Foreign Reserves	Sep	\$3557.4B	\$3480.0B
1:30	US	Fed's Williams Gives Outlook Speech in San Francisco			
	Japan	BOJ Annual Rise in Monetary Base	7-Oct	¥80T	¥80T
7:00	Japan	Bank of Japan Policy Statement/Kuroda Press Conference			
10:00	Germany	Industrial Production SA, m-o-m	Aug	0.7%	0.2%
12:30	UK	Industrial Production, m-o-m	Aug	-0.4%	0.3%
12:30	UK	Industrial Production, y-o-y	Aug	0.8%	1.2%
14:00	Eurozone	Merkel, Hollande Speak at EU Parliament in Strasbourg			
15:00	US	MBA Mortgage Applications	2-Oct	--	--
23:00	US	Consumer Credit	Aug	\$19.1B	\$19.5b
<b>Thursday 8, Oct</b>					
3:50	Japan	Machine Orders, m-o-m	Aug	-3.6%	3%
3:50	Japan	BoP Current Account Balance	Aug	¥1808.6B	¥1226.9B
3:50	Japan	Trade Balance BoP Basis	Aug	-¥108B	-¥395.1B
15:00	UK	BOE Asset Purchase Target	Oct	375B	375B
15:00	UK	Bank of England Bank Rate	8-Oct	0.5%	0.5%
16:30	US	Initial Jobless Claims	3-Oct	277K	274K
22:00	US	US Fed Releases Minutes from Sept. 16-17 FOMC Meeting			
23:30	US	Fed's Williams Gives Outlook Speech in Spokane			
17:10	US	Fed's Lockhart Speaks on Economy in New York			
21:30	US	Fed's Evans Speaks on Monetary Policy in Milwaukee, WI			
<b>9-11 Oct</b>		IMF and World Bank Hold Annual Meeting in Peru			

\* UAE time

Source: Bloomberg

Fig. 9. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
<b>GCC Data</b>						
	UAE	Dubai Airport Cargo Volume, y-o-y	Aug	8%	--	5.3%
	Qatar	GDP Constant Prices, y-o-y	2Q	4.1%	--	4.8%
	Qatar	GDP Constant Prices, q-o-q	2Q	3.4%	--	0.5%
<b>Monday 28, Sept</b>						
12:00	Eurozone	EU's Moscovici Speaks in Berlin				
16:30	US	Personal Spending	Aug	0.4%	0.3%	0.4%
16:30	US	PCE Deflator, m-o-m	Aug	0.1%	0%	0%
16:30	US	PCE Deflator, y-o-y	Aug	0.3%	0.3%	0.3%
16:30	US	PCE Core, m-o-m	Aug	0.1%	0.1%	0.1%
16:30	US	PCE Core, y-o-y	Aug	1.2%	1.3%	1.3%
18:00	US	Pending Home Sales, m-o-m	Aug	0.5%	0.4%	-1.4
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%	6.75%
9:30	India	RBI Reverse Repo Rate	Sep-29	6.25%	6%	5.75%
13:00	Eurozone	Consumer Confidence	Sep F	-7.1	-7.1	-7.1
18:00	US	Consumer Confidence Index	Sep	101.3	96.8	103
<b>Wednesday 30, Sept</b>						
3:50	Japan	Industrial Production, m-o-m	Aug P	-0.8%	1%	-0.5%
3:50	Japan	Industrial Production, y-o-y	Aug P	0%	1.8%	0.2%
3:50	Japan	Retail Trade, y-o-y	Aug	1.8%	1.2%	0.8%
3:50	Japan	Retail Sales, m-o-m	Aug	1.4%	0.5%	0%
12:30	UK	GDP, q-o-q	2Q F	0.7%	0.7%	0.7%
12:30	UK	GDP, y-o-y	2Q F	2.6%	2.6%	2.4%
13:00	Eurozone	Unemployment Rate	Aug	11%	10.9%	11%
13:00	Eurozone	CPI Estimate, y-o-y	Sep	0.1%	0%	-0.1%
13:00	Eurozone	CPI Core, y-o-y	Sep A	0.9%	0.9%	0.9%
16:15	US	ADP Employment Change	Sep	186K	190K	200K
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	12
3:50	Japan	Tankan Large All Industry Capex	3Q	9.3%	8.7%	10.9%
4:00	US	Fed's Brainard Speaks on Community Banking in St. Louis				
5:00	China	Manufacturing PMI	Sep	49.7	49.7	49.8
16:30	US	Initial Jobless Claims	Sep-26	267K	271K	277K
18:00	US	ISM Manufacturing	Sep	51.1	50.6	50.2
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%	3.4%
16:30	US	Change in Nonfarm Payrolls	Sep	136K	201K	142K
16:30	US	Unemployment Rate	Sep	5.1%	5.1%	5.1%
16:30	US	Average Hourly Earnings, m-o-m	Sep	0.4%	0.2%	0.0%
16:30	US	Average Hourly Earnings, y-o-y	Sep	2.2%	2.4%	2.2%
16:30	US	Labour Force Participation Rate	Sep	62.6%	--	62.4%
18:00	US	Factory Orders	Aug	0.2%	-1.2%	-1.7
21:00	US	Fischer Addresses Boston Fed Conference on Monetary Policy				

\* UAE time

Source: Bloomberg

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