The Week Ahead: China data in focus

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US: Retail spending and consumer confidence data the key releases

The October nonfarm payroll report provided an exciting end to last week, bolstering our outlook for a December interest rate hike. The market-implied probability of a 25 bps interest rate hike in December increased to 68% following the strong October labour report. Overall, the robust report will likely give the Fed confidence that the labour market is tightening and that this will support inflation. This week, markets will look for confirmation that the solid labour market is underpinning consumer confidence and retail spending. The consensus is expecting a rebound in October retail ex-auto spending (released on 13 November) to 0.4% m-o-m growth. This would be up from a -0.3% contraction in September. A number of FOMC members are also due to speak this week. Fed members have struck a more confident tone in recent speeches, and this could be even more pronounced following the October payroll data.

China: Markets looking for stabilisation in October data

The key focus this week will be Chinese macroeconomic data for October, including retail spending, credit, and inflation. Overall, the data are expected to show underlying activity remaining weak, though stabilising. One area of improvement could be investment activity, with signs of faster approval of infrastructure projects to support the growth outlook. We continue to see the potential for a further 50 bps cut in the RRR in 4Q, but expect no further reductions in benchmark interest rates in 2015. Elsewhere, inflation in India is forecast to have strengthened in October (the figure is to be released on 12 November), driven by an unfavourable base effect and rising food prices.

Eurozone: GDP expected to remain steady at 0.4% q-o-q in 3Q

A number of European countries will release inflation and GDP data this week. The first estimate of Eurozone 3Q GDP is due on 13 November. The consensus expects Eurozone growth to have expanded by 0.4% q-o-q in 3Q, unchanged from the 2Q level. France and Italy are expected to see a pickup in growth momentum, whilst Germany is expected to see moderation. German industrial output data disappointed in 3Q, presenting some downside risk to the growth outlook. A number of ECB members are also scheduled to speak this week. Meanwhile, after the BoE struck a cautious tone last week, Mark Carney will give further insight at his appearance in front of the Treasury Select Committee on 10 November. The UK is to release unemployment data, with real wage growth expected to have remained strong in September on the back of the tightening labour market.

I. Recent Data and Events

A. MENA Economies

UAE: Credit growth continues to outpace deposit growth

GRE and private businesses see stronger credit growth in September

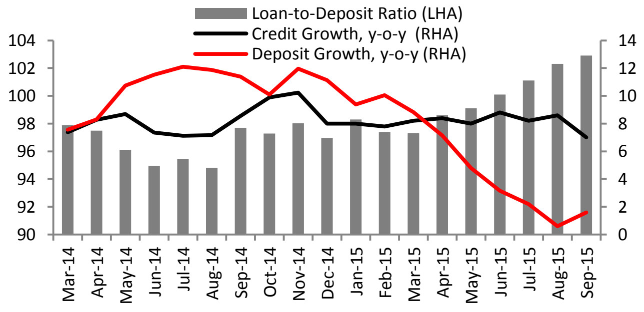
Central bank data continue to show liquidity tightening as total loan growth outstrips deposit growth. Credit growth expanded 1% m-o-m (7% y-o-y) in September, versus 0.9% m-o-m (8.6% y-o-y) in August. The slight monthly increase in September was driven by GREs and private corporates. Loans to the government contracted -2.1% m-o-m. Credit growth remained solid at an average 0.8% m-o-m in 9M2015. This was marginally below the 0.9% m-o-m growth seen in 9M2014. We expect some deceleration in credit growth going forward on the back of the tightening banking sector liquidity and rising market interest rates.

Deposit growth weak but positive m-o-m

Total deposits in the banking sector rose by a weak 0.4% m-o-m (1.6% y-o-y) in September following three consecutive months of m-o-m contraction. The L-to-D ratio rose to 102.9% in September (from 102.3% in August) as the deposit growth weakened. The continued rise in interbank rates suggests that liquidity tightened further in October 2015.

Fig. 1. UAE: L-to-D ratio continues to rise in September with stronger credit growth

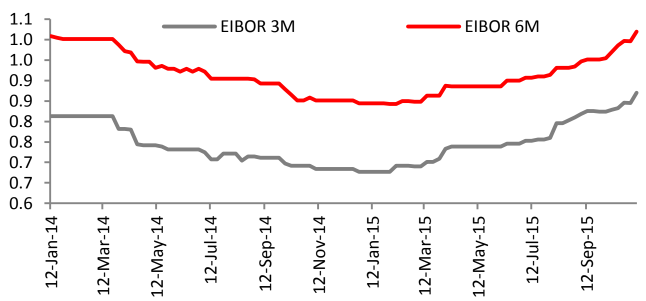
L-to-D ratio (LHA); % change y-o-y (RHA)



Source: Central Bank of the UAE

Fig. 2. UAE: Interbank rates point to further tightening in banking sector liquidity

%



Source: Bloomberg

UAE: PMI moderates in October, indicating weaker private sector activity

Data point to softening domestic demand

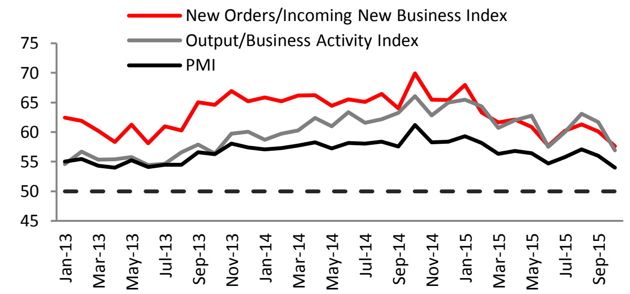
The PMI reading pointed to continuing softening in private sector activity in October. The headline index moderated to 54, from 56 in September (a reading above 50 indicates expansion). This was its lowest level since April 2013. The moderation was due partly to weaker (but still positive) activity in two of the main components of the PMI index, namely: i) output and business activity; and ii) new orders. Both of these indices fell below 60, with the output index softening to 56.9 in October, from 61.7 in September.

Softer external demand expected in 2016 with further GCC fiscal reforms

The moderation in output reflected the weaker demand environment, in our view, with both the private sector and the government taking a more cautious approach in light of the low oil price. The new orders index printed at 57.6 in October, down from 60.1 in September, with the lower reading suggesting softer demand going forward. The weaker orders also caused the pace of expansion of private sector stock purchases to moderate. However, export orders increased, to 54.6 in October from 49.1 in September. Nevertheless, the overall trend showed external demand growth weakening in 2015. We believe that the strong USD and greater fiscal adjustment in other GCC countries could cause this trend to continue in 2016.

Fig. 3. UAE: PMI moderates for second consecutive month in October, but remains comfortably expansionary

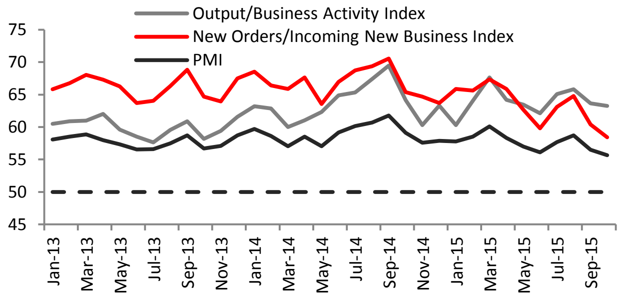
Index (reading above 50 indicates expansion in activity)



Source: Markit Economics

Fig. 4. Saudi Arabia: Increased discussion of fiscal reforms likely weigh on private sentiment in October

Index (reading above 50 indicates expansion in activity)



Source: Markit Economics

Saudi Arabia: October reading lowest since PMI index launched

Weaker private sector activity expected in 4Q with greater discussion of fiscal reforms

Saudi Arabia's PMI reading also weakened in October, with the headline index softening to 55.7, from 56.5 in September. This suggested a further loss in private sector momentum into 4Q. This was the lowest reading since the index was launched in August 2009, though it remained comfortably expansionary. A number of key subcomponents fell in October, including new orders, new export orders, and business activity. We believe that the weaker private sector activity may hint at a pullback in government expenditure. Moreover, we expect private sector sentiment and activity to be impacted by the increased discussion regarding fiscal requirements. We foresee greater fiscal adjustment in 2016, which we believe will likely lead to further moderation in non-oil activity.

Water prices to corporate and industrial sectors to be increased by 125% from December

Water tariffs increased: Saudi Arabia last week announced its first fiscal reform since the sharp fall in oil prices at the end of 2014. The government is to increase water prices for corporate, industrial, and government entities (private households are excluded from the rise) from 16 December. The price will be increased to SAR9 (USD2.4) per cubic metre, from the current SAR4. The move is aimed to discourage demand growth through wasteful consumption and to reduce pressure on public finances. While no data have been published on Saudi Arabia's spending on water subsidies, we see this as a positive initial step towards introducing fiscal reforms. However, the impact on Saudi Arabia's fiscal budget is expected to be limited. We believe that wider reductions in state subsidies and lower government spending will be required to reduce the fiscal deficit in 2016. The fact that the first subsidy reduction was in the industrial sector is in line with our expectation that reforms will focus primarily on non-household segments. We expect only a very gradual removal of subsidies for households. Indeed, Minister of Petroleum and Mineral Resources Ali al-Naimi indicated last week that Saudi Arabia has no pressing need to raise domestic energy prices. This was after he said that the government was reviewing domestic energy subsidies.

B. G4 Economies

US: Strong October nonfarm payroll data bolster case for December rate hike

271K jobs added in October, unemployment falls to 5%

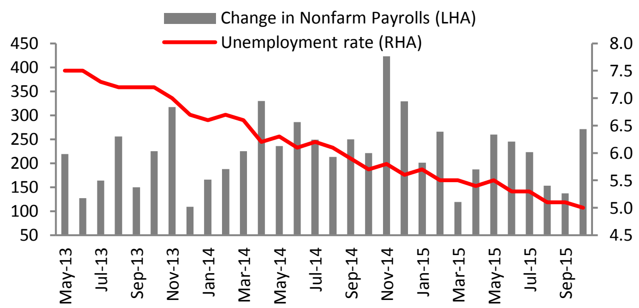
The October labour report saw marked improvements in a number of areas, which more than offset the weakness of the previous two months. Jobs growth surged and the unemployment rate fell to 5% in October (from 5.1% in September), its lowest rate since April 2008. This is a rate that many Fed officials see as consistent will full employment. Nonfarm payrolls increased by 271K in October, their strongest growth since December 2014 and substantially above the consensus expectation of 185K. Employment gains were broad-based, but particularly strong in the service sector (241K in October) and construction (31K). Manufacturing added no jobs in October (after contractions in the previous two months), and the mining sector lost -4K jobs, led by the oil & gas sector. The three-month moving average increased to 187K and the six-month to 215K on the back of the strong October jobs growth and upwards revisions to the previous two months. The three-month trend of 187K should result in the unemployment rate continuing to edge lower. Fed officials have cited 100K per month as the forward-looking equilibrium pace for employment growth.

Market-implied probability of December rate hike increases to 68%

Meanwhile, average hourly wage growth accelerated to 0.4% m-o-m, bringing the annual rate to 2.5% y-o-y. The y-o-y wage growth was the strongest since July 2009. The participation rate, however, remained steady at 62.4% in October. Overall, the robust October report will likely give the Fed confidence that the labour market is tightening and that this will support inflation. It also points to the economy regaining momentum into 4Q. The jobs data bolster our outlook for a December rate hike, especially in light of recent comments from the Fed, which have lowered the data bar for an increase. The market-implied probability of a 25 bps interest rate hike in December rose to 68% following the strong October labour report. The USD rallied last week on the rising expectations of a rate hike.

Fig. 5. US: October sees the strongest jobs growth in 2015; unemployment falls to 5%

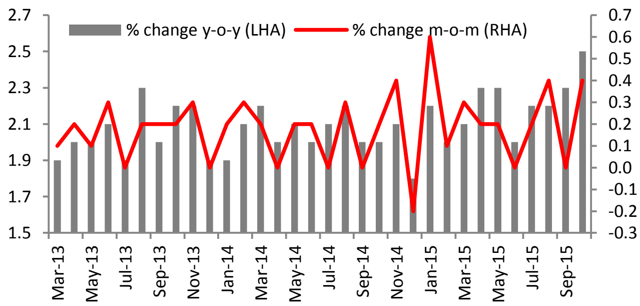
'000 (LHA), % (RHA)



Source: Bloomberg

Fig. 6. US: Annual wage growth accelerates to 2.5% in October, with 0.4% m-o-m rise

% change



Source: Bloomberg

External demand continues to fall, domestic order growth rises

US manufacturing ISM: The October reading of 50.1 was marginally above the consensus expectation of 50, though slightly below the 50.2 seen in September. Nevertheless, it continued to teeter on the brink of contraction for a second consecutive month. The impact of the strong USD and declining external demand was visible in the renewed contraction in new export orders. However, the underlying data did show some positives, including a solid increase in domestic new orders (52.9 in October versus 50.1 in September).

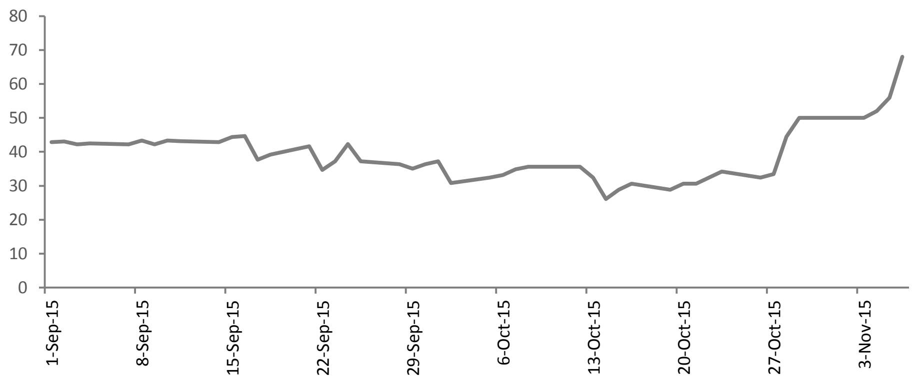
US: Fed Chair Janet Yellen hints at December rate hike

Fed speakers reiterate possibility of December hike

Fed comments ahead of the NFP data release also supported the outlook for a December 2015 rate hike. In her first public comments (made on 4 November) since the Fed's October meeting, Fed Chair Janet Yellen reiterated that a December "liftoff" was a possibility. She highlighted that the low unemployment rate, continued growth, and expectations that inflation will return mean that the country is ready for higher interest rates. Yellen noted that the FOMC expects "that the economy will continue to grow at a pace that's sufficient to generate further improvements to the labor market and to return inflation to our 2% target over the medium term". On the labour front, Yellen felt that the underutilisation of labour resources has diminished significantly in 2015, though she noted the recent slowdown in the pace of job gains. Two other senior members also pointed to the possibility of a December hike. New York Fed President William Dudley said that the Fed may raise interest rates as soon as next month. Fed Vice Chairman Stanley Fischer did not comment on the possible timing of a rate hike, but voiced confidence that inflation is not too far below the central bank's target.

Fig. 7. US: Market-implied probability of 25 bps interest rate hike in December rises to 68% in early November following Fed comments and strong labour data

% probability



Source: Bloomberg

Data still important; rate hiking cycle shallow

Both Yellen and Dudley reiterated the importance of upcoming data. Moreover, Yellen indicated that rates would rise only slowly following a liftoff in order to nurture the US economic recovery. The expected gradual nature of the rate hiking cycle is in line with our view. We foresee only two rate hikes in 2016, in light of: i) monetary policy diverging from those of other key central banks (ECB, BoJ, PBoC); ii) the strong USD acting as a form of monetary tightening; iii) the fragile emerging market outlook; and iv) oil prices remaining low.

UK: Dovish BoE delays expectations of rate hike

No change in MPC's voting pattern at November meeting

The BoE kept its monetary policy steady at last week's meeting, in line with expectations. This included maintaining the policy rate at 0.5% and the asset purchase facility at GBP375 billion. The Monetary Policy Committee's voting was unchanged, at 8-1 in favour of keeping interest rates on hold.

Tone bearish, with lower inflation projections and subdued conference by Carney

However, the BoE struck a dovish tone on 'Super Thursday', cutting inflation expectations by more than the market had anticipated. The end-2016 inflation rate was lowered to 1.1%, from the earlier projection of 1.5%. The BoE now sees inflation returning to its 2% target level only in 2H2017 (with risks to the downside), even if GDP growth remains above the trend and spare capacity falls. Lower energy prices were central to the weaker inflation outlook. Moreover, the BoE highlighted that the global growth outlook has softened since August on the back of emerging market weakness. BoE Governor Mark Carney was also subdued in the post-meeting press conference, adding to the impression that the BoE is feeling no sense of urgency to hike rates. Following these developments, markets are pricing in a full 25 bps rate hike only in 2Q2017. We still see the possibility of a mid-2016 hike in response to continued tightening in the labour market. However, risks of a delay have increased following the inflation report.

Eurozone: Draghi continues to reiterate need to re-examine monetary policy

ECB's QE programme and interest rate regime to be reviewed in December

ECB President Mario Draghi highlighted last week that Eurozone domestic demand remained resilient. However, concerns over emerging market growth were creating "downside risks to the outlook for growth and inflation". As such, Draghi reiterated that the degree of monetary policy accommodation will need to be re-examined at the Governing Council's December meeting. In earlier talks, Draghi had continued to hint that both QE and the negative interest rate regime would be extended. QE is helping to keep Eurozone bond yields down and the EUR weak. The negative interest rate environment is aimed at boosting private consumption and investment.

II. Economic Calendar

Fig. 8. Upcoming Events and Data Releases

Time*	Country	Data point	Period	Prior	Consensus
Expected this week					
	Egypt	Urban CPI, y-o-y	Oct	9.2%	--
	Saudi Arabia	CPI, y-o-y	Oct	2.3%	--
	China	New Yuan Loans CNY	Oct	1050B	800M
	China	Money Supply M2, y-o-y	Oct	13.1%	13.2%
Monday 9 Nov					
9:15	UAE	Dubai Economy Tracker SA	Oct	56	--
21:00	US	Fed's Rosengren Speaks on Outlook for US Economy			
Tuesday 10 Nov					
3:50	Japan	BoP Current Account Balance	Sep	¥1653.1B	¥2154B
3:50	Japan	Trade Balance BoP Basis	Sep	-¥326.1B	¥85.3B
5:30	China	CPI, y-o-y	Oct	1.6%	1.5%
11:30	Eurozone	EU's Vestager Speaks at Politico Breakfast in Brussels			
12:15	Eurozone	ECB's Nouy Speaks in Frankfurt			
15:15	Eurozone	ECB's Coeure Speaks in Berlin			
17:30	US	Import Price Index, m-o-m	Oct	-0.1%	-0.1%
19:00	US	Wholesale Inventories, m-o-m	Sep	0.1%	0%
Wednesday 11 Nov					
9:30	China	Retail Sales, y-o-y	Oct	10.9%	10.9%
9:30	China	Retail Sales YTD, y-o-y	Oct	10.5%	10.6%
9:30	China	Industrial Production, y-o-y	Oct	5.7%	5.8%
9:30	China	Industrial Production, YTD y-o-y	Oct	6.2%	6.2%
9:30	China	Fixed Assets, ex-Rural, YTD y-o-y	Oct	10.3%	10.2%
13:30	UK	Jobless Claims Change	Oct	4.6K	1.4K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Sep	3%	3.2%
13:30	UK	ILO Unemployment Rate 3Mths	Sep	5.4%	5.4%
17:15	Eurozone	ECB President Mario Draghi Speaks at BOE event in London			
	Eurozone	ECB's Constancio Speaks in Madrid			
Thursday 12 Nov					
3:50	Japan	Machine Orders, m-o-m	Sep	-5.7%	3.3%
14:00	Eurozone	Industrial Production SA, m-o-m	Sep	-0.5%	-0.1%
16:00	India	CPI, y-o-y	Oct	4.4%	--
17:30	US	Initial Jobless Claims	7-Nov	276K	270K
18:15	US	Fed's Bullard Speaks on Monetary Policy in Washington			
18:45	US	Fed's Lacker Participates in Monetary Policy Panel			
19:00	US	JOLTS Job Openings	Sep	5370	5385
19:15	US	Fed's Evans Speaks on Economy and Policy in Chicago			
21:15	US	Fed's Dudley Speaks on Economy and Policy in New York			
Friday 13 Nov					
8:30	Japan	Industrial Production, m-o-m	Sep F	1%	--
8:30	Japan	Industrial Production, y-o-y	Sep F	-0.9%	--
8:30	Japan	Capacity Utilization, m-o-m	Sep	-0.9%	--
14:00	Eurozone	GDP SA, q-o-q	3Q A	0.4%	0.4%
14:00	Eurozone	GDP SA, y-o-y	3Q A	1.5%	1.7%
17:30	US	Retail Sales Advance, m-o-m	Oct	0.1%	0.3%
17:30	US	Retail Sales, ex-Auto and Gas	Oct	0%	0.4%
17:30	US	Retail Sales Control Group	Oct	-0.1%	0.3%
19:00	US	U. of Mich. Sentiment	Nov P	90	91.5
19:00	US	U. of Mich. Current Conditions	Nov P	102.3	--
19:00	US	U. of Mich. Expectations	Nov P	82.1	--
21:30	US	Fed's Mester Speaks on Economic Outlook and Monetary Policy			

* UAE Time
Source: Bloomberg

Fig. 9. Last Week's Data

Time*	Country	Data point	Period	Prior	Consensus	Actual
MENA Data						
	Egypt	Net Reserves	Oct	16.3B	--	16.4B
	Egypt	Gross Official Reserves	Oct	16.4B	--	16.4B
Monday 2 Nov						
5:35	Japan	Nikkei Japan PMI Mfg	Oct F	52.5	--	52.4
9:00	India	Nikkei India PMI Mfg	Oct	51.2	--	50.7
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Oct F	52	52	52.3
13:30	UK	Markit UK PMI Manufacturing SA	Oct	51.8	51.3	55.5
19:00	US	Construction Spending, m-o-m	Sep	0.7%	0.5%	0.6%
19:00	US	ISM Manufacturing	Oct	50.2	50	50.1
Tuesday 3 Nov						
9:30	UAE	UAE PMI	Oct	56	--	54
9:30	Saudi Arabia	Saudi Arabia PMI	Oct	56.5	--	55.7
9:30	Egypt	Egypt PMI	Oct	50.2	--	47.2
19:00	US	Factory Orders	Sep	-2.1%	-0.9%	-1%
19:00	US	Factory Orders, ex-Trans	Sep	-1.1%	--	-0.6%
Wednesday 4 Nov						
5:35	Japan	Nikkei Japan PMI Composite	Oct	51.2	--	52.3
9:00	India	Nikkei India PMI Composite	Oct	51.5	--	52.6
13:00	Eurozone	Markit Eurozone Composite PMI	Oct F	54	54	53.9
16:00	US	MBA Mortgage Applications	30-Oct	-3.5%	--	-0.8%
17:15	US	ADP Employment Change	Oct	190K	180K	182K
18:45	US	Markit US Services PMI	Oct F	54.4	54.5	54.8
19:00	US	ISM Non-Manf. Composite	Oct	56.9	56.5	59.1
Thursday 5 Nov						
16:00	UK	BOE Asset Purchase Target	Nov	375B	375B	375B
16:00	UK	Bank of England Bank Rate	5-Nov	0.5%	0.5%	0.5%
16:00	UK	Bank of England Inflation Report				
17:30	US	Initial Jobless Claims	31-Oct	260K	262K	276K
Friday 6 Nov						
13:30	UK	Industrial Production, m-o-m	Sep	0.9%	-0.1%	-0.2%
13:30	UK	Industrial Production, y-o-y	Sep	1.8%	1.3%	1.1%
13:30	UK	Manufacturing Production, m-o-m	Sep	0.4%	0.6%	0.8%
17:30	US	Change in Nonfarm Payrolls	Oct	137K	185K	271K
17:30	US	Unemployment Rate	Oct	5.1%	5.1%	5%
17:30	US	Average Hourly Earnings, m-o-m	Oct	0%	0.2%	0.4%
17:30	US	Average Hourly Earnings, y-o-y	Oct	2.3%	2.3%	2.5%
17:30	US	Labor Force Participation Rate	Oct	62.4%	62.4%	62.4%

* UAE Time
Source: Bloomberg

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