The Week Ahead: UK Parliament Brexit vote and Spring budget statement in focus

Economics Team

Monica Malik, Ph.D.
Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

Thirumalai Nagesh
Economist
+971 (0)2 696 2704
Thirumalainagesh.venkatesh@adcb.com

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UK: Crucial week for Brexit – Article 50 extension most likely

The upcoming week will be a busy one with a number of key events and data releases scheduled, including the UK Spring budget statement and Brexit votes in Parliament. We believe that the second meaningful vote on Prime Minister Theresa May's Brexit plan on 12 March (rescheduled from February) is likely to fail in Parliament, with indications of no significant progress on the Northern Ireland backstop issue since the first vote in January. The expected defeat of the meaningful vote will lead Parliament to vote on a no-deal Brexit (due 13 March), which is again likely to fail in our view given the widespread opposition from MPs (both Labour and pro-EU Conservatives) to leaving the EU without a deal. The failure of these two votes should result in MPs voting for an extension of Article 50 on 14 March. We estimate that Parliament will most likely approve the extension for three months ending on 31 June. Separately, Chancellor of the Exchequer Philip Hammond will deliver the Spring statement on 13 March. We do not expect any significant changes to tax policy at this point, given the lack of clarity on the UK's future relationship with the EU. Market focus will be on the Office for Budget Responsibility's (OBR) revisions to growth and inflation projections, which are widely expected to be lowered, largely reflecting the weak incoming data.

Global: US and India inflation; Turkey 4Q GDP data

A number of data releases are scheduled for this week including US CPI inflation and retail sales, India CPI, Turkey 4Q GDP and China activity data (retail sales and industrial production). In the US, consensus forecasts core inflation to have remained unchanged at 0.2% m-o-m and 2.2% y-o-y in February. We believe upside inflationary pressures remain contained at this point, allowing the Fed to remain on hold in 1H2019. Moving to India, consensus envisages that headline inflation likely strengthened to 2.4% y-o-y in February (January: 2.05%) after surprising to the downside in the previous eight months. We believe that the uptick in January's inflation was largely due to a lower base and is unlikely to change the RBI's dovish monetary policy stance. We and the market continue to expect a 25 bps rate cut at the 4 April policy meeting given that headline inflation is forecast to broadly remain within the RBI's target range of 4% (+/-2pp) in 2019.

Japan: BoJ likely to maintain accommodative monetary policy

The BoJ's policy meeting, which is scheduled for 14-15 March, will be the only G4 central bank event this week and we expect monetary policy to remain steady. The focus will be on Governor Haruhiko Kuroda's post-meeting press conference, especially to gauge how he characterises the state of the economy, given increasing uncertainties regarding the global growth outlook and subdued inflationary pressures. This is especially after the BoE and ECB have become more dovish in the past few weeks. The ECB delivered a subdued outlook for the economy and announced a new TLTRO programme starting from September 2019 to boost liquidity in the economy (see page 4).

I. Recent Events and Data Releases

A. MENA Economies

Oman: Downgraded to sub-investment grade by Moody's

All three major credit rating agencies now have Oman as sub-investment grade

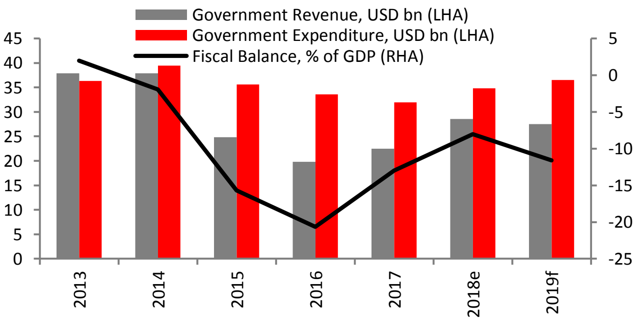
Moody's lowered Oman's sovereign rating to sub-investment grade last week, with the long-term issuer and senior unsecured bond ratings downgraded to Ba1 from Baa3. The outlook remains negative. All three of the major credit rating agencies now have Oman as sub-investment grade, with S&P the first to downgrade to this status in November 2017 and with Fitch following suit in December 2018. The key driver of the downgrade is Moody's expectation that "the scope for fiscal consolidation will remain more significantly constrained by the government's economic and social stability objectives," which will "perpetuate dependence on steady inflows of external financing". Moreover, in an environment of moderate oil prices, Oman's fiscal metrics will weaken to a level that is consistent with a lower rating.

We see Oman returning to international debt market in 2019, with funding costs likely reflecting weakening fiscal outlook

We expect Oman's fiscal deficit to widen to c.11.6% of GDP in 2019, from 8.1% in 2018. As highlighted in our earlier research, we do not see Oman taking any meaningful steps to improve the sustainability of its fiscal position this year, with no austerity measures or major fiscal reforms announced as yet. For further details, please see our note – **GCC Economic Update: Fragile non-oil growth recovery with limited pick-up in momentum**, published on 13 February 2019. The ongoing large fiscal deficit continues to erode Oman's fundamentals and the government's cost of raising debt is likely to increase further. We believe that Oman will still be able to access international debt over our two outlook periods, although access could be impeded in the medium term if reforms to narrow its twin deficits are not implemented. Oman has indicated that privatisation of state-owned enterprises will help reduce borrowing requirements for 2019, potentially by as much as 70%. However, we believe that this outlook could be optimistic on the timing front and we expect Oman to return to the international debt market in 2019. Meanwhile, Oman will not be one of the five GCC countries to benefit from entry into JP Morgan's emerging-market government bond indices in 2019, as it was already included.

Fig. 1. Oman: Fiscal deficit forecast to widen in 2019 with lower oil revenue and planned increase in spending

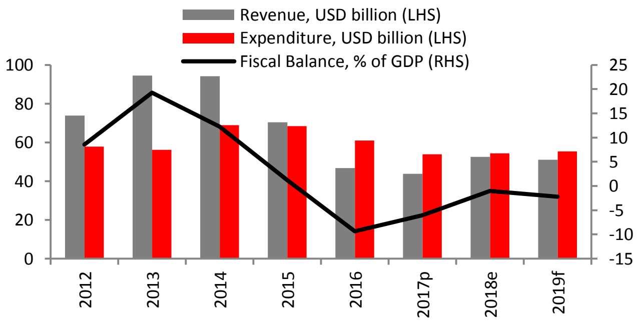
USD billion (LHA); % of GDP (RHA)



Source: Central Bank of Oman, IMF, ADCB estimates

Fig. 2. Qatar: Fiscal deficit expected to remain contained in 2019 with weak planned increase in expenditure

USD billion (LHA); % of GDP (RHA)



Source: Qatar Central Bank, IMF, ADCB estimates

Qatar: Raises USD12 billion in international debt

Qatar's funding requirements forecast to be less than USD12 billion raised

Qatar returned to the international debt capital markets last week, raising USD12 billion. The paper was split into three tranches: i) a USD2 billion 5-year note at 90 bps over US Treasuries; ii) a USD4 billion 10-year at 135 bps over US Treasuries; and iii) a USD6 billion 30-year debt offer at 175 bps over the same benchmark. Demand for the debt was strong at around USD50 billion. According to Reuters, this was the largest order book globally since Qatar's USD12 billion bond sale in April 2018. The pricing provided some new-issue premium – the price an issuer is ready to pay over its existing bonds to attract demand, although the spreads narrowed from the initial guidance due to the strong demand. Demand for the paper was likely bolstered by Qatar's inclusion in JPMorgan's emerging-market government bond indices, alongside other GCC countries (ex-Oman). We believe that the USD12 billion raised is substantially greater than the country's funding requirements in 2019, which was also the case in 2018. However, the bond issuance maintains relations with financial institutions, takes advantage of improved global financial conditions, and provides a benchmark for GREs that plan to raise debt. Moreover, more than USD10 billion in Qatari debt is due next year, and last week's debt sale could be partly used to pre-fund those maturities.

B. G4 Economies

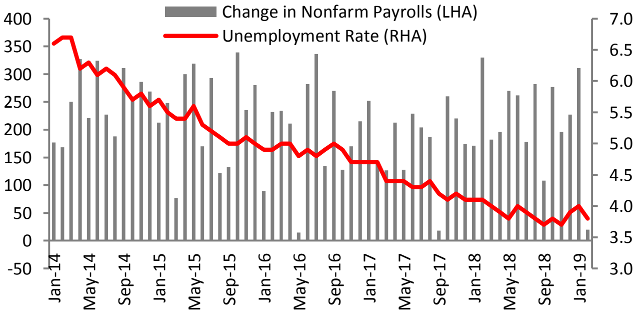
US: Hiring activity slows sharply in February, but wage growth ticks up

US economy adds just 20K jobs in February, likely due to bad weather conditions

February hiring activity surprised to the downside, but other details of the employment report suggest solid labour market conditions, with a pick-up in wage growth and a fall in the unemployment rate. The US economy added just 20K jobs in February (consensus: 180K), although the January data was raised to 311K, from 304K in the previous estimate. The disappointing hiring activity in February could be due to i) some payback from robust January job gains; and ii) bad weather conditions affecting the construction (-31K), mining (-5K), and leisure and hospitality (0K) sectors. Hiring in the services sector continued to show solid momentum with professional and business services adding 42K jobs in February. We believe that payroll growth will rebound in March as weather-related disruptions fade.

Fig. 3. US: Average jobs growth in 2M2019 still healthy despite relatively weak February print

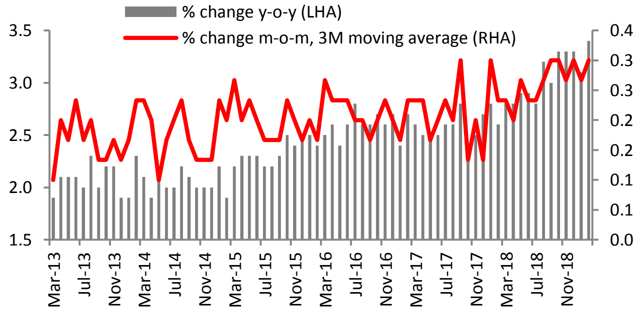
'000 (LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 4. US: Annual wage growth accelerates to 3.4% y-o-y in February - highest point since April 2009

% change



Source: Bureau of Labor Statistics

Labour market slack continues to diminish with unemployment rate falling to 3.8% in February

Wage growth surprised to the upside and accelerated on both monthly and annual terms in February. Average hourly earnings rose to 0.4% m-o-m in February, from 0.1% in January, taking the annual print to 3.4% – the highest level since April 2009. However, the y-o-y print for January was lowered marginally to 3.1% from 3.2% in the previous estimate. The unemployment rate surprised to the downside and fell to 3.8% in February (consensus: 3.9%), from 4% in January, suggesting that the labour market slack continues to diminish. We believe that this report is unlikely to change the Fed's patient narrative and we expect the FOMC to remain on hold in 1H2019.

Eurozone: Dovish tilt to ECB meeting, TLTRO III announced

ECB announces new TLTRO in March, with technical details to follow in upcoming meetings

The ECB announced a number of policy guidance changes at its 7 March meeting, whilst leaving all key interest rates unchanged. The changes made by the governing council (GC) include: i) an extension of the forward guidance that key interest rates will remain at their present levels at least through to the end of 2019 (previously summer 2019); ii) the announcement of new series of targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021; and iii) a commitment to conducting its one-week main refinancing operations (MROs) as fixed-rate full allotment tenders at least until March 2021. The ECB highlighted that additional details on the TLTRO-III programme will be communicated in the near term. We believe that this new TLTRO programme will maintain favourable bank lending conditions and support liquidity in the banking system. Moreover, the GC stated that reinvestments of maturing securities purchased under the QE programme will be made in full, suggesting that monetary policy will remain accommodative in the near term.

ECB downgrades both growth and inflation projections for 2019 and 2020

On the economy, the ECB lowered its growth and inflation forecasts for 2019 and 2020, in line with our and market expectations. The real GDP growth estimate was cut sharply to 1.1% in 2019 (previously 1.7%), and 1.6% in 2020 (December: 1.7%), reflecting the weak incoming data and a less favourable assessment of the short-term outlook. Moreover, the ECB underlined that "risks surrounding the euro area growth outlook are still tilted to the downside". On prices, the core inflation forecast was slashed to 1.2% in 2019 (previously 1.6%), and 1.5% (December: 1.7%) in 2020. According to the ECB projections, core inflation will not reach the ECB's 2% target during the forecast period ending 2021. Looking ahead, we expect underlying inflation to remain subdued in the near term, allowing the ECB to maintain an accommodative monetary policy throughout 2019. Overall, we do not expect any policy rate hikes by the ECB until 1Q 2020 at the earliest.

C. Emerging Market Economies

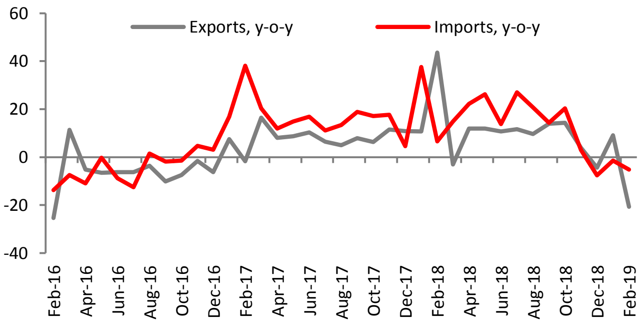
China: NPC announces stimulus measures to stabilise growth

GDP growth target for 2019 lowered to 6-6.5% from around 6.5% in 2018

The National People's Congress (NPC) meeting last week saw a number of key policy directions for 2019 outlined, which were broadly in line with the market's expectations. Chinese Premier Li Keqiang acknowledged the ongoing challenges to the growth outlook and set a lower GDP growth target of 6-6.5% for 2019, down from the 6.6% achieved in 2018. This is the lowest growth target announced by the government since it started announcing explicit goals. However, to stabilise economy activity, the government vowed to implement a number of expansionary fiscal policy measures, including reducing VAT and fee cuts worth CNY2 trillion. Notably, VAT for most manufactured goods was slashed by 3pp to 13%, whilst VAT on transport and construction industries was cut by 1pp to 9%. We believe that these tax cuts are likely to boost confidence in the private sector.

Fig. 5. China: Export growth contracts by 20.7% in February - lowest point since March 2016

% change y-o-y



Source: Customs General Administration PRC

Fig. 6. China: CNY continues to strengthen against USD amidst increasing hopes of trade deal

USD:CNY

Source: Bloomberg

Targeted monetary policy easing to continue into 2019

On monetary policy, Li highlighted that targeted easing will continue into 2019 with a particular focus on supporting SME and private companies. However, he ruled out a "flood-like" loosening in monetary policy, suggesting a continuation of prudent but efficient liquidity transmission into the economy. Moreover, policymakers promised to reform the interest rate system, which is likely to result in effective interest rates being reduced. We believe that the PBoC will continue to reduce the Reserve Requirement Ratio (RRR) in 2019, albeit in a targeted manner. Meanwhile, the CPI inflation target was left unchanged at around 3% for 2019 – the same as in 2018.

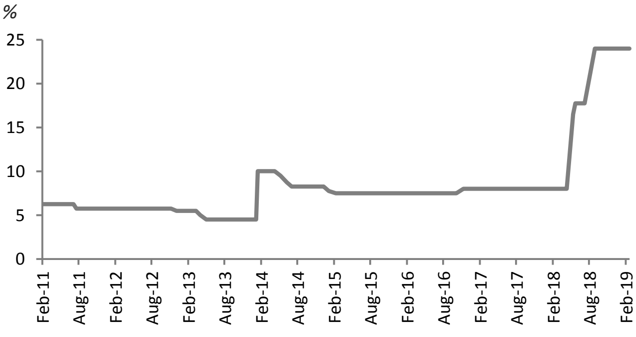
Trade balance: On the data front, export growth fell sharply to -20.7% y-o-y in February, from the 9.1% positive expansion recorded in January. The fall is likely due to a number of factors including i) seasonal distortions caused by the Chinese New Year holidays; ii) slowing global demand; and iii) some pay-back of January's stronger-than-expected export growth. The contraction in import growth also strengthened to -5.2% y-o-y in February (January: -1.5%), narrowing the trade surplus markedly to USD4.1 billion from USD39.2 billion.

Turkey: CBRT remains on hold with tight monetary policy stance

CBRT on hold for fourth consecutive meeting in March

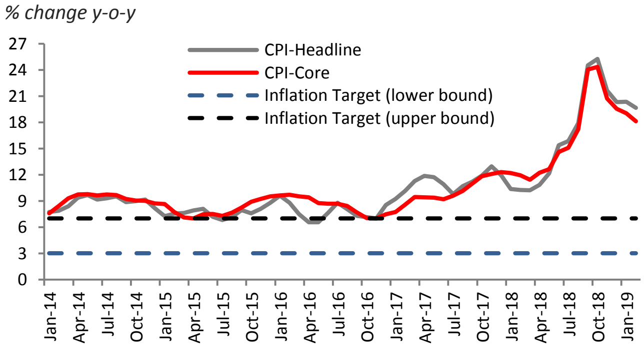
The CBRT kept its benchmark policy rate steady at 24% at its 6 March meeting, in line with our and the market's expectations. The CBRT made no meaningful changes to the monetary policy statement at the meeting, but reiterated that its tight monetary policy stance will be maintained until the inflation outlook is significantly improved. Meanwhile, February headline inflation (released last week) decelerated to 19.7% y-o-y from 20.4% in January, led by food prices. The softening in food prices was largely due to the government's short-term measures to curb speculative pricing by traders to rein in inflation ahead of the local elections slated for 31 March. We expect inflation to soften more meaningfully from mid-2019 given the weakening domestic demand outlook. The CBRT in its January inflation report also lowered its inflation forecast for end-2019 to 14.6% from 15.2% in October. Given the stabilisation of the TRY, weakening economic momentum and expected moderation in the inflation backdrop, we highlight the possibility of the CBRT cutting interest rates from mid-2019.

Fig. 7. Turkey: CBRT keeps benchmark policy rate steady at 24% at 6 March policy meeting



Source: CBRT

Fig. 8. Turkey: Both headline and core inflation soften to six-month low in February



Source: Turkish Statistical Institute, CBRT

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai Airport Cargo Volume, y-o-y	Jan	2.3%	
	UAE	Central Bank Foreign Assets	Jan	362.55B	
	Oman	CPI, y-o-y	Feb	0.2%	
	Qatar	CPI, y-o-y	Feb	-1.6%	
	India	BoP Current Account Balance	4Q	-$19.1B	-$16B
Monday, 11 March					
3:50	Japan	Money Stock M2, y-o-y	Feb	2.4%	2.4%
8:15	UAE	Dubai Economy Tracker SA	Feb	55.8	
11:00	Germany	Industrial Production SA, m-o-m	Jan	-0.4%	-0.5%
11:00	Turkey	GDP, y-o-y	4Q	1.6%	-2.5%
16:30	US	Retail Sales Advance, m-o-m	Jan	-1.2%	0%
16:30	US	Retail Sales, ex-Auto and Gas	Jan	-1.4%	0.6%
16:30	US	Retail Sales Control Group	Jan	-1.7%	0.2%
Tuesday, 12 March					
3:00	US	Fed's Powell Gives Welcome Remarks at Conference			
13:30	UK	Trade Balance	Jan	-£3229M	-£3500M
13:30	UK	Industrial Production, m-o-m	Jan	-0.5%	0.2%
13:30	UK	Industrial Production, y-o-y	Jan	-0.9%	-1.3%
13:30	UK	GDP, m-o-m	Jan	-0.4%	0.2%
16:00	India	CPI, y-o-y	Feb	2.1%	2.4%
16:00	India	Industrial Production, y-o-y	Jan	2.4%	2%
16:30	US	CPI, m-o-m	Feb	0%	0.2%
16:30	US	CPI, ex- Food and Energy, m-o-m	Feb	0.2%	0.2%
16:30	US	CPI, y-o-y	Feb	1.6%	1.6%
16:30	US	CPI, ex-Food and Energy, y-o-y	Feb	2.2%	2.2%
16:45	US	Brainard Speaks at Community Reinvestment Conference in DC			
Wednesday, 13 March					
3:50	Japan	Core Machine Orders, y-o-y	Jan	0.9%	-2.1%
14:00	Eurozone	Industrial Production WDA, y-o-y	Jan	-4.2%	
16:30	US	PPI Final Demand, m-o-m	Feb	-0.1%	0.2%
16:30	US	Durable Goods Orders	Jan P	1.2%	-0.5%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jan P	0%	-0.1%
Thursday, 14 March					
6:00	China	Industrial Production YTD, y-o-y	Feb	6.2%	5.5%
6:00	China	Retail Sales YTD, y-o-y	Feb	9%	8.1%
11:00	Turkey	Industrial Production, m-o-m	Jan	-1.4%	0.3%
11:00	Turkey	Industrial Production, y-o-y	Jan	-9.8%	-8%
16:30	US	Import Price Index, m-o-m	Feb	-0.5%	0.3%
18:00	US	New Home Sales	Jan	621K	622K
Friday, 15 March					
14:00	Eurozone	CPI Core, y-o-y	Feb F	1%	1%
14:00	Eurozone	CPI, y-o-y	Feb F	1.4%	1.5%
16:30	US	Empire Manufacturing	Mar	8.8	10
17:15	US	Industrial Production, m-o-m	Feb	-0.6%	0.4%
18:00	US	JOLTS Job Openings	Jan	7335	7225
18:00	US	University of Michigan Sentiment	Mar P	93.8	95
	Japan	BOJ Policy Balance Rate	15-Mar	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	15-Mar	0%	0%
	India	Trade Balance	Feb	-$14725.6M	-$13600M
	India	Exports, y-o-y	Feb	3.7%	
	India	Imports, y-o-y	Feb	0%	

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Economies						
	UAE	CPI, y-o-y	Jan	0.3%		-2.4%
	Egypt	Gross Official Reserves	Feb	42.6B		44.1B
Monday, 4 March						
3:50	Japan	Monetary Base, y-o-y	Feb	4.7%		4.6%
11:00	Turkey	CPI, m-o-m	Feb	1.1%	0.4%	0.2%
11:00	Turkey	CPI, y-o-y	Feb	20.4%	19.9%	19.7%
11:00	Turkey	CPI Core Index, y-o-y	Feb	19%	18.8%	18.1%
Tuesday, 5 March						
8:15	Egypt	Egypt PMI	Feb	48.5		48.2
8:15	Saudi Arabia	Saudi Arabia PMI	Feb	56.2		56.6
8:15	UAE	UAE PMI	Feb	56.3		53.4
14:00	Eurozone	Retail Sales, y-o-y	Jan	0.3%	2.1%	2.2%
19:00	US	ISM Non-Manufacturing Index	Feb	56.7	57.4	59.7
19:00	US	New Home Sales	Dec	599K	600K	621K
23:00	US	Monthly Budget Statement	Jan	-$13.5B	$10B	$8.7B
Wednesday, 6 March						
15:00	Turkey	One-Week Repo Rate	6-Mar	24%	24%	24%
17:15	US	ADP Employment Change	Feb	300K	190K	183K
17:30	US	Trade Balance	Dec	-$50.3B	-$57.9B	-$59.8B
Thursday, 7 March						
9:00	Japan	Leading Index CI	Jan P	97.5	96.1	95.9
14:00	Eurozone	GDP SA, q-o-q	4Q F	0.2%	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	4Q F	1.2%	1.2%	1.1%
16:45	Eurozone	ECB Main Refinancing Rate	7-Mar	0%	0%	0%
16:45	Eurozone	ECB Marginal Lending Facility	7-Mar	0.3%	0.3%	0.3%
16:45	Eurozone	ECB Deposit Facility Rate	7-Mar	-0.4%	-0.4%	-0.4%
	China	Foreign Reserves	Feb	$3087.9B	$3087.9B	$3090.2B
Friday, 8 March						
3:50	Japan	GDP SA, q-o-q	4Q F	0.3%	0.4%	0.5%
3:50	Japan	BoP Current Account Balance	Jan	¥452.8B	¥161B	¥600.4B
11:00	Germany	Factory Orders, m-o-m	Jan	0.9%	0.5%	-2.6%
17:30	US	Housing Starts	Jan	1037K	1195K	1230K
17:30	US	Change in Nonfarm Payrolls	Feb	311K	180K	20K
17:30	US	Change in Private Payrolls	Feb	308K	170K	25K
17:30	US	Unemployment Rate	Feb	4%	3.9%	3.8%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.1%	0.3%	0.4%
17:30	US	Average Hourly Earnings, y-o-y	Feb	3.1%	3.3%	3.4%
	China	Trade Balance	Feb	$39.2B	$26.2B	$4.1B
	China	Exports, y-o-y	Feb	9.1%	-5%	-20.7%
	China	Imports, y-o-y	Feb	-1.5%	-0.6%	-5.2%

* UAE time
Source: Bloomberg

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