

The Week Ahead: ECB meeting and China National People's Congress conference

► Eurozone: ECB expected to lower growth forecasts

The ECB monetary policy meeting will be the key event this week (7 March) and we expect no changes to the central bank's monetary policy, including on rates and QE. However, we expect a slightly more dovish tone, after Governing Council (GC) members already expressed increasing concerns about the near-term growth outlook and its impact on inflationary expectations at the January meeting. The ECB is widely expected to lower its GDP growth and core inflation forecasts for 2019 to 1.4% (December: 1.7%) and 1.3% (December: 1.4%) respectively. The incoming data continues to reaffirm that economic momentum has weakened markedly, especially in Germany and Italy, and is likely to remain lacklustre in 2019. Focus will also be on the expected announcement of a new Targeted Longer-Term Refinancing Operations (TLTRO) programme to offset the liquidity impact of the maturing old TLTROs and to support bank lending conditions, especially at a time of soft economic activity. We expect this announcement at either the March or April policy meeting, with the technical details likely in mid-2019.

► EM: CBRT on hold; China NPC to cut growth forecast for 2019

We expect the CBRT to keep its benchmark policy rate unchanged at 24% at its 6 March policy meeting. Ahead of the meeting, Turkey will also release its February inflation data, which consensus expects to decelerate to 19.9% y-o-y from 20.4% due to softening food prices. We believe that the still elevated headline inflation will allow the CBRT to maintain a tight monetary policy stance. However, we see inflation moderating more meaningfully in 2H2019, supported by weakening domestic demand and a higher base. Moreover, given the stabilisation of the TRY and the Fed remaining on hold, we envisage the possibility of the CBRT cutting interest rates in mid-2019. Elsewhere, China will hold its National People's Congress (NPC) meeting on 5 March, which is expected to focus on the government's economic targets and policy priorities for 2019. Consensus widely believes that China will set a lower GDP growth target in the range of 6-6.5% for 2019, from c.6.5% for 2018. We believe that the government will continue its fiscal policy easing, especially to counterbalance the weakening growth outlook. We also see the potential for further monetary easing, albeit in a more targeted manner.

► US: Non-farm payrolls to have remained strong in February

The NFP report will be the key data release from the US this week with the consensus expecting another solid print of 185K jobs created in February, albeit down from a remarkable 304K in January and 222K in December. The strong job growth in February and reversal of the impact of the government shutdown in January are likely to result in the unemployment rate falling to 3.9% from 4% in January. Moreover, given the limited slack in the labour market, wage growth is forecast to strengthen to 0.3% m-o-m in February (January: 0.1%), taking the annual reading to a business-cycle high of 3.3% for the month (January: 3.2%).

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I. Recent Events and Data Releases

A. MENA Economies

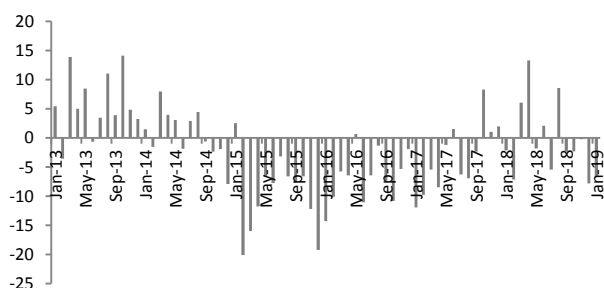
Saudi Arabia: SAMA's net foreign assets fall for a fifth month

Central bank data released for January showed that SAMA's net foreign assets (NFA) fell by USD6.7 billion to USD482.9 billion. This equated to a monthly contraction of 1.4%, resulting in a yearly fall of 0.8% y-o-y (December: +0.1% y-o-y). The decline was despite the Saudi government raising USD7.5 billion in international debt in January 2019. We believe that the fall in SAMA's NFAs is largely linked to the government utilising its reserves to help cover its spending, especially with the relatively weak oil price. Indeed, total central government deposits at SAMA dropped by USD5.7 billion in January, whilst deposits of government institutions with SAMA fell by USD0.8 billion. There were also other indications of strong government spending, including government deposits with commercial banks contracting by USD7.6 billion (-4.2% m-o-m) and government borrowing rising by USD4.1 billion (up 5% m-o-m). Ongoing payments to contractors could have been one factor supporting government spending in January.

Drop in SAMA's NFAs in January, despite government raising USD7.5 billion of international sovereign debt

Fig. 1. Saudi Arabia: SAMA's NFAs fall by USD6.7 billion in January, largely due to fall in government deposits

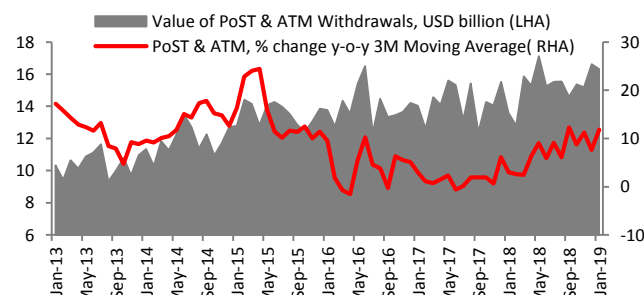
USD billion, monthly change is SAMA's NFAs



Source: SAMA, ADCB calculations

Fig. 2. Saudi Arabia: Indicators for private consumption recovering with no new fiscal reforms

USD billion (LHA); % change y-o-y, 3M moving average (RHA)



Source: SAMA, ADCB calculations

Proxy indicators of economic activity showed that overall momentum remained weak, but still moderately up from average 2018 levels. Private sector credit growth contracted by 0.2% m-o-m in January after falling by 0.8% in December. On a y-o-y basis, private sector loan growth decelerated 2.4% in January 2019, versus 2.8% in the previous month. Meanwhile, combined points of sales transactions (value) and ATM withdrawals, which indicate private consumption, fell by 1.8% m-o-m. However, they rose by a significant 20.2% y-o-y reflecting the low base following the introduction of VAT and subsidy reforms in January 2018. We expect government wage increases, no new significant fiscal reforms and ongoing price discounting to support household spending in 2019.

M-o-m private sector credit growth contracts for second consecutive month

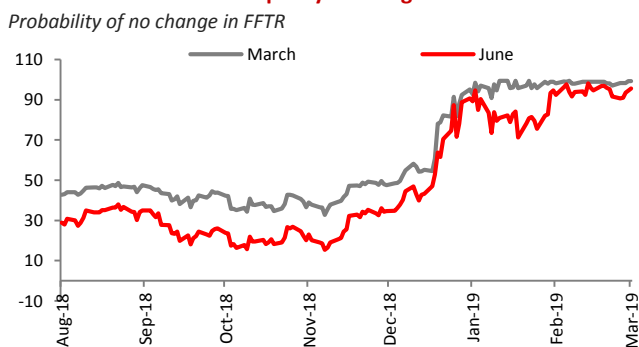
B. G4 Economies

US: Powell highlights interest rate policy on “pause” for now

No major surprises came out of Fed Chair Jerome Powell’s Humphrey-Hawkins testimony to Congress last week, in line with our and market expectations. Powell’s comments largely echoed the Fed’s recent communication and highlighted that the interest rate policy is on “pause” for now and that the FOMC will “patiently” wait and see how the situation evolves. However, Powell expressed confidence regarding the domestic economic outlook, although he sees increasing downside risks stemming from the global growth slowdown and financial market volatility. He also added that domestic inflationary pressures remain contained, allowing the Fed to remain patient with regards to future policy changes. On the balance-sheet front, Powell stated that FOMC participants are close to agreeing on the run-off and also hinted that an appropriate steady-state level of reserves would be around USD1 trillion plus a buffer. We believe that the Fed may announce a plan to end the balance sheet run-off at either the March or May meeting, with run-offs likely ending in 2H2019.

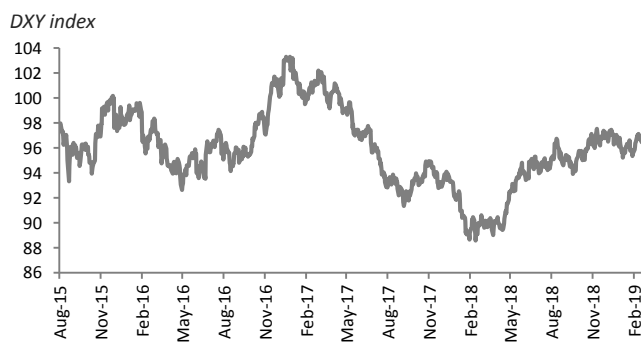
Fed Chair Powell reiterates “patient approach with regard to future policy changes.”

Fig. 3. US: Market largely expects no change in FFTR at both March and June policy meetings



Source: Bloomberg

Fig. 4. US: Dollar index remains supported despite Fed’s dovish tilt on interest rate outlook



Source: Bloomberg

Meanwhile, the Fed’s medium-term policy framework review was outlined in the Fed’s monetary policy report, presented to Congress. The report highlighted that the Fed will conduct a broad appraisal of the monetary framework, especially regarding its “strategy, tools, and communication practices”. Powell indicated that alternative policy regimes, including price-level targeting, would be part of the review, but stated that the Fed is not considering changing its 2% inflation target at this point. Separately, Fed Vice Chair Richard Clarida noted that conclusions on the monetary policy framework review would not be made public until the “first half of 2020”, implying that this assessment is unlikely to have any impact on the way monetary policy is conducted in 2019.

Fed to review monetary policy framework, including price-level targeting

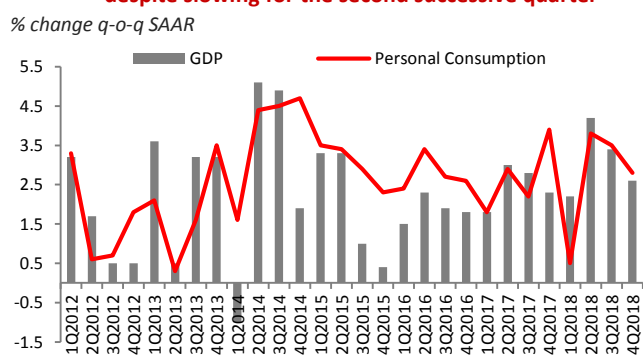
US: Real GDP growth solid in 4Q led by non-residential investments

Incoming data continues to suggest that the economic momentum in the US remains healthy despite external headwinds. Real GDP growth surprised to the upside in 4Q, growing by a solid 2.6% q-o-q SAAR (3Q: 3.4%), compared to the consensus estimate of 2.2%. This is only a modest growth moderation in our view, especially given the negative impact of the government shutdown in December 2018. Personal consumption remained

Solid personal consumption and investment activity lead 4Q GDP growth

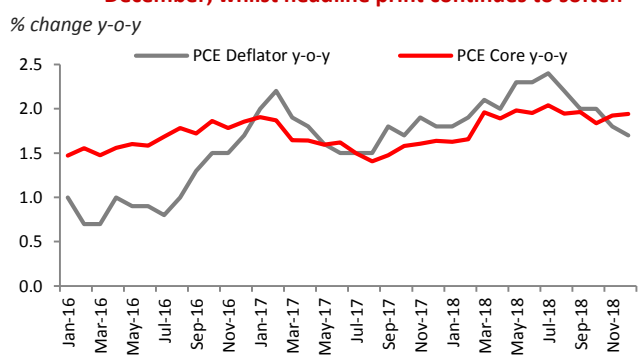
the key driver of the growth in 4Q alongside a strengthening in fixed investment activity, led by non-residential activity. Inventories also contributed positively to the headline growth in 4Q. However, residential investments continued to contract, reflecting the soft housing market conditions. This was also echoed in last week’s housing starts data, which fell to 1078K (-11.2% m-o-m) in December, the lowest number of starts since September 2016. Moreover, net exports made a smaller negative contribution to 4Q headline GDP growth, resulting in a lesser drag than in 3Q. Overall, strong household consumption and investment growth have offset the weak housing sector growth and rising external headwinds.

Fig. 5. US: Real GDP expands at a healthy pace in 4Q2018 despite slowing for the second successive quarter



Source: Bureau of Economic Analysis

Fig. 6. US: PCE core inflation remains steady at 1.9% y-o-y in December, whilst headline print continues to soften



Source: Bureau of Economic Analysis

Meanwhile, core PCE inflation remained steady at 1.9% y-o-y in December, as in November, suggesting contained price pressures at this point. The forward-looking ISM prices paid sub-component printed below the 50 mark for the second consecutive month in February (49.4), suggesting muted upside price pressures into 1Q2019. Overall, we still believe that the core PCE inflation will continue to hover around the Fed’s 2% target throughout 2019.

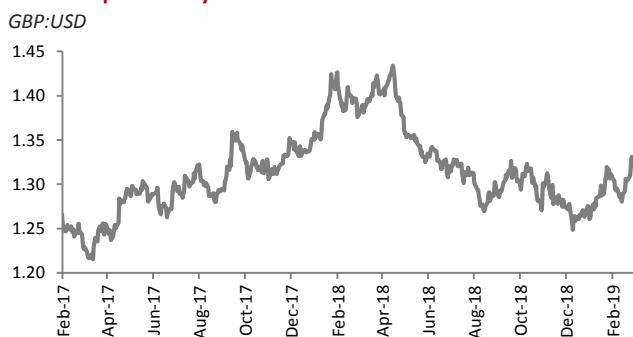
Core PCE inflation steady at 1.9% y-o-y in December

UK: Brexit meaningful vote scheduled for 12 March

UK Prime Minister Theresa May last week outlined her plan for Brexit’s next steps and promised to hold the so-called second “meaningful vote” on her deal by 12 March. If the meaningful vote fails in Parliament, MPs are likely to vote on the motion for a no-deal Brexit on 13 March. Defeat of the no-deal Brexit motion would lead to MPs voting on the amendment to extend Article 50 negotiations on 14 March. Overall, recent political developments suggest that the possibility of a no-deal Brexit has reduced further and that the government is likely to request that the EU extend Article 50 for another three months, ending on 31 June. However, there have been no signs of the EU offering any concession on the Northern Ireland backstop issue yet. In the event of no further EU concessions coming forward before 31 June, and if the Article 50 extension turns out to be repeatable beyond June, the chances of a snap election or a second referendum increase significantly, in our view. Moreover, the European Parliamentary elections scheduled for late May could further complicate the Brexit negotiations with a newly elected EU Parliament taking over on 1 July. Overall, a number of scenarios including a general election and a second referendum remain a possibility, but we believe that the chance of a no-deal Brexit has reduced significantly.

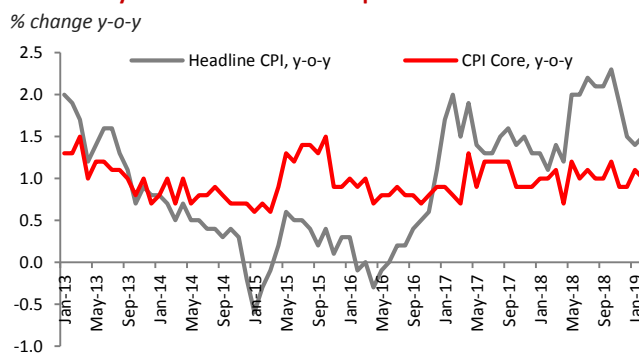
Our core scenario is for extension of Article 50 for another three months

Fig. 7. UK: GBP strengthens markedly against dollar as probability of no-deal Brexit falls further



Source: Bloomberg

Fig. 8. Eurozone: Core inflation decelerates in February, led by weak services sub-component



Source: Eurostat

Eurozone: Core inflation softens to 1% y-o-y in February

The Eurozone's February inflation data released last week continues to suggest that underlying inflationary pressures remain weak amidst soft domestic demand. Core inflation moderated to 1% y-o-y in February, lower than both the consensus estimate and January print of 1.1%. This was mainly due to the softening in services inflation, which decelerated markedly to 1.3% y-o-y in February (January: 1.6%) – the lowest point since February 2018. Meanwhile, headline inflation accelerated to 1.5% y-o-y in February (January: 1.4%), led by food and energy prices. Overall, we see increasing downside risks for the inflation outlook in 2019 and expect the ECB to lower the inflation forecast to an average 1.3% in 2019, from the 1.6% estimated in December. Given the subdued inflation outlook and weakening economic growth momentum, we believe that the ECB will maintain the current level of monetary policy accommodation in 2019 by delivering another Targeted Longer-Term Refinancing Operations (TLTRO) programme to boost liquidity in the economy.

Headline inflation ticks up but core inflation moderates in February

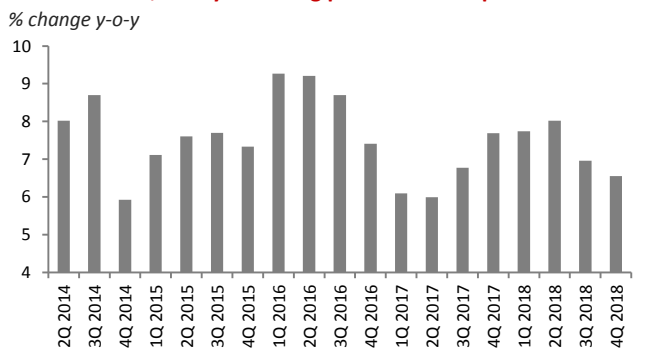
C. Emerging Market Economies

India: GDP growth surprises to the downside in 4Q2018

India's real GDP growth decelerated to a six-quarter low of 6.6% y-o-y in 4Q 2018, from 7.1% in 3Q (consensus: 6.7%). The slowdown in 4Q was partly due to a moderation in private consumption, reflecting the weak rural demand. Moreover, a higher base during the corresponding period in 2017 has also been a key factor for the downtrend in 4Q. On the positive side, investment activity remained resilient, despite signs of a marked slowdown in credit growth from non-banking financial companies. In addition, exports growth accelerated to 14.6% y-o-y in 4Q (3Q: 13.9%), suggesting that the global growth slowdown in 2H2018 and US-China protectionist measures had no major impact. Imports growth slowed to 14.7% y-o-y, from 21.4% in 3Q, resulting in a significantly smaller drag from net exports on headline GDP growth.

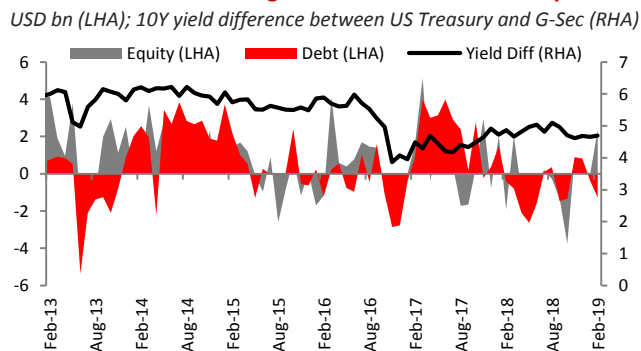
Real GDP growth softens to 6.6% y-o-y in 4Q, from 7.1% in 3Q, led by weak household consumption

Fig. 9. India: Real GDP growth moderates to 6.6% y-o-y in 4Q 2018, led by softening private consumption



Source: India Central Statistical Organisation

Fig. 10. India: Capital inflows have been relatively weak amidst increasing election-related uncertainty



Source: India Central Depository Service, Bloomberg

Looking ahead, we expect real GDP growth to moderate further in 1Q2019, with election-related uncertainty expected to weigh on investment activity alongside weak domestic demand. However, we believe that economic activity will pick up from 2Q2019, supported by the government’s expansionary fiscal policy and lower interest rates. We also expect the RBI’s monetary policy to remain accommodative in the near term given the softening economic momentum and contained inflationary pressures. Indeed, we continue to forecast a 25 bps rate cut by the RBI at its April monetary policy meeting.

We expect RBI to cut policy rate by 25bps in April

II. Economic Calendar

Fig. 11. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jan	0.3%	
	UAE	Dubai Airport Cargo Volume, y-o-y	Jan	2.3%	
	UAE	Central Bank Foreign Assets	Jan	362.55B	
	Bahrain	M2 Money Supply, y-o-y	Dec	1.5%	
	Kuwait	M2 Money Supply, y-o-y	Jan	4%	
	Egypt	Gross Official Reserves	Feb	42.6B	
Monday, 4 March					
11:00	Turkey	CPI, m-o-m	Feb	1.1%	0.4%
11:00	Turkey	CPI, y-o-y	Feb	20.4%	19.9%
11:00	Turkey	CPI Core Index, y-o-y	Feb	19%	18.8%
Tuesday, 5 March					
8:15	Egypt	Egypt PMI	Feb	48.5	
8:15	Saudi Arabia	Saudi Arabia PMI	Feb	56.2	
8:15	UAE	UAE PMI	Feb	56.3	
13:30	UK	Financial Policy Committee Minutes from Feb. 26 meeting			
14:00	Eurozone	Retail Sales, y-o-y	Jan	0.8%	2.1%
19:00	US	ISM Non-Manufacturing Index	Feb	56.7	57.3
19:00	US	New Home Sales	Dec	657K	590K
19:35	UK	BOE Governor Mark Carney Testifies to House of Lords			
23:00	US	Monthly Budget Statement	Jan	-\$13.5B	\$6B
Wednesday, 6 March					
15:00	Turkey	One-Week Repo Rate	6-Mar	24%	24%
16:15	UK	BOE's Cunliffe Speaks in London			
17:15	US	ADP Employment Change	Feb	213K	190K
17:30	US	Trade Balance	Dec	-\$49.3B	-\$57.8B
21:00	US	Fed's Williams Speaks to Economic Club of New York			
21:00	US	Fed's Mester Participates in Moderated Discussion			
Thursday, 7 March					
9:00	Japan	Leading Index CI	Jan P	97.5	96
14:00	Eurozone	GDP SA, q-o-q	4Q F	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	4Q F	1.2%	1.2%
16:45	Eurozone	ECB Main Refinancing Rate	7-Mar	0%	0%
16:45	Eurozone	ECB Marginal Lending Facility	7-Mar	0.3%	0.3%
16:45	Eurozone	ECB Deposit Facility Rate	7-Mar	-0.4%	-0.4%
17:30	Eurozone	ECB's Draghi Speaks in Frankfurt After Policy Decision			
21:15	US	Fed's Brainard Speaks on Economy and Monetary Policy Outlook			
	China	Foreign Reserves	Feb	\$3087.9B	\$3087.9B
Friday, 8 March					
3:50	Japan	GDP SA, q-o-q	4Q F	0.3%	0.4%
3:50	Japan	BoP Current Account Balance	Jan	¥452.8B	¥161B
11:00	Germany	Factory Orders, m-o-m	Jan	-1.6%	0.5%
17:30	US	Housing Starts	Jan	1078K	1184K
17:30	US	Change in Nonfarm Payrolls	Feb	304K	185K
17:30	US	Change in Private Payrolls	Feb	296K	187K
17:30	US	Unemployment Rate	Feb	4%	3.9%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.1%	0.3%
17:30	US	Average Hourly Earnings, y-o-y	Feb	3.2%	3.3%
	China	Trade Balance	Feb	\$39.2B	\$27.2B
	China	Exports, y-o-y	Feb	9.1%	-2.2%
	China	Imports, y-o-y	Feb	-1.5%	1.3%
	US	Powell Discusses Monetary Policy Normalization and Review			

* UAE time

Source: Bloomberg

Fig. 12. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Countries						
	Saudi Arabia	M2 Money Supply, y-o-y	Jan	2.3%		1.1%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Jan	1835.9B		1810.8B
	Qatar	M2 Money Supply, y-o-y	Jan	-6.5%		-6.1%
	Saudi Arabia	Non-Oil Exports, y-o-y	Dec	8.4%		11.8%
Monday, 25 February						
19:00	US	Wholesale Inventories, m-o-m	Dec P	0.4%	0.4%	1.1%
Tuesday, 26 February						
11:00	Germany	GfK Consumer Confidence	Mar	10.8	10.8	10.8
17:30	US	Housing Starts	Dec	1214K	1256K	1078K
19:00	US	Richmond Fed Manufacturing Index	Feb	-2	5	16
19:00	US	Conference Board Consumer Confidence	Feb	121.7	124.9	131.4
Wednesday, 27 February						
13:00	Eurozone	M3 Money Supply, y-o-y	Jan	4.1%	4%	3.8%
19:00	US	Pending Home Sales, m-o-m	Jan	-2.3%	1%	5%
19:00	US	Factory Orders	Dec	-0.5%	0.6%	0.1%
19:00	US	Durable Goods Orders	Dec F	1.2%		1.2%
19:00	US	Durables, ex-Transportation	Dec F	0.1%		0.1%
19:00	US	Cap Goods Shipments, Non-defence, ex-Air	Dec F	0.5%		0%
Thursday, 28 February						
3:50	Japan	Industrial Production, m-o-m	Jan P	-0.1%	-2.5%	-3.7%
3:50	Japan	Retail Trade, y-o-y	Jan	1.3%	1.4%	0.6%
5:00	China	Manufacturing PMI	Feb	49.5	49.5	49.2
11:00	Turkey	Trade Balance	Jan	-2.7B	-2.5B	-2.5B
16:00	India	GDP, y-o-y	4Q	7.1%	6.7%	6.6%
16:00	India	GVA, y-o-y	4Q	6.9%	6.5%	6.3%
17:30	US	GDP Annualized, q-o-q	4Q A	3.4%	2.2%	2.6%
17:30	US	Personal Consumption	4Q A	3.5%	3%	2.8%
17:30	US	Core PCE, q-o-q	4Q A	1.6%	1.6%	1.7%
18:45	US	Chicago Purchasing Manager	Feb	56.7	57.5	64.7
Friday, 1 March						
3:30	Japan	Jobless Rate	Jan	2.4%	2.4%	2.5%
5:45	China	Caixin China PMI Manufacturing	Feb	48.3	48.5	49.9
12:55	Germany	Unemployment Claims Rate SA	Feb	5%	5%	5%
13:30	UK	Mortgage Approvals	Jan	64.5K	63.4K	66.8K
13:30	UK	Markit UK PMI Manufacturing SA	Feb	52.6	52	52
14:00	Eurozone	Unemployment Rate	Jan	7.8%	7.9%	7.8%
14:00	Eurozone	CPI Core, y-o-y	Feb A	1.1%	1.1%	1%
14:00	Eurozone	CPI Estimate, y-o-y	Feb	1.4%	1.5%	1.5%
17:30	US	Personal Spending	Dec	0.6%	-0.3%	-0.5%
17:30	US	PCE Core, m-o-m	Dec	0.2%	0.2%	0.2%
17:30	US	PCE Core, y-o-y	Dec	1.9%	1.9%	1.9%
19:00	US	ISM Manufacturing	Feb	56.6	55.8	54.2
19:00	US	ISM Prices Paid	Feb	49.6	51.8	49.4

* UAE time

Source: Bloomberg

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