

The Week Ahead: Fed communication and India budget in spotlight

► **US: Fed on hold; risks of distortion to NFP data**

A number of key events and data releases are scheduled from the US this week, including the FOMC meeting, January NFP report and potentially some of the pending economic data releases as the government has re-opened. The FOMC is widely expected to keep interest rates on hold at its 30 January meeting, whilst continuing to highlight a patient approach towards rate hikes in line with recent Fed communications. We see some softening in the forward guidance, especially with the downside risks to the growth outlook in 1Q2019 related to the government shutdown and the contained inflationary pressures. Nevertheless, we expect the FOMC to still indicate the need for further hikes, though this will depend on the data. We also do not envisage any changes to the balance sheet normalisation programme at this point. Looking further ahead, we continue to forecast two more rate hikes in 2019 (June and December), albeit with risks tilting to the downside. Meanwhile, consensus estimates a healthy jobs report for January with 165K jobs, after a solid print of 312K in December. However, we highlight the possibility of distortions to the data, particularly on the hiring and wages front, due to the government shutdown. Markets will also closely watch for any trade developments following US-China talks at the end of the week.

► **India: Expansionary budget, with focus on support to farmers**

India will release its interim budget for FY2020 (Apr 2019 – Mar 2020) on 1 February, with an expansionary budget expected. We expect the government's fiscal deficit target to be set at c.3.4% of GDP for FY2020 with a stimulus to farmers likely to be a key component of the budget. However, we see risks of a higher actual deficit, following a shortfall in FY2019 of around 3.5% (3.3% budgeted) due to a slippage in revenue collection and delays in the disinvestment programme. Regarding the potential rural support, there are indications that the government is looking to introduce a new direct cash transfer scheme to all farmers, which will replace existing subsidies on crop insurance, fertilisers and interest rates. On the revenue front, we expect corporate tax to remain unchanged at 30%, though we see some potential changes to personal income tax slabs. Overall, the budget focus is likely to be on boosting consumption activity over investments ahead of the general election, which is due in 2Q2019.

► **Europe: Brexit 'Plan B' vote and first print of Eurozone 4Q 2018 GDP**

In the UK, Parliament will vote on Prime Minister Theresa May's 'Plan B' on 29 January alongside any amendments selected by the Speaker. The Ireland backstop issue remains a key obstacle at this point, with no signs of any compromise or consensus as of yet. With the clock ticking, it seems unlikely that May will be able to find a majority for any version of her deal and our core scenario remains an extension to the negotiations beyond 29 March. Meanwhile, the Eurozone will release its first print of 4Q GDP data, with the consensus forecasting it to decelerate further to 1.2% y-o-y from 1.6% in 3Q in real terms.

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I. Recent Events and Data Releases

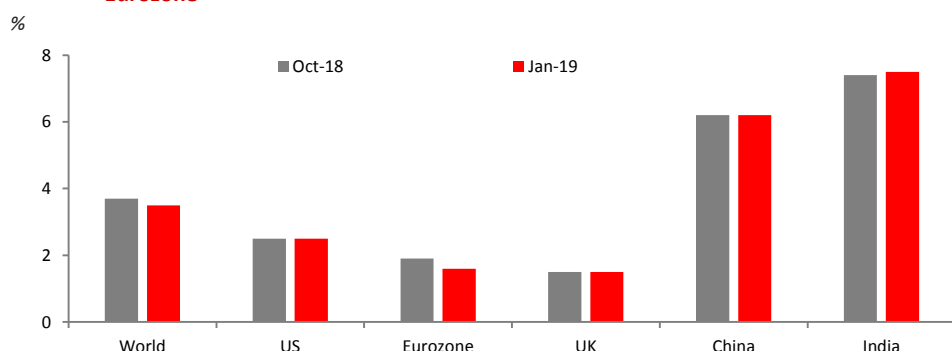
A. G4 Economies

Global: Growth momentum softening with increasing downside risks

Concerns of a slowdown in global growth have increased further with the IMF highlighting that it now expects a slower pace of expansion in both 2019 and 2020. The IMF lowered its global growth forecast to 3.5% for 2019 and 3.6% for 2020, down from the 3.7% estimated for both years in October. These downward revisions are linked to the slowdown in the Eurozone economy and tightening global financial conditions. The IMF highlighted that further escalation in trade tensions, a greater-than- envisaged slowdown in China, and a potential 'no-deal' Brexit could further weaken an already slowing global economy. Given the increasing uncertainties, the IMF warned that risks to global growth are tilted to the downside. The incoming data also suggests that economic growth in China and the Eurozone has weakened significantly on the back of the heightened trade tensions. Notably, China's 4Q GDP growth decelerated to 6.4% y-o-y (3Q: 6.5%) – the lowest since early 2009.

IMF lowers global growth estimate to 3.5% in 2019 from 3.7%

Fig. 1. Global: IMF lowers global GDP growth to 3.5% for 2019 from 3.7% in October, led by Eurozone



Source: IMF

Moreover, we also expect the US government shutdown's impact on economic activity in 1Q2019 to be a drag on the global growth outlook. The re-opening of the government on a temporary basis until 15 February reduces the fear of a greater contraction on growth, though there remains some uncertainty over the passage of the annual spending bill. Overall, we see an increasing number of global uncertainties, including protectionist trade policies, geopolitical tensions and financial market volatility.

US government shutdown likely to result in soft 1Q growth

Eurozone: ECB guidance remains dovish amidst slowdown concerns

The ECB left its key policy rates unchanged at its 24 January meeting and expects interest rates to remain steady "at least through the summer of 2019", in line with market expectations. The key takeaway from the meeting was that the Governing Council (GC) unanimously downgraded its growth outlook, highlighting "downside" risks, from "broadly balanced" at its December meeting. The shift in its assessment was largely attributed to the softer external demand and some country and sector-specific factors.

Risks to growth outlook lowered to "downside", from "broadly balanced"

Moreover, the ECB continues to see increasing downside risks to the growth outlook from geopolitical tensions, protectionist trade policies and financial market volatility. We believe that the ECB's dovish tone is likely to be reflected in its economic projections, which are to be released in March. Surprisingly, the ECB left its inflation outlook assessment unchanged at its January meeting, despite highlighting greater economic risks. We believe that the ECB will likely lower its inflation and growth forecasts in March, especially given the softer global crude prices and muted underlying inflation. We see an increasing possibility that the guidance for steady interest rates is extended from "at least through the summer of 2019" to "at least until late-2019".

ECB President Mario Draghi during his post-meeting press conference highlighted that an increasing number of GC members mentioned the necessity for a new TLTROs programme (targeted longer-term refinancing operations), as compared to the December meeting. He stated that TLTROs and LTROs were "very useful and effective" for addressing liquidity related concerns and will remain part of the ECB monetary policy tool kit. We continue to expect a new TLTRO announcement at its March policy meeting.

We expect ECB to announce a new TLTRO at its March meeting

Japan: BoJ on hold with steady guidance, but lowers inflation forecasts

The BoJ kept its monetary policy unchanged at its 23 January meeting, including the policy rate at -0.1% and the 10-year Japanese government bond (JGB) yield target under the Yield Curve Control (YCC) at "around" 0%. The key takeaway from the meeting was that the BoJ once again lowered its inflation projections due to the limited inflationary pressures in the economy. Core CPI (ex-fresh food) was reduced to 0.9% for FY2019 (April – March) from the 1.4% estimate in October, whilst the FY2020 figure was cut to 1.4% from the previous 1.5%. The downward revisions were partly due to lower global crude oil prices. However, the BoJ highlighted that these core CPI forecasts do not include the impact of consumption tax hikes or free preschool education, both slated for October. We believe that any increase in inflation linked to planned rise in consumption tax will likely be temporary. Meanwhile, the BoJ kept its real GDP growth forecasts broadly unchanged for FY2019 and FY2020. BoJ Governor Haruhiko Kuroda expressed confidence that the government's fiscal stimulus measures should boost domestic demand in 2019. However, growth forecasts for FY2018 were lowered sharply to 0.9% from the previous 1.4%, largely due to the impact of natural disasters during the summer.

Core CPI (ex-fresh food) inflation forecast lowered to 0.9% in FY2019 from 1.4% in October

We believe that the BoJ will maintain its accommodative monetary policy stance, especially given the limited upside inflationary pressure. Moreover, we see further downside risks to the household spending outlook once the consumption tax is hiked to 10% from October 2019, from the current 8%. Given this overall weak consumption and inflation backdrop, some policy makers may look to discuss additional BoJ easing in the near term, though the probability of any new announcement looks minimal at this point. We continue to expect that the BoJ will keep monetary policy unchanged for now, though it could make some minor tweaks to circumvent the negative side-effects of its ultra-loose monetary policy stance.

BoJ likely to maintain accommodative monetary policy stance

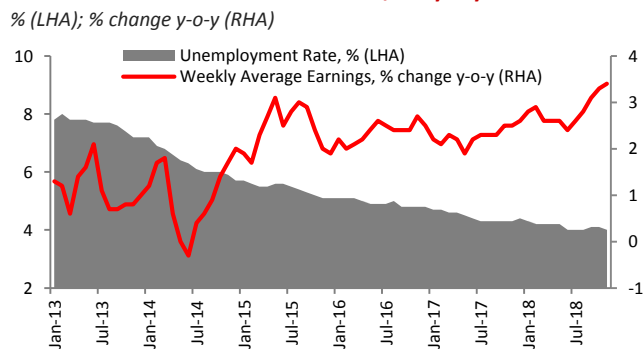
UK: Solid November labour market report with wage growth increasing

UK labour market data showed that wage growth accelerated in November, suggesting that tight labour market conditions are putting upwards pressure on wages. Average weekly earnings growth strengthened for a fifth consecutive month and rose to 3.4% 3M/3M y-o-y, beating both the consensus estimate and the October print of 3.3%. The unemployment rate fell to 4% after remaining steady at 4.1% in the previous two months. This was largely on account of solid new job creation, which rose to a seven-month high

Wage growth surprises to upside in November

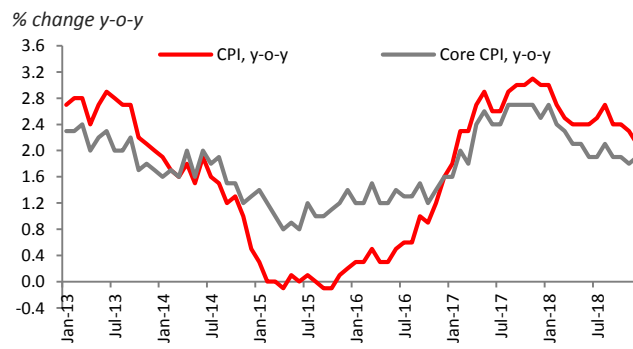
of 141K from 79K in the previous month. The strong report was a positive development, but we advise some caution as the latest activity indicators continue to suggest some moderation in economic growth due to Brexit-related uncertainties.

Fig. 2. UK: Wage growth strengthens for fifth consecutive month and rises to 3.4% 3M/3M y-o-y in November



Source: UK Office for National Statistics

Fig. 3. UK: Recent pick-up in wage growth yet to feed into inflation data



Source: UK Office for National Statistics

We believe that this report will support the BoE's hawkish view on labour market conditions, but do not expect the central bank to raise interest rates until there is more clarity on the UK's relationship with the EU. The November labour report also presents a new conundrum for the BoE over whether to be dovish based on weakening economic activity or to be hawkish due to rising wage growth. We believe that the BoE will continue its cautious approach and reiterate that interest rates will rise only at a gradual pace and to a limited extent.

BoE to continue patient approach to raising policy rates

B. Emerging Market Economies

Turkey: Government announces small-scale support measures

The Turkish government implemented a number of economic support measures ahead of the local elections scheduled for 31 March. The key policy measures include: i) restructuring existing loans for corporates in certain sector; ii) new lending instructions to banks for corporates and individuals; iii) providing subsidies to farmers; iv) reducing electricity and natural gas prices across the nation; and v) reducing water prices in Istanbul and Ankara. We believe that these small-scale measures are largely aimed at easing the hardship of citizens and gaining public support ahead of local elections. With economic activity decelerating sharply, the government could announce more support measures in the coming months, though these are likely to be more limited in scale, in our view. We also believe that any major policy loosening measures could interrupt the economic rebalancing that has been shaping up since the economic turmoil in mid-2018. We continue to believe that the economy is showing signs of a slowdown in line with the government's "soft landing" strategy announced in September. Given the weak economic backdrop and moderating inflation outlook, we also see the CBRT gradually easing its monetary policy from mid-2019.

Government's policy easing measures likely to have limited impact on economy

II. Economic Calendar

Fig. 4. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai Airport Cargo Volume, y-o-y	Dec	0.6%	
	UAE	M2 Money Supply, m-o-m	Dec	1.8%	
	UAE	Central Bank Foreign Assets	Dec	346.27B	
	Saudi Arabia	Non-Oil Exports, y-o-y	Nov	9.8%	
	Saudi Arabia	M3 Money Supply, y-o-y	Dec	1.9%	
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Dec	1865.1B	
	Qatar	M2 Money Supply, y-o-y	Dec	-4.6%	
	Qatar	QCB International Reserves & Foreign Currency Liquidity, QAR	Dec	176.2B	
	Bahrain	M1 Money Supply, y-o-y	Dec	0.1%	
Monday, 28 January					
13:00	Eurozone	M3 Money Supply, y-o-y	Dec	3.7%	3.8%
18:00	Eurozone	ECB's Draghi Speaks in European Parliament in Brussels			
18:30	UK	BOE's Carney, Broadbent, Ramsden, Place and Woods Speaks			
Tuesday, 29 January					
14:20	Eurozone	ECB's Villeroy Speaks in Paris			
19:00	US	Conference Board Consumer Confidence	Jan	128.1	124.6
Wednesday, 30 January					
3:50	Japan	Retail Trade, y-o-y	Dec	1.4%	0.8%
11:30	Turkey	Central Bank Inflation Report			
13:30	UK	Mortgage Approvals	Dec	63.7K	63K
14:00	Eurozone	Consumer Confidence	Jan F	-7.9	-7.9
17:00	Germany	CPI EU Harmonized, y-o-y	Jan P	1.7%	1.6%
17:30	US**	GDP Annualised, q-o-q	4Q A	3.4%	2.6%
17:30	US**	Personal Consumption, q-o-q	4Q A	3.5%	3.9%
23:00	US	FOMC Rate Decision (Upper Bound)	30-Jan	2.5%	2.5%
23:00	US	FOMC Rate Decision (Lower Bound)	30-Jan	2.25%	2.25%
23:30	US	Fed Chairman Powell Holds Post-FOMC Press Conference			
Thursday, 31 January					
3:50	Japan	Industrial Production, y-o-y	Dec P	1.5%	-2.3%
5:00	China	Manufacturing PMI	Jan	49.4	49.3
5:30	Japan	BOJ Deputy Governor Amamiya Speaks			
8:05	Japan	PM Abe Speaks at Daiwa's Conference			
12:00	Eurozone	ECB's Coeure Speaks in Cape Town			
14:00	Eurozone	Unemployment Rate	Dec	7.9%	7.9%
14:00	Eurozone	GDP SA, q-o-q	4Q A	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	4Q A	1.6%	1.2%
17:30	US**	Personal Spending	Dec	0.4%	0.3%
17:30	US**	PCE Core, m-o-m	Dec	0.1%	0.2%
17:30	US**	PCE Core, y-o-y	Dec	1.9%	1.9%
20:00	Eurozone	ECB's Weidmann Speaks in Mannheim, Germany			
Friday, 1 February					
5:45	China	Caixin China PMI Manufacturing	Jan	49.7	49.7
13:30	UK	UK PMI Manufacturing SA	Jan	54.2	53.5
14:00	Eurozone	CPI Core, y-o-y	Jan A	1%	1%
14:00	Eurozone	CPI Estimate, y-o-y	Jan	1.6%	1.4%
17:30	US	Change in Nonfarm Payrolls	Jan	312K	165K
17:30	US	Change in Private Payrolls	Jan	301K	175K
17:30	US	Unemployment Rate	Jan	3.9%	3.9%
17:30	US	Average Hourly Earnings, y-o-y	Jan	3.2%	3.2%
19:00	US	ISM Manufacturing	Jan	54.1	54.2
18:45	US	Fed's Kaplan Speaks in Austin			

* UAE time; ** US data releases could be delayed due to a number of other pending data releases

Source: Bloomberg

Fig. 5. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	CPI, y-o-y	Dec	1.3%		0.3%
	Saudi Arabia	CPI, y-o-y	Dec	2.8%		2.2%
	Bahrain	CPI, y-o-y	Dec	0.7%		2%
	Kuwait	CPI, y-o-y	Dec	0.1%		0.4%
	Oman	Nominal GDP YTD, y-o-y	3Q	15.1%		15.3%
Monday, 21 January						
6:00	China	Retail Sales, y-o-y	Dec	8.1%	8.1%	8.2%
6:00	China	Industrial Production, y-o-y	Dec	5.4%	5.3%	5.7%
6:00	China	GDP, y-o-y	4Q	6.5%	6.4%	6.4%
6:00	China	GDP SA, q-o-q	4Q	1.6%	1.5%	1.5%
6:00	China	GDP YTD, y-o-y	4Q	6.7%	6.6%	6.6%
Tuesday, 22 January						
13:30	UK	Claimant Count Rate	Dec	2.8%		2.8%
13:30	UK	Jobless Claims Change	Dec	24.8K		20.8K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Nov	3.3%	3.3%	3.4%
13:30	UK	ILO Unemployment Rate, 3M	Nov	4.1%	4.1%	4%
13:30	UK	PSNB, ex-Banking Groups	Dec	7.1B	1.9B	3B
14:00	Germany	ZEW Survey Current Situation	Jan	45.3	43	27.6
14:00	Germany	ZEW Survey Expectations	Jan	-17.5	-18.5	-15
19:00	US	Existing Home Sales	Dec	5.33M	5.24M	4.99M
Wednesday, 23 January						
3:50	Japan	Trade Balance	Dec	-¥737.3B	-¥42.3B	-¥55.3B
8:30	Japan	All Industry Activity Index, m-o-m	Nov	2.1%	-0.4%	-0.3%
11:00	Turkey	Consumer Confidence Index	Jan	58.2		58.5
19:00	US	Richmond Fed Manufacturing Index	Jan	-8	-2	-2
19:00	Eurozone	Consumer Confidence	Jan A	-8.3	-6.5	-7.9
	Japan	BOJ Policy Balance Rate	23-Jan	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	23-Jan	0%	0%	0%
Thursday, 24 January						
4:30	Japan	Nikkei Japan Manufacturing PMI	Jan P	52.6		50
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Jan P	51.4	51.4	50.5
16:45	Eurozone	ECB Main Refinancing Rate	24-Jan	0%	0%	0%
16:45	Eurozone	ECB Marginal Lending Facility	24-Jan	0.25%	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	24-Jan	-0.4%	-0.4%	-0.4%
18:45	US	Markit US Manufacturing PMI	Jan P	53.8	53.5	54.9
19:00	US	Leading Index	Dec	0.2%	-0.1%	-0.1%
Friday, 25 January						
13:00	Germany	IFO Business Climate	Jan	101	100.7	99.1
13:00	Germany	IFO Expectations	Jan	97.3	97.1	94.2

* UAE time

Source: Bloomberg

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