

The Week Ahead: US-China trade deal and UK election results reduce uncertainties

► **US: China and US agree to partial trade deal**

The US-China partial trade deal and the decisive UK election results remove two major uncertainties that have been clouding the global growth outlook for some time. The agreed 'phase one' trade deal between the US and China reduces the risk of further trade war escalation, but is unlikely to fully restore business confidence or result in a meaningful recovery in global exports or investment levels. According to the details of the deal, the US agreed: i) to lower tariffs to 7.5% (from 15%) on USD120 billion of Chinese goods; ii) to not raise tariffs to 15% on USD160 billion worth of goods that were due on 15 December; and iii) to leave tariffs unchanged on the rest of the goods. However, tariffs are still in place, with higher rates compared to pre-trade war days. China agreed to significantly increase its purchases of US agricultural products, along with energy and financial services. Currently, there are no indications of the exact timeframe for further tariff reductions or trade talks. Moreover, the more complicated issues remain unresolved (such as technology transfer), keeping the scope potentially open for a trade war re-escalation ahead of the 2020 US presidential election.

► **Europe: Conservative win brings some clarity to Brexit outcome**

The Conservative Party won the 12 December UK general election with a larger-than-expected majority. The Conservatives won 365 seats versus Labour's 203 seats in the House of Commons. The clear mandate for Prime Minister Boris Johnson and some near-term clarity on Brexit resulted in strong demand for UK assets, including GBP (page 2). The primary focus of the UK government will be to pass the Withdrawal Agreement Bill (WAB) in Parliament, so the UK can leave the EU by the end of January 2020. The transition period will begin on 1 February and end by December 2020, with the deadline for the UK requesting an extension at end-June. We believe that it will be challenging to finalise a trade agreement in a short period and we therefore see potential for an extension to end-2021. Separately, the ECB kept its monetary policy steady at its December meeting, with new President Christine Lagarde maintaining a largely steady tone.

► **Global: Fed steady; CBRT cuts by 200 bps**

The Fed left interest rates unchanged at its 10-11 December policy meeting (page 3). The FOMC reaffirmed that the Fed's interest rate policy is "in a good place" and that a "material reassessment" would be needed for any further action. The median dot-plot projections also indicate steady monetary policy in 2020, followed by one 25 bps hike in each of 2020 and 2021. December dot-plot projections further strengthen our view that interest rates will remain unchanged until the end of 2020. Meanwhile, the CBRT reduced its benchmark one-week repo rate by 200 bps to 12.0% at its December meeting, above consensus expectations of a 150 bps cut (page 4). Looking ahead, we expect the CBE to keep benchmark rates steady on 26 December (page 2).

The next issue of Global Data Watch will be published on Monday 13 January 2019.

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I. Recent Events and Data Releases

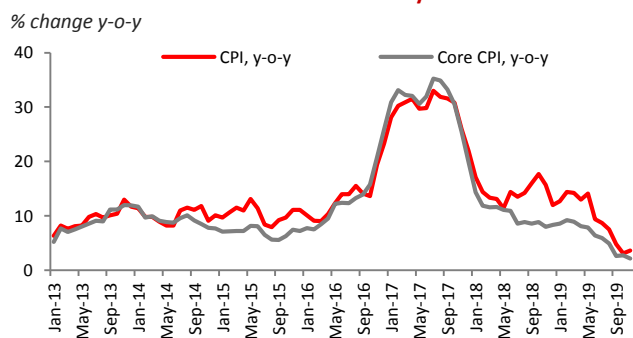
A. MENA Economies

Egypt: Headline inflation accelerates in November, but remains soft

Headline inflation in Egypt rose to 3.6% y-o-y in November, from its multi-year low of 3.1% in October. This was the first acceleration in six months and had been widely expected as the annual base was less favourable than in October. The increase in inflation was largely due to weaker deflation in food prices of 3.1% y-o-y in November, compared with a 4.8% contraction in October. Food prices account for around a third of the inflation basket. Despite the overall increase, annual headline inflation remains contained and well below the Central Bank of Egypt's target range of 9% (± 3 pp) for end-2020. Indeed, reflecting the subdued underlying inflationary pressure, both headline (-0.3 m-o-m) and core (-0.1%) prices fell on a monthly basis in November. Core annual inflation has remained in the low single digits over the last three months. We expect a more meaningful jump in yearly headline inflation in December to around 7.0% y-o-y, again due to the base effect. Nevertheless, we expect inflation to remain comfortably within the central bank's target range in December and 2020. As such, we see further room for rate cuts by the CBE in 2020, although we expect monetary policy to remain on hold at the 26 December meeting. We believe the MPC will look to gauge the impact of the recent consecutive rate cuts and the magnitude of the inflation bounce before it makes any further cuts. Benchmark interest rates have been lowered by 450 bps in 2019 and we see potential for a further 100-200 bps of cuts in 2020.

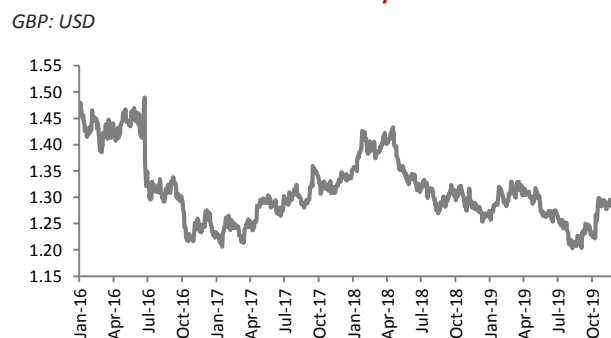
Underlying inflationary pressure remains muted

Fig. 1. Egypt: Slight tick-up in headline inflation in November; core inflation remains at multi-year low levels



Source: CAPMAS, ADCB calculations

Fig. 2. UK: GBP reaches 2019 high following strong election result for Conservative Party



Source: Bloomberg

B. G4 Economies

UK: Conservative party wins absolute majority in general election

The Conservative Party secured its best election result since 1987 with a majority of 80 seats in the House of Commons. The Conservatives won 365 of the 650 seats, versus Labour's 203. Of the remaining seats, the Scottish National Party (SNP) won 48, whilst the Liberal Democrats got 11. A comfortable majority for Prime Minister Boris Johnson puts an end to the political uncertainty that has been affecting the UK economy since the

Conservative win presents greater clarity on Brexit

Brexit referendum in 2016, at least in the near term. The election result also eliminates the risk of a market-unfriendly Labour government, whilst providing greater clarity on Brexit. The reduced political uncertainty following the general election may prompt the BoE to adopt a relatively neutral stance at its upcoming 19 December policy meeting, whilst keeping the benchmark rate steady at 0.75%. We believe that the BoE will now wait and see how the economy evolves, although we see increasing chances for a rate cut by mid-2020 with economic activity remaining weak.

The primary focus of the UK government will now be on passing the Withdrawal Agreement Bill (WAB) in Parliament, so that the UK can leave the EU by the end of January 2020. We believe that PM Johnson will be able to push through the WAB in Parliament with ease given the Conservatives' overwhelming majority. The UK would then be in the transition period from 1 February until end-2020, unless PM Johnson asks for an extension by end-June. Our base case is that the PM will ask for an extension of the transition period, softening his hard-Brexit stance, and adopt a conciliatory approach to unite the country and secure a trade agreement with the EU. The PM's large personal mandate means that he no longer needs to pacify the hard Brexit members of his party in exchange for their support. The average time taken for any Free Trade Agreement (FTA) negotiation is around four years, hence we see a good chance for a one-year extension. In the event that the UK and EU fail to reach a trade agreement by end-2020 and the UK has not requested a transition period extension, their trading relationship will revert to WTO terms at the end of 2020. Even in the event of the UK not requesting a transition period by end-June, we believe that the EU is likely to remain flexible and grant a last-minute extension by end-2020 upon the UK's request. We also envisage the possibility that both the EU and the UK will agree a partial trade deal by end-2020, whilst leaving the complicated negotiations for a later period.

Complicated trade negotiations likely to begin in March 2020

US: Fed keeps rates steady in December and signals pause in 2020

The Fed left the FFTR unchanged at 1.50-1.75% at its December policy meeting, with a unanimous decision. The overall tone of the meeting was neutral in our view, including the dot plot and post-meeting press conference. The Fed's statement highlighted that its current stance of steady monetary policy is "appropriate" to support the sustained expansion of economic activity. The FOMC expressed increased confidence in the economic outlook and removed the word "uncertainties" regarding the outlook from the statement. However, it underlined that the Fed will continue to monitor global developments and the muted domestic inflationary pressures closely to assess the path of interest rates. We continue to believe that the bar remains high for any monetary policy action in 2020, unless there is a material change in the economic outlook. The updated December dot-plot projections also reinforced the message of steady rates, with 13 of the 17 FOMC members forecasting an FFTR in the range of 1.50-1.75% until end-2020. The remaining four members forecast a 25 bps hike in 2020; none of the FOMC members are currently projecting a rate cut in 2020, including the most dovish Fed members such as James Bullard and Neel Kashkari. In the event of a rate change, we still believe a reduction looks more likely than an increase at this point, despite dot-plot forecasts pointing to a greater chance of rate hikes in the outlook period. Beyond 2020, FOMC members pencil in one 25 bps rate hike in each of 2021 and 2022. However, during his post-meeting press conference, Fed Chair Jerome Powell downplayed the chances of a rate hike in the near term and emphasised that the Fed would raise rates only if there was a "persistent, significant" rise in inflation in the outlook period.

Limited changes to Fed communication at December meeting

Fig. 3. US: Summary of FOMC's median economic projections

%	2019	2020	2021	2022	Longer run
Real GDP growth, 4Q y-o-y					
December	2.2	2.0	1.9	1.8	1.9
September	2.2	2.0	1.9	1.8	1.9
Unemployment rate, 4Q average					
December*	3.6	3.5	3.6	3.7	4.1
September	3.7	3.7	3.8	3.9	4.2
PCE inflation, 4Q y-o-y					
December	1.5	1.9	2.0	2.0	2.0
September	1.5	1.9	2.0	2.0	2.0
Core PCE inflation, 4Q y-o-y					
December*	1.6	1.9	2.0	2.0	
September	1.8	1.9	2.0	2.0	
Median FFTR, year end					
December*	1.625	1.625	1.875	2.125	2.5
September	1.875	1.875	2.125	2.375	2.5

* Changes or new forecasts are highlighted in bold

Source: Federal Reserve

On economic projections, real GDP growth projections were left unchanged for the forecast period, again implying the FOMC's confidence in the economic outlook. The ongoing solid labour market conditions also led the Fed to lower unemployment rate projections modestly to 3.5%-3.7% during 2020-2022, from 3.7%-3.9% in September. However, the Fed does not expect the strengthening labour market to feed positively into inflationary pressures and it kept core PCE inflation estimates unchanged for 2020 and 2021 (see table above). Overall, the Fed's communication continues to support our view that the FOMC will be on hold throughout 2020 and any change in stance will only come after a material reassessment of the economic outlook.

We still expect Fed to remain on hold throughout 2020

CPI inflation: Core CPI inflation remained steady at 0.2% m-o-m in November, keeping the y-o-y reading steady at 2.3%. Looking at the sub-components, core services inflation inched up to 0.3% m-o-m in November (October: 0.2%), with a pick-up in shelter prices, following their surprising deceleration in the previous month. However, this was partly offset by a softening in other core services components, including transportation and medical care. Meanwhile, subdued core goods inflation (0% m-o-m) implied that there is still no evidence of a significant pass-through from the September round of tariffs to consumer prices. The steady November core inflation data remains supportive for the Fed's on-hold monetary policy stance.

Core CPI inflation steady at 0.2% m-o-m in November, in line with consensus

C. Emerging Market Economies

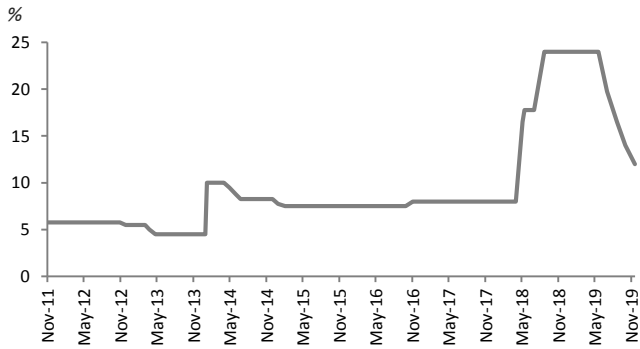
Turkey: CBRT overdelivers again with 200 bps rate cut in December

The CBRT reduced its benchmark one-week repo rate by 200 bps to 12.0% at its December policy meeting, exceeding the consensus estimate of a 150 bps cut. This is the fourth consecutive rate reduction since the rate-easing cycle began in July, with the central bank delivering deeper cuts than the consensus forecast in each of these meetings. The CBRT has lowered the benchmark interest rate by a cumulative 12 ppts in 2019 under the leadership of the Governor Murat Uysal (appointed mid-2019). The

CBRT reiterates dovish view on the inflation outlook

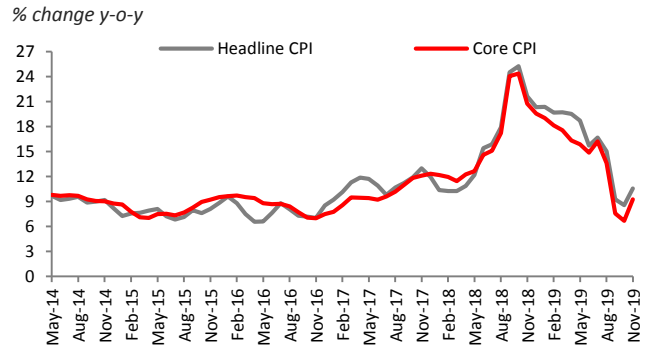
central bank attributed the December rate cut to the recent disinflationary trend and improving medium-term inflation outlook. Notably, headline inflation softened to 10.6% y-o-y in November, from a peak of 25.2% at end-2018. The MPC highlighted that headline inflation is likely to materialise close to the lower end of the CBRT’s forecast range by end-2019, with the midpoint of the range at 12.0%.

Fig. 4. Turkey: CBRT makes cumulative 12 ppt rate cut in 2019 amidst softening inflation outlook



Source: CBRT

Fig. 5. Turkey: Disinflationary trend likely to be more gradual and limited in 2020, limiting size of rate cuts



Source: Turkish Statistical Institute

The real one-week repo rate stood at c.1.4% following the December rate cut, which may be just sufficient to keep capital inflows steady for now. However, headline inflation is expected to pick up to around 12.0% by December (base effect), narrowing the real rate further. We believe that a real interest rate below 1.0% would reduce the attractiveness of Turkish assets, especially after considering the risk premium. Looking ahead, the CBRT forecasts end-2020 inflation at 8.0%, which, if it materialises, opens space for another 200-300 bps of easing in the coming year. The ongoing dovish stance also make us believe that much of the expected rate cuts are likely to be frontloaded in 1H2020.

We see potential for CBRT to cut benchmark rate by further 200-300 bps in 2020

II. Economic Calendar

Fig. 6. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Nov	-2.8%	
	UAE	Abu Dhabi CPI, y-o-y	Nov	-1.1%	
	Kuwait	CPI, y-o-y	Nov	1.5%	
	Bahrain	CPI, y-o-y	Nov	1.9%	
	Bahrain	GDP Constant Prices, y-o-y	3Q	0.8%	
	Oman	CPI, y-o-y	Nov	-0.2%	
Monday, 16 December					
6:00	China	Industrial Production, y-o-y	Nov	4.7%	5.0%
6:00	China	Retail Sales, y-o-y	Nov	7.2%	7.6%
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Dec P	46.9	47.3
13:30	UK	Markit UK PMI Manufacturing SA	Dec P	48.9	49.2
17:30	US	Empire Manufacturing	Dec	2.9	4.0
18:45	US	Markit US Manufacturing PMI	Dec P	52.6	52.6
18:45	US	Markit US Services PMI	Dec P	51.6	52.0
Tuesday, 17 December					
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Oct	3.6%	3.4%
13:30	UK	ILO Unemployment Rate, 3M	Oct	3.8%	3.9%
17:00	US	Fed's Kaplan Speaks in New York			
17:30	US	Housing Starts	Nov	1314K	1343K
17:30	US	Building Permits	Nov	1461K	1414K
18:15	US	Industrial Production, m-o-m	Nov	-0.8%	0.8%
19:00	US	JOLTS Job Openings	Oct	7024	7009
21:30	US	Fed's Rosengren to Speak to Forecasters Club of New York			
21:30	US	Fed's Williams Holds Press Briefing on Economic Conditions			
Wednesday, 18 December					
12:30	Eurozone	ECB President Lagarde Speaks in Frankfurt			
13:30	UK	CPI, y-o-y	Nov	1.5%	1.4%
13:30	UK	CPI Core, y-o-y	Nov	1.7%	1.7%
14:00	Eurozone	CPI, y-o-y	Nov F	0.7%	1.0%
14:00	Eurozone	CPI Core, y-o-y	Nov F	1.3%	1.3%
14:15	Eurozone	Federal Reserve's Brainard Speaks in Frankfurt			
21:40	US	Fed's Evans Speaks in Indianapolis			
Thursday, 19 December					
13:30	UK	Retail Sales Inc Auto Fuel, m-o-m	Nov	-0.1%	0.2%
16:00	UK	Bank of England Bank Rate	19-Dec	0.75%	0.75%
19:00	US	Leading Index	Nov	-0.1%	0.1%
19:00	US	Existing Home Sales	Nov	5.46M	5.44M
	Japan	BOJ Policy Balance Rate	19-Dec	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	19-Dec	0.0%	0.0%
Friday, 20 December					
3:30	Japan	Natl CPI, y-o-y	Nov	0.2%	0.5%
5:30	China	1-Year Loan Prime Rate	Dec	4.15%	4.1%
13:30	UK	GDP, q-o-q	3Q F	0.3%	0.3%
13:30	UK	GDP, y-o-y	3Q F	1.0%	1.0%
17:30	US	GDP Annualized, q-o-q	3Q T	2.1%	2.1%
17:30	US	Personal Consumption	3Q T	2.9%	2.9%
19:00	Eurozone	Consumer Confidence	Dec A	-7.2	-7.0
19:00	US	Personal Income	Nov	0.0%	0.3%
19:00	US	Personal Spending	Nov	0.3%	0.4%
19:00	US	PCE Core Deflator, m-o-m	Nov	0.1%	0.1%
19:00	US	PCE Core Deflator, y-o-y	Nov	1.6%	1.5%

* UAE time

Source: Bloomberg

Fig. 7. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	CPI, y-o-y	Oct	-2.2%		-1.9%
Monday, 09 December						
3:50	Japan	GDP Annualized SA, q-o-q	3Q F	0.2%	0.6%	1.8%
3:50	Japan	BoP Current Account Balance	Oct	¥1612.9B	¥1806.8B	¥1816.8B
Tuesday, 10 December						
3:50	Japan	Money Stock M2, y-o-y	Nov	2.4%	2.5%	2.8%
5:30	China	CPI, y-o-y	Nov	3.8%	4.3%	4.5%
5:30	China	PPI, y-o-y	Nov	-1.6%	-1.5%	-1.4%
5:30	China	New Yuan Loans, CNY	Nov	661.3B	1200.0B	1390.0B
5:30	China	Money Supply M2, y-o-y	Nov	8.4%	8.4%	8.2%
10:00	Japan	Machine Tool Orders, y-o-y	Nov P	-37.4%		-37.9%
13:30	UK	Industrial Production, m-o-m	Oct	-0.3%	0.2%	0.1%
13:30	UK	Industrial Production, y-o-y	Oct	-1.4%	-1.2%	-1.3%
13:30	UK	Trade Balance, GBP Million	Oct	-£1922M	-£2800M	-£5188M
	Egypt	Urban CPI, y-o-y	Nov	3.1%		3.6%
Wednesday, 11 December						
8:15	UAE	Dubai PMI	Nov	54.6		53.5
17:30	US	CPI, m-o-m	Nov	0.4%	0.2%	0.3%
17:30	US	CPI, ex-Food and Energy, m-o-m	Nov	0.2%	0.2%	0.2%
17:30	US	CPI, y-o-y	Nov	1.8%	2.0%	2.1%
17:30	US	CPI, ex-Food and Energy, y-o-y	Nov	2.3%	2.3%	2.3%
23:00	US	FOMC Rate Decision (Upper Bound)	11-Dec	1.75%	1.75%	1.75%
23:00	US	FOMC Rate Decision (Lower Bound)	11-Dec	1.5%	1.5%	1.5%
23:00	US	Interest Rate on Excess Reserves	12-Dec	1.55%	1.55%	1.55%
Thursday, 12 December						
3:50	Japan	Core Machine Orders, m-o-m	Oct	-2.9%	-1.9%	-6.1%
14:00	Eurozone	Industrial Production SA, m-o-m	Oct	-0.1%	-0.5%	-0.5%
15:00	Turkey	One-Week Repo Rate	12-Dec	14.0%	12.5%	12.0%
16:00	India	CPI, y-o-y	Nov	4.6%	5.3%	5.5%
16:00	India	Industrial Production, y-o-y	Oct	-4.3%	-5.0%	-3.8%
16:45	Eurozone	ECB Main Refinancing Rate	12-Dec	0.0%	0.0%	0.0%
16:45	Eurozone	ECB Marginal Lending Facility	12-Dec	0.25%	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	12-Dec	-0.5%	-0.5%	-0.5%
17:30	US	PPI Final Demand, m-o-m	Nov	0.4%	0.2%	0.0%
Friday, 13 December						
3:50	Japan	Tankan Large Manufacturing Index	4Q	5.0	3.0	0.0
3:50	Japan	Tankan Large Non-Manufacturing Index	4Q	21.0	16.0	20.0
3:50	Japan	Tankan Large Manufacturing Outlook	4Q	2.0	3.0	0.0
3:50	Japan	Tankan Large Non-Manufacturing Outlook	4Q	15.0	16.0	18.0
11:00	Turkey	Industrial Production, y-o-y	Oct	3.6%	6.0%	3.8%
17:30	US	Import Price Index, m-o-m	Nov	-0.5%	0.2%	0.2%
17:30	US	Retail Sales Advance, m-o-m	Nov	0.4%	0.5%	0.2%
17:30	US	Retail Sales, ex-Auto, m-o-m	Nov	0.3%	0.4%	0.1%
17:30	US	Retail Sales Control Group, m-o-m	Nov	0.3%	0.3%	0.1%
	India	Exports, y-o-y	Nov	-1.1%		-0.3%

* UAE time

Source: Bloomberg

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