The Week Ahead: UK general election and central bank meetings

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Global: Fed and ECB expected to stay on hold

The Fed is widely expected to keep policy rates steady at its 10-11 December policy meeting, with a neutral tone. Fed communication since the October meeting suggests that FOMC members see the current FFTR level (1.50-1.75%) as appropriate and that the Fed will keep rates on hold in the near future. We expect the Fed to reiterate that a material reassessment of the economic outlook is necessary before any further monetary policy action. Solid incoming data, including upward revisions to 3Q GDP growth (2.1% vs 1.9% previously) and a strong November NFP reading (page 3), remain supportive for the Fed to reaffirm its steady stance. Meanwhile, market focus will also be on the US-China trade developments, particularly with the 15 December deadline for the US raising tariffs on c.USD160 billion of goods imported from China (delayed from 1 September). There is still no clarity on the progress of the 'phase-one' trade deal. Data wise, the key US releases this week are November CPI inflation and retail sales (page 5). Moving to the Eurozone, the ECB is also expected to keep its monetary policy steady at its 12 December policy meeting. Attention will be on new President Christine Lagarde's first post-meeting press conference for any new insights.

UK: Polls point to Conservative victory in general election

The other key event this week will be the UK general election on 12 December, with the result expected to be announced the following day. An average of recent nationwide opinion polls suggests that the Conservative Party has a comfortable 11 ppt lead over Labour. However, we urge for caution, as recent opinion polls (2016 Brexit referendum and 2017 snap election) failed to accurately predict the results. The Conservatives see the general election as the best way to break the Brexit deadlock and the election outcome will be critical for Brexit developments. The polls suggest that Johnson's 'Get Brexit done' stance appeals to voters more than further Brexit uncertainties, as implied by the Labour Party manifesto. The GBP strengthened sharply against the USD last week, with the markets pricing in a Conservative majority in the election. We see potential for further GBP strengthening if the Conservative Party wins a majority.

EM: Turkey's CBRT likely to cut rates by 150 bps

Consensus expects the CBRT to cut benchmark rates by 150 bps at its 12 December policy meeting. Headline inflation has surprised to the downside since April, slowing to 10.6% y-o-y in November from a high of 25.2% in October 2018. The disinflationary trend has helped the CBRT to cut rates by 10 ppts to 14.0% in the last three central bank meetings. We believe that the MPC is likely to carry out further easing in 2020, albeit with smaller rate cuts. Elsewhere in emerging markets, India will release its November CPI inflation data this week. Consensus expects headline inflation to accelerate for a fourth consecutive month in November to 5.3% after rising to 4.6% in October. Citing upward inflationary pressures, the RBI unexpectedly kept benchmark rates on hold at 5.15% at its December meeting (page 4).

I. Recent Events and Data Releases

A. MENA Economies

GCC: Opec+ agrees on additional 503K b/d output cut from January

OPEC counties to carry burden of additional production cut

OPEC and some non-OPEC oil-producing countries (OPEC+) agreed to lower their production level by an additional 503K b/d for 1Q2020, taking the official output cut to 1.7 million b/d (from the base production level of October 2018). The current OPEC+ target for 2019 is 1.2 million b/d less than the October 2018 baseline. Of the additional production cuts agreed, the OPEC countries are set to reduce production by 372K b/d, while the 10 non-OPEC partners will lower output by a lesser 131K. Saudi Arabia will continue to take the lion's share of the OPEC cut in absolute terms. Saudi Energy Minister Prince Abdulaziz bin Salman indicated that the kingdom's official production target is set at 10.15 million b/d for 1Q2020, which is still higher than the country's 11M2019 average output of 9.8 million b/d. He added that Saudi Arabia will continue with an "additional voluntary" cut of 400K b/d and produce 9.74 million b/d in 1Q2020. This would lead to total OPEC+ group cuts of more than 2.1 million b/d, if all member countries adhered to their production targets. He also highlighted that Saudi Arabia's voluntary cuts (400K b/d) will depend on the compliance of all other group member countries. As such, the emphasis was on each individual country adhering to its production quota. Strong compliance by OPEC countries with their allotted new quotas may result in the group's global oil market share falling further in 2020, albeit to a more limited degree than in 2019. The other key outcome of the meeting is that non-OPEC countries' production targets will cover just crude, with condensates no longer subject to the output quotas. The key beneficiaries of this policy tweak are likely to be Russia and Oman.

Some contained downside risks to our GCC real GDP growth forecasts

For the key GCC countries, the OPEC+ production cut agreement is likely to have a relatively limited economic impact in our view. Most GCC countries are already producing below or close to their current production target levels. The new target suggests some reduction in output from Kuwait, Saudi (voluntary) and the UAE in 1Q2020, although we believe that Saudi oil production in 2020 should remain broadly in line with the average 2019 level. We retain our current 2020 real GDP growth forecasts until we see the magnitude of the adjustment and gauge OPEC policy after 1Q2020. We believe that Saudi Arabia's communication at the OPEC+ meeting suggests that it will limit its share of the production cuts if other OPEC+ members do not comply with their targets. Meanwhile, the Oman economy is likely to benefit from the exclusion of condensates from the OPEC+ agreement, resulting in some potential upside risks to GDP growth in 2020.

Fig. 1. OPEC: Proposed group production targets for 1Q2020

'000 b/d

	Algeria	Angola	Congo	E.Guinea	Gabon	Iraq	Kuwait	Nigeria	Saudi	UAE	Total
2019 production target	1025	1481	315	123	181	4512	2724	1774	10311	3072	25518
10M2019 average production	1023	1399	340	110	214	4736	2678	1745	9812	3075	25132
Incremental cuts agreed	12	0	4	1	2	50	55	21	167	60	372
1Q2020 production target	**1013**	**1481**	**311**	**122**	**179**	**4462**	**2669**	**1753**	**10144**	**3012**	**25146**

Source: OPEC, Bloomberg, ADCB calculations

Adherence to the new output targets remains a key uncertainty

The planned additional reduction in output is expected to place a floor beneath the oil price and reduce the magnitude of the previously forecast oversupply in 1Q2020. However, critical to this will be the compliance with the new target levels, especially from members such as Iraq and Nigeria, which have shown weak adherence in 2019. Moreover, the new production targets are just for 1Q2020. We maintain our Brent crude forecast for 2020 at USD62.5 p/b, but envisage a number of upside and downside risks including global demand and US shale production. We expect US output to rise further in 2020, alongside higher production from Norway, Brazil and Canada. We believe that the OPEC+ group will have to extend the agreed production cuts to beyond 1Q2020 to end-2020 to counter the rise in non-OPEC production.

B. G4 Economies

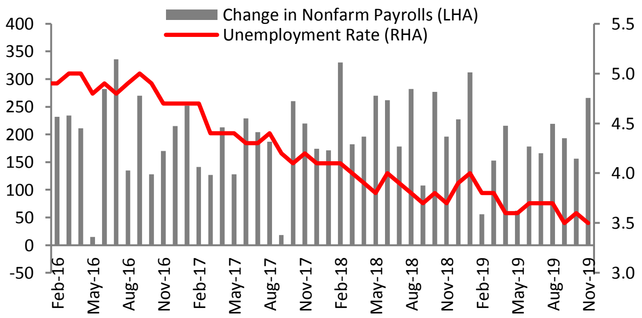
US: Robust November labour report, with 266K jobs created

Broad-based pickup in hiring activity in November

The November employment report continued to point to solid labour market conditions, with the economy adding 266K jobs (consensus: 180K) in the month. The three-month moving average remained robust at 205K, with the six-month average at 196K. The combined September and October payrolls were also revised up by 41K, indicating that hiring momentum during these months was better than previously thought. Meanwhile, job creation in November was broad-based across the sectors. The manufacturing sector added 54K workers, although this was partly due to the return of auto workers (around 40K) to their jobs after the GM strike in October. In the service sector, education and health (74K), leisure and hospitality (45K), professional and business services (38K) and transportation and warehousing (16K) were the key segments that created jobs. The solid November jobs report suggests that employers remain confident regarding the US economic outlook despite the protracted US-China trade tensions.

Fig. 2. US: Pace of jobs growth remains solid, with three-month average at 205K

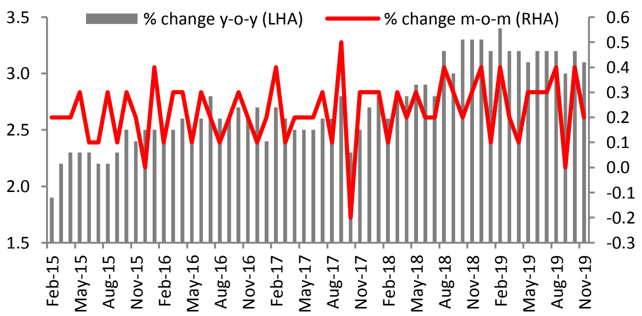
'000 (LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 3. US: Wage growth decelerates to 3.1% y-o-y in November, from 3.2% in October

% change



Source: Bureau of Labor Statistics

Labour market slack continues to diminish, but wage growth is still subdued

Meanwhile, the unemployment rate reached a 50-year low of 3.5% in November, down from 3.6% in October, suggesting that labour market slack continued to diminish. Nevertheless, wage growth remains contained, with average hourly earnings decelerating to 0.2% m-o-m in November, albeit from an upwardly revised 0.4% in October. Annual wage growth also eased to 3.1% y-o-y, from 3.2% in October. Overall, we believe that the ongoing signs of a solid labour market remain supportive of the Fed maintaining its on-hold monetary stance.

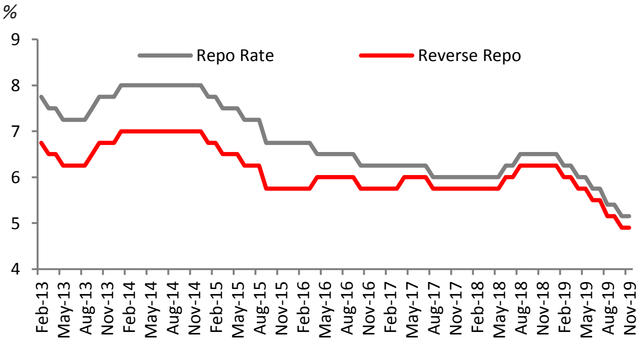
C. Emerging Market Economies

India: RBI unexpectedly holds policy rates in December

MPC lowers FY2020 GDP growth to 5.0% from 6.1% previously

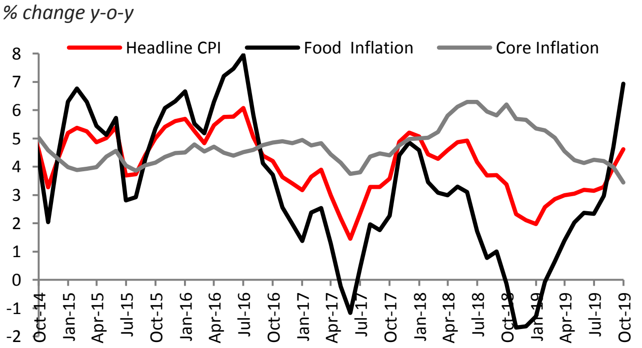
The RBI kept its benchmark repo rate steady at 5.15% at its December policy meeting, surprising the market, which had expected a 25 bps cut. All six MPC members voted for a pause, including dovish member Ravindra Dholakia, who had voted for a 40 bps cut at the October meeting. The decision came after the RBI lowered benchmark rates by 135 bps in 2019. The RBI stated that the pause is to assess the impact of earlier rate cuts and government's fiscal easing on the economy, gain more clarity on the inflation outlook, and wait for details of the government's FY2021 (April 2020 – March 2021) budget, due in the first week of February. This cautious approach makes us believe that the RBI sees the rising headline inflation as a bigger concern than the weakening growth momentum. This is against our and the consensus assumption that MPC members would give more weight to decelerating core inflation and weakening growth momentum than to rising headline inflation. Notably, India's GDP growth decelerated to a multi-year low of 4.5% y-o-y in 3Q, from 5.0% in 2Q. Citing the weak economic growth momentum, the MPC downgraded its GDP growth forecast for FY2020 (ending March 2020) to 5.0% from 6.1%. Meanwhile, the RBI's headline inflation projection was revised up to 5.1-4.7% for 2H FY2020 and 4.0-3.8% for 1H FY2021.

Fig. 4. India: RBI keeps interest rates steady following sharp rise in food inflation in October



Source: RBI

Fig. 5. India: Headline inflation accelerates on back of rising vegetable prices, whilst core remains contained



Source: India Central Statistical Organisation

We still expect RBI to cut benchmark rates by an additional 40 bps in 1H2020

Despite keeping rates steady, the MPC retained its accommodative monetary policy stance at its December meeting, underlining that there is space for further rate cuts. We continue to believe that the RBI will lower benchmark rates by an additional 40 bps in 2020 to aid economic growth. However, the timing looks uncertain, as incoming headline inflation prints are unlikely to support rate cuts at the next policy meeting in February. We now expect the RBI's next 25 bps rate cut to be in either February or April, with the risk tilted more toward April than February.

II. Economic Calendar

Fig. 6. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Oct	-2.2%	
	Oman	CPI, y-o-y	Nov	-0.2%	
	China	New Yuan Loans, CNY	Nov	661.3B	1200.0B
	China	Money Supply M2, y-o-y	Nov	8.4%	8.4%
Monday, 09 December					
3:50	Japan	GDP Annualized SA, q-o-q	3Q F	0.2%	0.6%
Tuesday, 10 December					
3:50	Japan	Money Stock M2, y-o-y	Nov	2.5%	2.5%
5:30	China	CPI, y-o-y	Nov	3.8%	4.4%
5:30	China	PPI, y-o-y	Nov	-1.6%	-1.5%
13:30	UK	Industrial Production, m-o-m	Oct	-0.3%	0.2%
13:30	UK	Industrial Production, y-o-y	Oct	-1.4%	-1.2%
13:30	UK	Trade Balance, GBP Million	Oct	-£3360M	-£2700M
19:50	Global	IMF Chief Kristalina Georgieva Speaks in Washington			
	Egypt	Urban CPI, y-o-y	Nov	3.1%	
Wednesday, 11 December					
8:15	UAE	Dubai PMI	Nov	54.6	
17:30	US	CPI, m-o-m	Nov	0.4%	0.2%
17:30	US	CPI, ex-Food and Energy, m-o-m	Nov	0.2%	0.2%
17:30	US	CPI, y-o-y	Nov	1.8%	2.0%
17:30	US	CPI, ex-Food and Energy, y-o-y	Nov	2.3%	2.3%
23:00	US	FOMC Rate Decision (Upper Bound)	11-Dec	1.75%	1.75%
23:00	US	FOMC Rate Decision (Lower Bound)	11-Dec	1.5%	1.5%
23:00	US	Interest Rate on Excess Reserves	12-Dec	1.55%	1.55%
23:30	US	Powell Holds Post FOMC Meeting Press Conference			
Thursday, 12 December					
3:50	Japan	Core Machine Orders, m-o-m	Oct	-2.9%	-1.1%
14:00	Eurozone	Industrial Production SA, m-o-m	Oct	0.1%	-0.5%
15:00	Turkey	One-Week Repo Rate	12-Dec	14.0%	12.5%
16:00	India	CPI, y-o-y	Nov	4.6%	5.3%
16:00	India	Industrial Production, y-o-y	Oct	-4.3%	-4.5%
16:45	Eurozone	ECB Main Refinancing Rate	12-Dec	0.0%	0.0%
16:45	Eurozone	ECB Marginal Lending Facility	12-Dec	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	12-Dec	-0.5%	-0.5%
17:30	Eurozone	ECB's Lagarde Speaks in Frankfurt After Policy Decision			
17:30	US	PPI Final Demand, m-o-m	Nov	0.4%	0.2%
	UK	UK General Election			
Friday, 13 December					
3:50	Japan	Tankan Large Manufacturing Index	4Q	5.0	3.0
3:50	Japan	Tankan Large Non-Manufacturing Index	4Q	21.0	16.0
3:50	Japan	Tankan Large Manufacturing Outlook	4Q	2.0	4.0
3:50	Japan	Tankan Large Non-Manufacturing Outlook	4Q	15.0	16.0
11:00	Turkey	Industrial Production, y-o-y	Oct	3.4%	6.0%
17:30	US	Import Price Index, m-o-m	Nov	-0.5%	0.2%
17:30	US	Retail Sales Advance, m-o-m	Nov	0.3%	0.4%
17:30	US	Retail Sales, ex-Auto, m-o-m	Nov	0.2%	0.3%
17:30	US	Retail Sales Control Group, m-o-m	Nov	0.3%	0.3%
20:00	US	Fed's Williams Discusses Topics in Monetary Policy			
	UK	United Kingdom Sovereign Debt to be rated by DBRS			

* UAE time

Source: Bloomberg

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