

The Week Ahead: ECB likely to pave way for easing; CBRT expected to cut rates

► Eurozone: ECB expected to shift guidance towards easing

We believe that the ECB will change its forward guidance at its 25 July meeting to pave the way for a deposit rate cut in September. We expect the guidance to be altered along the lines of 'rates remaining at current levels or lower for an extended period' versus the current stance of rates remaining on hold at least until June 2019. We forecast a 10 bps deposit rate cut to -0.5% at the September meeting, likely followed by an identical cut in December. ECB President Mario Draghi's post-meeting press conference will be scrutinised for any potential introduction of a tiered deposit rate system for banks' excess reserves, aimed at mitigating the impact of negative interest rates on their profitability. Consensus expects the GC to announce a new framework for tiered rates at its September meeting. On the QE front, we do not think that economic conditions are sufficiently concerning to warrant the reintroduction of asset purchases at this point. We believe that the ECB will keep the QE option open, but only use it in the event of a sharp slowdown in the broader economy.

► Turkey: CBRT likely to start easing cycle with 200 bps rate cut

We and consensus expect the CBRT to start a rate easing cycle at its 25 July monetary policy meeting. We forecast the central bank to reduce its benchmark one-week repo rate by 200 bps to 22%. Softening headline inflation – down to 15.7% y-o-y in June from a high of 25.2% in October 2018 – a relatively stable TRY and the global easing cycle are supportive of a rate cut. We expect disinflation to continue into 2H amid reduced cost pressures and weak domestic demand. The CBRT currently forecasts headline inflation to soften to 14.6% by end-2019, which looks achievable barring no major TRY weakness. With the real one-week repo rate at 8.3% in June, we see scope for the central bank to reduce it gradually to the range of 4-5% in the coming months. We expect new CBRT governor Murat Uysal's tone to be more dovish than that of his predecessor Murat Çetinkaya, who was dismissed on 6 July. The probability of the CBRT front loading monetary policy easing has increased in our view and we now forecast c.500 bps of rate cuts in 2H2019.

► Global: UK to announce new PM on 23 July; US 2Q GDP data

The Fed enters a blackout period this week, with markets pricing in an 81.5% probability of a 25 bps rate cut and an 18.5% probability of a 50 bps cut at the 30-31 July meeting. With Fed speaking engagements off the calendar, the focus in the US will be on the first estimates of 2Q GDP and June durable goods data, although the releases are unlikely to change the Fed's intention to cut rates in July. Consensus estimates that 2Q GDP growth remained healthy, expanding at 1.8% q-o-q SAAR, albeit slowing from 3.1% in 1Q. Consumer spending is forecast to be the main positive driver of headline growth, strengthening to 4.0% q-o-q SAAR (1Q: 0.9%). In the UK, political developments will dominate, with the Conservative Party expected to name a new Prime Minister on 23 July. Boris Johnson is widely expected to win the party leadership contest and become the next PM.

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

Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	5

I. Recent Events and Data Releases

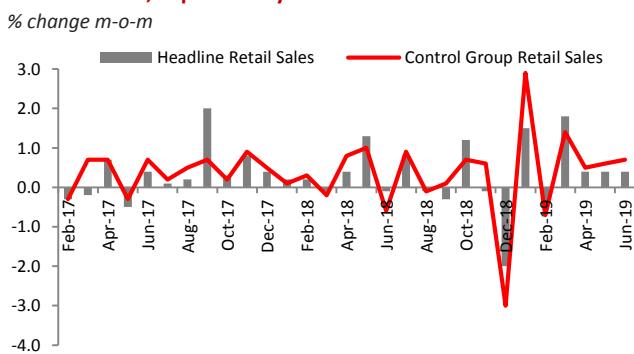
A. G4 Economies

US: Strong June retail sales end 2Q on solid note

The strong June retail sales report suggested that underlying momentum for household spending remained robust going into 3Q. The 'retail control' group, which feeds into the GDP data, grew by a solid 0.7% m-o-m in June, beating both the consensus estimate of 0.3% and May's upwardly revised 0.6%. Strong June core retail sales and upward revisions to the April and May data suggest that personal consumption is likely to have been the key driver of economic growth in 2Q2019. However, headline retail sales grew at a slower pace of 0.4% m-o-m, the same as in May, with a contraction in gasoline sales offsetting a broad-based strengthening in the core segment. Meanwhile, the industrial production data for June released last week showed tentative signs of a pick-up in manufacturing activity despite the moderation in headline growth.

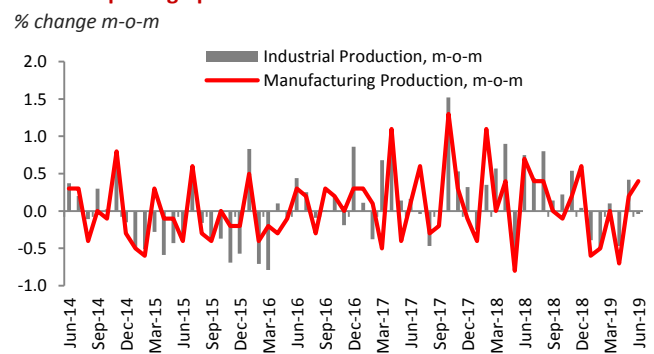
Personal consumption to be key driver of 2Q GDP growth

Fig. 1. US: Control group retail sales, which feed into GDP data, expanded by solid 0.7% m-o-m in June



Source: US Census Bureau

Fig. 2. US: Manufacturing production shows tentative signs of picking up in June



Source: Federal Reserve

The incoming high-frequency data (June labour market report, CPI inflation, retail sales) suggest that US economic momentum remains relatively healthy compared to other major economies. Nevertheless, Fed communication last week reiterated that a July rate cut remains firmly on the cards. FOMC speakers, including Chair Jerome Powell, re-emphasised increasing external uncertainties and weak domestic inflation as the key reasons for a potential July rate cut, abandoning their earlier data-dependent approach. Indeed, the coming week's durable goods print and first estimate of 2Q GDP growth are unlikely to change the Fed's inclination to cut rates by 25 bps at its July meeting. Nevertheless, the solid June data has lowered the chances of a 50 bps rate cut in July, although we do not rule this out completely.

Solid incoming data unlikely to alter Fed's inclination to cut rates in July

UK: Retail sales rise unexpectedly in June

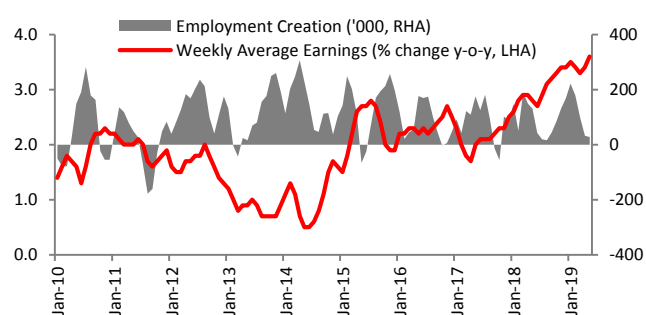
The incoming UK data paints a mixed picture of the state of the economy, which is shrouded in political uncertainties. Data released last week showed that wage growth (ex-bonus) picked up to a post-financial crisis high and retail activity strengthened unexpectedly, although neither had a major impact on headline inflation. Retail sales growth rebounded unexpectedly to 1% m-o-m in June after contracting by 0.6% in May

Strong household consumption in June to help UK avoid GDP growth contraction in 2Q

and 0.2% in April. Strong June retail sales growth points to household consumption remaining supportive of 2Q GDP growth, helping to avoid a potential headline contraction during the quarter. Solid retail activity, however, had no impact on headline inflation, which remained steady at 2% y-o-y in June. Moreover, the tight labour market conditions, rising wage growth and relatively weak GBP were also not reflected in the inflation data. Given the limited upward inflationary pressure, we expect the BoE to remain on hold for the rest of 2019. However, we do not rule out the possibility of a rate cut if the UK leaves the EU without a deal.

Fig. 3. UK: Average weekly earnings (ex-bonus) strengthen to post-financial crisis high of 3.6% 3M y-o-y in May

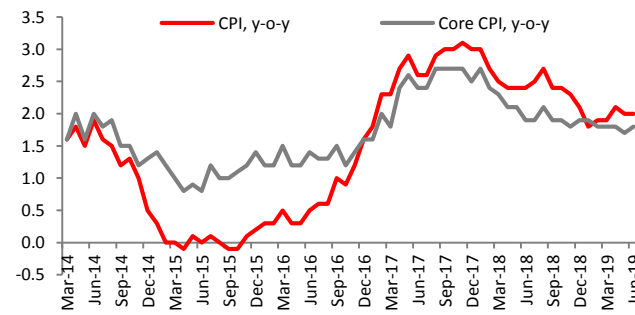
'000 (RHA); % change y-o-y (RHA)



Source: UK Office for National Statistics

Fig. 4. UK: Headline inflation steady in June despite strong household spending activity and rising wage growth

% change y-o-y



Source: UK Office for National Statistics

Brexit Update: The UK Parliament last week approved an amendment to the Northern Ireland Bill by 315 to 274 votes, with 36 Conservatives abstaining or voting against the government. The passage of the amendment was an important development as it limits the incoming PM's ability to push for a no-deal Brexit via a prorogation route, removing a key tail risk. Indeed, the government cannot leave the EU without MPs' consent in Parliament. The vote also highlighted that a group of Conservative MPs was willing to rebel even before the new Prime Minister assumed office, indicating that Parliament still has a majority in favour of avoiding a no-deal Brexit. Our core scenario is that the UK will not leave the EU without a deal and will extend Article 50 for a short period beyond 31 October to forge a deal with the EU. However, we highlight that the probability of no-deal Brexit has increased as compared to six months ago and we see a very uncertain political environment in the months ahead.

We expect UK political environment to be very uncertain in months ahead

Japan: Core inflation decelerates to two-year low in June

Core inflation (ex-food) decelerated to 0.6% y-o-y in June, from 0.8% in May, but was in line with market expectations. This was the softest print since July 2017. Looking ahead, core inflation is likely to see further downward pressure in 2H as the introduction of a free pre-school education policy weighs on prices. Moreover, frontloading of spending ahead of a consumption tax hike, which will come into effect on 1 October, is yet to have a meaningful impact on inflation. Overall, the softening of core inflation for the second consecutive month puts further pressure on the BoJ to announce fresh stimulus measures to achieve its 2% inflation target. However, earlier rounds of monetary easing have had virtually no impact in boosting inflationary pressure.

Headline inflation steady at 0.7% y-o-y in June but core (ex-food) reading weakens

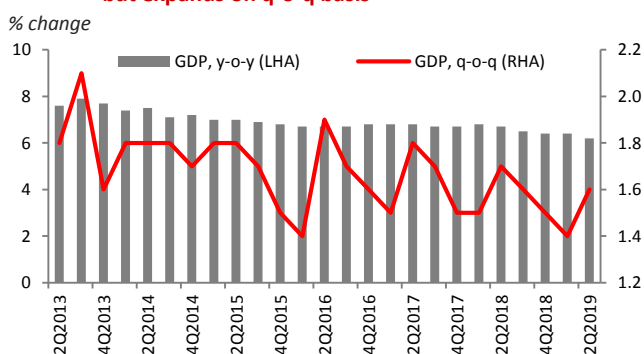
B. Emerging Market Economies

China: GDP growth weakens to 6.2% in 2Q, from 6.4% in 1Q

China's 2Q2019 real GDP growth decelerated to a 27-year low of 6.2% y-o-y (1Q: 6.4%), in line with the consensus expectation. 1H2019 average GDP growth of 6.3% was within the government's target of 6.0-6.5% for 2019. The global growth slowdown, trade tensions with the US and still-lacklustre domestic demand were likely behind the weak economic activity in 2Q. However, the June high-frequency data, including retail sales, industrial production and fixed asset investment, point to tentative signs of improvement in domestic demand, likely supported by the government's earlier stimulus measures. We believe that it is too early to claim that the Chinese economy has bottomed out, especially given the increased global uncertainties and fragile macro environment.

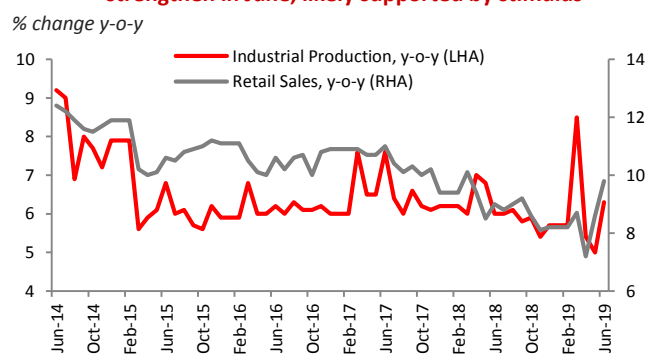
Tentative signs of pick-up in domestic activity in June

Fig. 5. China: Headline GDP growth decelerates further in 2Q, but expands on q-o-q basis



Source: National Bureau of Statistics of China

Fig. 6. China: Retail sales and industrial production growth strengthen in June, likely supported by stimulus



Source: National Bureau of Statistics of China

We believe that the government will continue its targeted easing to support growth in the near term. Indeed, we see the PBoC lowering benchmark rates by some 50-75bps in 2H, aimed at increasing private sector credit demand and supporting domestic activity to limit the economic slowdown. We await the upcoming Politburo meeting (date yet to be announced) for any fresh signals on how the authorities will balance the priorities of growth, deleveraging and economic stability in 2H2019.

More policy easing likely in 2H2019 to counter growth headwinds

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Jun	379.2B	
	UAE	M2 Money Supply, m-o-m	Jun	-1.0%	
	UAE	CPI, y-o-y	Jun	-1.1%	
	Saudi Arabia	CPI, y-o-y	Jun	-1.5%	
	Saudi Arabia	Non-Oil Exports, y-o-y	May	-15.5%	
	Kuwait	CPI, y-o-y	Jun	0.8%	
	Kuwait	M2 Money Supply, y-o-y	Jun	0.6%	
	Bahrain	M2 Money Supply, y-o-y	Jun	8.6%	
	Bahrain	CPI, y-o-y	Jun	0.5%	
	Oman	Nominal GDP YTD, y-o-y	1Q	12.0%	
	Egypt	Trade Balance	May	-3875M	
	UK	Conservatives to name new Prime Minister after party vote			
Monday, 22 July					
16:30	US	Chicago Fed Nat Activity Index	Jun	-0.1	0.1
19:00	Japan	BoJ's Kuroda Speaks at IMF in Washington			
Tuesday, 23 July					
11:00	Turkey	Consumer Confidence SA	Jul	57.6	
17:00	US	FHFA House Price Index, m-o-m	May	0.4%	0.3%
18:00	US	Richmond Fed Manufacturing Index	Jul	3.0	5.0
18:00	Eurozone	Consumer Confidence	Jul A	-7.2	-7.2
18:00	US	Existing Home Sales	Jun	5.34M	5.33M
18:00	US	Existing Home Sales, m-o-m	Jun	2.5%	-0.2%
Wednesday, 24 July					
4:30	Japan	Japan PMI Manufacturing	Jul P	49.3	
9:00	Japan	Leading Index CI	May F	95.2	
11:30	Germany	Germany Manufacturing PMI	Jul P	45.0	45.2
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Jul P	47.6	47.6
12:00	Eurozone	M3 Money Supply, y-o-y	Jun	4.8%	4.6%
15:00	US	MBA Mortgage Applications	19-Jul	-1.1%	
17:45	US	Markit US Manufacturing PMI	Jul P	50.6	51.0
18:00	US	New Home Sales	Jun	626K	660K
Thursday, 25 July					
11:00	Turkey	Capacity Utilization	Jul	77.1%	
12:00	Germany	IFO Business Climate	Jul	97.4	97.0
15:00	Turkey	One-Week Repo Rate	25-Jul	24.0%	22.0%
15:45	Eurozone	ECB Main Refinancing Rate	25-Jul	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	25-Jul	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	25-Jul	-0.4%	-0.4%
16:30	Eurozone	ECB's Draghi Speaks in Frankfurt After Policy Decision			
16:30	US	Wholesale Inventories, m-o-m	Jun P	0.4%	0.5%
16:30	US	Durable Goods Orders	Jun P	-1.3%	0.7%
16:30	US	Capital Goods Shipments, Non-defence, ex-Air	Jun P	0.6%	-0.2%
16:30	US	Capital Goods Orders, Non-defence, ex-Air	Jun P	0.5%	0.2%
Friday, 26 July					
3:30	Japan	Tokyo CPI, y-o-y	Jul	1.1%	1.0%
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Jul	0.9%	0.8%
12:00	Eurozone	ECB Survey of Professional Forecasters			
16:30	US	GDP Annualized, q-o-q	2Q A	3.1%	1.8%
16:30	US	Personal Consumption	2Q A	0.9%	4.0%
16:30	US	GDP Price Index	2Q A	0.9%	2.0%
16:30	US	Core PCE, q-o-q	2Q A	1.2%	2.0%

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Bahrain	CPI, y-o-y	May	1.0%		0.5%
	Oman	CPI, y-o-y	Jun	0.2%		0.0%
	Qatar	CPI, y-o-y	Jun	-0.7%		-0.4%
Monday, 15 July						
6:00	China	Industrial Production, y-o-y	Jun	5.0%	5.2%	6.3%
6:00	China	Retail Sales, y-o-y	Jun	8.6%	8.5%	9.8%
6:00	China	GDP, y-o-y	2Q	6.4%	6.2%	6.2%
10:30	India	Wholesale Prices, y-o-y	Jun	2.5%	2.3%	2.0%
16:30	US	Empire Manufacturing	Jul	-8.6	2.0	4.3
	India	Exports, y-o-y	Jun	3.9%		-9.7%
	India	Imports, y-o-y	Jun	4.3%		-9.1%
Tuesday, 16 July						
11:00	Turkey	Unemployment Rate	Apr	14.1%		13.0%
12:30	UK	Claimant Count Rate	Jun	3.1%		3.2%
12:30	UK	Jobless Claims Change	Jun	24.5K		38.0K
12:30	UK	Average Weekly Earnings, 3M/y-o-y	May	3.2%	3.1%	3.4%
12:30	UK	ILO Unemployment Rate, 3M	May	3.8%	3.8%	3.8%
13:00	Eurozone	Trade Balance SA	May	15.7B	17.8B	20.2B
13:00	Germany	ZEW Survey Current Situation	Jul	7.8	5.0	-1.1
13:00	Germany	ZEW Survey Expectations	Jul	-21.1	-22.0	-24.5
16:30	US	Retail Sales Control Group	Jun	0.6%	0.3%	0.7%
17:15	US	Industrial Production, m-o-m	Jun	0.4%	0.1%	0.0%
Wednesday, 17 July						
12:30	UK	CPI, m-o-m	Jun	0.3%	0.0%	0.0%
12:30	UK	CPI, y-o-y	Jun	2.0%	2.0%	2.0%
12:30	UK	CPI Core, y-o-y	Jun	1.7%	1.8%	1.8%
13:00	Eurozone	CPI, m-o-m	Jun	0.1%	0.1%	0.2%
13:00	Eurozone	CPI, y-o-y	Jun F	1.2%	1.2%	1.3%
13:00	Eurozone	CPI Core, y-o-y	Jun F	1.1%	1.1%	1.1%
16:30	US	Housing Starts	Jun	1265K	1260K	1253K
16:30	US	Building Permits	Jun	1299K	1300K	1220K
Thursday, 18 July						
3:50	Japan	Trade Balance	Jun	-¥968.3B	¥403.5B	¥589.5B
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Jun	-0.6%	-0.3%	1.0%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Jun	2.2%	2.6%	3.8%
16:30	US	Philadelphia Fed Business Outlook	Jul	0.3	5.0	21.8
18:00	US	Leading Index	Jun	0.0%	0.1%	-0.3%
Friday, 19 July						
3:30	Japan	National CPI, y-o-y	Jun	0.7%	0.7%	0.7%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Jun	0.8%	0.6%	0.6%
8:30	Japan	All Industry Activity Index, m-o-m	May	0.8%	0.3%	0.3%
12:00	Eurozone	ECB Current Account SA	May	22.4B		29.7B
12:30	UK	PSNB, ex-Banking Groups	Jun	4.5B	3.9B	7.2B
18:00	US	University of Michigan Sentiment	Jul P	98.2	98.8	98.4

* UAE time

Source: Bloomberg

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC (“ADCB”) to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.