

## The Week Ahead: Trade tensions and global uncertainties dominate

### ► **Global: Sentiment deteriorates with escalation of trade war**

Rising trade tensions and heightened global growth uncertainties continue to dominate headlines and market sentiment. The US-China trade war escalated last week after China announced fresh tariffs on USD75 billion worth of US imports in retaliation against the US' hiking of duties on c.USD300 billion worth of Chinese imports. In an immediate response, US President Trump increased existing tariffs on USD250 billion worth of Chinese imports to 30% from the current 25% (effective 1 October). He also announced that proposed tariffs on the remaining Chinese imports would now start at 15%, rather than the earlier 10%. Given the intensification of tit-for-tat measures, the likelihood of a compromise has diminished, in our view. Markets now fear that the trade war could become a full-blown currency war if tensions escalate further. In his Jackson Hole speech, Fed Chair Jerome Powell highlighted increasing trade uncertainty and a global growth slowdown as key risks that would warrant further rate cuts, although he did not indicate a deep easing cycle. We expect a 25 bps FFTR cut in September.

### ► **Global: ECB likely to act; German fiscal loosening in focus**

The ECB's July minutes hinted that a fresh package of monetary policy easing measures are likely in September to counter the economic slowdown and the falling inflation expectations (page 4). Meanwhile, the BoE Governor Mark Carney highlighted in his Jackson Hole speech that a no-deal Brexit would prompt the BoE to cut rates. Despite central banks' willingness to ease further, they have less ammunition to counter the downside risks now than they did during the 2008 financial crisis. This is especially the case for the ECB and BoJ where the impact of negative interest rates on the economy are also a rising concern, although the US and the UK have some space to ease further. In contrast, the US has limited fiscal space, but Germany and the UK have some room to increase spending. German Finance Minister Olaf Scholz suggested last week that Germany is readying a EUR50 billion stimulus plan in case of an economic crisis. A combination of monetary and fiscal stimulus measures looks more appropriate to counter the slowing global growth backdrop, although it is unlikely to fully counterbalance the impact of the rising trade tensions. Data wise, a number of key releases are scheduled for this week, including PCE inflation, durable goods and the second estimate of 2Q GDP for the US, and inflation for the Eurozone. However, we expect markets to focus on trade and Brexit developments.

### ► **India: GDP growth expected to slow to 5.6% in 2Q**

Consensus forecasts real GDP growth to decelerate further to 5.6% y-o-y in 2Q after slowing to a 20-quarter low of 5.8% in 1Q. We believe that the moderation was largely due to a further weakening in domestic demand, led by private consumption and investments. Proxy indicators highlight that both rural and urban consumption activity remained weak in 2Q. Lower government spending (after the general election spending spree in 1Q) is also expected to accentuate the slowdown, alongside weak external demand.

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## I. Recent Events and Data Releases

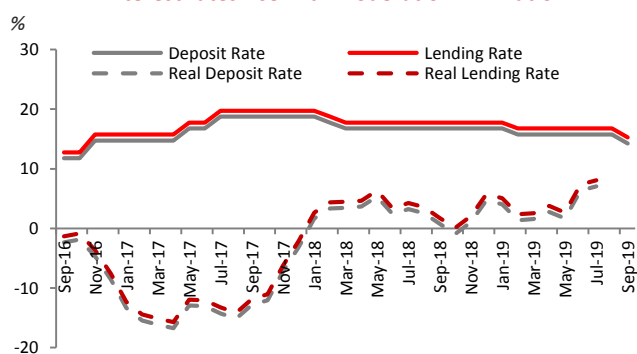
### A. MENA Economies

#### Egypt: CBE lowers rates by 150 bps; further cuts expected

The CBE reduced its policy rates by a larger-than-expected 150 bps at its 22 August meeting, taking the lending rate to 15.25%. We and consensus had expected benchmark rates to be lowered by 100 bps. This was the first rate change since a 100 bps cut at the February MPC meeting, after which monetary policy was kept steady. The accompanying meeting statement noted that “incoming data continued to confirm the moderation of underlying inflationary pressures”, and highlighted that annual headline and core inflation continued to decline to lows of 8.7% and 5.9% respectively in July.

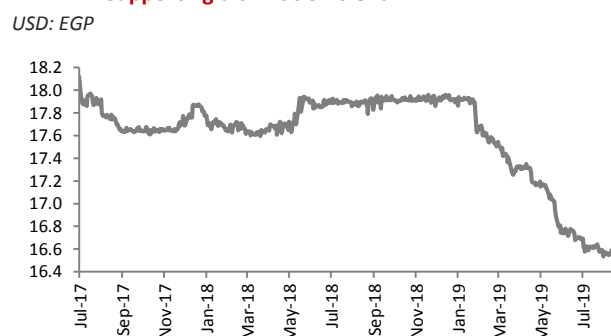
*CBE easing likely frontloaded, with further cut likely to be smaller*

**Fig. 1. Egypt: CBE has further space to lower rates as real interest rates rise with moderation in inflation**



Source: Central Bank of Egypt, ADCB calculations

**Fig. 2. Egypt: EGP strengthens against USD since mid-January, supporting disinflation trend**



Source: Bloomberg

In a notable development, the statement indicated that “the path for future policy rates remains a function of inflation expectations, rather than of prevailing inflation rates”. This is new forward guidance from the CBE and is probably aimed at providing policy flexibility by limiting market expectations that a fall in inflation will automatically result in easing. Nevertheless, we believe that the benign inflation backdrop and the outlook for disinflation should support further rate cuts in the coming meetings. The favourable high inflation base, continued slack in the economy, low oil price and supportive EGP are all factors behind our expectation of a further moderation in annual headline inflation. Egypt’s interest rate differential (especially real) should still result in capital inflows into EGP treasuries. Meanwhile, further rate cuts are needed to help boost private sector investment activity. We expect the CBE to lower rates by a further 100 bps in the remainder of the year, with the bank frontloading the easing at the August meeting. The key risk to this outlook is if there is a sharp rise in EM risk aversion, resulting in capital outflows and placing downward pressure on currencies.

*New forward guidance likely aimed at providing CBE with flexibility*

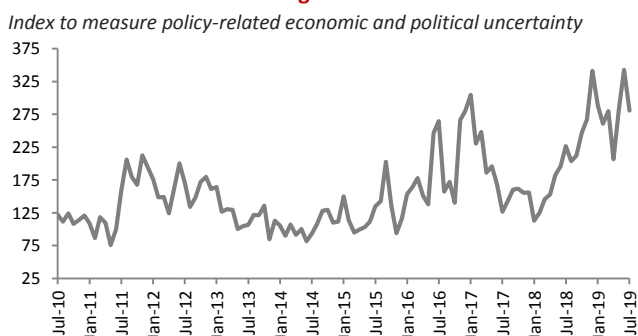
## B. G4 Economies

### US: Trade war deepens; focus shifts to potential currency war

The US-China trade war escalated further last week, with China announcing new tariffs on USD75 billion worth of US imports as a retaliatory measure against the US's earlier tariff hikes on USD300 billion of Chinese goods (effective 1 September and 15 December). In absolute terms, China's proposed tariffs were lower than those of the US, although as a percentage of total imports, China's counter measures are similar in size to the US' planned tariffs. China imposed tariffs on key goods including automobiles, agriculture and oil, which will impact some key mid-west US states that have provided electoral support for President Trump. In response to China's proposed tariffs, Trump announced that tariffs on the USD250 billion of Chinese goods and services that are currently subject to 25% duty will be raised to 30%, effective from 1 October. He also added that the tariffs on the remaining USD300 billion of Chinese imports that are proposed to come into effect on 1 September would now start at 15%, rather than the earlier 10%. The depth and breadth of the new tariffs imposed by each country are expected to have a greater negative impact on the global and US growth outlook. We believe that the recent escalation in trade tensions between the US and China further reduces the likelihood of a compromise in the near term.

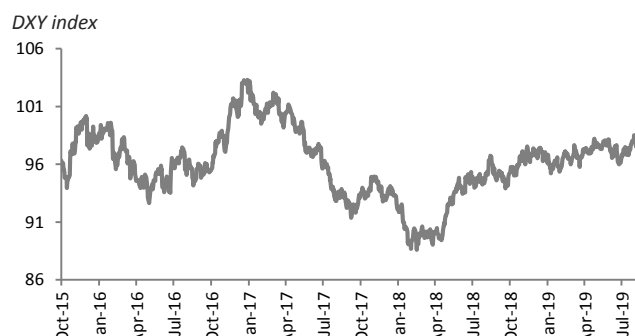
*Both China and US announced retaliatory tariffs on imports last week*

**Fig. 3. Global economic policy uncertainty index remains elevated amidst heightened trade tensions**



Source: Baker, Blooms & Davis

**Fig. 4. US: Dollar index remains strong on back of safe-haven demand**



Source: Bloomberg

Meanwhile, Fed Chair Jerome Powell re-emphasised during his Jackson Hole speech that the Fed must "act as appropriate to sustain the expansion," citing "significant" external risks. The tone of his speech was slightly more dovish than his post-meeting press conference after the July meeting, largely supporting another 25 bps rate cut at the September policy meeting. However, there were no specific hints that the Fed would undertake a more aggressive 50 bps reduction in September, nor any signals that it would move away from limited 'mid-cycle adjustment' rate cuts. Powell highlighted that trade policy uncertainty seemed to be playing a role in the global slowdown and underlined that monetary policy cannot provide a settled rulebook for international trade. Powell's trade comments and the subsequent tariff hikes by Trump have increased the probability of a 50 bps cut in September, although this looks unlikely at this point, especially after considering the FOMC members' hawkish comments last week and the prevailing divisions within the FOMC.

*Powell highlights that monetary policy cannot provide settled rulebook for trade uncertainty*

## Eurozone: ECB hints at package of monetary easing measures

Minutes of the July ECB meeting highlighted that the Governing Council (GC) members are increasingly concerned about: i) a protracted economic slowdown and (ii) falling inflation expectations. The GC acknowledged the prevailing weakness in the manufacturing sector and expressed fears that it could spill over into the still-healthy services sector in the near term. As a policy response to these increasing economic risks, the ECB signalled that it would probably announce a big stimulus package, including rate cuts, asset purchases and tiering to mitigate the pressure of further negative rates on banks. The minutes underlined that GC members “discussed benefits of combining rate cuts with bond purchases” to have a greater immediate positive impact on the economy, instead of a less effective “sequence of selective policy actions”. The inclusion of quantitative easing makes the July minutes more dovish than President Draghi’s post-meeting press conference, in our view. The minutes also highlighted that some members raised concerns about the possible “unintended consequences of a tiered system and its ability to fully mitigate the potential effects of negative policy rates on bank intermediation”. However, we do not see majority support for holding back on interest rate tiering at this point. We expect the package of easing measures at the September meeting to include a 10 bps rate cut, deposit rate ‘tiering’, and a re-start of asset purchases at EUR15-30 billion per month for six months, starting from 1 October.

*ECB likely to restart QE at its September meeting, together with rate cuts and tiering*

## C. Emerging Market Economies

### China: PBoC adopts LPR as new benchmark rate

The PBoC last week announced that it will use the loan prime rate (LPR) as a new benchmark rate for pricing commercial bank loans. The new LPR will be an average of the rates submitted by the 18 reporting banks and will be published on the 20th day of every month, starting from August 2019. The one-year LPR for August was fixed at 4.25% (6 bps lower than the previous one-year lending rate) and markets see this as a marginal rate cut to support the economy. The PBoC’s move to the LPR is also perceived to be part of the interest rate liberalisation programme, which will smooth the monetary policy transmission mechanism and lower funding costs for the real economy. Prior to the introduction of the LPR, the PBoC used to have a “dual-track” interest rate regime where it would: i) guide 7-day repo rates with open market operations (OMO) to influence short-term money market rates; and ii) set benchmark medium- to long-term deposit and lending rates. The new LPR benchmark will only apply to new loans, whilst existing yuan loans will still be priced against the old 1-year benchmark lending rate. The PBoC also highlighted that it will gradually phase out the old benchmark lending rate, which will also help the PBoC to manage and communicate its interest rate policy stance more effectively. We also see this move as a potential precursor to further policy easing in the months ahead, especially if growth remains weak.

*PBoC shifts to new loan prime rate to smooth monetary policy transmission mechanism*

## India: Dovish August meeting minutes support further rate cuts

The minutes of the RBI's August monetary policy meeting highlighted that all of the MPC members expressed increasing concerns over the growth outlook and the need to support economic activity with further rate cuts. However, the members differed in their opinion of the magnitude of the rate cuts required at the August meeting. The two MPC members who supported a 25 bps rate cut and voted against a 35 bps rate cut meeting highlighted: i) the need to preserve the monetary space available for further cuts; ii) fiscal and structural reforms, rather than just monetary easing; and iii) more time for monetary policy transmission of earlier rate reduction to take place. Meanwhile, the majority of MPC members who supported a 35 bps rate cut emphasised the: i) deteriorating domestic growth momentum; ii) global growth slowdown; and iii) benign inflation backdrop.

*MPC members express increasing concerns over growth outlook*

The overall dovish tone of the MPC members continues to support the likelihood of further interest rate cuts in the near term, in our view. Despite that, the August minutes failed to provide any hint of the magnitude of the interest rate cut that the RBI will enact at its 4 October policy meeting. We expect the MPC to cut policy rates by a cumulative 40 bps by end-2019 given the weak growth and subdued inflation dynamics. Our base case is for the MPC to return to a conventional 25 bps cut at its October policy meeting, followed by another 15 bps reduction at its December meeting. However, we do not rule out the continuation of unconventional rate cuts of 20 bps each in October and December.

*We expect another 40 bps in rate cuts by end-2019*

## II. Economic Calendar

Fig. 5. The week ahead

| Time*                       | Country      | Event  | Period | Prior   | Consensus |
|-----------------------------|--------------|--|--------|---------|-----------|
| <b>Expected this week</b>   |              |  |        |         |           |
|                             | UAE          | M2 Money Supply, m-o-m                                   | Jul    | 2.2%    |           |
|                             | UAE          | Central Bank Foreign Assets                              | Jul    | 364.3B  |           |
|                             | UAE          | CPI, y-o-y   | Jul    | -1.5%   |           |
|                             | Saudi Arabia | CPI, y-o-y   | Jul    | -1.4%   |           |
|                             | Saudi Arabia | M2 Money Supply, y-o-y                                   | Jul    | 3.9%    |           |
|                             | Saudi Arabia | SAMA Net Foreign Assets SAR                              | Jul    | 1899.4B |           |
|                             | Saudi Arabia | Non-Oil Exports, y-o-y                                   | Jun    | -19.9%  |           |
|                             | Kuwait       | Annual GDP Current, y-o-y                                | 2018   | 9.7%    |           |
|                             | Kuwait       | M2 Money Supply, y-o-y                                   | Jul    | 1.6%    |           |
|                             | Bahrain      | CPI, y-o-y   | Jul    | 0.2%    |           |
|                             | Bahrain      | M2 Money Supply, y-o-y                                   | Jul    | 11.3%   |           |
|                             | Oman         | CPI, y-o-y   | Jul    | 0.0%    |           |
|                             | Oman         | Nominal GDP YTD, y-o-y                                   | 1Q     | 12.0%   |           |
| <b>Monday, 26 August</b>    |              |  |        |         |           |
| 16:30                       | US           | Chicago Fed Nat Activity Index                           | Jul    | 0.0     | 0.1       |
| 16:30                       | US           | Durable Goods Orders                                     | Jul P  | 1.9%    | 1.0%      |
| 16:30                       | US           | Durables, ex-Transportation                              | Jul P  | 1.0%    | 0.0%      |
| 16:30                       | US           | Cap Goods Shipments, Non-defence, ex-Air                 | Jul P  | 0.3%    | 0.3%      |
| 18:30                       | US           | Dallas Fed Manufacturing Activity                        | Aug    | -6.3    | -4.5      |
| <b>Tuesday, 27 August</b>   |              |  |        |         |           |
| 5:30                        | China        | Industrial Profits, y-o-y                                | Jul    | -3.1%   |           |
| 16:00                       | Eurozone     | ECB's De Guindos, BOE's Teneyro Speak on Monetary Policy |        |         |           |
| 18:00                       | US           | Richmond Fed Manufacturing Index                         | Aug    | -12.0   | -4.0      |
| 18:00                       | US           | Conference Board Consumer Confidence                     | Aug    | 135.7   | 129.0     |
| <b>Wednesday, 28 August</b> |              |  |        |         |           |
| 12:00                       | Eurozone     | M3 Money Supply, y-o-y                                   | Jul    | 4.5%    | 4.7%      |
| 20:20                       | US           | Fed's Barkin Speaks to West Virginia Chamber of Commerce |        |         |           |
| <b>Thursday, 29 August</b>  |              |  |        |         |           |
| 1:30                        | US           | Fed's Daly Speaks at RBNZ/IMF Conference in New Zealand  |        |         |           |
| 5:30                        | Japan        | BOJ Hitoshi Suzuki speaks in Kumamoto                    |        |         |           |
| 11:00                       | Turkey       | Trade Balance  | Jul    | -3.18B  | -3.20B    |
| 16:30                       | US           | GDP Annualized, q-o-q                                    | 2Q S   | 2.1%    | 2.0%      |
| 16:30                       | US           | Personal Consumption                                     | 2Q S   | 4.3%    | 4.3%      |
| 16:30                       | US           | GDP Price Index  | 2Q S   | 2.4%    | 2.4%      |
| 16:30                       | US           | Wholesale Inventories, m-o-m                             | Jul P  | 0.0%    | 0.2%      |
| 18:00                       | US           | Pending Home Sales, m-o-m                                | Jul    | 2.8%    | 0.0%      |
| <b>Friday, 30 August</b>    |              |  |        |         |           |
| 3:30                        | Japan        | Tokyo CPI, y-o-y   | Aug    | 0.9%    | 0.6%      |
| 3:50                        | Japan        | Retail Sales, y-o-y                                      | Jul    | 0.5%    | -0.6%     |
| 3:50                        | Japan        | Industrial Production, m-o-m                             | Jul P  | -3.3%   | 0.3%      |
| 12:30                       | UK           | Mortgage Approvals                                       | Jul    | 66.4K   | 66.1K     |
| 13:00                       | Eurozone     | ECB's Rehn Speaks in a Panel in Turku, Finland           |        |         |           |
| 13:00                       | Eurozone     | Unemployment Rate  | Jul    | 7.5%    | 7.5%      |
| 13:00                       | Eurozone     | CPI Core, y-o-y  | Aug A  | 0.9%    | 1.0%      |
| 13:00                       | Eurozone     | CPI Estimate, y-o-y                                      | Aug    | 1.1%    | 1.0%      |
| 16:00                       | India        | GDP, y-o-y   | 2Q     | 5.8%    | 5.6%      |
| 16:30                       | US           | Personal Income  | Jul    | 0.4%    | 0.3%      |
| 16:30                       | US           | Personal Spending  | Jul    | 0.3%    | 0.5%      |
| 16:30                       | US           | PCE Core Deflator, m-o-m                                 | Jul    | 0.2%    | 0.3%      |
| 16:30                       | US           | PCE Core Deflator, y-o-y                                 | Jul    | 1.6%    | 1.6%      |
| 17:45                       | US           | MNI Chicago PMI  | Aug    | 44.4    | 17.9      |

\* UAE time

Source: Bloomberg

Fig. 6. Last week's data

| Time*                       | Country  | Event                              | Period | Prior    | Consensus | Actual   |
|-----------------------------|----------|------------------------------------|--------|----------|-----------|----------|
| <b>MENA Economies</b>       |          |                                    |        |          |           |          |
|                             | Kuwait   | CPI, y-o-y                         | Jul    | 1.1%     |           | 1.2%     |
|                             | Egypt    | Trade Balance                      | May    | -3874.0M |           | -3337.0M |
| <b>Monday, 19 August</b>    |          |                                    |        |          |           |          |
| 3:50                        | Japan    | Trade Balance                      | Jul    | ¥589.6B  | -¥194.5B  | -¥249.6B |
| 3:50                        | Japan    | Exports, y-o-y                     | Jul    | -6.6%    | -2.3%     | -1.6%    |
| 3:50                        | Japan    | Imports, y-o-y                     | Jul    | -5.2%    | -2.3%     | -1.2%    |
| 12:00                       | Eurozone | ECB Current Account SA             | Jun    | 30.3B    |           | 18.4B    |
| 13:00                       | Eurozone | CPI Core, y-o-y                    | Jul F  | 0.9%     | 0.9%      | 0.9%     |
| 13:00                       | Eurozone | CPI, y-o-y                         | Jul F  | 1.3%     | 1.1%      | 1.0%     |
| <b>Tuesday, 20 August</b>   |          |                                    |        |          |           |          |
|                             | Japan    | Convenience Store Sales, y-o-y     | Jul    | 0.0%     |           | -2.5%    |
| <b>Wednesday, 21 August</b> |          |                                    |        |          |           |          |
| 9:30                        | Japan    | Nationwide Department Sales, y-o-y | Jul    | -0.9%    |           | -2.9%    |
| 12:30                       | UK       | PSNB, ex-Banking Groups            | Jul    | 6.3B     | -2.9B     | -1.3B    |
| 15:00                       | US       | MBA Mortgage Applications          | 16-Aug | 21.7%    |           | -0.9%    |
| 18:00                       | US       | Existing Home Sales                | Jul    | 5.29M    | 5.4M      | 5.42M    |
| <b>Thursday, 22 August</b>  |          |                                    |        |          |           |          |
| 4:30                        | Japan    | Japan PMI Manufacturing            | Aug P  | 49.4     |           | 49.5     |
| 8:30                        | Japan    | All Industry Activity Index, m-o-m | Jun    | 0.5%     | -0.8%     | -0.8%    |
| 10:00                       | Japan    | Machine Tool Orders, y-o-y         | Jul F  | -33.0%   |           | -33.0%   |
| 12:00                       | Eurozone | Markit Eurozone Manufacturing PMI  | Aug P  | 46.5     | 46.2      | 47.0     |
| 12:00                       | Eurozone | Markit Eurozone Composite PMI      | Aug P  | 51.5     | 51.2      | 51.8     |
| 16:30                       | US       | Initial Jobless Claims             | 17-Aug | 221K     | 216K      | 209K     |
| 17:45                       | US       | Markit US Manufacturing PMI        | Aug P  | 50.4     | 50.5      | 49.9     |
| 17:45                       | US       | Markit US Services PMI             | Aug P  | 53.0     | 52.8      | 50.9     |
| 17:45                       | US       | Markit US Composite PMI            | Aug P  | 52.6     |           | 50.9     |
| 18:00                       | US       | Leading Index                      | Jul    | -0.1%    | 0.3%      | 0.50%    |
| 18:00                       | Eurozone | Consumer Confidence                | Aug A  | -6.6     | -7.0      | -7.1     |
|                             | Egypt    | Lending Rate                       | 22-Aug | 16.75%   |           | 15.25    |
|                             | Egypt    | Deposit Rate                       | 22-Aug | 15.75%   | 14.75%    | 14.25    |
| <b>Friday, 23 August</b>    |          |                                    |        |          |           |          |
| 3:30                        | Japan    | National CPI, y-o-y                | Jul    | 0.7%     | 0.6%      | 0.5%     |
| 3:30                        | Japan    | National CPI, ex-Fresh Food, y-o-y | Jul    | 0.6%     | 0.6%      | 0.6%     |
| 18:00                       | US       | New Home Sales                     | Jul    | 728K     | 647K      | 635K     |

\* UAE time

Source: Bloomberg

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