

The Week Ahead: Oil in spotlight as major producers meet to discuss output

► **Global: Oil production cuts likely to be extended to end-2019**

OPEC and non-OPEC (OPEC+) countries are meeting on 1-2 July to assess and recalibrate the balancing of oil markets. OPEC+ countries are widely expected to roll over the existing agreement for at least another six months to December 2019, i.e. maintain their agreed production cuts of 1.2 million b/d based on October 2018 output levels. Recent comments from Saudi Arabian and Russian leaders indicate that the existing agreement could be extended by six to nine months. The combined OPEC+ (excluding Iran, Libya and Venezuela) output cuts since January 2019 have resulted in production falling by c.1.8 million b/d, due to over compliance by a number of member countries. We believe that over compliance by the OPEC+ group will reduce in the coming months, with increasing global demand over the summer months likely resulting in producers boosting output. We also expect global inventories to fall in the near term, with the first signs seen in last week's drop in US crude stocks by 12.8 million barrels. That said, demand side factors will also be critical in re-balancing the oil market.

► **US: Solid labour market report expected for June**

US labour market data will be the key release this week, with consensus expecting a healthy 160K jobs to have been created in June, marking a recovery from a relatively weak 75K print in May. Historically, the June reading tends to come in above the consensus, likely reflecting a solid summer hiring of recent graduates. Wage growth is estimated to have strengthened to 0.3% m-o-m in June, after remaining at 0.2% m-o-m in the previous three months. Meanwhile, the widely expected meeting between US President Donald Trump and his Chinese counterpart Xi Jinping at the G20 leaders' summit has resulted in both parties agreeing to restart trade negotiations. The conciliatory approach taken by both leaders is positive for the short term outlook, but it remains uncertain whether they will be able to agree on a number of contentious issues and forge a long-lasting deal. If trade tensions remain contained and US data continues to show resilience (page 3), the Fed may push back the timing of an insurance rate cut.

► **India: Budget to outline plans to boost economic growth**

India will release its full-year budget for FY19-20 (Apr 2019 – Mar 2020) on 5 July, with the focus likely on reviving the weakening growth momentum. We believe that the new finance minister Nirmala Sitharaman will have to raise the fiscal deficit target for FY19-20 to 3.5% of GDP (interim budget: 3.4%) to provide some stimulus to the economy. Even if the government maintains its deficit forecast at 3.4% of GDP for FY19-20, we see a risk of fiscal slippage. We believe that the fiscal slippage will emerge primarily from the shortfall in tax revenues due to slowing growth, rather than excessive spending. However, the government's shift in focus toward non-tax revenues, including transfers from the RBI and spectrum auctions for 5G services, may in part offset the tax revenue shortfall. On the spending side, we expect off-balance sheet activities to increase in FY19-20 to help meet fiscal targets.

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I. Recent Events and Data Releases

A. MENA Economies

UAE: Announces further measures to bolster economic activity

The UAE and Abu Dhabi announced further visa and economic measures to support and boost economic activity last week. On a country-wide basis, a broadening of the 10-year visa programme (Gold Card scheme) was announced for skilled professionals, up from the standard of three years. The criteria required for eligibility of the longer-term visa includes i) monthly salary of at least AED30,000 (USD8,174); ii) a bachelor's degree; and iii) at least five years of work experience in the UAE. Earlier, a 10-year visa was announced for investors, requiring AED 10 million in an investment fund in the UAE or the establishment of a company with a capital of AED10 million. For further details, please see our – **Economic Research Weekly: Global Data Watch 27-31 May 2019**, published on 27 May 2019. As highlighted in our previous research, the longer-term visas should ultimately increase the propensity for expatriates to save and invest in the UAE. However, the number of 10-year visas to be awarded in 2019 (6,800) is quite limited relative to the total expatriate population, and the immediate impact on the economy is therefore likely to be contained. Other near-term factors, such as real estate market fundamentals and the fact that beneficiaries are already resident in the UAE, will probably mean that the immediate impact on the economy will be contained. Nevertheless, widening eligibility for 10-year visas is a further sign of the government's move towards broadening the residence base.

UAE widens 10-year visa scheme to include professionals

Meanwhile, Abu Dhabi announced further details of measures linked to its Ghadan 2021 (Tomorrow 2021) growth support programme, which was initially announced in 2018. For further details, please see our note – **UAE Economic Update: Outlook improving though challenges remain**, published on 4 October 2018. The measures announced last week include: i) credit guarantees for SMEs; ii) instant business licences, iii) variable electricity tariffs for the industrial sector; and iv) support for ecotourism in the emirate. We believe that these measures are important for reducing pressures (cost and financing) on companies, particularly SMEs, and will be supportive of growth once economic activity picks up. However, at this stage, we believe that higher government and GRE spending will be critical for strengthening real non-oil activity.

Further measures announced regarding Abu Dhabi's three-year growth support plan

B. G4 Economies

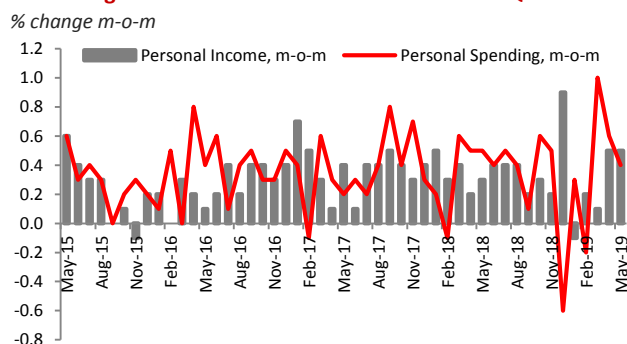
US: Fed's James Bullard rules out 50 bps cut in July

FOMC voting members' comments last week reinforced the view that the case for rate cuts has strengthened amidst increasing downside risks to the growth outlook. However, the comments were largely interpreted as being less dovish than the communication around the June FOMC meeting. The Fed members did not provide further clarity over the timing and magnitude of the expected interest rate cut. St. Louis Fed President James Bullard, who dissented from the Fed's decision to leave rates steady by voting for a 25 bps cut in June, highlighted that a 50 bps rate cut would be "overdone", virtually ruling out the possibility of such a move in the July meeting. Comments from Bullard – who is generally considered the most dovish voting member on the panel – implied that there is no majority for a 50 bps rate cut at this point given the still healthy incoming data. Notably, these remarks were made at a time when markets were increasingly expecting a 50 bps cut in the July meeting, citing the Fed's historical moves at the beginning of an

Fed members yet to provide further clarity over timing and magnitude of FFTR cut

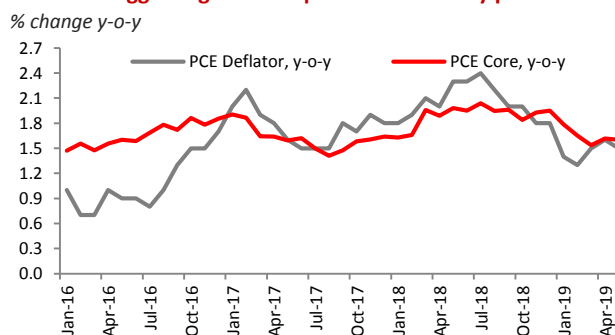
easing cycle. Fed Chair Jerome Powell, who also spoke last week, provided little new insight, which makes us believe that the Fed is maintaining its wait-and see approach, despite indicating its intention to cut rates at the June FOMC meeting. We therefore believe that market developments, alongside economic data in the coming weeks, will remain important for the Fed's decision-making regarding a July cut. We see an increasing probability of a 25 bps cut in the September meeting, although this could be pushed back if incoming data remains resilient and trade tensions remain contained.

Fig. 1. US: Both personal income and consumer spending growth are solid in first two months of 2Q2019



Source: Bureau of Economic Analysis

Fig. 2. US: Core inflation is steady at 1.6% y-o-y in June, suggesting limited upward inflationary pressures



Source: Bureau of Economic Analysis

US: Solid spending data in June points to healthy economic momentum

US data released last week remained solid, including personal spending and capital goods shipments. This indicates that private consumption momentum in the US remains strong despite increasing concerns over a global growth slowdown. Personal spending grew by a healthy 0.4% m-o-m in June, with May data revised up to 0.6%, from 0.3% in the first estimate. The solid household consumption in the first two months of 2Q2019 points to GDP growth of around 2% q-o-q SAAR in the quarter. With the US and Chinese leaders agreeing to continue with trade negotiations at last week's G-20 meeting, we expect concerns related to a global growth slowdown to ease marginally in the near term. Despite the strong economic momentum, inflationary pressures are relatively subdued, with core PCE steady at 1.6% y-o-y in June. Given the still healthy economic activity and core PCE inflation averaging 1.6% in 5M2019, we believe that any Fed's interest rate cuts will be limited and gradual in 2H. As highlighted above, we now see an increasing probability of a 25 bps insurance rate cut at the September FOMC meeting.

Solid personal spending in June, albeit with limited inflationary pressure

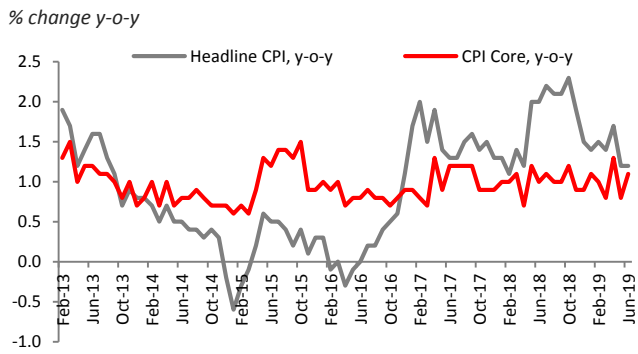
Eurozone: Headline inflation steady, but core inches up in June

Eurozone headline inflation remained steady at 1.2% y-o-y in June, with softening energy prices offset by strengthening services costs. However, core inflation surprised to the upside, rising to 1.1% y-o-y in June (consensus 1%) from 0.8% in May. The different timing of Easter holidays relative to last year has been a key factor behind the recent volatility in core inflation (April and May). Core inflation averaged 1% y-o-y in 1H2019, as in 1H2018, suggesting that underlying pressures remain muted with no fresh signs of upside forces. Thus, the June print is unlikely to change the ECB's assessment in June that inflation remains too low and that it is ready to act decisively with additional monetary accommodation to ensure inflation gains momentum and returns to its target levels. We believe that the ECB is likely to announce additional monetary easing measures at its

Core inflation rose in June to 1.1% y-o-y, from 0.8% in May, led by waning Easter-related effects

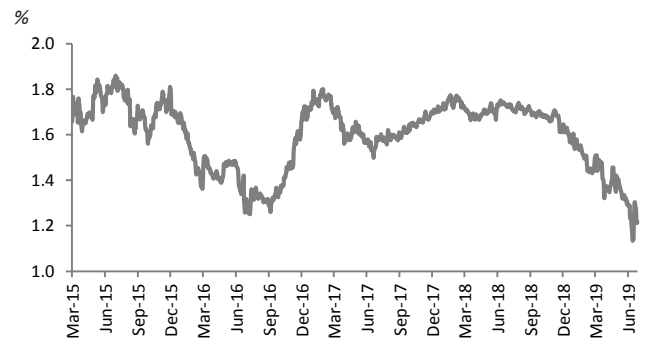
September meeting, with further QE or rate cuts deeper into negative territory. Looking ahead, we believe energy related base effects are likely to push headline inflation lower in the coming months.

Fig. 3. Eurozone: Core inflation ticks up in June to 1.1% y-o-y (May: 0.8%), but remains broadly weak



Source: Eurostat

Fig. 4. Eurozone: Market-based inflation expectations (5Y5Y swaps) fall to 1.2% in June, from c.1.6% at end-2018



Source: Bloomberg

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	May	-2.1%	
	Saudi Arabia	GDP Constant Prices, y-o-y	1Q	3.6%	
	Kuwait	M2 Money Supply, y-o-y	May	2.6%	
	Bahrain	M2 Money Supply, y-o-y	May	8.8%	
	Bahrain	CPI, y-o-y	May	1.0%	
	Egypt	GDP Constant, q-o-q	1Q	4.2%	
Monday, 1 July					
10:15	US	Fed Vice Chairman Clarida Speaks on Monetary Policy			
10:45	Eurozone	ECB Vice President Guindos Speaks in Frankfurt			
11:00	China	PBOC's Yi speaks in Helsinki			
12:00	Eurozone	M3 Money Supply, y-o-y	May	4.7%	4.6%
12:30	UK	Mortgage Approvals	May	66.3K	
12:30	UK	Markit UK PMI Manufacturing SA	Jun	49.4	49.5
13:00	Eurozone	Unemployment Rate	May	7.6%	7.6%
18:00	US	ISM Manufacturing	Jun	52.1	51.0
18:00	US	ISM Prices Paid	Jun	53.2	52.8
18:00	US	Construction Spending, m-o-m	May	0.0%	0.0%
Tuesday, 2 July					
3:50	Japan	Monetary Base, y-o-y	Jun	3.6%	
12:30	UK	Markit/CIPS UK Construction PMI	Jun	48.6	49.2
14:35	US	Fed's Williams Speaks on Global Economic and Policy Outlook			
18:00	UK	BOE's Carney Speaks in Bournemouth			
19:00	US	Fed's Mester to Speak on Economy in London			
Wednesday, 3 July					
5:45	China	Caixin China PMI Manufacturing	Jun	50.2	50.1
8:15	Saudi Arabia	Saudi Arabia PMI	Jun	57.3	
8:15	UAE	UAE PMI	Jun	59.4	
9:00	India	Markit India PMI Composite	Jun	51.7	
11:00	Turkey	CPI, y-o-y	Jun	18.7%	16.1%
11:00	Turkey	CPI Core Index, y-o-y	Jun	15.9%	14.7%
12:30	UK	UK Services PMI	Jun	51.0	51.0
12:30	UK	UK Composite PMI	Jun	50.9	51.0
16:15	US	ADP Employment Change	Jun	27K	140K
16:30	US	Trade Balance	May	-\$50.8B	-\$53.5B
18:00	US	Durable Goods Orders	May F	-1.3%	-1.3%
18:00	US	Factory Orders	May	-0.8%	-0.5%
18:00	US	ISM Non-Manufacturing Index	Jun	56.9	56.0
Thursday, 4 July					
10:30	India	India's Economic Survey			
11:00	Eurozone	ECB Chief Economist Lane Speaks in Frankfurt			
13:00	Eurozone	Retail Sales, m-o-m	May	-0.4%	0.4%
13:10	Eurozone	ECB's de Guindos, Enria, Koenig Speak at Conference in Lisbon			
Friday, 5 July					
9:00	Japan	Leading Index CI	May P	95.9	95.3
9:30	India	India FY20 Budget Presentation			
10:00	Germany	Factory Orders, m-o-m	May	0.3%	-0.2%
16:30	US	Change in Nonfarm Payrolls	Jun	75K	160K
16:30	US	Change in Private Payrolls	Jun	90K	155K
16:30	US	Unemployment Rate	Jun	3.6%	3.6%
16:30	US	Average Hourly Earnings, m-o-m	Jun	0.2%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Jun	3.1%	3.2%

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	M2 Money Supply, m-o-m	May	0.5%		-1.0%
	UAE	Central Bank Foreign Assets	May	365.5B		379.2B
	Saudi Arabia	M2 Money Supply, y-o-y	May	2.6%		4.40%
	Saudi Arabia	SAMA Net Foreign Assets SAR	May	1868.5B		1915.6B
	Kuwait	CPI, y-o-y	May	0.7%		0.8%
Monday, 24 June						
12:00	Germany	IFO Business Climate	Jun	97.9	97.4	97.4
16:30	US	Chicago Fed Nat Activity Index	May	-0.5	-0.2	-0.1
18:30	US	Dallas Fed Manufacturing Activity	Jun	-5.3	-2	-12.1
Tuesday, 25 June						
18:00	US	Richmond Fed Manufacturing Index	Jun	5	2	3
18:00	US	New Home Sales	May	679K	684K	626K
18:00	US	Conf. Board Consumer Confidence	Jun	131.3	131	121.5
Wednesday, 26 June						
10:00	Germany	GfK Consumer Confidence	Jul	10.1	10	9.8
16:30	US	Durable Goods Orders	May P	-2.8%	-0.3%	-1.3%
16:30	US	Durables, ex-Transportation	May P	-0.1%	0.1%	0.3%
16:30	US	Cap Goods Orders, Non-def, ex-Air	May P	-1.0%	0.1%	0.4%
16:30	US	Cap Goods Shipments, Non-def, ex-Air	May P	0.4%	0.1%	0.7%
16:30	US	Wholesale Inventories, m-o-m	May P	0.9%	0.5%	0.4%
Thursday, 27 June						
3:50	Japan	Retail Sales, y-o-y	May	0.5%	1.2%	1.2%
3:50	Japan	Retail Sales, m-o-m	May	0.0%	0.6%	0.3%
5:30	China	Industrial Profits, y-o-y	May	-3.7%		1.1%
16:00	Germany	CPI EU Harmonized, m-o-m	Jun P	0.3%	0.1%	0.1%
16:00	Germany	CPI EU Harmonized, y-o-y	Jun P	1.3%	1.3%	1.3%
16:30	US	GDP Annualized, q-o-q	1Q T	3.1%	3.2%	3.1%
16:30	US	Personal Consumption	1Q T	1.3%	1.3%	0.9%
16:30	US	Core PCE, q-o-q	1Q T	1.0%	1.0%	1.2%
18:00	US	Pending Home Sales, m-o-m	May	-1.5%	1.0%	1.1%
Friday, 28 June						
3:30	Japan	Jobless Rate	May	2.4%	2.4%	2.4%
3:30	Japan	Tokyo CPI, y-o-y	Jun	1.1%	1.0%	1.1%
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Jun	1.1%	0.9%	0.9%
3:50	Japan	Industrial Production, m-o-m	May P	0.6%	0.7%	2.3%
11:00	Turkey	Trade Balance	May	-2.99B		-1.84B
12:30	UK	GDP, q-o-q	1Q F	0.5%	0.5%	0.5%
12:30	UK	GDP, y-o-y	1Q F	1.8%	1.8%	1.8%
13:00	Eurozone	CPI Core, y-o-y	Jun A	0.8%	1.0%	1.1%
13:00	Eurozone	CPI Estimate, y-o-y	Jun	1.2%	1.2%	1.2%
16:30	US	Personal Income	May	0.5%	0.3%	0.5%
16:30	US	Personal Spending	May	0.6%	0.5%	0.4%
16:30	US	PCE Core Deflator, m-o-m	May	0.3%	0.2%	0.2%
16:30	US	PCE Core Deflator, y-o-y	May	1.6%	1.5%	1.6%
17:45	US	MNI Chicago PMI	Jun	54.2	53.5	49.7
18:00	US	U. of Mich. Sentiment	Jun F	97.9	97.9	98.2

* UAE time

Source: Bloomberg

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