

## The Week Ahead: Fed communication to take centre stage; BoE and BoJ meetings

### ► **US: FOMC meeting critical to gauge possibility of 2019 rate cut**

We expect the Fed to remain on hold at its 18-19 June FOMC meeting (FFTR: 2.25-2.5%), while opening the door to a potential rate cut in 2019. We expect the tone of the meeting to be dovish, with a downgrading of the investment and inflation outlooks, alongside the Fed highlighting the increasing trade-related risks. In the statement, we are likely to see its “patient” stance replaced with one of flexibility as the Fed monitors global developments. We expect the FOMC to emphasise its intention to “act as appropriate” to support economic momentum. However, the Fed’s median dot-plot is forecast to remain broadly unchanged for 2019, suggesting no rate changes, although some FOMC participants are likely to signal their support for rate cuts. We see a risk that the Fed’s overall communication will be less dovish than the market expects – currently c.62 bps of cuts are priced in by end-2019. Our base case is for a steady FFTR in 2019, as the economy remains supported by healthy private consumption (page 3) and labour market conditions. However, we do not rule out an insurance rate cut to support the growth outlook if there is a further deterioration in economic conditions. We expect the Fed to take a balanced approach for now, with the G-20 meeting (28-29 June) central to how trade tensions develop. Currently, the markets see little chance of a positive US-China trade outcome, as reflected in the contained oil price increase despite rising geopolitical tensions last week.

### ► **Europe: UK’s BoE to remain on hold; ECB’s Sintra Forum**

The BoE is widely expected to keep the policy rate unchanged at its 20 June meeting by a unanimous vote (9-0) despite recent hawkish comments by some MPC members. The overall tone of the meeting is likely to be neutral or slightly hawkish, with the BoE probably reiterating that the next interest rate move will be upwards, citing tight labour market conditions and rising wage growth. However, diverging views are likely, with some MPC members pointing to increased global uncertainties and the need to remain on hold with a wait-and-see stance. We believe that the slowing global and domestic growth backdrop, heightened trade tensions and Brexit uncertainty do not support the need for a rate hike in the near term. Moreover, the high-frequency growth-related data points to a marked weakening of economic momentum in early 2Q2019. We expect the BoE to remain on hold throughout 2019, assuming there is no hard Brexit, although the probability of this has increased of late. Elsewhere in the Eurozone, the ECB’s annual forum on central banking will take place during 17-19 June.

### ► **Japan: No change to forward guidance expected in June**

We also do not expect any change to the BoJ’s monetary policy at its 20 June policy meeting. We expect the forward guidance to reiterate the BoJ’s intention to maintain short- and long-term interest rates at extremely low levels for an extended period, at least through spring 2020. However, the BoJ is likely to emphasise that any additional trade tariffs on Chinese imports could have a negative impact on Japanese companies and economic activity.

#### Economics Team

##### Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

[Monica.Malik@adcb.com](mailto:Monica.Malik@adcb.com)

##### Thirumalai Nagesh

Economist

+971 (0)2 696 2704

[Thirumalainagesh.Venkatesh@adcb.com](mailto:Thirumalainagesh.Venkatesh@adcb.com)

#### Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	6

## I. Recent Events and Data Releases

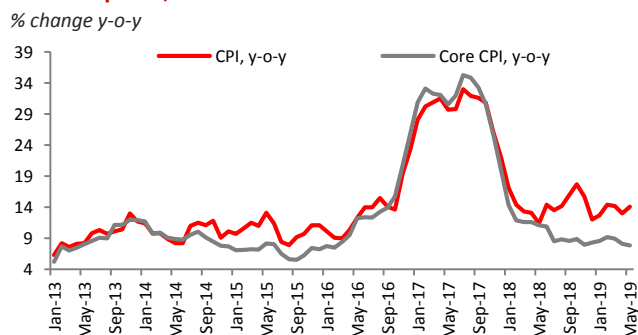
### A. MENA Economies

#### Egypt: May inflation rises on volatile components

Headline inflation accelerated to 14.1% y-o-y in May from 13% in April. On a monthly basis, consumer price rises also strengthened, to 1.1% m-o-m (April: 0.5%). The May increase was largely due to food prices, which account for 40% of the inflation basket, and this was expected given the timing of Ramadan. Vegetables and fruits contributed the most to the annual and monthly increase in inflation. Core inflation continued to decelerate on an annual basis, to 7.8% y-o-y (April: 8.1%), although it rose on a monthly basis to 1.2% m-o-m (April: 0.4%). We reiterate our outlook for steady policy interest rates over the summer, especially as headline inflation remains above the CBE's target of  $9\pm 3$ pp for end-2020 and given the planned fiscal reforms (electricity and fuel subsidy cuts). We believe that the CBE will keep benchmark interest rates on hold to limit the build-up of secondary inflation, although we expect annual inflation to decelerate from June. We expect weaker fuel-price adjustments in June 2019 than last year. Nevertheless, we think the CBE will only return to a rate cutting cycle in 4Q2019.

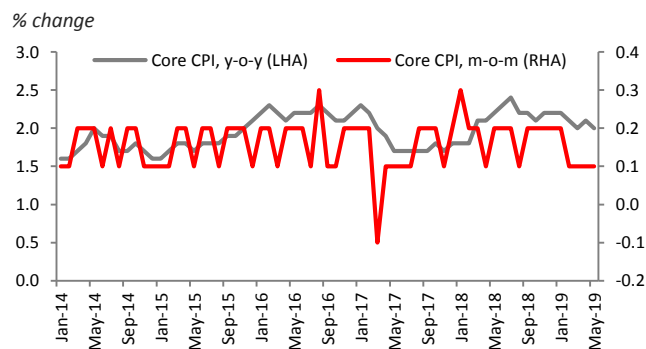
*Volatile seasonal components behind May rise in food prices*

**Fig. 1. Egypt: Headline inflation rises in May due to food prices; core decelerates in annual terms**



Source: CAPMAS, ADCB calculations

**Fig. 2. US: Monthly core inflation steady at 0.1% in May for fourth consecutive month**



Source: Bureau of Labor statistics

### B. G4 Economies

#### US: Core inflation remains muted in May, but retail sales solid

Both headline and core inflation decelerated in May in annual terms, supporting the market's outlook for Fed rate cuts in 2H2019. However, this was muted somewhat at the end of last week, following the release of solid retail sales data for May. Core inflation remained steady in May for the fourth consecutive month at 0.1% m-o-m, taking the annual print down to 2% from 2.1% in April. The softening in core inflation was driven by both core goods and services inflation. The fall in core goods inflation was again due to volatile used car prices, which fell by 1.4% m-o-m in May (April: -1.3%). The deceleration in core services inflation to 0.2% m-o-m in May (April: 0.3%) was largely due to the easing in shelter prices. Despite the softer-than-expected core inflation print in May, the components suggest a steady reading for core PCE, the Fed's preferred gauge of

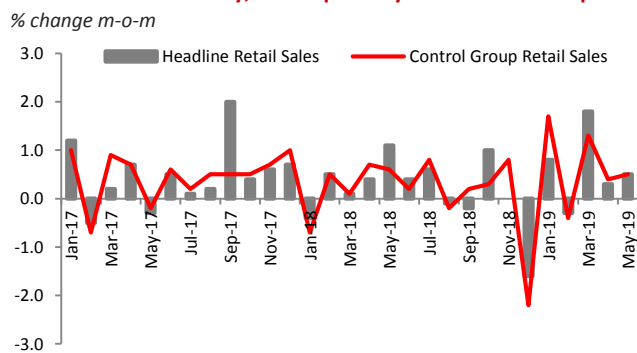
*Core CPI inflation still weak, although components point to pick-up in May core PCE inflation*

consumer inflation. Notably, the fall in used cars will have a limited negative impact on PCE inflation, as this component receives only about a third of the weight in PCE as in the CPI index. The broad-based and ongoing softness in inflation will further raise questions about FOMC’s view on the idiosyncratic factors behind the recent weak inflation prints. The US administration’s increase in tariffs on Chinese imports to 25% may strengthen inflation moderately in the coming months, although the impact is likely to be very limited, in our view.

Importantly, the Fed will have to use the May CPI and PPI inflation reports to draft its view on the inflation outlook at its 18-19 June meeting, as the PCE inflation report will only be released after the meeting. The recent softening in labour market data also suggests limited upside wage pressures, which may also play a critical role in keeping the Fed’s overall tone dovish. We believe that the June meeting will probably be too soon for any easing, although Fed communication at this meeting will be critical to gauging how close the FOMC is to lowering rates.

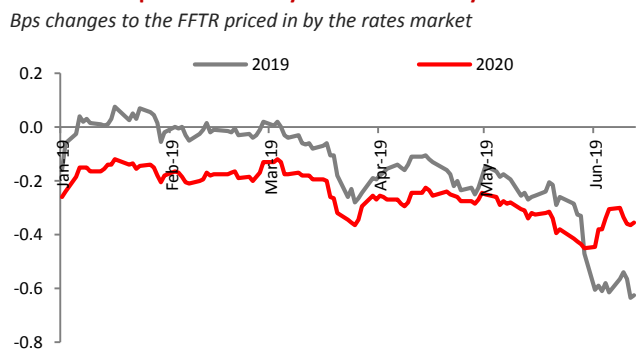
*June Fed meeting critical for gauging how close FOMC is to lowering rates*

**Fig. 3. US: Headline retail sales growth strengthens to 0.5% m-o-m in May, from upwardly revised 0.3% in April**



Source: US Census Bureau

**Fig. 4. US: Market continues to price in Fed rate cuts in 2019 despite still healthy economic activity**



Source: Bloomberg

**Retail sales:** Solid retail activity in May reaffirmed that household consumption remains strong and is likely to be the key driver of GDP growth in the near term. Headline retail sales growth accelerated to 0.5% m-o-m in May, from an upwardly revised 0.3% in April (-0.2% previously), with a broad-based pick-up in activity across the major sub categories. The retail sales control group (core), which feeds in to the GDP growth data, also strengthened to 0.5% m-o-m in May, beating the consensus expectations of 0.4%. April’s core retail sales print was also revised up markedly to 0.4% m-o-m, from flat (0%) in the previous estimate. In total, April and May retail sales data point to a strong contribution from consumer spending to 2Q2019 GDP growth in our view.

*April sales data revised up, alongside solid May spending data*

## C. Emerging Market Economies

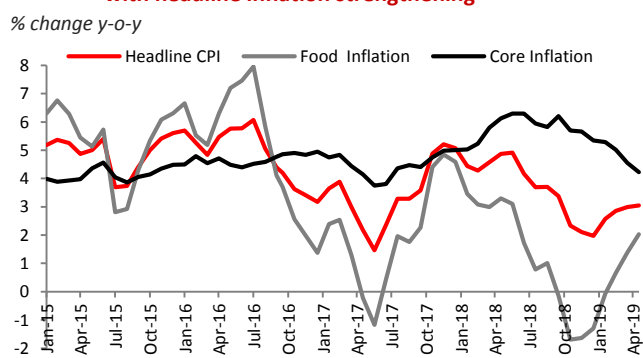
### India: Core inflation eases to 22-month low of 4.2% y-o-y in May

Headline inflation accelerated marginally to 3.05% y-o-y in May from 2.99% in April, while core inflation eased to 4.2% from 4.5%. The rise in headline inflation was driven mainly by the ongoing strengthening in food prices, led by the seasonal increase in vegetable

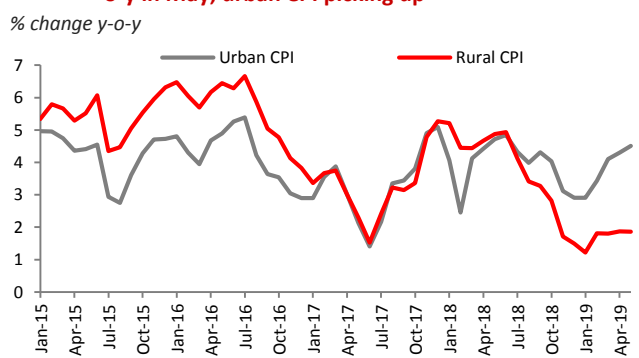
*Headline inflation inches up marginally but core decelerates sharply*

and meat prices. We expect vegetable prices to rise further in the coming months, albeit at a slower pace, with the onset of monsoon rainfall in early June likely to boost vegetable production. Meanwhile, energy inflation has remained broadly steady since March, with the government largely keeping retail oil prices steady during the course of the general elections. We expect the government to keep pump prices broadly steady in the near term despite the recent fall in global crude oil prices in order to boost fiscal revenues. Meanwhile, the softening in core inflation was due to the education, health and clothing components of the basket. We expect headline inflation to average below the RBI's median inflation target of 4% in FY2019-20 (April–March), given weak domestic growth, lower crude oil price on an annual basis and a broadly steady INR. We also see the possibility of core inflation decelerating below the 4% level in the coming months.

**Fig. 5. India: Core inflation continues to decelerate in May, with headline inflation strengthening**



**Fig. 6. India: Rural inflation is subdued and steady at 1.9% y-o-y in May; urban CPI picking up**



Given the soft growth-inflation dynamics and the RBI's shift to an accommodative stance at its June policy meeting, we expect the central bank to cut the repo rate by another 25bps at its 7 August meeting. The MPC will also have additional information on the government's fiscal policy stance (full-year budget to be released on 5 July) and monsoon-related developments before its next policy meeting. We expect the government to retain its current fiscal deficit target of 3.4% of GDP for FY2019-20, which will probably allow the RBI to extend its monetary easing cycle to support economic growth in the near term. We also acknowledge the possibility of additional rate cuts in either 4Q2019 or 1Q2020, although this will largely depend on developments in global and domestic growth.

*We expect RBI to extend its current monetary easing cycle with another 25bps rate cut in August*

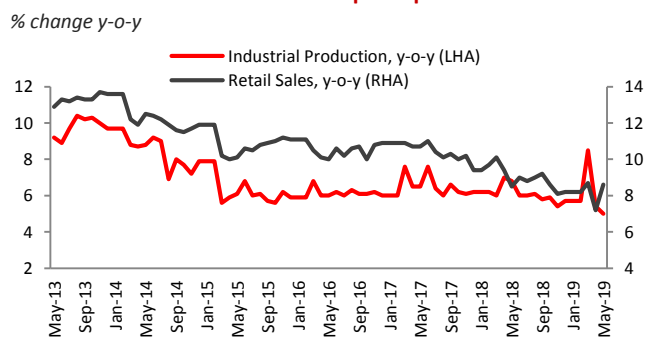
## China: May data point to further loss of economic momentum

China's domestic economic activity data showed further weakening in the economy in May amidst increasing uncertainties over US-China trade tensions. Industrial production growth eased to a 17-year low of 5% y-o-y in May, lower than both the consensus expectation and April print of 5.4%. The slowdown was driven by weak manufacturing and utility components, although the mining segment showed an improvement. Fixed investment growth also weakened to 5.6% y-o-y YTD in May (April: 6.1%), with a moderation in infrastructure investment. On the positive side, retail sales growth surprised to the upside in May and strengthened to 8.6% y-o-y, from 7.2% in April, although this was partly due to calendar effects. Indeed, the inflation data (core CPI and PPI) suggest that demand-side inflationary pressure is limited. Non-food CPI inflation

*Industrial production growth decelerates to 17-year low in May*

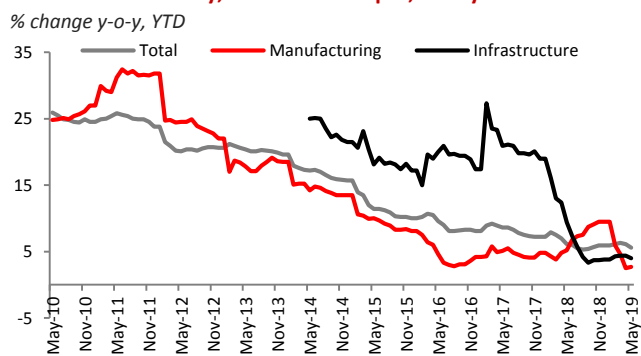
softened to just 1.6% y-o-y in May amid a moderation in housing and clothing prices. Meanwhile, PPI decelerated sharply to 0.6% y-o-y (April: 0.9%), led by softening manufacturing goods prices and a contraction in raw material costs. Slowing industrial activity on the back of weak external demand and decelerating global growth are likely to result in ample slack in the economy.

**Fig. 7. China: Industrial production growth slows in May, while retail sales show a pick-up**



Source: National Bureau of Statistics

**Fig. 8. China: Fixed investment growth slows to 5.6% y-o-y YTD in May, from 6.1% in April, led by infrastructure**



Source: National Bureau of Statistics

We see potential for the government to carry out further fiscal easing in the near term to boost domestic demand, given the slowing economic activity, albeit in a targeted manner. Moreover, we expect the PBoC to continue its pro-growth accommodative monetary policy in the near term, particularly to support the key industries impacted by higher US trade tariffs. We also see scope for the PBoC to cut the reserve requirement ratio (RRR) by at least 100bps over the rest of 2019.

*PBoC likely to maintain accommodative monetary policy stance in near term*

## Turkey: CBRT on hold with dovish tilt

The CBRT kept its benchmark policy rate at 24% at its 12 June meeting, in line with our and the market's expectations. However, the tone of the policy statement was relatively dovish, in our view. The June statement emphasised that the CBRT's tight monetary policy and weak domestic demand are supporting disinflation in the economy. Furthermore, the MPC removed a phrase from the April monetary policy statement that stressed continuing upside risks to price stability from food and import prices. The central bank's softening stance on inflation was likely attributed to the May inflation report. Notably, core inflation decelerated to 15.9% y-o-y in May from 16.3% in April, showing an improvement in underlying price dynamics. We believe that the shift in the CBRT's stance on the inflation outlook at the June meeting paves the way for the central bank to initiate a rate-cut cycle in 2H2019. If headline inflation decelerates further in June (due 3 July) and the TRY remains broadly steady, the CBRT could initiate a rate-cut cycle as early as at its 25 July policy meeting. We believe that the CBRT would like to see some further reduction in price pressure to support rate cuts, with the MPC outlining its intention to maintain its current tight monetary policy stance to reinforce the disinflation process.

*CBRT likely to initiate rate cuts in 2H2019*

## II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	CPI, y-o-y	May	-2.1%	
	UAE	Central Bank Foreign Assets	May	365.5B	
	UAE	M2 Money Supply, m-o-m	May	0.5%	
	Saudi Arabia	CPI, y-o-y	May	-1.9%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Apr	-2.9%	
	Bahrain	CPI, y-o-y	May	1.0%	
	Bahrain	GDP Constant Prices, y-o-y	1Q	4.6%	
	Kuwait	CPI, y-o-y	May	0.7%	
	Oman	CPI, y-o-y	May	0.4%	
	India	BoP Current Account Balance	1Q	-\$16.9B	-\$6.1B
<b>Monday, 17 June</b>					
11:00	Turkey	Unemployment Rate	Mar	14.7%	14.1%
16:30	US	Empire Manufacturing	Jun	17.8	11
21:00	Eurozone	ECB's Draghi Speaks at ECB Forum in Portugal			
<b>Tuesday, 18 June</b>					
11:00	Turkey	Industrial Production, y-o-y	Apr	-2.2%	-2.2%
13:00	Eurozone	CPI Core, y-o-y	May F	0.8%	0.8%
13:00	Germany	ZEW Survey Expectations	Jun	-2.1	-5.8
16:30	US	Housing Starts	May	1235K	1235K
18:00	Eurozone	ECB's Draghi, BOE's Carney Speak at Policy Panel in Sintra			
	UK	Conservative Party leadership ballot to narrow down candidates			
<b>Wednesday, 19 June</b>					
3:50	Japan	Trade Balance	May	¥60.4B	-¥1207B
12:30	UK	CPI, y-o-y	May	2.1%	2.0%
12:30	UK	CPI Core, y-o-y	May	1.8%	1.7%
18:00	Eurozone	ECB President Draghi Gives Closing Remarks at Sintra Forum			
22:00	US	FOMC Rate Decision (Upper Bound)	19-Jun	2.5%	2.5%
22:00	US	FOMC Rate Decision (Lower Bound)	19-Jun	2.25%	2.25%
22:00	US	Interest Rate on Excess Reserves	20-Jun	2.35%	2.35%
22:30	US	Fed Chair Powell Holds Press Conference After FOMC Meeting			
<b>Thursday, 20 June</b>					
9:30	Japan	All Industry Activity Index, m-o-m	Apr	-0.4%	0.7%
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	May	0.0%	-0.5%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	May	5.2%	2.7%
15:00	UK	Bank of England Bank Rate	20-Jun	0.75%	0.75%
15:00	UK	BOE Asset Purchase Target	Jun	435B	435B
16:30	US	Current Account Balance	1Q	-\$134.4B	-\$125B
16:30	US	Philadelphia Fed Business Outlook	Jun	16.6	10.4
18:00	US	Leading Index	May	0.2%	0.1%
18:00	Eurozone	Consumer Confidence	Jun A	-6.5	-6.5
	Japan	BOJ Policy Balance Rate	20-Jun	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	20-Jun	0.0%	0.0%
<b>Friday, 21 June</b>					
0:00	UK	BOE Governor Carney gives annual Mansion House Speech			
3:30	Japan	National CPI, y-o-y	May	0.9%	0.7%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	May	0.9%	0.7%
11:30	Germany	Markit/BME Germany Manufacturing PMI	Jun P	44.3	44.6
12:30	UK	PSNB, ex-Banking Groups	May	5.8B	4.2B
17:45	US	Markit US Manufacturing PMI	Jun P	50.5	50.5
18:00	US	Existing Home Sales	May	5.19M	5.3M
20:00	US	Fed Listens Event in Cincinnati with Brainard and Mester			

\* Bloomberg

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>MENA Economies</b>						
	UAE	UAE PMI	May	57.6		59.4
	Saudi Arabia	Saudi Arabia PMI	May	56.8		57.3
	Egypt	Egypt PMI	May	50.8		48.2
<b>Monday, 10 June</b>						
12:30	UK	Monthly GDP, 3M/3M Change	Apr	0.5%	0.4%	0.3%
12:30	UK	Industrial Production, m-o-m	Apr	0.7%	-1.0%	-2.7%
12:30	UK	Trade Balance	Apr	£6151M	£4700M	£2740M
18:00	US	JOLTS Job Openings	Apr	7474	7496	7449
	Egypt	Urban CPI, y-o-y	May	13.0%		14.1%
	Egypt	CPI Core, y-o-y	May	8.1%		7.8%
	China	Trade Balance	May	\$13.8B	\$23.2B	\$41.65B
	China	Exports, y-o-y	May	-2.7%	-3.9%	1.1%
	China	Imports, y-o-y	May	4.0%	-3.5%	-8.5%
<b>Tuesday, 11 June</b>						
3:50	Japan	Money Stock M2, y-o-y	May	2.5%	2.5%	2.7%
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Apr	3.3%	3.0%	3.1%
12:30	UK	ILO Unemployment Rate, 3M	Apr	3.8%	3.8%	3.8%
12:30	UK	Employment Change, 3M/3M	Apr	99K	4K	32K
16:30	US	PPI Final Demand, m-o-m	May	0.2%	0.1%	0.1%
16:30	US	PPI Final Demand, y-o-y	May	2.2%	2.0%	1.8%
<b>Wednesday, 12 June</b>						
3:50	Japan	Core Machine Orders, m-o-m	Apr	3.8%	-0.8%	5.2%
5:30	China	CPI, y-o-y	May	2.5%	2.7%	2.7%
5:30	China	PPI, y-o-y	May	0.9%	0.6%	0.6%
15:00	Turkey	One-Week Repo Rate	12-Jun	24.0%	24.0%	24.0%
16:00	India	CPI, y-o-y	May	3.0%	3.1%	3.1%
16:00	India	Industrial Production, y-o-y	Apr	0.4%	0.6%	3.4%
16:30	US	CPI, m-o-m	May	0.3%	0.1%	0.1%
16:30	US	CPI, ex-Food and Energy, m-o-m	May	0.1%	0.2%	0.1%
16:30	US	CPI, y-o-y	May	2.0%	1.9%	1.8%
16:30	US	CPI, ex-Food and Energy, y-o-y	May	2.1%	2.1%	2.0%
22:00	US	Monthly Budget Statement	May	\$146.8B	-\$202.0B	-\$207.8B
	China	Foreign Reserves	May	\$3095B	\$3090B	\$3101B
	China	New Yuan Loans CNY	May	1020B	1300B	1180B
	China	Money Supply M2, y-o-y	May	8.5%	8.6%	8.5%
<b>Thursday, 13 June</b>						
13:00	Eurozone	Industrial Production SA, m-o-m	Apr	-0.4%	-0.5%	-0.5%
16:30	US	Import Price Index, m-o-m	May	0.1%	-0.2%	-0.3%
<b>Friday, 14 June</b>						
6:00	China	Industrial Production, y-o-y	May	5.4%	5.4%	5.0%
6:00	China	Retail Sales, y-o-y	May	7.2%	8.1%	8.6%
10:30	India	Wholesale Prices, y-o-y	May	3.1%	3.0%	2.5%
11:00	Turkey	Current Account Balance	Apr	-0.59B	-1.5B	
16:30	US	Retail Sales Advance, m-o-m	May	0.3%	0.6%	0.5%
16:30	US	Retail Sales, ex-Auto and Gas	May	0.3%	0.4%	0.5%
16:30	US	Retail Sales Control Group	May	0.4%	0.4%	0.5%
17:15	US	Industrial Production, m-o-m	May	-0.4%	0.2%	0.4%
18:00	US	University of Michigan Sentiment	Jun P	100	98	97.9
	India	Exports, y-o-y	May	0.6%		3.9%

\* 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.