

## The Week Ahead: ECB's TLTRO-III programme details expected; RBI to cut

### ► Eurozone: ECB on hold; TLTRO-III programme details

The market's focus at the ECB's 6 June Governing Council (GC) meeting will be on the details of the new TLTRO-III (targeted longer-term refinancing operations) programme and economic projections. The minutes of the April ECB meeting highlighted that the TLTRO-III framework will be published "in one of the upcoming meetings", implying the possibility of either June or July. With the new TLTRO programme starting in September, we believe that the ECB is likely to publish details in the June meeting, particularly to help banks plan their funding in advance. However, we do not rule out the possibility of the ECB waiting until July. Consensus expects the interest rate on the TLTRO-III loans to be lower than the ECB's benchmark rate of 0%, with the aim of incentivising banks to accelerate lending to businesses and consumers. Moreover, recent comments from ECB members suggest that a 'tiered' rate system for excess bank reserves, aimed at reducing the adverse impact of negative interest rates on banks, looks unlikely at this point. On the projections front, the ECB is likely to slightly raise both GDP growth (reflecting better-than expected 1Q GDP data) and headline inflation forecasts (higher crude oil prices) for 2019.

### ► India: RBI likely to cut interest rate in June

We expect the RBI to cut its benchmark policy rate by 25 bps to 5.75% at its 6 June monetary policy meeting, with a unanimous vote. This will be its third policy rate cut in a row, after it lowered the rate at its previous two meetings in February and April. The tone of the meeting is likely to be dovish given the subdued economic activity and softening core inflation. We believe that the RBI will broadly maintain its FY19-20 (April-March) headline average inflation forecast at below 4%, assuming steady global crude oil prices and normal monsoon rainfall. However, given the soft 1Q2019 GDP growth (page 3), the RBI could once again lower its FY19-20 GDP growth projections modestly to 7.1%, from 7.2% in April. Moreover, heightened trade tensions between the US and China and slowing global growth are likely to encourage the RBI to maintain an accommodative monetary policy in the near term. We see potential for another 25-bps rate reduction in 2H2019, following the June cut.

### ► US: Solid non-farm payrolls report expected for May

The NFP report will be the key data release this week, with the consensus expecting another solid print of 185K jobs created in May, albeit down from a remarkable 263K in April (YTD: 205K). Given the limited slack in the labour market, wage growth is forecast to have strengthened to 0.3% m-o-m in May (April: 0.2%), although the annual reading should remain steady at 3.2%. Meanwhile, the unemployment rate is estimated to have held steady at 3.6% in May, after reaching its lowest point since December 1969 in the previous month. Separately, market attention will be on the rising trade tensions, after US President Donald Trump threatened to impose tariffs on all Mexican goods last week. Brent crude fell sharply to USD64.5 p/b at the end of last week, its lowest level since 8 March, on rising global growth concerns.

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## I. Recent Events and Data Releases

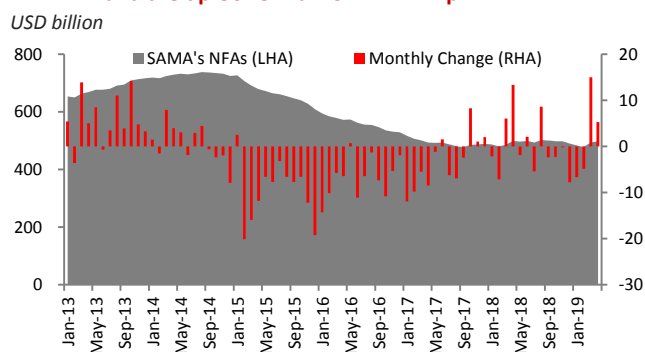
### A. MENA Economies

#### Saudi Arabia: Net foreign assets rise for second month in April

Central bank data released for April showed that SAMA's net foreign assets (NFA) rose for a second consecutive month. The NFAs increased by USD5.3 billion in April to USD498.3 billion, after growing by USD15 billion in March. As highlighted in our earlier research, the March rise in NFAs was linked to an increase in government deposits with SAMA, likely due to transfers from Aramco. The transfer was also a key factor behind the government's fiscal surplus realised in 1Q. For further details, please see our **Economic Research Weekly: Global Data Watch 29 April - 3 May 2019**, published on 29 April. Once again, the April increase in SAMA's NFAs was linked to higher government deposits with the central bank. Government deposits with SAMA rose by USD4.3 billion, driven by the central government's current account. Notably, the government's deposits with domestic banks also increased by USD3.4 billion. The rise in the government's deposits with SAMA could again have been due to possible additional transfers from government related entities, including the PIF. This is especially as we continue to see an overall fiscal deficit for 2019, with a forecast rise in government spending. Moreover, the government did not issue any international debt in April, although gross banking sector claims on the government rose by USD1.9 billion (up 23.0% y-o-y). SAMA's NFAs were up USD8.7 billion YTD in April and nearly flat on a y-o-y basis (-0.1% y-o-y).

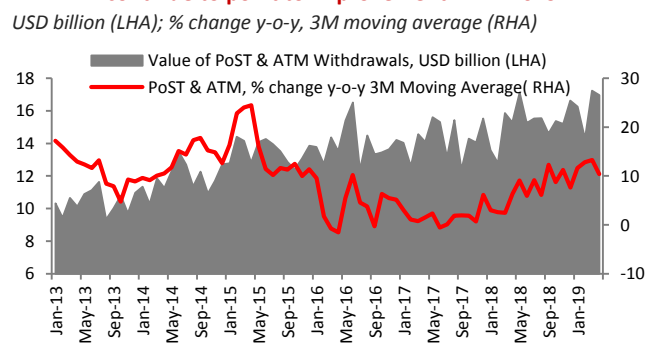
*Higher government deposits with SAMA supports a rise in central banks' NFA position*

**Fig. 1. Saudi Arabia: SAMA's NFAs rise in March and April, and are up USD8.7 billion YTD in April**



Source: SAMA, ADCB calculations

**Fig. 2. Saudi Arabia: Proxy indicators of consumption activity continue to point to improvement in 4M2019**



Source: SAMA, ADCB calculations

Meanwhile, the proxy indicators of economic activity saw some moderation in sequential growth in April, but, nevertheless, still point to a gradual strengthening in economic activity in y-o-y terms. The combined value of point-of-sales transactions and ATM withdrawals, a proxy for consumer spending, fell 1.6% m-o-m, although they were up 10.9% y-o-y. Private sector credit growth decelerated to 2.0% y-o-y (March: 3.0%), albeit still higher than the 2018 average of just 0.9%. We continue to see government spending as a central factor behind the modest pickup in economic activity, including private consumption growth. However, underlying private sector activity still remains weak, with new letters of credit opened for private sector imports down 17.3% y-o-y in 4M2019.

*Proxy economic data patchier for April, but overall still point to gradual tick up in economic activity*

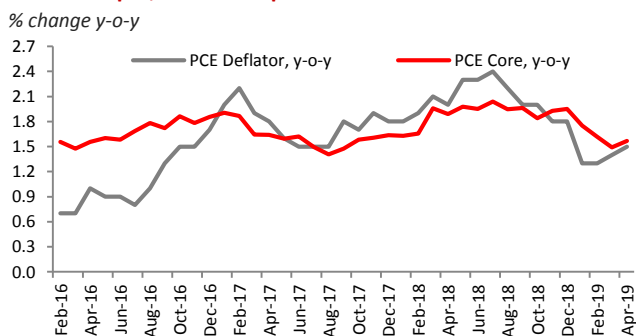
## B. G4 Economies

### US: April core PCE inflation strengthens, but March print revised down

Core PCE inflation strengthened to 0.2% m-o-m in April (March: 0.1%), taking the y-o-y print to 1.6%, from a downwardly revised 1.5% in March. Both monthly and annual core PCE inflation were in line with the consensus expectations. The monthly rise in April core PCE tentatively supports Fed Chair Jerome Powell’s view that the recent weakness in 1Q2019 inflation was likely due to “transitory” factors. Meanwhile, personal income growth accelerated to 0.5% m-o-m in April, from 0.1% in the previous month, led by solid wages and salaries. However, personal spending growth softened to 0.3% m-o-m in April, reversing from a solid March gain of 1.1%, although it remained healthy in our view. The rise in personal income alongside healthy personal spending suggests that consumer demand is likely to remain the key driver of US economic growth in 2Q2019.

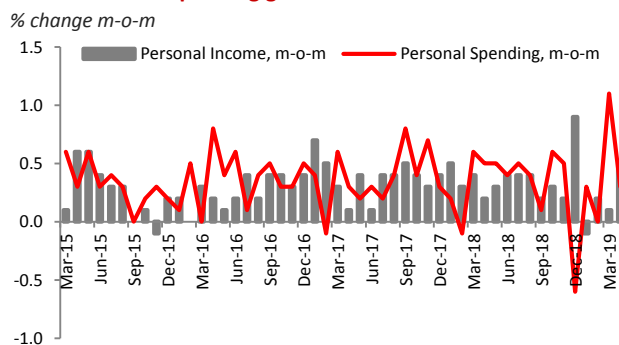
*Solid April PCE report undermined by downward revisions to March core PCE inflation print*

**Fig. 3. US: Core PCE inflation accelerates to 1.6% y-o-y in April, but March print revised down to 1.5%**



Source: Bureau of Economic Analysis

**Fig. 4. US: Personal income grew at a solid pace in April, whilst spending growth reversed back to normal levels**



Source: Bureau of Economic Analysis

**1Q GDP growth:** The second estimate of the 1Q2019 GDP growth was lowered modestly to 3.1% q-o-q saar, from 3.2% in the first print, although this was higher than the consensus expectation of 3%. Personal consumption was raised marginally to 1.3% from 1.2%, while business equipment investment was lowered to -1%, from 0.2% initially. The revisions to consumption and investment growth were broadly in line with our and market expectations. However, the key surprise from the 1Q GDP report was the large downward revision to core PCE inflation, which was lowered to 1% q-o-q saar from 1.3% previously. The quarterly PCE inflation revisions took the y-o-y print down to 1.6%, from 1.7% in the first print.

*1Q2019 real GDP growth lowered modestly to 3.1% q-o-q saar, from 3.2% in first print*

## C. Emerging Market Economies

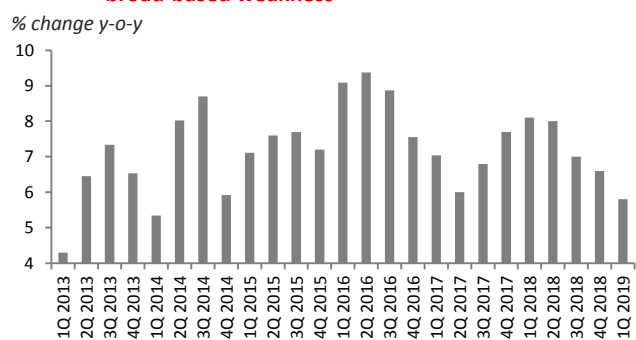
### India: GDP growth surprises to downside in 1Q2019

Real GDP growth decelerated to a five-year low of 5.8% y-o-y in 1Q2019, from 6.6% in 4Q2018 (consensus: 6.3%), with a broad-based slowdown in economic activity excluding government spending. Private consumption softened for the second consecutive quarter to 7.2% y-o-y (4Q2018: 8.1%), in line with the slowdown highlighted by a number of proxy

*Real GDP growth softens in 1Q, led by weak personal consumption and investment activity*

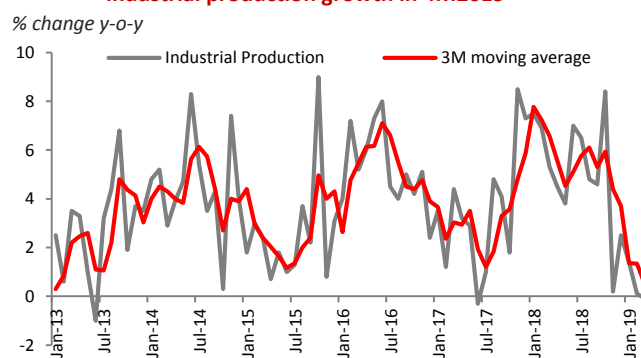
indicators including auto sales, rural wages and consumer goods production. Investment growth also weakened markedly to 3.6% y-o-y in 1Q2019 (4Q2018: 11.7%), which was probably partly due to election related uncertainty and rising global trade tensions. Slower credit disbursements by non-bank finance companies are also likely to have weighed negatively on investment activity in 1Q. Moreover, net exports also contributed negatively to headline growth in 1Q, with imports growing at a faster pace than exports. Exports growth in particular slowed to 10.6% y-o-y in 1Q, from 16.7% in 4Q, likely due to a slowdown in global growth. We believe that the growth momentum will remain relatively weak in 2Q2019 amidst election uncertainty in the first two months of the quarter. However, we expect economic activity to pick up meaningfully from 3Q2019, likely supported both fiscal and monetary loosening.

**Fig. 5. India: GDP growth slows to 5.8% y-o-y in 1Q2019, with broad-based weakness**



Source: India Central Statistical Organisation

**Fig. 6. India: Weak economic activity also reflected in industrial production growth in 4M2019**



Source: India Central Statistical Organisation

Given the marked slowdown in GDP growth and benign inflationary backdrop, we continue to believe that the RBI will cut the repo rate by another 25bps at its 6 June monetary policy meeting. A normal monsoon season and a fall in global crude oil prices could open up further space for the RBI to cut policy rates by another 25bps in 2H2019. Meanwhile, the new finance minister Nirmala Sitharaman will present the full-year FY2019-20 (April-March) on 5 July. We believe that she is likely to outline the government's medium-term agenda to boost investment activity in the industrial sector. We also envisage that the government will largely stick to its fiscal deficit target of 3.4% of GDP for FY2019-20, as outlined in the interim budget presented in February.

*We expect RBI to cut repo rate by 25bps at 6 June policy meeting*

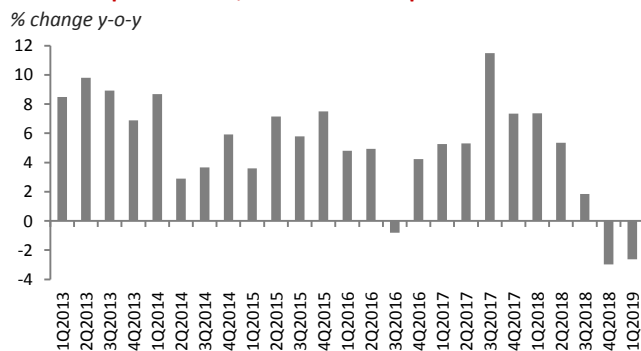
### Turkey: Second consecutive contraction in 1Q2019 in yearly terms

Turkey's real GDP growth contracted by 2.6% y-o-y in 1Q2019, although the pace of decline slowed from 3% in 4Q2018. The fall in economic activity was driven mainly by the drop in household consumption (-4.7%) and investment activity (-13%). This was also evident in household credit growth, which has been in contraction since January 2019. On the other hand, government consumption growth accelerated to 7.2% y-o-y in 1Q (4Q:0.5%), reflecting increased government spending ahead of the March local elections. Moreover, net exports contributed positively to headline growth, with imports falling markedly by 28.8% y-o-y whilst exports grew by 9.5%. Meanwhile, on a q-o-q basis, the Turkish economy recorded 1.3% growth in 1Q, following three consecutive quarterly falls. Looking ahead, the incoming data continues to remain weak, with a fall in credit growth, and car, home, and durable goods sales in April. We believe that the Turkish

*1Q2019 GDP growth contraction mainly due to fall in household consumption and investments*

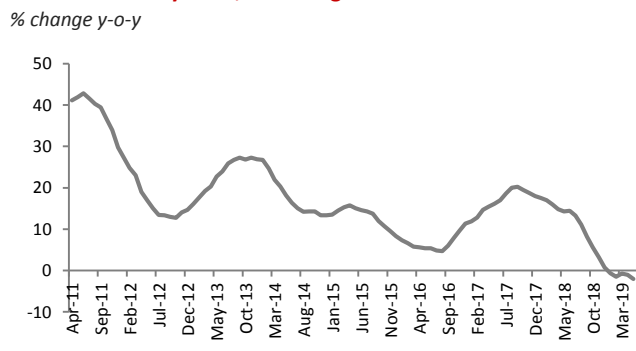
economic activity will continue to remain subdued as the scale of fiscal and credit stimulus is unlikely to be sustained in the coming quarters. The TRY saw a 5% decline in 1Q, likely a reflection of the weak investor confidence.

**Fig. 7. Turkey: GDP growth contracts for second consecutive quarter in 1Q, albeit at slower pace**



Source: Turkish Statistical Institute

**Fig. 8. Turkey: Household credit growth in contraction since January 2019, reflecting weak consumer demand**



Source: CBRT

## II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	UAE PMI	May	57.6	
	Saudi Arabia	Saudi Arabia PMI	May	56.8	
	Saudi Arabia	Non-Oil Exports, y-o-y	Mar	-5.1%	
	Kuwait	M2 Money Supply, y-o-y	Apr	5.0%	
	Oman	CPI, y-o-y	Apr	0.4%	
	Egypt	Trade Balance	Mar	-3589M	
	Egypt	Egypt PMI	May	50.8	
<b>Monday, 3 June</b>					
3:50	Japan	Capital Spending, y-o-y	1Q	5.7%	2.6%
5:45	China	Caixin China PMI Manufacturing	May	50.2	50.0
11:00	Turkey	CPI, y-o-y	May	19.5%	19.3%
11:00	Turkey	CPI Core Index, y-o-y	May	16.3%	16.4%
12:30	UK	Markit UK PMI Manufacturing SA	May	53.1	52.2
17:10	US	Fed's Quarles Discusses Labor Transition			
18:00	US	ISM Manufacturing	May	52.8	53
<b>Tuesday, 4 June</b>					
13:00	Eurozone	Unemployment Rate	Apr	7.7%	7.7%
13:00	Eurozone	CPI Core, y-o-y	May A	1.3%	0.9%
13:00	Eurozone	CPI Estimate, y-o-y	May	1.7%	1.3%
16:30	US	Fed's Williams Speaks at Conference on Reforming Bank Culture			
17:45	US	Powell Gives Welcoming Remarks at Fed Framework Conference			
18:00	US	Factory Orders	Apr	1.9%	-1.0%
18:00	US	Durable Goods Orders	Apr F	-2.1%	
18:00	US	Durables, ex-Transportation	Apr F	0.0%	
18:00	US	Cap Goods Shipments, Non-def, ex-Air	Apr F	0.0%	
23:45	US	Fed's Brainard Moderates Panel at Chicago Fed Conference			
<b>Wednesday, 5 June</b>					
12:30	UK	Markit/CIPS UK Composite PMI	May	50.9	51.0
16:15	US	ADP Employment Change	May	275K	188K
17:45	US	Fed's Clarida Gives Welcoming Remarks at Fed Conference			
18:00	US	ISM Non-Manufacturing Index	May	55.5	55.5
<b>Thursday, 6 June</b>					
10:15	India	RBI Repurchase Rate	6-Jun	6.0%	5.75%
10:15	India	RBI Reverse Repo Rate	6-Jun	5.75%	5.5%
10:15	India	RBI Cash Reserve Ratio	6-Jun	4.0%	4.0%
12:25	Japan	BOJ Kuroda speaks at 2019 IIF Spring Membership Meet			
13:00	Eurozone	GDP SA , Q-o-Q	1Q F	0.4%	0.4%
13:00	UK	BOE Governor Mark Carney Speaks in Tokyo			
15:45	Eurozone	ECB Main Refinancing Rate	6-Jun	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	6-Jun	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	6-Jun	-0.4%	-0.4%
16:30	Eurozone	ECB's Draghi Speaks After Policy Decision in Vilnius			
16:30	US	Trade Balance	Apr	-\$50B	-\$50.6B
21:00	US	Fed's Williams Discusses International Economics			
<b>Friday, 7 June</b>					
16:30	US	Change in Nonfarm Payrolls	May	263K	185K
16:30	US	Unemployment Rate	May	3.6%	3.6%
16:30	US	Average Hourly Earnings , m-o-m	May	0.2%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	May	3.2%	3.2%
	China	Foreign Reserves	May	\$3094.95B	\$3089.95B

\* UAE time

Source: Bloomberg

Fig. 10. Time\*

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Saudi Arabia	M2 Money Supply, y-o-y	Apr	1.3%		2.6%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Apr	1848.7B		1868.5B
<b>Monday, 27 May</b>						
5:30	China	Industrial Profits, y-o-y	Apr	13.9%		-3.7%
9:00	Japan	Leading Index CI	Mar F	96.3		95.9
<b>Tuesday, 28 May</b>						
10:00	Germany	GfK Consumer Confidence	Jun	10.2	10.4	10.1
12:00	Eurozone	M3 Money Supply, y-o-y	Apr	4.6%	4.4%	4.7%
13:00	Eurozone	Consumer Confidence	May F	-6.5	-6.5	-6.5
18:00	US	Conf. Board Consumer Confidence	May	129.2	130	134.1
<b>Wednesday, 29 May</b>						
11:55	Germany	Unemployment Change (000's)	May	-12K	-7.5K	60K
<b>Thursday, 30 May</b>						
16:30	US	Wholesale Inventories, m-o-m	Apr P	0.0%	0.1%	0.7%
16:30	US	GDP Annualized, q-o-q	1Q S	3.2%	3.0%	3.1%
16:30	US	Personal Consumption	1Q S	1.2%	1.2%	1.3%
16:30	US	Core PCE, q-o-q	1Q S	1.3%	1.3%	1.0%
16:30	US	Initial Jobless Claims	25-May	212K	214K	215K
16:30	US	Advance Goods Trade Balance	Apr	-\$71.9B	-\$72.7B	-\$72.1B
18:00	US	Pending Home Sales, m-o-m	Apr	3.9%	0.5%	-1.5%
<b>Friday, 31 May</b>						
3:30	Japan	Jobless Rate	Apr	2.5%	2.4%	2.4%
3:30	Japan	Tokyo CPI, y-o-y	May	1.4%	1.2%	1.1%
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	May	1.3%	1.2%	1.1%
3:50	Japan	Industrial Production, m-o-m	Apr P	-0.6%	0.2%	0.6%
3:50	Japan	Retail Sales, m-o-m	Apr	0.2%	0.6%	0.0%
5:00	China	Manufacturing PMI	May	50.1	49.9	49.4
11:00	Turkey	GDP, y-o-y	1Q	-3.0%	-2.8%	-2.6%
11:00	Turkey	Trade Balance	Apr	-2.15B	-2.83B	-2.98B
12:30	UK	Mortgage Approvals	Apr	62.6K	63.7K	66.3K
16:00	Germany	CPI EU Harmonized, m-o-m	May P	1%	0.3%	0.3%
16:00	Germany	CPI EU Harmonized, y-o-y	May P	2.1%	1.4%	1.3%
16:00	India	GDP, y-o-y	1Q	6.6%	6.3%	5.8%
16:30	US	Personal Income	Apr	0.1%	0.3%	0.5%
16:30	US	Personal Spending	Apr	1.1%	0.2%	0.3%
16:30	US	PCE Deflator, m-o-m	Apr	0.2%	0.3%	0.3%
16:30	US	PCE Deflator, y-o-y	Apr	1.4%	1.6%	1.5%
16:30	US	PCE Core Deflator, m-o-m	Apr	0.1%	0.2%	0.2%
16:30	US	PCE Core Deflator, y-o-y	Apr	1.5%	1.6%	1.6%

\* UAE time

Source: Bloomberg

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