

The Week Ahead: US CPI inflation and Chinese April data

► **US: Core CPI inflation growth to have remained soft in April**

The coming week will be relatively quiet following last week's busy schedule of data releases and the FOMC meeting. The focus will be on US inflation data for April, due on 10 May. Consensus forecasts core inflation to have expanded at a soft pace of 0.2% m-o-m in April, albeit up from 0.1% in the previous two months. This should take the y-o-y print up to 2.1%, from 2% in March. There should be some monthly normalisation in apparel prices in April, boosting core CPI, after a change in methodology resulted in a contraction in clothing prices in March. Rental inflation is likely to have stayed supportive of a moderate pickup in inflation. Headline inflation is expected to have remained at an elevated level of 0.4% m-o-m due to higher monthly gasoline prices, pushing y-o-y inflation up to 2.1%, from 1.9% in March. Meanwhile, a number of FOMC members have speaking engagements this week, including New York Fed President John Williams, Patrick Harker and Robert Kaplan. We expect them to reiterate Fed Chair Jerome Powell's patient and data dependent approach, with a more neutral stance (page 2).

► **UK: GDP growth likely to have strengthened in 1Q2019**

Consensus expects UK GDP growth to have accelerated to 0.5% q-o-q in 1Q2019, from 0.2% in the previous quarter. The pickup is forecast to take the y-o-y print to 1.8% in 1Q2019, from 1.4% in 4Q. However, much of the recovery is likely to have been due to increasing stockpiling by companies ahead of the first Brexit deadline of 29 March (now extended to 31 October 2019). As such, the boost is envisaged to be temporary with growth in 2Q expected to slow. The interim data also points to some strengthening of private consumption in 1Q, likely supported by the still healthy labour market and wage growth. Consensus is projecting an expansion of 0.5% q-o-q in household spending in 1Q, from 0.3% in the previous quarter. Meanwhile, the BoE raised its growth estimate for 2019 at last week's MPC meeting (page 3) on the back of stronger activity in 1Q. Monetary policy was kept steady with a unanimous vote, though the overall tone was more hawkish. We continue to expect no rate hikes for 2019.

► **China: Some stabilisation anticipated in April data**

A number of economic releases are scheduled from China this week (credit, Trade and CPI), which are largely expected to show some stabilisation in activity supported by an expansionary monetary and fiscal policy stance. Particular focus will be on imports data to gauge the degree of pickup in domestic demand. Consensus expects a more moderate contraction in imports of 2% y-o-y in April, from a fall of 7.6% in March. Meanwhile, the CPI is forecast to have accelerated to 2.5% y-o-y in April (March: 2.3%), led by food price inflation. We expect the PBOC to maintain its accommodative monetary policy stance and see potential for further cuts in the reserve requirement ratio in the coming months. Separately, market attention will also be on the ongoing US-China trade talks after US President Donald Trump indicated he will soon hike import tariffs on USD200 billion of Chinese goods.

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I. Recent Events and Data Releases

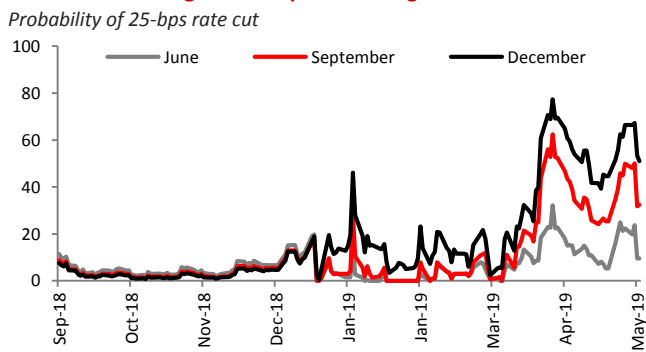
A. G4 Economies

US: Fed on hold with neutral monetary policy stance

The FOMC kept the FFTR range unchanged at 2.25-2.5% last week, but cut the interest rate on excess reserves (IOER) by 5 bps to 2.35%. The IOER was lowered after the gap between the upper bound of the FFTR rate and the effective Fed fund rate narrowed to 5 bps on 29 April. Fed Chair Jerome Powell highlighted that the IOER cut was mainly for technical reasons and that it does not imply any change in monetary policy. Meanwhile, the FOMC statement was largely in line with our and market expectations, with the language on inflation downgraded to reflect the recent downtrend in core PCE inflation, while maintaining a positive view on the growth trajectory. The FOMC statement underlined that both headline and core PCE inflation “have declined and are running below 2%”. Nevertheless, Powell highlighted during his post-meeting press conference that the weak core inflation was due to transient factors, and noted that portfolio management services and apparel costs are key segments that are dampening inflation. When asked about the possibility of cutting rates due to low inflation, Powell reiterated that the Fed is committed to its symmetric 2% objective and that it is comfortable with the current policy stance. Following the FOMC meeting, market expectations of a rate cut by December 2019 have fallen to 51%, from a recent high of 61.7%.

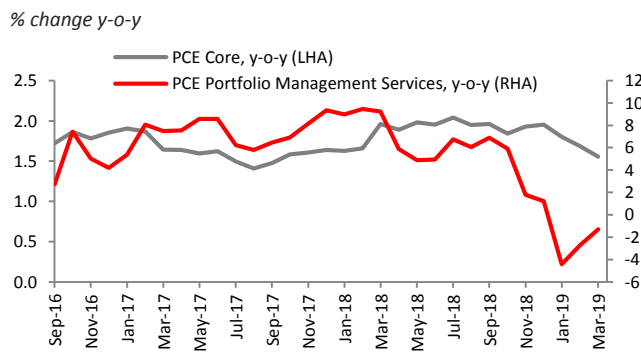
Powell highlights that transitory factors were behind recent downtrend in core PCE inflation

Fig. 1. US: Market pricing for 25-bps rate cut falls sharply following Powell’s push back against rate reduction



Source: Bloomberg

Fig. 2. US: Fall in portfolio management service costs is one factor behind weak core PCE inflation



Source: Bureau of Economic Analysis

The tone of the FOMC meeting was more positive on economic growth than in March, with Powell stressing diminishing near-term global risks linked to Brexit, alongside an improvement in China’s growth outlook. On balance, the FOMC remains comfortable with its current patient policy stance and sees no strong case for hiking or cutting rates in the near term. We believe that the Fed will remain on an extended pause until clear signs emerge on US inflation and the global growth outlook. Given the Fed’s more neutral tone at this meeting (from dovish earlier), some early signs of a pickup in global growth momentum and rising global crude prices, we retain our core scenario of one 25-bps rate hike for 2019, but highlight downside risks to this view.

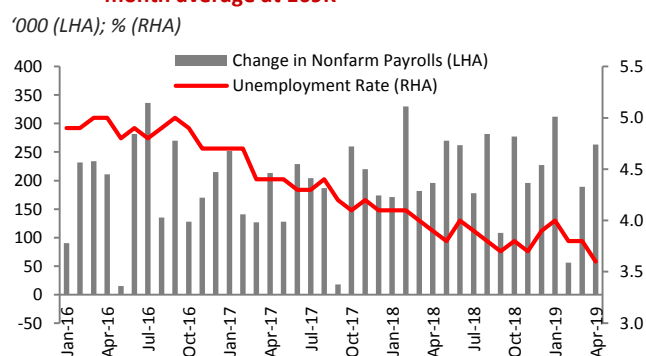
Fed sees no strong case for hiking or cutting rates in near term

US: Robust April labour report, with 263K jobs created

The April employment report continued to point to a healthy labour market, with the economy having created 263K jobs (consensus: 190K) in the month. The three-month moving average remains solid at 169K, with the six-month average at 207K boosted by the strong January print (312K). The creation of jobs was broad-based, but largely driven by the service sector. Indeed, service-sector jobs rose by 202K in April, with strong hiring activity in professional and business services, as well as education and health. However, within services, the retail sector continued to shed jobs, reflecting the growth in ecommerce. Construction jobs rose by 33K, likely due to better weather and some tentative signs of improvement in the housing sector. The unemployment rate slipped to 3.6% in April, from 3.8% in the previous month. However, this was largely due to a drop in the participation rate to 62.8% in April (March: 63%). Wage growth remains contained, with average hourly earnings growing by 0.2% m-o-m in April. Annual wage growth also remained steady at 3.2% y-o-y, albeit above the 2018 average of 3%. We believe that despite the ongoing signs of a healthy labour market, the Fed will maintain its patient stance, especially with wage growth at the current levels.

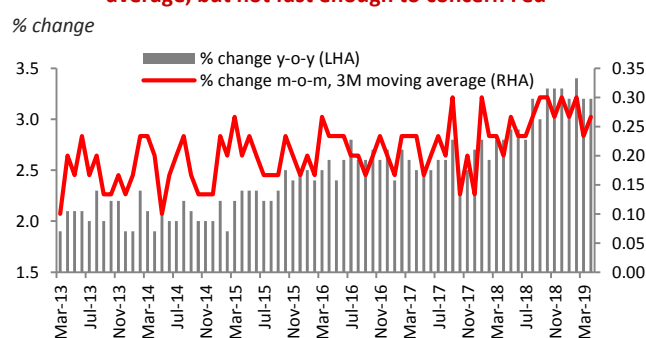
Wage growth remains steady in April; fall in unemployment rate linked to drop in participation rate

Fig. 3. US: Pace of jobs growth remains solid, with three-month average at 169K



Source: Bureau of Labor Statistics

Fig. 4. US: April's annual wage growth higher than 2018 average, but not fast enough to concern Fed



Source: Bureau of Labor Statistics

UK: BoE on hold in May; more hawkish on 2020 outlook

The BoE's MPC voted unanimously to keep rates on hold at its May meeting. The vote initially gave the meeting a more dovish slant than expected, as some forecasters had expected at least one policymaker to break ranks and vote for a hike. We believe the voting pattern indicates that the BoE is not close to raising rates in the near term. However, a number of factors gave the meeting an overall slightly more hawkish tilt, which is probably aimed at preparing the market for a 2020 hike. Various economic forecasts were upgraded in the quarterly inflation report, including the BoE's growth outlook for this year, which was raised to 1.5% from 1.2% in the previous February report, largely due to the stronger data in 1Q. The growth predictions for 2020 and 2021 were also increased, thus resulting in a greater build-up in excess demand in the economy. Meanwhile, the unemployment rate forecast was lowered, while the MPC noted that inflation may be above target after 2020 at current market rates. The inflation forecasts for 2019 and 2020 were cut partly on an assumption of lower utility prices, although the hawkish tone was maintained by the suggestion that inflation was not falling back fast enough. Further adding to the hawkish tilt, Governor Mark Carney underlined that the market is not pricing in enough hikes. The key takeaway is that given the 18-24 month lag between policy changes and their impact on inflation, monetary

GDP growth projections raised in quarterly inflation report; unemployment rates lowered

tightening from 2020 may need to increase to limit the build-up in inflationary pressures given the excess demand in the economy.

One key assumption of the BoE’s forecast and projections is that Brexit will be resolved smoothly and relatively soon. Notably, the central bank did not provide any significant update on the MPC’s views on the extension of the Brexit deadline to end-October. We remain uncertain about Parliament’s ability to reach a Brexit agreement, and thus do not expect any rate hikes in 2019. Moreover, much of the GDP growth in 1Q is likely to have been due to a temporary inventory build-up (page 1), and we expect to see volatility in economic indicators for the remainder of the year. Markets are now pricing in a slightly smaller probability of a rate hike in 2019 than before last week’s meeting, while seeing a slightly higher chance of hikes from mid-2020.

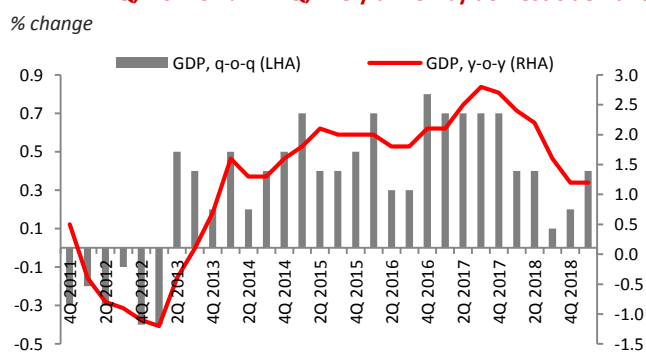
Key assumption of the BoE is that Brexit will be resolved smoothly and relatively soon

Eurozone: 1Q2019 real GDP growth surprises to upside

The Eurozone’s real GDP growth accelerated to 0.4% q-o-q in 1Q2019, beating the consensus estimate of 0.3% and 4Q2018’s 0.2% expansion. On an annual basis, GDP growth remained weak and grew by just 1.2% in 1Q, as in 4Q, which was the lowest point since 2014. This upside surprise in Euro-area GDP growth came after the ECB expressed concerns about the growth outlook at its April policy meeting. The first estimate of GDP growth does not provide a breakdown by expenditure, but we believe that the upside surprise could be due to still robust domestic demand, while the external sector continues to face headwinds. The second estimate, which covers data for more Eurozone countries, will be released on 15 May. Meanwhile, the labour market for March continued to show further tightening in the Eurozone, with the unemployment rate falling to 7.7%, from 7.8% in February. Overall, we believe that the strengthening of economic activity alongside falling unemployment is likely to reduce the pressure on the ECB to announce additional monetary policy stimulus in the near term.

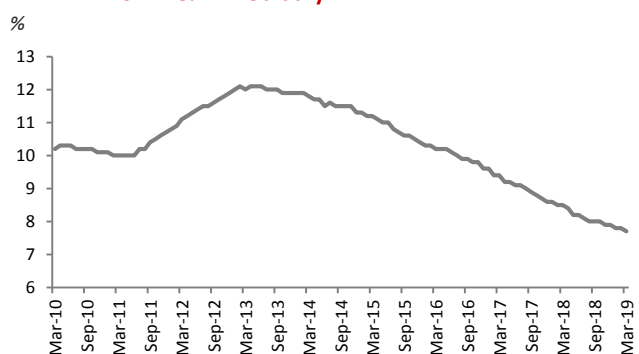
GDP growth strengthens in 1Q2019; unemployment rate falls to 7.7% in March

Fig. 5. Eurozone: GDP growth strengthens to 0.4% q-o-q in 1Q, from 0.2% in 4Q, likely driven by domestic demand



Source: Eurostat

Fig. 6. Eurozone: Unemployment rate falls to 7.7% in March, from 7.8% in February



Source: Eurostat

Eurozone April inflation: Both preliminary headline and core inflation accelerated to 1.7% y-o-y and 1.2% respectively, beating consensus expectations. The sharp rise in core inflation, from 0.8% y-o-y in March, was largely led by services (April: 1.9% y-o-y; March: 1.1% in March). This likely reflects the timing of Easter and a new statistical seasonal adjustment for package holidays that was introduced earlier in January. The improvement in the headline level was essentially driven by core inflation. We expect to

Acceleration in April core inflation likely driven by seasonal factors

see some moderation in the reading from May as the impact of these one-off factors fades. Thus, we do not expect any impact on the monetary policy outlook.

B. Emerging Market Economies

Turkey: CBRT keeps inflation forecast steady at 14.6% for 2019

The CBRT published its inflation report for 2Q last week and left its end-2019 inflation forecast unchanged at 14.6%. The CBRT governor Murat Cetinkaya highlighted during his press conference that the headline inflation rate will fluctuate between 12.1% and 17.2% until the end of 2019, led mainly by food inflation. He also underlined that interest rate hikes remain an option if inflation spikes unexpectedly in the near term and vowed to keep a tight monetary policy stance until inflation weakens meaningfully. This is after the CBRT removed the phrase "further monetary tightening will be delivered, if needed" from its April monetary policy meeting. Looking ahead, the central bank continues to see headline inflation easing to 8.2% in 2020, and 5.4% in 2021. Meanwhile, April inflation printed at 19.5% y-o-y, below consensus expectations of 20.4% and the March reading of 19.7%. However, with the TRY weakness and recent rise in fuel prices, we expect the CBRT to remain cautious on easing monetary policy in the near term.

CBRT sounding more hawkish again, after dovish guidance at its April MPC meeting

With markets remaining increasingly concerned about the CBRT's falling foreign reserves, Governor Cetinkaya reassured them that the recent fluctuations were "neither exceptional nor abnormal". He stressed, though, that the central bank intends to strengthen its reserves in the coming months. However, the TRY remains volatile, with investor sentiment towards Turkish assets remaining weak, although there was a marked improvement in capital flows into other major emerging markets in 1Q2019.

TRY remains volatile with increasingly cautious view on Turkish financial assets

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai Economy Tracker SA	Apr	57.6	--
	Oman	Nominal GDP YTD, y-o-y	4Q	15.3%	--
	Oman	CPI, y-o-y	Apr	0.4%	--
	Egypt	Trade Balance	Feb	-2787M	--
	Egypt	Urban CPI, y-o-y	Apr	14.2%	--
	China	Money Supply M2, y-o-y	Apr	8.6%	8.5%
	China	New Yuan Loans CNY	Apr	1690B	1175B
Monday, 6 May					
13:00	Eurozone	Retail Sales, m-o-m	Mar	0.4%	-0.1%
17:30	US	Fed's Harker Speaks on the Economic Outlook			
Tuesday, 7 May					
12:00	UK	BOE's Cunliffe Speaks in London			
13:00	Eurozone	EU Commission Economic Forecasts			
15:00	US	Fed's Kaplan Speaks in Beijing on Moderated Panel			
18:00	US	JOLTS Job Openings	Mar	7087	7350
20:30	UK	BOE's Haldane Speaks in Sheffield			
	China	Foreign Reserves	Apr	\$3098.8B	\$3101.5B
Wednesday, 8 May					
3:50	Japan	BOJ Minutes of March Policy Meeting			
3:50	Japan	Monetary Base, y-o-y	Apr	3.8%	--
4:30	Japan	Nikkei Japan PMI Composite	Apr	50.4	--
12:15	UK	BOE's Ramsden Speaks in London			
	China	Trade Balance	Apr	\$32.7B	\$33.7B
	China	Exports, y-o-y	Apr	14.2%	3%
	China	Imports, y-o-y	Apr	-7.6%	-2%
Thursday, 9 May					
5:30	China	CPI, y-o-y	Apr	2.3%	2.5%
5:30	China	PPI, y-o-y	Apr	0.4%	0.6%
16:30	US	PPI Final Demand, m-o-m	Apr	0.6%	0.2%
16:30	US	PPI Final Demand, y-o-y	Apr	2.2%	2.3%
16:30	US	Trade Balance	Mar	-\$49.4B	-\$50.3B
17:45	US	Fed's Bostic Discusses Economic Outlook			
21:15	US	Fed's Evans Speaks at Community Development Conference			
Friday, 10 May					
11:00	Eurozone	ECB's Villeroy Speaks in Paris			
12:30	UK	GDP, q-o-q	1Q P	0.2%	0.5%
12:30	UK	GDP, y-o-y	1Q P	1.4%	1.8%
12:30	UK	Private Consumption, q-o-q	1Q P	0.3%	0.5%
12:30	UK	Industrial Production, m-o-m	Mar	0.6%	0.1%
12:30	UK	Manufacturing Production, m-o-m	Mar	0.9%	0%
12:30	UK	Trade Balance	Mar	-£4860M	-£4600M
16:00	India	Industrial Production, y-o-y	Mar	0.1%	--
16:30	US	CPI, m-o-m	Apr	0.4%	0.4%
16:30	US	CPI, y-o-y	Apr	1.9%	2.1%
16:30	US	CPI, ex-Food and Energy, m-o-m	Apr	0.1%	0.2%
16:30	US	CPI, ex-Food and Energy, y-o-y	Apr	2%	2.1%
17:08	US	Fed's Bostic Discusses Economic Outlook			
18:00	US	Fed's Williams Speaks to Bronx Bankers Breakfast			
18:30	Eurozone	ECB's Coeure Speaks in Paris			
22:00	US	Monthly Budget Statement	Apr	-\$146.9B	\$154B

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Economies						
	Saudi Arabia	Non-oil Exports, y-o-y	Feb	-1.4%		-5.1%
	Bahrain	M2 Money Supply, y-o-y	Mar	4.5%		6.7%
	Qatar	M2 Money Supply, y-o-y	Mar	-4.4%		-4.3%
Monday, 29 April						
12:00	Eurozone	M3 Money Supply, y-o-y	Mar	4.3%	4.2%	4.5%
16:30	US	Personal Income	Mar	0.2%	0.4%	0.1%
16:30	US	Personal Spending	Mar	0.1%	0.7%	0.9%
16:30	US	PCE Core Deflator, m-o-m	Mar	0.1%	0.1%	0%
16:30	US	PCE Core Deflator, y-o-y	Mar	1.7%	1.7%	1.6%
Tuesday, 30 April						
5:00	China	Non-manufacturing PMI	Apr	54.8	54.9	54.3
5:00	China	Manufacturing PMI	Apr	50.5	50.5	50.1
11:00	Turkey	Trade Balance	Mar	-2.15B	-2.1B	-2.14B
13:00	Eurozone	Unemployment Rate	Mar	7.8%	7.8%	7.7%
13:00	Eurozone	GDP SA, q-o-q	1Q A	0.2%	0.3%	0.4%
13:00	Eurozone	GDP SA, y-o-y	1Q A	1.2%	1.1%	1.2%
16:00	Germany	CPI EU Harmonized CPI, y-o-y	Apr P	1.4%	1.7%	2.1%
18:00	US	Conference Board Consumer Confidence	Apr	124.2	126.8	129.2
Wednesday, 1 May						
12:30	UK	Mortgage Approvals	Mar	65.3K	64.5K	62.3K
12:30	UK	Markit UK PMI Manufacturing SA	Apr	55.1	53.1	53.1
16:15	US	ADP Employment Change	Apr	151K	180K	275K
18:00	US	ISM Manufacturing	Apr	55.3	55	52.8
18:00	US	ISM Prices Paid	Apr	54.3	55	50
22:00	US	FOMC Rate Decision (Upper Bound)	1-May	2.5%	2.5%	2.5%
22:00	US	FOMC Rate Decision (Lower Bound)	1-May	2.25%	2.25%	2.25%
22:00	US	Interest Rate on Excess Reserves	2-May	2.4%	2.4%	2.35%
Thursday, 2 May						
5:45	China	Caixin China PMI Manufacturing	Apr	50.8	50.9	50.2
9:00	India	Nikkei India PMI Manufacturing	Apr	52.6		51.8
15:00	UK	Bank of England Bank Rate	2-May	0.75%	0.75%	0.75%
15:00	UK	BOE Corporate Bond Target	May	10B	10B	10B
15:00	UK	BOE Asset Purchase Target	May	435B	435B	435B
16:30	US	Nonfarm Productivity	1Q P	1.3%	2.2%	3.6%
16:30	US	Unit Labor Costs	1Q P	2.5%	1.5%	-0.9%
18:00	US	Factory Orders	Mar	-0.3%	1.6%	1.9%
Friday, 3 May						
11:00	Turkey	CPI, y-o-y	Apr	19.7%	20.4%	19.5%
11:00	Turkey	CPI Core Index, y-o-y	Apr	17.5%	17.1%	16.3%
12:30	UK	Markit/CIPS UK Composite PMI	Apr	50	50.6	50.9
13:00	Eurozone	CPI Core, y-o-y	Apr A	0.8%	1%	1.2%
13:00	Eurozone	CPI Estimate, y-o-y	Apr	1.4%	1.6%	1.7%
16:30	US	Wholesale Inventories, m-o-m	Mar P	0.1%	0.2%	0%
16:30	US	Change in Nonfarm Payrolls	Apr	189K	190K	263K
16:30	US	Unemployment Rate	Apr	3.8%	3.8%	3.6%
16:30	US	Average Hourly Earnings, m-o-m	Apr	0.2%	0.3%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Apr	3.2%	3.3%	3.2%
18:00	US	ISM Non-Manufacturing Index	Apr	56.1	57	55.5

* UAE time

Source: Bloomberg

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