

The Week Ahead: Escalation in global trade tensions

► Global: Uncertainties increase as US raises tariffs

Global growth uncertainties increased after the US raised tariffs from 10% to 25% on USD200 billion worth of Chinese goods last Friday. Moreover, the US indicated that the administration would release details on Monday of its plans for tariffs (25%) on an additional USD325 billion of Chinese imports, which are not currently subject to an import tax. China responded by saying that it would take the necessary retaliatory measures, but nothing specific has been announced yet. However, both sides were keen to manage expectations, likely aimed at avoiding the perception of a full breakdown in negotiations, which provided some support to the global markets. US-China trade talks are expected to continue, though at present, there is no indication on the timing of the next round of talks. This deterioration in trade developments comes after some indications of a pick-up in global growth going into 2Q, including in the US and China, albeit tentative in most cases. External risks to China were already highlighted in April data, with a surprise contraction in exports of 2.7% y-o-y (page 4). The impact of the latest increase in US tariffs could lower Chinese growth by c.0.3-0.5pp and global growth by c.0.2pp over the next 12 months according to market forecasts. We believe that both sides ultimately want a trade deal and will compromise, though the risk of a policy mistake remains high during the brinkmanship process and in a period of fragile global sentiment and growth.

► US: Some moderation in April retail sales expected

So far, the escalating trade war between the US and China has not had any meaningful impact on US inflation, with the majority of consumer goods not affected. April CPI data released last week was a touch weaker than consensus expectations (page 3). Looking forward, the main data release out of the US this week will be retail sales for April (due 15 May). After the strong rebound in retail sales in March (1.6% m-o-m), the headline growth is expected to have moderated to 0.2% in April, partly due to weaker auto sales. However, the data is likely to still show a healthy underlying demand picture, with retail sales ex-auto at 0.7% m-o-m in April (March: 1.2%).

► Europe: US deadline on tariffs on EU autos

US President Donald Trump is due to make a decision on potential tariffs on EU autos and auto parts by 18 May (soft deadline). Trump may not want to open an additional trade dispute at this point and thus could delay a final decision or possibly announce tariffs with temporary exemptions contingent on talks. Data wise, April CPI and 1Q GDP releases are due across the Eurozone this week, alongside March employment data for the UK. Consensus sees Eurozone GDP coming in at 0.4% q-o-q in Q12019 in the second print, as in the first release. The growth was likely driven by domestic factors, though the full breakdown will not be released until the third print. In the UK, the unemployment rate is forecast to remain at the historical low of 3.9%, though there could be some softening in jobs growth after temporary hiring related to the 1Q inventory build-up (page 4).

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I. Recent Events and Data Releases

A. MENA Economies

Egypt: Inflation moderates in April; CBE likely to remain on hold

Headline inflation in Egypt decelerated to 13% y-o-y in April – its weakest reading since January 2019 and down from 14.2% y-o-y in March. The deceleration was largely due to a softening in food price inflation to 13% y-o-y (March: 15.2%), though core inflation also moderated to 8.1% y-o-y in April (March: 8.9%). The monthly rise in food prices was the weakest in four months at 0.5% m-o-m. We continue to expect the CBE to keep benchmark interest rates on hold at its 23 May meeting, after keeping rates steady at its March meeting. We maintain our view that given the outlook for mid-year fiscal reforms, any resumption of the easing cycle will probably take place in 2H2019, potentially after the September meeting. Moreover, headline inflation still remains above the CBE's target of 9±3pp for end-2020. We expect a monthly rise in inflation in June with the next round of fuel subsidy reforms. However, overall we see a weaker pace of fiscal and subsidy adjustment in 2019 than in 2018, thereby having a contained impact on consumer inflation in yearly terms (as the June 2018 price increases drop out of the data). Nevertheless, we believe that the central bank will likely take a cautious approach at this point and wait to see the impact of the latest round of reforms on consumer prices, including secondary ones.

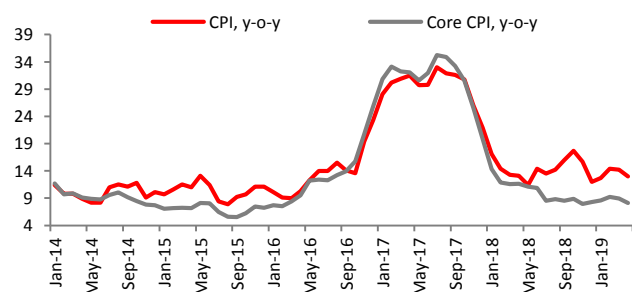
CBE likely on hold over summer with further fiscal reforms planned

Reducing interest rates will be important to support economic activity and lower government borrowing costs. The latest data continues to point to ongoing improvements in the government's fiscal position in 1Q, supported by revenue growth. The primary surplus increased to EGP15 billion in 1Q2019 from EGP7 billion in 1Q2018, with revenue growth outpacing spending growth. However, interest cost remained a key drag on the fiscal position and rose 14% y-o-y to account for just under 40% of total spending in 1Q. Lowering borrowing costs will become increasingly important for the government, as it becomes more reliant on market rates. Egypt is expected to receive the final tranche (c.USD2 billion) of its IMF loan in July.

Debt financing remains key fiscal drag

Fig. 1. Egypt: Headline inflation slowed to 13% y-o-y in April – softest level since January

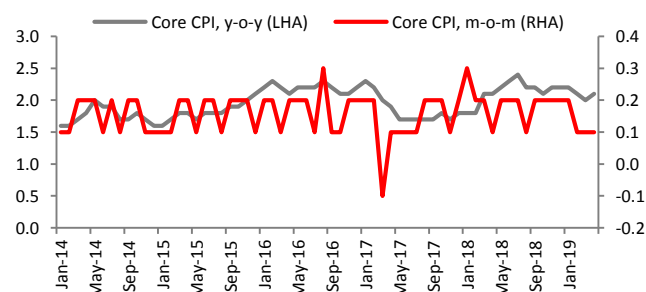
% change y-o-y



Source: CAPMAS, ADCB calculations

Fig. 2. US: Core CPI growth remained at 0.1% in April, for the third consecutive month

% change



Source: Bureau of Labor Statistics

B. G4 Economies

US: Core inflation still weak, remaining at 0.1% m-o-m

April core inflation printed at 0.1% m-o-m, for the third consecutive month, and was below consensus expectations of 0.2%. Core goods (and food prices) disappointed, while core services inflation remained solid. On the core goods side, the softness was again due to the apparel component and volatile areas such as used car prices (-1.3% m-o-m). However, the contraction in apparel prices moderated to 0.8% m-o-m in April, from the 1.9% drop in March following the introduction of the new calculation methodology. Core services rose by a strong 0.3% m-o-m in April, supported by shelter inflation (+0.4% m-o-m) and owners' equivalent rent (+0.3%). Despite the monthly miss, the annual core inflation rate ticked up to 2.1% y-o-y in April, in line with the consensus forecast and up from 2% in March. Headline inflation missed in monthly and annual terms, though rising to 2% y-o-y in April from 1.9% in the previous month, supported by higher energy prices. FOMC members reiterated last week that they view the recent weakness in inflation as largely driven by temporary factors and expect the PCE to increase gradually. Indeed, despite the softer-than-expected inflation print in April, the components could suggest a rise in the core PCE – the Fed’s preferred gauge for consumer inflation. This is as medical inflation remained solid (+0.9% m-o-m), which has a higher weighting in the PCE basket, while used car prices have a smaller weighting.

Core CPI inflation still weak, though components point to a pick-up in April's core PCE inflation

Nevertheless, the April CPI data should help to maintain the Fed’s patient stance. Some upward pressure on consumer goods inflation, albeit likely limited, may come from the increase in tariffs on Chinese imports to 25% (page 1). However, this will likely take time to materialise, as goods currently under shipment would not be impacted by the new, higher tariffs. Thus, it could take a month or two to be felt fully. The latest round of tariffs could add 0.1-0.2pp to headline inflation, assuming full pass-through, though would still ultimately be transitory. US household were largely insulated from the 2018 tariff hikes on Chinese imports.

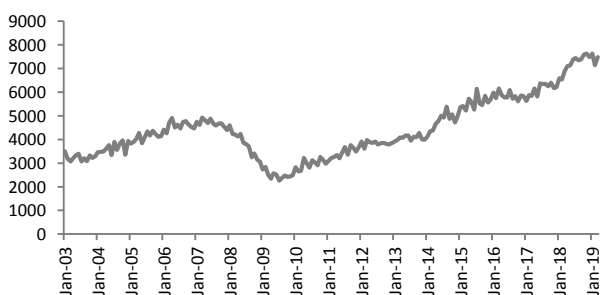
Recent increase in tariffs likely to have some moderate impact on inflation

April JOLTS data: Jobs opening data for March continued to highlight the ongoing strength in the labour market. Job openings rose to 7,488K in March from 7,142K in February. The quits rate held at a solid 2.3% for a 10th consecutive month. The increase in job openings was broad-based, with the largest rises in transportation, warehousing and utilities (+87K), construction (+73K), and real estate and rental and leasing (+57K). People are more likely to leave their jobs during a healthy labour market backdrop.

Increase in job openings in various sectors

Fig. 3. US: Job openings rose by 346K in March to 7,488K and are up 8.6% y-o-y

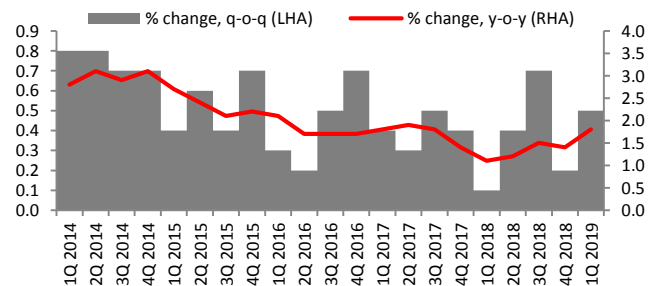
Total job openings, '000



Source: Bureau of Labor Statistics

Fig. 4. UK: GDP growth strengthens sharply both in quarterly and yearly terms in 1Q

% change



Source: Office for National Statistics

UK: Strong rebound in 1Q GDP, though unlikely to be maintained

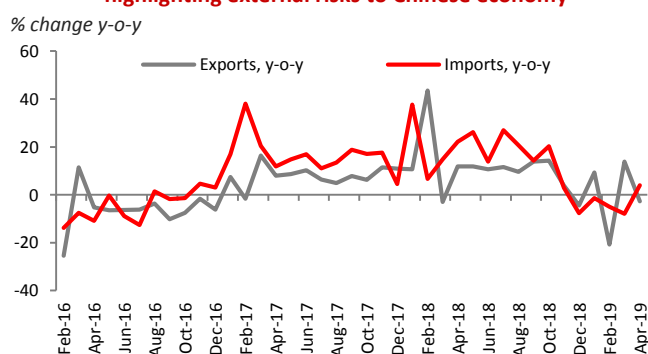
Real GDP growth accelerated to 0.5% q-o-q in 1Q2019 from 0.2% in 4Q2018, according to the first release of the data. In annual terms, GDP growth strengthened to 1.8% y-o-y in 1Q, the fastest pace of growth since 3Q2017. Both the quarterly and yearly growth prints were in line with consensus forecasts. The rise was driven by a significant increase in stockpiling by companies ahead of the first Brexit deadline of 29 March (now extended to 31 October 2019). Thus, this boost is envisaged to be temporary, with growth in 2Q expected to slow. Inventories contributed 0.7pp to headline q-o-q growth, the highest level since 2012. The GDP data also pointed to much of the stockpiling being imported, resulting in net trade dragging on growth (2.2pp in quarterly terms). Indeed, the volume of imports rose by 6.8% q-o-q in 1Q, with goods imports up 11% (including machinery and transport). Surprisingly, business investment rose by 0.5% q-o-q in 1Q, the first increase in a year, though this was also likely supported by the stockpiling. Consumer spending also accelerated to 0.7% in 1Q, again possibly reflecting some frontloading of expenditure ahead of the Brexit deadline. Meanwhile, government spending remained healthy (+1.4% q-o-q), pointing to a more accommodative fiscal policy in recent months. Last week, BoE Governor Mark Carney said he expected growth to fall back to 0.2% during 2Q as the one-off boost from stock-building faded and businesses continued to hold off from Brexit-related investments.

Stockpiling the key trend in 1Q data, likely also boosting investment activity

C. Emerging Market Economies

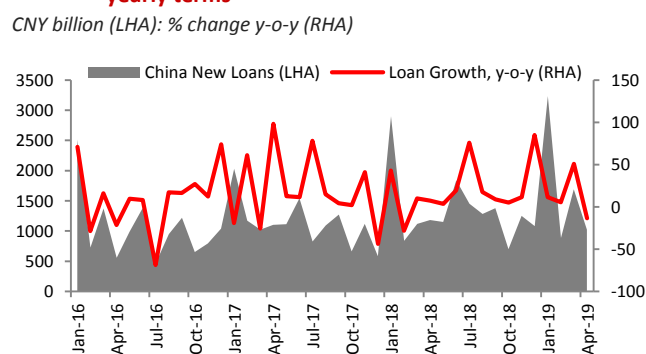
China: Imports rebound in April, though data remains mixed

Fig. 5. China: Exports surprisingly contracted in April, highlighting external risks to Chinese economy



Source: Customs General Administration PRC, ADCB calculations

Fig. 6. China: New loans fell in April both in absolute and yearly terms



Source: PBoC, ADCB calculations

Interim data for China continued to point to a tentative pick-up in domestic demand, though this remains unconvincing for now. On the trade side, there was an improvement in the import data, though exports in April highlighted the ongoing external risks. Imports expanded by 4% y-o-y in April, beating consensus expectations of a 2.1% contraction. Notably, the April reading was the first positive growth in five months and came after imports fell 7.9% y-o-y in March. There was a broad-based rise in Chinese imports, including agricultural, chemical and medical products, which suggests a positive impact from the recent fiscal and monetary measures to support domestic economic activity.

Broad-based rise in imports, though oil imports could have been due to stockpiling

Imports of major commodities (particularly oil) also increased, both due to price and volume. The increase in the volume of oil imports could have been partly due to front-loading ahead of the US sanctions waivers on Iranian crude expiring. There were also still some pockets of weakness, with processing imports continuing to contract, likely reflecting the weak global trade environment. In a surprise development, Chinese exports dropped by 2.7% y-o-y in April, while the consensus was expecting positive growth of 3%. With external demand a key driver of China's growth, the April print indicates the potential risk from slowing global growth and developments in US-China trade. Chinese exports to the US declined by 13.1% y-o-y in April (March: +3.7%), while exports to the G3 economies contracted by 5.8% y-o-y.

We expect China to step up its policy-easing measures in response to signs of further economic pressure and/or any increase in trade tensions. Credit levels (new yuan loans and aggregate financing) eased more than expected in April after being boosted by seasonal factors in March, likely due to some tightening in domestic financial conditions. Meanwhile, the PBoC lowered the reserve requirement ratio (RRR) to 8% (from c.10-11.5% earlier) for rural commercial banks last week. This reduction is set to be implemented in three phases (starting from 15 May) and should release some CNY280 billion (USD41 billion) of extra liquidity into the system aimed at supporting loans to private corporates and SMEs. Although the overall impact on the economy is expected to be limited, the move provides additional confirmation on the policy outlook. We expect to see further targeted monetary loosening, especially after the latest increase in US tariff.

Latest RRR cut to have limited impact on economy, though provides a signal

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Apr	377.06B	--
	Oman	CPI, y-o-y	Apr	0.43%	--
	Bahrain	CPI, y-o-y	Apr	1.2%	--
	China	Foreign Direct Investment, CNY y-o-y	Apr	8%	--
Monday, 13 May					
16:00	India	CPI, y-o-y	Apr	2.86%	2.99%
17:05	US	Fed's Rosengren, Clarida Make Remarks at Fed Listens Event			
Tuesday, 14 May					
10:30	India	Wholesale Prices, y-o-y	Apr	3.18%	3%
11:15	US	Fed's Williams Speaks at SNB/IMF Event in Zurich			
12:30	UK	Jobless Claims Change	Apr	28.3K	--
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Mar	3.5%	3.4%
12:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Mar	3.4%	3.3%
12:30	UK	ILO Unemployment Rate, 3M	Mar	3.9%	3.9%
13:30	UK	Employment Change, 3M/3M	Apr	179K	140K
13:00	Eurozone	Industrial Production SA, m-o-m	Mar	-0.2%	-0.3%
13:00	Germany	ZEW Survey Current Situation	May	5.5	6.3
13:00	Germany	ZEW Survey Expectations	May	3.1	5
13:00	Eurozone	ZEW Survey Expectations	May	4.5	--
16:30	US	Import Price Index, m-o-m	Apr	0.6%	0.7%
16:30	US	Import Price Index, y-o-y	Apr	0%	0.5%
20:45	US	Fed's George Speaks to Economic Club of Minnesota			
Wednesday, 15 May					
6:00	China	Industrial Production, y-o-y	Apr	8.5%	6.5%
6:00	China	Industrial Production, YTD y-o-y	Apr	6.5%	6.5%
6:00	China	Retail Sales, y-o-y	Apr	8.7%	8.6%
6:00	China	Retail Sales, YTD y-o-y	Apr	8.3%	8.4%
13:00	Eurozone	GDP SA, q-o-q	1Q P	0.4%	0.4%
13:00	Eurozone	GDP SA y-o-y	1Q P	1.2%	1.2%
16:30	US	Retail Sales Advance, m-o-m	Apr	1.6%	0.2%
16:30	US	Retail Sales, ex-Auto, m-o-m	Apr	1.2%	0.7%
16:30	US	Retail Sales Control Group	Apr	1%	0.3%
17:15	US	Industrial Production, m-o-m	Apr	-0.1%	0%
20:00	US	Fed's Barkin Speaks to Economists in New York			
	India	Imports, y-o-y	Apr	1.4%	--
	India	Trade Balance	Apr	-\$10890M	-\$13535M
	India	Exports, y-o-y	Apr	11%	--
Thursday, 16 May					
16:30	US	Housing Starts	Apr	1139K	1209K
16:30	US	Housing Starts, m-o-m	Apr	-0.3%	6.2%
16:30	US	Building Permits	Apr	1269K	1290K
16:30	US	Building Permits, m-o-m	Apr	-0.2%	1.7%
16:30	US	Initial Jobless Claims	11-May	228K	220K
20:05	US	Fed's Kashkari Discusses Monetary Policy and the Economy			
21:30	UK	BoE's Jonathan Haskel speaks in York			
Friday, 17 May					
13:00	Eurozone	CPI Core, y-o-y	Apr F	1.2%	1.2%
13:00	Eurozone	CPI, m-o-m	Apr	1%	0.7%
13:00	Eurozone	CPI, y-o-y	Apr F	1.4%	1.7%
19:15	US	Fed's Williams Meets With Community Leaders			

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Economies						
	UAE	Dubai Economy Tracker SA	Apr	57.6	--	57.9
	Egypt	Urban CPI, y-o-y	Apr	14.2%	--	13%
	China	Money Supply M2, y-o-y	Apr	8.6%	8.5%	8.5%
	China	New Yuan Loans, CNY	Apr	1690B	1200B	1020B
Monday, 6 May						
13:00	Eurozone	Retail Sales, m-o-m	Mar	0.5%	-0.1%	0%
Tuesday, 7 May						
10:00	Germany	Factory Orders, m-o-m	Mar	-4%	1.4%	0.6%
18:00	US	JOLTS Job Openings	Mar	7142	7350	7488
	China	Foreign Reserves	Apr	\$3098.8B	\$3100B	\$3095B
Wednesday, 8 May						
3:50	Japan	Monetary Base, y-o-y	Apr	3.8%	--	--
4:30	Japan	Nikkei Japan PMI Composite	Apr	50.4	--	--
10:00	Germany	Industrial Production SA, m-o-m	Mar	0.4%	-0.5%	0.5%
	China	Trade Balance	Apr	\$32.4B	\$34.6B	\$13.8B
	China	Exports, y-o-y	Apr	13.8%	3%	-2.7%
	China	Imports, y-o-y	Apr	-7.9%	-2.1%	4%
Thursday, 9 May						
5:30	China	CPI, y-o-y	Apr	2.3%	2.5%	2.5%
5:30	China	PPI, y-o-y	Apr	0.4%	0.6%	0.9%
16:30	US	PPI Final Demand, m-o-m	Apr	0.6%	0.3%	0.2%
16:30	US	PPI Final Demand, y-o-y	Apr	2.2%	2.3%	2.2%
16:30	US	Trade Balance	Mar	-\$49.3B	-\$50.1B	-\$50B
Friday, 10 May						
10:00	Germany	Trade Balance	Mar	18B	20B	22.7B
10:00	Germany	Exports SA, m-o-m	Mar	-1.2%	-0.4%	1.5%
10:00	Germany	Imports SA, m-o-m	Mar	-1.6%	0.5%	0.4%
12:30	UK	GDP, q-o-q	1Q P	0.2%	0.5%	0.5%
12:30	UK	GDP, y-o-y	1Q P	1.4%	1.8%	1.8%
12:30	UK	Private Consumption, q-o-q	1Q P	0.3%	0.5%	0.7%
12:30	UK	Industrial Production, m-o-m	Mar	0.6%	0.1%	0.7%
12:30	UK	Manufacturing Production, m-o-m	Mar	1%	0%	0.9%
12:30	UK	Trade Balance	Mar	-£6219M	-£4600M	-£5408M
16:00	India	Industrial Production, y-o-y	Mar	0.1%	1.2%	-0.1%
16:30	US	CPI, m-o-m	Apr	0.4%	0.4%	0.3%
16:30	US	CPI, y-o-y	Apr	1.9%	2.1%	2%
16:30	US	CPI, ex-Food and Energy, m-o-m	Apr	0.1%	0.2%	0.1%
16:30	US	CPI, ex-Food and Energy, y-o-y	Apr	2%	2.1%	2.1%
22:00	US	Monthly Budget Statement	Apr	\$214.3B	\$160.5B	\$160.3B

* UAE time

Source: Bloomberg

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