

The Week Ahead: Important data week – US retail sales and China 1Q GDP growth

▶ **US: March rebound in retail spending growth likely**

A number of key US data releases are scheduled for the holiday-shortened workweek, including retail sales and industrial production (both for March), and trade balance (February). Consensus forecasts headline retail sales growth to have bounced back to 1% m-o-m in March, from -0.2% in February, led by strong auto sales. Tax refunds received at the end of February are likely to have been a key factor behind the increased household spending in March after a weak first two months of the year. The retail sales control group, which feeds in to GDP data, is also projected to have strengthened, whilst higher crude oil prices should support headline sales. A number of Fed members have speaking engagements this week ahead of the blackout period that starts from 20 April, including Charles Evans and James Bullard. We believe the speakers will continue to reiterate their patient policy stance, especially given the muted inflation outlook and in line with the bearish March FOMC meeting minutes released last week (page. 3).

▶ **UK: Data heavy week – labour market report and CPI inflation**

In the UK, the February labour report is expected to show continued strength, defying the Brexit uncertainties and soft overall economic conditions. Consensus estimates headline wage growth to have accelerated marginally to 3.5% 3M/y-o-y in February, from 3.4% in January, with the unemployment rate expected to remain steady at 3.9%. However, the solid wage growth in recent months has had limited upward pressure on inflation. Notably, headline inflation decelerated in 2M2019, printing below the BoE's 2% inflation target in both months. The limited pass-through of labour costs to consumers was likely due to the weakening economic backdrop. Consensus forecasts headline inflation to have ticked up marginally to 2% y-o-y in March (February: 1.9%), but driven primarily by energy prices. Meanwhile, the Brexit deadline has been extended for another six months to 31 October 2019.

▶ **Asia: China 1Q GDP growth and Japan CPI data in focus**

A key data release this week will be China's 1Q GDP growth, with consensus projecting a marginal deceleration to 6.3% y-o-y, from 6.4% in 4Q. However, high frequency data from March has started to show some improvement thanks to recent fiscal and monetary easing measures. Markets are therefore looking for a strengthening in the retail sales and industrial production data for March, which is also due this week. Indeed, exports growth accelerated sharply to 14.2% y-o-y in March, from -20.7% in the previous month. Credit growth also strengthened in March, providing support for a pick-up in economic activity. Separately, Japan will release its March inflation report this week with consensus estimating the headline print to have accelerated to 0.5% y-o-y, from 0.2% in February, driven largely by higher gasoline prices. Core inflation (ex-food and energy) is projected to have remained steady for a third consecutive month at 0.4% y-o-y in March.

The next issue of Global Data Watch will be published on Monday 29 April 2019.

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I. Recent Events and Data Releases

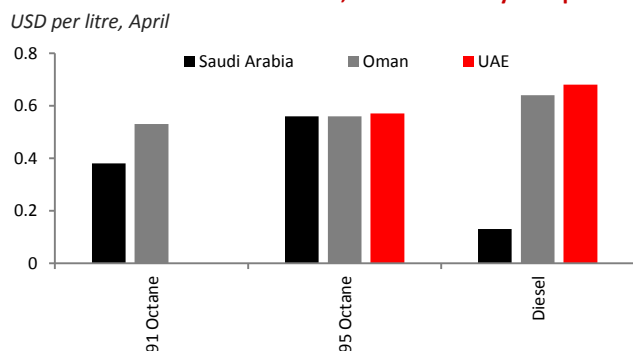
A. MENA Economies

Saudi Arabia: Rise in retail fuel prices; to be set on quarterly basis

Saudi Aramco announced new retail fuel prices for 2Q2019 (effective 14 April), with a relatively contained increase. The price for 95 octane petrol rose by 4% to SAR2.1 per litre (from SAR2.02) and 91 octane rose by 5.1% to SAR1.44 per litre (from SAR1.37). The earlier moves to raise domestic prices in 2016 and 2018 were significantly larger. Indeed, the price of 95 octane petrol jumped by 126% in January 2018, whilst lower grade 91 octane increased by 82%. We expect the impact of the latest rise on consumer inflation to be limited, adding around 0.4-0.5pp to headline inflation in 2Q. We still expect to see deflation in Saudi Arabia in 2019 reflecting the i) weak underlying domestic demand; ii) limited imported inflationary pressure; and iii) statistical impact of VAT dropping out of the annual data. CPI averaged -2.1% y-o-y in 2M2019.

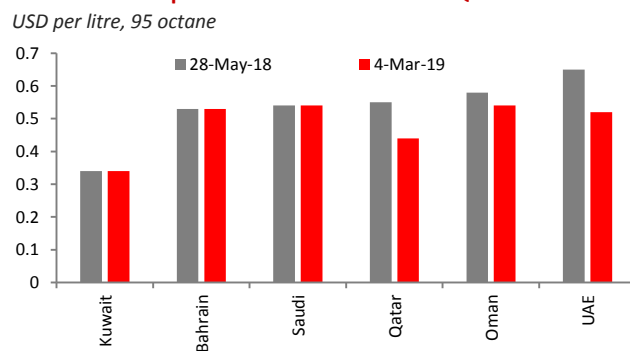
Saudi Arabia still expected to see deflation in 2019, despite fuel price liberalisation

Fig. 1. GCC: Saudi 95 octane gasoline close to levels in other GCC liberalised markets; diesel markedly cheaper



Source: Saudi Aramco, regional energy ministries, ADCB calculations

Fig. 2. GCC: Saudi Arabia's gasoline price lower than market-based prices in Oman and UAE in 1Q2019



Source: Global Petrol Prices

Aramco also indicated that retail fuel prices will be set on a quarterly basis, subject to crude oil export prices. This leads us to believe that there will be no further marked reduction in fuel subsidies in the near term, with adjustments linked to global market developments. The price set for 2Q2019 in Saudi Arabia for the premium 95 octane is broadly in line with those in Oman and UAE (liberalised and set adjusted on a monthly basis). Saudi Arabia has significantly reduced its fuel subsidies since 2016 and with the premium petrol prices close to the market rate and the deflation backdrop, we believe it is a good time to liberalise fuel prices. However, the government still seems to be balancing fiscal reform with its impact on the majority of consumers and businesses. Regional comparison data indicates that 91 octane (probably the most popular) and diesel prices remain subsidised and below liberalised levels. The impact on the government's fiscal position is forecast to be contained and we do not expect to see any major budgetary reform this year.

Retail fuel prices to be set on quarterly basis

B. G4 Economies

US: March FOMC minutes reiterate patient approach

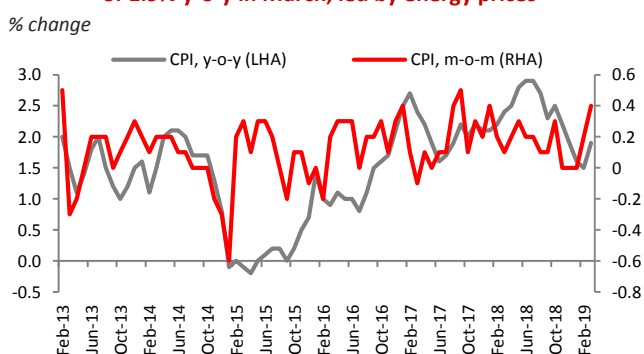
The March FOMC meeting minutes contained no major surprises, with the majority of members supporting keeping rates on hold for the rest of the year. This was broadly consistent with the March dot-plot projections, which showed that 11 of the 17 members forecast no change in the FFTR this year. The FOMC also reiterated its “patient” approach to policy rates, although some members highlighted the need to review the word “patient” regularly. There were also no hints that the Fed is contemplating any rate cuts in the near term. On the economy, Fed officials continue to see solid growth in 2019 with “many” participants expecting some bounce-back in economic activity from 2Q. However, the FOMC expressed increasing concerns regarding the inflation outlook, with several members underlining that long-term inflation expectations are too low and not consistent with the Fed’s 2% target.

FOMC participants confident that economic momentum likely to bounce back in 2Q2019

FOMC members had a lengthy discussion about the flat treasury yield curve (which inverted temporarily after the March FOMC meeting) with several participants expressing concerns that an inverted yield curve could signify economic weakness ahead. Nevertheless, the minutes also noted “that the unusually low level of term premiums in longer-term interest rates made historical relationships a less reliable basis for assessing the implications of the recent behaviour of the yield curve”. On the balance sheet, the FOMC committee discussed both the advantages and disadvantages of the composition of their treasury purchases, but provided no fresh insights into the possibility of shifting reinvestments towards shorter maturities. We believe that the Fed could look at potentially shortening portfolio maturities at upcoming FOMC meetings. Separately, Fed Chair Jerome Powell “asked the subcommittee on communications to consider ways to improve the information contained in the SEP” (Summary of Economic Projections).

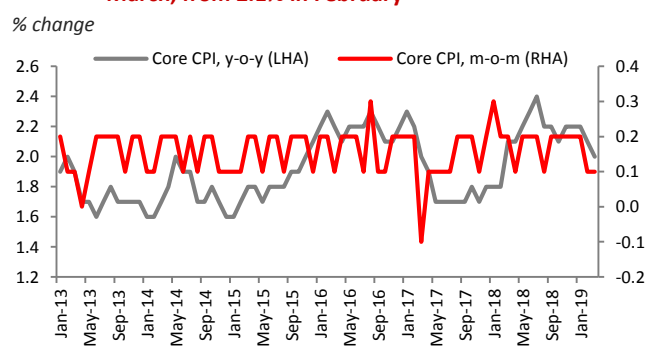
Chair Jerome Powell asks subcommittee to review ‘dot-plot’ related communications policy

Fig. 3. US: Headline inflation accelerates to four-month high of 1.9% y-o-y in March, led by energy prices



Source: Bureau of Labor statistics

Fig. 4. US: Annual core inflation decelerates to 2% y-o-y in March, from 2.1% in February



Source: Bureau of Labor statistics

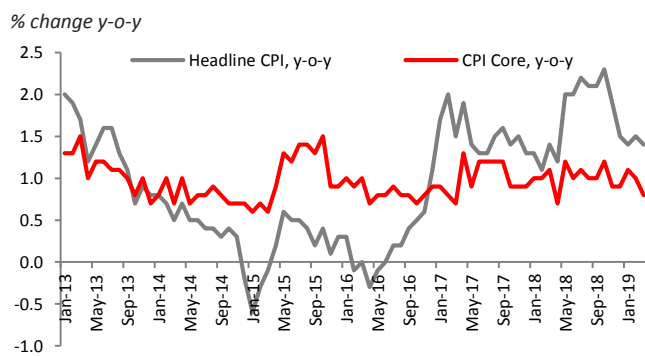
US: Annual core CPI inflation decelerates to 2% in March

Core CPI inflation printed 0.1% m-o-m in March, as in February, but came in lower than the consensus estimate of a 0.2% rise. This resulted in the annual core inflation reading decelerating to 2% y-o-y in March, from the February print of 2.1%. The softer-than-expected core CPI for March indicates that inflationary pressure remains subdued despite tight labour market conditions. The contraction in core goods inflation was largely due to the fall in apparel and user car prices. The drop in apparel prices was partly

Core goods inflation contracts in March, led by apparel and used car prices

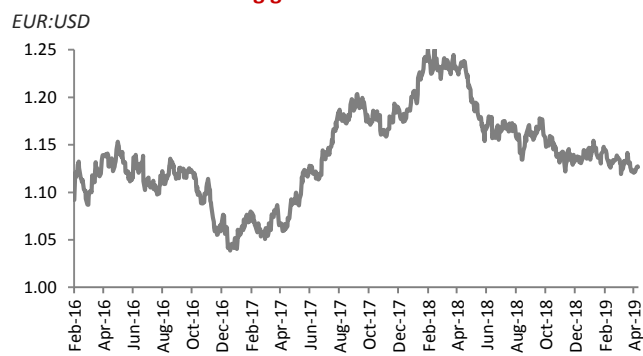
due to the new data-collection methodology introduced by the BLS in March. Meanwhile, core services inflation accelerated to 0.3% m-o-m in March from 0.2% in February, led by shelter prices. Headline inflation accelerated to 0.4% m-o-m in March from 0.2% in February, taking the y-o-y print to 1.9%, from 1.5% in the previous month. Headline CPI was mainly supported by rising global crude prices.

Fig. 5. Eurozone: Muted inflationary pressure key factor behind ECB's dovish communication



Source: Eurostat

Fig. 6. Eurozone: EUR continues to remain weak against USD with weakening growth and inflation outlook



Source: Bloomberg

Eurozone: ECB on hold, dovish tone continues

The ECB kept its key policy rates on hold and made no significant changes to its statement following 10 April policy meeting, in line with the market expectations. The tone of President Mario Draghi's press conference was once again dovish, highlighting that the ECB stands ready to act if necessary. Draghi stated that further details of the TLTRO (targeted long-term refinancing operations) programme will be communicated in the forthcoming meetings. He also stated that the TLTRO pricing will be based on three key critical aspects: i) mitigation of possible side-effects of negative interest rates; ii) the assessment of the bank-based monetary policy transmission channel; and iii) further developments in the economic outlook. The details suggest that the TLTRO pricing could be generous to support banks as well as boost liquidity in the economy. Draghi reiterated that the ECB stands ready to adjust "all instruments", but did not explicitly mention a rate-tiering system, keeping the door open for alternative mitigating options. On the economic outlook, the ECB Governing Council (GC) looks increasingly concerned about slower growth momentum extending further into 2019, which in turn could lead to a further weakening of underlying inflation.

Looking ahead, the ECB could announce details of the TLTRO programme at its June or July policy meetings. After the announcement, if the economy remains weak, the GC could follow up with an extension of its interest rate forward guidance, stating that interest rates will remain at their current levels into mid-2020, up from the current guidance of end-2019. Moreover, the tiered reserves system for banks is also likely to gain more traction in 2H2019, and any decision on this is unlikely before September.

Draghi says ECB stands ready to adjust all policy instruments if necessary

ECB to announce TLTRO details in upcoming meetings

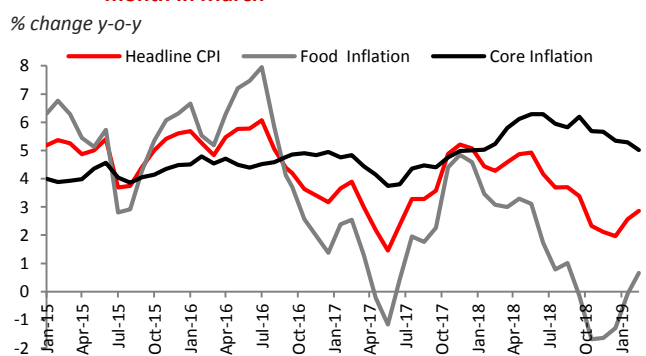
C. Emerging Market Economies.

India: Headline inflation strengthens in March, but core softens

India's CPI inflation accelerated to a five-month high of 2.9% y-o-y in March (consensus: 2.8%), from 2.6% in February, driven primarily by food and fuel prices. Food prices moved into positive territory in March, after recording deflation in the previous five months. We expect the upward momentum in food prices to continue, albeit in a gradual manner during the coming peak summer period (April – June). However, core inflation (ex- food, tobacco and fuel) decelerated to 5% y-o-y in March, from 5.3% in February. Core inflation eased significantly in 1Q 2019 to average 5.2% y-o-y, from 5.8% in 4Q 2018. We expect core inflation to ease further towards 4.5% in the next three months, with the differential between headline and core inflation narrowing. With the ongoing moderation in core inflation and headline inflation remaining at the lower end of the RBI's inflation target of 4% (+/-2pp), we expect another 25bps rate cut in June. However, if the recent rise in food and crude oil prices persists, it could delay the rate cut to August, although this is not our core scenario at this point.

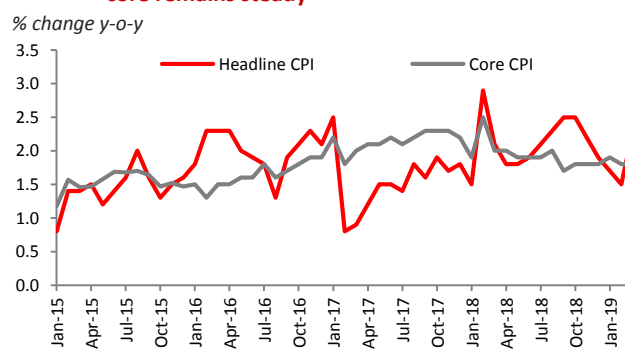
Downtrend in core inflation continues in March, supporting another 25bps rate cut in June

Fig. 7. India: Core inflation decelerates for fifth consecutive month in March



Source: India Central Statistical Organisation

Fig. 8. China: Headline inflation rises sharply in March but core remains steady



Source: National Bureau of Statistics of China

China: Inflation strengthens in March, led by food prices

China's headline CPI inflation increased to 2.3% y-o-y in March, up from 1.5% in February, in line with the consensus expectations. The pick-up in March was driven by food price inflation, especially the sharp rise in vegetable (16.2% y-o-y) and pork prices (5.1%). The rise in pork prices was largely due to supply disruptions caused by diseases and is widely expected to result in higher food prices in 2Q. The recent strengthening in oil prices is also likely to push up transportation costs in the coming months. Moreover, a lower base in 2Q and 3Q is expected to remain supportive for the inflation outlook over the next few months. However, this is likely to be partly offset by planned VAT rate cuts of 3pp (to 13%) for the manufacturing sector and 1pp (to 9%) for the services sector, effective from 1 April 2019. On balance, headline inflation is expected to rise further in the coming months but remain below the PBoC's inflation target of 3%. Meanwhile, the PBoC remains increasingly focused on improving credit access for the private sector to support the weakening economy; hence, we see further potential for reserve requirement ratio (RRR) cuts in the near term.

Headline inflation accelerates to five-month high of 2.3% y-o-y in March

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Mar	359B	
	Bahrain	CPI, y-o-y	Mar	0.9%	
	Oman	CPI, y-o-y	Mar	0.2%	
	Qatar	CPI, y-o-y	Mar	-1.6%	
	Egypt	GDP Constant, q-o-q	4Q	-5.2%	
	Egypt	Trade Balance	Feb	-2787M	
Monday, 15 April					
10:30	India	Wholesale Prices, y-o-y	Mar	2.9%	3.2%
16:30	US	Empire Manufacturing	Apr	3.7	8
21:00	US	Fed's Evans Discusses Economy and Monetary Policy			
	India	Exports, y-o-y	Mar	2.4%	
Tuesday, 16 April					
8:30	Japan	Tertiary Industry Index, m-o-m	Feb	0.4%	-0.2%
11:00	Turkey	Industrial Production, m-o-m	Feb	1%	0.3%
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Feb	3.4%	3.5%
12:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Feb	3.4%	3.4%
12:30	UK	ILO Unemployment Rate 3M	Feb	3.9%	3.9%
13:00	Germany	ZEW Survey Current Situation	Apr	11.1	8.5
17:15	US	Industrial Production, m-o-m	Mar	0.1%	0.2%
17:50	US	ECB's Nowotny Speaks at Event in New York City			
22:00	US	Fed's Kaplan Speaks at Community Forum in New Mexico			
Wednesday, 17 April					
3:50	Japan	Trade Balance	Mar	¥339B	¥367.7B
6:00	China	Industrial Production YTD, y-o-y	Mar	5.3%	5.6%
6:00	China	Retail Sales YTD, y-o-y	Mar	8.2%	8.3%
6:00	China	GDP, y-o-y	1Q	6.4%	6.3%
12:30	UK	CPI, y-o-y	Mar	1.9%	2%
12:30	UK	CPI Core, y-o-y	Mar	1.8%	1.9%
13:00	Eurozone	CPI, y-o-y	Mar F	1.4%	1.4%
16:30	US	Trade Balance	Feb	-\$51.1B	-\$53.5B
17:00	UK	BOE's Carney, BOF's Villeroy de Galhau Speak in Paris			
20:30	US	Fed's Harker Speaks on the Economic Outlook			
20:45	US	Fed's Bullard Speaks at Hyman Minsky Conference			
22:00	US	U.S. Federal Reserve Releases Beige Book			
Thursday, 18 April					
11:30	Germany	Markit/BME Germany Manufacturing PMI	Apr P	44.1	45
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Apr P	47.5	48
12:30	UK	Retail Sales, Incl-Auto Fuel, m-o-m	Mar	0.4%	-0.3%
12:30	UK	Retail Sales, Incl-Auto Fuel, y-o-y	Mar	4%	4.5%
16:30	US	Retail Sales Advance, m-o-m	Mar	-0.2%	1%
16:30	US	Retail Sales, ex-Auto and Gas	Mar	-0.6%	0.4%
16:30	US	Retail Sales Control Group	Mar	-0.2%	0.5%
16:30	US	Philadelphia Fed Business Outlook	Apr	13.7	10.5
17:45	US	Markit US Manufacturing PMI	Apr P	52.4	52.8
18:00	US	Leading Index	Mar	0.2%	0.4%
20:10	US	Fed's Bostic Speaks at an Economic Roundtable Event in Florida			
Friday, 19 April					
3:30	Japan	National CPI, y-o-y	Mar	0.2%	0.5%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Mar	0.7%	0.7%
16:30	US	Housing Starts	Mar	1162K	1230K
16:30	US	Building Permits	Mar	1296K	1300K

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Economies						
	Kuwait	M2 Money Supply, y-o-y	Feb	5.2%		4.7%
	China	Aggregate Financing, CNY	Mar	703B	1850B	2860B
	China	Money Supply M2, y-o-y	Mar	8%	8.2%	8.6%
	China	New Yuan Loans, CNY	Mar	885.8B	1250B	1690B
Monday, 8 April						
3:50	Japan	BoP Current Account Balance	Feb	¥600.4B	¥2633.5B	¥2676.8B
10:00	Germany	Trade Balance	Feb	14.6B	16B	17.9B
18:00	US	Factory Orders	Feb	0%	-0.5%	-0.5%
18:00	US	Durable Goods Orders	Feb F	-1.6%	-1.6%	-1.6%
18:00	US	Cap Goods Shipments, Non-defence ex-Air	Feb F	0%		-0.1%
Tuesday, 9 April						
8:15	UAE	Dubai Economy Tracker SA	Mar	55.8	57.6	
14:00	US	NFIB Small Business Optimism	Mar	101.7	102	101.8
18:00	US	JOLTS Job Openings	Feb	7625	7550	7087
Wednesday, 10 April						
3:50	Japan	PPI, y-o-y	Mar	0.9%	1%	1.3%
3:50	Japan	Core Machine Orders, m-o-m	Feb	-5.4%	2.8%	1.8%
10:00	Japan	Machine Tool Orders, y-o-y	Mar P	-29.3%		-28.5%
12:30	UK	Trade Balance	Feb	-£5345M	-£3789M	-£4860M
12:30	UK	Industrial Production, m-o-m	Feb	0.7%	0.1%	0.6%
12:30	UK	Industrial Production, y-o-y	Feb	-0.3%	-0.9%	0.1%
12:30	UK	GDP, m-o-m	Feb	0.5%	0%	0.2%
15:45	Eurozone	ECB Main Refinancing Rate	10-Apr	0%	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	10-Apr	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	10-Apr	-0.4%	-0.4%	-0.4%
16:30	US	CPI, m-o-m	Mar	0.2%	0.4%	0.4%
16:30	US	CPI, y-o-y	Mar	1.5%	1.8%	1.9%
16:30	US	CPI, ex-Food and Energy, m-o-m	Mar	0.1%	0.2%	0.1%
16:30	US	CPI, ex-Food and Energy, y-o-y	Mar	2.1%	2.1%	2%
22:00	US	Monthly Budget Statement	Mar	-\$208.7B	-\$181B	-\$146.9B
	Egypt	Urban CPI, y-o-y	Mar	14.4%		14.2%
	Egypt	CPI Core, y-o-y	Mar	9.2%		8.9%
Thursday, 11 April						
3:50	Japan	Money Stock M2, y-o-y	Mar	2.4%	2.4%	2.4%
5:30	China	CPI, y-o-y	Mar	1.5%	2.3%	2.3%
5:30	China	PPI, y-o-y	Mar	0.1%	0.4%	0.4%
10:00	Germany	CPI EU Harmonized, y-o-y	Mar F	1.4%	1.4%	1.4%
11:00	Turkey	Current Account Balance	Feb	-0.59B	-0.9B	-0.72B
16:30	US	PPI Final Demand, m-o-m	Mar	0.1%	0.3%	0.6%
16:30	US	PPI Final Demand, y-o-y	Mar	1.9%	1.9%	2.2%
Friday, 12 April						
13:00	Eurozone	Industrial Production SA, m-o-m	Feb	1.9%	-0.5%	-0.2%
16:00	India	CPI, y-o-y	Mar	2.6%	2.8%	2.9%
16:00	India	Industrial Production, y-o-y	Feb	1.4%	2%	0.1%
16:30	US	Import Price Index, m-o-m	Mar	1.1%	0.4%	0.6%
18:00	US	University of Michigan Sentiment	Apr P	98.4	98.2	96.9
	China	Exports, y-o-y	Mar	-20.7%	6.5%	14.2%
	China	Trade Balance	Mar	\$4.1B	\$5.7B	\$32.7B
	China	Imports, y-o-y	Mar	-5.2%	0.2%	-7.6%

* UAE time

Source: Bloomberg

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