

The Week Ahead: Global uncertainties dominate

► **Global: Sentiment remains fragile with rising uncertainties**

The return of trade tensions and heightened geopolitical risks continue to dominate headlines and market sentiment. Last week, China announced tariff increases to 20-25%, from 5-10% previously, on USD60 billion of US goods effective from 1 June in retaliation against the US hiking of duties on Chinese imports. The affected goods have been subject to tariffs since September 2018, with the latest changes including an increase to 25% for LNG imports and other energy products from the US (ex-crude oil). Global market volatility is likely to remain elevated until there are signs of cooperation between the US and China on trade; so far there is still no indication of the timing of the next talks. Positively, US President Donald Trump announced a delay in imposing tariffs on autos and auto parts by up to six months. The aim was probably to avoid fighting several trade wars at the same time. Comments from Fed members last week highlighted the need to pay closer attention to the economic impact of the rising trade tensions. However, the overall signals were for interest rates to remain on hold, and we expect the same message from the minutes of the 1 May FOMC meeting (due 22 May). April data from the US and China both surprised to the downside last week, raising questions over the global recovery. US retail sales contracted in April (page 2), while China's April industrial production and retail sales growth slowed.

► **UK: April CPI and retail data; political developments dominate**

The main data releases this week will be April inflation and retail sales out of the UK. Consensus expects consumer inflation to have risen to 2.2% y-o-y in April (March: 1.9%), likely driven by fuel prices and Easter. The key focus will be on political developments after Brexit talks between the Conservative and Labour parties failed. Pressure from the Conservative party is rising for Prime Minister Theresa May to resign, increasing the possibility of a snap general election, while keeping the second Brexit referendum and no-deal exit options open. Moreover, European Parliamentary elections are due to be held on 23-26 May. Separately, 1Q GDP data for Japan was released earlier today and surprised to the upside at 0.5% q-o-q (consensus: -0.1%; 4Q2018: 0.4%), though was largely driven by a fall in imports and a build in inventories.

► **EM: Central Bank of Egypt expected to stay on hold**

We expect the CBE to keep rates steady at its 23 May meeting ahead of the planned subsidy reforms in June. This is despite inflation moderating to 13% y-o-y in April (March: 14.2%). Meanwhile, given the deceleration of April core inflation in India (page 3), we see the RBI lowering benchmark rates at its June meeting. However, any rise in global risk aversion, due to trade or geopolitical developments, could reduce flows to EMs and potentially result in central banks halting further plans to cut rates. This is especially likely if there is a spike in the oil price. Brent crude has risen to c.USD73.2 p/b at the time of publishing due to geopolitical tensions and OPEC signalling its intent to maintain output cuts. Results of the Indian parliamentary elections will be announced on 23 May, with exit polls pointing a win for the BJP-led coalition.

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I. Recent Events and Data Releases

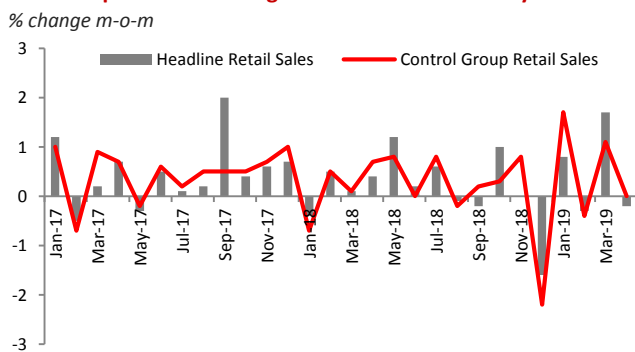
A. G4 Economies

US: Unexpected drop in headline retail sales in April

Headline retail sales surprised to the downside in April, contracting by 0.2% m-o-m. Consensus had expected a modest increase of 0.2% m-o-m. Control group sales, which feeds into GDP data, was flat in April (0% m-o-m), after expanding by 1.1% m-o-m in March. Some moderation in spending growth had been envisaged after the strong March print, although a monthly fall was unexpected. March headline data was raised to 1.7% m-o-m from 1.6% initially, but was insufficient to counterbalance the April contraction. The April print points to a weak start to consumer spending in 2Q2019. However, retail sales have been very volatile thus far in 4M2019, so these monthly sales do not say much about the economic momentum. We continue to believe that the underlying drivers for private consumption activity are stronger in 2Q2019 than in 1Q. We therefore still expect to see an acceleration in real household spending in 2Q to above 2% q-o-q, from a lacklustre 1.2% q-o-q growth in 1Q. The healthy labour market is likely to be a key underlying support factor, alongside relatively upbeat consumer sentiment. Data wise, the softness in April sales was broad based, but likely weighed down by weak CPI goods inflation (retail sales data is in nominal terms). There were some areas of growth, with a 1.8% m-o-m rise in sales at gasoline stations (reflecting higher gasoline prices) and a 0.2% m-o-m increase in food and beverage store sales.

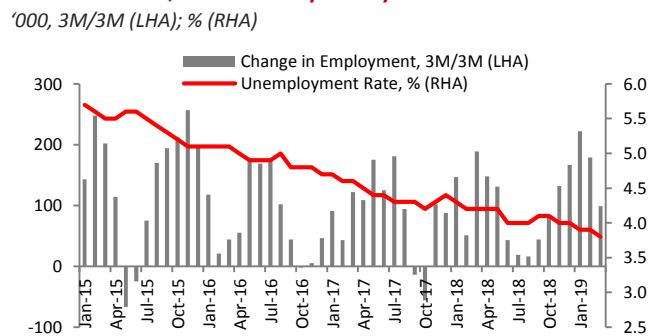
Weak inflation rate is likely contributor to soft retail spending data in April

Fig. 1. US: Retail sales have been volatile in 4M2019 and not provided a strong indication of real activity YTD



Source: US Census Bureau

Fig. 2. UK: Unemployment rate falls to multi-decade low in March, but is unlikely to stay at this level



Source: UK Office for National Statistics

UK: Some weakness creeping into March labour data

There were indications of some softening in the labour market in March, despite the unexpected fall in the unemployment rate. Unemployment in the three months to March fell from 3.9% to 3.8% – its lowest rate since December 1974. However, there were signs of weakness in other parts of the data, with i) moderating wage growth despite the low unemployment rate; and ii) a significant softening in the pace of job creation. This marked a change from previous months, in which the labour market had remained exceptionally strong, despite the ongoing business uncertainties related to Brexit. Weekly earnings (ex-bonus) edged down to 3.2% 3M/y-o-y from 3.5% 3M/y-o-y in February, its weakest rate since September and missing the consensus forecast of 3.4% 3M/y-o-y. Meanwhile, jobs growth slowed to 99K in the 3M to March, from 179K in

Employment growth slows sharply in March, following robust levels in January and February

February. We believe that some of the strength in hiring in January and February was driven by contingency planning and stockpiling by businesses ahead of the initial Brexit deadline of 29 March. Stockpiling was a key factor behind the acceleration in GDP growth in 1Q2019 to 0.5% q-o-q (4Q2018: 0.2%). For further details, please see our – **Economic Research Weekly: Global Data Watch 13-17 May 2019**, published on 17 May 2019. We expect 2Q growth to moderate as firms run down their inventories, and we therefore believe that the peak in job creation is likely behind us. We also see the unemployment rate to tick up from the March low. We believe that the BoE will remain on hold in 2019 with the ongoing Brexit uncertainties and given the initial signs of wage growth deceleration. Notably, the recent strong wage growth has not led to any meaningful build up in inflationary pressure.

Brexit developments: Prime Minister Theresa May announced last week that she would put the EU withdrawal agreement bill before Parliament in the week of 3 June, with the hope of passing it before summer recess. The bill is expected to have some changes, including additional guarantees on workers' rights. However, the failure of cross-party talks between the Conservatives and the Labour party to secure a Brexit deal is likely to result in PM May's deal falling short of a majority once again, especially with a number of anti-EU Conservative members expected to vote against the deal.

PM May looking for another parliamentary vote on her deal in early June

Eurozone: 1Q GDP growth supported by rebound in Germany

The Eurozone's real GDP growth remained at 0.4% q-o-q and 1.2% y-o-y in 1Q2019 in the second estimate, in line with the first print. On a quarterly basis, this was up from 0.2% q-o-q in 4Q2018. On an individual country basis, the acceleration was mainly thanks to a rebound in economic activity in Germany to 0.4% q-o-q in 1Q2019, in line with consensus expectations. This was up from no growth (i.e. 0% q-o-q) in 4Q and a contraction of 0.2% q-o-q in 3Q2018. The 1Q GDP growth recovery was driven by a significant rise in investments and solid household spending, according to the Federal Statistics Office. Detailed data will be released later in the month. Meanwhile, Italy saw positive growth of 0.2% q-o-q in 1Q2019, after two consecutive quarters of contraction, each time by 0.1%. We remain cautious on the Eurozone's economic outlook, but the 1Q print is positive and in line with market expectations. A number of one-off factors probably supported the strong growth in 1Q (such as the weather and a lower oil price), while there was also some likely payback from the weak 2H2018 activity. The export backdrop will be challenging going forward, impacting a number of critical sectors, such as manufacturing.

Domestic demand factors behind stronger 1Q GDP growth in Germany – some likely to be one-off

B. Emerging Market Economies

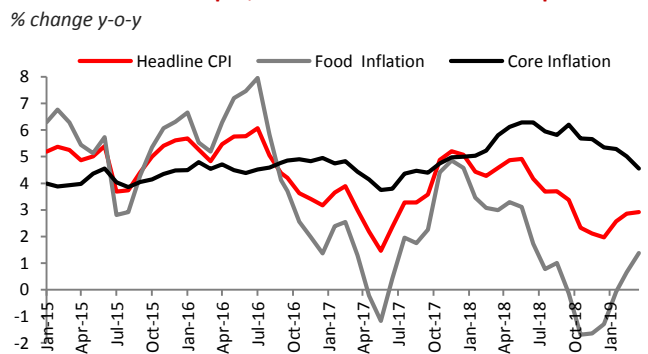
India: Significant deceleration in April core CPI

The CPI developments in April were broadly in line with our expectations – a modest rise in headline inflation, but with core inflation decelerating. Headline inflation rose to 2.9% y-o-y in April (2.92% unrounded), its third consecutive month of increase and slightly up from 2.86% in March. Notably, the print was below the consensus forecast of 2.99% y-o-y, and consumer inflation remains well within the RBI's target of 4% (+/-2pp). The acceleration in headline inflation was due to higher food and fuel prices in annual terms, with food inflation rising to 1.4% y-o-y in April (March: 0.7%). However, the lower base was a factor in the annual acceleration, with monthly growth decelerating in April for the headline, food and fuel components. Significantly, core inflation (ex-food, fuel, petrol

Core inflation decelerates to 4.6% y-o-y in April – its weakest level since October 2017

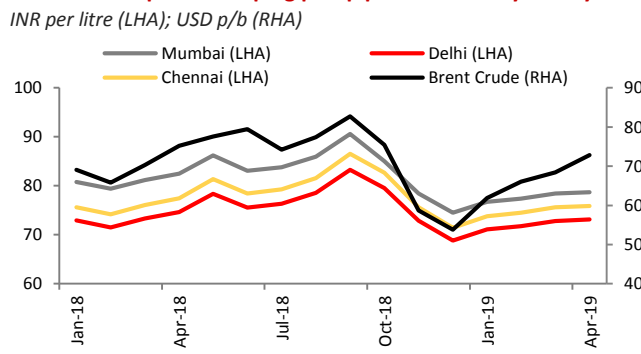
and diesel) moderated sharply to 4.6% y-o-y (4.55% unrounded) from 5% in March. We see a further softening in core inflation towards 4.5-4.4% in the next two months, as the stronger 1Q2019 INR passes through to consumer prices.

Fig. 3. India: Core inflation decelerates for sixth consecutive month in April; some further moderation expected



Source: India Central Statistical Organisation

Fig. 4. India: Rise in domestic fuel prices contained by state companies keeping pump prices relatively steady



Source: Ministry of Petroleum and Natural Resources, Bloomberg

We expect another 25bps rate cut at the RBI’s June meeting, taking the benchmark repo rate to 5.75%, with the moderation in core price growth and headline inflation remaining at the lower end of the bank’s target range. This is after the RBI cut benchmark rates by 25bps in each of the February and April MPC meetings. Reducing rates is vital for boosting economic activity, with high frequency data suggesting a softening in 4M2019 growth momentum and with the near-term inflation outlook remaining benign. However, key risks remain if global growth and market uncertainties rise with an escalation in the US-China trade war. This could lead to outflows from EM economies and renewed pressure on currencies. An increase in the oil price linked to rising geopolitical tensions could also lead the RBI to remain on hold beyond June, especially as domestic fuel prices could rise after the elections. Indeed, state-run fuel companies have kept pump prices for diesel and gasoline relatively stable ahead of the elections.

Our core assumption is another 25bps rate cut at RBI’s June meeting

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Apr	377.1B	
	UAE	CPI, y-o-y	Apr	-2.5%	
	UAE	CPI, m-o-m	Apr	-0.6%	
	UAE	M2 Money Supply, m-o-m	Apr	0.6%	
	Saudi Arabia	CPI, y-o-y	Apr	-2.1%	
	Kuwait	CPI, y-o-y	Apr	0.8%	
	Oman	Nominal GDP YTD, y-o-y	4Q	15.3%	
	Oman	CPI, y-o-y	Apr	0.4%	
	Bahrain	CPI, y-o-y	Apr	1.2%	
Monday, 20 May					
3:50	Japan	GDP SA, q-o-q	1Q P	0.5%	-0.1%
3:50	Japan	GDP Private Consumption, q-o-q	1Q P	0.4%	-0.2%
8:30	Japan	Industrial Production, m-o-m	Mar F	-0.9%	
12:00	Eurozone	ECB Chief Economist Praet Speaks in London			
20:30	UK	BOE's Ben Broadbent speaks in London			
21:00	US	Clarida, Williams Take Part in 'Fed Listens' Event in New York			
Tuesday, 21 May					
3:00	US	Powell Speaks at Atlanta Fed Financial Markets Conference			
12:30	UK	BOE's Carney, Broadbent, Tenreyro, Saunders Speak in London			
13:00	Eurozone	OECD Publishes Economic Outlook			
13:00	Eurozone	ECB Vice President Guindos Speaks in London			
18:00	Eurozone	Consumer Confidence	May A	-7.9	-7.7
18:00	US	Existing Home Sales	Apr	5.21M	5.35M
Wednesday, 22 May					
3:50	Japan	Trade Balance	Apr	¥528.5B	¥229.5B
3:50	Japan	Core Machine Orders, m-o-m	Mar	1.8%	0%
11:30	Eurozone	ECB President Draghi Speaks in Frankfurt			
12:30	UK	CPI, y-o-y	Apr	1.9%	2.2%
12:30	UK	CPI Core, y-o-y	Apr	1.8%	1.9%
13:30	Eurozone	ECB Chief Economist Praet Speaks in Frankfurt			
18:00	US	Fed's Williams Hosts Economic Press Briefing			
22:00	US	FOMC Meeting Minutes	1-May		
Thursday, 23 May					
9:00	UK	European Parliament Elections			
10:00	Germany	GDP SA, q-o-q	1Q F	0.4%	0.4%
12:00	Eurozone	Markit Eurozone Manufacturing PMI	May P	47.9	48.1
12:00	Germany	IFO Business Climate	May	99.2	99.2
12:40	Eurozone	ECB Vice President Guindos Speaks in Frankfurt			
15:30	Eurozone	ECB Releases Minutes of its April Monetary Policy Meeting			
17:45	US	Markit US Manufacturing PMI	May P	52.6	52.7
18:00	US	New Home Sales	Apr	692K	670K
	Egypt	Lending Rate	23-May	16.75%	
	Egypt	Deposit Rate	23-May	15.75%	
Friday, 24 May					
3:30	Japan	National CPI, y-o-y	Apr	0.5%	0.9%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Apr	0.8%	0.9%
9:30	Japan	All Industry Activity Index, m-o-m	Mar	-0.2%	-0.2%
12:30	UK	Retail Sales, incl-Auto Fuel, m-o-m	Apr	1.1%	-0.3%
12:30	UK	Retail Sales, incl-Auto Fuel, y-o-y	Apr	6.7%	4.5%
16:30	US	Durable Goods Orders	Apr P	2.6%	-2%
16:30	US	Cap Goods Shipments Non-def, Ex-Air	Apr P	0%	-0.1%

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Economies						
	Qatar	CPI, y-o-y	Apr	-1.3%		0.4%
	China	Foreign Direct Investment, CNY y-o-y	Apr	8 %		6.3%
Monday, 13 May						
16:00	India	CPI, y-o-y	Apr	2.9%	3%	2.9%
Tuesday, 14 May						
3:50	Japan	BoP Current Account Balance	Mar P	¥2676.8B	¥3020B	¥2847.9B
10:30	India	Wholesale Prices, y-o-y	Apr	3.2%	3%	3.1%
12:30	UK	Jobless Claims Change	Apr	22.6K		24.7K
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Mar	3.5%	3.4%	3.2%
12:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Mar	3.4%	3.3%	3.3%
12:30	UK	ILO Unemployment Rate, 3Mths	Mar	3.9%	3.9%	3.8%
13:30	UK	Employment Change, 3M/3M	Apr	179K	140K	99K
13:00	Eurozone	Industrial Production SA, m-o-m	Mar	-0.1%	-0.3%	-0.3%
13:00	Germany	ZEW Survey Current Situation	May	5.5	6.3	8.2
13:00	Germany	ZEW Survey Expectations	May	3.1	5	-2.1
13:00	Eurozone	ZEW Survey Expectations	May	4.5		-1.6
16:30	US	Import Price Index, m-o-m	Apr	0.6%	0.7%	0.2%
16:30	US	Import Price Index, y-o-y	Apr	0.1%	0.3%	-0.2%
Wednesday, 15 May						
3:50	Japan	Money Stock M2, y-o-y	Apr	2.4%	2.3%	2.6%
6:00	China	Industrial Production, y-o-y	Apr	8.5%	6.5%	5.4%
6:00	China	Industrial Production, YTD y-o-y	Apr	6.5%	6.5%	6.2%
6:00	China	Retail Sales, y-o-y	Apr	8.7%	8.6%	7.2%
6:00	China	Retail Sales, YTD y-o-y	Apr	8.3%	8.4%	8%
13:00	Eurozone	GDP SA, q-o-q	1Q P	0.4%	0.4%	0.4%
13:00	Eurozone	GDP SA y-o-y	1Q P	1.2%	1.2%	1.2%
16:30	US	Retail Sales Advance, m-o-m	Apr	1.7%	0.2%	-0.2%
16:30	US	Retail Sales, ex-Auto, m-o-m	Apr	1.3%	0.7%	0.1%
16:30	US	Retail Sales Control Group	Apr	1.1%	0.3%	0%
17:15	US	Industrial Production, m-o-m	Apr	0.2%	0%	-0.5%
	India	Imports, y-o-y	Apr	1.4%		4.5%
	India	Trade Balance	Apr	-\$10890M	-\$13500M	-\$15330M
	India	Exports, y-o-y	Apr	11%		0.6%
Thursday, 16 May						
3:50	Japan	PPI, y-o-y	Apr	1.3%	1.1%	1.2%
16:30	US	Housing Starts	Apr	1168K	1209K	1235K
16:30	US	Housing Starts, m-o-m	Apr	1.7%	6.2%	5.7%
16:30	US	Building Permits	Apr	1288K	1289K	1296K
16:30	US	Building Permits, m-o-m	Apr	-0.2%	0.1%	0.6%
16:30	US	Initial Jobless Claims	11-May	228K	220K	212K
Friday, 17 May						
8:30	Japan	Tertiary Industry Index, m-o-m	Mar	-0.6%	0.1%	-0.4%
13:00	Eurozone	CPI Core, y-o-y	Apr F	1.2%	1.2%	1.3%
13:00	Eurozone	CPI, m-o-m	Apr	1%	0.7%	0.7%
13:00	Eurozone	CPI, y-o-y	Apr F	1.4%	1.7%	1.7%

* UAE time

Source: Bloomberg

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