

The Week Ahead: ECB meeting and March FOMC minutes in focus

► Europe: No change to ECB policy; dovish tone to continue

The market's focus at the ECB's 10 April Governing Council (GC) meeting will be on President Mario Draghi's post-meeting press conference for any comments on a possible 'tiered' rate system for excess reserves of banks. This follows recent comments by Draghi and other GC members on possible measures to mitigate the adverse "side effects" of negative rates on banks' interest margins and profitability. We do not envisage a formal announcement on potential interest rate tiering until September at the earliest or any major policy announcements this week. This is after a number of policy measures were announced in March, including i) that interest rates will remain at present levels at least until end-2019 (extending from the end of summer 2019); and ii) a new TLTRO (targeted longer-term refinancing operations) programme, starting in September 2019 and ending in March 2020. We believe the ECB is likely to wait until June's policy meeting to announce further details of the TLTRO operations. We expect the tone of this week's meeting to remain dovish, given the weak inflation and economic backdrop. Separately, the EU will hold an emergency summit on 10 April over an extension to Article 50, as requested by the UK's Prime Minister Theresa May last week (page 3).

► US: March FOMC minutes and CPI inflation data

The minutes from the FOMC's March meeting (due 10 April) and the CPI inflation report will be the key releases from the US this week. The March minutes will be watched closely for any new insights into what led the FOMC to indicate no rate hikes for 2019 (down from two in December) and how concerned the members are regarding downside risks to the economic and inflation outlooks. The market will also be looking for any clues on whether there was a debate about potential rate cuts in the near term. Incoming information from the Fed members since the 20 March policy meeting continues to highlight a wait-and-see approach with a cautious tone and we expect a broadly similar message in the minutes. A number of Fed members, including vice chair Richard Clarida, have speaking engagements this week. On the data front, consensus forecasts that core inflation rose to 0.2% m-o-m in March, from 0.1% in February. However, the y-o-y print is estimated to remain steady at 2.1%. We believe inflationary pressures will remain well anchored in 2019 and continue to support the Fed's patient narrative.

► EM: India and China's March inflation readings

A number of EM countries, including India, China and Egypt, will release their March inflation reports this week. Consensus forecasts India's headline inflation to have accelerated for the second consecutive month to 2.9% y-o-y, from 2.6% (2.57% unrounded) in February. The pick-up is likely due to a lower base and is therefore unlikely to have a major impact on the RBI's current fundamental view on the inflation outlook (page 4). Core inflation is expected to have softened further to 5.1% y-o-y, from 5.2% in February, led by decelerating housing costs. In China, consensus estimates headline inflation to have strengthened to 2.3% y-o-y in March (February: 1.5%), led by food.

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I. Recent Events and Data Releases

A. G4 Economies

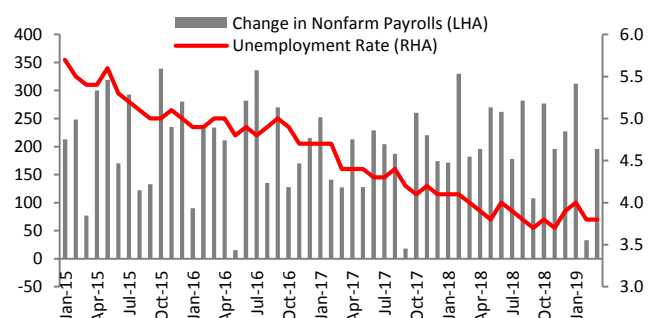
US: Hiring activity rebounds in March but wage growth softens

The March NFP report showed that the US economy added jobs at a solid pace, albeit with relatively subdued wage growth. It added 196K jobs in March, rebounding from just 33K in February (revised up from 20K). In 1Q2019, payrolls averaged a healthy 180K jobs per month, albeit down from 233K in 4Q. The slowdown in jobs growth in 1Q is broadly consistent with the softening underlying momentum of the economy, which is trending towards 2% GDP growth in 2019. March jobs growth was driven by health care and social assistance (61K), professional and business services (37K), leisure and hospitality (33K), construction (16K), government (14K), and education (9K). However, jobs growth fell in manufacturing (-6K), retail (-12K) and wholesale trade (-2K).

US economy adds 196K jobs in March, rebounding from 33K in February

Fig. 1. US: Jobs growth averaged a solid 180K in 1Q2019, though down from 233K in 4Q2018

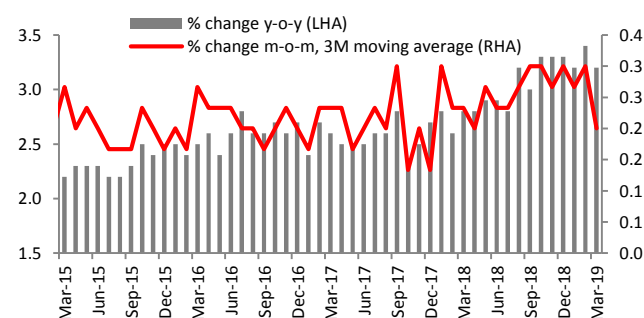
'000 (LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 2. US: Both annual and monthly wage growth unexpectedly softened in March

% change



Source: Bureau of Labor Statistics

Average hourly earnings growth decelerated to 0.1% m-o-m in March (consensus: 0.3%), from 0.4% in February. This led the y-o-y print to soften to 3.2% in March, from 3.4% in the previous month. The weaker-than-expected wage growth in March should further support the patient narrative from the Fed and we do not expect any material change to the FOMC's tone in 1H2019. Meanwhile, the unemployment rate was steady at 3.8% in March, with the moderation in the participation rate to 63% (February: 63.2) offset by a 201K decline in household employment.

Subdued wage growth in March should support Fed's patient narrative

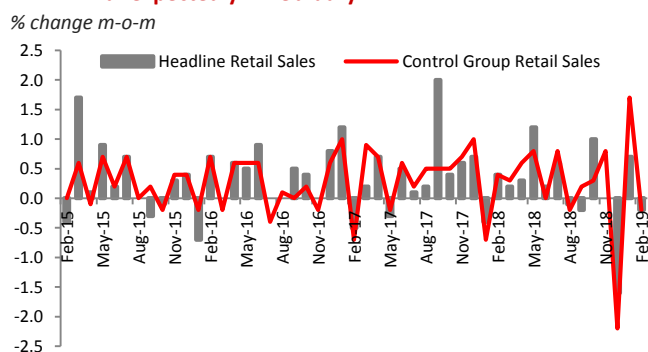
US: Mixed economic data continues in 1Q2019; no clear signals yet

The US data presented a mixed picture last week, with retail sales and durable goods order growth contracting in February, but the March ISM manufacturing index showing some pick-up in activity. Both headline and core retail sales (control group) contracted by 0.2% m-o-m in February, in contrast to the growth forecast by the consensus. The unexpected drop in retail sales growth could be due to delayed tax refunds for lower income households. The disbursement of tax refunds in the coming months should support increased consumer spending during the spring. January readings were revised up for both headline and core retail sales to 0.7% m-o-m (from 0.2%) and 1.7% m-o-m (from

Core retail sales contract by 0.2% m-o-m in February, from an upwardly revised 1.7% in January

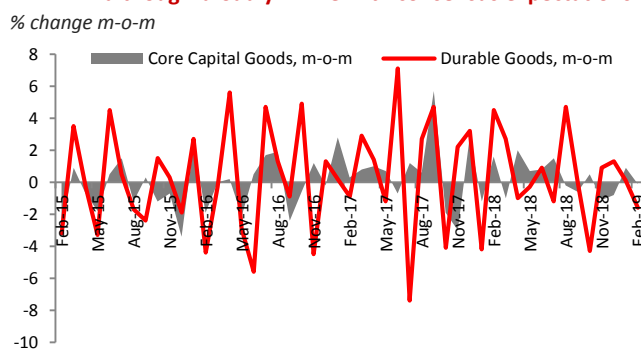
1.1%) respectively, suggesting that the negative impact of adverse weather conditions (January's polar vortex) was relatively limited. Meanwhile, the ISM manufacturing index strengthened to 55.3 in March, from 54.2 in February, indicating some positive signal on underlying economic momentum into 2Q2019.

Fig. 3. US: Both headline and core retail sales growth drop unexpectedly in February



Source: US Census Bureau

Fig. 4. US: Durable goods orders also fall in February, although broadly in line with consensus expectations



Source: US Census Bureau

Durable goods: Durable goods orders dropped by 1.6% m-o-m in February (January: 0.1%), which was slightly better than the consensus expectation of a 1.8% contraction. The fall in February was mainly led by non-defence aircraft orders, which fell by 31.1% m-o-m. The February data does not include the effect of the recent grounding of Boeing planes, but could reflect this in the coming months, starting from March. Meanwhile, core goods shipments, which feed into the investment component of GDP growth, were flat m-o-m in February, from an upwardly revised 1% in January. The solid January print and flat February reading for core goods shipments still point to healthy business spending on equipment in 1Q.

Headline durable goods contract in February, led by non-defence aircraft orders

UK: PM May requests Brexit extension until 30 June

The UK Prime Minister Theresa May has written to European Council (EC) President Donald Tusk requesting an Article 50 extension until 30 June. This is the same date PM May had proposed ahead of the previous Brexit deadline of 29 March. However, at that time, the EC approved an extension of Article 50 only until 12 April if the UK Parliament failed to pass PM May's Brexit deal. The EC is expected to respond formally to the UK's second extension request on 10 April at an emergency summit. Indications are that the EC is likely to offer a 12-month long extension with flexibility to leave earlier if the UK Parliament ratifies a Brexit deal, albeit with some conditions over European Parliament elections. The UK is unlikely to take part in the European Parliament elections on 23 May if the UK Parliament passes a deal by 22 May. If it fails to pass a Brexit deal by this date, it will have to take part in the European Parliament elections.

EC likely to approve 12-month long extension at 10 April meeting

Meanwhile, the cross-party talks between the Labour Party leader Jeremy Corbyn and PM May stalled over the weekend, indicating no material progress on a Brexit deal that could be passed in Parliament. PM May is also facing pressure from the Eurosceptic Conservative party members, given the increasing chances that the UK will have to take part in European Parliament elections. Despite the elevated political tensions, the risk of a no-deal Brexit has fallen further with the passage of the Cooper/Letwin amendment

No-deal Brexit possibility reduced further last week

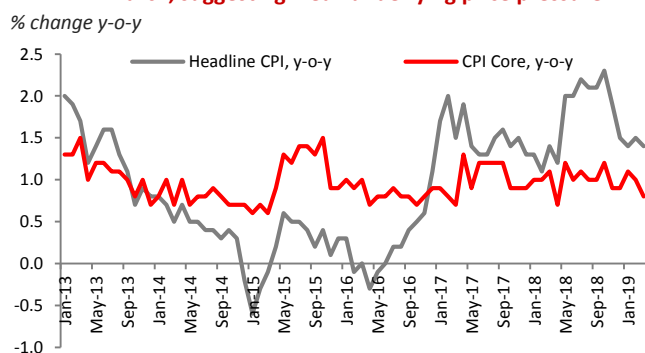
last week, which rules out a no-deal exit from the UK side. The political focus in the coming week will be on: i) the length of Article 50 extension and ii) the increasing risks of a general election.

Eurozone: Core inflation eases to 11-month low in March

Both headline and core inflation surprised to the downside in March, with a largely broad-based softening in price pressure. Headline inflation moderated to 1.4% y-o-y, lower than both the consensus and February reading of 1.5%, led by food prices. The moderation in headline inflation was despite energy prices rising to 5.3% y-o-y in March, from 3.6% in the previous month. Core inflation softened to 0.8% y-o-y in March, from 1% in February and 1.1% in January. This is the lowest point since April 2018, led by both goods and services inflation. One of the reasons for the moderation in services inflation was the different timing of Easter in 2019 compared to 2018 (21 April 2019 vs. 1 April 2018). However, the magnitude of the softening (1.1% vs 1.4% in February) suggests it is not just due to the Easter effect but also due to generally weak underlying inflationary pressures. Given the slowing pace of economic growth and weak underlying price pressure, any meaningful pick-up in inflation looks less likely in 2019. This should encourage the ECB to maintain its dovish communication at its upcoming policy meeting on 10 April.

March inflation report points to overall weak underlying price pressure

Fig. 5. Eurozone: Both headline and core inflation soften in March, suggesting weak underlying price pressure



Source: Eurostat

Fig. 6. UK: GBP still hovering in a tight range against USD due to heightened political uncertainty



Source: Bloomberg

B. Emerging Market Economies

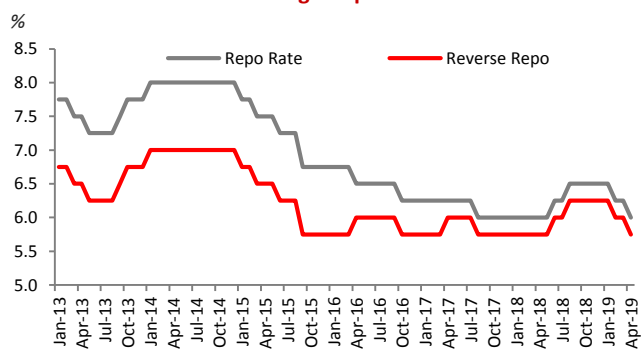
India: RBI cuts benchmark policy rate again in April

The RBI reduced its repo rate by 25 bps to 6% at its 4 April meeting, in line with our and market expectations. The monetary policy committee (MPC) was divided, with two of the six members once again voting for the status quo. The overall tone of the meeting was relatively dovish, with the MPC revising down both inflation and growth forecasts. The headline inflation forecast was lowered to 2.9-3% for 1HFY20 (April–September 2019) from the 3.2-3.4% estimated in February, with the risks remaining broadly balanced. The MPC highlighted that lower inflation projections were due to: i) ongoing low food prices and ii) softening household inflation expectations. Nevertheless, the

Real GDP growth for FY20 lowered to 7.2%, from 7.4% previously

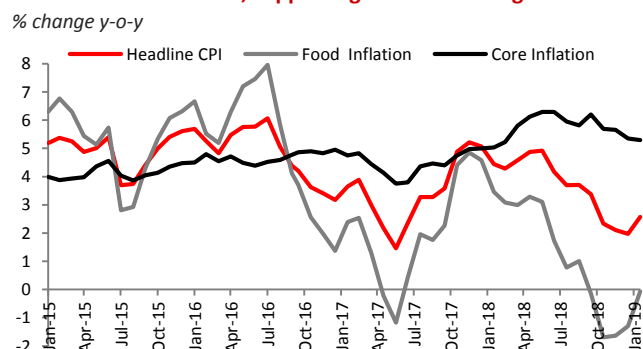
committee also acknowledged that rising international crude oil prices since the last meeting and the strengthening of El Niño conditions, which affect the monsoon rainfall, could cause near-term inflation to increase. The MPC also highlighted that the fiscal situation at the general government level requires careful monitoring given the increased government spending ahead of general elections. Furthermore, the GDP growth forecast was revised down to 7.2% for FY20, from the 7.4% estimated in February, to reflect the weakening domestic investment activity and the softening external demand.

Fig. 7. India: RBI lowers benchmark rates for second consecutive meeting in April



Source: RBI

Fig. 8. India: Core inflation gradually decelerating from October 2018, supporting the RBI's easing stance



Source: India Central Statistical Organisation

The dovish tone maintained by the RBI governor Shaktikanta Das, together with downward revisions to both the growth and inflation outlook, indicates the possibility of another 25 bps rate cut at its June policy meeting. We expect the current easing cycle to end after a cut in the repo rate to 5.75% in June. Thereafter, we see the RBI taking a pause to assess the impact of the monsoon rainfall on food prices and rural inflation.

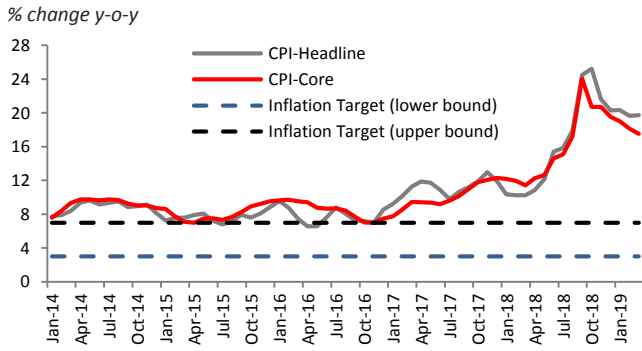
We expect another 25 bps rate cut in June, taking repo rate to 5.75%

Turkey: Headline inflation steady in March but core continues to soften

Headline inflation remained unchanged at 19.7% y-o-y in March – marginally higher than the consensus estimate of 19.6%. The key takeaway from the inflation report was that food inflation strengthened further in March but was offset by the decelerating core inflation. The rise in food prices to 29.8% y-o-y (February: 29.3%) was despite the government's measures to directly procure from farmers and sell at a discounted price in the market. This suggests that the authorities' intervention to control high food prices has had limited success so far. However, the core inflation (excluding food, energy, alcohol, tobacco, and gold) moderated for the fourth consecutive month to 17.5% y-o-y in March, from 18.1% y-o-y in February, led by both the goods and services components. Nevertheless, we believe the recent TRY weakness poses the risk of an increase in imported goods prices, which could in turn result in the CBRT delaying the rate cut cycle. Markets are currently expecting the easing cycle to start from 2Q, but the risk of the CBRT delaying rate cuts to 3Q is increasing.

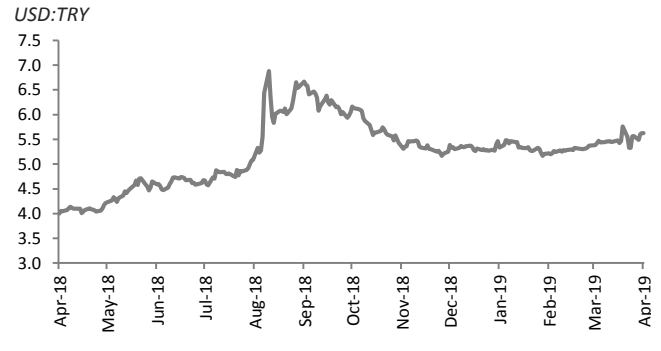
Core inflation softens for fourth consecutive month in March

Fig. 9. Turkey: Core inflation decelerates further in March, led by both core goods and services prices



Source: CBRT, Turkish Statistics Office

Fig. 10. Turkey: TRY weakens somewhat against USD following municipal election outcomes



Source: Bloomberg

Municipal election results: President Recep Erdogan’s People Alliance (AKP and MHP) lost the local elections in Turkey’s key cities, including the capital Ankara, Izmir and Istanbul (recounting is in progress in Istanbul). This result is unlikely to have an effect on Erdogan’s leadership position until June 2023, but it reflects the people’s dissatisfaction with the current economic conditions. It is still unclear how the government will proceed to stabilise the softening economy and we expect the TRY to remain weak against the USD in the coming months until a plan to reform the economy is announced.

Election outcome likely to keep TRY under pressure against USD in coming months

II. Economic Calendar

Fig. 11. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Feb	-2.4%	
	Kuwait	M2 Money Supply, y-o-y	Feb	5.2%	
	Oman	CPI, y-o-y	Mar	0.2%	
	Qatar	CPI, y-o-y	Mar	-1.6%	
	China	Aggregate Financing, CNY	Mar	703B	1850B
	China	Money Supply M2, y-o-y	Mar	8%	8.2%
	China	New Yuan Loans, CNY	Mar	885.8B	1225B
Monday, 8 April					
18:00	US	Factory Orders	Feb	0.1%	-0.5%
18:00	US	Durable Goods Orders	Feb F	-1.6%	-1.6%
Tuesday, 9 April					
8:15	UAE	Dubai Economy Tracker SA	Mar	55.8	
14:00	US	NFIB Small Business Optimism	Mar	101.7	102
18:00	US	JOLTS Job Openings	Feb	7581	7566
Wednesday, 10 April					
2:45	US	Clarida Speaks at Fed Listens Event in Minneapolis			
3:50	Japan	Core Machine Orders, m-o-m	Feb	-5.4%	2.9%
10:15	Japan	BOJ Kuroda makes a speech at Trust Bank Association			
12:30	UK	Trade Balance	Feb	-£3825M	-£3789M
12:30	UK	Industrial Production, m-o-m	Feb	0.6%	0.1%
12:30	UK	Industrial Production, y-o-y	Feb	-0.9%	-0.9%
12:30	UK	GDP, m-o-m	Feb	0.5%	0%
15:45	Eurozone	ECB Main Refinancing Rate	10-Apr	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	10-Apr	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	10-Apr	-0.4%	-0.4%
16:30	Eurozone	ECB's Draghi Speaks in Frankfurt After Policy Decision			
16:30	US	CPI, m-o-m	Mar	0.2%	0.3%
16:30	US	CPI, y-o-y	Mar	1.5%	1.8%
16:30	US	CPI, ex-Food and Energy, m-o-m	Mar	0.1%	0.2%
16:30	US	CPI, ex-Food and Energy, y-o-y	Mar	2.1%	2.1%
22:00	US	FOMC Meeting Minutes	20-Mar		
22:00	US	Monthly Budget Statement	Mar	-\$234B	-\$183B
22:00	Eurozone	ECB's Coeure Participates in Panel Discussion in Washington			
	Egypt	Urban CPI, y-o-y	Mar	14.4%	
Thursday, 11 April					
3:50	Japan	Money Stock M2, y-o-y	Mar	2.4%	2.4%
5:30	China	CPI, y-o-y	Mar	1.5%	2.3%
5:30	China	PPI, y-o-y	Mar	0.1%	0.4%
11:00	Turkey	Current Account Balance	Feb	-0.81B	-0.9B
16:30	US	PPI Final Demand, m-o-m	Mar	0.1%	0.3%
16:30	US	PPI Final Demand, y-o-y	Mar	1.9%	1.9%
19:50	US	Fed's Quarles Takes Part in FSB Roundtable			
	Egypt	Production Index, m-o-m	Feb	-8.3%	
Friday, 12 April					
13:00	Eurozone	Industrial Production SA, m-o-m	Feb	1.4%	-0.6%
16:00	India	CPI, y-o-y	Mar	2.6%	
16:00	India	Industrial Production, y-o-y	Feb	1.7%	
16:30	US	Import Price Index, m-o-m	Mar	0.6%	0.4%
16:45	Eurozone	ECB's Praet Speaks in Washington			
18:00	US	University of Michigan Sentiment	Apr P	98.4	98.2
	China	Exports, y-o-y	Mar	-20.8%	7.7%

* UAE time

Source: Bloomberg

Fig. 12. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Economies						
	UAE	M3 Money Supply, m-o-m	Feb	0.1%		1%
	Saudi Arabia	GDP Constant Prices, y-o-y	4Q	2.5%		3.6%
	Saudi Arabia	Unemployment Rate (Saudis)	4Q	12.8%		12.7%
	Bahrain	GDP Constant Prices, y-o-y	4Q	1.4%		4.6%
	Qatar	GDP Constant Prices, y-o-y	4Q	1.7%		0.3%
	Qatar	Qatar PMI	Mar	48.5		50.1
	Egypt	Gross Official Reserves	Mar	44.1B		44.1B
Monday, 1 April						
11:00	Turkey	Turkey PMI Manufacturing	Mar	46.4		47.2
12:30	UK	Markit UK PMI Manufacturing SA	Mar	52.1	51.2	55.1
13:00	Eurozone	Unemployment Rate	Feb	7.8%	7.8%	7.8%
13:00	Eurozone	CPI Core, y-o-y	Mar A	1%	0.9%	0.8%
13:00	Eurozone	CPI Estimate, y-o-y	Mar	1.5%	1.5%	1.4%
16:30	US	Retail Sales Advance, m-o-m	Feb	0.7%	0.2%	-0.2%
16:30	US	Retail Sales, ex-Auto and Gas	Feb	1.7%	0.3%	-0.6%
16:30	US	Retail Sales Control Group	Feb	1.7%	0.3%	-0.2%
17:45	US	Markit US Manufacturing PMI	Mar F	52.5	52.5	52.4
18:00	US	ISM Manufacturing	Mar	54.2	54.5	55.3
18:00	US	ISM Prices Paid	Mar	49.4	52.5	54.3
Tuesday, 2 April						
11:00	Eurozone	ECB's Praet Speaks in Frankfurt				
12:30	UK	Markit/CIPS UK Construction PMI	Mar	49.5	49.8	49.7
16:30	US	Durable Goods Orders	Feb P	0.1%	-1.8%	-1.6%
16:30	US	Durables, ex-Transportation	Feb P	-0.1%	0.1%	0.1%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Feb P	1%	-0.1%	0%
Wednesday, 3 April						
5:45	China	Caixin China PMI Manufacturing	Mar	49.9	50	50.8
11:00	Turkey	CPI, m-o-m	Mar	0.2%	1%	1%
11:00	Turkey	CPI, y-o-y	Mar	19.7%	19.6%	19.7%
11:00	Turkey	CPI Core Index, y-o-y	Mar	18.1%	18%	17.5%
12:00	Eurozone	Markit Eurozone Composite PMI	Mar F	51.3	51.3	51.6
12:30	UK	Markit/CIPS UK Composite PMI	Mar	51.5	51.1	50
13:00	Eurozone	Retail Sales, y-o-y	Feb	2.2%	2.3%	2.8%
16:15	US	ADP Employment Change	Mar	197K	175K	129K
18:00	US	ISM Non-Manufacturing Index	Mar	59.7	58	56.1
Thursday, 4 April						
10:00	Germany	Factory Orders, m-o-m	Feb	-2.1%	0.3%	-4.2%
10:15	India	RBI Repurchase Rate	4-Apr	6.25%	6%	6%
10:15	India	RBI Reverse Repo Rate	4-Apr	6%	5.75%	5.75%
10:15	India	RBI Cash Reserve Ratio	4-Apr	4%	4%	4%
Friday, 5 April						
9:00	Japan	Leading Index CI	Feb P	96.5	97.2	97.4
10:00	Germany	Industrial Production SA, m-o-m	Feb	0.0%	0.5%	0.7%
16:30	US	Change in Nonfarm Payrolls	Mar	33K	177K	196K
16:30	US	Change in Private Payrolls	Mar	28K	177K	182K
16:30	US	Unemployment Rate	Mar	3.8%	3.8%	3.8%
16:30	US	Average Hourly Earnings, m-o-m	Mar	0.4%	0.3%	0.1%
16:30	US	Average Hourly Earnings, y-o-y	Mar	3.4%	3.4%	3.2%

* UAE time

Source: Bloomberg

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