

## The Week Ahead: Data-heavy week; CBE expected to cut rates

### ► US: Powell's testimony to Congress is key event

The upcoming week will be important, with a number of key data releases (CPI inflation and retail sales) due, along with Fed Chair Jerome Powell's testimony to the Joint Economic Committee (13 November) and the House Budget Committee (14 November). A number of other Fed members, including John Williams, Richard Clarida and Randal Quarles, also have speaking engagements this week. We expect Powell and other FOMC members to re-emphasise that the Fed's interest rate policy is "in a good place" and that a "material reassessment" would be needed for any further action. Meanwhile, US-China trade negotiations will remain in focus, with markets sensitive to any new developments. There were indications that the first phase of the US-China trade deal might include some tariff rollback, although doubts were raised following comments by US President Donald Trump over the weekend. Data wise, consensus expects core CPI inflation to have accelerated to 0.2% m-o-m in October, following a soft 0.1% reading in September. The expected strengthening is likely due to a pick-up in core goods inflation, while the core services segment remains broadly steady.

### ► Europe: Eurozone, UK and Japan to release 3Q GDP data

Key global economies are to release their 3Q GDP growth data this week, including the Eurozone, Japan and the UK. Real GDP growth is expected to have remained relatively subdued in each of these areas. The UK's real GDP growth is forecast to have decelerated to 1.1% y-o-y, from 1.3% in 2Q, reflecting the slowdown in the manufacturing sector amidst heightened trade uncertainties during the quarter. The softening in global trade and manufacturing activity is also expected to have dented growth in Japan to 0.9% q-o-q annualised, from 1.3% in 2Q. However, the Eurozone's GDP growth is forecast to have remained steady at 1.1% y-o-y in 3Q, supported by domestic demand. The UK will release a number of other key data this week, including inflation, retail sales, industrial production and labour market data. Notably, the BoE adopted a dovish stance at its November meeting last week (page 3), noting that the UK's growth has "slowed materially" this year.

### ► EM: India inflation data; Egypt forecast to cut rates

Consensus expects India's headline inflation to have risen to 4.3% y-o-y in October (September: 4.0%), driven mainly by rising vegetable prices. However, core inflation is expected to have softened to 3.6% y-o-y on the back of weak domestic demand. This is the first time that core inflation is expected to have fallen below the headline reading since mid-2016. The weakening core inflation should keep the RBI comfortable with its easing cycle and we continue to expect a total cut of 40 bps by end-FY2019-20 (April-March). Meanwhile, we and consensus expect the CBE to lower benchmark rates by 100 bps at its 14 November meeting. This is after headline inflation slowed to just 3.1% y-o-y in October (page 2), the weakest reading since September 2010. A November rate cut would be the third consecutive one as the CBE lowered rates in August and September by a cumulative 250 bps.

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## I. Recent Events and Data Releases

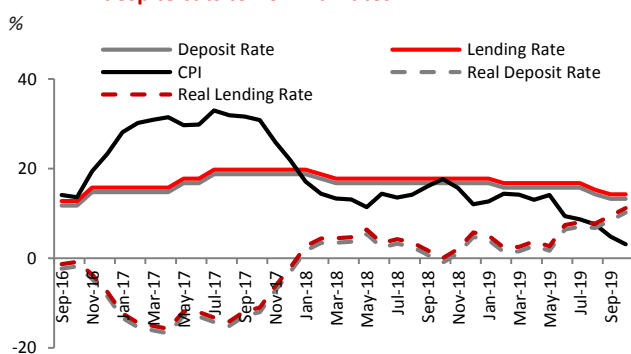
### A. MENA Economies

#### Egypt: Inflation slows to multi-year low of 3.1% y-o-y in October

Egypt's headline inflation moderated to 3.1% y-o-y in October, from 4.8% in the previous month. This is the softest annual inflation rate since September 2010 and the fifth consecutive month of disinflation. The slowing pace of price growth over the last few months continues to reflect: i) the high inflation base, and ii) an overall softening in food inflation. On a monthly basis, headline inflation accelerated to 1.0% from 0.0% in September. We expect to see the year-on-year inflation rate starting to gradually rise in November, before picking up more markedly in December as the base becomes less favourable. Nevertheless, headline inflation is still expected to remain comfortably below the CBE's 9% y-o-y ( $\pm 3$ pp) target for end-2020.

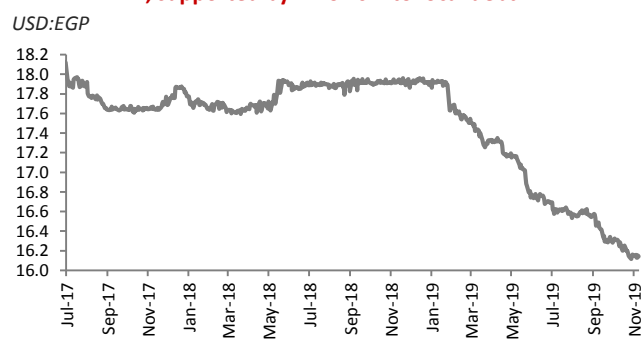
*Fifth consecutive month of disinflation in October*

**Fig. 1. Egypt: Real interest rates rise with fall in inflation, despite cuts to nominal rates**



Source: Central Bank of Egypt, CAPMAS, ADCB calculations

**Fig. 2. Egypt: EGP strengthens against USD by some 11.0% YTD, supported by inflows into local debt**



Source: Bloomberg

The October moderation in inflation opens the way for further interest rate cuts by the central bank, in our view. We expect the CBE to lower benchmark interest rates by 100 bps, taking the deposit rate to 12.25% and the lending rate to 13.25%. A November rate cut would be the third consecutive one as the CBE lowered rates in August and September by a cumulative 250 bps. Alongside the recent disinflation, the strengthening of the EGP, further easing by major central banks, and weak global inflation (including oil) are key support factors for a November rate cut. Notably, the EGP has appreciated by c.11.0% YTD against the USD, likely bolstered by high real interest rates, especially in the context of low global yields. Real interest rates in Egypt have continued to rise with the moderation in inflation, despite the easing by the CBE, resulting in continued flows into local government debt. Looking ahead, we expect rates to be kept on hold in December with the potential for a further cut in 1Q2020. Lowering interest rates will be important for supporting real economic activity and reducing the cost of servicing government debt. However, it will be counterbalanced by the need to continue to attract capital inflows.

*We expect CBE to lower benchmark interest rates by 100 bps on 14 November*

## B. G4 Economies

### UK: Dovish surprise from BoE at November policy meeting

The BoE kept the benchmark policy rate steady at 0.75% at its 7 November policy meeting, in line with our and consensus expectations. However, the overall tone of the meeting was markedly more dovish, with two of the nine MPC members (Michael Saunders and Jonathan Haskel) voting for an immediate 25 bps reduction. The vote split suggests that the probability of a near-term rate cut has increased significantly, although it will largely depend on the general election outcome and the incoming government's fiscal policy stance. We see potential for more MPC members to support rate cuts in the near term if the incoming activity data surprises to the downside. The tone of the policy statement was also dovish, with the MPC highlighting that "if global growth fails to stabilise or if Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected recovery in UK GDP growth and inflation". On Brexit, the BoE now assumes that the UK economy will go through an orderly transition and sees this as a net positive for its demand growth forecasts. The MPC expects the economy to expand by 1.3% in both 2019 and 2020, in line with the August projections. Nevertheless, it revised down its 2020 GDP growth forecast significantly to 1.8%, from 2.3% previously. Meanwhile, headline inflation projections were lowered for 2020 and 2021 to 1.4% (August: 1.6%) and 1.5% (August: 2.1%) respectively, to reflect the recent strengthening of the GBP.

*Two MPC members vote for immediate rate cut at November meeting*

Despite the overall communication suggesting that the committee's short-term bias is for a rate cut, the MPC retained its forward guidance for "some modest tightening of policy, at a gradual pace and to a limited extent". We believe the MPC is likely to alter its forward guidance to a more neutral stance once there is more clarity on the election outcome and the incoming government's fiscal policy outlook. We see potential for a change in the forward guidance language at either the December policy meeting or in 1Q2020, followed by an interest rate cut in mid-2020.

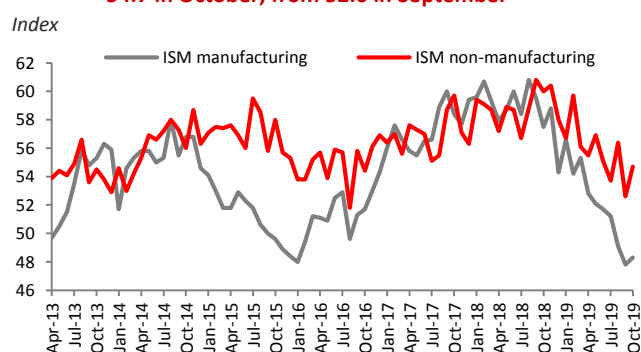
*We see potential for 25 bps rate cut in mid-2020*

**Fig. 3. UK: GBP weakens slightly to 1.277 against USD last week, following BoE's dovish surprise**



Source: Bloomberg

**Fig. 4. US: ISM non-manufacturing activity strengthens to 54.7 in October, from 52.6 in September**



Source: Institute for Supply Management

### US: Non-manufacturing ISM activity rebounds in October

ISM non-manufacturing activity strengthened to 54.7 in October (consensus: 53.5), after slowing to a multi-year low of 52.6 in September. The pick-up was driven mainly by a rise in new orders, as well as employment sub-segments. This suggests that economic activity outside of the manufacturing sector held up fairly well at the start of 4Q2019. Moreover,

*Pick up in non-manufacturing activity seen at start of 4Q2019*

the incoming data continues to indicate that labour market conditions and consumer demand remain resilient, despite the recent weakening in industrial activity. Comments from survey respondents were more positive about prospects for orders and sales in October than they were in September. Nevertheless, some respondents continued to highlight that business investment remained soft on the back of trade uncertainties and slowing global demand. Overall, the October ISM non-manufacturing data broadly supports the FOMC's view that economic activity has been rising at a moderate pace. The solid economic backdrop will also help the Fed to remain on hold at the December meeting and into 1Q2020.

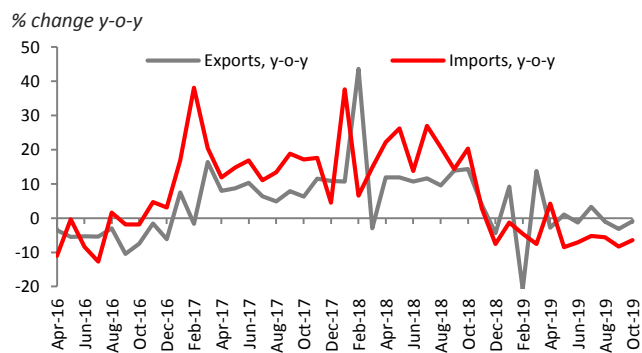
## C. Emerging Market Economies

### China: PBoC cuts one-year MLF rate by 5 bps to 3.25%

The PBoC has lowered the interest rate on its one-year medium-term lending facility (MLF) by 5 bps to 3.25%. The MLF is the benchmark against which the PBoC lends to commercial banks. This is the first MLF rate cut since early 2016 and could lower funding costs for banks. The rate cut could be seen as a precursor to a reduction in China's new benchmark loan prime rate (LPR) – a separate lending rate that was introduced in August – which will be published on the 20th of every month. Though the magnitude of the rate reduction is small, the policy action signals that the PBoC will remain ready to cut rates again if the economic outlook deteriorates further. The small magnitude of the cut also suggests that the PBoC will continue with its gradual and targeted policy support to the economy, rather than making large liquidity injections to boost growth momentum.

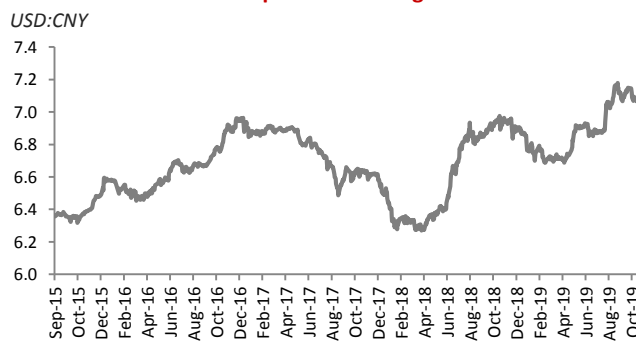
*PBoC sticks to limited and targeted monetary policy easing stance*

**Fig. 5. China: Exports growth contracts for third consecutive month in October**



Source: Customs General Administration of China

**Fig. 6. China: CNY closes below 7.0 mark against USD last week amidst hopes of US rolling back earlier tariffs**



Source: Bloomberg

The incoming high-frequency data continues to suggest that economic momentum remains weak going into 2020. This is after 3Q GDP growth slowed to 6.0% y-o-y, from 6.2% in 3Q, with a broad-based slowdown in activity. Exports growth contracted for the third consecutive month by 0.9% y-o-y in October, but came in better than the 3.2% drop in September. The trade truce between the US and China will be somewhat positive for the incoming data, although it is unlikely to be a game changer in our view. Our expectations for a soft 2020 economic outlook for China suggest that the economy is in need of further policy easing in the near term. We believe that the PBoC is likely to cut the MLF rate by another 5 bps in December, followed by a 25-50 bps reserve requirement ratio (RRR) cut in early 2020.

*We expect PBoC to cut MLF rate by another 5 bps in December, followed by 25-50 bps RRR cut in early 2020*

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	Dubai PMI	Oct	52.6	
	Qatar	Qatar Financial Center PMI	Oct	49.0	
	Oman	CPI, y-o-y	Oct	0.0%	
	China	Aggregate Financing CNY	Oct	2270.0B	950.0B
	China	New Yuan Loans CNY	Oct	1690.0B	800.0B
	China	Money Supply M2, y-o-y	Oct	8.4%	8.4%
<b>Monday, 11 November</b>					
13:30	UK	GDP, q-o-q	3Q P	-0.2%	0.4%
13:30	UK	GDP, y-o-y	3Q P	1.3%	1.1%
13:30	UK	Industrial Production, m-o-m	Sep	-0.6%	-0.1%
13:30	UK	Trade Balance, Million	Sep	-£1546M	-£2000M
16:00	India	Industrial Production, y-o-y	Sep	-1.1%	-2.3%
17:15	US	Fed's Rosengren Speaks in Oslo			
<b>Tuesday, 12 November</b>					
11:00	Turkey	Current Account Balance	Sep	2.6B	2.1B
13:30	UK	Average Weekly Earnings 3M/y-o-y	Sep	3.8%	3.8%
13:30	UK	ILO Unemployment Rate 3M	Sep	3.9%	3.9%
14:30	US	Fed's Clarida Discusses Monetary Policy and Price Stability			
<b>Wednesday, 13 November</b>					
13:30	UK	CPI, y-o-y	Oct	1.7%	1.6%
13:30	UK	CPI Core, y-o-y	Oct	1.7%	1.7%
16:00	India	CPI, y-o-y	Oct	4.0%	4.3%
17:30	US	CPI, m-o-m	Oct	0.0%	0.3%
17:30	US	CP, ex-Food and Energy, m-o-m	Oct	0.1%	0.2%
17:30	US	CPI, y-o-y	Oct	1.7%	1.7%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	2.4%	2.4%
20:00	US	Fed's Powell Addresses Joint Economic Committee Of Congress			
<b>Thursday, 14 November</b>					
3:50	Japan	GDP SA, q-o-q	3Q P	0.3%	0.2%
3:50	Japan	GDP Annualized SA, q-o-q	3Q P	1.3%	0.9%
6:00	China	Industrial Production, y-o-y	Oct	5.8%	5.4%
6:00	China	Retail Sales, y-o-y	Oct	7.8%	7.8%
8:30	Japan	Tertiary Industry Index, m-o-m	Sep	0.4%	1.1%
11:00	Turkey	Industrial Production, y-o-y	Sep	-3.6%	3.5%
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Oct	0.0%	0.2%
13:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Oct	3.1%	3.7%
14:00	Eurozone	GDP SA, q-o-q	3Q P	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	3Q P	1.1%	1.1%
14:30	US	Fed's Quarles makes Welcoming Remarks at Insurance Conference			
17:30	US	PPI Final Demand, m-o-m	Oct	-0.3%	0.2%
18:00	US	Fed's Clarida Speaks at Cato Institute in Washington			
19:00	US	Fed's Powell Appears Before House Budget Committee			
21:00	US	Fed's Williams Speaks at Economic Policy Conference			
	Egypt	Deposit Rate	14-Nov	13.25%	12.25%
<b>Friday, 15 November</b>					
14:00	Eurozone	CPI Core, y-o-y	Oct F	1.1%	1.1%
17:30	US	Empire Manufacturing	Nov	4.0	5.5
17:30	US	Retail Sales Advance, m-o-m	Oct	-0.3%	0.2%
17:30	US	Retail Sales, ex-Auto, m-o-m	Oct	-0.1%	0.4%
17:30	US	Retail Sales Control Group	Oct	0.0%	0.3%
18:15	US	Industrial Production, m-o-m	Oct	-0.4%	-0.4%

\* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>MENA Economies</b>						
	UAE	CPI, y-o-y	Sep	-2.0%		-2.2%
	UAE	IHS Markit UAE PMI	Oct	51.1		51.1
	Saudi Arabia	IHS Markit Saudi Arabia PMI	Oct	57.3		57.8
	Egypt	IHS Markit Egypt PMI	Oct	49.5		49.2
	Egypt	Urban CPI, y-o-y	Oct	4.8%		3.1%
<b>Monday, 4 November</b>						
11:00	Turkey	CPI, y-o-y	Oct	9.3%	8.6%	8.6%
11:00	Turkey	CPI Core Index, y-o-y	Oct	7.5%	7.0%	6.7%
13:30	Eurozone	Sentix Investor Confidence	Nov	-16.8	-13.8	-4.5
13:30	UK	Markit/CIPS UK Construction PMI	Oct	43.3	44.1	44.2
19:00	US	Durable Goods Orders	Sep F	-1.1%	-1.1%	-1.2%
19:00	US	Factory Orders	Sep	-0.1%	-0.5%	-0.6%
<b>Tuesday, 5 November</b>						
3:50	Japan	Monetary Base, y-o-y	Oct	3.0%		3.1%
5:45	China	Caixin China PMI Composite	Oct	51.9		52.0
5:45	China	Caixin China PMI Services	Oct	51.3	51.1	51.1
9:00	India	Markit India PMI Services	Oct	48.7		49.2
9:00	India	Markit India PMI Composite	Oct	49.8		49.6
13:30	UK	Markit/CIPS UK Composite PMI	Oct	49.3	49.7	50.0
17:30	US	Trade Balance	Sep	-\$55.0B	-\$52.4B	-\$52.5B
18:45	US	Markit US Services PMI	Oct F	51.0	51.0	50.6
19:00	US	JOLTS Job Openings	Sep	7301	7063	7024
19:00	US	ISM Non-Manufacturing Index	Oct	52.6	53.5	54.7
<b>Wednesday, 6 November</b>						
14:00	Eurozone	Retail Sales, m-o-m	Sep	0.6%	0.0%	0.1%
<b>Thursday, 7 November</b>						
16:00	UK	Bank of England Bank Rate	7-Nov	0.75%	0.75%	0.75%
16:00	UK	BOE Corporate Bond Target	Nov	10B	10B	10B
16:00	UK	BOE Asset Purchase Target	Nov	435B	435B	435B
	China	Foreign Reserves	Oct	\$3092.4B	\$3100.0B	\$3105.1B
	Egypt	Gross Official Reserves	Oct	45.1B		45.2B
	Egypt	Urban CPI, y-o-y	Oct	4.8%		3.1%
<b>Friday, 8 November</b>						
3:30	Japan	Labor Cash Earnings, y-o-y	Sep	-0.2%	0.1%	0.8%
9:00	Japan	Leading Index CI	Sep P	91.9	92.2	92.2
19:00	US	Wholesale Inventories, m-o-m	Sep F	-0.3%	-0.3%	-0.4%
19:00	US	U. of Mich. Sentiment	Nov P	95.5	95.5	95.7
	China	BoP Current Account Balance	3Q P	\$46.2B		\$54.9B
	China	Exports, y-o-y	Oct	-3.2%	-3.9%	-0.9%
	China	Imports, y-o-y	Oct	-8.5%	-7.8%	-6.4%
	China	Trade Balance	Oct	\$39.65B	\$40.1B	\$42.8B
	China	CPI, y-o-y	Nov	3.0%	3.4%	3.8%
	China	PPI, y-o-y	Dec	-1.2%	-1.5%	-1.6%

\* UAE time

Source: Bloomberg

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