

The Week Ahead: Data-heavy week with key US inflation and GDP data

► **US: Core PCE inflation likely to remain steady at 1.7% y-o-y**

The US will dominate the key data releases this week with core PCE inflation, the second estimate of 3Q GDP and durable goods orders. Consensus expects core PCE inflation to remain steady at 1.7% y-o-y in October (0.1% m-o-m vs. 0.0% in September), below the Fed's 2.0% target. Core PCE inflation continued to hover in the range of 1.5%-1.8% in 9M2019, despite solid domestic demand during this period. Personal spending growth is expected to accelerate to 0.3% m-o-m in October (September: 0.2%), suggesting a still healthy economic momentum at the beginning of 4Q. The October Fed minutes also highlighted that household spending is likely to remain on a firm footing, supported by strong labour market conditions, rising incomes, and favourable financial conditions. The outlook for solid household activity makes us believe that the Fed will remain on hold until end-2020. Elsewhere, the Eurozone's November inflation and October unemployment data are due this week.

► **India: GDP growth expected to slow to multi-year low in 3Q**

Consensus expects real GDP growth to decelerate to 4.6% y-o-y in 3Q, a six-year low, after it softened markedly to 5.0% in 2Q. The slowdown in 3Q GDP growth is likely due to a number of factors, including ongoing soft domestic demand and stress in non-banking financial companies. Monsoon-related disruption is likely to put further downward pressure on GDP growth in 3Q, adding to the weakness in the rural economy. However, stronger government spending in 3Q should provide some support. We expect Indian economic growth to bottom out in 2H2019, followed by a gradual recovery in 2020. The government's fiscal loosening (corporate tax cuts) and the RBI's accommodative monetary policy are likely to provide some impetus to economic growth in 2020 given the lag effect. We expect the MPC to continue with its loose monetary policy stance and lower rates by an additional 25 bps at its 5 December policy meeting.

► **Oil: OPEC+ likely to extend production quotas to end-2020**

The OPEC and some non-OPEC oil producing countries (OPEC+) will meet on 5-6 December to assess the oil market conditions and review their policy. OPEC+ countries are widely expected to roll over their existing agreement for another nine months to December 2020, i.e. maintain their agreed production cuts of 1.2 million b/d based on October 2018 output levels. The current deal finishes in March 2020. The expected increase in wider non-OPEC supply, relatively soft global demand, still-high global oil inventories and considerable OPEC spare capacity are likely to remain supportive for the OPEC+ countries to continue with their current production agreement. We do not expect deeper production cuts at this point as such a move would result in OPEC losing further share of the global oil market. We believe that OPEC would rather focus on enforcing strict country-level compliance, as countries such as Iraq and Nigeria are still producing above their specified targets.

The next issue of Global Data Watch will be published on Monday 9 December 2019.

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I. Recent Events and Data Releases

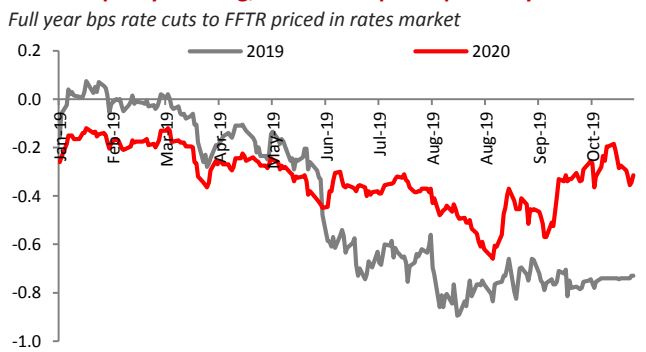
A. G4 Economies

US: October FOMC minutes reinforce Fed's 'on hold' stance

The October FOMC meeting minutes were broadly consistent with the recent Fed communication, highlighting that the current interest rate level (1.50%-1.75%) is appropriate and that the Fed will keep rates on hold for the near future. Most of the Fed members see monetary policy as “well calibrated” to support the ongoing moderate economic expansion, especially after enacting a total of 75 bps of rate cuts in 2H2019. The communication suggests that the FOMC is in no hurry to change its current monetary policy stance and would require a material reassessment of the economic outlook for any further action. There was little discussion regarding the conditions (risks) that would warrant such a material reassessment. However, two policymakers insisted that the FOMC should make it clear that another rate cut would be unlikely in the near term unless there was a significant slowdown in the pace of economic growth. New York Fed President John Williams expressed a similar view recently, noting that he would consider a “material change” to be if the US economy slowed to below-trend growth on a sustained basis or inflation persistently faltered. We believe that the US economy will continue to expand at a healthy pace in 2020 (around 2%), albeit with risks to the outlook tilting somewhat to the downside rather than to the upside. This is in line with the Fed members’ outlook in the October minutes. Overall, our house view is that the Fed will remain on hold in the upcoming December meeting, as well as through to end-2020.

Fed minutes show that interest rate policy is well calibrated to support economic outlook

Fig. 1. US: Market pricing in Fed to stay on hold at December policy meeting; one full 25bps cut priced by end-2020



Source: Bloomberg

Fig. 2. US: Dollar index (DXY) remains strong despite Fed’s insurance rate cuts



Source: Bloomberg

The Fed members also discussed establishing a standing repo facility, which would allow banks and broker dealers to borrow reserve liquidity against Treasury collateral. Many Fed members highlighted that it could serve as a useful tool to support the FFTR in the event of a negative shock, whereas some argued that there would be no need for such a facility once the Fed supplies an ample quantity of reserves to the banking system. Note that the Fed started purchasing Treasury bills worth USD60 billion per month in October to alleviate the stress witnessed in the funding market. The FOMC did not take any decision on the standing repo facility at the October meeting, but said that it will discuss it further in the upcoming meetings. Regarding the long-term review of monetary policy, the committee discussed the advantages and disadvantages of using forward guidance (qualitative, date-based and outcome-based) and balance sheet expansion if the policy

No decision taken on standing repo facility at October policy meeting

rate is reduced to the effective lower bound (i.e. 0.0%). Fed members generally agreed that both forward guidance and balance sheet expansion will be helpful to provide economic stimulus during a downturn. However, all the Fed members were of the view that negative interest rates do not appear to be an attractive monetary policy tool for the US monetary system.

Eurozone: ECB's October minutes point to wait-and-see approach

The minutes of the 23-24 October Governing Council (GC) meeting showed that ECB members wanted some more time to digest the impact of the September policy easing package, including its possible side effects. This corroborates our view that the ECB will maintain a wait-and-see approach for the rest of 2019 and in 1Q2020. On the economic outlook, the tone of the October minutes was relatively dovish, with members sounding less confident in their September growth projections. The minutes highlighted that incoming data from the Eurozone remains weak and is "likely to persist for longer than had been anticipated in the September projections". This suggests that the ECB is likely to revise down its growth forecast at its December policy meeting, in our view. Note that the ECB revised down its GDP projections to 1.1% for 2019 (June: 1.2%) and 1.2% for 2020 (June: 1.4%), at its September meeting. The ECB members also expressed concerns that the weak macroeconomic backdrop would dampen the inflation outlook. We see scope for another 10bps deposit rate cut by mid-2020 if the economic outlook deteriorates further. However, we do not expect any adjustments to QE purchases (EUR20 billion currently) at this point.

ECB likely to revise down growth projections at December policy meeting

B. Emerging market Economies

China: One-year loan prime rate cut by 5 bps to 4.15%

The PBOC has lowered its one-year loan prime rate (LPR) to 4.15% (4.2% previously) and its five-year loan prime rate to 4.8% (4.85% earlier). Earlier, the PBOC had lowered its interest rate on seven-day reverse repo agreements to 2.5% (from 2.55%) on 18 November, to reduce funding costs and counteract the cyclical slowdown. The policy action signals that the PBOC remains ready to cut rates again if the economic outlook deteriorates further, though the magnitude of the rate reduction is small. 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. The incoming high-frequency data continues to suggest that economic momentum remains weak going into 2020. The softening economic activity also makes us believe that the Chinese economy is in need of further stimulus (both fiscal and monetary) to at least stabilise the economy around the 6% growth level. The PBOC adviser Ma Jun last week highlighted that China still has room to adjust its fiscal, monetary and real-estate policies if trade-related uncertainty puts further downward pressure on the economy. Looking ahead, we see potential for another 5 bps cut to the one-year loan prime rate in the upcoming months, alongside a 25-50 bps reserve requirement ratio (RRR) cut in early 2020.

We see scope for additional monetary and fiscal easing in the coming months

II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	M3 Money Supply, y-o-y	Oct	2.7%	
	Saudi Arabia	SAMA Net Foreign Assets SAR	Oct	1855.7B	
	Kuwait	CPI, y-o-y	Oct	1.7%	
	Bahrain	CPI, y-o-y	Oct	1.2%	
Monday, 25 November					
15:00	Eurozone	ECB's Villeroy speaks in Paris			
17:30	US	Chicago Fed Nat Activity Index	Oct	-0.5	-0.2
19:30	US	Dallas Fed Manufacturing Activity	Nov	-5.1	-3.8
22:00	Eurozone	ECB's Lane Speaks in London			
Tuesday, 26 November					
4:00	US	Powell Speaks in Rhode Island After Visiting Hartford			
12:00	Eurozone	ECB's Coeure, Wunsch Speak in Brussels			
17:30	US	Wholesale Inventories, m-o-m	Oct P	-0.4%	0.1%
19:00	US	Richmond Fed Manufacturing Index	Nov	8.0	6.0
19:00	US	New Home Sales	Oct	701K	708K
19:00	US	Conference Board Consumer Confidence	Nov	125.9	127.0
22:00	US	Fed's Brainard Discusses Policy Framework Review			
Wednesday, 27 November					
5:30	China	Industrial Profits, y-o-y	Oct	-5.3%	
17:30	US	GDP Annualized, q-o-q	3Q S	1.9%	1.9%
17:30	US	Personal Consumption	3Q S	2.9%	2.8%
17:30	US	Core PCE, q-o-q	3Q S	2.2%	2.2%
17:30	US	Durable Goods Orders	Oct P	-1.2%	-0.8%
17:30	US	Durables, ex-Transportation	Oct P	-0.4%	0.1%
17:30	US	Cap Goods Shipments, Non-defence, ex-Air	Oct P	-0.7%	-0.1%
18:45	US	MNI Chicago PMI	Nov	43.2	47.0
19:00	US	Personal Income	Oct	0.3%	0.3%
19:00	US	Personal Spending	Oct	0.2%	0.3%
19:00	US	PCE Deflator, m-o-m	Oct	0.0%	0.3%
19:00	US	PCE Deflator, y-o-y	Oct	1.3%	1.4%
19:00	US	PCE Core Deflator, m-o-m	Oct	0.0%	0.1%
19:00	US	PCE Core Deflator, y-o-y	Oct	1.7%	1.7%
19:00	US	Pending Home Sales, m-o-m	Oct	1.5%	0.2%
23:00	US	US Federal Reserve Releases Beige Book			
Thursday, 28 November					
3:50	Japan	Retail Sales, y-o-y	Oct	9.1%	-3.8%
7:30	Eurozone	ECB's Villeroy speaks in Tokyo			
13:00	Eurozone	M3 Money Supply, y-o-y	Oct	5.5%	5.5%
Friday, 29 November					
3:30	Japan	Tokyo CPI, y-o-y	Nov	0.4%	0.6%
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Nov	0.5%	0.6%
3:50	Japan	Industrial Production, y-o-y	Oct P	1.3%	-5.3%
11:00	Turkey	Trade Balance	Oct	-2.1B	-1.8B
13:30	UK	Mortgage Approvals	Oct	65.9K	65.4B
13:30	UK	M4 Money Supply, y-o-y	Oct	4.0%	
14:00	Eurozone	Unemployment Rate	Oct	7.5%	7.5%
14:00	Eurozone	CPI Estimate, y-o-y	Nov	0.7%	0.9%
14:00	Eurozone	CPI Core, y-o-y	Nov P	1.1%	1.2%
16:00	India	GDP, y-o-y	3Q	5.0%	4.6%
16:00	India	GVA, y-o-y	3Q	4.9%	4.5%

* UAE time

Source: Bloomberg

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Abu Dhabi CPI, y-o-y	Oct	-1.8%		-1.1%
	UAE	Dubai CPI, y-o-y	Oct	-2.9%		-2.8%
	Saudi Arabia	CPI, y-o-y	Oct	-0.7%		-0.3%
	Oman	CPI, y-o-y	Oct	0.0%		-0.2%
Monday, 18 November						
19:00	US	NAHB Housing Market Index	Nov	71.0	71.0	71.0
	Egypt	Trade Balance	Sep	-3507.0M		-3491.0M
Tuesday, 19 November						
1:00	US	Net Long-term TIC Flows	Sep	-\$41.2B		\$49.5B
11:00	Eurozone	EU27 New Car Registrations	Oct	14.5%		8.7%
17:30	US	Building Permits	Oct	1391K	1385K	1461K
17:30	US	Housing Starts	Oct	1266K	1320K	1314K
Wednesday, 20 November						
3:50	Japan	Exports, y-o-y	Oct	-5.2%	-7.5%	-9.2%
5:30	China	1-Year Loan Prime Rate	Nov	4.20%	4.20%	4.15%
16:00	US	MBA Mortgage Applications	15-Nov	9.6%		-2.2%
Thursday, 21 November						
8:30	Japan	All Industry Activity Index, m-o-m	Sep	0.0%	1.5%	1.5%
13:30	UK	PSNB, ex-Banking Groups	Oct	8.0B	9.3B	11.2B
17:30	US	Philadelphia Fed Business Outlook	Nov	5.6	6.0	10.4
19:00	US	Leading Index	Oct	-0.2%	-0.1%	-0.1%
19:00	Eurozone	Consumer Confidence	Nov A	-7.6	-7.3	-7.2
19:00	US	Existing Home Sales	Oct	5.36M	5.49M	5.46M
Friday, 22 November						
3:30	Japan	National CPI, y-o-y	Oct	0.2%	0.3%	0.2%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Oct	0.3%	0.4%	0.4%
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Nov P	48.4		48.6
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Nov P	45.9	46.4	46.6
18:45	US	Markit US Manufacturing PMI	Nov P	51.3	51.4	52.2
18:45	US	Markit US Composite PMI	Nov P	50.9		51.9
19:00	US	U. of Mich. Sentiment	Nov F	95.7	95.7	96.8

* UAE time

Source: Bloomberg

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