

The Week Ahead: Global monetary easing to continue; Fed to enact third rate cut

► **US: FOMC guidance to be watched closely for any changes**

We and the consensus expect the Fed to cut the FFTR by another 25 bps in October, taking the range down to 1.50-1.75%. This will be the third consecutive rate cut this year under the central bank's mid-cycle adjustment stance, if enacted. We continue to believe that the current easing phase will be akin to the Fed's 1998 rate-cut cycle, which saw three 25 bps reductions. We see the threshold for additional rate cuts beyond the October meeting as high at this point and believe that this would require a significant deterioration in domestic economic conditions. As such, the tone of the Fed meeting is likely to be relatively hawkish in our view, and we expect the FOMC to adopt a wait-and-see approach. The divisions within the FOMC are likely to continue with Esther George and Eric Rosengren dissenting again in favour of keeping rates steady. Markets are currently pricing in no additional rate cuts beyond the October cut this year, but are expecting one 25 bps reduction in 2020. In the GCC, we expect most central banks, including Saudi Arabia, the UAE and Qatar, to cut their benchmark interest rates in line with the Fed given their currency pegs to the USD.

► **US: Important data week with 3Q GDP and October NFP**

A number of key US economic data releases are scheduled for this week, including the NFP report, ISM manufacturing (both October), the first print of 3Q GDP and the September PCE inflation figures. The consensus forecasts GDP growth to have decelerated to 1.6% q-o-q SAAR in 3Q from 2.0% in 2Q, reflecting the softening domestic demand amidst increased policy uncertainties and trade tensions. The moderation in GDP growth was likely due to softening personal consumption growth, which had remained robust in 1H2019. Meanwhile, weakening domestic economic activity and the automobile workers strike are expected to weigh negatively on the payroll data for October. The consensus forecasts the US economy to have created just 90K jobs in October, down from 136K in September. The unemployment rate is estimated to have ticked up to 3.6% in October after recording a 50-year low of 3.5% in September. However, wage growth is expected to have strengthened to 0.3% m-o-m in October from 0.0% in September.

► **Japan: BoJ to cut both GDP and inflation forecasts for FY2019**

Market economists are divided over the prospect of additional monetary easing at the 31 October BoJ meeting. Some economists are forecasting that interest rates will be cut deeper into negative territory, whilst others expect rates to remain steady for now, albeit with an extension of the forward guidance on rates. We believe that both scenarios have an equal chance of materialising, but argue that neither policy action is likely to have a significant impact in terms of improving the persistently weak economic and inflation backdrops. We envisage that the BoJ has very limited ammunition at this point and that it should save some of its easing room for worse economic conditions than at present. On economic projections, we expect both GDP growth and inflation forecasts to be revised down modestly for FY2019.

Economics Team

Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

Monica.Malik@adcb.com

Thirumalai Nagesh

Economist

+971 (0)2 696 2704

Thirumalainagesh.Venkatesh@adcb.com

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I. Recent Events and Data Releases

A. MENA Economies

Saudi Arabia: USD2.5 billion raised in new sukuk

The Saudi government, via the Ministry of Finance, last week raised USD2.5 billion through a sukuk, or Islamic bond, maturing in October 2029. This was the country's third international sukuk issue following the USD9 billion it raised in April 2017 and USD2 billion in September 2018. Notably, this is the first international debt sale by Saudi Arabia since the attack on its oil facilities in September. The issue was oversubscribed by more than five times, with orders in excess of USD13.0 billion, according to the Ministry of Finance. The huge demand from international investors helped the pricing to tighten 127 bps over mid-swaps from the initial guidance of c.145-150 bps over mid-swaps. The greater demand also helped Saudi Arabia price the sukuk with the lowest yield (2.96%) for 10-year securities. Prior to this transaction, the government had raised EUR3 billion (Euro bonds) in July and USD7.5 billion in January. The sukuk likely completes Saudi Arabia's external funding requirements for 2019. In the GCC region, governments and companies have issued USD17.2 billion worth of sukuk YTD compared to USD17.7 billion in 2018 in total, supporting the development of the Shariah-compliant debt capital markets.

Sukuk likely completes Saudi's external funding requirements for 2019

B. G4 Economies

Eurozone: No changes from ECB at October policy meeting

The ECB kept all its monetary policy instruments unchanged at President Mario Draghi's last policy meeting on 24 October, as widely expected. These include the deposit rate of -0.5% and the forward guidance for "interest rates to remain at their present or lower levels". The Governing Council also reaffirmed its commitment to re-starting QE at the beginning of November. The market's focus was on Draghi's last post-meeting press conference, where he took the opportunity to explain the need for restarting the asset purchase programme, whilst also pointing out the need for expansionary fiscal policy to boost the inflation outlook. He also downplayed the existing divisions within the GC and pointed out that the weak incoming data since the September meeting further justifies their actions. The tone of the meeting was once again dovish, with Draghi underlining that risks to the economic outlook are tilted to the downside. We believe that the highlighting of downside risks at this meeting is a precursor to lowering both GDP growth and inflation forecasts at the December policy meeting. Despite that, we do not see the possibility of the ECB announcing further monetary easing in the rest of 2019 or in 1Q2020. Looking ahead, attention will be on incoming President Christine Lagarde's approach in uniting the GC and taking forward the current accommodative monetary policy mechanism. We also expect the support for greater monetary and fiscal co-ordination to gather pace in 2020, especially to reflate the Eurozone economy.

We expect ECB to remain on hold for rest of 2019 and in 1Q2020

UK: Length of Article 50 extension by EU critical for way forward

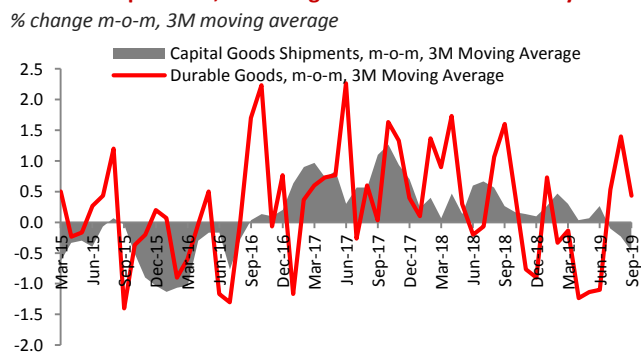
The UK government is expected to table a motion on Monday (28 October) asking MPs to vote on Prime Minister Boris Johnson’s plan for a snap general election on 12 December. Note that this will be Johnson's third request to Parliament for an early election, and it will need the support of the opposition parties to get approved. As it stands, opposition parties including Labour and the Liberal Democrats are expected to vote against the motion, which will likely create further uncertainty regarding the way forward. Meanwhile, there are indications that the Liberal Democrats have drawn up a new plan to secure a December general election with a simple majority of MPs in the House of Commons. It remains to be seen how the political situation will evolve during the week and how the government will take forward the withdrawal agreement bill (WAB), which was approved in principle by the MPs recently. Johnson last week announced that he would bring back the WAB only if the EU grants a short extension, i.e. to mid/end November; otherwise, he would prefer a snap election.

Parliament to vote on Monday on Johnsons’ plan to have snap general election on 12 December

Meanwhile, there is still no clarity over the length of the Article 50 extension that will be granted by the EU. The extension will probably be approved by the EU27 leaders in the coming week, though highlight the possibility that the decision could be delayed to close to the 31 October deadline. Overall, the political impasse in the UK continues with a number of uncertainties, although the risk of a no-deal Brexit has receded markedly. The GBP strengthened to a recent high of 1.30 against the USD this month due in part to the increased probability of the UK exiting the EU with a deal. However, uncertainties regarding the way forward resulted in the GBP weakening modestly to 1.28 against the USD at the end of last week. We believe that the GBP will strengthen further if Parliament approves a final reading of the withdrawal bill in the next three to six months.

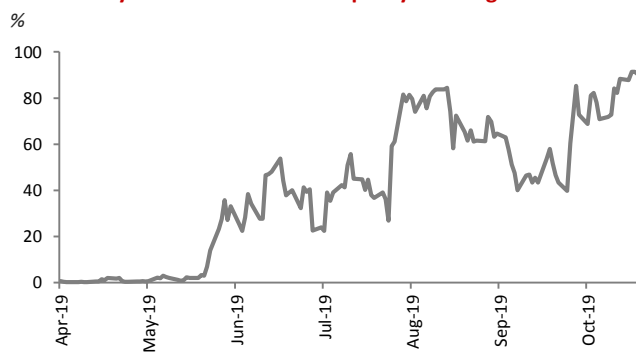
Length of Article 50 extension by EU critical for near-term political developments in UK

Fig. 1. US: Capital goods shipments fall by 0.7% m-o-m in September, reflecting weak investment activity



Source: US Census Bureau

Fig. 2. US: Market sees 90.4% probability of 25 bps rate cut by the FOMC at October policy meeting



Source: Bloomberg

US: Soft durable goods orders supportive for October FOMC rate cut

Durable goods orders for September showed that business investment and industrial sector activity remained weak going into 4Q. Headline durable goods orders contracted by 1.1% m-o-m in September, lower than both the consensus expectation for -0.7% and the August reading of 0.3% growth. Core capital goods shipments, which feed into the investment side of the GDP report, also contracted by 0.7% m-o-m in September, with the August data also revised down to flat (0.0% vs. 0.3% previously). The weak durable goods orders indicate that the global growth weakness and trade uncertainties continue to be reflected in the incoming data, despite some positive developments in the US-China trade negotiations. Looking ahead, the durable orders are likely to remain weak in

Durable goods orders point to persistent weakness in demand for US manufactured goods

October, partly reflecting the automobile workers strike during the month. Overall, the softening investment activity is supportive for another 25 bps FFTR cut at the upcoming October policy meeting, in our view.

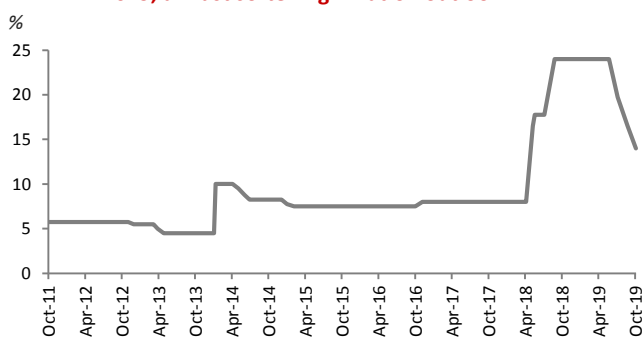
C. Emerging Market Economies

Turkey: CBRT delivers another large 250 bps rate cut in October

The CBRT reduced the benchmark one-week repo rate by 250 bps to 14.0% at its October policy meeting, beating the consensus estimate of a 100 bps cut. The central bank has lowered the benchmark policy rate by a cumulative 1000 bps in 2019 so far. Under the leadership of Murat Uysal, the central bank continued to over-deliver in its rate cuts for the third consecutive meeting since the rate-easing cycle began in July. Remarkably, none of the economists surveyed by Bloomberg had forecast a 250 bps cut at the October meeting. The central bank attributed the October rate cut to the recent disinflationary trend and improving inflation outlook. The CBRT highlighted that the headline inflation rate is likely to be “notably” below its current forecast of 13.9% by end-2019.

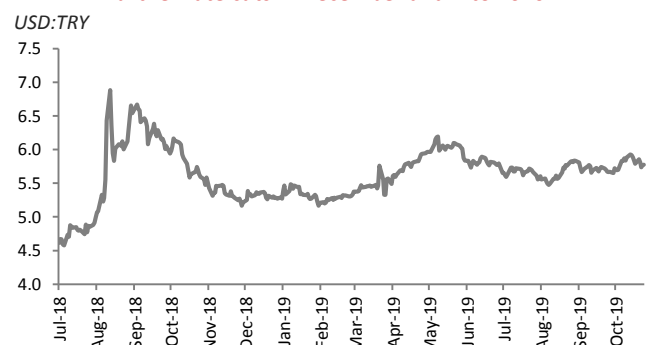
CBRT reiterates dovish view on inflation outlook

Fig. 3. Turkey: CBRT makes cumulative 10 ppt rate cut in 2019, amidst softening inflation outlook



Source: CBRT

Fig. 4. Turkey: TRY stability will be critical for CBRT to enact further rate cuts in December and into 2020



Source: Bloomberg

The real one-week repo rate is currently at 4.7% after the October rate cut, which is significant enough to keep the capital inflows steady for now. However, owing to base effects, headline inflation is expected to pick up to double digits from November 2019, narrowing the real rate, which in turn will reduce the attractiveness of Turkish assets in our view. We believe that the CBRT is likely to lower its year-end 2019 headline inflation forecast to 12.0% – 200 bps lower than the current one-week repo rate of 14.0%. The CBRT’s continuous dovish surprises make us believe that the central bank has a preference for a near-zero real one-week repo rate; hence, we see potential for another 100-150 bps rate cut at the December policy meeting.

We see potential for CBRT to cut benchmark rate by a further 100-150 bps at December meeting

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Sep	-2.0%	
	Saudi Arabia	Current Account Balance	2Q	\$11.52B	
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Sep	1883.1B	
Monday, 28 October					
13:00	Eurozone	M3 Money Supply, y-o-y	Sep	5.7%	5.7%
16:30	US	Wholesale Inventories, m-o-m	Sep P	0.2%	0.3%
18:30	US	Dallas Fed Manufacturing Activity	Oct	1.5	1.0
19:00	Eurozone	ECB President Draghi Speaks in Frankfurt			
Tuesday, 29 October					
3:30	Japan	Tokyo CPI, y-o-y	Oct	0.4%	0.7%
13:30	UK	Mortgage Approvals	Sep	65.5K	65.0K
18:00	US	Pending Home Sales, m-o-m	Sep	1.6%	0.5%
18:00	US	Conference Board Consumer Confidence	Oct	125.1	127.7
Wednesday, 30 October					
3:50	Japan	Retail Sales, y-o-y	Sep	2.0%	6.1%
16:15	US	ADP Employment Change	Oct	135K	110K
16:30	US	GDP Annualized, q-o-q	3Q A	2.0%	1.6%
16:30	US	Personal Consumption	3Q A	4.6%	2.6%
16:30	US	Core PCE, q-o-q	3Q A	1.9%	2.2%
22:00	US	FOMC Rate Decision (Upper Bound)	30-Oct	2.0%	1.75%
22:00	US	FOMC Rate Decision (Lower Bound)	30-Oct	1.75%	1.50%
22:00	US	Interest Rate on Excess Reserves	31-Oct	1.8%	1.55%
Thursday, 31 October					
3:50	Japan	Industrial Production, m-o-m	Sep P	-1.2%	0.4%
5:00	China	Manufacturing PMI	Oct	49.8	49.8
11:30	Turkey	Central Bank Inflation Report			
12:00	Eurozone	ECB Vice-President Guindos Speaks in Bilbao, Spain			
14:00	Eurozone	GDP SA, q-o-q	3Q A	0.2%	0.1%
14:00	Eurozone	CPI Core, y-o-y	Oct P	1.0%	1.0%
14:00	Eurozone	CPI Estimate, y-o-y	Oct	0.9%	0.7%
16:30	US	Personal Income	Sep	0.4%	0.3%
16:30	US	Personal Spending	Sep	0.1%	0.2%
16:30	US	PCE Core Deflator, m-o-m	Sep	0.1%	0.1%
16:30	US	PCE Core Deflator, y-o-y	Sep	1.8%	1.7%
17:45	US	MNI Chicago PMI	Oct	47.1	48.0
	Japan	BOJ Policy Balance Rate	31-Oct	-0.1%	
	Japan	BOJ 10-Yr Yield Target	31-Oct	0.0%	
Friday, 1 October					
5:45	China	Caixin China PMI Manufacturing	Oct	51.4	51.0
13:30	UK	Markit UK PMI Manufacturing SA	Oct	48.3	48.3
16:30	US	Change in Nonfarm Payrolls	Oct	136K	90K
16:30	US	Change in Manufacturing Payrolls	Oct	-2K	-50K
16:30	US	Unemployment Rate	Oct	3.5%	3.6%
16:30	US	Average Hourly Earnings, m-o-m	Oct	0.0%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Oct	2.9%	3.0%
16:30	US	Labor Force Participation Rate	Oct	63.2%	63.1%
18:00	US	ISM Manufacturing	Oct	47.8	49.0
17:30	US	Dallas Fed's Kaplan Speaks in Houston			
21:00	US	Fed's Clarida Speaks in New York			
21:00	US	Fed's Quarles Discusses the Price System			
22:30	US	Fed's Williams Takes Part in Moderated Q&A at Rutgers			

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Sep	-3.0%		-2.9%
	Saudi Arabia	CPI, y-o-y	Sep	-1.1%		-0.7%
	Bahrain	CPI, y-o-y	Sep	1.3%		1.2%
	Kuwait	CPI, y-o-y	Sep	1.2%		1.7%
Monday, 21 October						
3:50	Japan	Trade Balance	Sep	-¥136.3B	¥54.0B	-¥123.0B
8:30	Japan	All Industry Activity Index, m-o-m	Aug	0.2%	0.1%	0.0%
Tuesday, 22 October						
12:30	UK	PSNB, ex-Banking Groups	Sep	5.6B	9.7B	9.4B
18:00	US	Richmond Fed Manufacturing Index	Oct	-9.0	-7.0	8.0
18:00	US	Existing Home Sales	Sep	5.50M	5.45M	5.38M
Wednesday, 23 October						
15:00	US	MBA Mortgage Applications	18-Oct	0.5%		-11.9%
18:00	Eurozone	Consumer Confidence	Oct A	-6.5	-6.8	-7.6
Thursday, 24 October						
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Oct P	48.9		48.5
4:30	Japan	Jibun Bank Japan PMI Services	Oct P	52.8		50.3
4:30	Japan	Jibun Bank Japan PMI Composite	Oct P	51.5		49.8
9:00	Japan	Leading Index Cl	Aug F	91.7		91.9
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Oct P	45.7	46.0	45.7
12:00	Eurozone	Markit Eurozone Services PMI	Oct P	51.6	51.9	51.8
12:00	Eurozone	Markit Eurozone Composite PMI	Oct P	50.1	50.3	50.2
15:00	Turkey	One-Week Repo Rate	24-Oct	16.5%	15.5%	14.0%
15:45	Eurozone	ECB Main Refinancing Rate	24-Oct	0.0%	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	24-Oct	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	24-Oct	-0.5%	-0.5%	-0.5%
16:30	US	Durable Goods Orders	Sep P	0.3%	-0.7%	-1.1%
16:30	US	Cap Goods Orders, Non-def, ex-Air	Sep P	-0.6%	-0.1%	-0.5%
16:30	US	Cap Goods Ship, Non-def, ex-Air	Sep P	0.0%	-0.2%	-0.7%
17:45	US	Markit US Manufacturing PMI	Oct P	51.1	50.9	51.5
17:45	US	Markit US Services PMI	Oct P	50.9	51.0	51.0
17:45	US	Markit US Composite PMI	Oct P	51.0		51.2
18:00	US	New Home Sales	Sep	706K	702K	701K
Friday, 25 October						
10:00	Japan	Machine Tool Orders, y-o-y	Sep F	-35.5%		-35.5%
11:00	Turkey	Capacity Utilization	Oct	76.3%		76.4%
18:00	US	University of Michigan Sentiment	Oct F	96.0	96.0	95.5
18:00	US	University of Michigan 1-yr Inflation	Oct F	2.5%		2.5%

* UAE time

Source: Bloomberg

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