

The Week Ahead: Brexit political saga and Fed communication in spotlight

► **UK: Critical week ahead for Brexit**

No-deal Brexit concerns have ratcheted up after UK Prime Minister Boris Johnson decided to prorogue Parliament for five weeks beginning in mid-September, potentially around 9 September (page 2). Parliament will return from their summer recess on 3 September and the Opposition will have a chance to table legislation to stop a no-deal Brexit. However, it remains to be seen whether the pro-EU Parliamentarians will succeed in the short period of four days. If the pro-EU members fail to legislate against a no-deal Brexit, the Opposition will also have a chance to bring a no-confidence motion against the PM. The prospects of both a 'no deal' Brexit and a 2019 general election have risen, and the political developments in the coming weeks will be crucial to gauge possible outcomes. Meanwhile, the EU's Chief Negotiator Michel Barnier rejected the UK government's demand to scrap the Irish backstop, lowering the chances of a Brexit deal being secured ahead of the 31 October deadline.

► **US: Powell speech and August NFP data**

The focus in the US this week will be on Fed Chair Jerome Powell's speech on Friday, a day before the FOMC blackout period begins on 7 September. We expect Powell to reiterate his support for a 25 bps FFTR reduction in September, citing heightened trade uncertainty and slowing global growth. However, we do not expect him to move away from his mid-cycle adjustment stance at this point. A number of other Fed members, including John Williams, James Bullard, Eric Rosengren, Michelle Bowman and Neel Kashkari also have speaking engagements this week. Data-wise, the NFP report will be the key release this week. The consensus expects a still respectable 158K jobs to have been created in August following the 164K print for July. Average job creation in general has slowed to 165K in 7M2019 compared to 227K in 7M2018, though this still appears reasonable given the late phase of the current business cycle. However, potential early hiring for 2020 census workers by the federal government poses some upside risks to the August non-farm payrolls growth figure. Wage growth and unemployment are estimated to have remained steady at 0.3% m-o-m and 3.7%, respectively, in August. We believe that the labour market will remain healthy despite the increasingly uncertain economic outlook.

► **Global: New trade tariffs coming into effect; no deal in sight**

A new set of trade tariffs came into effect on 1 September with the US imposing a 15% tariff on c.USD120 billion worth of Chinese imports, as proposed previously. China in turn added duties (5% to 10%) on more US goods, including crude oil and some agricultural goods, also starting from 1 September. Despite the softening in tone from the US president and Chinese officials last week, the actions taken by both sides still do not point to any de-escalation of tensions. Looking ahead, there are indications that the trade talks scheduled between the US and China for September are likely to resume, though there is still no clarity on the date and level of the negotiations. A potential trade deal between the US and China looks unlikely in the near term, in our view.

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I. Recent Events and Data Releases

A. G4 Economies

UK: Risks of no-deal Brexit and general election rising

The UK government last week requested the Queen to ‘prorogue’ Parliament from 9 September to 14 October, which will be followed by the Queen’s speech to outline the government’s agenda. The request was approved by the Queen. The suspension of Parliament is a common procedure in the UK, but the length (five weeks) and timing of this one raises concerns among pro-EU supporters that the move was intended to shorten the time available to them to legally block a no-deal Brexit. Parliament will now have two short time-frames to act and pass legislation before the 31 October Brexit deadline (from 4-9 September; and after 22 October following the vote on the Queen’s Speech). However, it will be a big challenge to introduce a new bill and then proceed with the usual parliamentary process of debating, filibustering, amending, and passing it in both the House of Commons and the House of Lords. Even if the opposition has a majority to block a no-deal Brexit, it will not be easy to complete the above-mentioned process. Meanwhile, a vote of no confidence against PM Johnson looks possible, which could lead to a general election or a ‘government of national unity’. The probabilities of both a general election and a no-deal Brexit increased further last week due to the political developments and increasing uncertainties. Our base case is now for another Article 50 extension for a short period and a general election, though we highlight the difficulty in forecasting given the highly fluid and changing backdrop.

We see increasing probability of general election and another Article 50 extension

Fig. 1. Brexit timeline

Date	Event
03 September	Parliament returns after summer recess
09-12 September	Government begins process of prorogation
14 October	New parliament session opens with Queen's speech
16-17 September	European Council Summit
20-21 September	Voting on Queen's speech
31 October	Brexit deadline

Source: Bloomberg, BBC, HSBC

The UK government’s move is also being seen as a strategy to show the EU that it can deliver a no-deal Brexit against Parliament. The government will be hoping that the prorogation of Parliament will help as a negotiation tactic to extract some EU concessions on the Irish backstop, which in turn could help the government pass a new or tweaked withdrawal deal through Parliament. Despite the softening tone from the German Chancellor Angela Merkel and French President Emmanuel Macron in recent weeks, the indications are that the EU’s base case remains that the Irish backstop is a necessity. We do not think that the EU will back down from its current stance at this point, especially as political uncertainty in the UK has increased further.

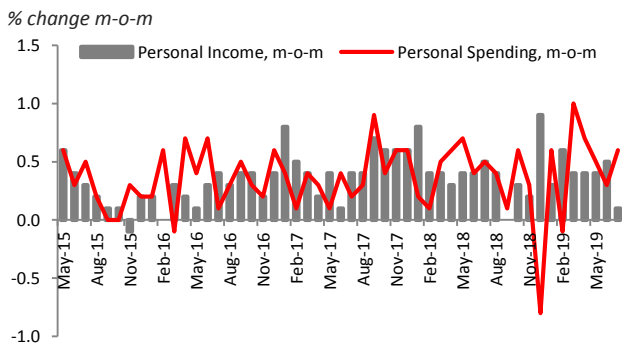
Irish backstop still remains key sticking point between EU and UK

US: Mixed data – Strong personal spending and falling investment

Incoming data from the US presented mixed views about the economic outlook for 3Q. Personal spending accelerated to 0.6% m-o-m in July (consensus: 0.5%) from 0.3% in June, suggesting that household spending remains healthy despite ongoing economic uncertainties. This was along the same lines as the strong July retail activity data released earlier. However, personal income growth decelerated to 0.1% m-o-m in July, which could potentially weaken household spending in the coming months. We see investment activity being more impacted by global uncertainties, including the slowing global growth and recent escalation in the US-China trade war. The capital goods shipments data, which feed into the investment side of the GDP data, contracted by 0.7% m-o-m in July with the June data also revised down to flat m-o-m. We see real GDP growth decelerating in 3Q versus 1Q and 2Q on the back of softening investment activity. Core PCE inflation remained steady at 0.2% m-o-m in July, keeping the y-o-y print also unchanged at 1.6%, indicating contained price pressures. We see both headline CPI and PCE inflation hovering below 2% over the remainder 2019, providing space for the Fed to cut rates further.

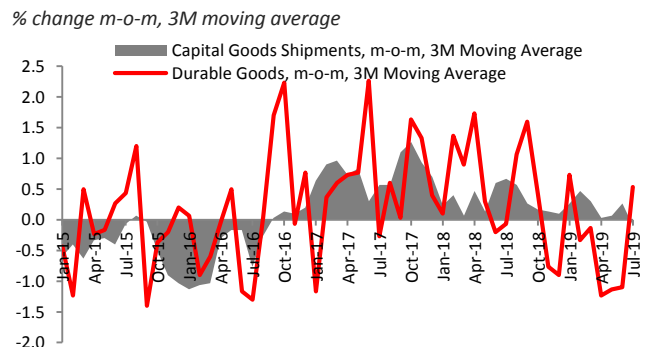
Core PCE inflation steady at 1.6% y-o-y in July, same as in June

Fig. 2. US: Personal spending growth strengthens in July whilst personal income growth slows



Source: Bureau of Economic Analysis

Fig. 3. US: Headline durable goods strengthens in July on strong aircraft orders though capex spending fell



Source: US Census Bureau

Meanwhile, Fed communications since Chair Jerome Powell’s Jackson Hole speech have been light, and have presented little further guidance to fine-tune rate-cut expectations ahead of the September FOMC meeting. Non-voting Richmond Fed President Thomas Barkin said that he is yet to decide on whether or not to support a rate cut in September. San Francisco Fed President Mary Daly (non-FOMC voter in 2019) also highlighted that she is in a “watch and see” position right now. However, the upcoming week will be a busy one with a number of Fed speakers – including Powell, John Williams and Michelle Bowman – having speaking engagements ahead of the blackout period that starts on 7 September.

Limited Fed guidance since Powell’s Jackson Hole speech

Eurozone: Subdued inflation pressure persists in August

Both headline and core inflation remained steady at 1.0% and 0.9% y-o-y, respectively, for the eurozone in August, indicating muted price pressures. The consensus was expecting core inflation to see a marginal pick-up to 1.0% y-o-y in August, though surprised to the downside for the second consecutive month. Weaker-than-expected core inflation in August and a deterioration in the growth backdrop have further strengthened our view that the ECB will likely announce monetary stimulus measures at

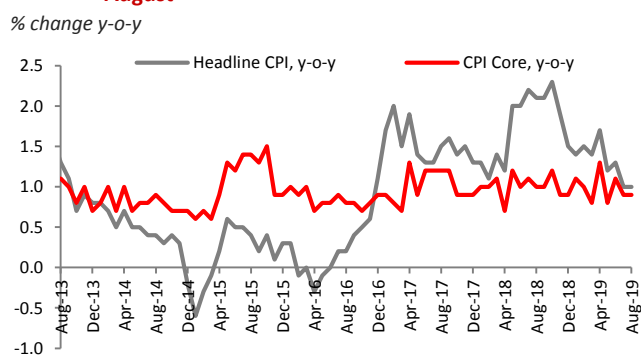
Core inflation steady at 0.9% y-o-y in August

its 12 September meeting. We see the central bank potentially announcing a 10 bps rate cut, deposit rate 'tiering', and the re-start of asset purchases at EUR15-30 billion per month for six months, starting from 1 October.

Meanwhile, ECB President-designate Christine Lagarde last week struck a dovish tone and highlighted that the "the ECB has a broad tool kit at its disposal and must stand ready to act". She also emphasised that the ECB's highly accommodative stance will be needed for "some time" and underlined that the central bank has not yet hit its effective lower bound on policy rates. Overall, Lagarde's comments were supportive of the ECB maintaining a highly accommodative monetary policy stance, matching current President Mario Draghi's views. We do not believe that the change in ECB leadership will lead to any material shift in the central bank's monetary policy stance at this point.

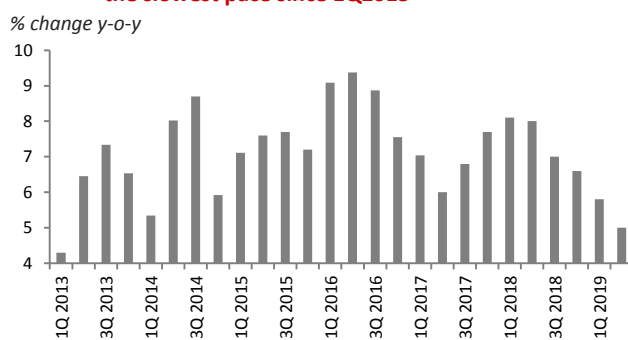
Christine Lagarde supports ultra-loose monetary policy stance

Fig. 4. Eurozone: Both headline and core inflation steady in August



Source: Eurostat

Fig. 5. India: Real GDP growth expanded by 5% y-o-y in 2Q – the slowest pace since 1Q2013



Source: India Central Statistical Organisation

B. Emerging Market Economies

India: GDP growth slows markedly to 5% in 2Q

Real GDP growth decelerated to a six-year low of 5.0% y-o-y in 2Q2019 from 5.8% in 1Q2019 (consensus: 5.7%), led primarily by weak domestic demand. The slowdown was anticipated though the magnitude has been a surprise. Private consumption growth decelerated sharply to an 18-quarter low of 3.1% y-o-y (1Q2019: 7.2%), in line with the slowdown highlighted by a number of proxy indicators including auto sales, consumer goods production and rural wages. Weak consumption activity also resulted in import growth decelerating markedly to 4.2% y-o-y in 2Q (1Q: 13.3%). Exports also slowed in yearly terms, though net exports contributed positively to GDP growth as the expansion in exports outpaced that of imports. Slowing global growth amidst heightened trade tensions between the US and China is likely to have a more marked impact in 2H than in 1H, in our view. Capital spending also remained weak despite election-related uncertainties fading in May. Slower credit disbursements by non-bank finance companies are likely to have weighed negatively on investment activity in 2Q. However, we expect some marginal improvement in investment growth in 2H over 1H, likely aided by lower interest rates and the government's recent reform measures to boost investor sentiment.

Private consumption growth decelerates to 18-quarter low of 3.1% y-o-y in 2Q from 7.2% in 1Q

We believe that GDP growth will likely improve modestly from 3Q, though do not see a sharp pick-up in activity. We now forecast India GDP growth of 6.3% for FY2020, down from 6.6% earlier. We believe that the RBI's 6.9% growth projection for FY2020 is

We now expect 40 bps repo rate cut by RBI at October meeting

optimistic and see potential for marked downwards revision at its October policy meeting. The weaker-than-expected growth may also result in the RBI over-delivering on rate-cut expectations again in October. We now forecast a 40 bps rate cut at the October policy meeting compared to our previous view of a 20 bps reduction in both October and December.

II. Economic Calendar

Fig. 6. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jul	-1.5%	
	Bahrain	CPI, y-o-y	Jul	0.2%	
	Bahrain	M2 Money Supply, y-o-y	Jul	11.3%	
	Kuwait	Annual GDP Current, y-o-y	2018	9.7%	
	Kuwait	M2 Money Supply, y-o-y	Jul	1.6%	
	Oman	Oil Output, y-o-y	Jul	-0.3%	
Monday, 2 September					
11:00	Turkey	GDP, y-o-y	2Q	-2.6%	-2.0%
11:00	Turkey	GDP SA/WDA, q-o-q	2Q	1.3%	0.4%
12:30	UK	Markit UK PMI Manufacturing SA	Aug	48.0	48.4
Tuesday, 3 September					
8:15	Egypt	Egypt PMI	Aug	50.3	
8:15	Saudi Arabia	Saudi Arabia PMI	Aug	56.6	
8:15	UAE	UAE PMI	Aug	55.1	
11:00	Turkey	CPI, y-o-y	Aug	16.7%	15.6%
11:00	Turkey	CPI Core Index, y-o-y	Aug	16.2%	14.7%
12:30	UK	UK Construction PMI	Aug	45.3	46.6
18:00	US	ISM Manufacturing	Aug	51.2	51.2
18:00	US	ISM Prices Paid	Aug	45.1	46.8
Wednesday, 4 September					
1:00	US	Fed's Rosengren Speaks in Easton, Massachusetts			
5:45	China	Caixin China PMI Services	Aug	51.6	51.7
12:30	UK	UK Composite PMI	Aug	50.7	50.5
12:30	Eurozone	ECB Presidential Nominee Lagarde Attends Hearing in Brussels			
15:00	US	MBA Mortgage Applications	30-Aug	-6.2%	
15:00	Eurozone	ECB's Lane Speaks in London			
16:30	US	Trade Balance	Jul	-\$55.2B	-\$53.5B
17:15	UK	BOE's Carney, Haldane, Haskel and Vlieghe Speak in Parliament			
17:25	US	Fed's Williams Speaks in New York			
18:00	Eurozone	ECB's Mersch Attends Hearing at European Parliament, Brussels			
20:30	US	Fed's Bowman, Bullard Address 'Fed Listens' Event in St. Louis			
20:30	Eurozone	ECB's Guindos Speaks in Frankfurt			
21:00	US	Fed's Kashkari Speaks in Town Hall Event in Minneapolis			
23:15	US	Fed's Evans Speaks at Event on North American Trade			
Thursday, 5 September					
16:15	US	ADP Employment Change	Aug	156K	146K
16:30	US	Initial Jobless Claims	31-Aug	215K	215K
18:00	US	Factory Orders	Jul	0.6%	1.0%
18:00	US	Durable Goods Orders	Jul F	2.1%	2.1%
18:00	US	Cap Goods Shipments, Non-defence, ex-Air	Jul F	-0.7%	
18:00	US	ISM Non-Manufacturing Index	Aug	53.7	54.0
Friday, 6 September					
9:00	Japan	Leading Index CI	Jul P	93.3	93.2
13:00	Eurozone	GDP SA, q-o-q	2Q F	0.2%	0.2%
13:00	Eurozone	Household Consumption, q-o-q	2Q	0.5%	0.2%
16:30	US	Change in Nonfarm Payrolls	Aug	164K	158K
16:30	US	Change in Private Payrolls	Aug	148K	150K
16:30	US	Unemployment Rate	Aug	3.7%	3.7%
16:30	US	Average Hourly Earnings, m-o-m	Aug	0.3%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Aug	3.2%	3.0%
20:30	US	Powell Speaks in Zurich on Economic Outlook			

* UAE time

Source: Bloomberg

Fig. 7. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	M2 Money Supply, m-o-m	Jul	2.2%		0.9%
	UAE	Central Bank Foreign Assets	Jul	377.2B		369.3B
	Saudi Arabia	CPI, y-o-y	Jul	-1.4%		-1.3%
	Saudi Arabia	M2 Money Supply, y-o-y	Jul	3.9%		3.9%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Jul	1899.4B		1865.9B
	Saudi Arabia	Non-Oil Exports, y-o-y	Jun	-19.9%		-4.7%
	Oman	CPI, y-o-y	Jul	0.0%		0.3%
	Oman	Nominal GDP YTD, y-o-y	1Q	12.0%		-1.6%
Monday, 26 August						
16:30	US	Chicago Fed Nat Activity Index	Jul	0.0	0.1	-0.4
16:30	US	Durable Goods Orders	Jul P	1.8%	1.2%	2.1%
16:30	US	Durables, ex-Transportation	Jul P	0.8%	0.0%	-0.4%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jul P	0.0%	0.1%	-0.7%
18:30	US	Dallas Fed Manufacturing Activity	Aug	-6.3	-4.0	2.7
Tuesday, 27 August						
5:30	China	Industrial Profits, y-o-y	Jul	-3.1%		2.6%
18:00	US	Richmond Fed Manufacturing Index	Aug	-12.0	-4.0	1
18:00	US	Conference Board Consumer Confidence	Aug	135.8	129.0	135.1
Wednesday, 28 August						
12:00	Eurozone	M3 Money Supply, y-o-y	Jul	4.5%	4.7%	5.2%
Thursday, 29 August						
11:00	Turkey	Trade Balance	Jul	-3.19B	-3.20B	-3.19B
16:30	US	GDP Annualized, q-o-q	2Q S	2.1%	2.0%	2.0%
16:30	US	Personal Consumption	2Q S	4.3%	4.3%	4.7%
16:30	US	GDP Price Index	2Q S	2.4%	2.4%	2.4%
16:30	US	Core PCE, q-o-q	2Q S	1.8%	1.8%	1.7%
16:30	US	Wholesale Inventories, m-o-m	Jul P	0.0%	0.2%	0.2%
18:00	US	Pending Home Sales, m-o-m	Jul	2.8%	0.0%	-2.5%
Friday, 30 August						
3:30	Japan	Jobless Rate	Jul	2.3%	2.3%	2.2%
3:30	Japan	Tokyo CPI, y-o-y	Aug	0.9%	0.6%	0.6%
3:50	Japan	Retail Sales, y-o-y	Jul	0.5%	-0.6%	-2.0%
3:50	Japan	Industrial Production, m-o-m	Jul P	-3.3%	0.3%	1.3%
12:30	UK	Mortgage Approvals	Jul	66.5K	66.1K	67.3K
13:00	Eurozone	Unemployment Rate	Jul	7.5%	7.5%	7.5%
13:00	Eurozone	CPI Core, y-o-y	Aug A	0.9%	1.0%	0.9%
13:00	Eurozone	CPI Estimate, y-o-y	Aug	1.1%	1.0%	1.0%
16:00	India	GDP, y-o-y	2Q	5.8%	5.7%	5.0%
16:00	India	GVA, y-o-y	2Q	5.7%	5.5%	4.9%
16:30	US	Personal Income	Jul	0.5%	0.3%	0.1%
16:30	US	Personal Spending	Jul	0.3%	0.5%	0.6%
16:30	US	PCE Core Deflator, m-o-m	Jul	0.2%	0.2%	0.2%
16:30	US	PCE Core Deflator, y-o-y	Jul	1.6%	1.6%	1.6%
17:45	US	MNI Chicago PMI	Aug	44.4	47.5	50.4
18:00	US	University of Michigan Sentiment	Aug F	92.1	92.4	89.8

* UAE time

Source: Bloomberg

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