The Week Ahead: ECB likely to announce package of easing measures; CBRT to cut

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Eurozone: ECB expected to cut, though doubts remain over QE

The ECB is widely expected to announce a monetary stimulus package at its 12 September meeting that includes: i) a 10 bps rate cut; ii) the tiering of deposit rates to counter the negative impact on banks' profitability; and iii) restarting asset purchases at EUR15-30 billion per month for six months from 1 October. The minutes of the July ECB meeting highlighted that the General Council had "discussed [the] benefits of combining rate cuts with bond purchases" instead of a less effective "sequence of selective policy actions", to have a greater immediate positive impact on the economy. Despite the dovish July minutes, some GC members have recently highlighted that they are not in favour of restarting QE (quantitative easing) and that an asset-purchase programme should only be used as a measure of last resort to counter deflation. The lack of consensus among the GC members for restarting QE may result in the ECB either announcing a small asset-purchase programme this week or postponing any QE announcement to October, with new forward guidance at the upcoming meeting. The October GC meeting will be President Mario Draghi's last one, following which Christine Lagarde will take over as head of the ECB.

Turkey: CBRT likely to cut rates by 275 bps

We also expect the CBRT to cut the benchmark one-week repo rate by 275 bps to 17.0% at its 12 September policy meeting. This would be the second consecutive rate reduction if enacted, following the 425 bps cut at its July meeting. Both headline and core inflation softened markedly in August to 15% y-o-y (July: 16.7%) and 13.6% (July: 16.2%), respectively, from the recent peak of 25.2% in October 2018 (page 5). The CBRT is likely to take advantage of the recent disinflation trend to lower the real one-week repo rate, currently at 4.75%. The global monetary easing cycle is also expected to remain conducive for the CBRT to enact rate cuts without negatively affecting foreign inflows and the TRY.

Global: OPEC+ members' meeting in focus

OPEC+ members will meet this week on the sidelines of the World Energy Congress (WEC) in Abu Dhabi (9-12 September) to discuss the latest oil market developments. We believe that the OPEC+ countries will reiterate their support for maintaining overall production below the agreed output cuts, amidst weakening global demand and the prevailing downward pressure on oil prices. Ahead of the WEC, Saudi Arabia appointed Abdulaziz bin Salman as the new energy minister, replacing Khalid al-Falih, who was also removed as board chairman of Aramco last week (page 3). We do not expect the move to have any impact on Saudi Arabia's oil policy stance. Separately, OPEC, EIA and IEA will release their monthly oil market reports for September this week, outlining their latest forecasts. Data wise, a number of key releases, including US CPI inflation and retail sales, India CPI, and China inflation are due. Elsewhere in the UK, Brexit-related political developments will also be in the spotlight, amidst increasing uncertainty and looming general elections.

I. Recent Events and Data Releases

A. MENA Economies

UAE: Dubai announces measures to support real estate sector

A key objective will be balancing real estate supply and demand

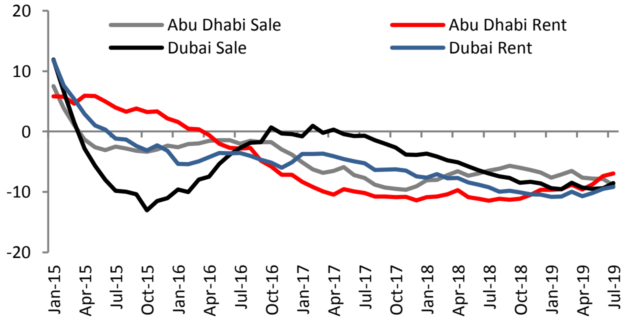
In early September, Dubai announced the establishment of the Higher Committee for Real Estate Planning, the key objectives of which include regulating projects and avoiding competition between GREs (government-related entities) and private firms. The committee will be headed by Dubai's Deputy Ruler, Sheikh Maktoum bin Mohammed, and will include representatives from Dubai's leading real estate developers. The committee will prepare a new 10-year strategic plan for real estate projects in Dubai, with the central aim of balancing real estate supply with demand. Dubai property prices have been moderating since mid-2014 due to oversupply, resulting in residential prices falling by over 25%. The property sector accounted directly for 7.2% of Dubai's GDP in 2018, though indirectly has a significantly larger share.

Impact of committee likely greater in medium to longer term, with a number of projects already in the pipeline

We believe that the formation of the committee is positive given the significance of the real estate sector to the economy and the ongoing multi-year correction. The UAE and Dubai have announced a number of measures to potentially boost demand for real estate over the past year or so, including some to improve the ease of doing business, open up FDI, relax residency requirements and provide longer-term visas. This latest development is significant as it highlights that the supply side also has to be addressed to help reduce the imbalance. No measures have been announced as yet as the body was only recently established. However, we believe that its impact in terms of managing supply (in line with demand) will likely be more effective in the medium to longer term. Projects already underway or where units have already been sold off-plan will still have to be delivered, therefore we still expect a significant increase in supply in 2019 and 2020. JLL data showed that around 16K new residential units were delivered in 1H2019 versus 22K in 2018 (full year) and 17K in 2017. Notably, a number of developers are already slowing down in terms of implementing projects, due to the weak market conditions. Looking forward, limiting supply will be positive for rebalancing the market, though weaker project activity (likely after 2020) will be reflected in softer investment activity and non-oil GDP growth. In a separate move to bolster demand for real estate, Emaar Properties launched short-term rentals for visitors within its integrated communities, which will help support returns on investment for purchasers. South Beach, situated in the Emaar Beachfront Development, will be the first area to be covered under the scheme.

Fig. 1. UAE: Oversupply in real estate sector continues to be reflected in falling sale and rental prices

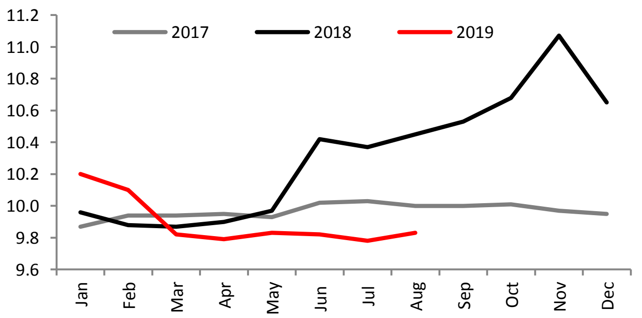
% change y-o-y



Source: REIDIN, ADCB calculations

Fig. 2. Saudi Arabia: Oil production lowered sharply from end-2018 to help rebalance oil market

Million b/d



Source: OPEC, Bloomberg

Saudi Arabia: New oil minister appointed; no changes to policy

Oil policy focus expected to remain on supporting the oil price

A number of meaningful changes have been announced regarding the leadership of the oil sector over the past few weeks. Overall, the developments indicate that Saudi Arabia is looking to push ahead with the stalled part-sale of Aramco, which is central to the transformation plan. Moreover, the IPO is vital for bolstering near-term economic activity by providing the government with funds to accelerate investment levels (led by the Public Investment Fund (PIF)), at a time of soft non-oil GDP growth and limited progress with the diversification of the economy. However, we do not expect any changes in the current oil policy or OPEC+ cooperation deal, with the central aim remaining on restraining output to provide support to the oil price. The oil price remains significantly below Saudi Arabia's budget breakeven level, limiting the ability of the government to raise spending. Moreover, a higher oil price is required for Saudi Arabia to reach a number of its medium-term fiscal targets, in our view. Prince Abdulaziz bin Salman was named as the new oil minister on 7 September, replacing Khalid al-Falih. The appointment represents the first time a member of the royal family has held the energy minister post. Prince Abdulaziz joined the oil ministry in the 1980s, serving in various positions including deputy minister and most recently minister of state for energy affairs from 2017. As such, he was likely central in forming the current oil policy and establishing the OPEC+ cooperation. For further details, please see our note – **Saudi Arabia: Significant changes to the oil sector leadership**, published on 8 September 2019.

B. G4 Economies

US: Hiring activity slows in August, whilst wage growth strengthens

Private sector hiring slowed to 96K in August, whilst government sector created 34K jobs

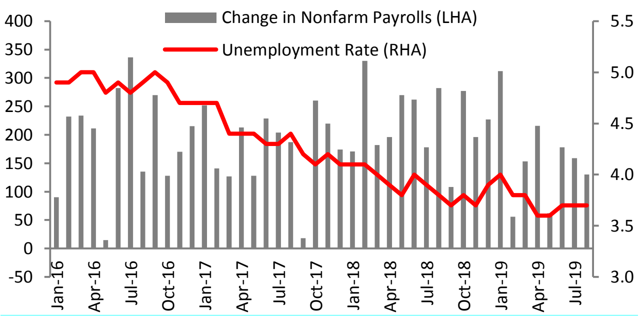
The US economy added 130K jobs in August, below the consensus expectation of 160K, with the pace of hiring slowing markedly in the private sector (96K). July NFP (nonfarm payrolls) data was revised down to 159K, from 164K in the first estimate, leading to a two-month net downward revision of 20K. The August jobs report confirms that the pace of job growth slowed to 158K in 8M2019 (vs. 234K in 8M2018), broadly reflecting the moderate weakening in domestic growth momentum. The fading of the fiscal stimulus effect and heightened trade tensions are likely starting to spill over into the broader economy. However, federal government employment rose 34K in August, reflecting temporary hiring for the 2020 Census and consensus expects this to continue into September. Meanwhile, wage inflation surprised to the upside and strengthened to 0.4% m-o-m in August (July: 0.3%), though y-o-y growth softened marginally to 3.2% (July: 3.3%). It remains to be seen whether the pick-up in wage growth will sustain into the coming months, especially given that any up-tick in recent years was followed by soft readings. Meanwhile, the unemployment rate held steady at 3.7%, as the rise in the participation rate was offset by the increase in the labour force.

Fed likely to proceed with a 25 bps rate cut at its 17-18 September meeting

Fed Chair Jerome Powell last week reiterated that the Fed will "act as appropriate to sustain the expansion", largely echoing his Jackson Hole remarks. The tone of Powell's speech was neutral, in our view, with an optimistic assessment of current economic conditions countered by rising external headwinds and downside risks to the inflation outlook. He also highlighted that the Fed is not expecting a recession. Other Fed members, including John Williams and Robert Kaplan, struck a cautious tone, highlighting greater uncertainty in the economy, though did not explicitly outline the magnitude of rate cut they would support at the September FOMC meeting. Despite the increasing political pressure from US President Trump to lower rates significantly, the recent Fed communication maintained its mid-cycle adjustment stance. We continue to expect a total of 75 bps FFTR cuts in 2019 (including the August reduction), with a 25 bps rate cut in each of September and October. Financial markets are also now assigning a low probability of a 50 bps FFTR reduction at the September FOMC meeting.

Fig. 3. US: Average jobs growth in 8M2019 slowed to 158K, down from a strong 234K in 8M2018

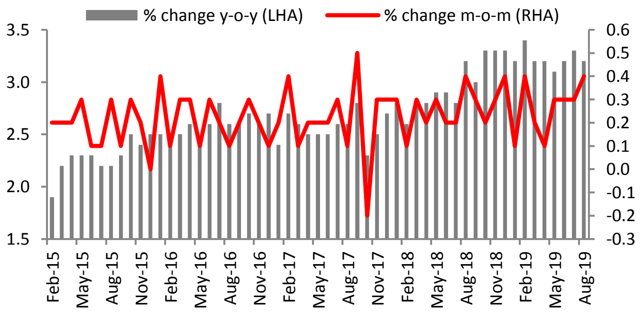
'000 (LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 4. US: Wage growth strengthened to 0.4% m-o-m in August, from 0.3% in July

% change



Source: Bureau of Labor Statistics

UK: Government likely to push for another vote to call snap elections

Timing of general elections remains uncertain

Political developments in the UK have been dramatic in the past week, with the Parliament approving a bill that requires Prime Minister Boris Johnson to extend the Article 50 deadline (at least until end-January) unless Parliament approves a deal with the EU by 19 October. The government also lost the vote in the House of Commons for a motion to call general elections on 15 October. Indications are that the government will try again on Monday to push for a vote in the House of Commons, to secure an early election. The legislators may again reject PM Boris Johnson's call, which may potentially lead Johnson to resign. General elections look imminent at this point, though their timing remains uncertain (i.e. before or after the 31 October deadline). We believe that the coming week's political developments will be critical in gauging the timing of the elections. We expect political uncertainty to remain high and see the potential for some more conservative Members of Parliament to resign from the government, following work and pensions secretary Amber Rudd's exit on Saturday.

C. Emerging Market Economies

China: PBoC cuts RRR, lowering borrowing costs for business

PBoC's RRR cuts will release CNY900 billion of liquidity into the economy

The PBoC announced last week a 50 bps cut in the Reserve Requirement Ratio (RRR) for all banks, effective 16 September. In addition, some city commercial banks will get a targeted 100 bps RRR cut, with a 50 bps reduction coming into effect from 15 October and the rest of the reduction from 15 November. Effectively, the RRR will now be 13% for large banks, 11% for medium-sized banks and 7.5% for small banks. The PBoC estimates that these RRR cuts will release CNY900 billion into the economy to boost growth. We believe that the intended RRR cuts will: i) help ensure sufficient liquidity during tax payments in mid-September; and ii) lower funding costs for banks. The PBoC statement highlighted that it will continue with a targeted monetary policy rather than inject a substantial supply of liquidity, as well as create a favourable environment both for high-quality economic developments and the supply-side structural reforms. We believe that the RRR cuts will help somewhat in countering the domestic and external headwinds facing the economy. The indications are that policymakers are increasingly concerned about the slowing economic growth and are looking to stabilise the economy with supportive monetary and fiscal stimulus measures. Looking ahead, we expect the PBoC to likely reduce the LPR (loan prime rate) by c.5-10 bps in the uoming months, followed by another 5 bps RRR cut in 4Q.

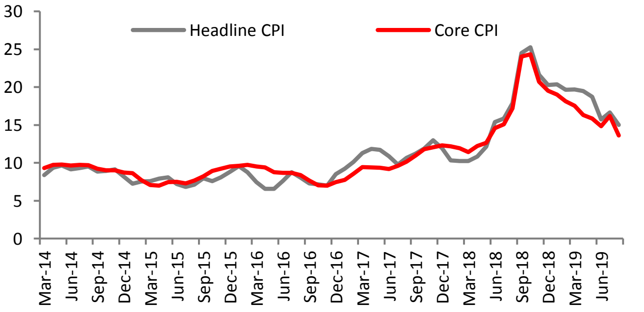
Turkey: Disinflationary trend supports further rate cuts

We expect 275 bps rate cut by CBRT at September meeting, though highlight potential for over-delivering

Headline inflation softened to a 15-month low of 15.0% y-o-y in August, down from both the consensus estimate of 15.6% and the July print of 16.6%, led by food prices. The CBRT's preferred core inflation (energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) measure also weakened to 13.6% y-o-y in August from 16.2% in July. The sharp disinflation was broad-based, with both core goods and services sub-segments seeing a moderation. We believe that headline inflation will soften further in September and October before strengthening somewhat from November. Meanwhile, 2Q GDP growth contracted for a third consecutive quarter by 1.5% y-o-y, though came in better than the consensus expectation of a 2% drop. The ongoing fall in economic growth is expected to remain conducive for the inflation outlook in the rest of 2019 and into 2020. The disinflation in August led the real one-week repo rate to 4.75%, which, in our view, opens up room for the CBRT to cut the benchmark rate by a further 275 bps at its September meeting. We also highlight the potential for the CBRT to over-deliver in terms of reducing the policy rate at its September meeting, as was the case in July when it reduced the repo rate by 425 bps compared to the consensus expectation of a 250 bps cut.

Fig. 5. Turkey: Both headline and core inflation softened in August, led by food prices

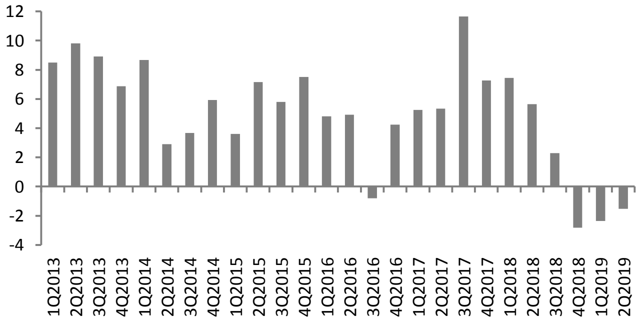
% change y-o-y



Source: Turkish Statistical Institute

Fig. 6. Turkey: Real GDP growth contracted for third consecutive quarter in 2Q2019

% change y-o-y



Source: Turkish Statistical Institute

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jul	-1.5%	
	Kuwait	M2 Money Supply, y-o-y	Jul	1.6%	
	Oman	CPI, y-o-y	Aug	0.3%	
	Qatar	CPI, y-o-y	Aug	-0.6%	
	Egypt	Trade Balance	Jun	-3337M	
	China	New Yuan Loans CNY	Aug	1060B	1200B
	China	Money Supply M2, y-o-y	Aug	8.1%	8.2%
	India	Imports, y-o-y	Aug	-10.4%	
	India	Exports, y-o-y	Aug	2.3%	
Monday, 9 September					
3:50	Japan	GDP SA, q-o-q	2Q F	0.4%	0.3%
3:50	Japan	GDP Annualized SA, q-o-q	2Q F	1.8%	1.3%
8:15	UAE	Dubai PMI	Aug	55.2	
12:00	UK	BOE's Vlieghe Speaks in London			
12:30	UK	Industrial Production, m-o-m	Jul	-0.1%	-0.30%
12:30	UK	Trade Balance, GBP million	Jul	£1779M	-£1500M
Tuesday, 10 September					
3:50	Japan	Money Stock M2, y-o-y	Aug	2.4%	2.4%
5:30	China	CPI, y-o-y	Aug	2.8%	2.6%
5:30	China	PPI, y-o-y	Aug	-0.3%	-0.9%
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Jul	3.7%	3.7%
12:30	UK	ILO Unemployment Rate, 3M	Jul	3.9%	3.9%
18:00	US	JOLTS Job Openings	Jul	7348	7311
	Egypt	Urban CPI, y-o-y	Aug	8.7%	
Wednesday, 11 September					
3:50	Japan	BSI Large All Industry, q-o-q	3Q	-3.7	
3:50	Japan	BSI Large Manufacturing, q-o-q	3Q	-10.4	
16:30	US	PPI Final Demand, m-o-m	Aug	0.2%	0.0%
16:30	US	PPI Final Demand, y-o-y	Aug	1.7%	1.7%
Thursday, 12 September					
3:50	Japan	Core Machine Orders, m-o-m	Jul	13.9%	-9.0%
8:30	Japan	Tertiary Industry Index, m-o-m	Jul	-0.1%	-0.3%
13:00	Eurozone	Industrial Production WDA, y-o-y	Jul	-2.6%	-1.4%
15:00	Turkey	One-Week Repo Rate	12-Sep	19.75%	17.0%
15:45	Eurozone	ECB Main Refinancing Rate	12-Sep	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	12-Sep	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	12-Sep	-0.4%	-0.5%
16:00	India	CPI, y-o-y	Aug	3.2%	3.4%
16:00	India	Industrial Production, y-o-y	Jul	2.0%	2.6%
16:30	Eurozone	ECB's Draghi Speaks in Frankfurt After Policy Decision			
16:30	US	CPI, m-o-m	Aug	0.3%	0.1%
16:30	US	CPI, ex-Food and Energy, m-o-m	Aug	0.3%	0.2%
16:30	US	CPI, y-o-y	Aug	1.8%	1.8%
16:30	US	CPI, ex-Food and Energy, y-o-y	Aug	2.2%	2.3%
16:30	US	Continuing Claims	31-Aug	1662K	1678K
Friday, 13 September					
11:00	Turkey	Industrial Production, m-o-m	Jul	-3.7%	1.4%
16:30	US	Import Price Index, m-o-m	Aug	0.2%	-0.5%
16:30	US	Retail Sales Advance, m-o-m	Aug	0.7%	0.2%
16:30	US	Retail Sales Control Group	Aug	1.0%	0.3%
18:00	US	University of Michigan Sentiment	Sep P	89.8	90.4

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Countries						
	Bahrain	CPI, y-o-y	Jul	0.2%		-0.4%
Monday, 2 September						
5:45	China	Caixin China PMI Manufacturing	Aug	49.9	49.8	50.4
9:00	India	Markit India PMI Manufacturing	Aug	52.5		51.4
11:00	Turkey	PMI Manufacturing	Aug	46.7		48
11:00	Turkey	GDP, y-o-y	2Q	-2.4%	-2.0%	-1.5%
11:00	Turkey	GDP SA/WDA, q-o-q	2Q	1.6%	0.4%	1.2%
12:30	UK	Markit UK PMI Manufacturing SA	Aug	48.0	48.4	47.4
	India	Eight Infrastructure Industries	Jul	0.2%		2.1%
Tuesday, 3 September						
3:50	Japan	Monetary Base, y-o-y	Aug	3.7%		2.8%
8:15	Egypt	Egypt PMI	Aug	50.3		49.4
8:15	Saudi Arabia	Saudi Arabia PMI	Aug	56.6		57.0
11:00	Turkey	CPI, y-o-y	Aug	16.7%	15.6%	15.0%
11:00	Turkey	CPI Core Index, y-o-y	Aug	16.2%	14.7%	13.6%
12:30	UK	Markit/CIPS UK Construction PMI	Aug	45.3	46.6	45.0
18:00	US	ISM Manufacturing	Aug	51.2	51.3	49.1
18:00	US	ISM Prices Paid	Aug	45.1	46.8	46.0
Wednesday, 4 September						
5:45	China	Caixin China PMI Services	Aug	51.6	51.7	52.1
12:30	UK	Markit/CIPS UK Composite PMI	Aug	50.7	50.5	50.2
13:00	Eurozone	Retail Sales, y-o-y	Jul	2.8%	2.0%	2.2%
15:00	US	MBA Mortgage Applications	30-Aug	-6.2%		-3.1%
16:30	US	Trade Balance	Jul	-$55.5B	-$53.4B	-$54.0B
Thursday, 5 September						
16:15	US	ADP Employment Change	Aug	142K	148K	195K
16:30	US	Initial Jobless Claims	31-Aug	216K	215K	217K
17:45	US	Markit US Services PMI	Aug F	50.9	50.9	50.7
18:00	US	Factory Orders	Jul	0.5%	1.0%	1.4%
18:00	US	Durable Goods Orders	Jul F	2.1%	2.1%	2.0%
18:00	US	Cap Goods Shipments, Non-defence, ex-Air	Jul F	-0.7%		-0.6%
18:00	US	ISM Non-Manufacturing Index	Aug	53.7	54.0	56.4
18:30	Eurozone	BOE's Tenreyro Speaks in Frankfurt				
Friday, 6 September						
9:00	Japan	Leading Index CI	Jul P	93.6	93.2	93.6
13:00	Eurozone	GDP SA, q-o-q	2Q F	0.2%	0.2%	0.2%
16:30	US	Change in Nonfarm Payrolls	Aug	159K	160K	130K
16:30	US	Change in Private Payrolls	Aug	131K	150K	96K
16:30	US	Unemployment Rate	Aug	3.7%	3.7%	3.7%
16:30	US	Average Hourly Earnings, m-o-m	Aug	0.3%	0.3%	0.4%
16:30	US	Average Hourly Earnings, y-o-y	Aug	3.3%	3.0%	3.2%

* UAE time
Source: Bloomberg

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