

## The Week Ahead: Fed's Powell testifies to Congress; Global inflation data

### ► **US: Powell's Humphrey-Hawkins testimony and CPI inflation**

Fed Chair Jerome Powell will deliver his Humphrey-Hawkins testimony to the House Financial Services Committee (11 February) and Senate Banking Committee (12 February) this week. The markets will focus on his comments on global risks, especially the Coronavirus and its potential impact on the US' economic growth and inflation outlooks. We expect Powell to acknowledge the increasing downside risks to the global economic outlook, whilst highlighting the need to wait for more clarity regarding Coronavirus. Meanwhile, the Senate will hold hearings for Fed nominees Judy Shelton and Christopher Waller on 13 February, and we believe both are likely to be confirmed as Fed Board members later in 2020. On the data front, the key releases this week will be January retail sales and CPI inflation. Consensus projects core CPI inflation to have accelerated to 0.2% m-o-m in January, supported by rising apparel prices, after softening surprisingly to 0.1% in December. Headline inflation is forecast to have remained steady at 0.2% m-o-m in January, with lower energy prices during the month likely offset by a strengthening in core inflation. Meanwhile, global crude prices remain under downward pressure, with Brent at USD54.5 p/b at the time of publishing amid uncertainty over how the OPEC+ might act to counter the low oil price backdrop. The OPEC+ technical committee last week recommended an additional provisional supply cut of 0.6 million b/d, although Russia called for more time to assess the oil market fundamentals.

### ► **EM: Marginal softening in India's headline inflation expected**

We expect headline inflation in India to have softened only modestly to 7.3% y-o-y in January after rising sharply to a multi-year high of 7.4% in December. We believe that food inflation, which was the key driver of the headline reading in 4Q2019, will have eased somewhat in January with the arrival of fresh crops to the market. However, an increase in telecommunication prices and low base during the previous year are likely to limit the headline reading's deceleration. The RBI governor Shaktikanta Das last week highlighted that inflation had already peaked and is likely to see a pronounced moderation in 1Q (page 3). Elsewhere in MENA, Egypt will release its January inflation data this week ahead of the CBE policy meeting on 20 February.

### ► **Europe: UK and Eurozone GDP data releases due this week**

The UK will release its first estimate of 4Q GDP data on 11 February. Consensus forecasts GDP growth remained flat (0.0% q-o-q) in 4Q (3Q: 0.4%), led by a slowdown in private consumption and a contraction in fixed investment activity. Incoming data, including the monthly GDP estimate for October and November, suggests that economic activity slowed significantly during the quarter due to political uncertainty ahead of December's general election. Meanwhile in the Eurozone, the second estimate of 4Q GDP growth will be scrutinised closely after the first print surprised to the downside and decelerated to a 27-quarter low of 0.1% q-o-q, from 0.3% in 3Q.

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## I. Recent Events and Data Releases

### A. G4 Economies

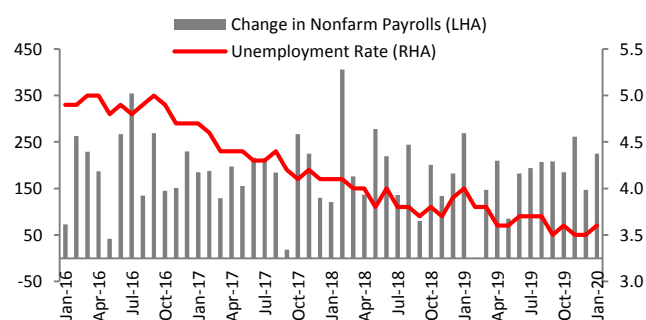
#### US: Solid labour market report in January; wage growth ticks up

The January labour market report was robust, with signs of wage growth acceleration and strong hiring activity. Nonfarm payrolls grew by 225K in January (December: 147K), versus the market expectation of 165K. The previous 2-month hiring was also revised up by a total of 7K, taking the 3-month moving average job creation to 211K. Jobs growth in January was broad-based, with both service and goods-producing sectors adding new jobs. Notable employment gains were seen in weather-sensitive industries, such as construction (44K), likely due to milder winter weather across the country. Service-providing jobs were up by a more trend-like 174K in January, driven by education and health services (72K), leisure and hospitality (36K), transportation and warehousing (28K), and professional and business services (21K). Despite the strong hiring activity, the unemployment rate increased to 3.6% (December: 3.5%), as the labour force participation rate rose to 63.4% during the month, from 63.2% in the previous month. Wage growth also accelerated to 0.2% m-o-m in January (December: 0.1%), but came in below the consensus expectation for a 0.3% increase. The lower-than-expected wage growth was likely due to the rising labour force participation and suggests that upside pressures on inflation remain contained. Annual wage growth also strengthened marginally to 3.1% y-o-y in January, from an upwardly revised 3.0% in December. Overall, the January job report should keep the Fed comfortably on hold, with a steady monetary policy stance.

*Weather-sensitive industries, such as construction, see notable job gains in January*

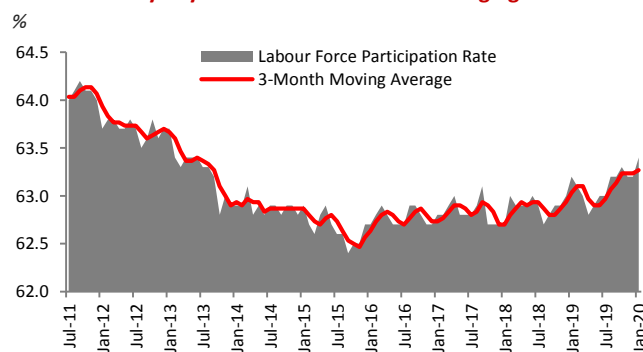
**Fig. 1. US: January jobs growth beats market expectations, but unemployment rate rises unexpectedly**

'000 (LHA); % (RHA)



Source: Bureau of Labor Statics

**Fig. 2. US: Pick-up in labour force participation in 2019 is likely key factor behind contained wage growth**



Source: Bureau of Labor Statics

The Bureau of Labor Statistics also published its comprehensive annual revisions, dating back to January 2015. The revised payrolls data suggests that job creation was weaker in the prior two years than originally reported. Much of the downward adjustments in NFP data centred on the retail and leisure & hospitality sectors. However, wage growth was stronger, reaching a peak of 3.5% y-o-y in February 2019, from 3.4% previously, likely due to fewer working hours helping to boost earnings calculations.

*Annual revisions show weaker jobs growth in previous two years*

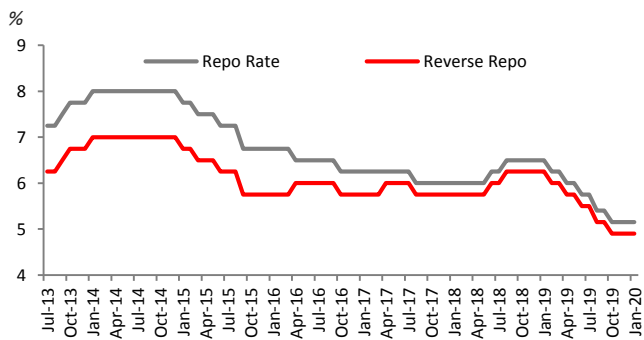
## B. Emerging Market Economies

### India: RBI keeps key policy rates on hold with dovish stance

The RBI kept its benchmark policy rate steady at 5.15% at its February meeting, in line with our and consensus expectations. The statement highlighted that the accommodative monetary policy stance would continue for as long as necessary to boost growth, whilst ensuring that inflation remains within the RBI's target of 4% (+/-2pp). The tone of the meeting was dovish, with the RBI highlighting that "there is policy space available for future action", despite inflation being above its upper bound target of 6.0%. The MPC highlighted that the inflation "outlook remains highly uncertain" and underlined a number of upside and downside risks. Upside risks to the outlook emanate from rising telecommunication prices and the government's customs duty hike on several products in its FY2021 budget (toys, footwear and furniture items). Downside risks are from softening food inflation and weak underlying domestic demand. The RBI forecasts CPI inflation to average 6.5% in 1Q2020, 5.0-5.4% in 2Q and 3Q, and 3.2% in 4Q. In our earlier research, we highlighted that headline inflation is likely to soften gradually towards 5.0-5.2% y-o-y by May 2020. For further details, please see our note – **India: Budget proposes limited stimulus measures to revive economic growth**, published on 5 February 2020. On the economic growth outlook, the MPC noted that economic activity has weakened further since the last meeting and estimated GDP growth of 6.0% for FY2021 (Apr. 2020 – Mar.2021), which is higher than our forecast of 5.7%.

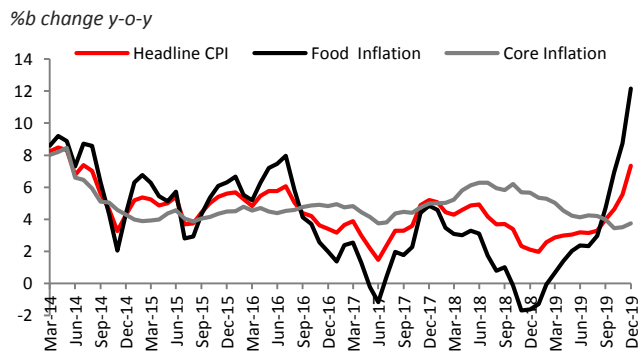
*RBI forecasts GDP growth for FY2021 of 6.0%, higher than our estimate of 5.7%*

**Fig. 3. India: RBI remains on hold with accommodative monetary policy stance**



Source: RBI

**Fig. 4. India: Volatile food inflation key driver of headline inflation in 4Q2019**



Source: Ministry of Statistics and Programme Implementation

Meanwhile, the RBI has undertaken some policy initiatives to improve the monetary transmission of interest rate cuts to the real economy. The central bank has introduced long-term repo operations (LTROs) of 1-3-year tenors (worth INR1 trillion) to boost credit growth. In addition, to improve credit availability to productive sectors, such as automobiles, residential construction, and micro, small and medium enterprises (MSME), the RBI has introduced exemption from cash reserve ratio (CRR) calculations on incremental loans to these sectors from 31 January to 31 July 2020. Following the RBI announcement, India's largest public sector bank, the State Bank of India (SBI), lowered its marginal cost of funds-based lending rate (MCLR) by 5 bps across all tenors, effective from 10 February. The 1-year MCLR now stands at 7.85%. We believe that other banks will make similar MCLR cuts in the coming days, resulting in lower home and auto loan rates.

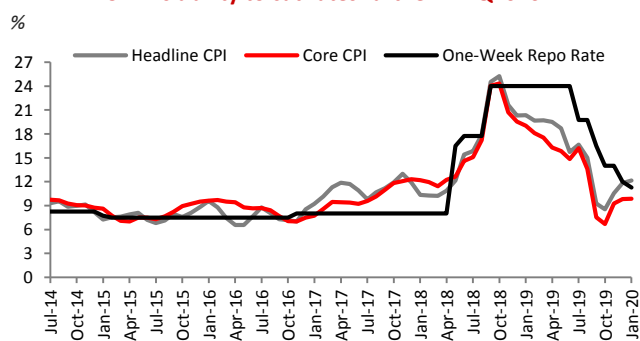
*RBI announces new regulatory measures to improve monetary policy transmission to real economy*

## Turkey: Headline inflation strengthens to 12.2% in January

Headline inflation accelerated to a five-month high of 12.2% y-o-y in January (December: 11.8%), beating the consensus expectation of an 11.9% rise. The CBRT's preferred core inflation measure (excluding food, energy, alcohol, tobacco, and gold) strengthened to 9.9% y-o-y in January, from 9.8% in December. The rise in headline inflation was mainly due to higher crude oil prices than in 2019 and still elevated food prices. The increase in inflation was in spite of the government's recent decision to cancel an automatic tax increase on tobacco and alcohol prices. Despite keeping taxes steady on alcoholic beverages and tobacco products, the weight of this segment was revised up to 6.06% of the CPI basket for 2020, from 4.23% in 2019. We believe this is likely to boost overall headline inflation by c.0.1-0.2 pp in 2020, likely due to the inelastic demand for these products.

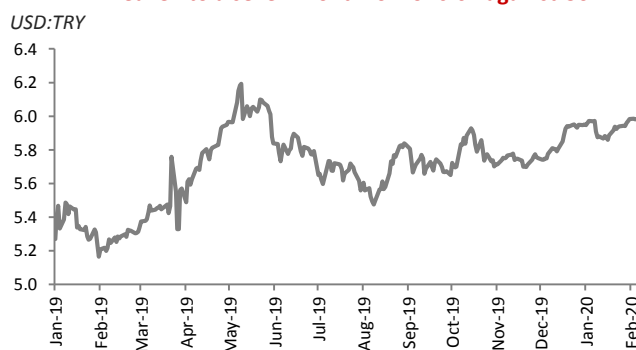
*Core CPI inflation rises marginally to 9.9% y-o-y in January, from 9.8% in December*

**Fig. 5. Turkey: Rising inflation and TRY weakness may limit CBRT's ability to cut rates further in 1Q2020**



Source: Turkish Statistical Institute, CBRT

**Fig. 6. Turkey: Negative real interest rate leads TRY to weaken to a seven-month low of 6.01 against USD**



Source: Bloomberg

The strengthening headline inflation in January has resulted in the real one-week repo rate falling deeper into negative territory to -0.9%, from -0.6% earlier. The TRY has remained under downward pressure since the CBRT's mid-January rate cut and weakened to 6.01 against the USD at the end of last week – the lowest point since end-May 2019. The TRY weakness if persists is likely to result in imported inflation strengthening in the near term, in our view. We believe that headline inflation will remain elevated at around 11-12% in 1Q, followed by a gradual easing in 2Q and 3Q, although this is dependent on the TRY remaining broadly stable at current levels. We expect the CBRT to remain on hold at its 20 February meeting, given the increasing upside risks to the inflation outlook. Nevertheless, we still see scope for an additional c.200-250 bps of rate cuts in 2020, with year-end inflation expected to soften to around 8.5%, from the current level of 12.2%.

*CBRT likely to remain on hold at its 20 February meeting, amidst rising inflation and weakening TRY*

## China: January trade data release postponed to March 2020

China's Customs Bureau last week announced that it would delay the release of January's trade data and combine it with the February reading. The statement highlighted that the change was to make it consistent with other economic releases, including industrial production and retail sales, which are published by the National Bureau of Statistics (NBS). Note that the NBS historically publishes the first two months of the year together

*Exports growth contracts in Taiwan, Vietnam and South Korea in January*

to iron out activity disruptions caused by the Lunar New Year (LNY). Meanwhile, China's close trading partners, such as Taiwan, South Korea and Vietnam, who also celebrate LNY, have released their trade data for January. Taiwan's exports growth contracted by 7.6% y-o-y in January, with exports to China and Hong Kong falling by 7.8% during the month (December: +6.2%). Vietnam's exports also dropped by 14.3% y-o-y in January, compared to the consensus estimate for a 10.1% rise. The contraction in exports from Taiwan and Vietnam suggests that the negative impact of Coronavirus on trade activity was greater than expected, even during the initial phase of the virus' outbreak. We believe that exports of most of the East Asian countries will likely see greater contraction in February.

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	Dubai CPI, y-o-y	Jan	-2.0%	
	Oman	CPI, y-o-y	Jan	-0.2%	
	Qatar	CPI, y-o-y	Jan	-0.3%	
	Qatar	GDP Constant Prices, y-o-y	3Q	-1.4%	
	China	Money Supply M2, y-o-y	Jan	8.7%	8.6%
	China	New Yuan Loans CNY	Jan	1140.0B	3100.0B
	India	Exports, y-o-y	Jan	-1.8%	
<b>Monday, 10 February</b>					
5:30	China	PPI, y-o-y	Jan	-0.5%	0.0%
5:30	China	CPI, y-o-y	Jan	4.5%	4.9%
8:15	UAE	Dubai PMI	Jan	52.3	
22:45	US	Fed's Daly Speaks in Dublin			
	Egypt	Urban CPI, y-o-y	Jan	7.1%	
<b>Tuesday, 11 February</b>					
0:15	US	Fed's Harker Discusses Economic Outlook			
13:30	UK	GDP, q-o-q	4Q P	0.4%	0.0%
13:30	UK	GDP, y-o-y	4Q P	1.1%	0.8%
13:30	UK	Private Consumption, q-o-q	4Q P	0.3%	0.1%
13:30	UK	Industrial Production, m-o-m	Dec	-1.2%	0.3%
13:30	UK	Trade Balance, GBP Million	Dec	£4031M	-£350M
18:00	Eurozone	ECB President Lagarde Speaks at Strasbourg European Parliament			
19:00	US	House Panel Holds Hearing on Monetary Policy and Economy			
19:00	US	JOLTS Job Openings	Dec	6800	6850
19:35	UK	BOE Governor Carney Speaks Before Lords Committee			
21:15	US	Fed's Quarles Speaks on Bank Supervision			
23:15	US	Fed's Kashkari Speaks in Kalispell, Montana			
<b>Wednesday, 12 February</b>					
03:50	Japan	Money Stock M2, y-o-y	Jan	2.7%	2.8%
14:00	Eurozone	Industrial Production SA, m-o-m	Dec	0.2%	-1.7%
16:00	India	CPI, y-o-y	Jan	7.4%	7.5%
16:00	India	Industrial Production, y-o-y	Dec	1.8%	1.9%
19:00	US	Fed's Powell Testifies Before Senate Banking Panel			
23:00	US	Monthly Budget Statement	Jan	-\$13.3B	-\$10.0B
<b>Thursday, 13 February</b>					
11:00	Turkey	Industrial Production, m-o-m	Dec	0.7%	0.3%
17:30	US	CPI, m-o-m	Jan	0.2%	0.2%
17:30	US	CPI, ex-Food and Energy, m-o-m	Jan	0.1%	0.2%
17:30	US	CPI, y-o-y	Jan	2.3%	2.4%
17:30	US	CPI, ex-Food and Energy, y-o-y	Jan	2.3%	2.2%
19:00	US	Senate Panel Holds Hearing for Fed Nominees Shelton, Waller			
<b>Friday, 14 February</b>					
2:30	US	Fed's Williams Speaks in New York			
08:30	Japan	Tertiary Industry Index, m-o-m	Dec	1.3%	0.1%
11:00	Turkey	Current Account Balance	Dec	-0.52B	-3.0B
14:00	Eurozone	GDP SA, q-o-q	4Q P	0.1%	0.1%
14:00	Eurozone	GDP SA, y-o-y	4Q P	1.0%	1.0%
17:30	US	Import Price Index, m-o-m	Jan	0.3%	-0.2%
17:30	US	Retail Sales Advance, m-o-m	Jan	0.3%	0.3%
17:30	US	Retail Sales Control Group	Jan	0.5%	0.3%
18:15	US	Industrial Production, m-o-m	Jan	-0.3%	-0.3%
19:00	US	University of Michigan Consumer Sentiment	Feb P	99.8	99.3

\* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	UAE	CPI, y-o-y	Dec	-1.4%		-1.4%
<b>Monday, 3 February</b>						
9:00	India	Markit India PMI Manufacturing	Jan	52.7		53.3
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Jan	49.5		51.3
11:00	Turkey	CPI, y-o-y	Jan	11.8%	11.9%	12.2%
11:00	Turkey	CPI Core Index, y-o-y	Jan	9.8%	9.7%	9.9%
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Jan F	47.8	47.8	47.9
13:30	UK	Markit UK PMI Manufacturing SA	Jan F	49.8	49.8	50.0
18:45	US	Markit US Manufacturing PMI	Jan F	51.7	51.7	51.9
19:00	US	ISM Manufacturing	Jan	47.2	48.5	50.9
19:00	US	ISM Prices Paid	Jan	51.7	51.5	53.3
<b>Tuesday, 4 February</b>						
3:50	Japan	Monetary Base, y-o-y	Jan	3.2%		2.9%
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Jan	56.9		54.9
8:15	UAE	IHS Markit UAE PMI	Jan	50.2		49.3
8:15	Egypt	IHS Markit Egypt PMI	Jan	48.2		46.0
19:00	US	Factory Orders	Dec	-1.2%	1.2%	1.8%
19:00	US	Durable Goods Orders	Dec F	2.4%	2.4%	2.4%
19:00	US	Capital Goods Shipments, Non-defence, ex-Air	Dec F	-0.4%		-0.3%
<b>Wednesday, 5 February</b>						
4:30	Japan	Jibun Bank Japan PMI Services	Jan F	52.1		51.00
5:45	China	Caixin China PMI Services	Jan	52.5	52.0	51.8
9:00	India	Markit India PMI Services	Jan	53.3		55.5
13:00	Eurozone	Markit Eurozone Services PMI	Jan F	52.2	52.2	52.5
13:30	UK	Markit/CIPS UK Services PMI	Jan F	52.9	52.9	53.9
14:00	Eurozone	Retail Sales, y-o-y	Dec	2.3%	2.3%	1.3%
14:00	Qatar	Qatar Financial Center PMI	Jan	49.4		48.7
17:15	US	ADP Employment Change	Jan	199K	157K	291K
17:30	US	Trade Balance	Dec	-\$43.7B	-\$48.2B	-\$48.9B
18:45	US	Markit US Services PMI	Jan F	53.2	53.2	53.4
19:00	US	ISM Non-Manufacturing Index	Jan	54.9	55.1	55.5
<b>Thursday, 6 February</b>						
10:15	India	RBI Repurchase Rate	6-Feb	5.15%	5.15%	5.15%
10:15	India	RBI Reverse Repo Rate	6-Feb	4.9%	4.9%	4.9%
10:15	India	RBI Cash Reserve Ratio	6-Feb	4.0%	4.0%	4.0%
<b>Friday, 7 February</b>						
9:00	Japan	Leading Index	Dec P	90.8	91.3	91.6
17:30	US	Change in Nonfarm Payrolls	Jan	147K	165K	225K
17:30	US	Change in Manufacturing Payrolls	Jan	-5K	-2K	-12K
17:30	US	Unemployment Rate	Jan	3.5%	3.5%	3.6%
17:30	US	Average Hourly Earnings, m-o-m	Jan	0.1%	0.3%	0.2%
17:30	US	Average Hourly Earnings, y-o-y	Jan	3.0%	3.0%	3.1%
17:30	US	Labor Force Participation Rate	Jan	63.2%	63.2%	63.4%
19:00	US	Wholesale Inventories, m-o-m	Dec F	-0.1%	-0.1%	-0.2%
	China	Foreign Reserves	Jan	\$3107.9B	\$3105.8B	\$3115.5B

\* UAE time

Source: Bloomberg

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