

The Week Ahead: BoE likely to hint at near-term rate cut; Fed on hold

► **Global: FOMC meeting; 4Q GDP growth and PCE inflation**

Global growth concerns have heightened significantly following the spread of the coronavirus impacting travel and business activity, especially in China over the Lunar New Year where the holiday has been extended. Risk-off sentiment has gathered pace with increased demand for safe haven assets, including US treasuries, USD and JPY, whilst industrial commodities such as oil and copper sold off. It is difficult to fully gauge the effect of the coronavirus on global growth at this point, although we expect a negative impact in 1Q2020. Looking ahead to this week, the Fed and BoE meetings will be the key events. We expect the Fed to keep the FFTR on hold with the upper bound remaining at 1.75% at its 28-29 January meeting. The tone of the meeting is likely to be neutral, with any changes to the statement likely to be subtle. We expect the FOMC to present a relatively optimistic assessment of the US economy as the incoming data continues to point to solid underlying momentum. However, the Fed is likely to strike a cautious tone on inflation due to subdued price pressures. Overall, we see the Fed maintaining its wait-and-see approach for now. However, the interest rate on excess reserves (IOER) is likely to be raised by 5 bps to 1.6% – close to the mid-point of the Fed Funds target range. Data wise, 4Q GDP growth (first estimate), December PCE inflation and durable goods orders are the key US releases due this week. Consensus forecasts 4Q GDP growth to have remained steady at 2.1% q-o-q SAAR from 3Q, driven by household spending.

► **UK: BoE likely to hold, although decision a close call**

We and the consensus expect the BoE to keep its monetary policy on hold at its 30 January meeting, although we do not rule out the possibility of a rate reduction. Markets are now seeing a 54.8% probability (70.0% a week ago) of a 25 bps rate cut at the January meeting after both labour and PMI data surprised to the upside last week (page 3). The tone of the meeting is likely to be more dovish than the previous one, with the MPC potentially hinting at a rate reduction in subsequent meetings (either March or May). We believe four of the nine MPC members are likely to vote for a rate reduction in January – just one short of a majority. Hence, we believe that outgoing Governor Mark Carney's vote will be critical in shaping the decision.

► **India: Budget to outline measures to stimulate demand**

India will release its budget for FY2021 (Apr. 2020 – Mar. 2021) on 1 February with the government likely to announce targeted stimulus measures to revive the slowing economic activity. Increased infrastructure spending, targeted support for small-scale industries and a potential income tax cut for individuals are likely to be the key policy announcements, in our view. Fiscal space remains tight, as the sharp economic slowdown in the current FY2020 and corporate tax cuts (announced Sept. 2019) are resulting in lower government revenues and a widening of the deficit to an estimated c.3.7-3.8% of GDP for FY2020. We expect the central government to target a narrower deficit of c.3.5% of GDP for FY2021, albeit largely due to stronger GDP growth.

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I. Recent Events and Data Releases

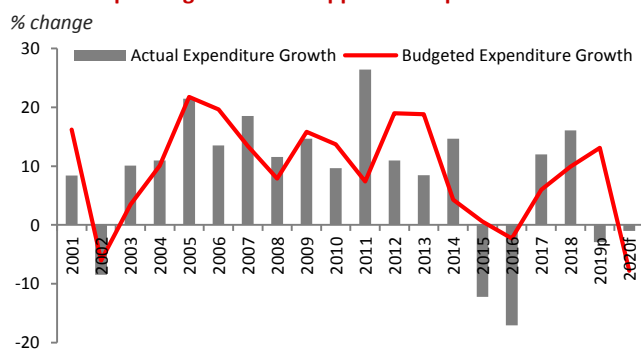
A. MENA Economies

Saudi Arabia: Government raises USD5 billion with attractive pricing

The Saudi government returned to the international debt market last week, representing the first international issuance from a GCC state this year. The paper was split into three tranches: i) a USD1.5 billion seven-year note at 85 bps over US Treasuries (2.54% yield); ii) a USD1.0 billion 12-year note at 110 bps over US Treasuries (2.88% yield); and iii) a USD2.75 billion 35-year note at 160 bps over US Treasuries (3.85% yield). Notably, the 35-year bond is the longest maturity for international debt ever issued by the Saudi government. Over USD23 billion in orders was received for the triple-tranche paper, reflecting strong demand for Saudi debt and resulting in a tightening in the price from the initial guidance. The initial guidance was around 110 bps over US Treasuries for the seven-year offering, 135 bps for 12-year debt and 180 bps for the 35-year bond. Interest in the longer-dated maturities was likely supported by a search for higher yields in a low global interest rate environment, especially by pension funds and insurance companies. Saudi Arabia is reducing its cost of raising debt versus its last three years and extending its debt maturity profile.

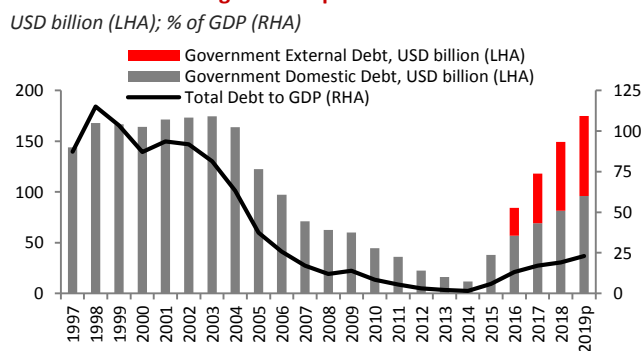
Saudi Arabia takes advantage of low international rate environment and extends its debt maturity curve

Fig. 1. Saudi Arabia: Government budget looks to lower spending in 2020 to support fiscal prudence



Source: Ministry of Finance, ADCB estimates

Fig. 2. Saudi Arabia: Debt to GDP ratio remains low, although debt is rising at a fast pace in absolute terms



Source: Ministry of Finance, ADCB estimates

Official comments indicate that Saudi Arabia may issue around USD4.0 billion of international debt in 2020, potentially including EUR and Islamic debt, to help cover the fiscal shortfall. Saudi Arabia is looking to raise c.USD32 billion of debt in 2020 (external and domestic), with some USD12 billion directed towards refinancing existing debt. Saudi Arabia announced a conservative budget for 2020 with government spending slated to fall by 2.7% from actual spending in 2019 (preliminary). For further details, please see our note – **Saudi Arabia 2020 Budget: Government spending to fall, PIF to support activity**, published on 10 December 2019.

Saudi Arabia looking to raise a further USD4 billion in international debt this year

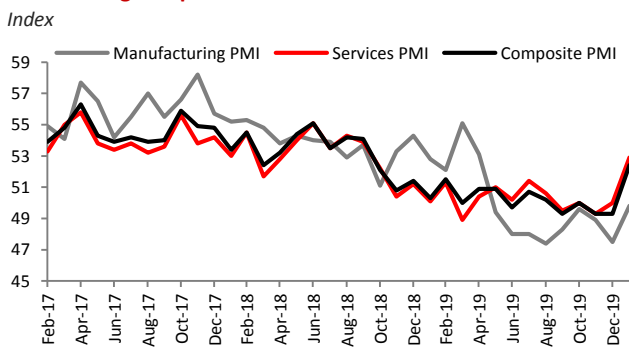
B. G4 Economies

UK: Labour and PMI data lower possibility of January rate cut

The recent data releases out of the UK have been mixed, pointing to uncertainty over the economic momentum. The PMI data for January showed a broad-based improvement in economic activity, suggesting that economic sentiment has improved since the general elections in December. Composite PMI has increased to 52.4 in January (December: 49.3), the highest point since October 2018, led by both manufacturing and services sub components. The labour market data for November released last week also showed a positive picture, with hiring activity remaining solid despite the political uncertainties during the month. However, other hard data releases, including December retail sales and November industrial production, showed a contraction in activity. The mixed incoming data ahead of the January BoE meeting suggests that a rate cut would be a close call, with a 50:50 chance. We expect a 5-4 vote to keep rates on hold at 0.75% on 30 January, but we do not rule out the possibility of a rate cut. We forecast that all four external MPC members will vote for a rate cut in January. Hence, the onus is likely to be on the outgoing BoE Governor Mark Carney's call, which may shift some deputy governors to vote in favour of a rate cut. Markets are currently seeing a 54.8% probability of a 25 bps rate cut at the January meeting, down from over 70.0% a week ago, following the release of the PMI and labour data. Looking ahead, we expect the tone to be dovish, pointing to an easing bias.

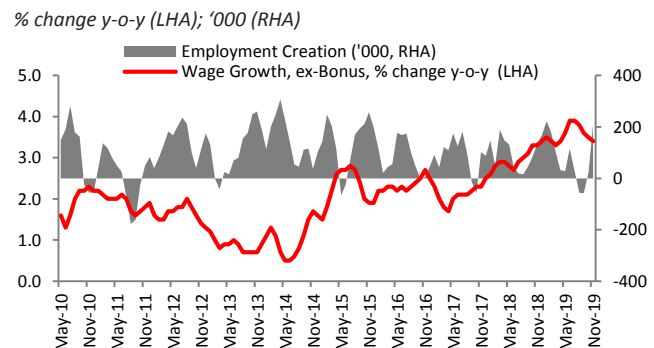
BoE's January MPC meeting likely to be close call in our view

Fig. 3. UK: Composite PMI index rises to 52.4 in January, the highest point since October 2018



Source: Markit

Fig. 4. UK: Economy creates 208K jobs in November, after a subdued 24K in October



Source: UK Office for National Statistics

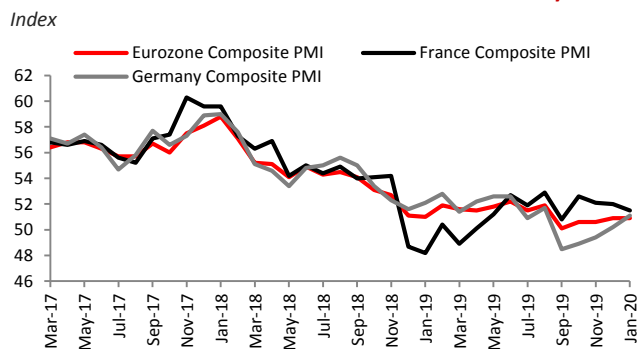
Japan: BoJ on hold; GDP growth forecast revised up

The BoJ left monetary policy unchanged at its 20-21 January policy meeting, as widely expected. The short-term interest rate target was kept steady at -0.1% alongside the 10-year government bond yield target of around 0%. The forward guidance reiterated that the BoJ is committed to keeping interest rates at the current low levels, or even cutting them, until downside risks to the inflation outlook subside. However, the tone of the January meeting was relatively optimistic, with the committee highlighting that the risks surrounding the global economic outlook had "subsided somewhat". The BoJ now expects domestic demand to pick up moderately on the back of highly accommodative financial conditions and active government spending. Indeed, the central bank revised up its GDP growth projections for FY2020 (0.9%, from 0.7% previously) and for FY2021 (1.1%, from 1.0% earlier) to reflect the boost from fiscal stimulus. However, the BoJ continues to see inflation remaining sluggish in the forecast period. As such, core

BoJ signals optimism over growth outlook at January policy meeting

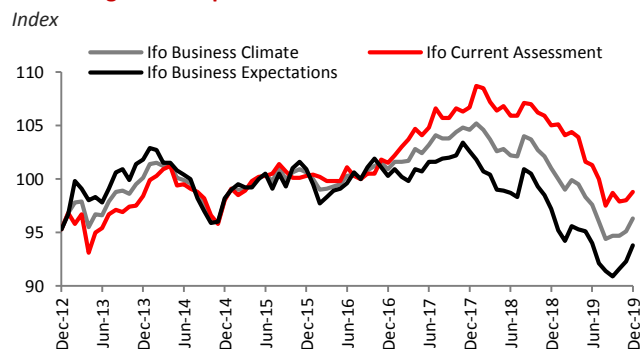
inflation projections were revised down to 1.0% for FY2020 (October: 1.1%) and 1.4% for FY2021 (October: 1.5%). Overall, we expect the BoJ to remain on hold throughout 2020 with a dovish tone.

Fig. 5. Eurozone: German composite PMI in expansionary zone for second consecutive month in January



Source: Markit

Fig. 6. Germany: IFO Business confidence index shows gradual improvement in economic sentiment



Source: IFO Institute

Eurozone: ECB formally announces monetary policy strategy review

The ECB kept its monetary policy steady at its January meeting, including the deposit rate at -0.5% and net asset purchases at EUR20 billion a month. The tone of the meeting was less dovish than at the December meeting. The post-meeting statement sounded relatively more positive about both growth and inflation outlooks. On economic growth, the statement underlined that “risks are still tilted to the downside, but have become less pronounced (‘somewhat less pronounced’ in December) as some of the uncertainty surrounding international trade is receding”. This suggests to us that the balance of risks to the growth outlook is gradually tilting more towards the ECB’s base case projections (2020: 1.1%). On inflation, the GC pointed out that “measures of underlying inflation have remained generally muted but there are further (instead of ‘some’ in December) indications of a moderate increase”. We believe that the tweaking of the language does not change the ECB’s view that monetary policy has to remain expansionary at this point. Indeed, ECB President Christine Lagarde reiterated that the “highly accommodative” monetary policy stance will continue and the GC remains prepared to “adjust all of its instruments” if necessary. We believe that the ECB has gradually turned less dovish since Mario Draghi’s departure, although this can be partly attributed to the reduced downside risks to both global and domestic growth outlooks. If the economy continues to improve along the lines of the ECB’s expectations, we see less likelihood of further interest rate cuts in 2020. The other key development at the January ECB meeting was the GC’s announcement of the formal start of its monetary policy strategy review. The short statement released after the meeting showed that the review will include: i) the quantitative formulation of price stability, ii) the monetary policy toolkit, and iii) communication practices.

ECB presents marginally more upbeat view on economic outlook at its January policy meeting

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	SAMA Net Foreign Assets SAR	Dec	1853.9B	
	Saudi Arabia	M3 Money Supply, y-o-y	Dec	5.2%	
Monday, 27 January					
19:00	US	New Home Sales	Dec	719K	730K
19:30	US	Dallas Fed Manufacturing Activity	Jan	-3.2	-1.6
Tuesday, 28 January					
15:15	Eurozone	ECB's Villeroy speaks in Paris			
17:30	US	Durable Goods Orders	Dec P	-2.1%	0.4%
17:30	US	Cap Goods Orders, Non-defence, ex-Air	Dec P	0.2%	0.1%
17:30	US	Cap Goods Shipments, Non-defence, ex-Air	Dec P	-0.3%	0.2%
19:00	US	Conf. Board Consumer Confidence	Jan	126.5	128.0
19:00	US	Richmond Fed Manufacturing Index	Jan	-5.0	-3.0
19:00	Eurozone	ECB's Lane Participates on Panel in Brussels			
Wednesday, 29 January					
13:00	Eurozone	M3 Money Supply, y-o-y	Dec	5.6%	5.5%
17:30	US	Wholesale Inventories, m-o-m	Dec P	-0.1%	-0.1%
19:00	US	Pending Home Sales, m-o-m	Dec	1.2%	0.7%
23:00	US	FOMC Rate Decision (Upper Bound)	29-Jan	1.75%	1.75%
23:00	US	FOMC Rate Decision (Lower Bound)	29-Jan	1.5%	1.5%
23:00	US	Interest Rate on Excess Reserves	30-Jan	1.55%	1.55%
23:30	US	Powell Holds Post-FOMC meeting Press Conference			
Thursday, 30 January					
11:30	Turkey	Central Bank Inflation Report			
14:00	Eurozone	Economic Confidence	Jan	101.5	101.8
14:00	Eurozone	Unemployment Rate	Dec	7.5%	7.5%
16:00	UK	Bank of England Bank Rate	30-Jan	0.75%	0.75%
16:00	UK	BOE Corporate Bond Target	Jan	10B	10B
16:00	UK	BOE Asset Purchase Target	Jan	435B	435B
16:30	UK	BOE's Carney speaks at press conference in London			
17:30	US	GDP Annualized, q-o-q	4Q A	2.1%	2.1%
17:30	US	Personal Consumption	4Q A	3.2%	2.0%
17:30	US	GDP Price Index	4Q A	1.8%	1.8%
Friday, 31 January					
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Jan	0.8%	0.8%
3:50	Japan	Retail Sales, y-o-y	Dec	-2.1%	-1.7%
3:50	Japan	Industrial Production, m-o-m	Dec P	-1.0%	0.7%
3:50	Japan	Industrial Production, y-o-y	Dec P	-8.2%	-3.6%
5:00	China	Manufacturing PMI	Jan	50.2	50.0
5:00	China	Non-manufacturing PMI	Jan	53.5	53.0
14:00	Eurozone	GDP SA, q-o-q	4Q A	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	4Q A	1.2%	1.1%
14:00	Eurozone	CPI Estimate, y-o-y	Jan	1.3%	1.4%
14:00	Eurozone	CPI Core, y-o-y	Jan P	1.3%	1.2%
16:00	India	GDP Annual Estimate, y-o-y	2019	5.0%	5.0%
17:30	US	Personal Income	Dec	0.5%	0.3%
17:30	US	Personal Spending	Dec	0.4%	0.3%
17:30	US	PCE Deflator, m-o-m	Dec	0.2%	0.2%
17:30	US	PCE Deflator, y-o-y	Dec	1.5%	1.6%
17:30	US	PCE Core Deflator, y-o-y	Dec	1.6%	1.6%
17:30	US	PCE Core Deflator, m-o-m	Dec	0.1%	0.1%
	Turkey	Turkey Sovereign Debt to be rated by S&P			

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Economies						
	UAE	Abu Dhabi CPI, y-o-y	Dec	-0.3%		-1.0%
	UAE	Dubai CPI, y-o-y	Dec	-2.8%		-2.0%
	Saudi Arabia	CPI, y-o-y	Dec	-0.2%		0.2%
	Kuwait	CPI, y-o-y	Dec	1.6%		1.5%
	Bahrain	CPI, y-o-y	Dec	1.7%		1.2%
	Oman	CPI, y-o-y	Dec	-0.2%		-0.2%
	Egypt	Trade Balance	Nov	-3220.0M		-2968.0M
Monday, 20 January						
8:30	Japan	Industrial Production, m-o-m	Nov F	-0.9%		-1.0%
8:30	Japan	Industrial Production, y-o-y	Nov F	-8.1%		-8.2%
Tuesday, 21 January						
13:30	UK	Claimant Count Rate	Dec	3.4%		3.5%
13:30	UK	Jobless Claims Change	Dec	14.9K		14.9K
13:30	UK	Average Weekly Earnings 3M/y-o-y	Nov	3.2%	3.1%	3.2%
13:30	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Nov	3.5%	3.4%	3.4%
13:30	UK	ILO Unemployment Rate, 3M	Nov	3.8%	3.8%	3.8%
14:00	Eurozone	ZEW Survey Expectations	Jan	11.2		25.6
	Japan	BOJ Policy Balance Rate	21-Jan	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	21-Jan	0.0%	0.0%	0.0%
Wednesday, 22 January						
13:30	UK	PSNB, ex-Banking Groups	Dec	4.9B	5.3B	4.8B
17:30	US	Chicago Fed Nat Activity Index	Dec	0.4	0.1	-0.4
19:00	US	Existing Home Sales	Dec	5.35M	5.43M	5.54M
Thursday, 23 January						
3:50	Japan	Trade Balance	Dec	-¥82.1B	-¥152.6B	-¥152.5B
3:50	Japan	Exports, y-o-y	Dec	-7.9%	-4.3%	-6.3%
3:50	Japan	Imports, y-o-y	Dec	-15.7%	-3.2%	-4.9%
8:30	Japan	All Industry Activity Index, m-o-m	Nov	-4.8%	0.4%	0.9%
16:45	Eurozone	ECB Main Refinancing Rate	23-Jan	0.0%	0.0%	0.0%
16:45	Eurozone	ECB Marginal Lending Facility	23-Jan	0.25%	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	23-Jan	-0.5%	-0.5%	-0.5%
19:00	Eurozone	Consumer Confidence	Jan A	-8.1	-7.8	-8.1
19:00	US	Leading Index	Dec	0.0%	-0.2%	-0.3%
20:00	US	Kansas City Fed Manufacturing Activity	Jan	-8.0	-6.0	-1.0
Friday, 24 January						
3:30	Japan	National CPI, y-o-y	Dec	0.5%	0.7%	0.8%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Dec	0.5%	0.7%	0.7%
4:30	Japan	Jibun Bank Japan PMI Composite	Jan P	48.6		51.1
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Jan P	48.4		49.3
4:30	Japan	Jibun Bank Japan PMI Services	Jan P	49.4		52.1
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Jan P	46.3	46.8	47.8
13:00	Eurozone	Markit Eurozone Services PMI	Jan P	52.8	52.8	52.2
13:00	Eurozone	Markit Eurozone Composite PMI	Jan P	50.9	51.2	50.9
13:30	UK	Markit UK PMI Manufacturing SA	Jan P	47.5	48.8	49.8
13:30	UK	Markit/CIPS UK Services PMI	Jan P	50.0	51.1	52.9
13:30	UK	Markit/CIPS UK Composite PMI	Jan P	49.3	50.7	52.4
18:45	US	Markit US Services PMI	Jan P	52.8	53.0	53.2
18:45	US	Markit US Composite PMI	Jan P	52.7		53.1
18:45	US	Markit US Manufacturing PMI	Jan P	52.4	52.5	51.7

* UAE time

Source: Bloomberg

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