

The Week Ahead: CBE and CBRT expected to lower interest rates

► **Global: UK data releases and Fed communication**

The main data releases will come from the UK this week, including CPI, retail sales (both January) and labour data (December). Consensus expects a pick-up in consumer sentiment following the general election, resulting in retail sales strengthening to 0.7% m-o-m in January (December: - 0.6%). Upcoming data trends are critical given the BoE's wait-and-see stance at its January meeting, as it assesses the underlying economic momentum. Attention will also be on upcoming fiscal policy of the new Chancellor of the Exchequer, Rishi Sunak, who replaced Sajid Javid at the end of last week. Markets are anticipating an expansionary fiscal policy under the new chancellor, potentially leading to stronger economic growth. The GBP reacted positively to the UK's cabinet reshuffle, as stronger fiscal policy could result in the BoE remaining on hold rather than the currently expected rate cut in mid-2020. Moving to the US, the January FOMC meeting minutes are due this week (19 February), alongside a number of Fed members' speaking engagements (Lael Brainard and Richard Clarida). We do not expect the January minutes or the Fed members to provide significant new insights that would alter the FOMC's current steady monetary policy stance. Fed communication since the 29 January FOMC meeting, including Chair Jerome Powell's Humphrey-Hawkins testimony last week, has been consistent in highlighting that the US economy is in a good place and that the Fed will only react to COVID-19 if it has a persistent negative effect on the US' economic growth.

► **Egypt: CBE likely to restart easing, although decision is close call**

Consensus is divided over the outlook for the CBE's rate decision this week (20 February). We believe the decision will be a close call, but expect the CBE to resume its easing cycle and lower benchmark rates by 100 bps. We think this easing bias is especially likely given the outlook of weakening global growth in 1Q as a result of the coronavirus outbreak and the lower oil price outlook. At the same time, the EGP has continued to strengthen in February, which is impacting external competitiveness. We believe that there is still room to lower the real interest rate whilst providing a sufficient interest differential to support capital inflows and the EGP. Moreover, inflation remains within the CBE's year-end target, albeit rising in monthly terms in January (page 2).

► **Turkey: CBRT expected to cut benchmark policy rate by 50 bps**

The CBRT is expected by consensus to lower its benchmark one-week repo rate by 50 bps to 10.75% at its 19 February policy meeting. If enacted, this will be the sixth consecutive rate cut under the leadership of Murat Uysal, who has maintained his dovish tilt despite headline inflation trending upwards since November. Economic fundamentals, including the acceleration in January inflation (12.15% vs 11.8% in December), deepening negative real interest rate (-0.9% vs -0.6% earlier), and weakening TRY since mid-January, do not support the need for an immediate rate cut in our view. As such, we do not rule out the possibility of the CBRT remaining on hold, though highlight wider considerations apart from monetary in the decision process.

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

Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	6

I. Recent Events and Data Releases

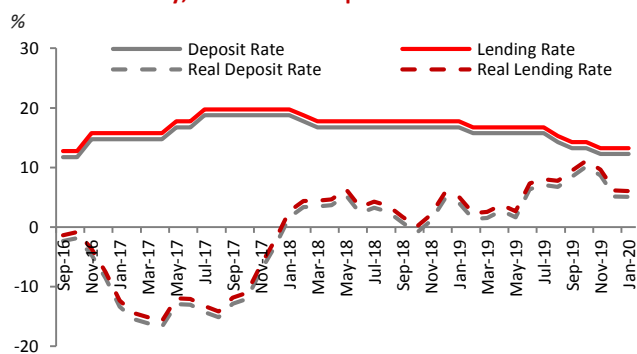
A. MENA Economies

Egypt: Inflation ticks up in January; CBE decision is close call

Headline inflation was broadly stable in January at 7.2% y-o-y (up 0.7% m-o-m), modestly above the 7.1% y-o-y (-0.2% m-o-m) print in December. The monthly acceleration in headline inflation was largely due to seasonal factors in the food and beverage category, which saw its fastest growth rate of 1.7% m-o-m since March 2019. Annual core inflation remained soft on a historical basis in January despite strengthening to 2.7% y-o-y, with monthly price growth of 0.7% m-o-m. The January headline inflation rate remained within the CBE's target for end-2020 of 9% (± 3 pp) and we see headline inflation remaining at the lower end of this band for the rest of the year. We expect some moderation in inflation in the coming months given the outlook for lower fuel prices, a further feed through of the strong USD and indications of soft consumer demand.

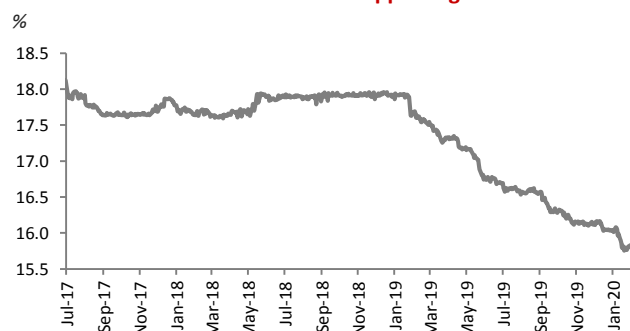
Higher food prices behind monthly acceleration in headline inflation in January

Fig. 1. Egypt: Real interest rates remain high at c.6.0% in January, well above EM peers



Source: CAPMAS, Central Bank of Egypt, ADCB calculations

Fig. 2. Egypt: EGP continues to strengthen in early 2020 with interest rate differential supporting inflows



Source: Bloomberg

We believe that the broadly steady annual inflation in January should support further easing by the CBE in 2020, with space for 200-250 bps of rate cuts this year. However, the CBE remained on hold in January, which we believe was largely due to the rise in oil prices at the beginning of the year due to geopolitical tensions and the need to gauge the impact of 350 bps of rate cuts in 2H2019. The MPC post-meeting statement also noted a strengthening of domestic activity driven by private investments. We believe that the subsequent fall in the oil price and the weakening outlook for external demand warrant a rate cut and we are assuming a 100 bps rate cut this week. Real interest rates remain high compared to other emerging markets, at just above 6.0% (Fig. 1). Moreover, we see potential for further rate cuts by Asian central banks in the near term, as economic activity moderates. We still see support for the EGP, even with the further rate cuts underlined above, given the magnitude of the differential. At the same time, we believe that a further strengthening of the EGP will be detrimental for the competitiveness of the economy, especially at a time of slowing global growth, and particularly in relation to tourism (a key employer for the economy).

Real interest rate differential and contained outlook for inflation are behind our rate cut expectation

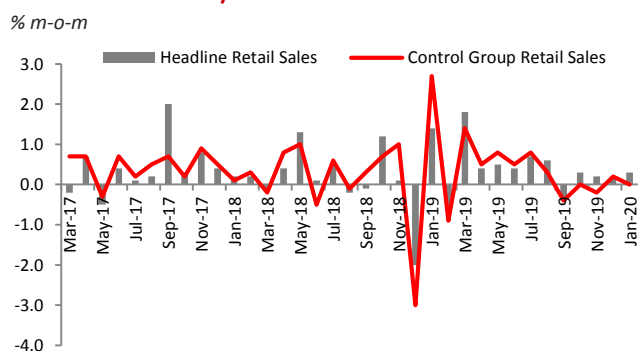
B. G4 Economies

US: Fed closely monitoring coronavirus impact on global economy

Fed Chair Jerome Powell during his semi-annual testimony to Congress highlighted that the Fed is closely monitoring the impact of coronavirus on the Chinese economy and its potential spill-over effect on the global economy. Powell underlined that the FOMC would only react to coronavirus if it had a persistent negative effect on US growth. Despite highlighting the downside risks, he reemphasised that the US economy is in a “very good place”. The rest of his testimony maintained the same tone as at the 29 January FOMC post-meeting press conference. Powell reiterated that the current steady monetary policy stance remains appropriate and the FOMC would respond only if there are developments that lead to a “material reassessment” of its economic outlook. Regarding T-bill purchases, Powell maintained that the purchases will continue at least until the end of 2Q2020. The other Fed members, including James Bullard, Patrick Harker and Mary Daly, expressed similar views on the economic outlook and monetary policy.

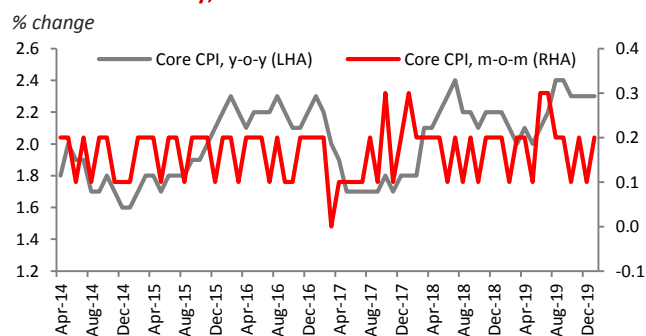
Powell reiterates Fed's steady monetary policy stance whilst underlining downside risks

Fig. 3. US: Retail control group sales are flat in January, from downwardly revised 0.2% in December



Source: US Census Bureau

Fig. 4. US: Monthly core CPI inflation ticks up to 0.2% m-o-m in January, from 0.1% in December



Source: Bureau of Labor statistics

Meanwhile, the incoming US data released last week presented a mixed picture, with forward-looking survey indicators (Michigan consumer sentiment) pointing to a solid domestic economic outlook, but hard data (industrial production and retail sales control group) suggesting slowing US economic activity. The retail sales control group, which feeds into real GDP growth, was flat (0.0% m-o-m) in January, whilst the December reading was revised down to 0.2% (0.5% earlier). This was well below the consensus expectation of 0.3% m-o-m growth for January. The weaker-than-expected control sales suggest that household spending activity weakened further at the beginning of 2020. The 4Q GDP data released earlier also showed that personal consumption growth softened to 1.8% q-o-q SAAR in 4Q2019, from a solid 3.2% in 3Q2019. We believe that the slowing consumption growth and weakening external demand are likely to result in the US economy slowing to sub-2.0% q-o-q SAAR GDP growth in the coming quarter. The relatively soft household activity has also resulted in monthly core CPI inflation remaining broadly within 0.1-0.2% m-o-m since August 2019. Indeed, the January core CPI inflation came in at 0.2% m-o-m (Consensus: 0.2%), up from 0.1% in December, suggesting that underlying inflationary pressures remain relatively contained.

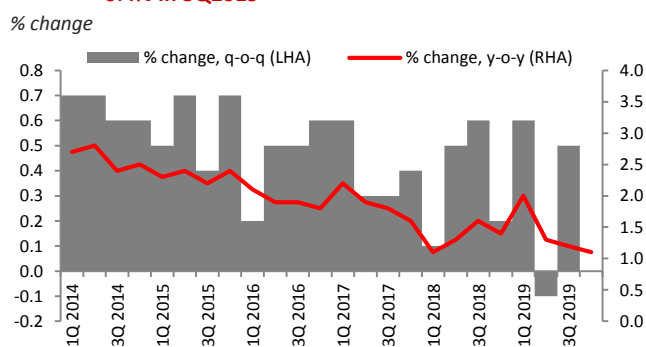
Retail control group sales stagnate in January, suggesting soft consumer spending activity in early 2020

UK: GDP growth stagnates in 4Q2019, led by weak domestic demand

The UK economy stagnated in 4Q2019 as political uncertainty ahead of the December general election weighed negatively on business investments and consumer spending. GDP growth was flat (0.0%) q-o-q in 4Q2019, from an upwardly revised 0.5% in 3Q2019. The details of the 4Q2019 report showed that personal consumption growth slowed markedly (0.1% vs 0.4% in 3Q), reflecting weak consumer sentiment. Investment activity contracted by 1.6% q-o-q, the biggest drop since early 2013. However, increased government spending and a positive contribution from net exports offset this moderation in consumer spending and investment. For full-year 2019, the UK economy grew by a modest 1.4% after slowing to a nine-year low of 1.3% in 2018. Putting this into context, the UK's 2019 growth was higher than the Eurozone's 1.2% and Japan's 0.8%, but lower than the US' 2.3%. Looking ahead, incoming high-frequency data suggests that there are tentative signs of a pick-up in domestic economic activity. The expansionary 2020 budget (due 11 March) promised by the Conservative government is also expected to provide a boost to economic growth in the subsequent quarters. As such, we believe that the UK economy will see some moderate strengthening of activity in 2020, largely due to a more expansionary fiscal stance. However, increasing global risks (due to a coronavirus-related slowdown) pose downside risks to the external sector

Weak consumer spending and contraction in investments result in 4Q GDP growth slowdown

Fig. 5. UK: GDP growth slows to 0.0% q-o-q in 4Q2019, from 0.4% in 3Q2019



Source: UK Office for National Statistics

Fig. 6. UK: GBP strengthens to 1.30 against USD, following Rishi Sunak's appointment as Chancellor



Source: Bloomberg

C. Emerging Market Economies

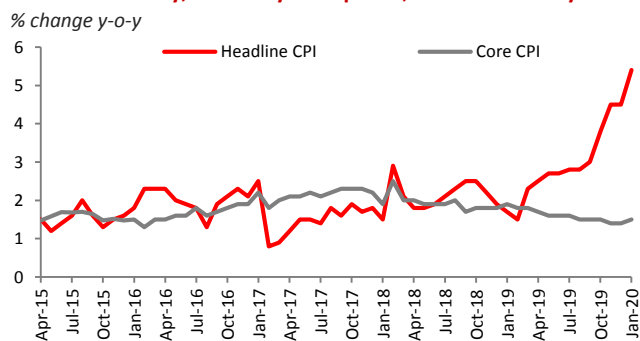
China: CPI inflation accelerates to eight-year high of 5.4%

China's headline CPI inflation surprised to the upside and strengthened to 5.4% y-o-y in January (consensus: 4.9%), from 4.5% in December. Food price inflation, which has been the key driver of headline inflation since mid-2019, accelerated further in January, with a broad-based increase in vegetable, fruit and meat prices. The sharp pick-up in headline inflation was likely due to increased demand during the Lunar New Year (LNY) holidays, and potentially the hoarding of food due to the coronavirus. The shutdown of a number of Chinese cities has also affected transportation and supply chains within the country, resulting in a rise in food prices. Core CPI inflation rose only modestly to 1.5% y-o-y in January (December: 1.4%), likely reflecting weak demand for non-food items, especially after the Lunar New Year. Looking ahead, we believe that headline inflation will remain volatile in the coming months until transportation restrictions are fully eased and the

Sharp acceleration in food prices due to disruption of supply chains

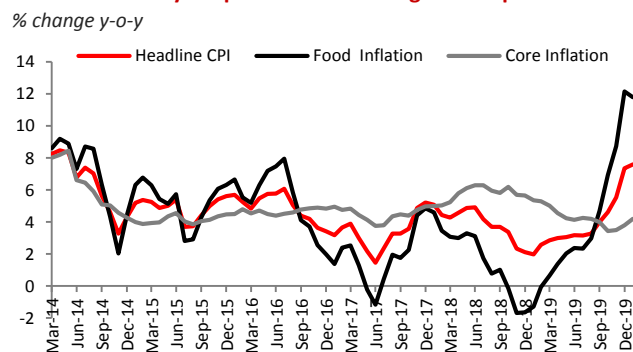
situation returns to normality. We expect the PBOC to continue with its monetary policy easing to support and boost economic activity, despite the uncertain inflation outlook.

Fig. 7. China: Headline inflation accelerates further in January, driven by food prices; core CPI broadly steady



Source: National Bureau of Statistics of China

Fig. 8. India: Headline inflation strengthens to 7.6% y-o-y in January despite some softening in food prices



Source: India Central Statistical Organisation

India: Headline and core inflation strengthen in January

Headline inflation accelerated to a 68-month high of 7.6% y-o-y in January, beating both the consensus expectations and December reading of 7.4%. The upside surprise in January inflation was due to a strengthening in core prices to 4.2% y-o-y, from 3.8% in December. The rise in telecommunication inflation was largely along expected lines as a number of companies raised prices at end-2019. However, the strengthening in other core CPI sub-components was a bit surprising, especially given the relatively weak domestic demand backdrop. It remains to be seen whether the rise in core inflation was due to a one-off temporary factor or the pass-through effect of elevated food inflation since 4Q2019. Meanwhile on the positive side, food inflation decelerated for the first time since end-2018, with the arrival of fresh seasonal food crops to the market. We believe that food inflation peaked at end-2019 and will see a marked deceleration in the coming months, resulting in headline inflation slowing from February towards 5.0-5.2% y-o-y by May 2020.

We expect the RBI to keep benchmark policy rates steady until headline inflation decelerates to the RBI's target range of 4% (+/-2pp). However, we believe that the RBI will continue with its currently accommodative monetary policy stance in the upcoming meetings, whilst highlighting that there is further space for interest rate cuts if necessary. Moreover, the RBI undertook some other policy initiatives at its February meeting to improve the monetary transmission of earlier interest rate cuts to the real economy. For further details, please see our recent note – **Economic Research Weekly: Global Data Watch 10-14 February 2020**, published on 10 February. We expect the RBI to keep its focus on improving monetary transmission and lowering lending rates for micro, small and medium enterprises (MSME) in the coming months to bolster economic activity.

Food inflation softens for first time since end-2018, but remains elevated at 13.6% y-o-y in January

RBI's benchmark rate expected to remain steady in 1H2020, with focus on improving monetary transmission of earlier rate cuts

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Jan	-2.0%	
	Saudi Arabia	CPI, y-o-y	Jan	0.2%	
	Bahrain	CPI, y-o-y	Jan	1.2%	
	Kuwait	CPI, y-o-y	Jan	1.5%	
	Oman	CPI, y-o-y	Jan	-0.2%	
	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
Monday, 17 February					
3:50	Japan	GDP SA, q-o-q	4Q P	0.4%	-1.0%
3:50	Japan	GDP Annualized SA, q-o-q	4Q P	1.8%	-3.8%
Tuesday, 18 February					
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Dec	3.2%	3.0%
13:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Dec	3.4%	3.3%
13:30	UK	ILO Unemployment Rate, 3M	Dec	3.8%	3.8%
17:30	US	Empire Manufacturing	Feb	4.8	5.0
Wednesday, 19 February					
3:50	Japan	Trade Balance	Jan	-¥152.5B	-¥1684.8B
3:50	Japan	Exports, y-o-y	Jan	-6.3%	-7.0%
3:50	Japan	Core Machine Orders, m-o-m	Dec	18.0%	-8.9%
13:30	UK	CPI, m-o-m	Jan	0.0%	-0.4%
13:30	UK	CPI, y-o-y	Jan	1.3%	1.6%
13:30	UK	CPI Core, y-o-y	Jan	1.4%	1.5%
15:00	Turkey	One-Week Repo Rate	19-Feb	11.25%	10.75%
17:30	US	PPI Final Demand, m-o-m	Jan	0.1%	0.1%
17:30	US	Housing Starts	Jan	1608K	1420K
22:30	US	Fed's Kaplan Speaks in Dallas			
23:00	US	FOMC Meeting Minutes	29-Jan		
Thursday, 20 February					
5:30	China	5-Year Loan Prime Rate	Feb	4.80%	4.75%
5:30	China	1-Year Loan Prime Rate	Feb	4.15%	4.05%
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Jan	-0.6%	0.7%
13:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Jan	0.9%	0.6%
16:30	Eurozone	Account of ECB's Monetary Policy Meeting			
19:00	US	Leading Index	Jan	-0.3%	0.4%
19:00	Eurozone	Consumer Confidence	Feb A	-8.1	-8.2
	Egypt	Deposit Rate	20-Feb	12.25%	12.0%
	Egypt	Lending Rate	20-Feb	13.25%	13.0%
Friday, 21 February					
3:30	Japan	National CPI, y-o-y	Jan	0.8%	0.7%
8:30	Japan	All Industry Activity Index, m-o-m	Dec	0.9%	0.3%
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Feb P	47.9	47.4
13:30	UK	Markit UK PMI Manufacturing SA	Feb P	50.0	49.7
13:30	UK	PSNB, ex-Banking Groups	Jan	4.8B	-11.4B
14:00	Eurozone	CPI, y-o-y	Jan	1.4%	1.4%
18:35	US	Fed's Kaplan Speaks in Dallas			
18:45	US	Markit US Manufacturing PMI	Feb P	51.9	51.5
19:00	US	Existing Home Sales	Jan	5.54M	5.45M
19:15	US	Fed's Brainard and Bostic Take Part on Panel Policy Forum			
21:00	US	ECB's Lane Gives Speech at Booth Policy Forum in New York			
22:30	US	Fed's Clarida Takes Part in Panel at Booth Forum in New York			

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Monday, 10 February						
3:50	Japan	BoP Current Account Balance	Dec	¥1436.8B	¥464.7B	¥524.0B
5:30	China	PPI, y-o-y	Jan	-0.5%	0.0%	0.1%
5:30	China	CPI, y-o-y	Jan	4.5%	4.9%	5.4%
8:15	UAE	Dubai PMI	Jan	52.3		50.6
11:00	Turkey	Unemployment Rate	Nov	13.4%	13.4%	13.3%
	Egypt	Urban CPI, y-o-y	Jan	7.1%		7.2%
	Egypt	CPI Core, y-o-y	Jan	2.4%		2.7%
Tuesday, 11 February						
13:30	UK	GDP, q-o-q	4Q P	0.5%	0.0%	0.0%
13:30	UK	GDP, y-o-y	4Q P	1.1%	0.8%	1.1%
13:30	UK	Private Consumption, q-o-q	4Q P	0.4%	0.1%	0.1%
13:30	UK	Government Spending, q-o-q	4Q P	-0.6%	0.5%	2.1%
13:30	UK	Gross Fixed Capital Formation, q-o-q	4Q P	0.2%	-0.3%	-1.6%
13:30	UK	Industrial Production, m-o-m	Dec	-1.1%	0.3%	0.1%
13:30	UK	Manufacturing Production, m-o-m	Dec	-1.6%	0.5%	0.3%
13:30	UK	Trade Balance, GBP Million	Dec	£1821M	-£350M	£7715M
19:00	US	JOLTS Job Openings	Dec	6787	6925	6423
Wednesday, 12 February						
03:50	Japan	Money Stock M2, y-o-y	Jan	2.7%	2.7%	2.8%
10:00	Japan	Machine Tool Orders, y-o-y	Jan P	-33.5%		-35.6%
14:00	Eurozone	Industrial Production SA, m-o-m	Dec	0.0%	-2.0%	-2.1%
16:00	India	CPI, y-o-y	Jan	7.4%	7.4%	7.6%
16:00	India	Industrial Production, y-o-y	Dec	1.8%	1.7%	-0.3%
23:00	US	Monthly Budget Statement	Jan	-\$13.3B	-\$10.0B	-\$32.6B
Thursday, 13 February						
03:50	Japan	PPI, y-o-y	Jan	0.9%	1.5%	1.7%
11:00	Turkey	Industrial Production, m-o-m	Dec	0.6%	0.3%	1.9%
17:30	US	CPI, m-o-m	Jan	0.2%	0.2%	0.1%
17:30	US	CPI, ex-Food and Energy, m-o-m	Jan	0.1%	0.2%	0.2%
17:30	US	CPI, y-o-y	Jan	2.3%	2.4%	2.5%
17:30	US	CPI, ex-Food and Energy, y-o-y	Jan	2.3%	2.2%	2.3%
Friday, 14 February						
08:30	Japan	Tertiary Industry Index, m-o-m	Dec	1.4%	0.1%	-0.2%
10:30	India	Wholesale Prices, y-o-y	Jan	2.6%	3.0%	3.1%
11:00	Turkey	Current Account Balance	Dec	-0.37B	-3.0B	-2.8B
14:00	Eurozone	GDP SA, q-o-q	4Q P	0.1%	0.1%	0.1%
14:00	Eurozone	GDP SA, y-o-y	4Q P	1.0%	1.0%	0.9%
17:30	US	Import Price Index, m-o-m	Jan	0.2%	-0.2%	0.0%
17:30	US	Retail Sales Advance, m-o-m	Jan	0.2%	0.3%	0.3%
17:30	US	Retail Sales Control Group	Jan	0.2%	0.3%	0.0%
18:15	US	Industrial Production, m-o-m	Jan	-0.4%	-0.2%	-0.3%
19:00	US	University of Michigan Consumer Sentiment	Feb P	99.8	99.5	100.9
	India	Exports, y-o-y	Jan	-1.8%		-1.7%
	India	Imports, y-o-y	Jan	-8.8%		-0.8%

* UAE time

Source: Bloomberg

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC (“ADCB”) to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.