

The Week Ahead: Global sentiment remains fragile with increasing coronavirus cases

► Global: Risk-off sentiment returns with new infections

A sharp increase in the number of reported coronavirus cases across the globe (South Korea, Japan, Italy, etc.) resulted in a return of risk-off sentiment at the end of last week and we expect sentiment to remain fragile. The lockdown of cities in South Korea and Italy raised fresh concerns that the negative impact of the virus on global growth could be greater than previously thought. The global supply chain remains disrupted, with a number of companies, including automobile and chip manufacturers, raising concerns that their inventories are depleting at a sharp pace. Some companies indicated that they may have to shut their global units (outside Asia) due to potential shortages of inputs if the situation continues. The shutdown of companies in a number of countries, including China, Japan and South Korea, will also have a negative impact on the demand side and the ability of households to spend in the near term. The combination of supply and demand related constraints is likely to result in a greater global economic impact than seen in other similar events, in our view.

► US: January PCE data and second estimate of 4Q GDP growth

The US will dominate the key data releases this week with January PCE and durable goods orders, and the second estimate of 4Q GDP. Consensus expects personal spending to remain steady at 0.3% m-o-m in January, but we believe risks are tilted to the downside due to some softness in recent retail expenditure data. January core retail sales (released earlier) showed that household spending activity weakened at the beginning of 2020. We expect consumer spending to increase in 2020 and to remain the key driver of GDP growth, albeit at a softer pace than in 2019. The January Fed minutes also highlighted that household spending is likely to remain on a firm footing, supported by strong labour market conditions, rising incomes, and favourable financial conditions. The outlook for relatively solid household activity makes us believe that the Fed will remain on hold until end-2020. Moreover, higher GDP growth in the US than in other developed economies is likely to remain favourable for US financial assets.

► EM: Both India and Turkey to release 4Q GDP data

For India, consensus forecasts that 4Q2019 real GDP growth inched up to 4.7% y-o-y, after slowing to a six-year low of 4.5% in 3Q2019. We believe that the modest growth recovery in 4Q2019 is probably due to increased government spending (as in 3Q), whilst personal consumption and investment activity remain soft. However, high frequency data still presents a mixed picture, with no clear signs of a sustained pick-up in economic activity. We expect the economic recovery in India to be gradual in this economic cycle given the weak domestic demand and increasing external uncertainties. In Turkey, consensus forecasts that GDP growth accelerated to 1.5% q-o-q in 4Q, after slowing to a three-quarter low of 0.4% in 3Q. The low base during the previous year and the expected positive quarterly growth are expected to boost the y-o-y reading to 5.0% in 4Q (3Q: 0.9%) – the highest point since 3Q2018.

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I. Recent Events and Data Releases

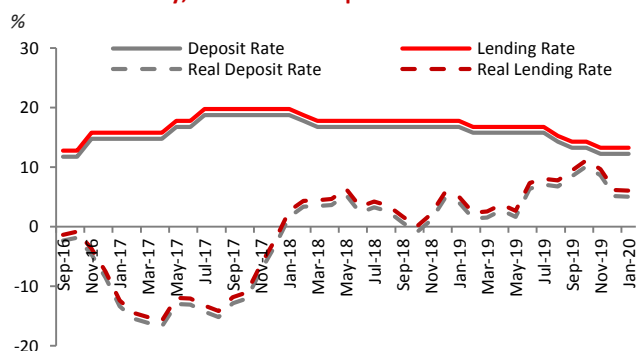
A. MENA Economies

Egypt: CBE on hold for second consecutive meeting

The CBE kept benchmark interest rates steady at its 20 February meeting, with the overnight deposit rate at 12.25% and the overnight lending rate at 13.25%. This was the second consecutive meeting at which rates were kept on hold, after 350 bps of cuts in 2H2019. We had expected a 100 bps reduction at the February meeting on the back of the weakening global outlook, especially in the context of the strengthening EGP. Moreover, inflation remained at the lower end of the end-2020 target in January and is likely to remain so given the weakening oil price, in our view. The post-MPC statement indicated that the decision to keep interest rates steady was due to both external and domestic factors. On the external front, the statement noted that “disruptions to global economic activity following the recent coronavirus outbreak could weigh on the global economic outlook, at least in the near term”. As mentioned above, we believed that global growth uncertainties should have been supportive of a rate cut, though the CBE also highlighted geopolitical risks. We expect to see further easing by EM central banks on the back of these global uncertainties, especially in Asia, allowing Egypt to lower rates while still maintaining a sufficient interest differential to support the EGP. On the domestic front, the communication implies that the CBE requires more time to assess the impact of the 2H2019 rate cuts. The statement noted that “following the cumulative reduction of 350 basis points during the second half of 2019, the MPC decided that keeping key policy rates unchanged remains consistent with achieving the inflation target”.

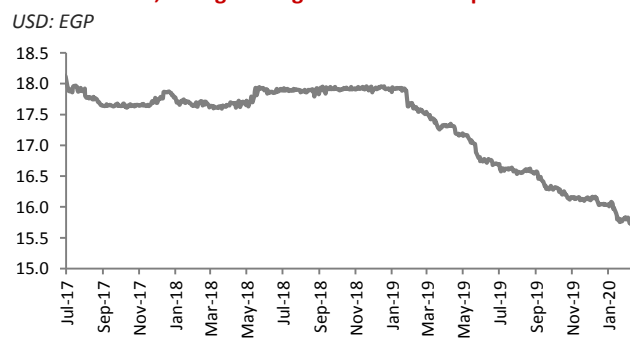
Post-meeting statement implies both domestic and external factors are behind steady policy stance

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 is up 14.4% against USD since end-March 2019, acting as drag on external competitiveness



Source: Bloomberg

We continue to see room for further rate cuts given the high interest rates in real terms, alongside our outlook for headline inflation remaining below the midpoint of the end-2020 target of 9% (± 3 pp). We see space for 200-250 bps of rate cuts this year, with the potential for a reduction in the next MPC meeting on 2 April. The February post-meeting statement noted that the MPC “will not hesitate to resume its easing cycle subject to further moderation of inflationary pressures”.

We still see space for 200-250 bps of rate cuts in 2020, especially given high real interest rates

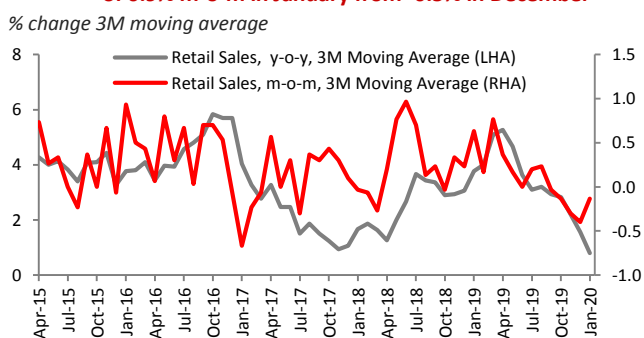
B. G4 Economies

UK: Retail activity and inflation pick up in January

Incoming data from the UK points to some build-up in economic activity in January after a marked slowdown in 4Q2019. Retail sales growth accelerated to 0.9% m-o-m in January (consensus: 0.7%) from an upwardly revised -0.5% in December. The broad-based pick-up in retail activity (ex-household goods) reflects improving consumer confidence post the December general election. The increased consumer spending in January also contributed to inflation surprising to the upside in the month (core). The strengthening in core inflation was led by housing costs, which should continue to remain supportive, in our view. There were already tentative signs of improved momentum in the housing market in early 2020. Headline inflation accelerated to a six-month high of 1.8% y-o-y (consensus: 1.7%) from 1.3% in December, driven by energy, motor fuel and airfare costs. We believe that these temporary factors (energy and airfares) are likely to soften somewhat in the coming months. As such, we see the risks to inflation tilted more to the downside than upside and expect headline inflation to remain below the BoE's 2% target throughout 2020. We believe that the BoE will remain on hold at its 26 March policy meeting.

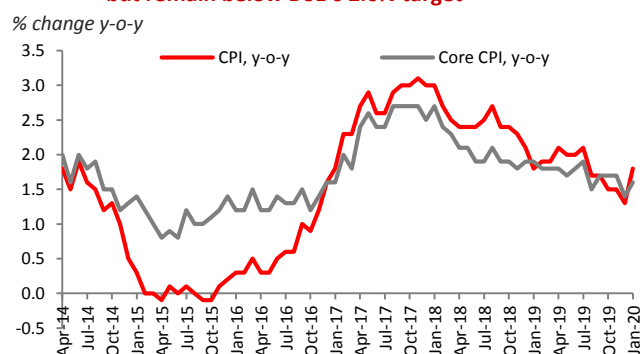
Economic activity gathers pace in early 2020

Fig. 3. UK: Retail sales growth strengthens to 10-month high of 0.9% m-o-m in January from -0.5% in December



Source: UK Office for National Statistics

Fig. 4. UK: Both headline and core inflation pick up in January but remain below BoE's 2.0% target



Source: UK Office for National Statistics

Meanwhile, labour market data for December showed that hiring activity picked up during the month, although wage growth decelerated to a 16-month low. Headline wage growth slowed to 2.9% 3M/y-o-y in December from 3.2% in November, with the deceleration led by the construction, retail and hotel sectors. We expect the downtrend in wage growth to continue in 2020, as we still see sufficient slack in the UK labour market. Separately, the government last week proposed a points-based system for immigration into the UK, starting from January 2021. We expect a smooth transition to the new immigration system. Looking ahead, the market focus will be on the government's Budget, due on 11 March, which will be critical in shaping the BoE interest rate outlook beyond its March meeting.

Wage growth slows in December, while hiring activity gathers pace

US: January FOMC minutes reaffirm Fed pause

No major surprises came out of the Fed's 28-29 January meeting minutes. The minutes reaffirmed that the current steady monetary policy stance is appropriate for "a time", in line with recent Fed communication. The tone of the minutes was broadly neutral in our view, implying that the Fed is in wait-and-see mode. The FOMC continues to believe the US economy expanding at a moderate pace, supported by accommodative monetary policy and financial conditions. However, the committee flagged increasing downside risks emanating from the coronavirus and its impact on the global growth outlook. Fed Chair Jerome Powell during his testimony to Congress expressed similar views on the economic outlook and stressed that the FOMC would consider additional policy action only if the coronavirus has a "material and persistent" negative impact on the domestic economy. On inflation, FOMC members underlined that the current degree of monetary policy accommodation should help facilitate a return of inflation to 2%.

FOMC minutes flag increasing downside risks to economic outlook from coronavirus

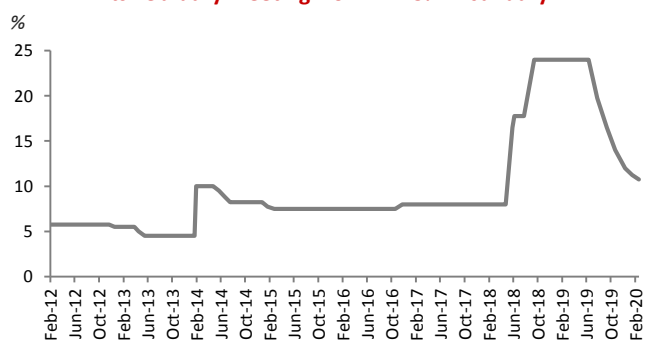
Regarding T-bill purchases, the minutes highlighted that the Fed will continue to buy USD60 billion per month until mid-April. After that, the Fed is likely to gradually reduce these operations, as highlighted in the January FOMC meeting statement. Separately, FOMC members continued their discussion on the ongoing monetary policy review (MPR) in January. The key takeaway from the discussion is that "most" members are concerned about introducing a symmetrical inflation range at a time when inflation has been running below the Fed's target for a number of years.

FOMC members discuss pros and cons of introducing symmetrical inflation target

C. Emerging Market Economies

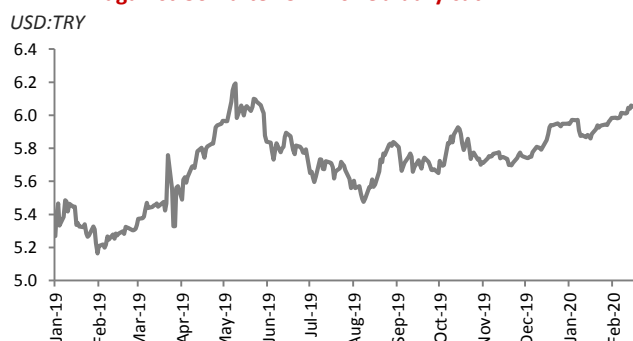
Turkey: CBRT cuts benchmark rate by 50bps in February

Fig. 5. Turkey: CBRT lowers one-week repo rate to 10.75% at its February meeting from 11.25% in January



Source: CBRT

Fig. 6. Turkey: TRY weakens to nine-month low of 6.09 against USD after CBRT's February cut



Source: Bloomberg

The CBRT cut its policy rate by 50 bps to 10.75% at its 19 February meeting, in line with our and market expectations. This was the sixth consecutive cut and brought the benchmark rate to its lowest level since May 2018. The MPC statement characterised the policy action as a "more measured" cut than January's "measured" reduction. However, the forward guidance on interest rates was unchanged from the January statement and re-emphasised that "the current monetary policy stance remains consistent with the targeted disinflation". The tone on inflation remained positive, with the MPC reiterating that the inflationary trend is broadly in line with its year-end headline forecast of 8.2%.

CBRT lowers benchmark rate to 10.75% in February from 11.25%

This tone was despite the recent acceleration in headline inflation to 12.15% y-o-y in January from 11.8% in December and 10.6% in November.

The lowering of the benchmark rate in February has pushed the real one-week repo rate further into negative territory to -1.4% from -0.9% previously. Turkish assets have come under additional pressure since the rate reduction, with the TRY weakening to a nine-month low of 6.09 against the USD. TRY depreciation, if it persists, may result in higher imported inflation in the coming months, in our view. Despite the rate cut, the 10-year government bond yield continued its uptrend and closed at 11.7% at the end of last week, reflecting weak foreign investor interest in Turkish financial assets. We continue to believe that current economic fundamentals do not support the CBRT's interest rate cuts and that a pause would be more appropriate until there are clear signs of disinflation. Looking ahead, we see much less room for lowering rates at the 19 March meeting, especially if the TRY remains under downward pressure. We now forecast smaller 25 bps rate cuts at upcoming CBRT meetings, factoring in wider considerations apart from monetary ones in the decision process.

We see much less room for rate cut at 19 March 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	Jan	1852.6B	
	Saudi Arabia	M3 Money Supply, y-o-y	Jan	7.1%	
	Bahrain	CPI, y-o-y	Jan	1.2%	
	Kuwait	CPI, y-o-y	Jan	1.5%	
Monday, 24 February					
22:30	UK	BOE Chief Economist Haldane Speaks in London			
Tuesday, 25 February					
0:00	US	Fed's Mester Speaks on Economy at NABE Conference			
9:00	Japan	Leading Index CI	Dec F	91.6	
18:00	World	CPB World Trade Monitor			
19:00	US	Conference Board Consumer Confidence	Feb	131.6	132.1
19:00	US	Richmond Fed Manufacturing Index	Feb	20.0	10.0
Wednesday, 26 February					
0:15	US	Fed's Clarida Speaks at NABE Conference in Washington			
16:00	US	MBA Mortgage Applications	21-Feb	-6.4%	
19:00	US	New Home Sales	Jan	694K	715K
19:30	Eurozone	ECB President Lagarde Speaks in Wiesbaden, Germany			
Thursday, 27 February					
13:00	Eurozone	M3 Money Supply, y-o-y	Jan	5.0%	5.3%
14:30	UK	BOE's Cunliffe Speaks on a Panel in London			
16:15	Eurozone	ECB's Lane Speaks in Paris			
17:30	US	GDP Annualized, q-o-q	4Q S	2.1%	2.1%
17:30	US	Personal Consumption	4Q S	1.8%	1.7%
17:30	US	Core PCE, q-o-q	4Q S	1.3%	1.3%
17:30	US	Durable Goods Orders	Jan P	2.4%	-1.5%
17:30	US	Cap Goods Orders, Non-defence, ex-Air	Jan P	-0.8%	0.1%
17:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jan P	-0.3%	0.1%
20:30	US	Fed's Evans Speaks in Mexico City			
Friday, 28 February					
3:30	Japan	Tokyo CPI, y-o-y	Feb	0.6%	0.5%
3:50	Japan	Retail Sales, m-o-m	Jan	0.2%	-0.2%
3:50	Japan	Retail Sales, y-o-y	Jan	-2.6%	-1.0%
3:50	Japan	Industrial Production, m-o-m	Jan P	1.2%	0.2%
4:01	UK	GfK Consumer Confidence	Feb	-9.0	-8.0
11:00	Turkey	GDP, y-o-y	4Q	0.9%	5.0%
11:00	Turkey	GDP SA/WDA, q-o-q	4Q	0.4%	1.5%
14:00	Eurozone	Bundesbank President Weidmann Speaks in Frankfurt			
15:15	UK	BOE Chief Economist Haldane Speaks in Oxford			
16:00	India	GDP, y-o-y	4Q	4.5%	4.7%
16:00	India	GVA, y-o-y	4Q	4.3%	4.4%
16:00	India	GDP Annual Estimate, y-o-y	2020	6.1%	5.0%
17:30	US	Wholesale Inventories, m-o-m	Jan P	-0.2%	0.1%
17:30	US	Personal Income	Jan	0.2%	0.4%
17:30	US	Personal Spending	Jan	0.3%	0.3%
17:30	US	PCE Deflator, m-o-m	Jan	0.3%	0.2%
17:30	US	PCE Deflator, y-o-y	Jan	1.6%	1.8%
17:30	US	PCE Core Deflator, m-o-m	Jan	0.2%	0.2%
17:30	US	PCE Core Deflator, y-o-y	Jan	1.6%	1.7%
18:15	US	Fed's Bullard Discusses the Economy and Monetary Policy			
18:45	US	MNI Chicago PMI	Feb	42.9	46
19:00	US	University of Michigan Sentiment	Feb F	100.9	100.7

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Economies						
	UAE	Dubai CPI, y-o-y	Jan	-2.0%		-1.3%
	Saudi Arabia	CPI, y-o-y	Jan	0.3%		0.4%
	Oman	CPI, y-o-y	Jan	-0.2%		0.4%
	China	Money Supply M2, y-o-y	Jan	8.7%	8.6%	8.4%
	China	New Yuan Loans CNY	Jan	1140.0B	3100.0B	3340.0B
Monday, 17 February						
3:50	Japan	GDP SA, q-o-q	4Q P	0.4%	-1.0%	-1.6%
3:50	Japan	GDP Annualized SA, q-o-q	4Q P	0.5%	-3.8%	-6.3%
Tuesday, 18 February						
13:30	UK	Claimant Count Rate	Jan	3.4%		3.4%
13:30	UK	Jobless Claims Change	Jan	2.6K		5.5K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Dec	3.2%	3.0%	2.9%
13:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Dec	3.4%	3.3%	3.2%
13:30	UK	ILO Unemployment Rate, 3M	Dec	3.8%	3.8%	3.8%
14:00	Eurozone	ZEW Survey Expectations	Feb	25.6		10.4
17:30	US	Empire Manufacturing	Feb	4.8	5.0	12.9
Wednesday, 19 February						
3:50	Japan	Trade Balance	Jan	-¥152.5B	-¥1684.8B	-¥1312.6B
3:50	Japan	Exports, y-o-y	Jan	-6.3%	-7.0%	-2.6%
3:50	Japan	Core Machine Orders, m-o-m	Dec	18.0%	-8.9%	-12.5%
13:30	UK	CPI, m-o-m	Jan	0.0%	-0.4%	-0.3%
13:30	UK	CPI, y-o-y	Jan	1.3%	1.6%	1.8%
13:30	UK	CPI Core, y-o-y	Jan	1.4%	1.5%	1.6%
15:00	Turkey	One-Week Repo Rate	19-Feb	11.25%	10.75%	10.75%
17:30	US	Building Permits	Jan	1420K	1450K	1551K
17:30	US	PPI Final Demand, m-o-m	Jan	0.1%	0.1%	0.5%
17:30	US	Housing Starts	Jan	1420K	1450K	1551K
Thursday, 20 February						
5:30	China	5-Year Loan Prime Rate	Feb	4.80%	4.75%	4.75%
5:30	China	1-Year Loan Prime Rate	Feb	4.15%	4.05%	4.05%
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Jan	-0.5%	0.7%	0.9%
13:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Jan	0.9%	0.6%	0.8%
17:30	US	Philadelphia Fed Business Outlook	Feb	17.0	11.0	36.7
19:00	US	Leading Index	Jan	-0.3%	0.4%	0.8%
19:00	Eurozone	Consumer Confidence	Feb A	-8.1	-8.2	-6.6%
	Egypt	Deposit Rate	20-Feb	12.25%	12.0%	12.25%
	Egypt	Lending Rate	20-Feb	13.25%	13.0%	13.25%
Friday, 21 February						
3:30	Japan	National CPI, y-o-y	Jan	0.8%	0.7%	0.7%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Jan	0.7%	0.8%	0.8%
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Feb P	48.8		47.6
8:30	Japan	All Industry Activity Index, m-o-m	Dec	0.9%	0.3%	0.0%
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Feb P	47.9	47.4	49.1
13:30	UK	Markit UK PMI Manufacturing SA	Feb P	50.0	49.7	51.9
13:30	UK	PSNB, ex-Banking Groups	Jan	4.2B	-11.4B	-9.8B
14:00	Eurozone	CPI, y-o-y	Jan	1.4%	1.4%	1.4%
14:00	Eurozone	CPI Core, y-o-y	Jan F	1.1%	1.1%	1.1%
18:45	US	Markit US Manufacturing PMI	Feb P	51.9	51.5	50.8
19:00	US	Existing Home Sales	Jan	5.53M	5.44M	5.46M

* UAE time

Source: Bloomberg

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