

The Week Ahead: Spike in energy prices adds upside risk to inflation outlook

► **US: Retail sales and CPI inflation in focus, after weak NFP data**

Recent US data points to a slowing of economic growth momentum and sustained higher inflationary pressures. September non-farm payroll data came in significantly below the consensus expectation amidst the ongoing impact of the pandemic with low vaccination rates in some states (page 4). Nevertheless, the USD was relatively stable following the labour data release, with markets still expecting the Fed to continue with its plans to announce and commence with asset purchase tapering in 4Q. The focus this week will remain on September retail sales and inflation data to gauge the deceleration in growth and the outlook for more persistent price pressures. Consensus forecasts retail sales growth to contract by 0.2% m-o-m in September (August: +0.7%), with an expected drop in auto sales. Overall data suggests that consumption slowed in 3Q, versus the robust activity in 1H2021. Minutes of the FOMC's September meeting will be released this week and will be scrutinised for any details on asset purchase tapering, including size. Discussions surrounding the inflation outlook will also be watched closely, following the more persistent inflation backdrop in recent months.

► **Global: Data to provide more hints on growth and inflation**

Global stagflation concerns have also risen with the sharp rise in energy prices, particularly gas in Europe and Asia. Power outages in China are affecting industrial activity, whilst global manufacturing is being impacted by supply chain disruptions, including chips for car production. Brent crude is currently trading at USD83.5 p/b after OPEC+ decided to stick to its planned 400K b/d increase in output, despite the tightening in energy market fundamentals (page 3). The focus this week will again be on data releases that will shed light on the inflation and growth outlooks in developed and emerging economies. The key data releases due this week include the UK's August monthly GDP, industrial production and labour report, and September inflation from China and India. Consensus forecasts China's PPI inflation to accelerate to 10.5% y-o-y in September (August: 9.5%), which, if realised, will be the highest reading since 1995. The increases in coal, natural gas, petrochemical and construction material prices are likely to be the key drivers of PPI inflation in September. Meanwhile in the UK, a number of BoE members, including George Bailey, Jon Cunliffe and Catherine Mann have speaking engagements this week.

► **Global: 136 countries sign 15.0% minimum corporate tax treaty**

A group of 136 countries have signed a global treaty that would tax large multinationals and corporates at a minimum rate of 15.0% from 2023, alongside requiring companies to pay taxes in the countries where they do business. A key objective is to discourage companies from shifting profits to low tax jurisdictions regardless of where their sales are made. The OECD estimates that the deal could bring in an extra USD150.0 billion of tax a year, bolstering government revenues after the fiscal support provided during the pandemic. For the potential impact on the GCC, please see our note – **Global Research Weekly 7-11 June 2021, published on 7 June 2021.**

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	7

I. Recent Events and Data Releases

A. MENA Economies

UAE: Issues its first federal bond, raising USD4.0 billion

Last week, the UAE issued its first-ever sovereign bond, taking advantage of the easy global funding conditions and ahead of the Fed starting to taper asset purchases. Previously, sovereign bonds had been at an emirate level. The Ministry of Finance raised USD4.0 billion, with the bond split into three tranches: i) a USD1.0 billion 10-year note at 70 bps over US Treasuries, ii) a USD1.0 billion 20-year tranche at 105 bps over US Treasuries, and iii) USD2.0 billion in 40-year dual-listed Formosa tranche at 3.25%. There was strong demand for the paper, with orders of over USD22.5 billion, resulting in a tightening of the spread. Demand skewed to the 10-year tranche, with the yield (2.215%) broadly in line with Abu Dhabi government bonds with a similar duration. The long tenures of the tranches lock in the attractive funding costs. The UAE will use the bond proceeds for domestic budgetary purposes, including the financing of infrastructure projects and/or for the purpose of investment by the Emirates Investment Authority (EIA), the UAE's federal sovereign wealth fund. Moody's has assigned an Aa2 foreign currency senior unsecured rating to the UAE government's global medium-term note programme, noting the country's very high level of per capita income and very large hydrocarbon endowment. The rating is the third-highest investment grade and in line with Abu Dhabi's. Moody's assumes "that the federal government will receive full backing from the government of Abu Dhabi and the latter's strong balance sheet and substantial net creditor position".

Funds raised will be used for budgetary purposes and for investment by EIA

The UAE enacted its public debt law in October 2018, enabling the federal government to begin issuing sovereign debt. The issuance of federal debt should also support a deepening in domestic financial markets and will be positive for developing a domestic yield curve, as corporates are increasingly turning to debt capital markets for funding, especially on a longer-term basis. Potentially, an AED-denominated bond could follow. In January 2021, the UAE cabinet approved a public debt strategy for developing the domestic market for local-currency bonds. Moreover, UAE banks will be able to purchase government bonds, either in AED or foreign currencies, providing them with highly rated assets with which they can manage their liquidity and meet Basel III regulatory requirements.

Issuance of federal bonds should help deepen domestic financial markets and yield curve

UAE: Pledges to achieve climate neutrality by 2050

In a significant move, the UAE committed to reaching net-zero carbon emissions by 2050 in a strategic initiative announced last week. The announcement comes ahead of the COP26 climate talks to be held next month in Glasgow, Scotland. It highlights the UAE's commitment to global sustainability efforts. The UAE is the first of the large regional hydrocarbon producers to make such a commitment and will encourage other countries to follow. The UAE plans to invest AED600.0 billion (USD163.5 billion) in clean energy and renewables over the next three decades to meet this objective. We have outlined in our previous research that the UAE has been at the forefront of adopting policies within the region to help mitigate the effects of climate change, to increase clean energy sources and to reduce the country's carbon footprint. This includes investments in solar and nuclear power, which are already being reflected in sources of power generation. For more details, please see our note – **UAE: Domestic energy pivoting towards self-sufficiency, diversity and clean sources**, published on 4 July 2021. A key area of focus going forward will be the development of the hydrogen industry, which is being seen as a central element of the global energy transition to zero-carbon fuels.

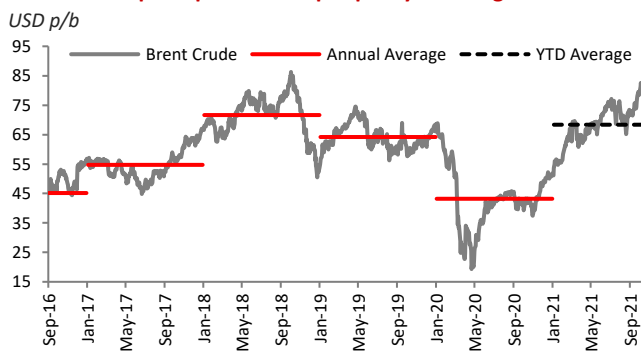
UAE to invest USD163.5 billion over next three decades in clean energy and renewables

Oil: OPEC+ affirms its plans to raise output by 400K b/d in November

There were no surprises at the OPEC+ meeting last week, with the group sticking to its plan to raise output by just 400K b/d in November. This is despite increasing demand for oil amid shortages in alternative fuels, such as gas and coal. Surprisingly, the short statement released after the meeting did not provide any insights into the current tight oil market conditions. This was the second successive meeting with no press conference. There were also no hints as to how it intends to adjust its output policy if tightness in the oil market persists. OPEC+'s decision to keep the oil market undersupplied against an improving global demand backdrop suggests that it is not keen to adjust its output plan at this point, which in turn should remain supportive for the oil price. Indeed, Brent crude touched a new recent high of USD83.4 p/b following the OPEC+ decision, although it moderated thereafter to close at USD82.4 p/b.

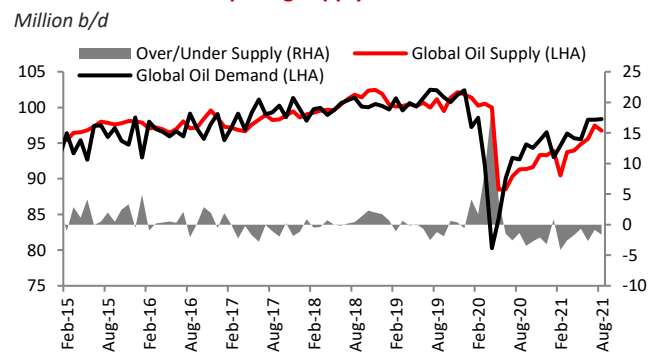
OPEC+ shows no urgency to raise output despite tightening energy market fundamentals

Fig. 1. Oil: Brent price closes at USD82.4 p/b after OPEC+ keeps its planned output policy unchanged



Source: Bloomberg, ADCB Economic Research

Fig. 2. Oil: Global oil market remains undersupplied with demand outpacing supply in absolute levels



Source: Energy Intelligence Group, ADCB Economic Research

Meanwhile, the gas shortages in Europe, power outages in China and dwindling coal inventories in India indicate that the overall energy market is facing significant supply-side constraints and any normalising of the situation is likely to be gradual with the winter season just around the corner. The sharp surge in coal prices also resulted in power plants in Asia operating at lower utilisation levels to minimise their potential losses. Last week, Saudi Aramco CEO Amin Nasser highlighted that the spike in gas and coal prices had led to a c.500K b/d increase in demand for crude. Should the incremental demand for oil persist, tightness in the physical market could deepen further, resulting in an additional drawdown of inventories. This could eventually prompt OPEC+ to increase output, although the timing remains uncertain at this point. The next OPEC+ meeting is scheduled for 4 November. Any further overheating of the energy market is likely to increase upside risks to the global inflation outlook, which, in turn, could lead to monetary policy tightening at a faster pace than currently outlined by the central banks. Any tightening in monetary conditions would also adversely affect the global growth outlook for 2022.

Rising energy prices point to increasing upside risks to global inflation outlook

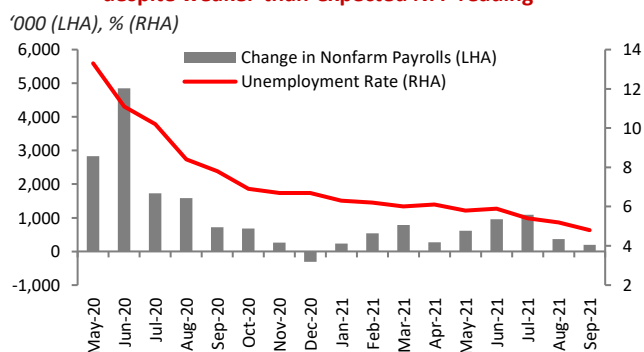
B. G4 Economies

US: September labour report points to tight market conditions

The US economy added just 194.0K jobs in August, markedly below the consensus expectation for 500.0K. However, the August reading was revised higher to 366.0K, from 235.0K in the first print. The significantly weaker-than-expected NFP data for the second consecutive month was likely due to labour shortages in some sectors, while demand remains robust at a multi-year high. The job additions in the contact-sensitive sectors were relatively weak with leisure & hospitality jobs adding just 74.0K, likely impacted by both shortages of labour and rising demand for wages. The Delta variant has resulted in fewer people eating out and travelling, alongside delaying their return to the office. Low vaccinations rates in certain states was likely also a factor. Moreover, hiring in the government sector fell by 123.0K, with declines in state and local education segments, which have been increasingly volatile in recent months. The other areas of the labour market report, including unemployment rate and wage growth, indicated tightening market conditions in September. The unemployment rate fell to 4.8% in September (August: 5.2%), the lowest reading since the onset of the pandemic. The participation rate fell to 61.6% in September, from 61.7% in August. The tight labour conditions also resulted in wage growth accelerating markedly to 0.6% m-o-m (August: 0.4%), led by the leisure and hospitality sector (+0.5%). Overall, we believe that the September labour market report is decent enough for the Fed to move ahead and announce asset purchase tapering at its November policy meeting. Moreover, we see risks building up for a more hawkish Fed policy than the consensus expects at this point amidst increasing upside risks to the inflation outlook.

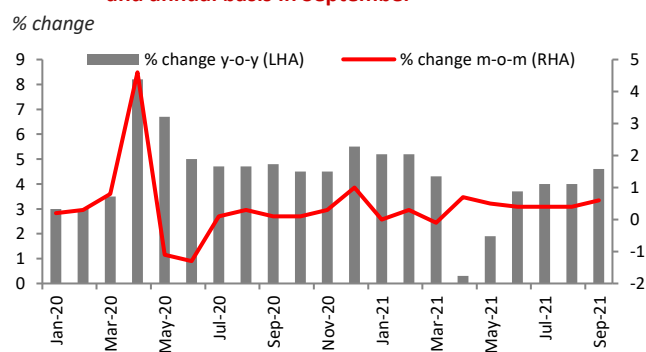
Mixed payroll report unlikely to hold Fed back from announcing asset purchase tapering in November

Fig. 3. US: Unemployment rate falls to 4.8% in September despite weaker-than-expected NFP reading



Source: Bureau of Labor Statics, ADCB Economic Research

Fig. 4. US: Wage growth strengthens further on both monthly and annual basis in September



Source: Bureau of Labor Statics, ADCB Economic Research

C. Emerging Market Economies

India: RBI discontinues bond purchase programme at October meeting

The RBI left its repo and reverse repo rate unchanged at 4.0% and 3.35% respectively at its 8 October policy meeting, with a unanimous vote. The MPC reiterated that it will continue with the “accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19.” However, one MPC member dissented against maintaining the accommodative stance, as was the

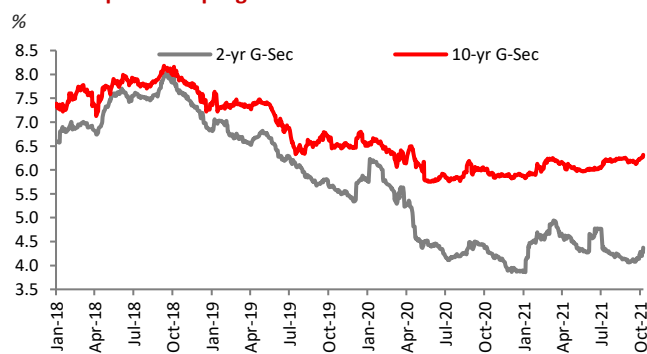
Inflation forecast revised down to 5.3% for FY2022, from 5.7% previously

case at the August meeting. The RBI sounded optimistic on the economic recovery and highlighted that the upcoming festival season should support a rebound in the pent-up demand for contact-intensive services. Despite that, the MPC left the GDP growth projections steady at 9.5% for FY2022 (Apr.-Mar.). We see risks for upward revisions to growth projections if the strong economic momentum continues in 4Q. On inflation, the MPC revised down its FY2022 estimate to 5.3% (5.7% previously) to reflect the recent moderation in food prices. The MPC sees risks to the inflation outlook as broadly balanced at this point, despite the recent surge in international crude prices. Governor Das highlighted that the RBI is committed to keeping inflation under control amid rising energy prices.

The overall tone of the meeting was dovish in our view, with Governor Shaktikanta Das highlighting that adjustments to the prevailing excess liquidity conditions will be gradual, calibrated and non-disruptive. The MPC noted that the “liquidity conditions emanating from the exceptional measures instituted during the crisis would need to evolve in sync with the macroeconomic developments to preserve financial stability.” As such, the MPC decided to withdraw some of the extraordinary measures taken to revive the economy from the COVID impact. These measures include: i) discontinuing G-SAP purchases (G-Sec Acquisition Programme); and ii) increasing the quantum and tenor of variable rate reverse repo (VRRR) auctions. We see these steps to absorb excess liquidity from the system as an indication that the RBI is looking to gradually return to the ‘regular’ liquidity management framework that was followed before COVID. However, there were no hints regarding a possible hike in the reverse repo rate at this meeting, despite consensus expecting some clues about this. We and the consensus still believe that the MPC will hike the reverse repo rate by 15 bps to 3.5% at its December meeting.

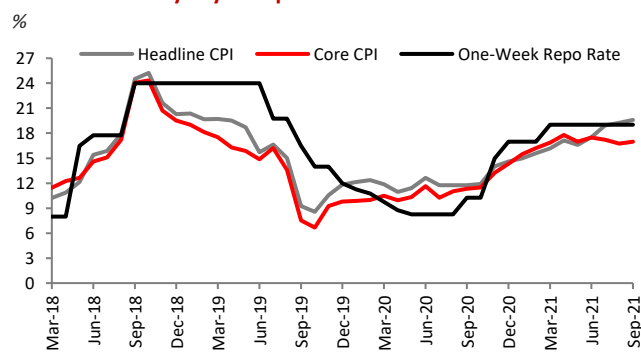
MPC provides no hints related to reverse repo rate hikes

Fig. 5. India: Bond yields tick up after RBI discontinues bond purchase programme



Source: Bloomberg, ADCB Economic Research

Fig. 6. Turkey: Headline inflation strengthens further to 19.6% y-o-y in September



Source: Turkish Statistical Institute, CBRT, ADCB Economic Research

Turkey: Inflation accelerates further in September

In September, headline inflation accelerated further to a 30-month high of 19.6% y-o-y from 19.3% in August, albeit slightly below consensus expectations of 19.7%. The strengthening in inflation was mainly driven by the energy and services segments. The increases in domestic energy prices were led by solid fuels such as coal and firewood, while the pass-through from higher international crude prices was relatively contained thanks to the administered pricing system. Core inflation also strengthened – to 17.0% y-o-y in September, from 16.8% in August – led by a pick-up in the services segments, including education, restaurants and transportation. The broad-based strengthening in services inflation also indicates a build-up of underlying price pressure. This was in

Strengthening in services inflation points to build-up of underlying price pressure

contrast to the CBRT's argument that the elevated inflation was due to transitory factors such as supply constraints as well as rises in food and import prices. The CBRT had already begun its monetary easing cycle at its September policy meeting, with a 100 bps benchmark rate cut, despite inflation concerns. We are of the view that any further interest rate cuts by the MPC would be unwarranted at this point, especially when the major central banks are looking to tighten monetary policy. The September inflation reading also makes a strong case against further interest rate cuts. However, given the political pressure from President Recep Tayyip Erdoğan, further monetary policy easing at the upcoming meetings cannot be ruled out.

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Aug	0.0%	
	UAE	Abu Dhabi CPI, y-o-y	Aug	1.8%	
	UAE	Dubai CPI, y-o-y	Sep	-1.9%	
	Bahrain	CPI, y-o-y	Aug	0.3%	
	China	New Yuan Loans CNY	Sep	1220.0B	1800.0B
	India	Exports, y-o-y	Sep	45.8%	
Monday, 11 October					
8:15	UAE	Dubai PMI	Sep	53.3	
11:00	Turkey	Current Account Balance	Aug	-0.7B	-0.1B
16:00	Eurozone	ECB's Lane Speaks			
Tuesday, 12 October					
2:00	US	Fed's Evans Gives Introductory Remarks at Award Ceremony			
3:50	Japan	PPI, y-o-y	Sep	5.5%	5.8%
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Aug	8.3%	7.0%
10:00	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Aug	6.8%	6.6%
10:00	UK	ILO Unemployment Rate, 3M	Aug	4.6%	4.5%
16:00	India	CPI, y-o-y	Sep	5.3%	4.5%
16:00	India	Industrial Production, y-o-y	Aug	11.5%	11.8%
18:00	US	JOLTS Job Openings	Aug	10934K	10938K
19:10	US	Fed's Clarida Speaks at IIF Annual Meeting			
20:30	US	Fed's Bostic Speaks on Inflation at Peterson Institute			
Wednesday, 13 October					
10:00	UK	Industrial Production, m-o-m	Aug	1.2%	0.2%
10:00	UK	Index of Services, 3M/3M	Aug	4.5%	3.6%
10:00	UK	Trade Balance, GBP Million	Aug	£3117M	£2800M
10:00	UK	Monthly GDP, m-o-m	Aug	0.1%	0.5%
13:00	Eurozone	Industrial Production SA, m-o-m	Aug	1.5%	-1.6%
16:30	US	CPI, m-o-m	Sep	0.3%	0.3%
16:30	US	CPI, ex-Food and Energy, m-o-m	Sep	0.1%	0.2%
16:30	US	CPI, y-o-y	Sep	5.3%	5.3%
16:30	US	CPI, ex-Food and Energy, y-o-y	Sep	4.0%	4.1%
18:30	UK	BOE's Cunliffe Speaks			
22:00	US	FOMC Meeting Minutes	22-Sep		
	China	Exports, y-o-y	Sep	25.6%	21.6%
	China	Imports, y-o-y	Sep	33.1%	20.7%
Thursday, 14 October					
4:00	US	Fed's Brainard Speaks at Fed Listens Event			
5:30	China	CPI, y-o-y	Sep	0.8%	0.9%
5:30	China	PPI, y-o-y	Sep	9.5%	10.5%
9:00	Saudi Arabia	CPI, y-o-y	Sep	0.3%	
16:30	US	Initial Jobless Claims	9-Oct	326K	320K
16:30	US	Continuing Claims	2-Oct	2714K	2686K
16:30	US	PPI Final Demand, m-o-m	Sep	0.7%	0.6%
18:40	UK	BOE's Catherine Mann speaks on Covid-19			
Friday, 15 October					
16:30	US	Empire Manufacturing	Oct	34.3	25.0
16:30	US	Retail Sales Advance, m-o-m	Sep	0.7%	-0.2%
16:30	US	Retail Sales Control Group	Sep	2.5%	0.4%
16:30	US	Import Price Index, m-o-m	Sep	-0.3%	0.5%
18:00	US	University of Michigan Sentiment	Oct P	72.8	73.5
20:20	US	Fed's Williams Takes Part in Monetary Policy Panel			

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Oman	CPI, y-o-y	Aug	2.2%		2.1%
Monday, 4 October						
11:00	Turkey	CPI, y-o-y	Sep	19.3%	19.7%	19.6%
11:00	Turkey	CPI Core Index, y-o-y	Sep	16.8%	16.6%	17.0%
12:30	Eurozone	Sentix Investor Confidence	Oct	19.6	18.6	16.9
18:00	US	Factory Orders	Aug	0.7%	1.0%	1.2%
18:00	US	Durable Goods Orders	Aug F	1.8%	1.8%	1.8%
18:00	US	Cap Goods Shipments, Non-defence, ex-Air	Aug F	0.7%		0.8%
Tuesday, 5 October						
3:30	Japan	Tokyo CPI, y-o-y	Sep	-0.4%	-0.1%	0.3%
4:30	Japan	Jibun Bank Japan PMI Composite	Sep F	47.7		47.9
8:15	Egypt	IHS Markit Egypt PMI	Sep	49.8		48.9
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Sep	54.1		58.6
8:15	UAE	IHS Markit UAE PMI	Sep	53.8		53.3
9:00	India	Markit India PMI Composite	Sep	55.4		55.3
12:00	Eurozone	Markit Eurozone Composite PMI	Sep F	56.1	56.1	56.2
12:30	UK	Markit/CIPS UK Composite PMI	Sep F	54.1	54.1	54.9
13:00	Qatar	IHS Markit Qatar PMI	Sep	58.2		60.6
16:30	US	Trade Balance	Aug	-\$70.3B	-\$70.8B	-\$73.3B
17:45	US	Markit US Services PMI	Sep F	54.4	54.4	54.9
18:00	US	ISM Services Index	Sep	61.7	59.9	61.9
Wednesday, 6 October						
12:30	UK	Markit/CIPS UK Construction PMI	Sep	55.2	54.0	52.6
13:00	Eurozone	Retail Sales, y-o-y	Aug	3.1%	0.4%	0.0%
15:00	US	MBA Mortgage Applications	1-Oct	-1.1%		-6.9%
16:15	US	ADP Employment Change	Sep	340K	430K	568K
Thursday, 7 October						
9:00	Japan	Leading Index CI	Aug P	104.1	102.0	101.8
11:00	China	Foreign Reserves	Sep	\$3232.1B	\$3220.0B	\$3200.6B
16:30	US	Initial Jobless Claims	2-Oct	364K	348K	326K
16:30	US	Continuing Claims	25-Sep	2811K	2766K	2714K
Friday, 8 October						
3:50	Japan	BoP Current Account Balance	Aug	¥1910.8B	¥1486.0B	¥1665.6B
5:45	China	Caixin China PMI Services	Sep	46.7	49.2	53.4
8:30	India	RBI Repurchase Rate	8-Oct	4.0%	4.0%	4.0%
8:30	India	RBI Reverse Repo Rate	8-Oct	3.35%	3.35%	3.35%
8:30	India	RBI Cash Reserve Ratio	8-Oct	4.0%	4.0%	4.0%
16:30	US	Change in Nonfarm Payrolls	Sep	366K	500K	194K
16:30	US	Change in Private Payrolls	Sep	332K	450K	317K
16:30	US	Unemployment Rate	Sep	5.2%	5.1%	4.8%
16:30	US	Average Hourly Earnings, m-o-m	Sep	0.4%	0.4%	0.6%
16:30	US	Average Hourly Earnings, y-o-y	Sep	4.0%	4.6%	4.6%
16:30	US	Labor Force Participation Rate	Sep	61.7%	61.8%	61.6%
18:00	US	Wholesale Inventories, m-o-m	Aug F	1.2%	1.2%	1.2%

* UAE time

Source: Bloomberg, ADCB Economic Research

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.