

## The Week Ahead: BoJ on hold; UK data and political developments

### ► **UK: Labour party's stand on second Brexit referendum in focus**

The key events in the UK will be the Labour Party conference (23-26 September) and an informal EU leader summit which will discuss Brexit developments (20 September). The critical issues of the Labour Party conference will be i) if there is sufficient support within the party to place a second Brexit referendum on the agenda; and ii) if a referendum is adopted as party policy (at this point it is not the leadership's official stance). Campaigners for a second Brexit vote believe that they have enough backing to force the issue. CPI inflation and retail sales for August are also due this week. Consensus expects both headline and core inflation decelerated to 2.4% (July: 2.5%) and 1.8% (July: 1.9%) respectively in August, led by subdued services inflation. Separately, it will be a relatively quiet week in the US with no major data releases or Fed speeches due to the blackout period ahead of the 25-26 FOMC meeting. However, trade tensions will continue after US officials last week indicated that tariffs on Chinese imports worth USD200 billion may be announced as early as today.

### ► **Japan: BoJ on hold; Abe likely to win LDP presidential election**

The BoJ is widely expected to keep its monetary policy unchanged at its 19 September meeting. This includes the deposit rate at -0.1% and the 10-year JGB yield target 'around zero'. We believe that the BoJ will refrain from tweaking any of the policy guidance and expect Governor Kuroda to reiterate that interest rates will remain low until the implementation of an increase in the sales tax slated for October 2019. Attention will also be on the Liberal Democratic Party presidential election (20 September), where Prime Minister Shinzo Abe is forecast to win strong support for a third and final term (2018 to 2021). A strong mandate would likely shift the government's focus to a constitutional amendment related to the self-defence forces.

### ► **EM: CBRT and CBR hike policy rates to support FX rates**

Emerging markets continued to take centre stage due to the ongoing jitters. Notably, the CBRT surprised the market by raising rates by 625 bps (consensus: 300 bps hike), taking the one-week repo rate to 24% at its September policy meeting (page 5). The CBRT also returned to provide funding through the one-week repo rate from just the overnight lending window before the policy meeting. Thus, the effective funding rate will be tightened by 475 bps. We believe that this surprise hike will be supportive of the TRY in the near term, though further monetary tightening and a concrete fiscal consolidation programme will be key factors for macro stability over the medium term. The Central Bank of Russia also hiked its policy rates by 25 bps to 7.5% at the end of last week, citing upside risks to inflation. Meanwhile, the Indian government announced a set of policy measures to support the INR and boost capital inflows. This includes lowering the minimum maturity for external commercial borrowing (to one year vs. three years earlier) and removing the exposure limit of foreign portfolio investors to corporate bonds.

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## I. Recent Events and Data Releases

### A. MENA Economies

#### Saudi Arabia: Raises USD2 billion in new sukuk

The Saudi government, via the Ministry of Finance, last week raised USD2 billion in a sukuk, maturing in January 2029. This was the country's second international sukuk issue following the USD9 billion it raised in April 2017 and supports the development of the Shariah-compliant debt capital markets. There was strong demand for the paper with orders above USD10 billion, helping the pricing to tighten 127 bps over mid-swaps (equivalent to a 4.3% yield) from initial guidance of c.145 bps over mid-swaps. The sukuk likely completes Saudi Arabia's external funding requirements for 2018. In April, the government raised USD11 billion in a conventional USD bond and in March increased a USD10 billion syndicated loan by USD6 billion. Saudi Arabia has raised a total of around USD52 billion in international debt, both Islamic and conventional, since end-2016. Separately, the PIF also raised an USD11 billion loan from banks last week at Libor+75 bps. This was the PIF's first commercial loan and will support the government's economic diversification plans.

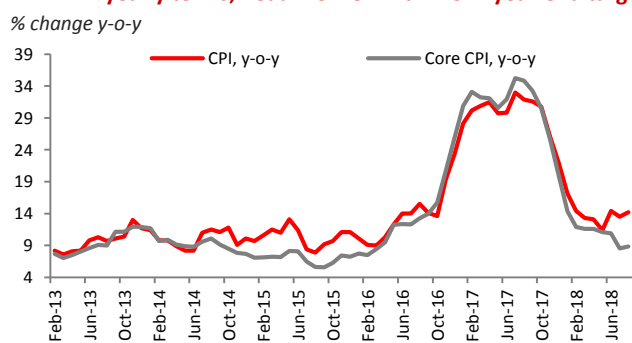
*Sukuk likely completes Saudi's external funding requirements for 2018*

#### Egypt: Acceleration in yearly inflation in August to keep CBE on hold

Egypt's urban inflation strengthened to 14.2% y-o-y in August from 13.5% in July. We see this pickup as being largely linked to some residual impact from the mid-year subsidy cuts (including fuel and electricity). Particularly notable was the strengthening in food price inflation to 11.6% y-o-y (July: 9.6%) with this component comprising 40% of the inflation basket. Nevertheless, the data is in line with our expectation that the latest round of subsidy reforms would have a constrained impact on inflation. Indeed, headline inflation is comfortably within the CBE's year-end target of 13%  $\pm$ 3%. Moreover, monthly inflation in August eased to 1.8% m-o-m (July: 2.4%; June: 3.5%), indicating a moderating impact of the subsidy reforms on inflation. Nevertheless, the yearly rise in August inflation should keep the CBE on hold at its upcoming 27 September meeting, in line with our current rate outlook. We now also see the central bank remaining on hold at the 15 November meeting given the jitters in EM and reduction in foreign holdings of Egyptian T-bills. We believe that a stabilisation of EM risk sentiment will be vital before the CBE can resume its rate-hiking cycle.

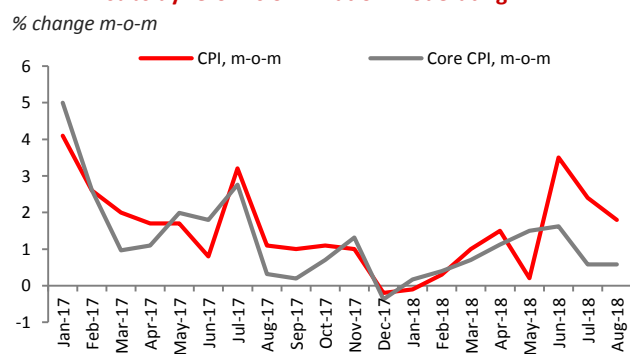
*EM jitters reduce room for CBE to lower rates despite inflation forecast to decelerate at end-2018*

**Fig. 1. Egypt: Core and headline inflation rise in August in yearly terms; headline well within CBE year-end target**



Source: CAPMAS, ADCB calculations

**Fig. 2. Egypt: Monthly data shows impact of mid-2018 subsidy reforms on inflation moderating**



Source: CAPMAS, ADCB calculations

## B. G4 Economies

### Eurozone: ECB likely to tweak reinvestment policy by end-2018

The ECB made no changes to its monetary policy at its 13 September meeting, in line with our and the market's expectations. The Governing Council (GC) reiterated its earlier guidance that the central bank's asset purchase programme will end in December with interest rates "to remain at their present levels at least through the summer of 2019". During the press conference, ECB President Mario Draghi noted that there was no discussion of the reinvestment policy, though hinted that the GC may appoint a committee to review the policy in the coming days. This suggests that the GC could appoint the committee either at the 26 September non-monetary policy meeting or at its 25 October MPC meeting. Thus, we believe that any formal announcement regarding the reinvestment policy could likely come at its December meeting when the GC will also have new economic projections. Overall, the ECB's policy guidance continues to suggest that the GC will proceed very cautiously with monetary policy normalisation.

*ECB's next policy tweak likely on reinvestment policy*

On the economy front, the ECB revised down its growth estimates for both 2018 and 2019 by 0.1pp to 2% and 1.8%, respectively. Despite the downside revisions to the growth outlook, the ECB maintained that the risks to the outlook remain broadly balanced. However, the ECB highlighted rising protectionism and potential emerging market contagion as key risks to the outlook. On the inflation front, the ECB left headline inflation projections unchanged but lowered its core inflation forecasts by 0.1pp each for 2019 and 2020 to 1.5% and 1.8%, respectively.

*ECB downgrades GDP growth projections by 0.1 pp for both 2018 and 2019*

### UK: BoE keeps policy rate steady at September meeting

The BoE left its monetary policy unaltered at its September meeting, in line with our and the market's expectations. The MPC voted unanimously (9-0) to keep the policy rate and stock of the asset purchase programme steady. The overall tone of the meeting was neutral, in our view. The committee highlighted that the UK economy continues to evolve broadly in line with the August economic projections, though highlighted the recent improvement in activity and wage growth. Citing the improvement in manufacturing activity, the committee raised its 3Q GDP forecast to 0.5% q-o-q from 0.4%. However, they also acknowledged the risks ahead related to uncertainties around Brexit. Overall, the MPC noted that the current monetary policy stance remains appropriate and any further rate hikes are likely to be at a "gradual pace and to a limited extent". We expect the BoE to keep the policy rate unchanged for the rest of 2018 and in 1H2019.

*Overall tone of meeting neutral*

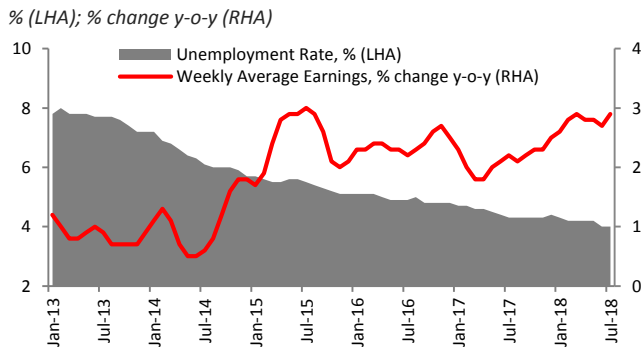
### UK: Wage growth accelerates unexpectedly in July

UK labour market data showed that wage growth accelerated in July after remaining subdued in the previous four months. This tentatively suggests that tight labour market conditions are finally putting some upwards pressure on wages. Average weekly earnings growth accelerated to 2.6% 3M/3M y-o-y in July, beating both the consensus estimate and the June print of 2.4%, driven by both the private and public sectors. Wage growth was particularly notable in the services sector (wholesaling, retailing, hotels & restaurants) but manufacturing and construction sector wage growth decelerated for a second consecutive month. The upside surprise in wage growth was a positive development but we advise some caution at this point as there was no broad-based strength across sectors. Moreover, we see the possibility of some moderation in wage growth in August, partly due to some payback and unwinding of base effects. Meanwhile, the unemployment rate remained steady at 4% in July – the lowest point since early

*Wage growth accelerates to 2.6% 3M/3M y-o-y in July from 2.4% in June driven by services sector*

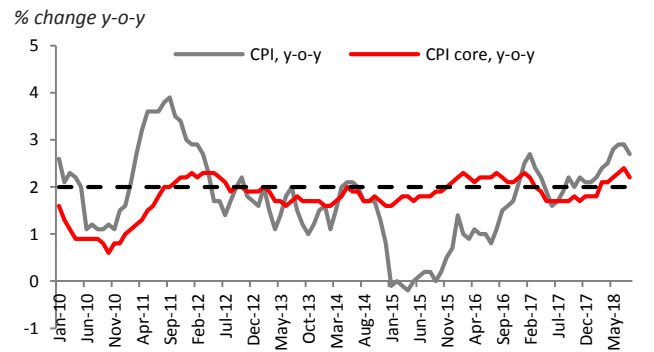
1975. We believe that this report will be supportive of the BoE's hawkish view on labour market conditions but do not expect the MPC's current guidance of three 25 bps rate hikes in total in the next three years to change.

**Fig. 3. UK: Wage growth accelerates to March level after three months of softening; trend uncertain**



Source: UK Office for National Statistics

**Fig. 4. US: Both headline and core inflation soften in August and miss consensus expectations**



Source: Bureau of Labor Statistics

### US: August CPI surprises to downside; no changes in Fed outlook

Both core and headline inflation for August printed below the market's expectations. Core CPI expanded by just 0.1% m-o-m (0.08% unrounded) in August versus consensus expectations of 0.2%, resulting in y-o-y growth slowing to 2.2% (July: 2.4%). Much of the weakness was due to a decline in apparel prices, whilst auto prices slowed in August after seeing solid gains in the previous month. We do not expect this report to change the Fed's policy stance with core inflation still around the Fed's 2% target (especially the preferred core PCE gauge) and strong momentum in the economy. Indeed, recent comments by FOMC members including Lael Brainard and Eric Rosengren turned more hawkish from neutral. Brainard indicated that the short-term neutral rate may be higher than the long-run one due to fiscal stimulus allowing the Fed to raise the FFTR above the current longer run dots. Nevertheless, the latest data concurs with our view that inflation should not overshoot the Fed's core PCE target despite the tightening labour market.

*Part of weakness due to payback from July as auto prices slowed*

**JOLTS data:** Job openings in the US accelerated to a series high of 6,939K in July (June: 6,822K), reflecting the tight labour market conditions. The private sector was the key driver of job openings in July, driven by the construction, manufacturing and hospitality segments. However, openings in the retail trade and the education sector fell in July alongside government job opportunities. Notably, the quits rate also increased to 2.4% in July (June: 2.3%) – the highest reading since April 2001, suggesting that workers are increasingly confident about their job prospects. We believe that the ongoing tightening in labour market conditions will likely put some further marginal upwards pressure on wage growth in the coming months.

*Quits rate increases to 2.4% in July from 2.3% in July, likely due to healthy job prospects*

## C. Emerging Market Economies

### Turkey: CBRT surprises with 625 bps rate hike in September

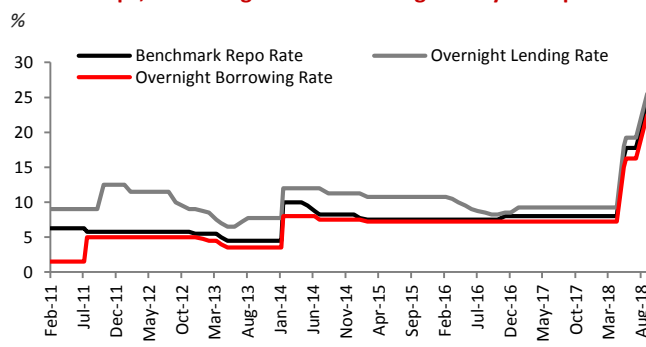
The CBRT raised its one-week repo rate by 625 bps to 24% from 17.75% at its September policy meeting. This tightens the effective funding rate by 475 bps as the overnight lending rate (at 19.25%) was the only source of funding before the policy meeting. The rate hike was significantly higher than the market's expectation of a 300 bps increase. Moreover, the CBRT is again providing funding through the one-week repo rate. YTD, the CBRT has increased the one-week policy rate by 1,125 bps. The tone of the statement was hawkish with the central bank highlighting that its tight monetary policy stance will be maintained decisively until the inflation outlook improves significantly. The committee acknowledged that the inflation outlook had deteriorated considerably due to the sharp depreciation of the TRY and also highlighted that it is ready to raise the benchmark policy rate further if necessary.

*CBRT increases one-week repo rate to 24% from 17.75%*

We believe that the surprise hike is likely to remain supportive of the TRY in the near term. However, there is still significant policy uncertainty related to the government's fiscal policy framework. Thus, attention will now be on the medium-term fiscal framework in particular, which is expected to be published before the end of this month. Moreover, the government's policy measures to reduce the stress on corporate and bank balance sheets will also be an important factor for financial stability in the near term. In the absence of any meaningful fiscal tightening, we see increasing risks of headline inflation accelerating close to 25% by end-1Q2018. This in turn will likely prompt the CBRT to raise policy rates further, in our view.

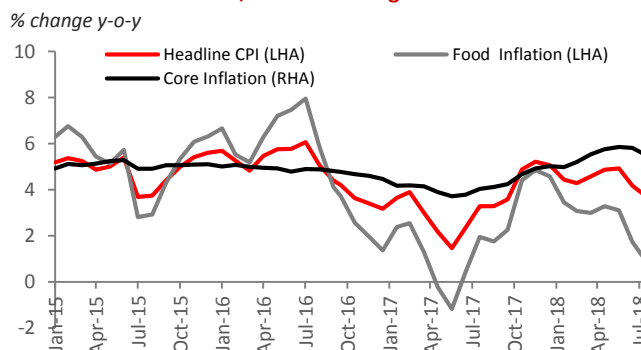
*Policy uncertainty still remains high on fiscal front*

**Fig. 5. Turkey: CBRT raises all key benchmark rates by 625 bps, increasing effective funding rate by 475 bps**



Source: CBRT

**Fig. 6. India: Contraction in vegetable prices dragging down food inflation, in turn slowing headline inflation**



Source: India Central Statistics Organisation

### India: Inflation hits 10-month low of 3.7% y-o-y in August

Headline inflation decelerated sharply to 3.7% y-o-y in August (consensus: 3.8%) from 4.2% in July. The slowdown was largely due to a further contraction in vegetable prices (7% y-o-y), taking food inflation down to just 0.9% in August from 1.7% in July. We believe that food inflation will remain benign in the coming months until the higher minimum support prices proposed by the government feed into food inflation gradually from November. Core inflation (ex-food, tobacco and fuel), which accounts for 45% of the CPI basket, also moderated to 5.9% y-o-y in August from 6.3% in July, though this was partly due to the favourable base. However, fuel prices rose by a five-year high of 8.5% y-o-y in

*Softening in food prices behind August disinflation*

August (July: 8%), reflecting the elevated global crude prices. We see a further increase in fuel prices in September with the sharp rise in domestic pump prices.

Despite the moderation in headline inflation, we expect the RBI to remain vigilant, citing the upside risks from the elevated crude price and the depreciation of the INR. The RBI could front-load another 25 bps rate hike at its 4 October meeting, though a December increase looks more likely in our view. Meanwhile, Finance Minister Arun Jaitley last week announced a first set of policy measures, including revisions to external commercial borrowing limits, foreign portfolio investor limits and a tax exemption on masala bond issuance to boost capital inflows into the economy. He also indicated that additional steps will be announced shortly.

*RBI to remain vigilant with INR weakness and strong oil price*

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	M2 Money Supply, m-o-m	Aug	0.2%	
	UAE	Central Bank Foreign Assets	Aug	332.3B	
	UAE	CPI, y-o-y	Aug	3.8%	
	Saudi Arabia	CPI, y-o-y	Aug	2.2%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Jul	26.7%	
	Bahrain	GDP Constant Prices, y-o-y	2Q	-1.2%	
	Bahrain	M2 Money Supply, y-o-y	Jul	1.4%	
	Bahrain	CPI, y-o-y	Aug	2.7%	
	Kuwait	CPI, y-o-y	Aug	0.8%	
	Oman	CPI, y-o-y	Aug	1.4%	
	Oman	Budget Balance Month	Jul	-310M	
	Egypt	Trade Balance	Jul	-3625M	
<b>Monday, 17 September</b>					
11:00	Turkey	Industrial Production, m-o-m	Jul	-2%	-1%
11:00	Turkey	Unemployment Rate	Jun	9.7%	
13:00	Eurozone	CPI, y-o-y	Aug F	2.1%	2%
13:00	Eurozone	CPI, m-o-m	Aug	-0.3%	0.2%
13:00	Eurozone	CPI Core, y-o-y	Aug F	1%	1%
13:00	Eurozone	ECB's Coeure Speaks in Berlin			
14:15	Eurozone	ECB's Praet Speaks in Brussels			
16:30	US	Empire Manufacturing	Sep	25.6	23
<b>Tuesday, 18 September</b>					
11:15	Eurozone	ECB's Draghi Speaks in Paris			
<b>Wednesday, 19 September</b>					
3:50	Japan	Trade Balance	Aug	-¥231.2B	-¥483.2B
	Japan	BOJ Policy Balance Rate	19-Sep	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	19-Sep	0%	0%
12:00	UK	BOE's Haldane speaks in Estonia			
12:30	UK	CPI, m-o-m	Aug	0%	0.5%
12:30	UK	CPI, y-o-y	Aug	2.5%	2.4%
12:30	UK	CPI Core, y-o-y	Aug	1.9%	1.8%
16:30	US	Current Account Balance	2Q	-\$124.1B	-\$103.3B
16:30	US	Housing Starts	Aug	1168K	1235K
16:30	US	Building Permits	Aug	1303K	1310K
17:00	Eurozone	Draghi Speaks on European Economic Union in Berlin			
<b>Thursday, 20 September</b>					
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Aug	0.7%	-0.2%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Aug	3.5%	2.3%
16:30	US	Philadelphia Fed Business Outlook	Sep	11.9	15.8
18:00	US	Leading Index	Aug	0.6%	0.5%
18:00	Eurozone	Consumer Confidence	Sep A	-1.9	-2
18:00	US	Existing Home Sales	Aug	5.34M	5.38M
21:20	Eurozone	ECB's Praet Speaks in New York			
<b>Friday, 21 September</b>					
3:30	Japan	National CPI, y-o-y	Aug	0.9%	1.1%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Aug	0.8%	0.9%
8:30	Japan	All Industry Activity Index, m-o-m	Jul	-0.8%	0.1%
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Sep P	54.6	54.5
12:30	UK	PSNB, ex-Banking Groups	Aug	-2B	3.3B
17:45	US	Markit US Manufacturing PMI	Sep P	54.7	55

\* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>EM data</b>						
	UAE	Dubai Economy Tracker SA	Aug	54.9		55.2
	Qatar	CPI, y-o-y	Aug	0.2%		0.6%
	Egypt	Urban CPI, y-o-y	Aug	13.5%		14.2%
	Egypt	Production Index, m-o-m	Jul	-0.4%		8.7%
	China	Money Supply M2, y-o-y	Aug	8.5%	8.6%	8.2%
	China	New Yuan Loans CNY	Aug	1450B	1400B	1280B
	India	Exports, y-o-y	Aug	14.3%		19.2%
<b>Monday, 10 September</b>						
3:50	Japan	GDP SA, q-o-q	2Q F	0.5%	0.7%	0.7%
3:50	Japan	GDP Annualized SA, q-o-q	2Q F	1.9%	2.6%	3%
5:30	China	PPI, y-o-y	Aug	4.6%	4%	4.1%
5:30	China	CPI, y-o-y	Aug	2.1%	2.1%	2.3%
11:00	Turkey	GDP, y-o-y	2Q	7.4%	5.3%	5.2%
12:30	UK	Trade Balance	Jul	-£942	-£2100	-£111
12:30	UK	Industrial Production, m-o-m	Jul	0.4%	0.2%	0.1%
12:30	UK	Monthly GDP, 3M/3M Change	Jul	0.4%	0.5%	0.6%
<b>Tuesday, 11 September</b>						
8:30	Japan	Tertiary Industry Index, m-o-m	Jul	-0.6%	0.1%	0.1%
12:30	UK	Claimant Count Rate	Aug	2.5%		2.6%
12:30	UK	Jobless Claims Change	Aug	10.2K		8.7K
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Jul	2.4%	2.4%	2.6%
12:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Jul	2.7%	2.8%	2.9%
12:30	UK	ILO Unemployment Rate, 3M	Jul	4%	4%	4%d
18:00	US	JOLTS Job Openings	Jul	6822	6675	6939
<b>Wednesday, 12 September</b>						
16:00	India	CPI, y-o-y	Aug	4.2%	3.8%	3.7%
16:00	India	Industrial Production, y-o-y	Jul	6.9%	6.5%	6.6%
16:30	US	PPI Final Demand, m-o-m	Aug	0%	0.2%	-0.1%
<b>Thursday, 13 September</b>						
3:50	Japan	Core Machine Orders, m-o-m	Jul	-8.8%	5.5%	11%
15:00	UK	Bank of England Bank Rate	13-Sep	0.75%	0.75%	0.75%
15:00	Turkey	One-Week Repo Rate	13-Sep	17.75%	20.75%	24%
15:45	Eurozone	ECB Main Refinancing Rate	13-Sep	0%	0%	0%
16:30	US	CPI, m-o-m	Aug	0.2%	0.3%	0.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	Aug	0.2%	0.2%	0.1%
16:30	US	CPI, y-o-y	Aug	2.9%	2.8%	2.7%
16:30	US	CPI, ex-Food and Energy, y-o-y	Aug	2.4%	2.4%	2.2%
22:00	US	Monthly Budget Statement	Aug	-\$107.7B	-\$211B	-\$214B
<b>Friday, 14 September</b>						
6:00	China	Retail Sales, y-o-y	Aug	8.8%	8.8%	9%
6:00	China	Industrial Production, y-o-y	Aug	6%	6.1%	6.1%
11:00	Turkey	Current Account Balance	Jul	-3.04B	-1.8B	-1.75B
16:30	US	Retail Sales Advance, m-o-m	Aug	0.7%	0.4%	0.1%
16:30	US	Retail Sales Control Group	Aug	0.8%	0.4%	0.1%
17:15	US	Industrial Production, m-o-m	Aug	0.4%	0.3%	0.4%
18:00	US	Univ. of Michigan Sentiment	Sep P	96.2	96.6	100.8

\* UAE time

Source: Bloomberg

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