

The Week Ahead: Important data week; US labour data and Eurozone inflation in focus

► **US: Solid NFP report expected for May with 190K jobs created**

The US sees a number of key data releases this week, including the May NFP report, ISM manufacturing, April core PCE and the second estimate of 1Q GDP. Consensus estimates a solid labour report with 190K jobs created in May (April: 165K). The focus will remain on the average hourly earnings growth, which is forecast to have accelerated to 0.3% m-o-m in May after growing by a subdued 0.1-0.2% in the previous three months. The unemployment rate is expected to have remained steady at an 18-year low of 3.9% in May. Meanwhile, consensus envisages that core PCE inflation decelerated moderately to 1.8% y-o-y in April (March: 1.9%), with a fall in auto and airfare prices. Despite this, core PCE inflation is expected to reach the Fed's 2% target by July and stay around this level for the rest of the year. The minutes of the FOMC's May meeting highlighted that Fed remains comfortable allowing inflation to modestly overshoot its 2% target (page 2). Thus, we expect the Fed to continue with its gradual rate hike stance including a 25 bps increase in the FFTR at its June meeting.

► **Eurozone: Support to headline inflation from energy prices**

May inflation and April unemployment data for the Eurozone is due this week. Consensus estimates headline inflation accelerated to 1.6% y-o-y in May (April: 1.2%), largely reflecting the notable increase in energy prices. Core inflation is also forecast to have strengthened, to 0.9% y-o-y in May (April: 0.7%), with the weakening in the EUR raising imported inflation. Nevertheless, we continue to see underlying inflationary pressure remaining weak in the Eurozone, sharing the ECB's view presented in the minutes of the April meeting (page 4). Market attention will also be on Italian political developments, after President Sergio Mattarella withheld the nomination of Paolo Savona as an economy minister. Trade tensions between the US and EU may also re-emerge this week with the US' tariff exemption on EU steel and aluminum expiring on Thursday (31 May).

► **EM: India 1Q2018 GDP data and Opec production outlook**

India will release its GDP data for 1Q2018 on 31 May. We expect India's GDP growth to have strengthened slightly to 7.3% y-o-y in 1Q, driven by a cyclical recovery in manufacturing, increased government spending and solid agricultural production. The renewed economic momentum has also been reflected in the high-frequency indicators, such as IP, auto sales and bank credit. Despite the pick-up in quarterly GDP growth, annual GDP growth has likely slowed to c.6.5% in FY2018 (April 2017 – March 2018), with the implementation of the Goods and Services Tax (GST). Meanwhile, Brent crude prices fell at the end of last week after Saudi Arabia and Russia indicated that they are discussing increasing oil supply in 2H2018. This signals a significant shift in OPEC policy, from the over compliance seen YTD. The magnitude of the production rise has not been defined as yet, though could be c. 1million bpd. This would bring Opec+ production broadly in line with the group's output target. Concern over the high oil price dampening global demand has been increasing, alongside placing downward pressure on the currencies of energy importing emerging market countries.

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I. Recent Events and Data Releases

A. MENA Economies

UAE: Visa and foreign investment regulations to be amended

The UAE cabinet announced last week that it had approved changes to the country's residency and investment laws. The changes include:

- ▶ residency visas of up to 10 years for key professional workers in the scientific, technology and innovation sectors;
- ▶ residency visas of up to 10 years for foreign investors establishing businesses in the country;
- ▶ allowing companies to own 100% of their business in the UAE outside free trade zones (the current limit is 49%); and
- ▶ five-year student visas, with exceptional university graduates eligible for 10-year visas.

The announcement is positive, highlighting the proactive stance of policy makers towards supporting the UAE's economic development. Details of these new regulations are to be studied and defined in the coming months and to be implemented before year-end. The breadth and eligibility of the liberalisation criteria will be central to the potential support to the economy. Opening most sectors to 100% foreign ownership would provide a significant medium-term boost to FDI, especially given the low tax base, convenient geographic location and high level of infrastructure that the UAE offers. The same would be true regarding eligibility for 10-year visas, though this would greatly depend on the structure of the new scheme, i.e. if visas will be linked to individuals' employers. A 10-year visa would increase the propensity for expatriates to save in the UAE and buy properties given the outlook for longer-term residency.

Framework of liberalisation key to economic benefits

If the investment and visa liberalisation is more targeted towards certain sectors, they could be viewed as policies to support the development of those industries. Abdulla Al Saleh, the undersecretary for foreign trade and industry at the Ministry of the Economy, told Bloomberg that 100% ownership of companies in the UAE will be limited to specific industries deemed essential to the economy regarding elements such as job creation and technology transfer. The type of people that have so far been indicated as being potentially eligible for the 10-year visas are connected to these economic areas – scientists, doctors, engineers, entrepreneurs and innovators. Boosting the technology and innovation base of the UAE economy has already been highlighted as one of the country's key development objectives.

Boosting technology and innovation segments of economy is already an objective

B. G4 Economies

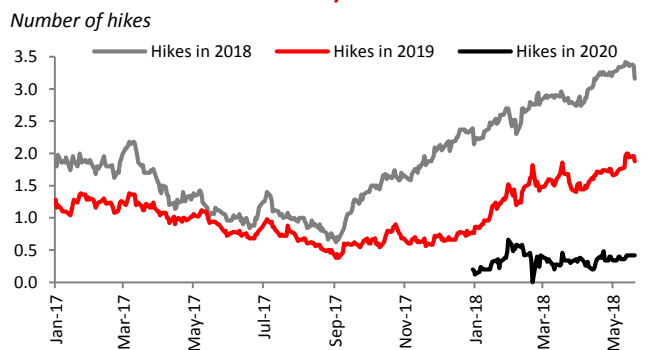
US: Dovish tilt to minutes of May FOMC meeting

The minutes of the May FOMC meeting highlighted that the Fed will take another step towards removing accommodative monetary policy "soon", further supporting the likelihood of a June rate hike. Nevertheless, the tone of the meeting was slightly dovish with members underlining that a modest overshoot of inflation above its 2% target "could be helpful" in anchoring longer-run inflation expectations. Notably, there were no indications of a fourth rate hike in 2018, despite FOMC members remaining positive on the economic backdrop. The participants' views on the economic outlook and labour market conditions remained broadly unchanged since the last intermeeting period, though stressed that uncertainty regarding trade and fiscal policy has increased. The Fed

May minutes support outlook for 25 bps rate hike at June meeting

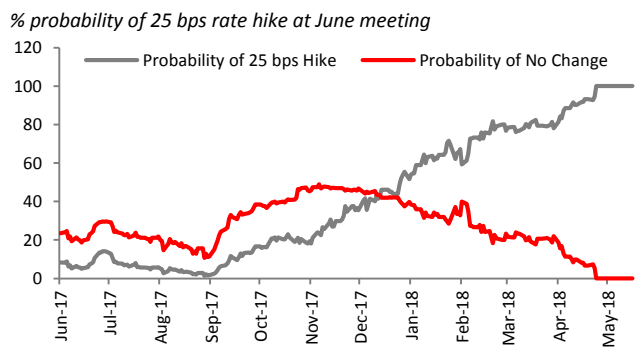
communications continue to suggest that the central bank will maintain its gradual rate hike stance.

Fig. 1. US: Market pricing for fourth 25 bps rate hike in 2018 fell after release of May FOMC minutes



Source: Bloomberg

Fig. 2. US: Market expectations of FFRT hike at June meeting remain intact



Source: Bloomberg

The FOMC members discussed potential changes to the forward guidance language used in the policy statement. In particular, some participants highlighted that it might soon be appropriate to revise either of the two following statements given the monetary tightening: i) “[the] federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run”; and/or ii) “the stance of monetary policy remains accommodative”. We expect that the forward-guidance language could be altered once the FFTR rate (upper bound) moves closer to the FOMC members’ estimates for the neutral rate (estimated c. 2.5-2.75%), potentially in either 4Q2018 or 1Q2019. Some members underlined the need to monitor the slope of the yield curve as an indicator of future recessions. Moreover, the May minutes highlighted that participants “generally agreed” that it would be appropriate to set the interest rate on excess reserves (IOER) at a rate slightly below the upper FFTR target range. This indicates that the Fed will only raise the IOER by 20 bps to 1.95% – 5 bps lower than the FFTR (upper bound) – the next time it hikes. However, this “technical adjustment” is unlikely to have any significant impact on market interest rates.

Discussion on changing forward guidance language

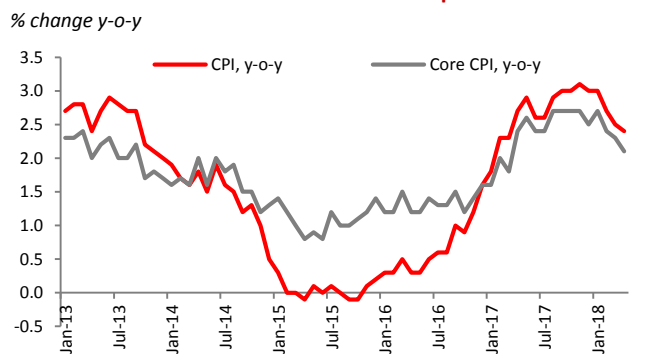
UK: Headline inflation decelerates further in April

Headline inflation softened further to a 13-month low of 2.4% y-o-y in April – lower than both the market’s expectations and the March print of 2.5%. Core inflation also decelerated to 2.1% y-o-y in April (March: 2.3%), again lower than the consensus estimate of 2.2%. The main driver behind the softening in inflation was the yearly decline in air fares, reflecting the change in the timing of Easter. Furthermore, food and clothing prices decelerated in April, though were partly offset by rising petrol prices. The ongoing disinflation seen from December 2017 is largely due to the diminishing pass-through effect of the Brexit-related GBP depreciation. However, the pace of the deceleration in headline inflation softened in April after seeing a sharp moderation of 0.3ppts and 0.2ppts in February and March respectively. This tentatively suggests that headline inflation could stabilise around this level in the coming months, especially with the rising crude prices. Notably, the oil price in GBP terms has risen by c.18% since the start of April and is up well over 40% y-o-y. Despite the upside risk from energy prices, we believe that underlying inflationary pressure remains weak. Services inflation – reflecting

Pace of deceleration in headline inflation slowed in April, partly reflecting rising crude prices

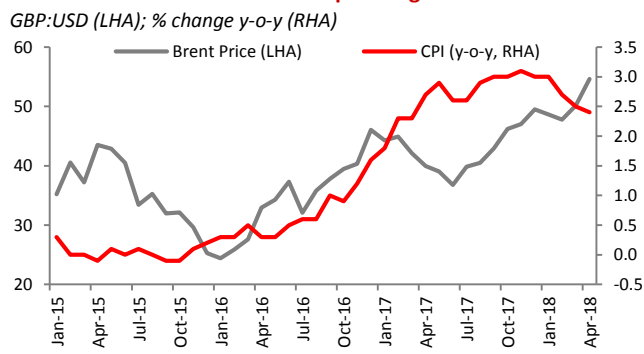
domestically generated inflation – remains subdued and is expected to soften overall inflation further in 2H2018.

Fig. 3. UK: Both Headline and Core inflation saw a third month of marked disinflation in April



Source: UK office for National Statistics

Fig. 4. UK: Rise in Brent price in GBP terms likely to limit further disinflation in upcoming months



Source: UK office for National Statistics, Bloomberg

April retail sales: headline retail sales (including fuel) rose by 1.6% m-o-m in April, beating the consensus estimate of 0.9% and a contraction of 1.1% in March. This suggests that personal consumption has recovered slightly after subdued economic activity in 1Q. The pick-up in retail activity in April was broad-based, though driven largely by petrol sales, which grew by 4.7% m-o-m in April compared with a contraction of 6.9% in the previous month. The UK's Office of National Statistics noted that underlying retail sales activity remains subdued with the volume of goods sold over the last six months broadly unchanged. Moreover, the recent rise in crude prices will likely erode household's purchasing power in the coming months. Thus, we still see relatively muted economic activity in 2018, which in turn is expected to keep domestically generated inflation subdued. Given our weak inflation and economic outlook for 2018, we see no reason for the BoE to hike its benchmark policy rate again this year. On the growth front, second estimate of 1Q GDP growth was unrevised at 0.1% q-o-q, impacted by one-off factors such heavy snowfall.

Retail activity saw broad-based pick-up in April after contraction in March

Eurozone: ECB minutes highlight increasing risks to growth outlook

The minutes of the ECB's April meeting was consistent with the dovish tone presented by President Mario Draghi during his post-meeting conference. The minutes highlighted that uncertainty surrounding the economic outlook had increased and a more pronounced weakening of demand could not be ruled out. Notably, ECB members had a lengthy discussion on increasing trade tensions and its likely impact on Eurozone economic growth. Despite highlighting the increased risks to the growth outlook, the ECB stated that the moderation in 1Q GDP growth was mostly due to the exceptionally high growth rates last year and some unexpected temporary factors. Thus, the ECB still expects underlying growth momentum to remain intact. On the inflation front, the ECB minutes outlined that underlying inflationary pressure has remained subdued and is yet to show convincing signs of a sustained upwards trend. This assessment broadly reflected the recent downside surprises in core inflation, which was in part due to the delayed pass-through from the previous EUR appreciation.

Uncertainty surrounding economic outlook has increased

Given the downbeat assessment of the growth and inflation outlook, ECB members generally agreed that a steady hand with regards to monetary policy was warranted at this point. Moreover, there were no discussions regarding adjustments to forward guidance for the QE programme. Thus, we expect the ECB to announce an extension to its QE programme at its July policy meeting rather than in the upcoming June meeting. We continue to see the ECB extending its asset purchase programme for another three months to December, albeit at a slower pace of EUR15 billion per month rather than the current EUR30 billion a month until September. We expect the ECB's first deposit rate hike by mid-2019 at the earliest.

QE extension likely in July rather than at June policy meeting

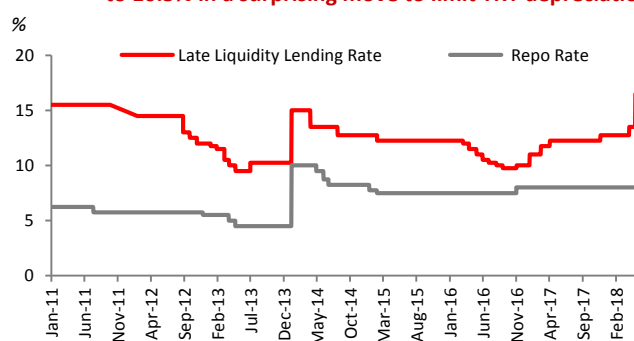
C. Emerging Market Economies

Turkey: CBRT hikes interest rate to support TRY

The CBRT raised the late liquidity window overnight lending (LLW O/N) rate by 300 bps to 16.5% in an unscheduled meeting last week. This was mainly to limit the sharp depreciation of the TRY against the USD (c.10%) last week. However, the central bank kept other interest rates steady, including the one-week repo rate at 8%, the marginal funding rate at 9.25% and the borrowing rate at 7.25%. The tone of the meeting was markedly hawkish with the committee highlighting this response as “strong monetary tightening” to support price stability. Notably, this is a remarkable shift from the “measured monetary tightening” stance presented at the April MPC meeting. The post-meeting statement noted that a tight monetary policy stance will be decisively maintained until the inflation outlook shows some significant improvement. In addition, CBRT announced that it will allow repayments of the rediscount credit facility (to provide credit and foreign exchange to exporters) in either TRY or at a stronger TRY exchange rate (4.2 per USD, 4.9 versus EUR, and 5.6 against GBP). The move is aimed at reducing further downward pressure against the TRY.

Late liquidity window rate raised by 300 bps to 16.5% from 13.5%

Fig. 5. Turkey: CBRT increased late liquidity rate by 300 bps to 16.5% in a surprising move to limit TRY depreciation



Source: CBRT

Fig. 6. Turkey: TRY weakened significantly against USD last week, leading CBRT to hike interest rate



Source: Bloomberg

We believe that Turkey's external risks have increased further in recent months with a drop in investor confidence, a perception of increased policy uncertainty and political developments leading up to the 24 June elections. The sharp devaluation of the TRY may also have some impact on the upcoming election, such as potential support for the ruling AK Party in parliament, which could further complicate the economic policy outlook. We believe that the independence of the central bank will remain a key factor in stabilising the TRY. Moreover, we do not see any additional rate hikes by the CBRT at its next policy

Central bank independence remains a key factor for TRY stabilisation

meeting on 7 June, though that largely depends on the TRY's stabilisation. However, if the currency depreciates any more, we expect the CBRT to raise the LLW O/N rate further and potentially adjust other policy rates to simplify the interest rate corridor.

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
GCC Economies					
	UAE	Dubai Airport Cargo Volume, y-o-y	Apr	-5.7%	
	Saudi Arabia	CPI, y-o-y	Apr	2.8%	
	Saudi Arabia	M2 Money Supply, y-o-y	Apr	-0.5%	
	Saudi Arabia	SAMA Net Foreign Assets SAR	Apr	1821B	
	Saudi Arabia	Current Account Balance	1Q	7834M	
	Qatar	M2 Money Supply, y-o-y	Apr	16.1%	
Tuesday, 29 May					
3:30	Japan	Jobless Rate	Apr	2.5%	2.5%
12:00	Eurozone	M3 Money Supply, y-o-y	Apr	3.7%	
18:00	US	Conference Board Consumer Confidence	May	128.7	127.9
20:00	Eurozone	ECB's Coeure Speaks at Roundtable Discussion in Paris			
Wednesday, 30 May					
3:50	Japan	Retail Trade, y-o-y	Apr	1%	0.9%
4:00	Japan	BOJ Governor Kuroda Speaks at Conference			
10:00	China	IMF Press Conference on End of China Article IV Consultation			
13:00	Eurozone	OECD Economic Forecasts			
16:00	Germany	CPI EU Harmonised, y-o-y	May P	1.4%	
16:15	US	ADP Employment Change	May	204K	195K
16:30	US	Wholesale Inventories, m-o-m	Apr P	0.3%	
16:30	US	GDP Annualized, q-o-q	1Q S	2.3%	2.3%
16:30	US	Personal Consumption	1Q S	1.1%	
22:00	US	U.S. Federal Reserve Releases Beige Book			
23:00	US	Fed to Hold Board Meeting to Discuss Volcker Rule Changes			
Thursday, 31 May					
3:50	Japan	Industrial Production, m-o-m	Apr P	1.4%	1.4%
5:00	China	Manufacturing PMI	May	51.4	51.4
12:30	UK	Mortgage Approvals	Apr	62.9K	62.5K
13:00	Eurozone	Unemployment Rate	Apr	8.5%	8.5%
13:00	Eurozone	CPI Core, y-o-y	May A	0.7%	
13:00	Eurozone	CPI Estimate, y-o-y	May	1.2%	1.6%
16:00	India	GDP Annual Estimate, y-o-y	2018	6.6%	
16:00	India	GDP, y-o-y	1Q	7.2%	
16:30	US	PCE Core, y-o-y	Apr	1.9%	1.8%
16:30	US	PCE Core, m-o-m	Apr	0.2%	0.1%
16:30	US	Personal Income	Apr	0.3%	0.3%
16:30	US	Personal Spending	Apr	0.4%	0.4%
17:45	US	Chicago Purchasing Manager	May	57.6	58.1
18:00	US	Pending Home Sales, m-o-m	Apr	0.4%	1%
20:30	US	Fed's Bostic Speaks in Moderated Q&A in Orlando			
Friday, 1 June					
3:50	Japan	Capital Spending, y-o-y	1Q	4.3%	3.2%
5:45	China	Caixin China PMI Manufacturing	May	51.1	51.2
12:30	UK	Markit UK PMI Manufacturing SA	May	53.9	53.5
16:30	US	Change in Nonfarm Payrolls	May	164K	190K
16:30	US	Change in Manufacturing Payrolls	May	24K	20K
16:30	US	Unemployment Rate	May	3.9%	3.9%
16:30	US	Average Hourly Earnings, m-o-m	May	0.1%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	May	2.6%	2.7%
18:00	US	ISM Manufacturing	May	57.3	58.1
18:00	US	ISM Prices Paid	May	79.3	77

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	CPI, y-o-y	Apr	3.4%		3.5%
	UAE	CPI, m-o-m	Apr	-0.7%		-0.2%
	UAE	M2 Money Supply, m-o-m	Apr	0.7%		1.5%
	UAE	Central Bank Foreign Assets	Apr	336.3B		326.4B
	Bahrain	CPI, y-o-y	Apr	2.6%		2.6%
	Kuwait	CPI, y-o-y	Apr	0.6%		0.7%
Monday, 21 May						
3:50	Japan	Trade Balance	Apr	¥797.3B	¥444B	¥626B
Tuesday, 22 May						
12:30	UK	PSNB, ex-Banking Groups	Apr	0.8B	8.5B	7.8B
18:00	US	Richmond Fed Manufacturing Index	May	-3	10	16
Wednesday, 23 May						
4:30	Japan	Nikkei Japan PMI Manufacturing	May P	53.8		52.5
8:30	Japan	All Industry Activity Index, m-o-m	Mar	0.4%	0.1%	0%
12:00	Eurozone	Markit Eurozone Manufacturing PMI	May P	56.2	56.1	55.5
12:00	Eurozone	Markit Eurozone Composite PMI	May P	55.1	55.1	54.1
12:30	UK	CPI, m-o-m	Apr	0.1%	0.5%	0.4%
12:30	UK	CPI, y-o-y	Apr	2.5%	2.5%	2.4%
12:30	UK	CPI Core, y-o-y	Apr	2.3%	2.2%	2.2%
12:30	UK	PPI Output NSA, m-o-m	Apr	0.3%	0.3%	0.3%
12:30	UK	PPI Output NSA, y-o-y	Apr	2.7%	2.4%	2.7%
17:45	US	Markit US Manufacturing PMI	May P	56.5	56.5	56.6
18:00	US	New Home Sales	Apr	672K	680K	662K
18:00	Eurozone	Consumer Confidence	May A	0.3	0.5	0.2
Thursday, 24 May						
10:00	Germany	GDP SA, q-o-q	1Q F	0.3%	0.3%	0.3%
10:00	Germany	GfK Consumer Confidence	Jun	10.8	10.8	10.7
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Apr	-0.5%	0.5%	1.3%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Apr	1.3%	0.1%	1.5%
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Apr	-1.1%	0.9%	1.6%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Apr	1.3%	0.2%	1.4%
18:00	US	Existing Home Sales	Apr	5.6M	5.6M	5.5M
Friday, 25 May						
3:30	Japan	Tokyo CPI, y-o-y	May	0.5%	0.5%	0.4%
12:00	Germany	IFO Business Climate	May	102.2	102	102.2
12:30	UK	GDP, q-o-q	1Q P	0.1%	0.1%	0.1
12:30	UK	GDP, y-o-y	1Q P	1.2%	1.2%	1.2%
12:30	UK	Private Consumption, q-o-q	1Q P	0.3%	0.1%	0.2%
16:30	US	Durable Goods Orders	Apr P	2.7%	-1.3%	-1.7
16:30	US	Durables, ex-Transportation	Apr P	0.4%	0.5%	0.9%
16:30	US	Capital Goods Shipments, Non-def, ex-Air	Apr P	-0.7%	0.4%	0.8%
18:00	US	University of Michigan Sentiment	May F	98.8	98.8	98

* UAE time

Source: Bloomberg

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