

The Week Ahead: US remains in focus with Powell's testimony and 4Q GDP data

► **US: Powell's Humphrey-Hawkins testimony and US-China trade**

Fed Chair Jerome Powell delivers his Humphrey-Hawkins testimony to the Senate Banking Committee (26 February) and the House Financial Services Committee (27 February) this week. We expect him to reiterate there are increasing downside risks to the economic outlook and the need to remain patient until the uncertainties diminish (page 2). We do not expect him to offer any specific guidance on the timing of the next move on interest rates. On the data front, the key releases this week will be 4Q GDP (first and second print combined), December PCE inflation and February ISM manufacturing. The consensus forecasts 4Q GDP growth moderated to 2.4% q-o-q SAAR, down from 3.4% in 3Q. We believe this slowdown was due to: i) the impact of fiscal stimulus measures fading; and ii) the partial government shutdown in December. However, personal consumption likely remained the key driver of growth, albeit expanding at a steady rate of 3.5% q-o-q SAAR in 4Q. Meanwhile, US President Donald Trump has announced that he will extend the deadline to raise tariffs on Chinese imports to beyond 1 March, with significant progress on key issues. No indication was provided at this point on the length of the extension.

► **Europe: Eurozone CPI and Brexit in focus**

In the Eurozone, February inflation and January unemployment data is due this week. Consensus estimates core inflation remained steady at 1.1% y-o-y in February, with no signs of a strengthening in underlying inflationary pressures. The ECB's January minutes released last week highlighted that Governing Council members were increasingly concerned about the economic slowdown and its impact on inflation expectations (page 3). In the UK, Prime Minister Theresa May ruled out holding another so-called meaningful vote on Brexit, which was due on 27 February. May indicated that positive talks with the EU were still ongoing and that securing a deal to leave on 29 March was "within our grasp". Nevertheless, MPs will still have a chance to put forward and vote on Brexit amendments this Wednesday. All eyes will be on the Cooper-Letwin amendment, which looks to extend the UK's negotiation period with the EU rather than leaving without a deal. Passage of this amendment will reduce the possibility of a no-deal exit, potentially strengthening the GBP. Meanwhile, BoE Governor Mark Carney is set to speak at a Treasury Committee hearing on inflation on 26 February. We expect the overall tone to be dovish with ongoing Brexit uncertainties.

► **India: GDP growth seen decelerating to 6.7% in 4Q**

Consensus forecasts India's GDP growth decelerated to 6.7% y-o-y in 4Q from 7.1% in 3Q. We believe that the moderation was due to softening in both domestic and external demand. Looking forward, we see support for growth from increased government spending ahead of general elections in mid-2019, which is also expected to boost household consumption. Nevertheless, given the subdued inflation outlook we expect a 25 bps repo rate cut at the RBI's April meeting (page 4).

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

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I. Recent Events and Data Releases

A. G4 Economies

US: Fed to announce end to balance sheet reduction soon

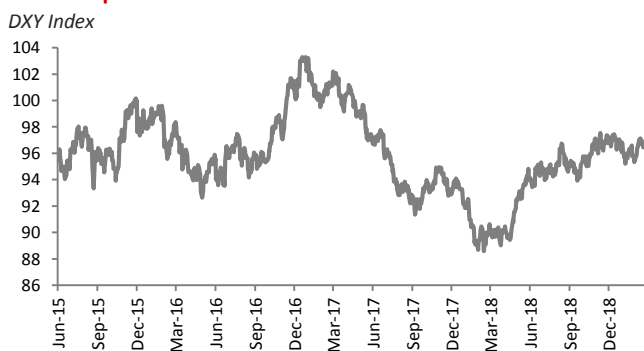
The January FOMC minutes released last week reiterated that the Fed will maintain a patient and flexible approach to the interest rate outlook, in line with the post-meeting statement. The minutes showed that many participants are undecided about the interest rate outlook for this year given the increasing uncertainties in the economic outlook. Rather than giving certainty about no further hikes, the minutes said many members noted that if the uncertainty receded the FOMC would need to “reassess the characterization of monetary policy as patient”. As a result, the minutes were slightly less dovish than consensus had expected. The downside risks highlighted by the FOMC include: i) the slowdown in global growth; ii) tightening financial conditions; iii) the impact of fiscal stimulus fading; iv) Brexit-related uncertainty; and v) escalating trade policy tensions. Moreover, several participants underlined that inflationary pressures remained contained and argued that further rate hikes would only be necessary if inflation overshoot substantially in the near term. Overall, the FOMC discussions suggest that the Fed is in no rush to raise interest rates and would like to see stronger-than-expected GDP growth and some strengthening in inflation before taking further action. We believe that the Fed will continue its wait-and-see approach and therefore do not see any rate hikes until mid-2019, at the earliest.

Fed members undecided about interest rate outlook for 2019

The Fed minutes also highlighted that the participants had a meaningful discussion on balance sheet policy in January. Almost all of the participants felt that it would be ideal to announce the plan to end the balance sheet run-off soon. This suggests that the FOMC may do so at its upcoming policy meetings, either in March or May, with run-offs likely ending in 2H2019. The discussions suggest that balance sheet adjustments will be largely linked to treasury (UST bonds) holdings, whilst continuing to let mortgage-backed securities (MBS) run off and reinvesting principal MBS payments into new treasury securities.

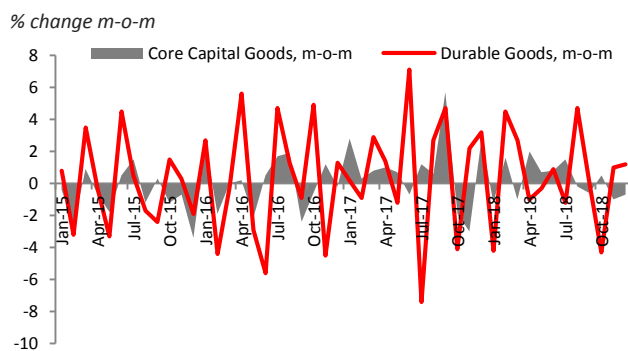
Balance sheet announcement expected at March or May policy meeting

Fig. 1. US: Dollar still supported despite Fed remaining patient



Source: Bloomberg

Fig. 2. US: Core capital goods orders contract for second consecutive month in December



Source: US Census Bureau

Durable goods: Core capital goods shipments, which feed into GDP data, rebounded in December following a contraction in November, with growth accelerating to 0.5% m-o-m from a -0.2% fall in the previous month. However, core capital goods orders remained

Capital goods orders (ex-defence) remain subdued despite capital shipments rising in December

subdued and fell by 0.7% m-o-m in December (November: -1%). We believe that business fixed investment will only grow at a moderate pace in the near term given the softening momentum in global growth and trade tensions.

Eurozone: ECB’s January minutes reveal 'dovish' bias

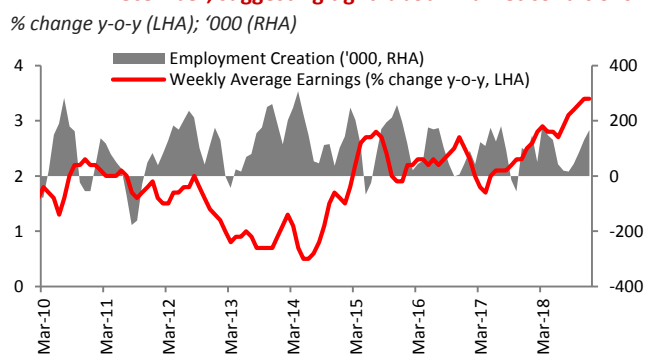
The January minutes of the ECB meeting showed that the Governing Council (GC) is increasingly concerned about the near-term growth outlook. The GC acknowledged that economic data had surprised to the downside and that near-term growth momentum was softer than previously anticipated. ECB members also highlighted that Eurozone growth could be below potential for several quarters and the slowdown could lead to weak inflationary expectations in the near-term. On the inflation front, the GC said that "more structural or longer-lasting factors might still be at play, for example related to changes in the competitive environment and to pressures on margins from e-commerce". Amidst increasing concerns, the ECB highlighted that it would conduct an in-depth assessment over the economic slowdown at its March policy meeting. Moreover, the ECB communication remained dovish, with GC member François Villeroy stating that the ECB would be ready to adjust its monetary policy guidance if the downturn dragged on for longer than expected. We believe that the ECB will remain on hold in 2019.

ECB increasingly concerned about near-term growth outlook

The minutes also revealed that the GC discussed the Targeted Long-Term Refinancing Operations (TLTROs) programme, though highlighted that the ECB is in no rush to take a hasty decision on this front. However, they also acknowledged that the "technical analyses required to prepare policy options for future liquidity operations needed to proceed swiftly". We expect an announcement on the TLTRO and potentially a new liquidity programme to stimulate credit growth to be made in either the March or April policy meeting, followed by technical modalities in the subsequent policy meeting.

ECB likely to announce new liquidity programme at its March/April policy meeting

Fig. 3. UK: Wage growth remains solid at 3.4% y-o-y in December, suggesting tight labour market conditions



Source: UK Office for National statistics

Fig. 4. UK: GBP strengthens against dollar last week amidst renewed hopes of Article 50 extension



Source: Bloomberg

UK: Labour market remains resilient despite weakening activity

The labour market report for December continued to suggest that tight job market conditions are feeding into wage growth pressures, despite weakening economic momentum due to Brexit uncertainty. Average weekly earnings growth remained steady at 3.4% 3M/3M y-o-y in December – the joint highest print since 2008 (alongside November 2018). We believe that the tight labour market conditions could be partly due

Solid labour market report in December despite weakening growth momentum

to EU nationals leaving the UK, though the strength in the data still defies the weakening and lacklustre economic momentum. The unemployment rate also remained steady at 4% – the lowest point touched in 2018 and only seen before in the 1970s. Unemployment remained steady despite the UK economy adding a solid 167K jobs q-o-q in 4Q2018, which was in part offset by an increasing participation rate.

We believe that this solid labour market report is unlikely to change the BoE's wait-and-see approach until there is more clarity on the UK's future relationship with the EU. The BoE's dovish communication at its 7 February meeting suggests that the central bank remains more concerned about weakening economic activity and softening inflation. Thus, we expect it to keep benchmark policy rates on hold throughout 2019.

We expect BoE to keep rates on hold throughout 2019

B. Emerging Market Economies

India: February minutes hint at further rate cuts in April

The minutes of the RBI's 7 February policy meeting revealed that the MPC members were divided on the growth outlook, reflecting the split vote of 4-2 to cut the policy rate. However, all the members were unanimous that the inflation outlook remains subdued and that it would stay under the RBI's 4% target for most of 2019. RBI Governor Shaktikanta Das highlighted that the RBI's focus will be on supporting economic growth at times of contained inflationary pressure. With headline inflation decelerating further to 2% y-o-y in January (December: 2.1%), we believe that MPC members will grow more confident in their view that the inflation outlook is benign. The minutes also revealed that some MPC members called for a bigger rate cut than the 25bps one implemented, suggesting a relatively dovish tilt. Moreover, the tone of dissenting Deputy Governor Viral Acharya was relatively soft in our view and could support a reduction in the coming months. Overall, the dovish RBI minutes and soft January inflation report support our view that the RBI will likely reduce the repo rate by another 25bps at its April meeting.

MPC members unanimous on inflation outlook but differ on growth outlook

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jan	0.3%	
	UAE	Dubai Airport Cargo Volume, y-o-y	Jan	2.3%	
	UAE	Central Bank Foreign Assets	Jan	362.5B	
	Saudi Arabia	Non-Oil Exports, y-o-y	Dec	8.4%	
	Bahrain	M2 Money Supply, y-o-y	Dec	1.5%	
	Kuwait	M2 Money Supply, y-o-y	Jan	4%	
Monday, 25 February					
14:00	UK	BOE's Carney, FCA's Bailey, U.S.'s Giancarlo Press Conference			
19:00	US	Wholesale Inventories, m-o-m	Dec P	0.3%	0.3%
20:00	US	Fed's Clarida Speaks with Community Leaders in Dallas			
Tuesday, 26 February					
11:00	Germany	GfK Consumer Confidence	Mar	10.8	10.8
13:30	Eurozone	ECB's Lane speaks in Brussels			
14:00	UK	BOE's Carney, Ramsden, Vlieghe, Haskel at Parliament Committee			
17:30	US	Housing Starts	Dec	1256K	1253K
19:00	US	Fed Chair Powell Testifies Before Senate Banking Panel			
19:00	US	Conference Board Consumer Confidence	Feb	120.2	124
Wednesday, 27 February					
13:00	Eurozone	M3 Money Supply, y-o-y	Jan	4.1%	4%
19:00	US	Powell to deliver Semi-Annual Testimony to House Panel			
19:00	US	Pending Home Sales, m-o-m	Jan	-2.2%	0.8%
19:00	US	Factory Orders	Dec	-0.6%	0.6%
19:00	US	Durable Goods Orders	Dec F	1.2%	
Thursday, 28 February					
	Saudi Arabia	M2 Money Supply, y-o-y	Jan	2.3%	
	Qatar	M2 Money Supply, y-o-y	Jan	-6.5%	
3:50	Japan	Industrial Production, m-o-m	Jan P	-0.1%	-2.5%
11:00	Turkey	Trade Balance	Jan	-2.67B	-2.5B
16:00	India	GDP, y-o-y	4Q	7.1%	6.7%
16:00	India	GVA, y-o-y	4Q	6.9%	6.5%
17:00	US	Fed Vice Chair Clarida Speaks at NABE Conference in Washington			
17:30	US	GDP Annualized, q-o-q	4Q A	3.4%	2.4%
17:30	US	Personal Consumption	4Q A	3.5%	3.5%
17:30	US	Core PCE, q-o-q	4Q A	1.6%	1.6%
17:50	US	Fed's Bostic Speaks on the Economic and Housing Landscape			
18:45	US	Chicago Purchasing Manager	Feb	56.7	57.5
20:00	US	Fed's Harker Discusses Economic Outlook			
22:00	US	Fed's Kaplan to Speak in Q&A in San Antonio			
Friday, 1 March					
5:15	US	Powell speaks on Economic Developments and L-T Challenges			
5:45	China	Caixin China PMI Manufacturing	Feb	48.3	48.7
13:30	UK	Mortgage Approvals	Jan	63.8K	63.4K
13:30	UK	Markit UK PMI Manufacturing SA	Feb	52.8	52
14:00	Eurozone	Unemployment Rate	Jan	7.9%	7.9%
14:00	Eurozone	CPI Core, y-o-y	Feb A	1.1%	1.1%
14:00	Eurozone	CPI Estimate, y-o-y	Feb	1.4%	1.5%
17:30	US	Personal Spending	Dec	0.4%	-0.1%
17:30	US	PCE Core, m-o-m	Dec	0.1%	0.2%
17:30	US	PCE Core, y-o-y	Dec	1.9%	1.9%
19:00	US	ISM Manufacturing	Feb	56.6	55.6
19:00	US	ISM Prices Paid	Feb	49.6	52.3

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	M2 Money Supply, m-o-m	Jan	1.6%		-0.2%
	Saudi Arabia	CPI, y-o-y	Jan	2.2%		-1.9%
	Bahrain	CPI, y-o-y	Jan	2%		1.4%
	Kuwait	CPI, y-o-y	Jan	0.4%		0.4%
	Oman	CPI, y-o-y	Jan	0.8%		0.2%
	Qatar	CPI, y-o-y	Jan	-0.3%		-1.6%
Monday, 18 February						
3:50	Japan	Core Machine Orders, m-o-m	Dec	0%	-1%	-0.1%
3:50	Japan	Core Machine Orders, y-o-y	Dec	0.8%	3.4%	0.9%
Tuesday, 19 February						
13:30	UK	Claimant Count Rate	Jan	2.8%		2.8%
13:30	UK	Jobless Claims Change	Jan	20.2K		14.2K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Dec	3.4%	3.4%	3.4%
13:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Dec	3.3%	3.4%	3.4%
13:30	UK	ILO Unemployment Rate 3M	Dec	4%	4%	4%
13:30	UK	Employment Change, 3M/3M	Dec	132K	151K	167K
14:00	Germany	ZEW Survey Current Situation	Feb	27.6	20	15
14:00	Germany	ZEW Survey Expectations	Feb	-15	-13.6	-13.4
Wednesday, 20 February						
3:50	Japan	Trade Balance	Jan	-¥55.3B	-¥1029.1B	-¥1415.2B
3:50	Japan	Exports, y-o-y	Jan	-3.8%	-5.7%	-8.4%
3:50	Japan	Imports, y-o-y	Jan	1.9%	-3.5%	-0.6%
11:00	Turkey	Consumer Confidence Index	Feb	58.5		57.8
19:00	Eurozone	Consumer Confidence	Feb A	-7.9	-7.7	-7.4
Thursday, 21 February						
4:30	Japan	Japan PMI Manufacturing	Feb P	50.3		48.5
8:30	Japan	All Industry Activity Index, m-o-m	Dec	-0.5%	-0.2%	-0.4%
12:30	Germany	Germany Manufacturing PMI	Feb P	49.7	49.8	47.6
13:00	Eurozone	Eurozone Manufacturing PMI	Feb P	50.5	50.3	49.2
17:30	US	Philadelphia Fed Business Outlook	Feb	17	14	-4.1
17:30	US	Durable Goods Orders	Dec P	1%	1.7%	1.2%
17:30	US	Durables, ex-Transportation	Dec P	-0.2%	0.3%	0.1%
17:30	US	Capital Goods Shipments, Non-defence, ex-Air	Dec P	-0.2%	0%	0.5%
18:45	US	US Manufacturing PMI	Feb P	54.9	54.8	53.7
19:00	US	Leading Index	Jan	0%	0.1%	-0.1%
19:00	US	Existing Home Sales	Jan	5M	5M	4.94M
Friday, 22 February						
3:30	Japan	National CPI, y-o-y	Jan	0.3%	0.2%	0.2%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Jan	0.7%	0.8%	0.8%
11:00	Germany	GDP SA, q-o-q	4Q F	0%	0%	0%
11:00	Germany	GDP NSA, y-o-y	4Q F	0.9%	0.9%	0.9%
13:00	Germany	Ifo Business Climate	Feb	99.3	98.9	98.5
13:00	Germany	Ifo Expectations	Feb	94.3	94.3	93.8
14:00	Eurozone	CPI Core, y-o-y	Jan F	1.1%	1.1%	1.1%
14:00	Eurozone	CPI, y-o-y	Jan F	1.6%	1.4%	1.4%

* UAE time

Source: Bloomberg

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