

## The Week Ahead: Data-heavy week with key inflation and GDP data

### ► US: Monthly core CPI to normalise in October

The upcoming week will be important data wise, with US CPI inflation and retail sales. Core inflation is expected to normalise to 0.2% m-o-m in October, after two consecutive months of softer prints of 0.1% (rounded), keeping the y-o-y rate unchanged at 2.2%. Key areas such as shelter prices and healthcare should see a monthly rise, with the latter impacted by the new fiscal year and an increase in rates for hospital services. Headline inflation is expected to see a stronger acceleration of 0.3% m-o-m on higher energy prices, taking the annual rate to 2.5% y-o-y from 2.3% in September. Meanwhile, retail sales data is likely to reflect the ongoing strength in household consumption and confidence. Consensus expects that the retail sales control group, which feeds into personal consumption, expanded by a solid 0.4% m-o-m after growing by 0.5% m-o-m in September. UK October CPI data is also due this week, with headline inflation forecast to have remained steady at 2.4% y-o-y after moderating from 2.7% in August.

### ► Japan: Temporary contraction in 3Q GDP growth

Consensus estimates that Japan's real GDP contracted by 0.3% q-o-q (-0.9% SAAR) in 3Q2018, reflecting a number of natural disasters over the quarter. These included a record-breaking heat wave during the summer, high rainfall, a typhoon in the Kansai area and earthquakes in Hokkaido and Kansai. These events disrupted supply distribution networks, which at times saw factory operations suspended and output cut in affected areas. The shutdown of Kansai international airport during some of these events should result in net exports dragging on 3Q GDP growth, whilst softer tourist growth will likely impact consumption activity. Japan is expected to return to positive growth in 4Q, with corporate investment being a support factor. Meanwhile, the second reading of Eurozone 3Q GDP growth is expected to be confirmed at 0.2% q-o-q and 1.7% y-o-y.

### ► EM: India CPI and Egypt central bank meeting

Consensus envisages that India's headline inflation decelerated to 3.6% y-o-y in October (September: 3.8%), further below the RBI's 2H CPI estimate of 3.9-4.5%. Ongoing food price disinflation and the lower petrol and diesel pump prices (due to the cut in excise duty by the central government) are behind the softer inflation outlook in October and November. This should make the RBI comfortable about keeping interest rates on hold in December, especially given some tentative signs of stability in the INR and a weakening in global oil prices. In Egypt, the CBE is forecast to remain on hold, especially following the stronger-than-expected acceleration in inflation in October (page 2). We continue to see the pickup in inflation since July as linked to government-led rises in fuel, electricity and transport prices, with core inflation relatively contained. Nevertheless, the risk of a rate hike has increased with headline inflation well above the central bank's year-end target of 13% ±3%. Closer to home, Opec+ oil producers are discussing a proposal to cut combined output by c.1 million bpd to support the oil price.

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## I. Recent Events and Data Releases

### A. MENA Economies

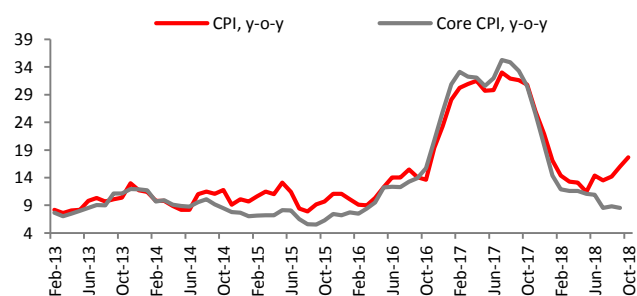
#### Egypt: October inflation accelerates sharply to 17.7% y-o-y

Egypt's headline inflation saw a greater-than-expected acceleration, strengthening to 17.7% y-o-y in October (September: 16%). This was the third consecutive month that yearly inflation picked up, after the government raised fuel, electricity and transport prices over the summer. On a monthly basis, inflation remained elevated, rising to 2.6% m-o-m from 2.5% in the previous month. Food price inflation stood at 3.5% m-o-m, whilst non-food inflation was at 1.7% m-o-m. We see the CBE keeping rates on hold at its 15 November meeting, given the further acceleration in headline inflation. Much of the firming in inflation is linked to the adjustment in administered prices. Indeed, core inflation – which excludes fruit and vegetables, as well as regulated items – has remained below 10% since July, with September core inflation at 8.6% y-o-y. Core inflation data for October is yet to be released. Whilst our core scenario is for rates to remain steady, we highlight that the risk of a rate hike has increased with headline inflation well above the central bank's year-end target of 13%  $\pm$ 3%.

*Core inflation has remained contained in single digits since July*

**Fig. 1. Egypt: Headline inflation has accelerated since June, with further reductions in government subsidies**

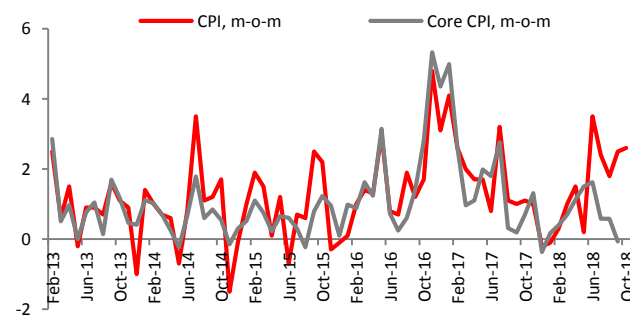
% change y-o-y



Source: CAPMAS, ADCB calculations

**Fig. 2. Egypt: Contained inflationary pressure for core components, headline monthly inflation elevated**

% change m-o-m



Source: CAPMAS, ADCB calculations

### B. G4 Economies

#### US: Split in Congress following mid-terms to limit new policy initiatives

The Democrats took control of the House in the mid-term elections last week whilst the Republicans expanded their majority in the Senate. These results were broadly in line with the market's expectations and the polls, with the remaining undecided races not expected to change the new balance within Congress from January. The result has been viewed as a partial referendum on the performance of President Donald Trump's administration over the last two years. Trump has indicated that he will continue to pursue his domestic and foreign agendas. Democrats will have little chance of rolling back legislation that has already been passed given the president's veto power over new legislation.

*Results in line with polls and market expectations*

The divided Congress is expected to largely result in political gridlock with few meaningful new legislative actions ahead. Partisan tensions are high and there are likely

to be limited major legislative initiatives that the two parties can agree on. The results also dim the chances of any major fiscal initiative from the administration that might have triggered yield gains and hence a stronger USD. We mostly see government policy now being limited to simply raising the debt ceiling and moderately increasing the budget. This is in line with the expectation of fiscal support to the economy fading in 2019 as the impact of the strong 2018 stimulus moderates, resulting in decelerating GDP in the coming quarters. Further rate hikes by the Fed into more restrictive monetary policy will also be a contributing factor. Areas of bipartisan support, such as an infrastructure improvement package or protections against increased prescription drug prices, could also see progress. We see the main macro themes being: i) developments in the trade war with China; and ii) the pace at which the US economy decelerates in 2019, which will be central to the number of Fed rate hikes executed in 2019.

*Only limited additional fiscal support expected due to divided government*

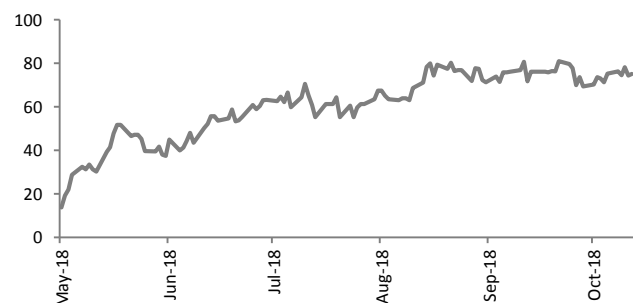
### US: Fed on hold; limited change in communication

The Fed kept monetary policy steady at its 7-8 November meeting, with the communication pointing to the FOMC staying on course to hike in December. There were no new projections or post-meeting conference scheduled for this meeting. There were only two small changes to the post-meeting statement: i) "household spending has continued to grow strongly"; and ii) "business fixed investment has moderated from its rapid pace earlier in the year". The slowdown in corporate investment was already reflected in the 3Q GDP data and counterbalanced with the FOMC highlighting the strength in consumer demand. Overall, the statement continued to highlight the strong economic momentum, with the higher tariffs and rising wages likely to add to inflationary pressure. Indeed, the Fed noted that "economic activity has been rising at a strong rate" and job gains "have been strong," whilst acknowledging a drop in the unemployment rate. There was also no mention of the October sell-off in the stock markets. The FOMC repeated its outlook for "further gradual" rate increases in its statement. The minutes of the meeting (due 29 November) could reveal interesting details on discussion over the possibility of an adjustment to the IOER (interest on excess reserves) as well as potential changes to the medium-term framework for monetary policy. We also expect continued debate around the neutral rate and when policy becomes restrictive.

*Solid momentum of economy highlighted – Fed set to hike by 25 bps in December*

**Fig. 3. US: Markets pricing in 75% probability of December rate hike**

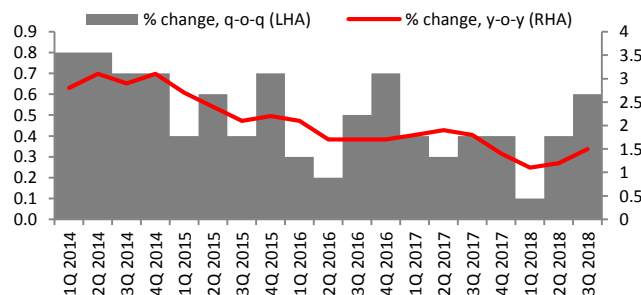
% probability of a 25 bps rate hike



Source: Bloomberg

**Fig. 4. UK: Solid 3Q q-o-q GDP growth driven by strong performance in July**

% change



Source: Office of National Statistics

## UK: 3Q GDP growth solid, but momentum slowing sharply

The UK economy expanded by a solid 0.6% q-o-q in 3Q, the strongest pace of real GDP growth in nearly two years and in line with consensus expectations. The breakdown by expenditure shows robust domestic demand, driven by private consumption (up 0.5% q-o-q) and government spending (up 0.6%). Gross fixed capital formation continued to expand by 0.8% q-o-q, with strong public sector investment offsetting the third consecutive quarter of contraction in business investment (-1.2% q-o-q). However, the headline reading masks a sharp softening in activity in the quarter. The overall growth in the quarter was driven by robust activity in July, likely supported by temporary drivers such as the good weather and World Cup celebrations. Indeed, month-on-month GDP growth was zero in August and September. Moreover, data released so far for October, such as PMI, indicates a further deceleration in economic activity going into 4Q. Overall, the data points to a rapid cooling in economic momentum at the end of the year.

*Monthly GDP growth stood at 0% in August and September*

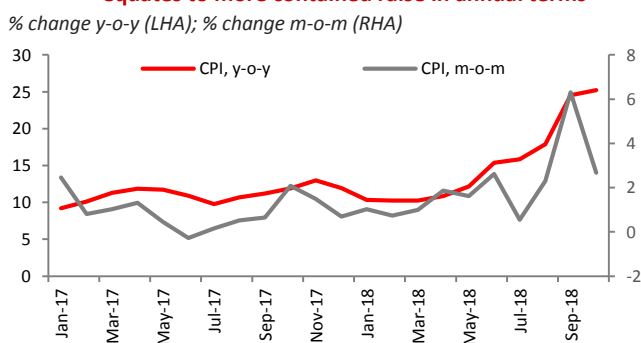
## C. Emerging Market Economies

### Turkey: Inflation hits 15-year high of 25.2% y-o-y in October

Turkey's headline inflation rose to 25.2% y-o-y in October – moderately above the consensus forecast of 25% and up from 24.5% in September to a 15-year high. The monthly rise in October of 2.7% was also above the consensus expectation of 2% but still showed a marked deceleration from 6.3% m-o-m in September. We believe that this moderation reflected the government's measures to limit inflation, including asking businesses to voluntarily reduce their prices by 10%. In our view, the reduction in prices by the private sector was most reflected in the broad-based deceleration in food inflation (October: 3.2% m-o-m; September: 6.4%), which helped to limit the rise in headline inflation. The government also outlined that regulated prices – natural gas, electricity and petrol – are likely to remain steady at least until the end of 2018. However, there were still signs of inflationary pressures rising linked to the TRY weakening, with an acceleration in clothing and footwear inflation to a multi-year high of 12.7% y-o-y.

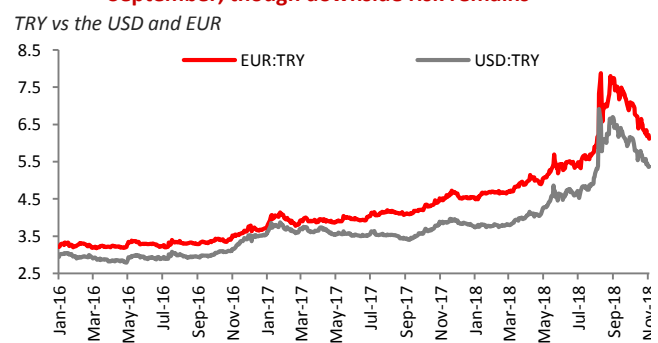
*Rise in monthly inflation slows sharply to 2.7% in October*

**Fig. 5. Turkey: Softer increase in monthly inflation in October equates to more contained raise in annual terms**



Source: Turkish Statistical Institute

**Fig. 6. Turkey: TRY seeing some strengthening since September, though downside risk remains**



Source: Bloomberg

We now see a greater likelihood of the CBRT remaining on hold for the rest of 2018, with the October inflation data suggesting that much of the rise in inflation has already taken place. Moreover, the TRY has seen some strengthening from September and the forecast contraction in real GDP growth is expected to reduce the need for further monetary

*We now expect CBRT to remain on hold at December meeting*

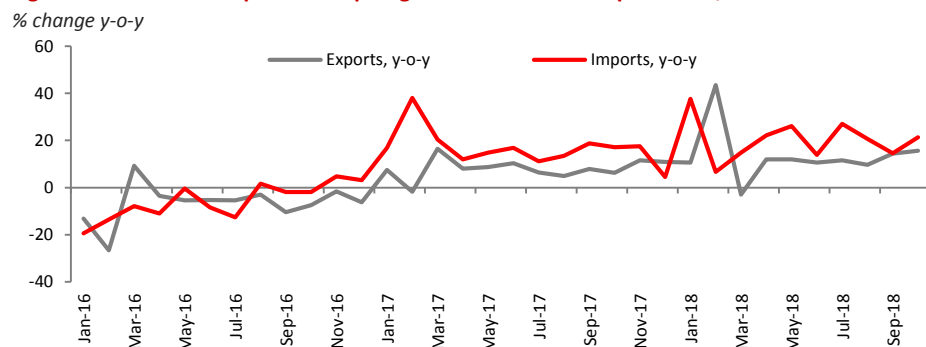
tightening. The government also reduced taxes on cars, white goods and furniture to stimulate the economy at end-October, which will also be reflected in the upcoming inflation data. However, any meaningful moves by the government to loosen fiscal policy to bolster consumer demand could see the CBRT return to a tightening path. We still expect headline inflation to rise further on the back of the earlier TRY weakening, with CPI growth expected to peak in March 2019. Any renewed pressure on the TRY could also result in additional monetary tightening by the central bank.

## China: October exports strong, beating market expectations

China reported stronger-than-expected trade data for October, which was closely watched to gauge the momentum in global and Chinese demand. Exports rose by a strong 15.6% y-o-y in October, accelerating from 14.4% the previous month. Consensus had expected to see a slowdown in the pace of annual export growth to 11.7% y-o-y. We believe that the latest data still likely reflects some exporters pushing shipments to the US ahead of the next round of tariffs, which are due to be imposed in early 2019. The healthy US consumer backdrop has also likely been a supportive factor, in our view. We believe that there was some calendar support in October too from additional working days versus last year (supportive of both export and import growth). However, the broad-based strength (sector and geography basis) of the export growth suggests that end-demand remains supported so far. On a geographical basis, demand from South Korea and Taiwan strengthened in October. We still see the risk of a drop-off in exports in 2019 given the outlook for higher tariffs. Chinese factory surveys have also shown falling export orders in recent months.

*Broad-based rise in exports though number of temporary factors also supported*

**Fig. 7. China: Both export and import growth beat market expectations; risks remain for 2019**



Source: Customs General Administration

Meanwhile, the pace of import growth also surprised to the upside in October, accelerating to 21.4% y-o-y (September: 14.5%; consensus: 14.5%). Notably, there was stronger growth in the import volumes of a number of commodities (iron ore, copper and crude oil) in October, alongside mechanical, electrical and hi-tech products. The data suggests that the official measures to support the cooling economy may be having some impact, though we expect further stimulus measures, especially with the US tariffs expected to have a greater impact on Chinese external demand next year. There have also been some discussions about reducing the VAT rate and further liberalising FDI regulations.

*Import growth also beats market expectations in October*

## II. Economic Calendar

**Fig. 8. The week ahead**

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	Saudi Arabia	CPI, y-o-y	Oct	2.1%	--
	Oman	CPI, y-o-y	Oct	0.78%	--
	China	New Yuan Loans, CNY	Oct	1380B	900B
	China	Foreign Direct Investment, y-o-y CNY	Oct	8%	--
	China	Money Supply M2, y-o-y	Oct	8.3%	8.4%
<b>Monday, 12 November</b>					
16:00	India	CPI, y-o-y	Oct	3.77%	3.6%
23:30	US	Fed's Daly Speaks on the Economic Outlook			
<b>Tuesday, 13 November</b>					
13:30	UK	Jobless Claims Change	Oct	18.5K	--
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Sep	2.7%	3%
13:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Sep	3.1%	3.1%
13:30	UK	ILO Unemployment Rate, 3Mths	Sep	4%	4%
14:00	Germany	ZEW Survey Current Situation	Nov	70.1	65
14:00	Germany	ZEW Survey Expectations	Nov	-24.7	-26
14:00	Eurozone	ZEW Survey Expectations	Nov	-19.4	--
19:00	US	Fed's Kashkari Speaks at Conference on Immigration			
<b>Wednesday, 14 November</b>					
3:50	Japan	GDP SA, q-o-q QoQ	3Q P	0.7%	-0.3%
3:50	Japan	GDP Annualized SA, q-o-q	3Q P	3%	-0.9%
3:50	Japan	GDP Private Consumption, q-o-q	3Q P	0.7%	-0.3%
3:50	Japan	GDP Business Spending, q-o-q	3Q P	3.1%	0.2%
6:00	China	Retail Sales, y-o-y	Oct	9.2%	9.2%
6:00	China	Industrial Production, y-o-y	Oct	5.8%	5.8%
13:30	UK	CPI, m-o-m	Oct	0.1%	0.1%
13:30	UK	CPI, y-o-y	Oct	2.4%	2.5%
13:30	UK	CPI Core, y-o-y	Oct	1.9%	1.9%
14:00	Eurozone	Industrial Production SA, m-o-m	Sep	1%	-0.4%
14:00	Eurozone	GDP SA, q-o-q	3Q P	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	3Q P	1.7%	1.7%
17:30	US	CPI, m-o-m	Oct	0.1%	0.3%
17:30	US	CPI, ex-Food and Energy, m-o-m	Oct	0.1%	0.2%
17:30	US	CPI, y-o-y	Oct	2.3%	2.5%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	2.2%	2.2%
18:00	US	Fed's Quarles to Appear before House Financial Services Panel			
<b>Thursday, 15 November</b>					
3:05	US	Fed's Powell to Discuss Economy at Dallas Fed Event			
13:30	UK	Retail Sales, ex-Auto and Fuel, m-o-m	Oct	-0.8%	0.2%
13:30	UK	Retail Sales, ex-Auto and Fuel, y-o-y	Oct	3.2%	3.4%
17:30	US	Retail Sales Advance, m-o-m	Oct	0.1%	0.5%
17:30	US	Retail Sales, ex-Auto and Gas, m-o-m	Oct	0%	0.4%
17:30	US	Retail Sales Control Group, m-o-m	Oct	0.5%	0.4%
	Egypt	Lending Rate	15-Nov	17.75%	17.75%
	Egypt	Deposit Rate	15-Nov	16.75%	16.75%
	India	Exports, y-o-y	Oct	-2.2%	--
	India	Imports, y-o-y	Oct	10.5%	--
<b>Friday, 16 November</b>					
0:00	US	Fed's Kashkari Speaks to Minnesota AgriGrowth Council			
20:30	US	Fed's Evans Speaks at Fixed Income Forum Roundtable			

\* UAE time

Source: Bloomberg

Fig. 9. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>MENA</b>						
	UAE	UAE PMI	Oct	55.3		55
	UAE	CPI, y-o-y	Sep	3.9%		3.1%
	Saudi Arabia	Saudi Arabia PMI	Oct	53.4		53.8
	Qatar	Qatar Financial Center PMI	Oct	47.6		48
	Oman	Nominal GDP, YTD, y-o-y	2Q	6.5%		
	Egypt	Egypt PMI	Oct	48.7		48.6
	Egypt	Gross Official Reserves	Oct	44.5B		44.5B
<b>Monday, 5 November</b>						
9:00	India	Nikkei India PMI Composite	Oct	51.6		53
11:00	Turkey	CPI, y-o-y	Oct	24.5%	25	25.2%
11:00	Turkey	CPI Core Index, y-o-y	Oct	24.1%	25.1%	24.3%
13:30	UK	Markit/CIPS UK Composite PMI	Oct	54.1	53.4	52.1
13:30	Eurozone	Sentix Investor Confidence	Nov	11.4	9.8	8.8
18:45	US	Markit US Composite PMI	Oct F	54.8		54.9
19:00	US	ISM Non-Manufacturing Index	Oct	61.6	59	60.3
<b>Tuesday, 6 November</b>						
11:00	Germany	Factory Orders, m-o-m	Sep	2.5%	-0.5%	0.3%
13:00	Eurozone	Markit Eurozone Composite PMI	Oct F	52.7	52.7	53.1
19:00	US	JOLTS Job Openings	Sep	7293	7085	7009
<b>Wednesday, 7 November</b>						
11:00	Germany	Industrial Production SA, m-o-m	Sep	0.1%	0%	0.2%
14:00	Eurozone	Retail Sales, m-o-m	Sep	0.3%	0.1%	0%
14:00	Eurozone	Retail Sales, y-o-y	Sep	2.2%	0.9%	0.8%
	China	Foreign Reserves	Oct	\$3087B		
<b>Thursday, 8 November</b>						
3:50	Japan	Core Machine Orders, m-o-m	Sep	6.8%	-9%	-18.3%
3:50	Japan	BoP Current Account Balance	Sep	¥1838.4B	¥1786.5B	¥1821.6B
23:00	US	FOMC Rate Decision (Upper Bound)	8-Nov	2.25%	2.25%	2.25%
23:00	US	FOMC Rate Decision (Lower Bound)	8-Nov	2%	2%	2%
23:00	US	Interest Rate on Excess Reserves	9-Nov	2.2%		2.2%
	China	Trade Balance	Oct	\$31.28B	\$35.2B	\$34B
	China	Imports, y-o-y	Oct	14.5%	14.5%	21.4%
	China	Exports, y-o-y	Oct	14.4%	11.7%	15.6%
<b>Friday, 9 November</b>						
3:50	Japan	Money Stock M2, y-o-y	Oct	2.8%	2.8%	2.7%
5:30	China	PPI, y-o-y	Oct	3.6%	3.3%	3.3%
5:30	China	CPI, y-o-y	Oct	2.5%	2.5%	2.5%
13:30	UK	Trade Balance	Sep	-£2101M	-£1500M	-£27M
13:30	UK	Industrial Production, m-o-m	Sep	0%	-0.1%	0%
13:30	UK	Industrial Production, y-o-y	Sep	1%	0.4%	0%
13:30	UK	GDP, q-o-q	3Q P	0.4%	0.6%	0.6%
13:30	UK	GDP, y-o-y	3Q P	1.2%	1.5%	1.5%
17:30	US	PPI Final Demand, m-o-m	Oct	0.2%	0.2%	0.6%
19:00	US	University of Michigan Sentiment	Nov P	98.6	98	98.3

\* UAE time

Source: Bloomberg

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