The Week Ahead: EU summit and September FOMC minutes in focus

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US: Strong print expected for September retail sales

Developments in global equity markets will remain centre-stage following the depth and rapidity of the sell-off last week. We believe that any negative developments this week in the Brexit negotiations (such as a deadlock) or the Italian budget, or a sharp moderation in China's 3Q GDP growth, are likely to lead to further volatility in global markets. On the economic front, focus will be on the minutes of the 25-26 September FOMC meeting. We believe that the Fed will continue to provide an upbeat assessment of the economic conditions and the necessity to gradually raise interest rates further. The consolidation of the dot plot towards one more 25 bps FFTR hike in 2018 and three additional increases in 2019 also implies that divisions in the committee on the near-term outlook were minimal at the meeting. We also expect to see a discussion regarding the change in the post-meeting statement, where the phrase "monetary policy remains accommodative" was removed, alongside a debate on the neutral rate. Notably, hawkish comments by Fed Chair Jerome Powell on the economy was a key driver of last week's equity selloff due to concerns over a more aggressive Fed. On the data front, US retail sales (due 15 October) are likely to show that consumer spending was robust in September despite the weather-related disruptions. Consensus estimates retail sales grew by a solid 0.6% m-o-m in September (August: 0.1%), supported by sales of the newly launched iPhone.

UK: EU summit on Brexit and September inflation data

Focus will also be on a key EU summit on Brexit (scheduled for 17 October), with media indications suggesting that both the UK and the EU could adopt a more conciliatory approach and show signs of progress. We believe that the UK-Ireland border issue is likely to remain politically contentious, with risks remaining until the UK parliament ratifies any agreement. There are a number of key data releases this week out of the UK, including inflation, retail sales and the labour market report for September. Consensus estimates headline inflation decelerated to 2.6% y-o-y in September, after rising to 2.7% in August due to one-off increases in computer gaming and theatre prices.

China: 3Q GDP expected to weaken moderately

China's 3Q GDP data (due on 19 October) will be particularly closely watched to gauge the impact of rising US tariffs, both directly on trade and indirectly on capital spending. We believe the initial impact will likely be limited, with more potential effect in 4Q. Market estimates real GDP growth softened moderately to 6.6% y-o-y in 3Q from 6.7% in 2Q, led by some slowdown in fixed investment spending, though with private consumption remaining supported. The recent cut in the PBoC's Reserve Requirement Ratio alongside officials' comments suggest a shift in the short-term policy stance towards supporting growth. We believe that the Chinese government is likely to announce some short-term stimulus measures in the upcoming months to further boost domestic growth amidst the escalating trade tensions with the US.

I. Recent Events and Data Releases

A. MENA Economies

UAE: Public debt law approved enabling federal bond issuance

Debt will broaden funding sources for federal spending

The UAE has enacted its long-awaited public debt law, which will allow the federal government to begin issuing sovereign debt, according to the finance ministry. The law also enables the establishment of a Public Debt Management Office at the ministry which will oversee the new federal-level borrowing, alongside the public debt management strategies in coordination with the central bank. As noted in our previous research, the law is positive for broadening government funding sources. For more details, please see our note – **Economic Research Weekly: Global Data Watch 15-19 February 2016**, published on 15 February 2016. Federal-level debt issuance will help meet the funding requirement for federal government projects and expenditure plans; sovereign issuances so far have been at emirate level. The federal government has to run a balanced budget, with spending equalling revenues, including transfers by the individual emirates. The Abu Dhabi government is the largest contributor to the federal budget, followed by Dubai. Thus, the issuance of debt should lower transfers from the emirate level to the federal budget. In our view the issuance of federal domestic debt is supported by the UAE's low debt and strong economic fundamentals. The IMF estimates total UAE gross government debt at c.19.8% of GDP in 2017.

Issuance of federal debt also important for deepening of domestic financial markets

The issuance of federal debt will also support a deepening in domestic financial markets, even though total federal spending accounts for around 15% of total UAE consolidated government spending. Domestic sovereign debt issuance 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. Moreover, UAE banks will be able to purchase government bonds, either in AED or foreign currencies, providing them highly-rated assets with which they can manage their liquidity and meet Basel III regulatory requirements. This is likely to lead to UAE banks shifting some liquidity away from central bank-issued certificates of deposit (CDs) to potentially higher yielding sovereign sukuk and bonds, once the government starts issuing federal debt. Official indications in early 2016 suggested that the plan at that point was to issue c.AED80-100bn of AED denominated sovereign debt initially. System-wide banking sector liquidity remains ample due to the rise in government deposits in 2018, which is likely supported by the higher oil revenues. Central Bank of the UAE data showed that banks held AED132.7 billion in CDs in August, up 16.3% y-o-y.

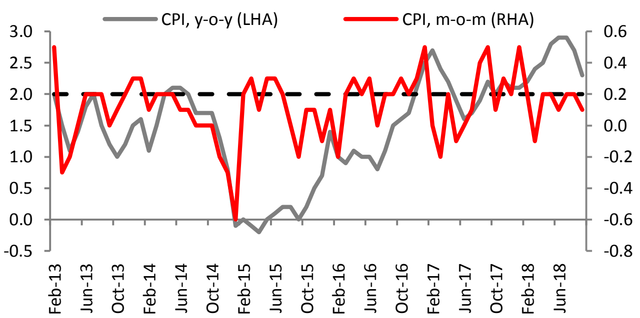
B. G4 Economies

US: Core CPI inflation soft for second consecutive month

We expect core PCE to persist around Fed's 2% target in 4Q2018 and early-2019

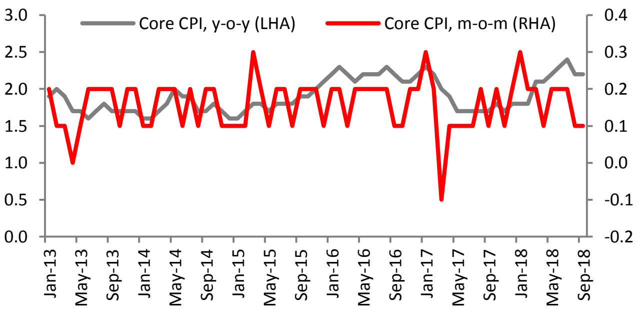
Both headline and core inflation came in weaker than expected in September, suggesting that there are limited upside pressures evident at this point. Headline inflation decelerated to 0.1% m-o-m (consensus: 0.2%), from 0.2% in the previous month, contributing to the y-o-y reading moderating to 2.3% from 2.7% in August. Core inflation remained steady at 0.1% m-o-m, keeping the annual print unchanged at 2.2%. The weaker-than-expected inflation was largely due to a monthly fall in used car prices and a moderation in shelter prices. Notably, used car prices declined by 3% m-o-m, the largest fall since September 2003. The deflationary trend in used car prices is likely to persist given the waning demand but the magnitude of decline may moderate in the upcoming months. Meanwhile, the moderation in shelter prices is likely to be temporary, in our view, given the backdrop of tight labour market conditions. Overall, this CPI inflation report suggests that Core PCE inflation could decelerate to 1.9% y-o-y in September from 2% in August. We continue to see core PCE hovering around the Fed's 2% target in 4Q2018 and early-2019. Thus, we expect the Fed to continue with gradual rate hikes with another 25bps increase in December, followed by an additional three hikes in 2019.

Fig. 1. US: headline inflation eases to 0.1% m-o-m in September, from 0.2% in August



Source: Bureau of Labor statistics

Fig. 2. US: Core CPI remains steady at 0.1% m-o-m, though comes in lower than consensus forecast of 0.2%



Source: Bureau of Labor statistics

UK: Monthly GDP growth surprises to upside in August

August monthly GDP growth boosted by warmer than usual summer

UK GDP grew by a solid 0.7% 3M/3M in August, beating the consensus estimate of 0.6%. The July print was also revised up to 0.7% from 0.6% in the previous estimate. Notably, the July and August prints were the strongest growth rates seen since February 2017. The stronger-than-expected August print was largely attributed to the warmer than usual weather in the summer. The expansion was particularly strong in the consumer services sector, including hotels and food services, arts, entertainment and recreation. Construction also contributed positively to the growth in August. This data implies that 3Q GDP growth is likely to come in at 0.6% q-o-q – higher than the BoE's forecast of 0.4%. However, once the weather effect unwinds, GDP growth will likely slow again in 4Q. That said, we do not expect any further rate hikes from the BoE in the near term until there is more clarity on Brexit and the UK's future relationship with the EU.

Eurozone: No major surprises in September ECB minutes

ECB minutes highlight that GC is concerned over increasing external risks

The ECB minutes of the September MPC meeting were broadly in line with the post-meeting statement and subsequent press conference. The minutes showed that the ECB is now less confident about the growth outlook, with downside risk emanating from external demand. The ECB stated that "a case could also be made for characterising the risks to activity as now being tilted to the downside" given the global risks. However, the underlying strength in domestic demand was seen as mitigating these downside risks, leading the governing council (GC) to maintain that the overall risks to the growth outlook were broadly balanced. We believe that the ECB's 2019 growth projection is optimistic and expect it to revise it down marginally to 1.7%, from the current 1.8%. On inflation, the minutes showed increasing confidence that it would pick up towards the end of the year and increase gradually over the medium term. This was largely in line with President Mario Draghi's comments that he sees a "relatively vigorous pick-up in underlying inflation". The ECB minutes also reiterated that interest rates will remain at current levels "at least through next summer". Our base case is for a first interest rate hike in 4Q2019.

C. Emerging Market Economies

India: September inflation inches up

Headline inflation still below RBI's 4% target, thanks to benign food prices

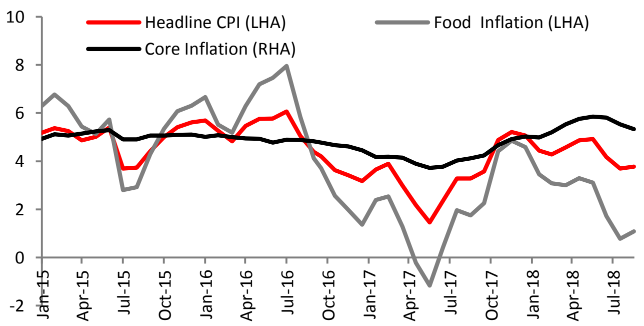
Headline inflation rose marginally to 3.8% y-o-y in September after easing to a 10-month low of 3.7% in August. The September print was lower than both the market's expectation and the RBI's medium-term inflation target of 4%. The downside surprise was once again due to benign food inflation, which rose to just 1.1% y-o-y in September after recording a 13-month low of 0.8% in the previous month. This is despite higher energy prices boosting transport and communication inflation to 6.4% y-o-y in September, from 6% in the previous month. On a monthly basis, the transport and communication segment rose to a 40-month high in September, reflecting higher domestic pump prices. Core inflation (ex-food, tobacco and fuel) eased slightly in September on the back of moderating clothing and housing prices. We believe that housing price inflation will remain relatively soft in the upcoming months with the fading impact of the government rent allowance, which has already been visible in the recent data. However, we see upside pressure from the pass through of INR depreciation, which has fallen by c.13% against the USD since the start of the year.

We continue to see next 25 bps hike in December

Looking ahead, we believe that headline inflation will rise gradually to average around 5% in 2019 on the back of greater pass-through from recent INR depreciation and higher fuel prices in 1H. On the other hand, we also see growth softening marginally in 4Q2018 and 1H2019 as the higher crude price could constrain domestic demand. With the increasing political uncertainty ahead of state elections in December and general election in mid-2019, corporates could also proceed slowly on capital investments in the near term. In our view, this could be a headwind to growth in the upcoming quarters. That said, with the RBI already changing its monetary policy stance to 'calibrated tightening' from neutral, we see the next 25bps hike as coming in the December policy meeting. However, we believe that the RBI is likely to struggle with its communication to find the right balance between supporting growth and containing inflation.

Fig. 3. India: Headline inflation accelerates marginally to 3.8% y-o-y in September, from 3.7% in August

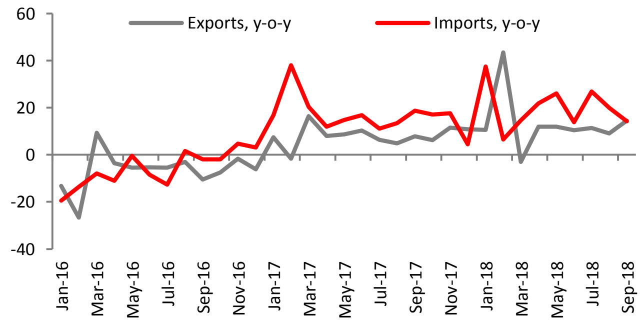
% change y-o-y



Source: India Central Statistical Organisation

Fig. 4. China: Exports growth strengthens surprisingly in September; no impact of tariffs seen yet

% change y-o-y



Source: Customs General Administration PRC

China: Exports growth surprises to upside in September

Exports growth strengthens to 14.5% y-o-y in September, from 9.1% in August

China's trade data released last week showed that trade tariffs have had no major impact on export growth so far. Exports grew by a solid 14.5% y-o-y in September (consensus: 8.2%), from 9.1% in the previous month, driven by a broad-based increase. We believe that the upside surprise in exports growth was likely due to continuous front-loading of shipments by US corporates on the back of strong demand and the fear of more stringent tariff measures if tensions escalate further. Indeed, growth in exports to the US accelerated to 14% y-o-y in September, from 13.2% in August. However, we still believe that the effect of higher trade tariffs could be more visible in 4Q2018 and 1Q2019. Meanwhile, import growth moderated to 14.3% y-o-y in September from 20% in August, prompting the trade surplus to widen to USD31.7 billion, from USD27.9 billion in August. The slowdown was largely due to commodities goods, including steel and crude oil. The chances are that the standoff between the US and China will continue into 2019, with the US threatening to impose tariffs on all Chinese imports from January 2019. Thus, we continue to see downside risks to China's GDP growth in the near-term. Notably, President Donald Trump and Chinese President Xi Jinping are scheduled to meet during the G20 summit at end-November.

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Sep	329.5B	
	UAE	M3 Money Supply, m-o-m	Sep	0.1%	
	UAE	CPI, y-o-y	Sep	3.9%	
	Saudi Arabia	CPI, y-o-y	Sep	2.2%	
	Saudi Arabia	GDP Constant Prices, q-o-q	2Q	-1.6%	
	Saudi Arabia	Unemployment Rate (Saudis)	2Q	12.9%	
	Oman	CPI, y-o-y	Sep	1.1%	
	Bahrain	CPI, y-o-y	Sep	1.9%	
Monday, 15 October					
8:30	Japan	Industrial Production, m-o-m	Aug F	0.7%	
16:30	US	Empire Manufacturing	Oct	19	20
16:30	US	Retail Sales Advance, m-o-m	Sep	0.1%	0.6%
16:30	US	Retail Sales Control Group	Sep	0.1%	0.4%
22:00	Eurozone	ECB Vice President de Guindos Speaks in Madrid			
Tuesday, 16 October					
5:30	China	CPI, y-o-y	Sep	2.3%	2.5%
5:30	China	PPI, y-o-y	Sep	4.1%	3.6%
11:00	Turkey	Industrial Production, m-o-m	Aug	3.5%	2.4%
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Aug	2.6%	2.6%
12:30	UK	Weekly Earnings ex-Bonus 3M/y-o-y	Aug	2.9%	2.9%
12:30	UK	ILO Unemployment Rate, 3M	Aug	4%	4%
17:15	US	Industrial Production, m-o-m	Sep	0.4%	0.2%
18:00	US	JOLTS Job Openings	Aug	6939	6900
Wednesday, 17 October					
0:15	US	San Francisco Fed's Daly Speaks at Wellesely College			
12:30	UK	CPI, m-o-m	Sep	0.7%	0.3%
12:30	UK	CPI, y-o-y	Sep	2.7%	2.6%
12:30	UK	CPI Core, y-o-y	Sep	2.1%	2%
13:00	Eurozone	CPI, y-o-y	Sep F	2%	2.1%
13:00	Eurozone	CPI Core, y-o-y	Sep F	0.9%	0.9%
16:30	US	Housing Starts	Sep	1282K	1210K
16:30	US	Building Permits	Sep	1249K	1270K
20:10	US	Fed's Brainard Speaks on Fintech and Financial Inclusion			
22:00	US	FOMC Meeting Minutes	26-Sep		
Thursday, 18 October					
3:50	Japan	Trade Balance	Sep	-¥444.6B	-¥43.3B
4:30	Japan	BOJ Kuroda speaks at Branch Managers' Meeting			
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Sep	0.3%	-0.4%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Sep	3.5%	3.8%
16:30	US	Philadelphia Fed Business Outlook	Oct	22.9	20
20:15	US	Fed's Quarles Speaks on the Economic Outlook			
18:00	US	Leading Index	Sep	0.4%	0.5%
Friday, 19 October					
3:30	Japan	National CPI, y-o-y	Sep	1.3%	1.3%
6:00	China	GDP, y-o-y	3Q	6.7%	6.6%
6:00	China	Retail Sales, y-o-y	Sep	9%	9%
6:00	China	Industrial Production, y-o-y	Sep	6.1%	6%
12:30	UK	PSNB, ex-Banking Groups	Sep	6.8B	4.5B
18:00	US	Existing Home Sales	Sep	5.34M	5.29M
19:30	UK	BOE Governor Carney Speaks in New York			
20:00	US	Fed's Bostic Speaks on Economic Outlook			

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Expected this week						
	UAE	CPI, y-o-y	Aug	3.8%		3.9%
	UAE	Dubai Economy Tracker SA	Sep	55.2		54.4
	Qatar	GDP Constant Prices, y-o-y	2Q	1.4%		2.5%
	Egypt	Gross Official Reserves	Sep	44.4B		44.5B
	Egypt	Urban CPI, y-o-y	Sep	14.2%		16%
	China	Trade Balance	Sep	$26.7B	$19.2B	$31.7B
	China	Exports, y-o-y	Sep	9.1%	8.2%	14.5%
	China	Imports, y-o-y	Sep	19.9%	15.3%	14.3%
Monday, 8 October						
5:45	China	Caixin China PMI Composite	Sep	52		52.1
10:00	Germany	Industrial Production SA, m-o-m	Aug	-1.1%	0.3%	-0.3%
Tuesday, 9 October						
3:50	Japan	BoP Current Account Balance	Aug	¥2009.7B	¥1889.6B	¥1838.4B
14:00	US	NFIB Small Business Optimism	Sep	108.8	108.3	107.9
Wednesday, 10 October						
3:50	Japan	Core Machine Orders, m-o-m	Aug	11.0%	-3.9%	6.8%
12:30	UK	Trade Balance	Aug	-£572	-£1200	-£1274
12:30	UK	Industrial Production, m-o-m	Aug	0.4%	0.1%	0.2%
12:30	UK	Manufacturing Production, m-o-m	Aug	0%	0.1%	-0.2%
12:30	UK	Monthly GDP, 3M/3M	Aug	0.7%	0.6%	0.7%
16:30	US	PPI Final Demand, m-o-m	Sep	-0.1%	0.2%	0.2%
16:30	US	PPI Final Demand, y-o-y	Sep	2.8%	2.7%	2.6%
Thursday, 11 October						
3:50	Japan	PPI, y-o-y	Sep	3.0%	2.9%	3%
11:00	Turkey	Current Account Balance	Aug	-1.78B	2.5B	2.59B
16:30	US	CPI, m-o-m	Sep	0.2%	0.2%	0.1%
16:30	US	CPI, y-o-y	Sep	2.7%	2.4%	2.3%
16:30	US	CPI, ex-Food and Energy, m-o-m	Sep	0.1%	0.2%	0.1%
16:30	US	CPI, ex-Food and Energy, y-o-y	Sep	2.2%	2.3%	2.2%
Friday, 12 October						
3:50	Japan	Money Stock M2, y-o-y	Sep	2.9%	2.9%	2.8%
8:30	Japan	Tertiary Industry Index, m-o-m	Aug	-0.1%	0.3%	0.5%
10:00	Germany	CPI EU Harmonized, y-o-y	Sep F	2.2%	2.2%	2.2%
13:00	Eurozone	Industrial Production SA, m-o-m	Aug	-0.7%	0.5%	1%
16:00	India	CPI, y-o-y	Sep	3.7%	4%	3.8%
16:00	India	Industrial Production, y-o-y	Aug	6.5%	3.8%	4.3%
16:30	US	Import Price Index, m-o-m	Sep	-0.4%	0.2%	0.5%
18:00	US	University of Michigan Sentiment	Oct P	100.1	100.5	99

* UAE time
Source: Bloomberg

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