

The Week Ahead: Brexit takes centre stage

► UK: Potential leadership challenge and EU summit in focus

Political tensions remain elevated in the UK amidst opposition to the draft Brexit withdrawal agreement presented by Prime Minister Theresa May last week. There remains a number of uncertainties at this point, including: i) the leadership challenge against May within the Conservative Party; and ii) the degree of parliamentary support for the draft agreement. The prospect of a challenge to May remains open at this point, though the number of write-ins needed to enforce a confidence vote is yet to reach the required 15% threshold (48) at the time of writing. Even if the prime minister successfully navigates a leadership challenge, a key test will be garnering the required number of votes in Parliament to ratify the withdrawal agreement. There remains a strong possibility that Parliament will reject the agreement as it stands given the divided Conservative Party and its slim majority, paving the way for more uncertainty. Some Tory MPs are looking for changes to the deal, especially related to the Irish border backstop agreement. Looking ahead, the EU leaders will meet on 25 November to vote on the draft agreement, which will be subsequently be voted on in the UK Parliament (possibly in the week of 10 December).

► US: Durable goods and housing data for October

It will be relatively quiet in the US this week with durable goods and housing data the main releases scheduled. Consensus expects headline durable goods orders contracted by 2.5% m-o-m in October, due to moderating defence orders. Moreover, Boeing's total orders moderated to 18 in October from 65 in September. However, growth in core goods shipments, which feeds into GDP data, is forecast to have accelerated to 0.2% m-o-m in October, suggesting a relatively positive start to 4Q economic activity. On the housing front, both building permits and housing starts were projected to strengthen marginally to 1,260K (previously 1,241K) and 1,225K (previously 1,201K) respectively in October. However, in absolute terms this is well below the peak reached in early 2018. Separately, Japan will also release its October inflation print. Consensus forecasts headline inflation accelerated to 1.4% y-o-y in October (September: 1.2%), led by energy prices. Core inflation is estimated to have remained subdued at 1% y-o-y in October, supporting the BoJ's accommodative monetary policy stance.

► Egypt: CBE on hold, highlighting temporary inflation spike

The CBE kept benchmark interest rates on hold at its 15 November meeting (page 2), in line with our and consensus expectations and for the fifth consecutive meeting. The post-meeting statement outlined that the MPC was willing to overlook temporary deviations from its year-end target of 13% \pm 3%, with the recent acceleration in inflation driven by a transitory spike in vegetable prices. We expect the CBE to remain on hold in the near term until headline inflation sees some moderation, despite weak underlying inflationary pressures. We expect the CBE to return to cutting rates in 2019, though this will also be contingent on stability in emerging markets and capital flows.

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I. Recent Events and Data Releases

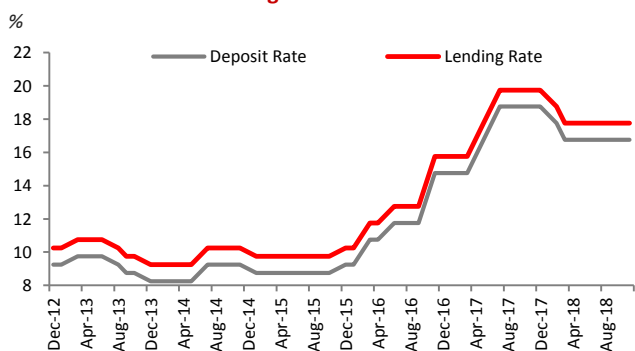
A. MENA Economies

Egypt: CBE on hold citing temporary inflation drivers

The CBE kept benchmark interest rates on hold at its 15 November meeting, in line with our and consensus expectations, despite the recent strengthening in headline inflation. The benchmark deposit rate remained at 16.75% and the lending rate at 17.75%. This was the fifth consecutive meeting that rates were kept steady after being cut by a cumulative 200 bps earlier in 2018. The post-meeting statement outlined that the MPC was willing to overlook temporary deviations from its year-end target of 13% ±3% after headline inflation accelerated to 17.7% y-o-y in October (September: 16%). The central bank noted that the strengthening in September and October headline inflation was due to prices of select fresh vegetables, which tend to be volatile. Underlying inflation has been relatively contained, with core inflation softening to an average of 8.7% between July and October. The CBE reiterated its view that “current policy rates remain in line with achieving single digit inflation as soon as the effects of fiscal consolidation measures dissipate”. The statement also noted the recent fall in global oil prices. The MPC concluded that “given the contained underlying inflationary pressures and the transitory nature of the supply shock related to select fresh vegetables, the MPC decided to keep policy rates unchanged”.

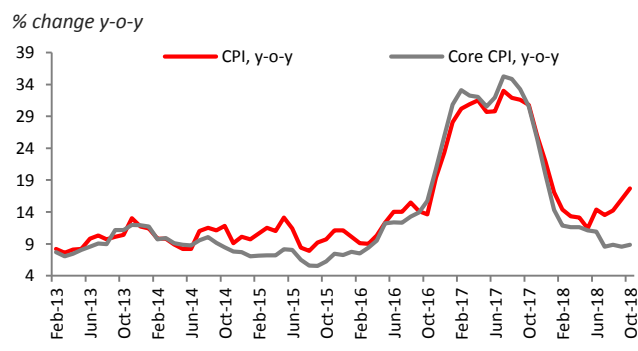
MPC highlights transitory nature of supply shock related to certain vegetables

Fig. 1. Egypt: Central Bank keeps rates unchanged for past five MPC meetings



Source: Central Bank of Egypt

Fig. 2. Egypt: CBE expected to remain on hold until headline inflation sees some moderation



Source: CAPMAS, ADCB calculations

We expect the CBE to remain on hold in the near term until headline inflation sees some moderation, despite weak underlying inflationary pressures. We expect the CBE to return to cutting rates in 2019, though this will also be contingent on stability in emerging markets and capital flows.

Cutting cycle expected to resume in 2019

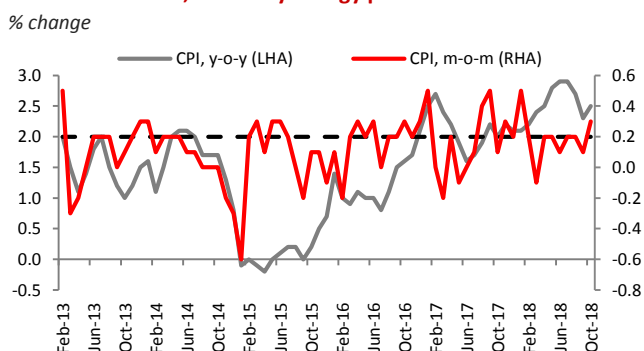
B. G4 Economies

US: October CPI inflation broadly in line with expectations

Headline CPI inflation accelerated to 0.3% m-o-m in October (September: 0.1%), taking the y-o-y print to 2.5% from 2.3% in the previous month. Headline inflation was driven mainly by the energy component, which rebounded to a 2.4% m-o-m rise in October, after contracting by 0.5% in September. Despite that, we believe that the boost from the energy component to headline inflation will be relatively subdued in the coming months on the back of softening global crude prices. Meanwhile, core CPI inflation also picked up to 0.2% m-o-m in October (September: 0.1%), though the annual print decelerated to 2.1% (September: 2.2%). The rise in monthly core inflation in October was largely driven by the core goods component, led by the acceleration in used car and truck prices. Core services inflation remained unchanged at 0.2% m-o-m in October, supported by steady shelter and medical care services prices. Notably, rental inflation has been broadly steady in 2018 YTD, despite the strong labour market and tight housing market conditions. Overall, the October CPI report suggests that headline PCE inflation is likely to accelerate to 2.1% y-o-y in October from 2% in September. However, core PCE inflation could decelerate to 1.8% y-o-y from 2% in September – in line with the annual core CPI print in October.

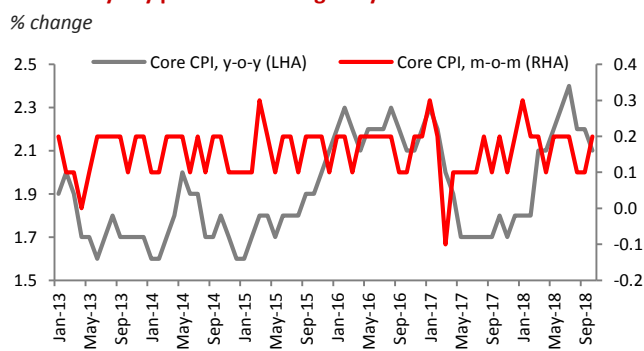
Headline annual CPI inflation accelerates but core inflation decelerates modestly

Fig. 3. US: Headline inflation accelerates to 2.5% y-o-y in October, driven by energy prices



Source: Bureau of Labor statistics

Fig. 4. US: Monthly core inflation strengthens in October but y-o-y print eases marginally



Source: Bureau of Labor statistics

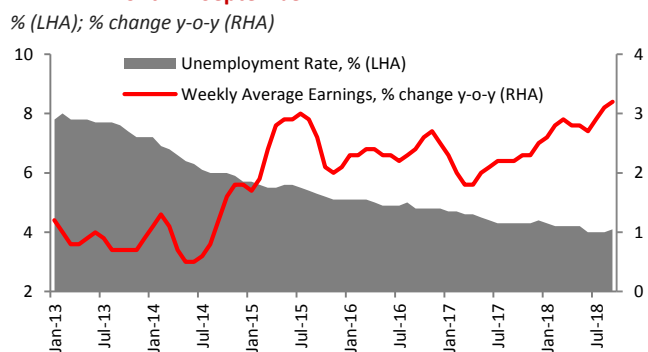
UK: Wage growth accelerates but yet to feed into inflation

The September labour report showed that wage growth in the UK strengthened for a third consecutive month, though this is yet to feed into inflation in a meaningful manner. Average weekly earnings accelerated to 3% 3M y-o-y in September from an upwardly revised 2.8% in August – the highest point since October 2015. Weekly earnings (ex-bonuses) also strengthened sharply to 3.2% 3M y-o-y in September, beating both the consensus estimate and the August print of 3.1%. The rise in wage growth was driven by both the public and the private sectors. Notably, wage growth accelerated in the finance & business services and wholesaling, retailing, hotels & restaurants sectors. Meanwhile, the unemployment rate increased to 4.1% in September after remaining steady at 4% in the previous three months. Overall, the data suggests that the labour market remains tight, likely due to: i) the supply shortage of skilled workers; and ii) the drop in employment of EU nationals in the UK. We believe that the BoE will continue to express confidence that wage growth will eventually feed into inflation. However, we are yet to see this in any of the inflation reports released in recent months. Indeed, both headline

BoE likely to maintain wait and watch stance until March 2019

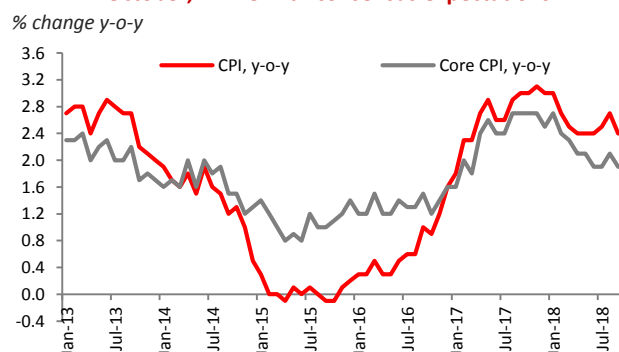
and core inflation for October remained steady at 2.4% and 1.9% y-o-y, respectively. Market expectations continue to suggest that there will be no further rate hikes until political tensions related to Brexit abate. We believe that the BoE will remain on hold until after the UK formally exits the EU in March 2019.

Fig. 5. UK: Wage growth accelerates for third consecutive month in September



Source: UK Office for National Statistics

Fig. 6. UK: Both headline and core inflation remain steady in October, in line with consensus expectations



Source: UK Office for National Statistics

Japan: Real GDP growth contracts in 3Q, impacted by bad weather

Real GDP growth fell by 1.2% q-o-q SAAR in 3Q2018 (consensus: -1%), following a solid 3% increase in 2Q. This was mainly due to disruptive weather conditions in 3Q, including widespread flooding (July), a nationwide heat wave (July/August), and typhoon and earthquake damage (September). There was a broad-based contraction in economic activity, including in personal consumption growth, private investment and in export growth. Residential investment and government consumption were the only exemptions, though these were likely due to rebuilding activity. We believe that the economy will bounce back to record positive growth in 4Q, though we expect export growth to remain somewhat weak on the back of global trade tensions. We do not expect the 3Q GDP growth print to have any impact on the BoJ's extremely accommodative monetary policy stance.

Japanese economy contracts in 3Q, led by adverse weather conditions

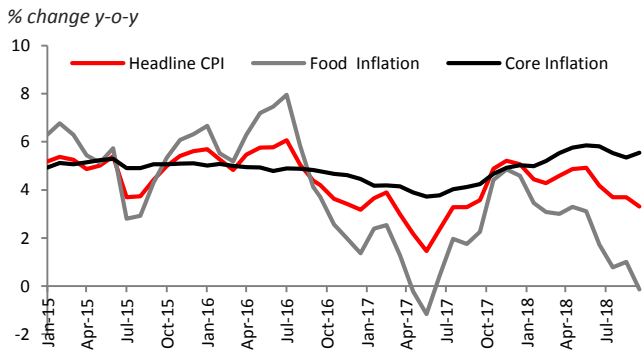
C. Emerging Market Economies

India: Headline inflation softens but core inflation picks up

Headline CPI inflation continued to surprise to the downside and decelerated to 3.3% y-o-y in October (consensus: 3.6%), from a downwardly revised 3.7% in September (3.8% previously). This is the fifth consecutive month of headline inflation coming in lower than the consensus estimate, led by softer-than-expected food inflation. Food inflation contracted by 0.1% y-o-y in October – the first yearly fall since July 2017. This was largely due to a greater drop in the prices of vegetables, pulses and sugar. We believe that the benign food prices are likely to lead the RBI to revise down its inflation projections at its December meeting. However, core inflation (excluding food, tobacco and fuel) accelerated to 6.2% y-o-y in October from 5.8% in September, driven by increases in the prices of healthcare, personal care goods and household goods and services. We believe that the rise in personal and household goods could be due to the recent INR depreciation, especially from August to early October.

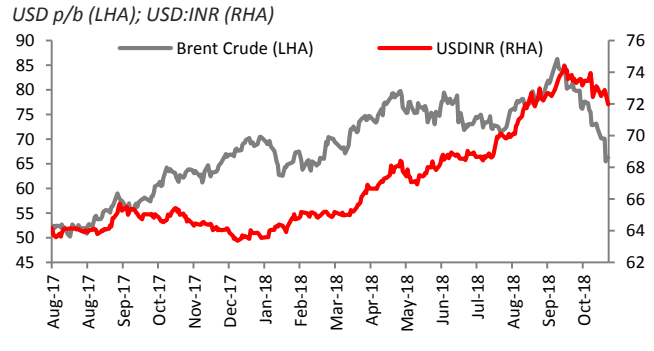
Headline inflation decelerates to 3.3% y-o-y in October from 3.7% in September

Fig. 7. India: Headline inflation eases to 3.3% y-o-y in October, led by contraction in food prices



Source: India Central Statistical Organisation

Fig. 8. India: Fall in Brent crude price since early-October helps INR strengthen against USD



Source: Bloomberg

We expect the RBI to keep interest rates steady at its December meeting, citing the sharp fall in crude prices, the strengthening USD:INR since early November, and subdued food inflation. Notably, the Brent crude price has fallen by c.USD18 p/b since the last meeting, whilst the USD:INR has strengthened from 73.8 to 71.8 at the time of writing. Thus, we expect the RBI to sound more comfortable on the inflation outlook at the upcoming meeting whilst still retaining its calibrated tightening guidance on the interest rate outlook. Given the downside concerns over the global growth outlook, we expect the RBI to present a cautious tone in its medium-term economic growth outlook.

RBI likely to keep repo rate unchanged at December meeting

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Oct	3.1%	
	UAE	M3 Money Supply, m-o-m	Oct	1.5%	
	UAE	Central Bank Foreign Assets	Oct	327.3B	
	Saudi Arabia	CPI, y-o-y	Oct	2.1%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Sep	-6.5%	
	Oman	Budget Balance Month	Sep	-186.2M	
	Qatar	CPI, y-o-y	Oct	-0.4%	
	Bahrain	CPI, y-o-y	Oct	0.8%	
	Kuwait	CPI, y-o-y	Oct	0.3%	
	Kuwait	M2 Money Supply, y-o-y	Sep	4.4%	
Monday, 19 November					
3:50	Japan	Trade Balance	Oct	¥139.6B	-¥70B
7:30	Japan	BOJ Kuroda speaks at EuroPlus in Tokyo			
13:00	Eurozone	Bank of Portugal Governor at Conference on Portuguese Economy			
13:00	Eurozone	ECB Current Account SA	Sep	23.9B	
19:45	US	Fed's Williams Speaks in Moderated Q&A in the Bronx			
Tuesday, 20 November					
13:00	Eurozone	ECB's Nowotny Presents Austrian Financial Stability Report			
14:00	UK	BOE's Carney, Haldane, Cunliffe and Saunders Testify in London			
17:30	US	Housing Starts	Oct	1201K	1225K
17:30	US	Building Permits	Oct	1241K	1260K
Wednesday, 21 November					
8:30	Japan	All Industry Activity Index, m-o-m	Sep	0.5%	-0.9%
13:30	UK	PSNB, ex-Banking Groups	Oct	4.1B	6.1B
14:00	Eurozone	OECD Economic Forecasts			
17:30	US	Durable Goods Orders	Oct P	0.7%	-2.5%
17:30	US	Durables, ex-Transportation	Oct P	0%	0.4%
17:30	US	Cap Goods Orders, Non-defence, ex-air	Oct P	-0.1%	0.2%
17:30	US	Cap Goods Shipments, Non-defence, ex-air	Oct P	-0.1%	
19:00	US	Leading Index	Oct	0.5%	0.1%
19:00	US	Existing Home Sales	Oct	5.15M	5.2M
19:00	US	University of Michigan Sentiment	Nov F	98.3	98.3
Thursday, 22 November					
3:30	Japan	National CPI, y-o-y	Oct	1.2%	1.4%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Oct	1%	1%
11:00	Turkey	Consumer Confidence Index	Nov	57.3	
16:30	Eurozone	ECB Publishes Account of Policy Meeting			
19:00	Eurozone	Consumer Confidence	Nov A	-2.7	
21:00	Eurozone	ECB Executive Board member Yves Mersch Speaks in Munich			
	Eurozone	ECB's Weidmann, Knot, Visco Speak in Florence			
Friday, 23 November					
4:30	Japan	Nikkei Japan PMI Manufacturing	Nov P	52.9	
11:00	Germany	GDP SA, q-o-q	3Q F	-0.2%	-0.2%
11:00	Germany	GDP NSA, y-o-y	3Q F	1.1%	1.1%
12:30	Germany	Markit/BME Germany Manufacturing PMI	Nov P	52.2	52.2
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Nov P	52	52
16:00	Eurozone	ECB Vice President Luis de Guindos Speaks in Madrid			
18:45	US	Markit US Manufacturing PMI	Nov P	55.7	55.8

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Economies						
	Oman	CPI, y-o-y	Oct	0.8%		1%
	China	New Yuan Loans, CNY	Oct	1380B	904.5B	697B
	China	Foreign Direct Investment, y-o-y CNY	Oct	8%		7.2%
	China	Money Supply M2, y-o-y	Oct	8.3%	8.4%	8%
Monday, 12 November						
3:50	Japan	PPI, y-o-y	Oct	3%	2.8%	2.9%
16:00	India	CPI, y-o-y	Oct	3.7%	3.6%	3.3%
16:00	India	Industrial Production, y-o-y	Sep	4.7%	4.3%	4.5%
Tuesday, 13 November						
13:30	UK	Jobless Claims Change	Oct	23.2K		20.2K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Sep	2.8%	3%	3%
13:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Sep	3.1%	3.1%	3.2%
13:30	UK	ILO Unemployment Rate, 3Mths	Sep	4%	4%	4.1%
14:00	Germany	ZEW Survey Current Situation	Nov	70.1	65	58.2
14:00	Eurozone	ZEW Survey Expectations	Nov	-19.4		-22
23:00	US	Monthly Budget Statement	Oct	\$63.2B	-\$100B	-\$100.5B
Wednesday, 14 November						
3:50	Japan	GDP SA, q-o-q	3Q P	0.8%	-0.3%	-0.3%
3:50	Japan	GDP Annualized SA, q-o-q	3Q P	3%	-1%	-1.2%
3:50	Japan	GDP Private Consumption, q-o-q	3Q P	0.7%	-0.2%	-0.1%
3:50	Japan	GDP Business Spending, q-o-q	3Q P	3.1%	0.2%	-0.2%
6:00	China	Retail Sales, y-o-y	Oct	9.2%	9.2%	8.6%
6:00	China	Retail Sales, YTD y-o-y	Oct	9.3%	9.3%	9.2%
6:00	China	Industrial Production, y-o-y	Oct	5.8%	5.8%	5.9%
6:00	China	Industrial Production, YTD y-o-y	Oct	6.4%	6.3%	6.4%
13:30	UK	CPI, m-o-m	Oct	0.1%	0.2%	0.1%
13:30	UK	CPI, y-o-y	Oct	2.4%	2.5%	2.4%
13:30	UK	CPI Core, y-o-y	Oct	1.9%	1.9%	1.9%
14:00	Eurozone	Industrial Production SA, m-o-m	Sep	1.1%	-0.4%	-0.3%
14:00	Eurozone	GDP SA, q-o-q	3Q P	0.2%	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	3Q P	1.7%	1.7%	1.7%
14:00	Eurozone	Employment, y-o-y	3Q P	1.5%		1.3%
17:30	US	CPI, m-o-m	Oct	0.1%	0.3%	0.3%
17:30	US	CPI, ex-Food and Energy, m-o-m	Oct	0.1%	0.2%	0.2%
17:30	US	CPI, y-o-y	Oct	2.3%	2.5%	2.5%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	2.2%	2.2%	2.1%
Thursday, 15 November						
13:30	UK	Retail Sales, ex-Auto and Fuel, m-o-m	Oct	-0.3%	0.2%	-0.4%
13:30	UK	Retail Sales, ex-Auto and Fuel, y-o-y	Oct	3.6%	3.4%	2.7%
17:30	US	Retail Sales Advance, m-o-m	Oct	-0.1%	0.5%	0.7%
17:30	US	Retail Sales, ex-Auto and Gas, m-o-m	Oct	0%	0.4%	0.3%
17:30	US	Retail Sales Control Group, m-o-m	Oct	0.3%	0.4%	0.3%
	Egypt	Lending Rate	15-Nov	17.75%	17.75%	17.75%
	Egypt	Deposit Rate	15-Nov	16.75%	16.75%	16.75%
	India	Exports, y-o-y	Oct	-2.2%		17.9%
	India	Imports, y-o-y	Oct	10.5%		17.6%
Friday, 16 November						
14:00	Eurozone	CPI Core, y-o-y	Oct F	1.1%	1.1%	1.1%
14:00	Eurozone	CPI, y-o-y	Oct F	2.1%	2.2%	2.2%
18:15	US	Industrial Production, m-o-m	Oct	0.3%	0.2%	0.3%

* UAE time

Source: Bloomberg

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