

The Week Ahead: Fed hike priced in, moderately hawkish tone expected

► US: FOMC's 2019 dot plot projections take centre stage

The Fed is widely expected to raise the fed funds target rate (FFTR) by 25bps to 2.25% (the upper bound) at its 25-26 September meeting. Market attention will be particularly on the 'dot plot' projections and the post-meeting forward guidance. The FOMC will extend its projections to 2021 alongside the forecasts of new committee member - Fed vice chair Richard Clarida's will be included for the first time (William Dudley's will be removed). We expect a moderately more hawkish tone, with some upward shifts in the dots to consolidate around one further rate hike in 2018 (December) and three in 2019. Moreover, the market expects a gradual upward revision in the long-run FFTR forecast to 3%, from 2.9% at the June meeting. Recent comments by Fed members have had a more hawkish tone, than the neutral stance previously, supported by the strong tailwinds to the economy due to fiscal stimulus. On economic forecasts, we expect a minor upward revision to GDP growth estimates, though with the PCE inflation and unemployment rate assumptions largely unchanged. On the data front, the PCE inflation and durable goods data for August are due this week, alongside the final print for 2Q GDP. Elsewhere in Europe, Brexit tensions continue to rise after EU leaders rejected UK Prime Minister Theresa May's "Chequers" plan last week, raising the potential for an early general election.

► GCC: Central banks largely set to follow Fed in raising rates

We expect the GCC central banks to largely raise their benchmark rates by 25 bps in line with the Fed, including the Central Bank of the UAE increasing its benchmark repo rate to 2.5%. We also see SAMA hiking by the same magnitude, maintaining the 50 bps spread between its repo rate and the FFTR (upper bound). Saibor (3M) is currently trading at a 30 bps premium to US Libor, which SAMA deputy governor for investment Ayman Mohammed Alsayari indicated last week was a comfortable level (the spread was substantially narrower earlier in 2018). However, we envisage that Qatar will again keep its lending rates steady at 5%, afforded by the margin with the FFTR, and aimed at limiting upside pressure on the market lending rate. We expect the Qatar Central Bank to raise its deposit rate by 25 bps to 2.25%. We envisage similar move in Kuwait with the benchmark deposit rate being raised, though the lending rate will likely be kept on hold at 3%.

► Egypt: CBE expected to remain on hold with EM jitters

We expect the CBE to remain on hold at its 27 September MPC meeting, with the benchmark deposit rate remaining at 16.75% and the lending rate at 17.75%. We see the rise in August inflation and the selloff in Egyptian assets as central to this decision. Foreign holdings of T-bills have fallen since April, pushing up yields and resulting in the government cancelling recent bond auctions so as not to lock itself into high rates for medium- and longer-dated maturities. We now also see the CBE remaining on hold at its 15 November meeting and believe that a stabilisation of EM risk sentiment will be vital before the bank can resume its rate-cutting cycle.

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I. Recent Events and Data Releases

A. GCC Economies

UAE: Further announcements linked to economic support packages

A number of measures and reforms were announced last week aimed at bolstering the economic outlook. These were linked to the support packages announced in mid-2018 – at a country-wide level and related to Abu Dhabi's AED50 billion spending plan. For further details, please see our note – **UAE Economic Update: Abu Dhabi and Dubai announce packages to bolster economic activity**, published on 7 June 2018. As noted in our previous research, the initiatives aim at reviving economic activity and increasing future growth potential, highlighting the government's proactive stance. These developments are especially welcome given the ongoing domestic and external challenges facing the non-oil economy and relatively soft economic momentum. We see these measures as being supportive of a gradual acceleration in real non-oil GDP growth. However, we remain conservative at this point given the ongoing economic headwinds. Policies to strengthen the investment environment will be positive but will likely take time to build momentum. We believe that direct government spending will provide the most immediate support.

Government support vital given ongoing domestic and external headwinds

One of the key reforms announced was the retiree visa (UAE-wide), which will allow expatriates aged 55 and over to obtain a five-year residence visa. The law will come into effect in 2019 with the requirement of i) investment in a property worth AED2 million; or ii) financial savings of no less than AED1 million; or iii) having an active income of no less than AED20K per month. This is in line with earlier announced 10-year visas (details still to be announced), with these reforms aiming at supporting private saving and investments in the UAE, alongside population growth. The more medium-term visa will provide some sense of security for those nearing retirement, though greater clarity on the ease of renewal following the initial five-year period will be important. Other factors such as the development of saving and pension plans, and affordable healthcare schemes will also be important for encouraging retirement of expatriates in the UAE. Given the relatively narrow population base and the fundamental factors supporting the downward pressure on real estate prices, we believe that the immediate support from this reform will likely be limited. Meanwhile, cuts in electricity fees for industries across the UAE were also announced last week, which will benefit more than 6K factories, according to the Ministry of Energy.

Broadening of resident base significant, though likely needs to be wider to support property sector

Meanwhile, greater details of Abu Dhabi's three-year AED50 billion package, called Ghadan 2021 (Tomorrow 2021), were approved. Of this package AED20 billion will be allocated for 2019, and will include objectives such as encouraging business and investment, as well as promoting SME and key sectors. We see the private sector benefiting from plans to improve payments and reduce cost pressures. Any reduction in costs and improvement in the ease of doing business will be an important relief, after years of rising costs, narrowing margins and payment delays. Payments of outstanding arrears would also provide some important liquidity and cash flow to companies – all undisputed private sector dues and receivables will be settled before mid-November 2018. However, new government spending growth will be critical for stimulating additional demand and growth in the economy. We wait more signs of the potential magnitude of new spending and its direction. The details released so far indicate that in 1Q2019 three to five projects with a value of over AED3 billion will be announced in areas such as housing, roads, infrastructure and healthcare sectors (possibly on a PPP basis). The impact of this should be positive, suggesting a further pickup in investment activity in Abu Dhabi, though relatively contained by itself.

AED20 billion of AED50 billion Abu Dhabi package earmarked for 2019

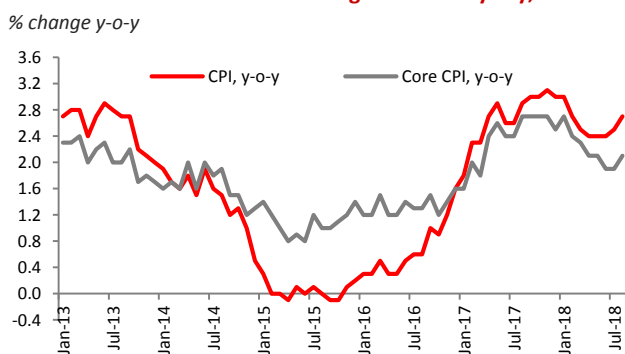
B. G4 Economies

UK: Both headline and core inflation surprise to upside in August

UK headline inflation accelerated unexpectedly in August to 2.7% y-o-y (consensus: 2.4%), from 2.5% in the previous month. Core inflation also strengthened to 2.1% y-o-y in August, from 1.9% in July. The rise in inflation was largely driven by recreation & culture prices, passenger transport fares and clothing prices. Notably, recreational and culture prices have been increasingly volatile in recent months due to computer gaming and theatre prices. We believe that the rise in these components was partly due to strong demand during the relatively hot summer and hence could be temporary. However, we still do not see meaningful upward pressure on domestically generated inflation. Thus, we expect core inflation to reverse back in the upcoming months and hover below 2% for the rest of 2018.

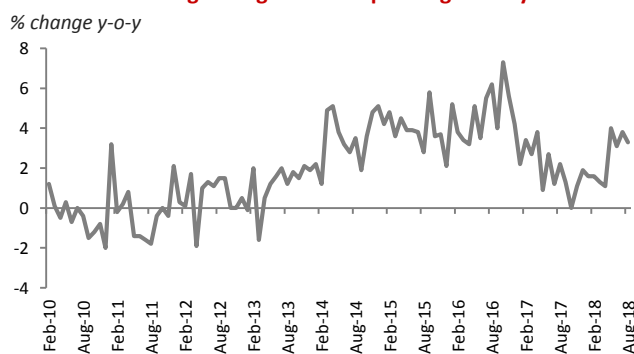
Core inflation strengthens to 2.1% y-o-y in August, from 1.9%, driven by volatile recreation prices

Fig. 1. UK: Headline inflation strengthens for second consecutive month in August to 2.7% y-o-y, from 2.5%



Source: UK Office for National Statistics

Fig. 2. UK: Retail sales grow by solid 3.5% y-o-y in August, reflecting strong summer spending activity



Source: UK Office for National Statistics

Retail sales activity also remained solid in August supported by summer spending by households. Headline retail sales grew by 3.3% y-o-y in August, beating market expectations of a moderation to 2.3%. The July print was also revised up to 3.8% y-o-y, from 3.5% previously. With Brexit uncertainties still remaining large, we await for more data to see if this trend persists in the upcoming months. Despite the strong inflation and retail sales data, we do not see the BoE raising interest rates further until we have more clarity on the Brexit deal.

Retail sales grow by robust 3.3% y-o-y in August, driven by summer spending

Japan: BoJ on hold with wait and watch stance

The BoJ kept its monetary policy steady at its September meeting, in line with our and market expectations. This includes the short-term policy rate of -0.1%, the 10-year government bond yield target of 0% and the pace of asset purchases of long-term JGBs and ETFs (JPY80 trillion per annum). The overall tone of the meeting remained bearish with Governor Haruhiko Kuroda underlining that monetary policy will remain accommodative until the consumption tax hike scheduled to take place in October 2019. During the post-meeting press conference, Kuroda refrained from commenting on Prime Minister Shinzo Abe's recent remarks that the BoJ's ultra-easy monetary policy "should not go on forever".

No major surprises at BoJ's September policy meeting

On the macro front, BoJ continued to express confidence that the economy will expand at a moderate pace. However, the central bank voiced concerns related to increasing trade tensions between the US and China and the recent emerging market jitters. On the inflation front, the board expects the headline print to rise gradually towards 2%, led by the positive output gap and rising inflation expectations. We expect the accommodative monetary policy to remain in place for the rest of 2018 and in 1Q2019. Meanwhile, the next action could be of Kuroda directing the BoJ to make another comprehensive assessment of current monetary policy.

Another comprehensive assessment looks increasingly likely before next policy adjustment

US: Trade war heats up with new tariff measures coming into effect

Trade tensions between the US and China remain elevated with no signs of meaningful negotiation or settlement in the near future. The US administration last week announced a new 10% tariff on USD200 billion worth of Chinese goods, effective from 24 September. The administration also highlighted that the 10% tariff on these goods could be raised to 25% by year-end if China refuses to offer trade concessions. Notably, the US administration excluded nearly 300 consumer-related products from the initially proposed list of 6,031 products, including smart watches and Bluetooth devices, textiles and agricultural goods, to limit the impact on inflation. In response to the US's protectionist measures, China retaliated with tariffs of up to 10% on USD60 billion of US imports, also coming into effect on 24 September.

Trade escalation between US and China

Importantly, China imposed a 10% tariff on US liquefied natural gas (LNG), though less than the initially proposed 25%. This will make US LNG less competitive in the Chinese market compared to Canada, Russia and Qatar gas. Notably, China's PetroChina International signed a 22-year deal with Qatar to supply around 3.4 million tonnes of LNG annually earlier in September. China also agreed to lend USD5 billion to Venezuela earlier this month, which can be paid back in either oil or cash, suggesting that China is forging long-term relationships with countries to lower its reliance on the US oil and gas sector. US companies could miss out on China's fast-growing LNG market if these protectionist measures persist into the longer term, as Beijing moves to curb pollution. However, this tariff measure is expected to have limited impact on the US gas sector in the short term as China accounted for just c.7% of total US LNG exports in July 2018.

China imposes 10% tariff on US LNG imports

C. Emerging Market Economies

Turkey: New Economic Program unveiled with more realistic forecasts

Turkish Finance Minister Berat Albayrak presented a "New Economic Program" last week, which comprises a three-year macro and fiscal framework. According to the new plan, public spending will be slashed by USD10 billion over the three years to reduce the budget deficit and help control inflation. The government now see the budget deficit at 1.8% for 2019 (1.9% previously) and 1.9% of GDP for 2020 (1.6% previously). The government also slashed its GDP growth forecasts to 3.8% in 2018 and 2.3% in 2019 — both revised down from earlier estimates of 5.5%. We believe that the growth projections are still ambitious in our view and expect further downward revisions in the near future. S&P expects the Turkish economy to contract in 2019, whilst Moody's estimates just 1% growth in 2019. On the inflation front, the government expects the headline print to accelerate to 20.8% y-o-y by end-2018, though moderating thereafter to 15.9% in 2019 and 9.8% in 2020. Overall, the pace of fiscal adjustment is somewhat greater than previously communicated by the government. We believe that the new fiscal plan is likely to reduce some pressure on the central bank for now though acknowledge the necessity of further gradual rate hikes at least until 1H2019.

Turkey lowers growth forecasts in New Economic Program

II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M3 Money Supply, m-o-m	Aug	0.2%	
	UAE	CPI, y-o-y	Aug	3.8%	
	UAE	Dubai Airport Cargo Volume, y-o-y	Aug	4.8%	
	Saudi Arabia	CPI, y-o-y	Aug	2.2%	
	Saudi Arabia	GDP Constant Prices, y-o-y	2Q	1.2%	
	Saudi Arabia	M3 Money Supply, y-o-y	Aug	-0.8%	
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Aug	1851.9B	
	Bahrain	GDP Constant Prices, y-o-y	2Q	-1.2%	
	Bahrain	M2 Money Supply, y-o-y	Jul	1.4%	
	Bahrain	CPI, y-o-y	Aug	2.7%	
Monday, 24 September					
12:00	Germany	IFO Business Climate	Sep	103.8	103.2
17:00	Eurozone	ECB's Draghi Speaks at ECON Committee Meeting			
Tuesday, 25 September					
9:30	Japan	BOJ Kuroda Speaks in Osaka			
12:10	Eurozone	ECB's Praet Speaks at FT Event in London			
12:40	UK	BOE's Vlieghe Speaks in London.			
18:00	US	Conference Board Consumer Confidence	Sep	133.4	132
18:40	Eurozone	ECB's Coeure Chairs Session at ECB Annual Conference			
Wednesday, 26 September					
18:00	US	New Home Sales	Aug	627K	630K
22:00	US	FOMC Rate Decision (Upper Bound)	26-Sep	2%	2.25%
22:30	US	Fed's Powell Holds Press Conference after FOMC Decision			
Thursday, 27 September					
12:00	Eurozone	M3 Money Supply, y-o-y	Aug	4%	3.8%
15:45	UK	BOE's Haldane speaks in London			
16:30	US	GDP Annualized, q-o-q	2Q T	4.2%	4.2%
16:30	US	Personal Consumption	2Q T	3.8%	3.8%
16:30	US	Durable Goods Orders	Aug P	-1.7%	1.9%
16:30	US	Capital Goods Shipments, Non-defence, ex-Air	Aug P	1%	0.5%
17:00	Eurozone	ECB's Draghi Speaks at ESRB Conference			
18:00	UK	BOE's Carney Chairs Panel in Frankfurt			
18:00	US	Pending Home Sales, m-o-m	Aug	-0.7%	-0.2%
20:30	US	Fed's Kaplan Speaks at Forum for Minority Banking			
21:05	Eurozone	ECB's Praet Speaks at King's College London			
	Egypt	Lending Rate	27-Sep	17.75%	17.75%
	Egypt	Deposit Rate	27-Sep	16.75%	16.75%
Friday, 28 September					
0:30	US	Fed's Powell makes brief remarks on US economy at Senate			
3:50	Japan	BOJ Summary of Opinions			
3:50	Japan	Retail Trade, y-o-y	Aug	1.5%	2.1%
3:50	Japan	Industrial Production, y-o-y	Aug P	2.2%	1.5%
12:30	UK	GDP, q-o-q	2Q F	0.4%	0.4%
13:00	Eurozone	CPI Estimate, y-o-y	Sep	2%	2.1%
16:30	US	Fed's Barkin Speaks at Forum for Minorities in Banking			
16:30	US	Personal Income	Aug	0.3%	0.4%
16:30	US	Personal Spending	Aug	0.4%	0.3%
16:30	US	PCE Core, y-o-y	Aug	2%	2%
16:30	US	PCE Core, m-o-m	Aug	0.2%	0.1%
18:00	US	University of Michigan Sentiment	Sep F	100.8	100.5
0:45	US	Fed's Williams Speaks at Money Markets Conference			

* UAE time

Source: Bloomberg

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Economies						
	UAE	Central Bank Foreign Assets	Aug	332.3B		329.5B
	Kuwait	CPI, y-o-y	Aug	0.8%		0.9%
	Oman	CPI, y-o-y	Aug	1.4%		1.1%
	Oman	Budget Balance Month	Jul	-310M		-240.8M
	Egypt	Trade Balance	Jul	-3625M		-4099M
Monday, 17 September						
11:00	Turkey	Industrial Production, m-o-m	Jul	-2.1%	-1%	3.5%
11:00	Turkey	Unemployment Rate	Jun	9.7%		10.2%
13:00	Eurozone	CPI, y-o-y	Aug F	2.1%	2%	2%
13:00	Eurozone	CPI, m-o-m	Aug	-0.3%	0.2%	0.2%
13:00	Eurozone	CPI Core, y-o-y	Aug F	1%	1%	1%
16:30	US	Empire Manufacturing	Sep	25.6	23	19
Wednesday, 19 September						
3:50	Japan	Trade Balance	Aug	-¥231.9B	-¥483.2B	-¥444.6B
	Japan	BOJ Policy Balance Rate	19-Sep	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	19-Sep	0%	0%	0%
12:30	UK	CPI, m-o-m	Aug	0%	0.5%	0.7%
12:30	UK	CPI, y-o-y	Aug	2.5%	2.4%	2.7%
12:30	UK	CPI Core, y-o-y	Aug	1.9%	1.8%	2.1%
12:30	UK	PPI Output NSA, y-o-y	Aug	3.1%	2.9%	2.9%
16:30	US	Current Account Balance	2Q	-\$121.7B	-\$103.4B	-\$101.5B
16:30	US	Housing Starts	Aug	1174K	1238K	1282K
16:30	US	Building Permits	Aug	1303K	1310K	1229K
Thursday, 20 September						
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Aug	0.9%	-0.2%	0.3%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Aug	4%	2.4%	3.5%
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Aug	1.1%	-0.2%	0.3%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Aug	3.8%	2.3%	3.3%
16:30	US	Philadelphia Fed Business Outlook	Sep	11.9	18	22.9
18:00	US	Leading Index	Aug	0.7%	0.5%	0.4%
18:00	Eurozone	Consumer Confidence	Sep A	-1.9	-2	-2.9
18:00	US	Existing Home Sales	Aug	5.34M	5.37M	5.34M
Friday, 21 September						
3:30	Japan	National CPI, y-o-y	Aug	0.9%	1.1%	1.3%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Aug	0.8%	0.9%	0.9%
4:30	Japan	Nikkei Japan PMI Manufacturing	Sep P	52.5		52.9
8:30	Japan	All Industry Activity Index, m-o-m	Jul	-0.9%	0.1%	0%
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Sep P	54.6	54.5	53.3
12:30	UK	PSNB, ex-Banking Groups	Aug	-3.1B	3.4B	6.8B
17:45	US	Markit US Manufacturing PMI	Sep P	54.7	55	55.6

* UAE time

Source: Bloomberg

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