

The Week Ahead: Fed Chair speech and FOMC minutes in spotlight

► **US: Fed expected to reaffirm December rate hike**

A number of Fed speakers, including Fed Chair Jerome Powell, Vice Chair Richard Clarida and John Williams, have speaking engagements this week. We believe that they will continue to indicate the need for further rate hikes whilst also highlighting that future rate hikes will be largely data-dependent. We continue to see the Fed raising the FFTR by another 25 bps in December given that the market has largely priced in a hike. However, the recent dovish comments from Fed members have led the markets to price in just two 25 bps increases in 2019. Thus, we believe that the market will be most interested in any new information that could provide greater clarity on the 2019 interest rate outlook and the policy levels that the Fed members would view as restrictive. Moreover, the minutes from the FOMC's November meeting (due on 29 November) will also be scrutinised for greater detail regarding the balance of risks to the growth outlook. The market will focus in particular on how the FOMC views the evolving downside risks to the growth outlook from: i) the slowing global economy; ii) the softening housing market; and iii) the fading impact of fiscal stimulus. The minutes will also be monitored for any discussion regarding the possibility of an adjustment to the IOER (interest on excess reserves). On the data front, the US will release the second print of its 2Q GDP data and its October PCE inflation report this week.

► **Eurozone: Draghi to testify in Parliament; November inflation**

ECB President Mario Draghi will testify to the European Parliament's economic and monetary affairs committee on 26 November. We expect him to acknowledge that risks to the growth outlook have tilted to the downside, as highlighted in the minutes of the October policy meeting released last week (page 2). We also envisage that he could hint at the possibility of revising down the ECB's growth projections at its December meeting. Moreover, the ECB will also have the chance to look at the November inflation print this week. Consensus expects headline inflation to decelerate to 2% y-o-y in November (October: 2.2%), led by the recent drop in crude prices, though core inflation is forecast to remain steady at 1.1% y-o-y in November.

► **India: GDP growth expected to decelerate to 7.4% in 3Q**

India's GDP growth likely moderated to 7.4% y-o-y in 3Q, from a nine-quarter high of 8.2% in 2Q. We believe that the slowdown could be partly due to the impact of higher oil prices and rising borrowing costs. Tight liquidity conditions leading to slower credit disbursement by non-banking financial institutions and banking sector non-performing loans were other critical factors that could have affected growth. However, higher government spending ahead of key state elections was expected to remain supportive of domestic demand. We believe that the moderation in growth and the benign inflation outlook (soft food costs and recent drop in crude prices) will prompt the RBI to keep the repo rate on hold at its 5 December meeting.

The next issue of Global Data Watch will be published on Monday 10 December 2018.

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

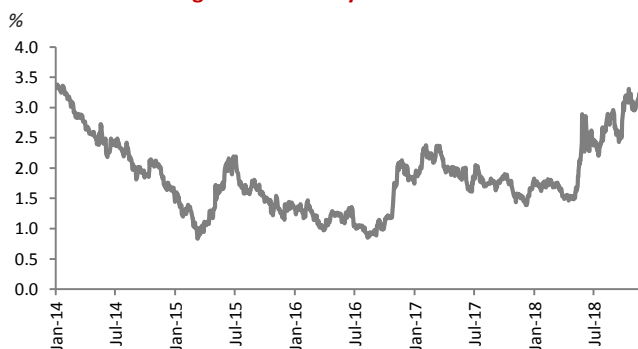
A. G4 Economies

Eurozone: ECB hints at growth forecast revision in December

The minutes of the ECB's October policy meeting showed no major policy insights, though highlighted the possibility of downward revisions to its growth projections at its December policy meeting. This could result in the balance of risks to the growth outlook being adjusted to the downside from the "broadly balanced" stance currently. This is especially after the Eurozone economy slowed markedly in 3Q, led by Germany. Overall, the tone of the ECB minutes was more dovish than the views expressed by ECB president Mario Draghi during his post-meeting press conference. On the targeted longer-term refinancing operations (TLTROs), the ECB underlined that the maturity of some TLTROs would fall below one year in the course of the next year. We see this as an acknowledgement of potential financial overhang in mid-2019, which could negatively impact the liquidity position of some banks. Notably, this will likely have a greater impact on Italian banks and we expect the ECB to announce a fresh TLTRO operations in 1Q2019 to ease any liquidity pressures.

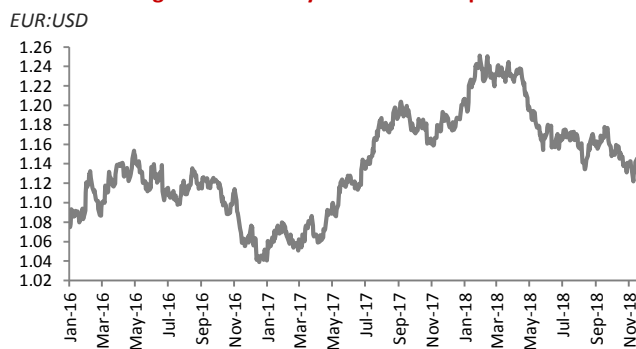
ECB likely to revise its assessment of risk to growth in December

Fig. 1. Italy: 10-year bond yields rise to 3.4% in November 2018 – highest since early-2014



Source: Bloomberg

Fig. 2. Eurozone: EUR:USD remains weak, led by tepid 3Q GDP growth and Italy-related developments



Source: Bloomberg

Italy: EC recommends debt-based Excessive Deficit Procedure

The European Commission has confirmed that Italy is in serious breach of the debt criterion of its stability pact and has recommended "a debt-based Excessive Deficit Procedure". This is the first time that the Commission has recommend a debt-based Excessive Deficit Procedure for any member country. This implies that Italy has to tighten its fiscal policy to meet EU recommendations or risk fines in the near term equivalent to 0.2% of last year's GDP. The Commission's recommendations are based on Italy's: i) significant deviation from the structural adjustment path presented in the 2018 medium-term budgetary objectives; ii) serious non-compliance embedded in the 2019 budget plans; and iii) marked backtracking on past growth-enhancing structural reforms, including pension reforms. Despite the EC's recommendations, the leaders of Italy's coalition government have continued to indicate that there will be no changes to their budget. This could magnify the tensions between the EU and Italy, and such a rift, in our view, could heighten anti-EU sentiment among Italian voters.

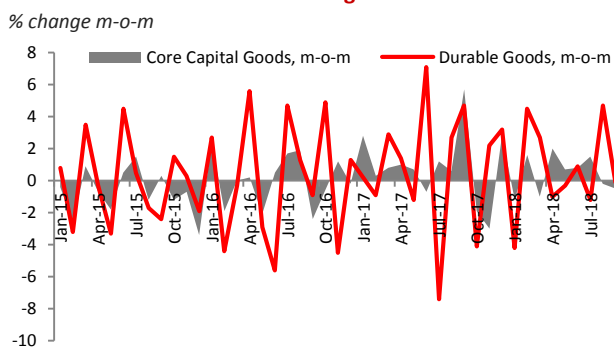
European Commission recommends Excessive Deficit Procedure for Italy

US: Core capital goods shipments rebound but orders subdued

Core capital goods shipments, which feed into GDP data, rebounded in October following a contraction in the previous two months. Core capital goods shipments growth accelerated to 0.3% m-o-m in October from a downwardly revised -0.2% fall in September. However, core capital goods orders remained subdued at 0% m-o-m in October (September: -0.5%) – below the consensus estimate of 0.2%. We believe that business fixed investment will only grow at a moderate pace in the near term despite economic momentum remaining strong. Moreover, the recent fall in crude prices, if sustained for a longer period, could hamper oil-related investments. Notably, the November FOMC statement highlighted that “business fixed investment has moderated from its rapid pace earlier in the year”.

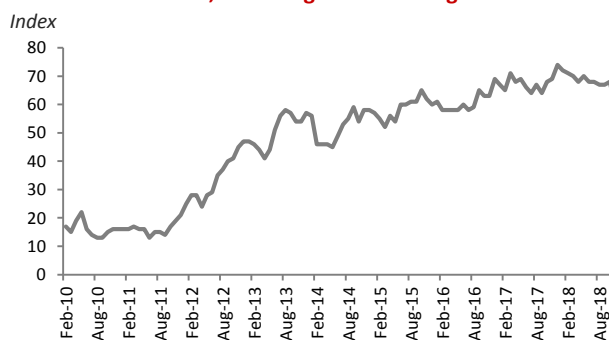
Business fixed investment remains subdued in October

Fig. 3. US: Core capital goods orders remain flat m-o-m in October after contracting in last two months



Source: US Census bureau

Fig. 4. US: NAHB housing market index falls sharply in November, reflecting weak housing demand



Source: National Association of Home Builders

Meanwhile, residential investment also remained weak in October, likely due to affordability lessening and higher mortgage rates. Indeed, the NAHB housing market index released last week dropped to 60 – its lowest level since August 2016, suggesting that demand for housing remains weak. Headwinds from labour shortages and rising regulatory and material costs are unlikely to abate completely in the short term, which confirms our view that downside pressure may continue into 2019.

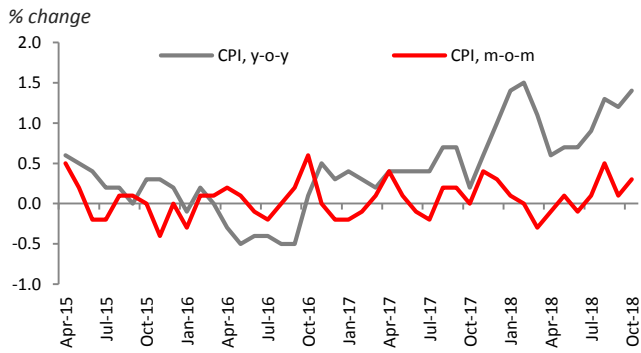
Housing market remains weak, impacted by higher mortgage rates and cost pressures

Japan: Headline inflation picks up but core remains subdued

Consumer price inflation accelerated to 1.4% y-o-y in October from 1.2% in September – in line with the consensus expectation. The rise in headline inflation was mainly due to a sharp increase in fresh food prices (10.8% y-o-y) and energy prices (8.9% y-o-y). However, core inflation (excluding food) remained steady at 1% y-o-y in October, suggesting that underlying price pressures remain subdued. With core inflation remaining well below the BoJ’s 2% target, we expect the central bank to continue with its accommodative monetary policy stance in the near term. Looking ahead, we expect subdued inflationary pressure on the back of Japan’s largest telecoms company announcing that it will reduce service fees by 20-40% in April. Meanwhile, the proposed consumption tax hike is expected to boost inflation through higher retail prices but the subsequent fall in demand for goods could partially offset the rise. We believe that underlying inflation will continue to lack momentum going into 2019.

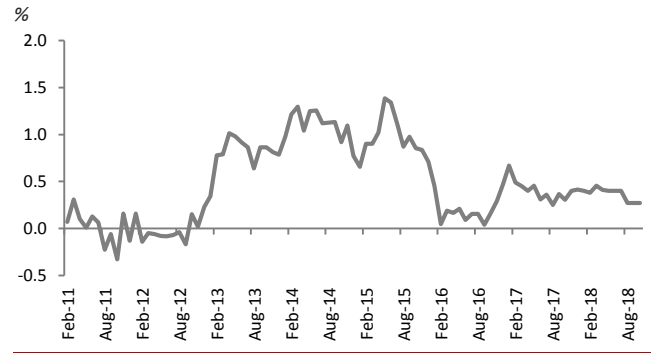
Core inflation remains steady at 1% y-o-y in October

Fig. 5. Japan: Headline inflation accelerates in October, led by energy and food prices, but core remains subdued



Source: Ministry of Internal Affairs and Communication

Fig. 6. Japan: Inflation expectations for five years ahead remain well below 0.5% level in October



Source: Bloomberg

II. Economic Calendar

Fig. 7. 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	Dubai Airport Cargo Volume, y-o-y	Oct	1.9%	
	Saudi Arabia	CPI, y-o-y	Oct	2.1%	
	Saudi Arabia	M2 Money Supply, y-o-y	Oct	0.5%	
	Saudi Arabia	SAMA Net Foreign Assets SAR	Oct	1874.7B	
	Qatar	M2 Money Supply, y-o-y	Oct	0.1%	
	Qatar	CPI, y-o-y	Oct	-0.4%	
	Bahrain	CPI, y-o-y	Oct	0.8%	
	Bahrain	GDP Constant Prices, y-o-y	3Q	2.4%	
Monday, 26 November					
4:30	Japan	Nikkei Japan PMI Manufacturing	Nov P	52.9	
13:00	Germany	IFO Business Climate	Nov	102.8	102.3
16:00	Eurozone	ECB's Nowotny, Coeure at Central Bank Conference in Vienna			
18:00	Eurozone	ECB's Draghi Speak in European Parliament in Brussels			
22:30	UK	BOE Governor Carney Speaks			
Tuesday, 27 November					
17:30	US	Fed Vice Chairman Clarida Speaks in New York			
19:00	US	Conference Board Consumer Confidence	Nov	137.9	135.8
23:30	US	Fed's Bostic, Evans and George Speak on Panel			
Wednesday, 28 November					
13:00	Eurozone	M3 Money Supply, y-o-y	Oct	3.5%	3.5%
17:30	US	Wholesale Inventories, m-o-m	Oct P	0.4%	0.4%
17:30	US	GDP Annualized, q-o-q	3Q S	3.5%	3.6%
17:30	US	Personal Consumption	3Q S	4%	3.7%
17:30	US	Core PCE, q-o-q	3Q S	1.6%	1.6%
19:00	US	New Home Sales	Oct	553K	575K
21:00	US	Fed's Powell Speaks to Economic Club of New York			
Thursday, 29 November					
3:50	Japan	Retail Trade, y-o-y	Oct	2.2%	2.6%
13:30	UK	Mortgage Approvals	Oct	65.3K	64.5K
17:00	Germany	CPI EU Harmonized, m-o-m	Nov P	0.1%	0.2%
17:00	Germany	CPI EU Harmonized, y-o-y	Nov P	2.4%	2.3%
17:30	US	Personal Income	Oct	0.2%	0.4%
17:30	US	Personal Spending	Oct	0.4%	0.4%
17:30	US	PCE Deflator, y-o-y	Oct	2%	2.1%
17:30	US	PCE Core, m-o-m	Oct	0.2%	0.2%
17:30	US	PCE Core, y-o-y	Oct	2%	1.9%
19:00	US	Pending Home Sales, m-o-m	Oct	0.5%	0.5%
23:00	US	FOMC Meeting Minutes	8-Nov		
Friday, 30 November					
3:30	Japan	Jobless Rate	Oct	2.3%	2.3%
3:30	Japan	Tokyo CPI, y-o-y	Nov	1.5%	1.1%
3:50	Japan	Industrial Production, y-o-y	Oct P	-2.5%	2.5%
5:00	China	Manufacturing PMI	Nov	50.2	50.2
11:00	Turkey	Trade Balance	Oct	-1.87B	
14:00	Eurozone	Unemployment Rate	Oct	8.1%	8%
14:00	Eurozone	CPI Core, y-o-y	Nov A	1.1%	1.1%
14:00	Eurozone	CPI Estimate, y-o-y	Nov	2.2%	2%
16:00	India	GDP, y-o-y	3Q	8.2%	7.4%
18:00	US	Fed's Williams Speaks on Global Economy at G30 in New York			

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Central Bank Foreign Assets	Oct	327.3B		327.1B
	Oman	Budget Balance Month	Sep	-186.2M		-84.5M
	Kuwait	CPI, y-o-y	Oct	0.3%		0.2%
	Kuwait	M2 Money Supply, y-o-y	Sep	4.4%		4.8%
Monday, 19 November						
3:50	Japan	Trade Balance	Oct	¥139.6B	-¥70B	-¥449.3B
13:00	Eurozone	ECB Current Account SA	Sep	24.3B		16.9B
Tuesday, 20 November						
17:30	US	Housing Starts	Oct	1210K	1228K	1228K
17:30	US	Building Permits	Oct	1270K	1260K	1263K
Wednesday, 21 November						
8:30	Japan	All Industry Activity Index, m-o-m	Sep	0.4%	-0.9%	-0.9%
13:30	UK	PSNB, ex-Banking Groups	Oct	2.8B	6.1B	8.8B
17:30	US	Durable Goods Orders	Oct P	-0.1%	-2.6%	-4.4%
17:30	US	Durables, ex-Transportation	Oct P	-0.6%	0.4%	0.1%
17:30	US	Cap Goods Orders, Non-defence, ex-air	Oct P	-0.5%	0.2%	0%
17:30	US	Cap Goods Shipments, Non-defence, ex-air	Oct P	-0.2%	0.3%	0.3%
19:00	US	Leading Index	Oct	0.6%	0.1%	0.1%
19:00	US	Existing Home Sales	Oct	5.15M	5.2M	5.22M
19:00	US	University of Michigan Sentiment	Nov F	98.3	98.3	97.5
Thursday, 22 November						
3:30	Japan	National CPI, y-o-y	Oct	1.2%	1.4%	1.4%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Oct	1%	1%	1%
11:00	Turkey	Consumer Confidence Index	Nov	57.3		59.6
19:00	Eurozone	Consumer Confidence	Nov A	-2.7	-3	-3.9
Friday, 23 November						
11:00	Germany	GDP SA, q-o-q	3Q F	-0.2%	-0.2%	-0.2%
11:00	Germany	GDP NSA, y-o-y	3Q F	1.1%	1.1%	1.1%
12:30	Germany	Markit/BME Germany Manufacturing PMI	Nov P	52.2	52.2	51.6
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Nov P	52	52	51.5
18:45	US	Markit US Manufacturing PMI	Nov P	55.7	55.7	55.4

* UAE time

Source: Bloomberg

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