Economic Research

بنك أبوظبي التجاري ADCB

Global Data Watch 5-9 November 2018

The Week Ahead: US mid-term elections and Iranian sanctions in focus

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US: Split Congress expected in mid-terms; Fed on hold

All eyes will be on the US mid-term elections to be held on 6 November with the results expected to be announced the following day. Recent polls indicate a split Congress with Democrats winning the House and Republicans retaining the Senate. However, the polls also indicate that the probability of a "blue wave" election in the House has diminished of late with a net improvement in support for vulnerable House Republicans seats. Thus, the majorities in both the House (Democrats) and Senate (Republicans) are expected to be slim, likely limiting policy measures to just raising the debt ceiling and budget spending. A split Congress could lead President Donald Trump to focus on areas covered by executive orders, notably China-related trade issues and immigration. Meanwhile, the Fed will also meet this week on 7-8 November with monetary policy forecast to remain steady. We do not expect any major changes to be made to the post-meeting statement from the last meeting (no press conference scheduled). We believe that the FOMC will remain optimistic on the economic outlook whilst reiterating the need for further gradual rate hikes. The mid-term election outcome is unlikely to have any impact on the ongoing Fed rate-hiking cycle. We continue to expect another 25 bps FFTR hike in December followed by another three increases in 2019.

Global: Oil market well supplied as Iran sanctions take effect

The global oil price fell sharply last week (Brent down 6.2%) ahead of the second round of US sanctions on Iran coming into effect on 5 November. The US agreed to grant a waiver to eight countries on Friday to allow them to temporarily continue to purchase Iranian oil for up to 180 days, including key importers such as Japan, India and South Korea. Moreover, the oil market looks well supplied with increased production from Saudi Arabia, the UAE, Iraq and Kuwait offsetting the shortfall from lower Iranian exports ahead of the sanctions taking effect. Russia has also increased its oil output closer to its all-time high ahead of Opec+ discussions next month on future supply. US output also rose in October. These factors, alongside concerns over the pace of demand growth, have resulted in the Brent crude price falling to around USD72.4 p/b at the time of publishing after reaching a high of USD86.3 p/b in early October. We expect the strong supply in the oil market to continue up until the next Opec+ meeting scheduled for 6 December.

Global: UK 3Q GDP and China October exports data

The key data releases this week will be UK 3Q GDP growth, China exports and Turkey inflation (both October). The UK's GDP growth is projected to have strengthened to 0.6% q-o-q in 3Q2018 from 0.4% q-o-q in 2Q. Private consumption is likely to have been the key driver of growth, especially boosted by solid summer spending activity. Meanwhile, the consensus estimates Turkey's inflation to have accelerated moderately to 25% y-o-y in October from 24.5% in September. However, we highlight some uncertainty over the forecast after the government asked businesses to voluntarily reduce their prices by 10% in a bid to temper inflationary pressures.

I. Recent Events and Data Releases

A. G4 Economies

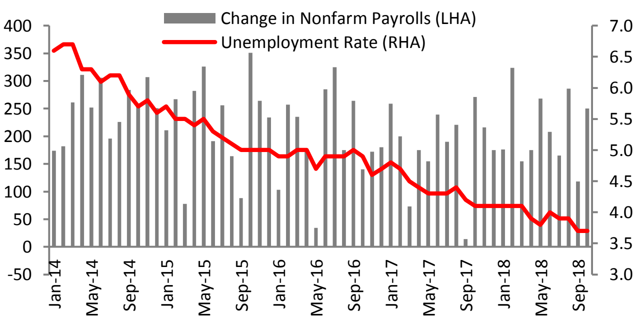
US: Strong October NFP report; wage growth rises to a cycle high

Labour market at or close to full employment

Jobs created by the US economy rose by a robust 250K in October – more than the 200K forecast by consensus. Some of the October upside was due to the September jobs growth being revised down to 118K from 134K in the first print, thereby reflecting a more marked impact from Hurricane Florence in the month. Nevertheless, the October data highlights the underlying strength in the employment market with three- and six-month averages remaining healthy at 218K and 216K, respectively. Adding to the strength of the report, wage growth accelerated to 3.1% y-o-y (September: 2.8%), reaching a new high in the current cycle. There was some yearly support from the favourable base and due to disruptions related to Hurricane Florence. Thus, we highlight some caution over the annual wage growth figure. Nevertheless, the monthly rise in hourly wages was solid at 0.2% in October, and the recent trend in average earnings can be been accelerating. The unemployment rate remained steady at 3.7% though the underemployment rate inched down to 7.4% in October from 7.5% in the previous month, implying less slack in the labour market. The labour force participation rate rose to 62.9% from 62.7% in September. Overall, the October report continues to indicate that the labour market is at or near full employment and is finally generating some wage pressures. The market was already pricing in a 25 bps rate hike by the Fed at its December meeting. The Fed should remain confident in outlining continued rate hikes into "restrictive" territory in its upcoming communication, supported by the strength of the labour market and inflation at its target level.

Fig. 1. US: Strong October rebound in jobs growth after September disruption

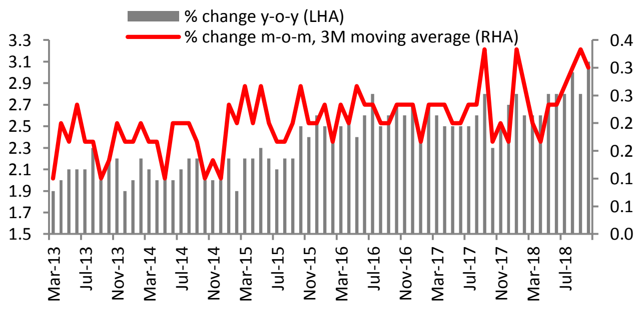
'000 (LHA); % (RHA)



Source: Bureau of Labor Statistics

Fig. 2. US: Steady rise in wage growth, though October print likely impacted by base and temporary factors

% change

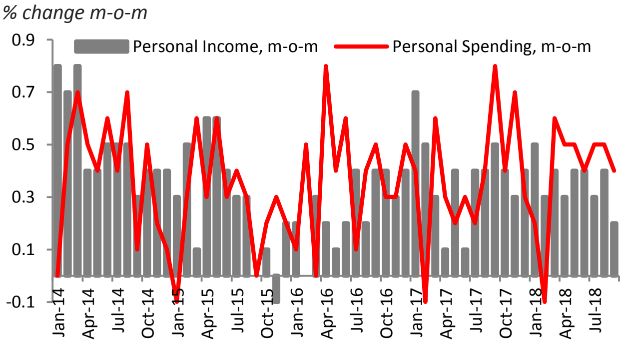


Source: Bureau of Labor Statistics

Core PCE inflation steady at Fed's 2% target in September

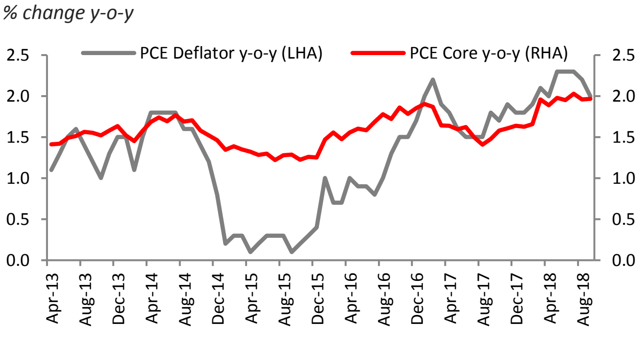
Personal spending and PCE inflation: Personal consumption data confirmed that household spending in the US remained solid in September and grew by 0.4% m-o-m (consensus: 0.4%). The August print was also revised up to 0.5% from the first print of 0.4%. We expect this strong momentum in consumer spending to continue in 4Q2018. Please note that the September PCE data has already been incorporated into the first print of the 3Q2018 GDP data released earlier. Meanwhile, nominal income growth came in at 0.2% m-o-m – lower than both the market's expectation of 0.3% and the August reading of 0.4%. With spending outpacing income growth, the savings rate fell to 6.2% in September from 6.4% in August. However, the changes in spending and income had no impact on core PCE inflation, which remained steady at 2% y-o-y in September, matching the Fed's inflation target of 2%.

Fig. 3. US: Personal spending grew by a solid 0.4% m-o-m in September though income growth softened markedly



Source: Bureau of Economic Analysis

Fig. 4. US: Core PCE inflation steady at 2% y-o-y in September, matching Fed target



Source: Bureau of Economic Analysis

UK: More hawkish tone to BoE MPC meeting

MPC not yet factoring fiscal boost into economic projections

The BoE's MPC voted unanimously to keep monetary policy steady at its 1 November meeting, including keeping the policy rate at 0.75% and total asset purchases at GBP445 billion. The guidance for "gradual and limited" rate increases also remained unchanged. However, the tone of the meeting turn more hawkish with changes in the BoE's economic forecasts. Moreover, according to Governor Mark Carney, the UK economy could see a significant positive impact from the government's recently announced expansionary fiscal budget. This could result in upwards revision to the BoE's growth projections, possibly in February, potentially signalling the need for a faster pace of monetary tightening.

The MPC kept its real GDP growth forecasts virtually unchanged despite noting that the pace of global growth had softened. The 2018 GDP growth forecast has been revised down from 1.4% in the August Inflation Report to 1.3%, though it is now assumed that "excess demand" in the economy will emerge a little earlier in end-2019 compared to 2020 suggested in the August report. The BoE also sees the UK economy at full employment at present with wage growth accelerating. Importantly, on the inflation front, the central bank revised the inflation path slightly higher for the near term and has forecast slightly above-target inflation over the traditional two-year policy horizon (2.1% in 4Q2020) despite the rate hikes factored in. However, the BoE continues to take a positive stance on Brexit developments with its forecasts assuming that a deal will be reached that leads to a transition period. We believe that the nature and timing of any Brexit deal will remain critical to the interest rate outlook. We see the potential for a May rate hike if a Brexit deal is secured, though also see some potential downside risks to the BoE's inflation and growth forecasts.

UK: Expansionary FY2019-20 budget announced

Increased spending promises; NHS the biggest gainer

UK Chancellor of the Exchequer Philip Hammond presented the FY2019-20 (April – March) budget last week with a package of higher spending and slightly lower borrowing. The increased spending is to be supported by the economy's earlier fiscal outperformance and a stronger growth outlook, and thus is not expected to have any major impact on the UK's fiscal deficit projections. The higher spending will be primarily focused on the National Health Service over the next five years with a planned boost to its budget of GBP7.4 billion in FY2019-20, increasing to GBP27.6 billion by FY2023-24. Moreover, the Chancellor promised to increase day-to-day government spending over the next five years but warned that these plans are conditional upon a "good" Brexit deal. The structural deficit (cyclically adjusted public sector net borrowing) is forecast to remain under 2% of GDP during the forecast period until FY2022-23. Public sector net debt is also forecast to gradually fall from 85% in FY2017-18 to 75% of GDP by FY2022-23.

2019 real GDP growth revised up to 1.6% from 1.3% in March

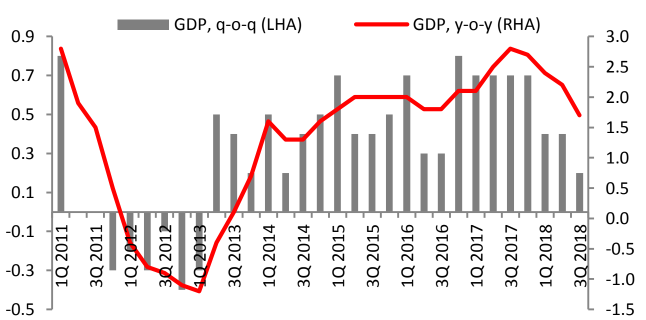
On the growth front, the Office for Budget Responsibility (OBR) revised up its real GDP growth forecast to 1.6% in 2019 from 1.3% in the March projections. This revisions to the growth and consequently government receipt forecasts are central to the 2018-19 budget, allowing for the additional funding. However, GDP growth is estimated to remain broadly in the range of 1.4-1.6% over 2020-2023 and headline inflation is projected to hover around 2-2.1% until 2022-23. The OBR also expects further tightening in the labour market with unemployment reaching a low of 3.7% in 2019 but rising gradually thereafter to 4% by end-2022-23.

Eurozone: Real GDP growth weakens further in 3Q2018

Eurozone GDP growth decelerated to 0.2% q-o-q in 3Q from 0.4% in 2Q

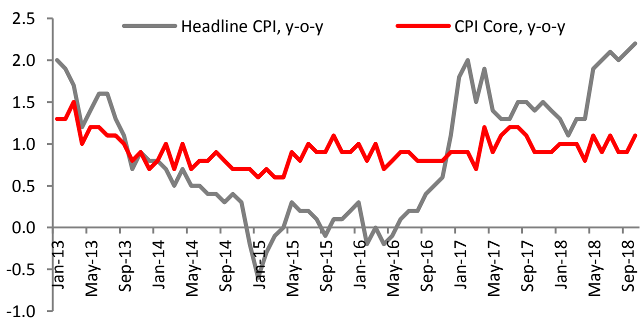
Eurozone GDP growth softened to 0.2% q-o-q in 3Q2018 – weaker than both the consensus forecast and the 2Q print of 0.4%. The headline data points to a softening in underlying activity given that this is the third consecutive quarter of deceleration in y-o-y growth. We believe that the 3Q moderation was likely due to the economic slowdown in the automotive sector in Germany and the softer growth in Italy. The GDP breakdown by expenditure will be released on 7 December (final estimate). Looking forward, we expect trade tensions to weigh on export growth in 4Q2018 and into 2019. The incoming high-frequency data continues to suggest that economic momentum has weakened further with risks to the growth outlook skewed to the downside. As such, we also see the ECB likely downgrading the risks to the growth outlook from the current "roughly balanced" stance at its December meeting. Meanwhile, both headline and core inflation came in line with the market's expectations in October, suggesting that there were no "vigorous" upside pressures on the inflation outlook, as ECB President Mario Draghi had anticipated. Headline inflation accelerated to 2.2% y-o-y in October from 2.1% in the previous month whereas core inflation picked up to 1.1% y-o-y in October from 0.9% in September.

Fig. 5. Eurozone: GDP growth saw marked slowdown in 3Q, led by Germany and Italy



Source: Eurostat

Fig. 6. Eurozone: Both headline and core inflation accelerated in October, in line with consensus expectations



Source: Eurostat

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	UAE PMI	Oct	55.3	
	UAE	CPI, y-o-y	Sep	3.9%	
	Saudi Arabia	Saudi Arabia PMI	Oct	53.4	
	Oman	Nominal GDP, YTD y-o-y	2Q	6.5%	
	Egypt	Egypt PMI	Oct	48.7	
	Egypt	Gross Official Reserves	Oct	44.5B	
Monday, 5 November					
3:50	Japan	BOJ Minutes of Policy Meeting			
5:00	Japan	BOJ Kuroda speaks in Nagoya			
9:00	India	Nikkei India PMI Composite	Oct	51.6	
11:00	Turkey	CPI, y-o-y	Oct	24.5%	25
11:00	Turkey	CPI Core Index, y-o-y	Oct	24.1%	25.1%
13:30	UK	Markit/CIPS UK Composite PMI	Oct	54.1	53.4
13:30	Eurozone	Sentix Investor Confidence	Nov	11.4	9.8
16:45	Eurozone	ECB Vice President Guindos Speak in Brussels			
19:00	US	ISM Non-Manufacturing Index	Oct	61.6	59.1
Tuesday, 6 November					
11:30	Eurozone	ECB's Praet on Panel in Brussels			
13:00	Eurozone	Markit Eurozone Composite PMI	Oct F	52.7	52.7
15:15	Eurozone	ECB's Coeure on Panel in Brussels			
19:00	US	JOLTS Job Openings	Sep	7136	7125
Wednesday, 7 November					
11:00	Germany	Industrial Production SA, m-o-m	Sep	-0.3%	-0.1%
14:00	Eurozone	Retail Sales, m-o-m	Sep	-0.2%	0.1%
14:00	Eurozone	Retail Sales, y-o-y	Sep	1.8%	0.8%
	China	Foreign Reserves	Oct	$3087B	
Thursday, 8 November					
3:50	Japan	BOJ Summary of Opinions			
3:50	Japan	Core Machine Orders, m-o-m	Sep	6.8%	-9%
3:50	Japan	BoP Current Account Balance	Sep	¥1838.4B	¥1786.5B
13:00	Eurozone	ECB Publishes Economic Bulletin			
14:00	Eurozone	European Commission Updates Its Economic Forecasts			
18:15	Eurozone	ECB's Coeure Speaks in Berlin			
23:00	US	FOMC Rate Decision (Upper Bound)	8-Nov	2.25%	2.25%
23:00	US	FOMC Rate Decision (Lower Bound)	8-Nov	2%	2%
23:00	US	Interest Rate on Excess Reserves	9-Nov	2.2%	
	China	Trade Balance	Oct	$31.7B	
	China	Imports, y-o-y	Oct	14.3%	
	China	Exports, y-o-y	Oct	14.5%	
Friday, 9 November					
3:50	Japan	Money Stock M2, y-o-y	Oct	2.8%	2.8%
5:30	China	PPI, y-o-y	Oct	3.6%	
5:30	China	CPI, y-o-y	Oct	2.5%	
13:30	UK	Trade Balance	Sep	-£1274	-£1500
13:30	UK	Industrial Production, m-o-m	Sep	0.2%	-0.1%
13:30	UK	Industrial Production, y-o-y	Sep	1.3%	0.4%
13:30	UK	GDP, q-o-q	3Q P	0.4%	0.6%
13:30	UK	GDP, y-o-y	3Q P	1.2%	1.5%
18:00	US	Fed's Quarles to Speak on Financial Regulation			
19:00	US	University of Michigan Sentiment	Nov P	98.6	97.9

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC						
	UAE	Dubai Airport Cargo Volume, y-o-y	Sep	-2.3%		1.9%
	Saudi Arabia	M3 Money Supply, y-o-y	Sep	0%		2.40%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Sep	1883.5B		1884.1B
	Qatar	M2 Money Supply, y-o-y	Sep	4%		0.1%
Monday, 29 October						
3:50	Japan	Retail Trade, y-o-y	Sep	2.7%	2.1%	2.1%
16:30	US	Personal Income	Sep	0.4%	0.4%	0.2%
16:30	US	Personal Spending	Sep	0.5%	0.4%	0.4%
16:30	US	PCE Core, m-o-m	Sep	0%	0.1%	0.2%
16:30	US	PCE Core, y-o-y	Sep	2%	2%	2%
18:30	US	Dallas Fed Manufacturing Activity	Oct	28.1	28.1	29.4
Tuesday, 30 October						
3:30	Japan	Jobless Rate	Sep	2.4%	2.4%	2.3%
14:00	Eurozone	Economic Confidence	Oct	110.9	110	109.8
14:00	Eurozone	GDP SA, q-o-q	3Q A	0.4%	0.4%	0.2%
14:00	Eurozone	GDP SA, y-o-y	3Q A	2.2%	1.8%	1.7%
17:00	Germany	CPI EU Harmonized, m-o-m	Oct P	0.4%	0.1%	0.1%
17:00	Germany	CPI EU Harmonized, y-o-y	Oct P	2.2%	2.4%	2.4%
18:00	US	Conference Board Consumer Confidence	Oct	135.3	135.9	137.9
Wednesday, 31 October						
3:50	Japan	Industrial Production, m-o-m	Sep P	0.2%	-0.3%	-1.1%
5:00	China	Non-manufacturing PMI	Oct	54.9	54.6	53.9
5:00	China	Manufacturing PMI	Oct	50.8	50.6	50.2
11:00	Turkey	Trade Balance	Sep	-2.45B	-1.9B	-1.87B
11:30	Turkey	Central Bank Inflation Report				
14:00	Eurozone	Unemployment Rate	Sep	8.1%	8.1%	8.1%
14:00	Eurozone	CPI Core, y-o-y	Oct A	0.9%	1.1%	1.1%
14:00	Eurozone	CPI Estimate, y-o-y	Oct	2.1%	2.2%	2.2%
16:15	US	ADP Employment Change	Oct	218K	187K	227K
17:45	US	Chicago Purchasing Manager Index	Oct	60.4	60	58.4
	Japan	BOJ Policy Balance Rate	31-Oct	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	31-Oct	0%	0%	0%
Thursday, 1 November						
5:45	China	Caixin China PMI Manufacturing	Oct	50	50	50.1
9:00	India	Nikkei India PMI Manufacturing	Oct	52.2		53.1
13:30	UK	Markit UK PMI Manufacturing SA	Oct	53.6	53	51.1
16:00	UK	Bank of England Bank Rate	1-Nov	0.75%	0.75%	0.75%
16:00	UK	BOE Asset Purchase Target	Nov	435B	435B	435B
18:00	US	ISM Manufacturing	Oct	59.8	59	57.7
18:00	US	ISM Prices Paid	Oct	66.9	69	71.6
Friday, 2 November						
3:50	Japan	Monetary Base, y-o-y	Oct	5.9%		5.9%
16:30	US	Trade Balance	Sep	-$53.3B	-$53.6B	-$54B
16:30	US	Change in Nonfarm Payrolls	Oct	118K	200K	250K
16:30	US	Unemployment Rate	Oct	3.7%	3.7%	3.7%
16:30	US	Average Hourly Earnings, m-o-m	Oct	0.3%	0.2%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Oct	2.8%	3.1%	3.1%
16:30	US	Labor Force Participation Rate	Oct	62.7%	62.7%	62.9%
18:00	US	Factory Orders	Sep	2.6%	0.5%	0.7%

* UAE time
Source: Bloomberg

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