

## The Week Ahead: UK budget and central banks in focus – BoE and BoJ on hold

### ► **US: Solid labour market report expected for October**

The equity market sell-off deepened last week amidst fears of further Fed rate hikes and a slowdown in the Chinese economy. We believe the markets will remain volatile ahead of the US mid-term elections (6 November) and the second round of US sanctions on Iran (4 November). Meanwhile, the key US data releases this week are the October NFP report and September PCE inflation. Consensus forecasts a solid 193K jobs will have been created in October, following the softer September growth of 134K due to disruption related to Hurricane Florence. Wage growth is expected at 0.2% m-o-m in October, moderating slightly from 0.3% in September. However, we envisage that greater uncertainty will remain around the wage forecasts this month due to hurricane-related distortion in specific sectors. Meanwhile, consensus expects September core PCE to remain at 2% y-o-y.

### ► **UK: FY2019 budget and BoE meeting in spotlight**

The UK's FY2019 (April – March) budget will be presented by Chancellor of the Exchequer Philip Hammond to Parliament on 29 October. We expect the budget to highlight greater fiscal uncertainties linked to Brexit given that there is still no clarity on what the UK's future relationship with the EU will look like. We expect the budget to be an extended version of the spring statement and last year's budget with no major changes likely to the growth and inflation projections. However, given the buoyant tax revenues in FY2018 so far, we anticipate Hammond will announce increased spending on the National Health Service, in line with the promises made by Prime Minister Theresa May during the Conservative Party conference. Meanwhile, the BoE will also meet this week on 1 November and we expect the MPC to keep rates on hold at 0.75% with a unanimous vote (9-0). The tone of the meeting is likely to remain relatively hawkish on the back of the pick-up in economic activity during the summer and the acceleration in wage growth in recent months. However, given the uncertainties related to Brexit, we expect the BoE to reiterate that interest rates will be raised only "at a gradual pace and to a limited extent".

### ► **Japan: BoJ on hold; new economic projections in focus**

The BoJ is also expected to keep its monetary policy unchanged at its 30-31 October policy meeting. This includes the deposit rate of -0.1%, the 10-year JGB yield target at around the zero level and the pace of asset purchases. The market will likely focus on the BoJ's new economic projections in particular, which will include the impact of the government's planned consumption tax hike to 10%, effective from October 2019. We believe that the MPC is likely to retain its cautious stance on the inflation outlook, citing the weak underlying price pressures. On the growth front, the BoJ may outline that the economy is expanding at a moderate pace but is likely to highlight the downside risks arising from rising global protectionism and financial market jitters. Overall, the BoJ is likely to reiterate that the current ultra-loose monetary policy will continue into 2019.

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# I. Recent Events and Data Releases

## A. MENA Economies

### Oman: Raises USD1.5 billion in sovereign sukuk

Oman raised USD1.5 billion in a sovereign sukuk with a seven-year maturity last week. Demand was solid with orders over USD3.5 billion, though this reflected the attractive pricing. The debt was issued with a final spread of 280 bps over mid-swaps (from an initial price guidance of c.300 bps over mid-swaps), though still c.15-20 bps above what some fund managers considered to be the new issue's fair value according to Reuters. The yield was almost 50 bps more than Oman's existing USD2 billion sukuk issued last year and due in June 2024. The higher funding cost was likely partly impacted by geopolitical uncertainties in the wider GCC. This sukuk was Oman's second public debt issuance this year, with the government raising USD6.5 billion in a conventional bond issue in January, the country's largest ever debt sale. As we have highlighted in previous research, we believe that the January bond would have covered much of the government's fiscal shortfall for 2018. A possible reason for the timing of this sukuk could have been to take advantage of Brent crude still trading above USD75 p/b, after the fall in the oil price from the recent peak seen in early October with the risk of further downward moves.

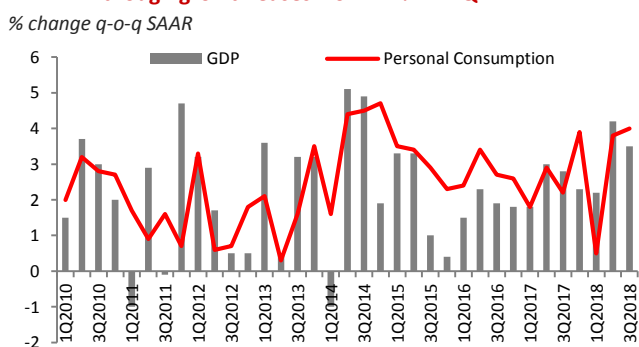
*Demand for sukuk supported by attractive pricing*

Oman's fiscal deficit narrowed by 34% y-o-y in 8M2018 to OMR1.8 billion (USD4.7 billion), supported by a sharp rise in oil revenue. Total government revenue was up 24.4% y-o-y in 8M2018, with net oil earnings up by 35.8%. Meanwhile, government expenditure rose by 4.5% y-o-y over the same period, driven by current expenditure (up 11%).

*Oman's fiscal deficit narrows by 34% y-o-y in 8M2018*

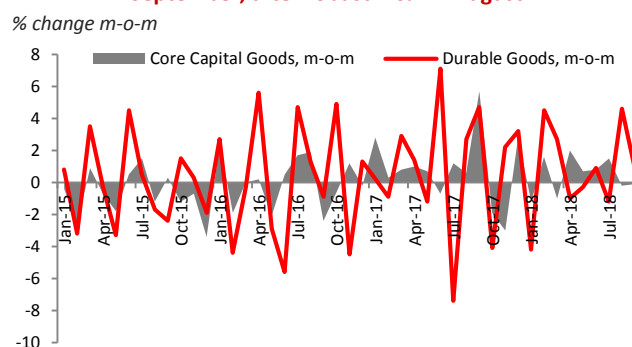
## B. G4 Economies

**Fig. 1. US: Real GDP grows by solid 3.5% q-o-q SAAR in 3Q, though growth eases from 4.2% in 2Q**



Source: Bureau of Economic Analysis

**Fig. 2. US: Durable goods orders growth eases to 0.8% m-o-m in September, after robust 4.6% in August**



Source: US Census Bureau

### US: Real GDP expands by 3.5% in 3Q, beating consensus estimates

The US economy expanded by a solid 3.5% q-o-q SAAR in 3Q2018 (consensus: 3.3%), albeit the growth eased from 4.2% in 2Q. This strong growth was primarily driven by personal consumption and government spending, reflecting the positive impact of ongoing fiscal stimulus. Personal consumption grew by a strong 4% q-o-q SAAR – the highest point since 1Q2015. GDP growth was also boosted by strong inventory accumulation, which contributed 2.1pp to the headline expansion. However, the positive

*Consumer spending was stronger than expected in 3Q, supported by higher real disposable income*

contribution from inventories was largely offset by net exports, which subtracted 1.8pp from GDP growth. The widening trade deficit continues to indicate that companies are frontloading the imports to avoid proposed higher tariffs from 1Q2019 (likely 25% from the current 10% on Chinese imports). Meanwhile, fixed investment growth (-0.3% q-o-q SAAR) contracted for the first time since 1Q2016, after seeing broad-based growth in investment activity in the previous three quarters. This was largely due to the fall in residential investments (-4%) and structures (-7.9%). Residential investments contracted for a third consecutive quarter, reflecting the ongoing weakness in the housing sector which was negatively impacted by higher material costs and labour shortages. Non-residential investment growth moderated too in 3Q, though we expect this to bounce back in the upcoming quarters. We expect the US economy to maintain its above-trend economic growth in 4Q2018 and 1H2019.

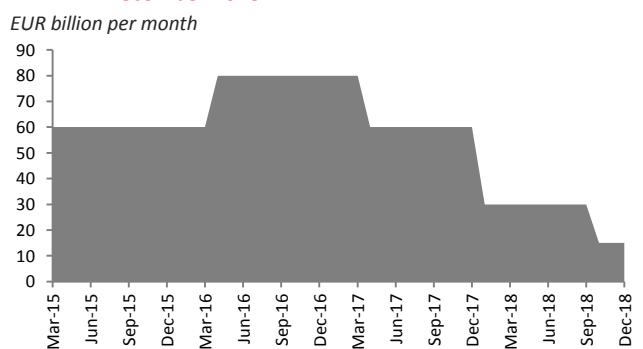
**US durable goods:** The durable goods report for September was mixed. Headline durable goods orders growth decelerated to 0.8% m-o-m (August: 4.6%), though this was better than the consensus expectation of a 1.5% contraction. The moderation in the headline print was due to a 17.5% m-o-m fall in volatile aircraft orders, after they rose by 63.7% in August. Capital goods shipments, which feed into GDP data, remained flat at 0% m-o-m. However, on the positive side, August figures were revised up for both headline and core durable goods orders.

*US durable goods data presents mixed picture in September*

**Fed speeches:** Fed Vice Chair Richard Clarida gave his first public speech last week and supported more rate hikes in the near-term, consistent with a gradual rate hiking path laid out by the FOMC. He remained confident over the near-term economic outlook but leaned dovish towards the inflation outlook, arguing that NAIRU might have declined. Raphael Bostic also sounded more hawkish and indicated that he is now comfortable with a total of four 25 bps FFTR hikes in 2018. Moreover, all the Fed members with speaking engagements last week downplayed the latest volatility in financial markets and suggested that it will not have any impact on the Fed’s rate hike guidance.

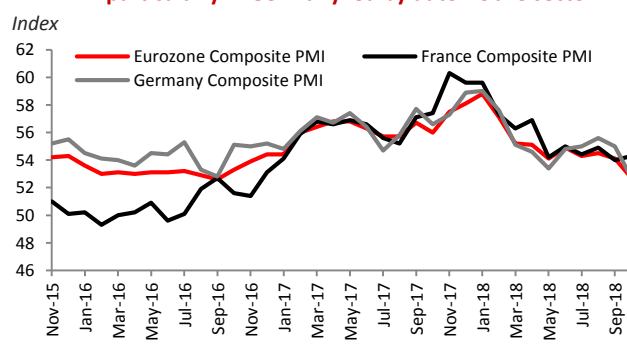
*Gradual rate hiking cycle intact*

**Fig. 3. Eurozone: ECB’s asset purchase programme to end by December 2018**



Source: ECB

**Fig. 4. Eurozone: Economic activity remains weak, particularly in Germany led by automobile sector**



Source: Markit Economics

**Eurozone: ECB maintains wait and watch stance in October**

The ECB made no changes to its monetary policy at its 25 October meeting, including forward guidance on interest rate hikes, the asset purchase programme or the reinvestment policy. The Governing Council (GC) reiterated that the net asset purchase programme will end in December and expects rates to remain at their current levels at least through next summer. President Mario Draghi noted that the GC did not discuss the

*ECB likely to announce reinvestment policy in December*

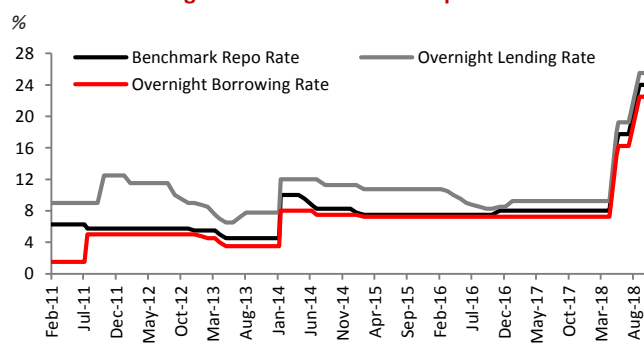
reinvestment policy at this meeting though suggested that the capital key – the framework that governs the proportion of bonds the ECB can buy from each country – remains the guiding principle for the reinvestment policy. We continue to believe that the reinvestment policy will be altered at its December policy meeting. This could raise Italian, Spanish and French government bond yields. Focus during the post-meeting press conference was particularly on Italy-related developments including its 2019 budget and recent downgrades by rating agencies. Draghi highlighted that concerns related to Italy were mostly fiscal and expressed confidence that the Italian government and the EU would reach agreement. Draghi also made it clear that nobody should expect an extension of QE even if the spread between Italian government bonds against German bunds continues to widen. However, he stressed that the ECB still has a number of policy tools to address liquidity issues.

On growth, Draghi acknowledged in his post-meeting conference that economic momentum had weakened recently, though the GC statement maintained that risks to the economic outlook were “broadly balanced”. We believe that the December ECB projections are likely to reflect a shift in the risks to the growth outlook to the downside from the current “broadly balanced” stance. On inflation, ECB expressed confidence that inflation will revert back to its target of “below but close to 2%” in the medium term. Draghi highlighted that recent increases in wage growth are not temporary and will likely feed in to inflation in the near term. However, we maintain our cautious stance on the inflation outlook, as core inflation is still subdued at around 1% y-o-y in recent months. Overall, we see a chance of the ECB downgrading both its growth and inflation forecasts at its December policy meeting.

*Risks related to growth outlook are tilted to downside*

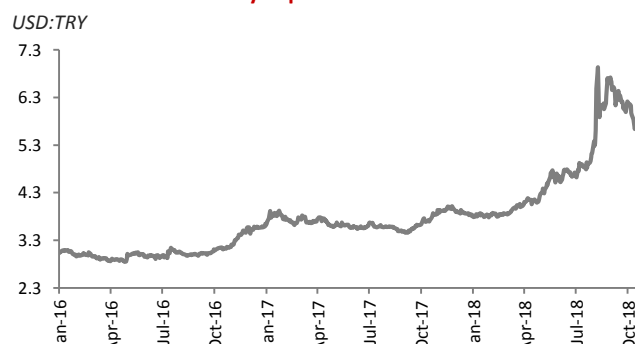
## C. Emerging Market Economies

**Fig. 5. Turkey: CBRT leaves all key policy rates unchanged, including one-week benchmark repo rate at 24%**



Source: CBRT

**Fig. 6. Turkey: TRY continues to strengthen gradually against USD since early September**



Source: Bloomberg

### Turkey: CBRT on hold but tone remains hawkish

The CBRT left its one-week repo rate unchanged at 24% at its October meeting, in line with our and the consensus expectation. This came after it raised the benchmark rate by 625 bps at its September meeting. The tone of the October meeting was hawkish with the MPC reiterating that it will maintain its tight monetary policy stance until the inflation outlook improves significantly. The CBRT highlighted that there remain significant upside risks to the inflation outlook despite the weakening domestic demand. We believe that the pass-through effects of the recent TRY depreciation will continue in the coming months, pushing headline inflation close to 30% y-o-y. The gradual appreciation of the

*CBRT to maintain tight monetary policy stance in near term*

USD:TRY since September was a positive development in our view, though is unlikely to change the CBRT's policy stance in the near term.

The CBRT releases its 4Q inflation outlook report on 31 October. We expect the central bank to revise up its 2018 year-end inflation forecast to over 25% y-o-y from the July forecast of 13.4%. Moreover, we believe that the October and November inflation data – scheduled to be released ahead of the next MPC meeting – are likely to determine the magnitude of the next rate hike in December.

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	CPI, y-o-y	Sep	3.9%	
	UAE	Dubai Airport Cargo Volume, y-o-y	Sep	-2.3%	
	Saudi Arabia	M3 Money Supply, y-o-y	Sep	0%	
	Saudi Arabia	SAMA Net Foreign Assets SAR	Sep	1884B	
	Qatar	M2 Money Supply, y-o-y	Sep	4%	
	Oman	Nominal GDP YTD, y-o-y	2Q	6.5%	
<b>Monday, 29 October</b>					
13:30	UK	Mortgage Approvals	Sep	66.4K	64.7K
16:30	US	Personal Income	Sep	0.3%	0.4%
16:30	US	Personal Spending	Sep	0.3%	0.4%
16:30	US	PCE Core, m-o-m	Sep	0%	0.1%
16:30	US	PCE Core, y-o-y	Sep	2%	2%
17:45	US	Fed's Evans Speaks at a Conference			
18:30	US	Dallas Fed Manufacturing Activity	Oct	28.1	28.1
<b>Tuesday, 30 October</b>					
3:30	Japan	Jobless Rate	Sep	2.4%	2.4%
14:00	Eurozone	Economic Confidence	Oct	110.9	110
14:00	Eurozone	GDP SA, q-o-q	3Q A	0.4%	0.3%
14:00	Eurozone	GDP SA, y-o-y	3Q A	2.1%	1.8%
17:00	Germany	CPI EU Harmonized, y-o-y	Oct P	2.2%	2.4%
17:30	Eurozone	ECB's Praet Speaks in Frankfurt			
18:00	US	Conference Board Consumer Confidence	Oct	138.4	136
<b>Wednesday, 31 October</b>					
3:50	Japan	Industrial Production, m-o-m	Sep P	0.2%	-0.3%
5:00	China	Manufacturing PMI	Oct	50.8	50.6
11:00	Turkey	Trade Balance	Sep	-2.42B	-1.9B
11:30	Turkey	Central Bank Inflation Report			
14:00	Eurozone	Unemployment Rate	Sep	8.1%	8.1%
14:00	Eurozone	CPI Core, y-o-y	Oct A	0.9%	1.1%
14:00	Eurozone	CPI Estimate, y-o-y	Oct	2.1%	2.2%
16:15	US	ADP Employment Change	Oct	230K	187K
17:45	US	Chicago Purchasing Manager Index	Oct	60.4	60
	Japan	BOJ Policy Balance Rate	31-Oct	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	31-Oct	0%	0%
<b>Thursday, 1 November</b>					
5:45	China	Caixin China PMI Manufacturing	Oct	50	50
13:30	UK	Markit UK PMI Manufacturing SA	Oct	53.8	53
16:00	UK	Bank of England Bank Rate	1-Nov	0.75%	0.75%
16:00	UK	BOE Asset Purchase Target	Nov	435B	435B
16:30	UK	BOE's Carney speaks at press conference in London			
18:00	US	ISM Manufacturing	Oct	59.8	59
<b>Friday, 2 November</b>					
3:50	Japan	Monetary Base, y-o-y	Oct	5.9%	
13:30	UK	Markit/CIPS UK Construction PMI	Oct	52.1	52
16:30	US	Trade Balance	Sep	-\$53.2B	-\$53.6B
16:30	US	Change in Nonfarm Payrolls	Oct	134K	193K
16:30	US	Unemployment Rate	Oct	3.7%	3.7%
16:30	US	Average Hourly Earnings, m-o-m	Oct	0.3%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Oct	2.8%	3.2%
16:30	US	Labor Force Participation Rate	Oct	62.7%	62.7%
18:00	US	Factory Orders	Sep	2.3%	0.5%

\* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	UAE	M3 Money Supply, m-o-m	Sep	0.1%		1.5%
	Saudi Arabia	CPI, y-o-y	Sep	2.3%		2.1%
	Kuwait	CPI, y-o-y	Sep	0.9%		0.3%
	Bahrain	CPI, y-o-y	Sep	1.9%		0.8%
	Oman	Budget Balance Month	Aug	-240.8M		-186.2M
<b>Monday, 22 October</b>						
8:30	Japan	All Industry Activity Index, m-o-m	Aug	-0.2%	0.4%	0.5%
16:30	US	Chicago Fed National Activity Index	Sep	0.27	0.22	0.17
<b>Tuesday, 23 October</b>						
18:00	US	Richmond Fed Manufacturing Index	Oct	29	24	15
18:00	Eurozone	Consumer Confidence	Oct A	-2.9	-3.2	-2.7
<b>Wednesday, 24 October</b>						
3:30	Japan	Nikkei Japan PMI Manufacturing	Oct P	52.5		53.1
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Oct P	53.2	53	52.1
12:00	Eurozone	M3 Money Supply, y-o-y	Sep	3.4%	3.5%	3.5%
17:45	US	Markit US Manufacturing PMI	Oct P	55.6	55.3	55.9
18:00	US	New Home Sales	Sep	585K	625K	553K
<b>Thursday, 25 October</b>						
10:00	Germany	GfK Consumer Confidence	Nov	10.6	10.5	10.6
12:00	Germany	Ifo Business Climate	Oct	103.7	103.2	102.8
15:00	Turkey	One-Week Repo Rate	25-Oct	24%	24%	24%
15:45	Eurozone	ECB Main Refinancing Rate	25-Oct	0%	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	25-Oct	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	25-Oct	-0.4%	-0.4%	-0.4%
16:30	US	Wholesale Inventories, m-o-m	Sep P	0.9%	0.5%	0.3%
16:30	US	Durable Goods Orders	Sep P	4.6%	-1.5%	0.8%
16:30	US	Durables, ex-Transportation	Sep P	0.3%	0.4%	0.1%
16:30	US	Cap Goods Orders, Non-defence, ex-Air	Sep P	-0.2%	0.5%	-0.1%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Sep P	0.0%	0.4%	0%
18:00	US	Pending Home Sales, m-o-m	Sep	-1.9%	0%	0.5%
<b>Friday, 26 October</b>						
16:30	US	GDP Annualized, q-o-q	3Q A	4.2%	3.3%	3.5%
16:30	US	Personal Consumption	3Q A	3.8%	3.3%	4%
16:30	US	GDP Price Index	3Q A	3%	2.1%	1.7%
16:30	US	Core PCE, q-o-q	3Q A	2.1%	1.8%	1.6%
18:00	US	University of Michigan Sentiment	Oct F	99	99	98.6

\* UAE time

Source: Bloomberg

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