

## The Week Ahead: ECB and CBRT expected to hold and maintain hawkish tone

### ► Eurozone: ECB meeting focus on reinvestment strategy

The ECB is expected to keep monetary policy steady at its 25 October meeting. We believe that the central bank will reiterate its policy guidance of i) ending its asset purchase programme by end-2018; and ii) keeping interest rates unchanged until “at least through the summer of 2019”. We envisage President Mario Draghi will maintain a moderately hawkish tone on the inflation outlook by defending his recent comments that core inflation will pick-up “relatively vigorously” in the near term. Market attention will be particularly on the ECB’s reinvestment policy after Draghi hinted during the September post-meeting press conference that the governing council (GC) would review the plan by end-2018. We expect a formal announcement regarding the reinvestment policy at the December meeting, though anticipate some initial guidance this week. GC member Olli Rehn noted last week that a “new capital key” – the framework to govern the proportion of bonds the ECB can buy from each country – will be the guiding principle for the reinvestment policy. This new capital key will come into effect from January 2019 based on GDP and population changes in the EU.

### ► Turkey: CBRT likely on hold, forward guidance critical

The CBRT is also expected to remain on hold at its 25 October MPC meeting, after frontloading with a 625 bps benchmark rate hike in September. We believe that the tone of the meeting will remain hawkish due to the marked acceleration in CPI inflation in September to 24.5% y-o-y, from 17.9% in August. Pass-through from the TRY depreciation was the key factor that pushed up inflation in September, which is expected to continue to add upward pressure until 1Q2019. We expect headline inflation to reach around 30% y-o-y in the upcoming months. However, the recent strengthening of the TRY against the USD and the government’s initiation of price control measures to rein in inflation will likely provide some space for the CBRT to adopt a wait and watch approach to gauge the impact of its previous rate hikes and government policy measures. This will also allow the CBRT to analyse two more inflation reports (October and November) before the December policy meeting. Overall, we think the next rate hike is more likely to come in the December policy meeting than the upcoming October meeting.

### ► US: Solid 3Q GDP growth expected

Key data releases from the US this week are the first print of 3Q GDP and September durable goods data. Consensus forecasts that 3Q GDP grew by a solid 3.4% q-o-q SAAR, though moderating from 4.2% in the previous quarter. We expect growth to be driven by solid personal consumption and government spending, reflecting the positive impact of ongoing fiscal stimulus. Incoming data, including retail sales and industrial production continues to suggest that economic activity grew at a strong pace in 3Q (page 3). Inventories are also expected to provide a significant positive contribution to GDP growth in 3Q, though net exports are seen contributing negatively in line with the widening trade balance.

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# I. Recent Events and Data Releases

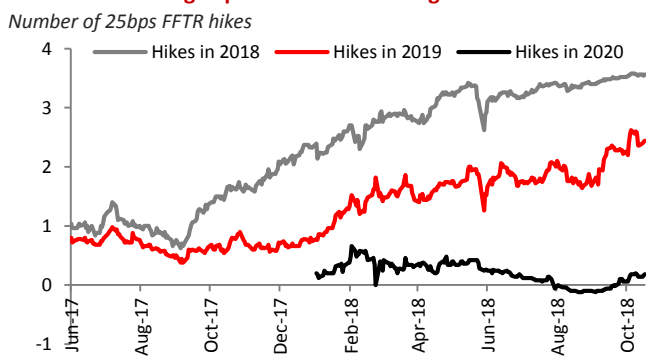
## A. G4 Economies

### US: FOMC minutes point to gradual rate hikes in 2019

The minutes of the 25-26 September FOMC meeting reinforced the view that Fed members are leaning towards a relatively hawkish stance, suggesting a “modestly restrictive” monetary policy into 2019. This was broadly in line with the post-meeting statement, which removed the phrase “monetary policy remains accommodative”. The minutes also reaffirmed that the Fed will continue with its gradual approach towards raising interest rates, which would be consistent with the ongoing economic expansion, strong labour market conditions, and inflation hovering around the 2% target over the medium term. On the inflation front, several participants opined that inflation may modestly exceed 2% for a period of time given that trade tariffs have resulted in higher input costs. Overall, the participants agreed that risks to both the economic and the inflation outlook are roughly balanced, but highlighted that developments in trade policy remained a source of uncertainty. Notably, since the September meeting, comments by FOMC members suggest a greater confidence in the growth outlook and the further strengthening in labour market conditions, raising market concerns of a potentially more aggressive Fed. However, a number of FOMC members stated that the positive effect of fiscal stimulus will likely diminish over the next few years, thus data developments will be critical. We continue to see one additional 25bps FFTR hike in December followed by three more rate hikes in 2019.

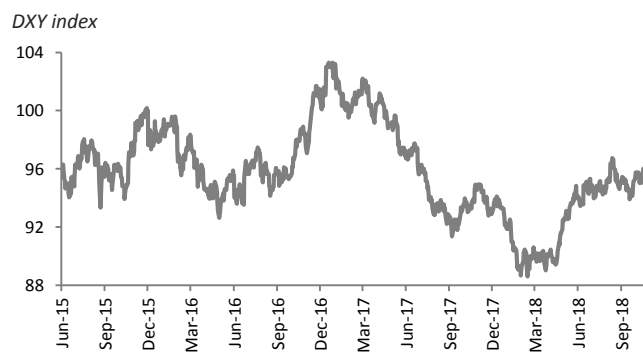
*Fed looks more comfortable with gradual rate hikes on back of solid economic momentum*

**Fig. 1. US: Market pricing for 2019 rate hikes moved up to 2.5 following September Fed meeting**



Source: Bloomberg

**Fig. 2. US: Dollar index remains supported on back of hawkish Fed communication**



Source: Bloomberg

Meanwhile, the minutes outlined that Fed members continued to down-play the role of the neutral interest rate in their decision-making process. The minutes particularly underlined that the neutral federal funds rate estimates “would be only one among many factors that the committee would consider in making its policy decisions”. Regarding the yield curve, FOMC participants highlighted that an inverted curve could indicate an increased risk of recession, though questioned the reliability of this indicator in gauging future recessions given the central bank asset purchases and low level of term premiums in recent years.

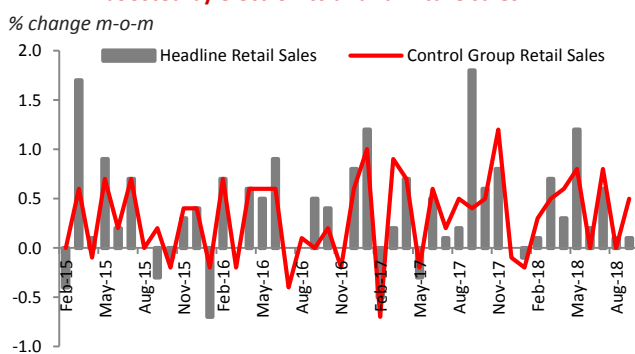
*FOMC noted that there remains considerable uncertainty over neutral rate estimates*

### US: Core retail sales and industrial activity point to solid 3Q GDP growth

Strong core retail sales and industrial production data for September suggest that economic growth was solid in 3Q2018. The retail sales control group, which feeds into personal consumption, accelerated sharply to 0.5% m-o-m in September after remaining flat in August. There was also a broad-based increase in core control retail sales, including an acceleration in non-store, furniture and electronics sales. However, headline retail sales came in lower than the market expectations and remained steady at 0.1% m-o-m in September (consensus: 0.6%). This was largely due to the unexpected drop in food services sales (-1.8% m-o-m) and gasoline sales (-0.8% m-o-m). We believe that the fall in food services sales could have been due to the closure of restaurants in tourist-heavy locations during Hurricane Florence. Despite that one-off effect on headline growth, data indicates private consumption remained robust in 3Q2018, supported by higher after-tax disposable income. Meanwhile, industrial production grew by a solid 0.3% m-o-m in September, though this was slightly lower than the August print of 0.4%. Increased mining activity alongside a pick-up in motor vehicles and parts were the key drivers of industrial activity in September.

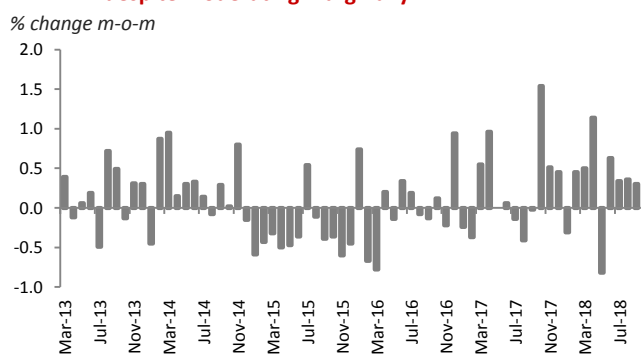
*High-frequency indicators suggest strong GDP growth in 3Q2018*

**Fig. 3. US: Core control retail sales accelerate in September boosted by electronics and furniture sales**



Source: US Census Bureau

**Fig. 4. US: Industrial activity remain healthy in September despite moderating marginally**

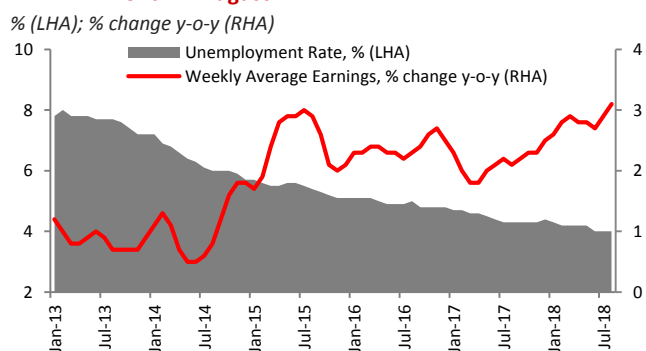


Source: Federal Reserve

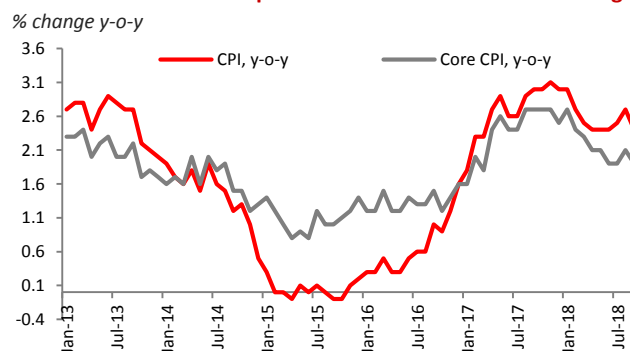
### UK: Mixed data – wage growth rising but inflation subdued

The UK data presented a mixed picture last week with wage growth surprising to the upside whilst inflation came in lower than the market’s expectations. Average weekly earnings accelerated to a six-month high of 2.7% 3M y-o-y in August, beating both the consensus estimate and the previous month’s print of 2.6%. Weekly earnings (ex-bonuses) also strengthened sharply to 3.1% 3M y-o-y in August (July: 2.9%) – the strongest point since February 2009. The rise in wage growth was driven by robust momentum in public sector pay, which posted its fastest expansion in seven years. In the private sector, service sector (wholesaling, retailing, hotels & restaurants) wages rose but manufacturing wages showed signs of moderation. Meanwhile, the unemployment rate remained steady at 4% in August. We believe that the BoE will continue to express confidence that the low unemployment rate is fuelling wage growth, and will eventually feed into inflation. Despite the more positive labour market conditions, a feasible Brexit agreement remains critical for sustained wage growth, in our view. Anecdotal evidence continues to suggest that corporates are open to moving some of their workforce to the EU in the event of a no-deal Brexit.

*Wage growth accelerates in August led by public sector pay rise*

**Fig. 5. UK: Wage growth accelerates for second consecutive month in August**

Source: UK office for National Statistics

**Fig. 6. UK: Both headline and core inflation surprise to downside in September with broad-based softening**

Source: UK office for National Statistics

The recent strong wage growth is yet to feed into inflation in a meaningful manner. Indeed, both headline and core inflation decelerated in September with a broad-based slowdown seen in goods and services inflation. Headline inflation moderated sharply to 2.4% y-o-y in September – lower than the consensus estimate of 2.6% and the August print of 2.7%. We have already highlighted that the uptick in August inflation (led by computer gaming and theatre prices) was due to temporary factors and will likely fade in the coming months. In our view, domestically generated inflation (services inflation) still remains subdued, suggesting that there were no signs of persistent upside inflationary pressures. Moreover, the September retail sales print suggested that consumer spending contracted after very strong activity during the summer. Retail sales fell by 0.8% m-o-m in September (August: 0.4%) mainly due to weaker food and petrol sales, thereby reducing the y-o-y growth to 3% from 3.5% in August. Given the increasing surprises in recent UK data releases, we think that the BoE will maintain its wait-and-watch approach until there is more clarity on Brexit developments. We do not think that another BoE rate hike is likely until after the UK formally exits the EU in March 2019.

*BoE likely to keep policy rates on hold at least until March 2019*

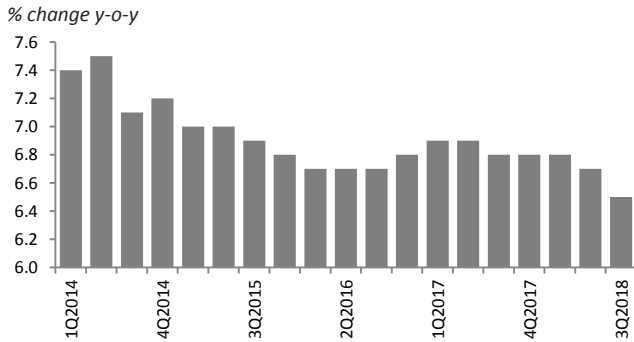
## B. Emerging Market Economies

### China: GDP growth surprises to downside in 3Q2018

China's GDP growth softened to 6.5% y-o-y in 3Q – weaker than both the consensus estimate of 6.6% and the 2Q print of 6.7%. The slowdown in activity was largely due to the secondary (manufacturing) sector, which decelerated to 5.3% y-o-y in 3Q, from 6% in 2Q. However, this moderation was partially offset by a marginal increase in both primary and tertiary (services) sectors growth. The moderation in 3Q GDP growth was consistent with the downtrend seen in the other high-frequency data, including industrial production and fixed-asset investments. However, on the positive side, retail sales growth accelerated for a second consecutive month in September, suggesting that domestic demand remains relatively supportive. We expect GDP growth to decelerate further in the upcoming quarters as the trade tariffs are likely to have a greater impact if the stand-off between the US and China continues for a prolonged period. Moreover, the US's threat to impose tariffs on all remaining Chinese imports from January alongside raising the tariff rate to 25% from the current 10% will likely worsen the stand-off between the two nations in the near term.

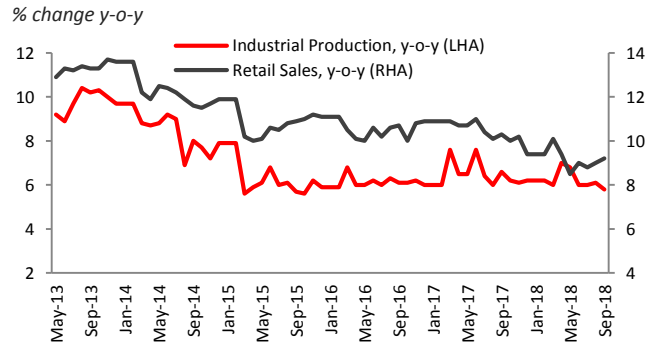
*GDP growth likely to decelerate further in coming quarters*

**Fig. 7. China: GDP growth softens to 6.5% y-o-y in 3Q, from 6.7% in 2Q**



Source: National Bureau of Statistics of China

**Fig. 8. China: Industrial production moderates to 35-month low of 5.8% in September**



Source: National Bureau of Statistics of China

We believe that the Chinese government is likely to announce some further short-term stimulus measures in the coming months to boost domestic demand. The recent policy actions from the PBoC and the government also suggest that a cohesive policy approach will continue to counter the negative impact of trade tariffs. The PBoC’s decision to reduce the reserve requirement ratio by 1ppt for all banks in early October indicates that monetary policy is likely to remain somewhat accommodative in the near term with additional liquidity measures aimed at targeted industrial sectors to support growth.

*Chinese government and PBoC to work together to mitigate negative impact of trade tariffs*

## II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	M3 Money Supply, m-o-m	Sep	0.1%	
	UAE	Central Bank Foreign Assets	Sep	329.5B	
	UAE	CPI, y-o-y	Sep	3.9%	
	Saudi Arabia	CPI, y-o-y	Sep	2.2%	
	Kuwait	CPI, y-o-y	Sep	0.9%	
	Oman	Nominal GDP YTD, y-o-y	2Q	6.5%	
	Bahrain	CPI, y-o-y	Sep	1.9%	
	Oman	Budget Balance Month	Aug	-240.8M	
<b>Monday, 22 October</b>					
8:30	Japan	All Industry Activity Index, m-o-m	Aug	0%	0.4%
16:30	US	Chicago Fed National Activity Index	Sep	0.18	0.22
<b>Tuesday, 23 October</b>					
14:30	UK	BOE Chief Economist Haldane Speaks in Paris			
18:00	US	Richmond Fed Manufacturing Index	Oct	29	24
18:00	Eurozone	Consumer Confidence	Oct A	-2.9	-3.2
19:20	UK	Carney Speaks at a Conference in Toronto			
21:30	US	Atlanta Fed's Bostic Speaks on Economy			
22:15	US	Fed's Kaplan Speaks at Economic Development Event in Texas			
<b>Wednesday, 24 October</b>					
3:30	Japan	Nikkei Japan PMI Manufacturing	Oct P	52.5	
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Oct P	53.2	53
12:00	Eurozone	M3 Money Supply, y-o-y	Sep	3.5%	3.5%
17:45	US	Markit US Manufacturing PMI	Oct P	55.6	55.5
18:00	US	New Home Sales	Sep	629K	625K
21:10	US	Fed's Mester Speaks at Forecasters Club in New York			
22:00	US	U.S. Federal Reserve Releases Beige Book			
<b>Thursday, 25 October</b>					
3:00	US	Fed's Brainard Speaks at Event on Economic/Financial Literacy			
10:00	Germany	GfK Consumer Confidence	Nov	10.6	10.5
12:00	Germany	IFO Business Climate	Oct	103.7	103.1
15:00	Turkey	One-Week Repo Rate	25-Oct	24%	24%
15:45	Eurozone	ECB Main Refinancing Rate	25-Oct	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	25-Oct	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	25-Oct	-0.4%	-0.4%
16:30	US	Wholesale Inventories, m-o-m	Sep P	1%	0.5%
16:30	US	Durable Goods Orders	Sep P	4.4%	-1.5%
16:30	US	Durables, ex-Transportation	Sep P	0%	0.4%
16:30	US	Cap Goods Orders, Non-defence, ex-Air	Sep P	-0.9%	0.5%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Sep P	-0.2%	0.5%
18:00	US	Pending Home Sales, m-o-m	Sep	-1.8%	-0.1%
20:15	US	Fed Vice Chairman Clarida Speaks on Economic Outlook			
<b>Friday, 26 October</b>					
5:00	US	Fed's Mester Speaks to Money Marketeers in New York			
12:00	Eurozone	ECB Survey of Professional Forecasters			
16:30	US	GDP Annualized, q-o-q	3Q A	4.2%	3.4%
16:30	US	Personal Consumption	3Q A	3.8%	3.2%
16:30	US	GDP Price Index	3Q A	3%	2.1%
16:30	US	Core PCE, q-o-q	3Q A	2.1%	1.6%
18:00	Eurozone	ECB President Draghi Speaks in Brussels			
18:00	US	University of Michigan Sentiment	Oct F	99	99

\* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Saudi Arabia	Non-Oil Exports, y-o-y	Jul	34.8%		22.6%
	Saudi Arabia	GDP Constant Prices, q-o-q	2Q	-1.6%		-1.3%
	Saudi Arabia	Unemployment Rate (Saudis)	2Q	12.9%		12.9
	Oman	CPI, y-o-y	Sep	1.1%		0.8%
	Qatar	CPI, y-o-y	Sep	0.8%		-0.4%
<b>Monday, 15 October</b>						
8:30	Japan	Industrial Production, m-o-m	Aug F	0.7%		0.2%
11:00	Turkey	Unemployment Rate	Jul	10.2%		10.8%
16:30	US	Empire Manufacturing	Oct	19	20	21.1
16:30	US	Retail Sales Advance, m-o-m	Sep	0.1%	0.6%	0.1%
16:30	US	Retail Sales Control Group	Sep	0%	0.4%	0.5%
	India	Exports, y-o-y	Sep	19.2%		-2.1%
<b>Tuesday, 16 October</b>						
5:30	China	CPI, y-o-y	Sep	2.3%	2.5%	2.5%
5:30	China	PPI, y-o-y	Sep	4.1%	3.5%	3.6%
11:00	Turkey	Industrial Production, m-o-m	Aug	3.5%	-2.4%	-1.1%
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Aug	2.6%	2.6%	2.7%
12:30	UK	Weekly Earnings ex-Bonus 3M/y-o-y	Aug	2.9%	2.9%	3.1%
12:30	UK	ILO Unemployment Rate, 3M	Aug	4%	4%	4%
17:15	US	Industrial Production, m-o-m	Sep	0.4%	0.2%	0.3%
18:00	US	JOLTS Job Openings	Aug	7077	6900	7136
<b>Wednesday, 17 October</b>						
12:30	UK	CPI, m-o-m	Sep	0.7%	0.3%	0.1%
12:30	UK	CPI, y-o-y	Sep	2.7%	2.6%	2.4%
12:30	UK	CPI Core, y-o-y	Sep	2.1%	2%	1.9%
13:00	Eurozone	CPI, y-o-y	Sep F	2%	2.1%	2.1%
13:00	Eurozone	CPI Core, y-o-y	Sep F	0.9%	0.9%	0.9%
16:30	US	Housing Starts	Sep	1268K	1210K	1201K
16:30	US	Building Permits	Sep	1249K	1270K	1241K
<b>Thursday, 18 October</b>						
3:50	Japan	Trade Balance	Sep	-¥444.6B	-¥45.1B	-¥139.6B
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Sep	0.5%	-0.4%	-0.8%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Sep	3.6%	3.8%	3.2%
12:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Sep	0.4%	-0.4%	-0.8%
12:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Sep	3.4%	3.6%	3%
16:30	US	Philadelphia Fed Business Outlook	Oct	22.9	20	22.2
18:00	US	Leading Index	Sep	0.4%	0.5%	0.5%
<b>Friday, 19 October</b>						
3:30	Japan	National CPI, y-o-y	Sep	1.3%	1.3%	1.2%
6:00	China	GDP, y-o-y	3Q	6.7%	6.6%	6.5%
6:00	China	Retail Sales, y-o-y	Sep	9%	9%	9.2%
6:00	China	Industrial Production, y-o-y	Sep	6.1%	6%	5.8%
12:30	UK	PSNB, ex-Banking Groups	Sep	5.6B	4.5B	4.1B
18:00	US	Existing Home Sales	Sep	5.33M	5.29M	5.15M

\* UAE time

Source: Bloomberg

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