

The Week Ahead: BoE to remain on hold; Opec meeting key for oil market

► **UK: Steady monetary policy; clues for August meeting**

The BoE is widely expected to keep monetary policy steady at its 21 June meeting, including interest rates and the QE programme. Recent data has remained soft (page 4), including weakening wage growth. Markets are only pricing in a c.3.5% probability of a 25 bps hike at this week's meeting, though expectation rises to 40% for a hike at the August meeting. Thus, attention will be on the MPC's voting pattern and forward guidance. We envisage that the voting will remain constant at 7-2 in favour of keeping rates steady, as at the May meeting. Critical to the outlook for a rate hike at the August meeting will be the BoE's assessment of the UK's underlying economic strength. The bank had indicated that the weak momentum in 1Q was transitory and could also highlight short-term upside risks to inflation from the weakening in the GBP from mid-April and the strong oil price. Meanwhile, the ECB holds its annual forum in Sintra on 18-20 June, including a panel discussion with Fed Chair Jerome Powell, ECB President Mario Draghi and BoJ Governor Haruhiko Kuroda. Notably, the ECB meeting last week had a dovish tone despite the announcement of the termination of the QE programme at end-December (page 4).

► **Opec: Signs of division over increasing supply**

Opec+ countries are meeting in Vienna on 22-23 June to discuss oil policy including the possibility of increasing supply. Comments from members ahead of the meeting indicate division, partly based on their ability to increase oil output. Saudi Arabia and Russia have been highlighting their need to increase production to compensate for export declines from Iraq, Venezuela and potentially Iran. Saudi Arabia already raised its oil production by 100K barrels per day in May to 10.02 million barrels, according to the IEA. However, others such as Iraq, Iran and Venezuela have been highlighting a need to keep policy steady as their market-rebalancing objectives have not yet been fully reached. Given these divisions, we believe that Opec+ could highlight its commitment to increasing output to the end-2016 target level (production has been below this). Regardless, we expect to see increased oil output and exports from Saudi Arabia, the UAE, Kuwait and Russia in 2H2018.

► **GCC: Central banks largely follow Fed in raising rates**

The Fed raised the FFTR by 25 bps to 2% (upper bound) on 13 June with most GCC countries following suit and raising with their own benchmark rates by the same magnitude. This included the UAE, Saudi Arabia and Bahrain. However, Kuwait raised its deposit rate by 25 bps whilst keeping its lending rate steady at 3% to support economic activity. We now see two further rate hikes by the Fed in 2018 (page 3), which will likely lead to a further tightening in monetary policy across the GCC at a time when economic momentum remains soft. Separately, MSCI is expected to upgrade Saudi Arabia to emerging market status on 20 June at its 2018 Annual Market Classification Review. An upgrade would be positive for Saudi Arabia's medium-term portfolio inflows, particularly institutional investment, which tends to be more stable in nature.

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I. Recent Events and Data Releases

A. MENA Economies

UAE: New visa regulations announced; municipality fees lowered

The UAE government announced further packages of measures to provide vital support to the UAE economy last week. This follows a number of other announcements over the last few weeks including a new stimulus package for Abu Dhabi. For further details, please see our recent note – **UAE Economic Update: Abu Dhabi and Dubai announce packages to bolster economic activity, published on 7 June 2018**. Overall, the measures are aimed at i) supporting key sectors; ii) reducing fees on companies; and iii) improving the business environment. The latest round included reducing municipality fees for hotels in Abu Dhabi and Dubai to boost their competitiveness. The sector has faced a number of challenges including the strong USD, the introduction of VAT at the beginning of this year and weak regional demand. Abu Dhabi cut the tourism fee applied to hotel rooms and outlets to 3.5% from 6% whilst the municipality fee halved to 2%. In Dubai, the municipality fees on sales at restaurants and hotels was lowered from 10% to 7%.

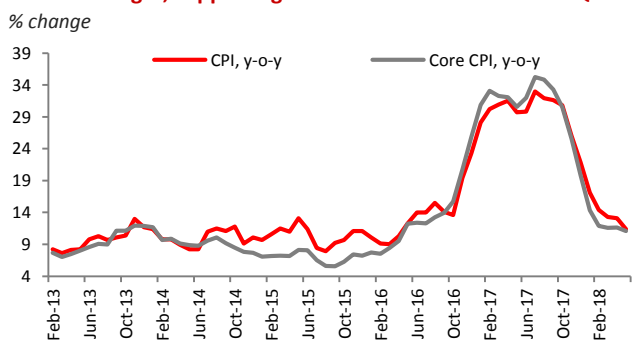
Municipality fees on hotels reduced in Abu Dhabi and Dubai

Meanwhile, at the end of the week, the UAE adopted a number of visa reforms for visitors, residents and families, amongst others. Most notably, the previous mandatory deposit of AED3,000 per worker in the private sector was replaced by a new insurance scheme that will cost only AED60 annually per worker. This will reduce the burden on employers by around AED14 billion, according to official estimates. Moreover, in a further bid to support tourism-related sectors, transit passengers will be exempt from all entry fees for the first 48 hours of their visit to the UAE. These latest support packages reiterate the government’s commitment to supporting economic activity though we see a number of challenges remaining.

Government showing strong commitment to supporting economic activity

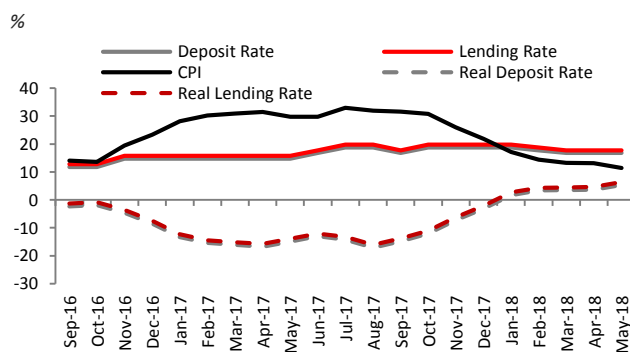
Egypt: Consumer price inflation slows to two-year low

Fig. 1. Egypt: Inflation is now well within the CBE’s year-end target, supporting the outlook for rate cuts in 4Q2018



Source: CAPMAS, ADCB calculations

Fig. 2. Real interest rates rise with ongoing deceleration in inflation



Source: CBE, CAPMAS, ADCB calculations

Headline inflation slowed to 11.4% y-o-y in May, down from 13.1% in April. Notably, the monthly inflation rate also moderated to just 0.2% m-o-m in May from 1.5% in April and 1% in March. A central factor behind the deceleration in headline price growth was the 0.3% m-o-m contraction in food prices after they accelerated to 2.4% in April ahead of

Headline inflation slows to 11.4% in May with a monthly contraction in food prices

Ramadan. The monthly drop in food prices offset the rise in transportation prices to 1.7% m-o-m in May (April: 0.4%), which was the result of an increase in metro ticket prices.

The ongoing softening in consumer price inflation supports the outlook for further rate cuts at end-2018. Inflation is well within the central bank’s year-end inflation target of 13% (±3 ppt). However, we believe that the CBE will likely keep rates on hold at its 28 June meeting given the outlook for subsidy reforms. The government announced new electricity tariffs last week and further subsidy reductions are expected to be announced for fuel and water prices over the summer. Households will on average see a 29% rise in electricity bills from 1 July with the three lower brackets of consumption seeing an average increase of c.46%. The CBE is likely to wait to see what impact the subsidy reforms have on inflation and to analyse capital flows to EM economies given the rate hikes in the US. We do not expect the subsidy reforms to lead to any meaningful pick-up in secondary inflation given the positive real interest rates and still-soft consumer demand. Moreover, we do not expect a spike in the y-o-y inflation rate following the subsidy reductions given i) the smaller planned percentage rise in fuel and electricity prices than in mid-2017; and ii) the similar timing of reforms last year. These factors should keep the yearly rate broadly steady, in our view. We see the potential for a further rate cut after September 2018.

CBE expected to remain on hold at upcoming meetings as it gauges impact of fiscal reforms

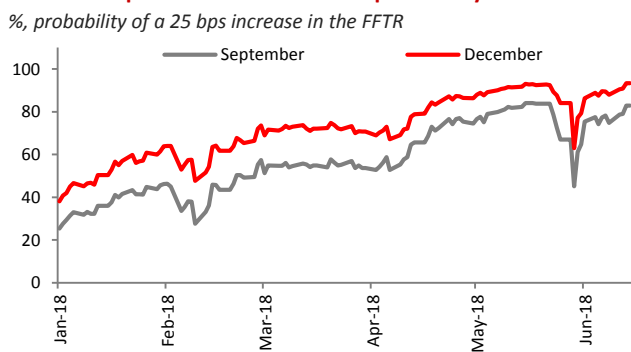
B. G4 Economies

US: Fed raises FFTR by 25 bps; we now see two further hikes in 2018

The FOMC raised the FFTR by 25 bps to 2% (upper bound) at its June meeting, as had been widely expected, with the interest rate on excess reserves (IOER) also up 20 bps to 1.95%. The forward guidance moved in a hawkish direction with the overall message being one of upside risk from fiscal stimulus outweighing concerns over sluggish growth outside the US. Following the hawkish communication, we now expect to see a further two rate hikes in 2018 in September and December. We had previously only expected one further rate hike this year; however, the dot plot suggests a faster pace of hikes in 2018 and 2019. The median dot plot for 2018 moved up to 2.4% from 2.1% previously, indicating a total of four 25 bps hikes this year. There was also a shift up in the 2019 median dots to 3.1%, implying three rate hikes next year.

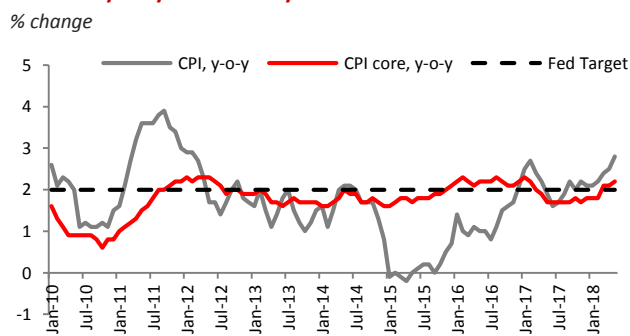
Hawkish forward guidance in all areas – dot plot, statements and economic projections

Fig. 3. US: Markets pricing in 80% probability of rate hike in September and above 90% probability for December



Source: Bloomberg

Fig. 4. US: Both headline and core inflation accelerate on yearly basis in May



Source: Bureau of Labor Statistics

Other communications were also hawkish, including the Fed's economic projections and the rewording of the post-meeting statement. The economic forecasts were revised to show stronger GDP growth in 2018 whilst the median core inflation projection moved up gradually to 2% from 1.9% previously. The unemployment forecast for end-2018 was revised down to 3.6%. There were noticeable changes to the post-meeting policy statement, which removed language suggesting accommodative monetary policy. The changes in the statement indicated that policy is moving towards a neutral stance. Separately, Fed Chair Jerome Powell announced that a press conference would be held after every FOMC meeting starting in 2019. He also highlighted the need to focus on incoming data with "wide uncertainty" around "unobserved variables".

Changes to post-meeting statement suggest that monetary policy is moving towards more neutral stance

US inflation: Headline and core CPI both grew by 0.2% m-o-m in May, in line with the consensus expectations. The monthly acceleration in core CPI was supported by broad price growth, which helped to push the y-o-y reading up to 2.2% from 2.1% in the previous month. Meanwhile, headline inflation accelerated to 2.8% y-o-y – its highest level in over six years, largely due to higher fuel prices.

Headline inflation accelerated to 2.2% y-o-y in May

Tariffs on Chinese imports: The US announced 25% tariffs on USD34 billion worth of Chinese imports on 15 June, including on industrial machinery and electrical products, effective 6 July. Tariffs on an additional USD16 billion worth of goods are also under consideration and may be imposed later. China swiftly retaliated with measures of similar magnitude, particularly targeting US agricultural and automobile products. Moreover, China indicated that it is considering imposing tariffs on US crude oil, LNG and coal.

Eurozone: ECB announces dovish end to QE programme

At its June meeting, the Governing Council (GC) of the ECB announced that its QE programme would end this year whilst keeping its monetary policy steady. Net asset purchases will continue at EUR30 billion per month until September (as previously announced) and will then drop to EUR15 billion per month until end-December when purchases will terminate. Despite providing details and an end date for the QE programme, the tone of the meeting was dovish, resulting in the EUR coming under further downwards pressure. The GC highlighted that reinvestment of the assets will continue for an "extended period" and that the end of the QE programme is an "anticipation" and will be data-dependant. ECB President Mario Draghi stressed in his post-meeting conference that the GC wants to "maintain optionality" for all policy decisions whilst highlighting that QE is now a structural part of the bank's toolkit. This implies that the central bank will use asset purchases again in the future if required.

Gradual steps towards normalisation despite end of QE programme in December

Importantly, despite announcing the end of the QE programme, the ECB signalled that its first rate hike was still far off and outlined a number of economic uncertainties. The ECB highlighted that policy rates would stay at record lows at least through the summer of 2019. We therefore see the first rate hike by the ECB coming at either its September or October 2019 meeting with the deposit rate likely to be raised by 15-20 bps. The ECB's core inflation target for 2020 was kept steady at 1.7% though the headline inflation forecasts were raised for 2018 and 2019 due to higher oil prices.

Interest rates to stay at present levels "at least through the summer of 2019"

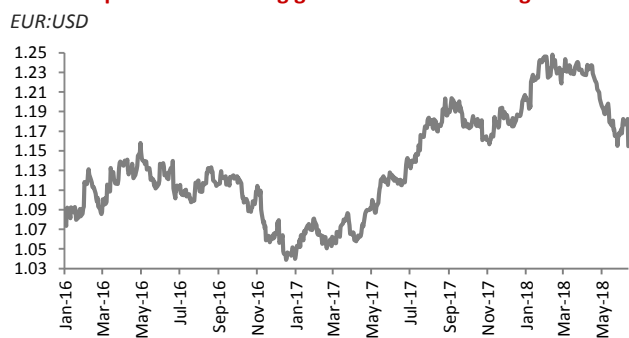
UK: Inflation steady in May; labour data mixed

Headline consumer inflation in the UK remained steady at 2.4% y-o-y in May, in line with the consensus forecast. Core inflation remained at 2.1% y-o-y, again in line with market expectations. The upside pressure to inflation from the higher oil prices was counterbalanced by: i) soft domestic demand; ii) seasonal factors; and iii) the fading

Wage growth decelerated gradually in April

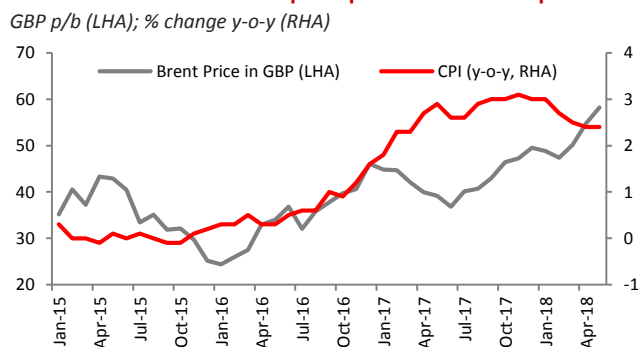
impact of the 2016 GBP devaluation. The domestic weakness was particularly seen in service components such as recreation and culture. We expect to see some pick-up in inflation in mid-2018 with the higher fuel prices, though this should be transitory. Moreover, the soft demand backdrop and ongoing Brexit-related uncertainties mean that tighter monetary policy is not yet needed, in our view.

Fig. 5. Eurozone: EUR comes under further downwards pressure following gradual normalisation guidance



Source: Bloomberg

Fig. 6. UK: Weak domestic demand and seasonal factors counterbalanced upside pressure from fuel prices



Source: Office for National Statistics, Bloomberg, ADCB calculations

The limited domestic inflationary pressure in the UK is highlighted in the labour data with a deceleration in wage growth. In the three-month period until April, average weekly earnings including bonuses slowed to 2.5% y-o-y from 2.6% in the previous three months. Growth in private sector earnings also slowed to its weakest in seven months. However, the unemployment rate remained unchanged at 4.2%. Overall, the labour market data continues to show no pick-up in price pressures despite the solid employment backdrop. On the political front, Prime Minister Theresa May avoided a defeat in the House of Commons over the House of Lords' amended Brexit Withdrawal Bill last week. However, this was only after concessions were made to Tory rebels who are looking for the draft law to be changed, which should keep political uncertainty high.

No signs of wage pressure despite low unemployment rates

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M2 Money Supply, m-o-m	May	1.5%	--
	UAE	Central Bank Foreign Assets	May	326.39B	--
	Saudi Arabia	CPI, y-o-y	May	2.5%	--
	Oman	Budget Balance Month	Apr	-140.7M	--
	Oman	Oil Output, y-o-y	May	0.1%	--
	Egypt	Trade Balance	Apr	-3395M	--
	Egypt	GDP Constant, q-o-q	1Q	4.1%	--
Monday, 18 Jun					
3:01	UK	Rightmove House Prices, m-o-m	Jun	0.8%	--
3:01	UK	Rightmove House Prices, y-o-y	Jun	1.1%	--
3:50	Japan	Trade Balance	May	¥624.6B	-¥205.2B
3:50	Japan	Exports, y-o-y	May	7.8%	7.5%
3:50	Japan	Imports, y-o-y	May	5.9%	8%
16:45	US	Departing NY Fed Chief Dudley Speaks at Bank Culture Conference			
21:00	US	Fed's Bostic Speaks on Economist and Monetary Policy Outlook			
21:30	Eurozone	ECB's Draghi gives opening remarks at Sintra conference			
23:45	US	Fed's Williams Speaks at NY Fed Bank Culture Conference			
Tuesday, 19 Jun					
12:00	Eurozone	ECB President Draghi speaks in Sintra, Portugal			
12:30	Eurozone	ECB's Peter Praet is chairing a panel in Sintra, Portugal			
15:00	Eurozone	ECB's Lane and St. Louis Fed Bullard speak in Sintra, Portugal			
16:30	US	Housing Starts	May	1287K	1311K
16:30	US	Housing Starts, m-o-m	May	-3.7%	1.9%
16:30	US	Building Permits	May	1364K	1350K
16:30	US	Building Permits, m-o-m	May	-0.9%	-1%
Wednesday, 20 Jun					
3:50	Japan	BOJ Minutes of Policy Meeting			
10:30	Japan	BOJ Kuroda speaks at National Credit Union's meeting			
15:00	US	MBA Mortgage Applications	15-Jun	-1.5%	--
16:30	US	Current Account Balance	1Q	-\$128.2B	-\$129B
17:30	Eurozone	Draghi, Powell, Kuroda and Lowe speak in Sintra, Portugal			
18:00	US	Existing Home Sales	May	5.46M	5.55M
18:00	US	Existing Home Sales, m-o-m	May	-2.5%	1.7%
Thursday, 21 Jun					
5:30	Japan	BOJ Funo speaks in Sendai			
10:00	Japan	Machine Tool Orders, y-o-y	May F	14.9%	--
15:00	UK	Bank of England Bank Rate	21-Jun	0.5%	0.5%
15:00	UK	BOE Asset Purchase Target	Jun	435B	435B
15:00	UK	BOE Corporate Bond Target	Jun	10B	10B
16:30	US	Initial Jobless Claims	16-Jun	218K	--
16:30	US	Philadelphia Fed Business Outlook	Jun	34.4	27.8
16:30	US	Continuing Claims	9-Jun	--	--
18:00	US	Leading Index	May	0.4%	0.4%
18:00	Eurozone	Consumer Confidence	Jun A	0.2	-0.1
Friday, 22 Jun					
0:15	UK	BOE Governor Mark Carney Delivers Mansion House Speech			
3:30	Japan	Natl CPI, y-o-y	May	0.6%	0.6%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	May	0.7%	0.7%
3:30	Japan	Natl CPI, ex-Fresh Food & Energy, y-o-y	May	0.4%	0.3%
8:30	Japan	All Industry Activity Index, m-o-m	Apr	0%	0.9%

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Data						
	UAE	Dubai Economy Tracker SA	May	53.9		57.6
	China	Money Supply M2, y-o-y	May	8.3%	8.5%	8.3%
	China	New Yuan Loans CNY	May	1180B	1200B	1150B
Monday, 11 June						
3:50	Japan	Money Stock M2, y-o-y	May	3.3%	3.3%	3.2%
3:50	Japan	Core Machine Orders, m-o-m	Apr	-3.9%	2.4%	10.1%
12:30	UK	Trade Balance	Apr	-£3220	-£2500	-£5280
12:30	UK	Industrial Production, m-o-m	Apr	0.1%	0.1%	-0.8%
12:30	UK	Manufacturing Production, m-o-m	Apr	-0.1%	0.3%	-1.4%
Tuesday, 12 June						
8:30	Japan	Tertiary Industry Index, m-o-m	Apr	-0.3%	0.6%	1%
12:30	UK	Claimant Count Rate	May	2.5%		2.5%
12:30	UK	Jobless Claims Change	May	28.2K		-7.7K
12:30	UK	Average Weekly Earnings, 3M y-o-y	Apr	2.6%	2.5%	2.5%
12:30	UK	Weekly Earnings, ex-Bonus, 3M y-o-y	Apr	2.9%	2.9%	2.8%
12:30	UK	ILO Unemployment Rate 3M	Apr	4.2%	4.2%	4.2%
13:00	Eurozone	ZEW Survey Expectations	Jun	2.4		
16:00	India	CPI, y-o-y	May	4.6%	4.9%	4.9%
16:00	India	Industrial Production, y-o-y	Apr	4.6%	5.7%	4.9%
16:30	US	CPI, m-o-m	May	0.2%	0.2%	0.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	May	0.1%	0.2%	0.2%
16:30	US	CPI, y-o-y	May	2.5%	2.8%	2.8%
16:30	US	CPI, ex-Food and Energy, y-o-y	May	2.1%	2.2%	2.2%
Wednesday, 13 June						
12:30	UK	CPI, y-o-y	May	2.4%	2.4%	2.4%
12:30	UK	CPI Core, y-o-y	May	2.1%	2.1%	2.1%
13:00	Eurozone	Industrial Production SA, m-o-m	Apr	0.5%	-0.7%	
16:30	US	PPI Final Demand, m-o-m	May	0.1%	0.3%	0.5%
22:00	US	FOMC Rate Decision (Upper Bound)	13-Jun	1.75%	2%	2%
Thursday, 14 June						
6:00	China	Retail Sales, y-o-y	May	9.4%	9.6%	8.5%
6:00	China	Industrial Production, y-o-y	May	7%	7%	6.8%
8:30	Japan	Industrial Production, m-o-m	Apr F	0.3%		0.5%
12:30	UK	Retail Sales, Incl-Auto Fuel, m-o-m	May	1.8%	0.5%	1.3%
15:45	Eurozone	ECB Main Refinancing Rate	14-Jun	0%	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	14-Jun	0.3%	0.3%	0.3%
15:45	Eurozone	ECB Deposit Facility Rate	14-Jun	-0.4%	-0.4%	-0.4%
16:30	US	Retail Sales Advance, m-o-m	May	0.4%	0.4%	0.8%
16:30	US	Retail Sales Control Group	May	0.6%	0.4%	0.5%
16:30	US	Import Price Index, m-o-m	May	0.6%	0.5%	0.6%
Friday, 15 June						
13:00	Eurozone	CPI, y-o-y	May F	1.9%	1.9%	1.9
16:30	US	Empire Manufacturing	Jun	20.1	18.8	25
17:15	US	Industrial Production, m-o-m	May	0.9%	0.2%	-0.1
18:00	US	University of Michigan Sentiment	Jun P	98	98.5	99.3
	Japan	BOJ Policy Balance Rate	15-Jun	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-yr Yield Target	15-Jun	0%	0%	0%
	India	Exports, y-o-y	May	5.2%		20.2
	India	Imports, y-o-y	May	4.6%		14.9

* UAE time

Source: Bloomberg

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