

The Week Ahead: US labour data and RBI meeting in spotlight

► **US: Solid non-farm payrolls report expected for March**

US labour data will be the key release this week with consensus expecting that a healthy 189K jobs were created in March, albeit down from a remarkable 313K in February. Our seasonality analysis suggests that the strong hiring activity in the first two months of the year (seen in 2013, 2015 and 2017) tends to be followed by a weaker print in March. Adding to a solid labour report, average hourly earnings growth is forecast to have accelerated to 0.3% m-o-m in March (February: 0.1%), taking the annual reading to 2.7% for the month (February: 2.6%). Moreover, consensus sees the unemployment rate moderating to 4% in March, from 4.1% in February. Market attention will also be on the participation rate and average hourly hours worked as both surprised to the upside in February. Focus will also be on two key events: i) introduction of a new money market benchmark rate, Secured Overnight Financing Rate (SOFR) on Tuesday, which replaces Libor; and ii) the expected announcement by President Donald Trump of additional details regarding tariff measures to be imposed on Chinese imports this week. In line with earlier announcements, China imposed tariffs of up to 25% on 128 US goods, including food products, effective from 2 April.

► **India: RBI on hold; guidance in focus**

The RBI is expected to keep its policy rates on hold at its 5 April policy meeting. We believe that the tone of the meeting is likely to be slightly hawkish with one member of the MPC voting to hike policy rates (5-1). We believe that the RBI will reiterate the upside risks to headline inflation from persistently higher crude oil prices and the expansionary fiscal policy, alongside an expected pickup in food prices in y-o-y terms from April to June. This is despite headline inflation softening to 4.4% in February and core inflation (excluding food and fuel) holding steady at 5% for a third consecutive month. Notably, GDP and industrial production data showed signs of a pick-up from 4Q in line with the RBI's expectations, thereby reducing the need to cut. We expect the RBI to keep rates on hold for the rest of 2018. For further details, please see our note – **India Economic Update – RBI in wait and watch mode**, published on 28 March 2018. Separately, Turkey will release its March inflation print, with headline inflation seen moderating to 10% y-o-y, from 10.3% in February.

► **Global: Eurozone inflation and Japan's Tankan survey**

The Eurozone will release inflation (March) and unemployment data (February) this week. Consensus estimates headline inflation accelerated to 1.4% y-o-y from 1.2% in February, mainly driven by the one-off variation due to the earlier timing of Easter, alongside higher food inflation largely due to the low base effect. The Easter timing effect will also be reflected in the travel-related components (package holidays, air fares and hotel prices), which are expected to push core inflation up to 1.1% y-o-y in March from 1% in February. However, this one-off effect is likely to reverse in April. The Eurozone unemployment rate is seen falling to 8.5% in February (January: 8.6%), reflecting the gradual tightening in labour markets.

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

Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	7

I. Recent Events and Data Releases

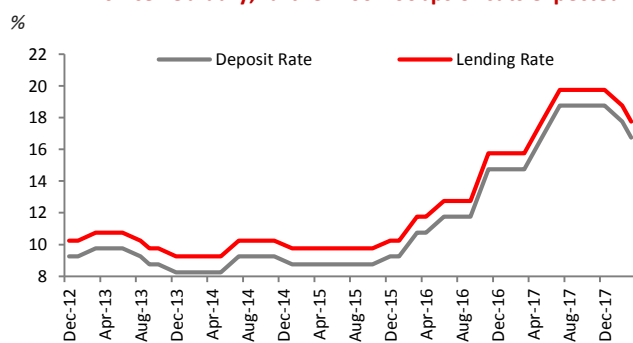
A. MENA Economies

Egypt: Second rate cut in easing cycle, further cut likely in May

The CBE lowered benchmark rates by 100 bps at its 29 March meeting, in line with our and the market's forecasts. The lending rate now stands at 17.75% and the deposit rate at 16.75%. This was the second cut in the easing cycle, with rates reduced by the same magnitude at the February meeting. The March cut was widely expected due to the further deceleration in inflation. Headline inflation has slowed sharply from a peak of 33% y-o-y in July 2017 to 14.4% in February. As noted in our previous research, the February print is within the central bank's year-end target of 13% (± 3 pp). We see the need for further rate cuts as monetary policy remains tight, especially to support domestic demand. Much of the recent strengthening in economic activity has been led by external drivers. Real interest rates have moved into positive territory with the marked softening in inflation (Fig. 2). Further expected slowing in year-on-year inflation should support these cuts. However, we believe that the CBE will move gradually with cuts of 100 bps. We see space for a further 100-200 bps of rate cuts in 2018. The Monetary Policy Committee post-meeting communication had a cautious tone, highlighting upside risks to the inflation outlook including the "timing and magnitude of potential subsidy-reform measures". Demand-pull factors and a higher oil price outlook were also highlighted.

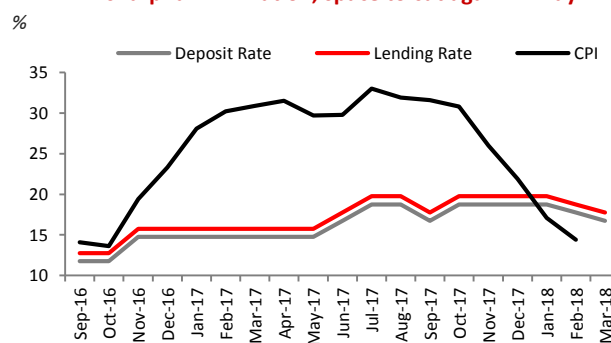
Gradual approach expected due to cautious tone from CBE

Fig. 1. Egypt: Benchmark interest rates lowered by 200 bps since February, further 100-200bps of cuts expected



Source: Central Bank of Egypt

Fig. 2. Egypt: Positive real interest rates since February with sharp fall in inflation; space to cut again in May



Source: Central Bank of Egypt, CAPMAS

We expect the CBE to lower rates again at the next MPC meeting on 17 May, before pausing for the summer as a new round of subsidy reforms is expected. There will be two further inflation prints (March and April) ahead of the May meeting, which should be supportive for a cut in our view. Regarding subsidy reforms, we expect these to include further liberalisation of fuel and electricity prices. The central bank will also look to assess the impact of the rate easing cycle on portfolio inflows, especially as the Fed continues to raise rates. At this point, we are not expecting a marked outflow from foreign T-bill holdings, especially due to ongoing progress with the reform programme, which should boost investor confidence. The outlook for the EGP will remain critical and we are assuming a broadly stable USD:EGP rate. The government's international bond issuance plans will likely support Egypt's FX reserve position, and in turn the EGP, even if there is some volatility in portfolio inflows due to the expected rate cuts.

Further 100 bps rate cut expected at May meeting, before a pause

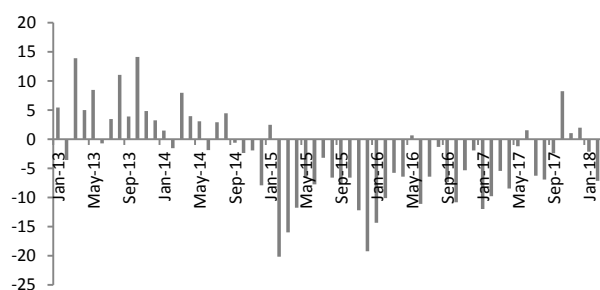
Saudi Arabia: FX reserves fall in February; economic indicators weak

Monetary data for February showed a further fall in SAMA's net foreign assets (NFAs) by USD7.2 billion from January, to USD479.6 billion. The size of the drop was greater than the fall in January of USD2.2 billion, which we believe could partly reflect the lower average oil price in February. We believe that the NFA data also points to solid government spending in February, albeit with the pace of growth slowing from January. The government hand-out package (announced in January) for one year will support public expenditure, in our view. Government deposits and reserves with SAMA fell by 1.6% m-o-m (USD2.7 billion) in February, against 4% m-o-m (USD6.8 billion) in January, led largely by drawdowns in the current account. Government deposits with commercial banks also fell (by 2.3% m-o-m) in February.

Fall in SAMA's FX reserves largely reflects need for fiscal deficit financing

Fig. 3. Saudi Arabia: Greater monthly drop in SAMA's NFA position in February than in January

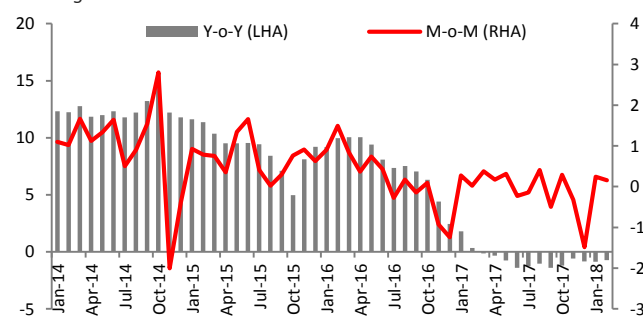
Monthly change in SAMA's NFAs, USD billion



Source: SAMA, ADCB calculations

Fig. 4. Saudi Arabia: Private sector credit growth remains weak, continuing to contract on yearly basis

% change



Source: SAMA, ADCB calculations

However, economic indicators still point to lacklustre economic activity. Private sector credit demand remains weak, expanding by just 0.16% m-o-m in February; on a yearly basis loan growth was down 0.7%. Meanwhile, indicators for private consumption continue to contract on a monthly basis, albeit at a slightly more moderate rate than in January. We believe that this reflects the fading effect of frontloading spending ahead of the introduction of VAT, especially for essential and perishable goods. The combined value of point-of-sale transactions (PoST) and ATM cash withdrawals fell by 5.8% m-o-m in February, versus 12.5% in January. Nevertheless, we expect household spending to remain weak. Overall, the monthly data is in line with our expectation that it will take time for economic momentum to build. Our forecast of a relatively modest pickup in real non-oil GDP growth is based on an expectation of a gradual strengthening in government investment.

Indicators of private consumption continue to fall

Bahrain: Government issues sukuk of USD1 billion

The Government of Bahrain returned to the international debt market last week, issuing a USD1 billion 7.5-year sukuk at 6.875%. The pricing reflected the ongoing deterioration in Bahrain's credit rating whilst also indicating some new issue premium relative to its existing curve and comparable emerging market curve. Bahrain has seen a number of rating downgrades since September when it last issued sovereign debt with a record USD3 billion issuance. It is rated sub-investment grade by the three main rating agencies. Moreover, plans to issue a multi-tranche (12 and/or 20 years) conventional bond was abandoned with the media citing differences between the premium required by

Attractive pricing reflects concerns over fiscal deterioration

investors versus what Bahrain is willing to pay. Demand for the sukuk could have been higher at a more attractive level of pricing than at the conventional level given the liquidity in Islamic funds seeking sharia-compliant instruments. Overall, we believe that the bond issuance reflects greater investor concern over Bahrain’s weak fiscal fundamentals including its rising debt levels and large fiscal deficit. Other key concerns possibly included the rising rate environment, which is also adding to higher debt-servicing costs.

Going forward, investors will likely need to see greater signs of fiscal consolidation and explicit support from other GCC countries. We believe that Bahrain will need to continue to borrow regularly from the international debt capital market and thus indications of regional support will be vital. We estimate that Bahrain’s fiscal deficit will be c.10% of GDP in 2018. Any signs of difficulty in accessing foreign capital will add significant downside risks to Bahrain’s outlook.

GCC support vital for ongoing access to foreign capital

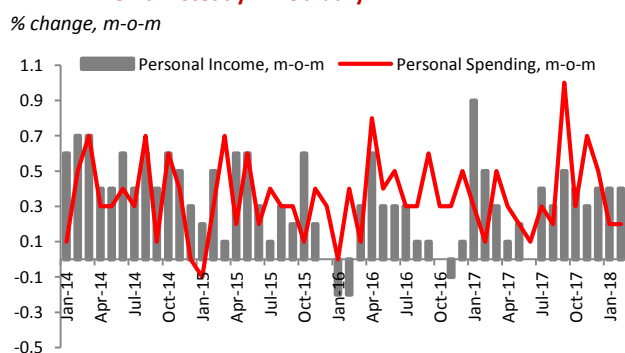
B. G4 Economies

US: Personal spending relatively sluggish in early 2018

Consumer spending was relatively soft in 2M2018, particularly after solid activity in 4Q2017. We believe that this was in part due to the seasonal slowdown in 1Q, with consumers trying to boost their savings after holiday spending. Both personal spending and personal income growth remained steady at 0.2% m-o-m and 0.4% m-o-m respectively in February, in line with market expectations. Notably, the personal savings rate accelerated to 3.4% in February, from 3.2% in January and 2.4% in December. Despite the soft activity in early 2018, we continue to believe that consumption activity will pick up in the coming months, as tax cut measures are likely to increase personal disposable income. Meanwhile, core PCE deflator (the Fed’s preferred measure of inflation) decelerated to 0.2% m-o-m from 0.3% in the previous month, likely due to the waning of temporary factors that pushed prices in January. However, y-o-y core PCE inflation accelerated to 1.6% in February (January: 1.5%), the highest reading since April 2017. We expect this annual trend to continue with core PCE inflation rising sharply from March as the one-off adjustment in wireless services falls out of the calculation.

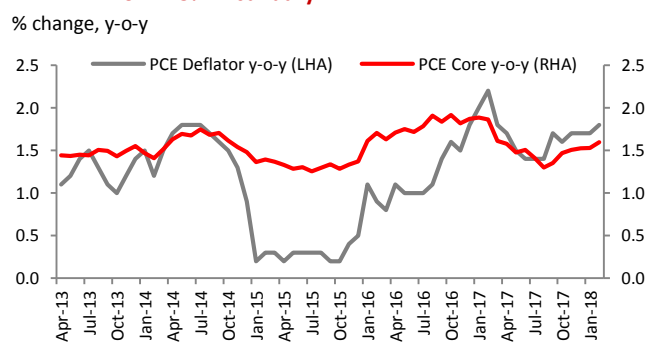
Personal spending growth steady at 0.2% m-o-m in February

Fig. 5. US: Both personal income and personal spending remain steady in February



Source: Bureau of Economic Analysis

Fig. 6. US: Core PCE inflation rises to 1.6% y-o-y in February, from 1.5% in January

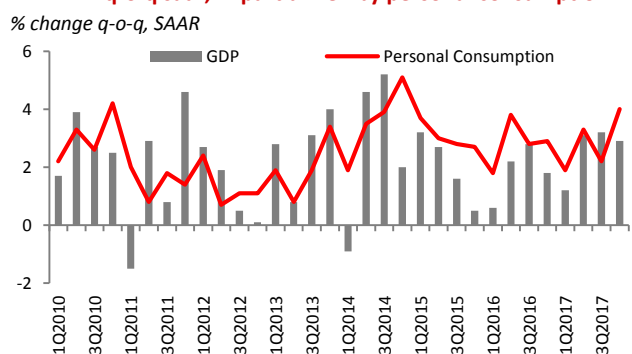


Source: Bureau of Economic Analysis

4Q GDP: The third (and final) GDP growth reading was revised up to 2.9% q-o-q saar in 4Q2017 from 2.5% in the second print. Positively, stronger personal spending and private inventory investment were the key factors for the upward revision with both items contributing an additional 0.2 ppt to the headline GDP growth. Personal consumption grew 4% q-o-q saar, up from a 3.8% gain in the second reading, supported by robust holiday seasonal spending. There are signs that economic activity slowed in 1Q with retail sales softening for the third consecutive month in February, partly reflecting the seasonal slowdown.

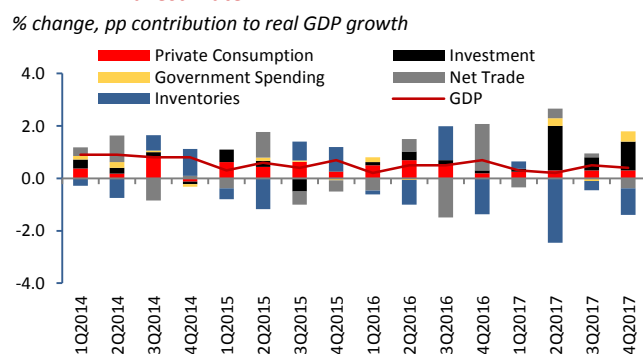
4Q GDP growth revised up to 2.9% q-o-q saar

Fig. 7. US: Final reading of 4Q GDP growth revised up to 2.9% q-o-q saar, in part driven by personal consumption



Source: Bureau of Economic Analysis

Fig. 8. UK: 4Q GDP growth remains steady at 0.4% q-o-q in final estimate



Source: UK Office for National Statistics

UK: 4Q GDP growth unrevised at 0.4% q-o-q in final estimate

Headline GDP growth for 4Q remained unchanged at 0.4% q-o-q in the final estimate released last week. The y-o-y growth was also unrevised at 1.4% in 4Q. Household expenditure stood at 0.3% q-o-q in 4Q, steady for the third consecutive quarter. On the positive side, gross fixed capital formation accelerated to 1.1% q-o-q in 4Q from 0.5% in 3Q. We expect household spending to remain relatively subdued in 2018 given the lack of new catalysts to drive growth amid the ongoing Brexit negotiations. Moreover, the recent high-frequency data also suggests that retail activity has been relatively soft in 2M2018.

UK's 4Q GDP growth left unrevised at 0.4% q-o-q in final estimate

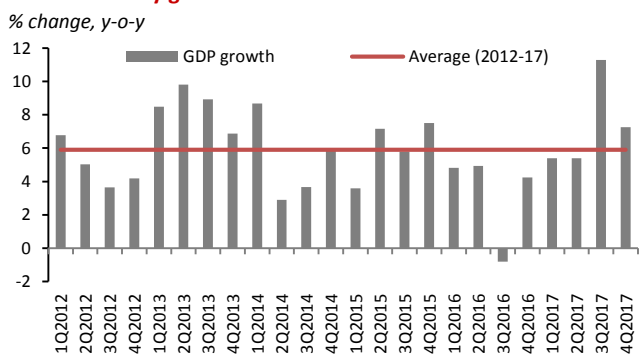
C. Emerging Market Economies

Turkey: Headline GDP growth beats expectations in 4Q

The Turkish economy grew at a solid 7.3% y-o-y in 4Q, beating the consensus expectation of 6.7%. 3Q growth was also revised up to 11.3% from 11.1% in the previous reading. This brings overall 2017 growth to 7.4% – significantly higher than 3.2% in 2016 and 6.1% in 2015. The economic growth was broad-based with the government’s fiscal stimulus measures continuing to feed into domestic demand. Private consumption remained healthy and grew by 6.6% y-o-y in 4Q, albeit decelerating from 11% in 3Q. The moderation was mainly due to the expiration of tax incentives for home appliances and furniture. Moreover, fixed capital formation expanded by a respectable 6% y-o-y in 4Q (3Q: 13.2), led by investment in machinery equipment. However, net exports contributed negatively to headline GDP growth, with the strong domestic demand resulting in rising imports.

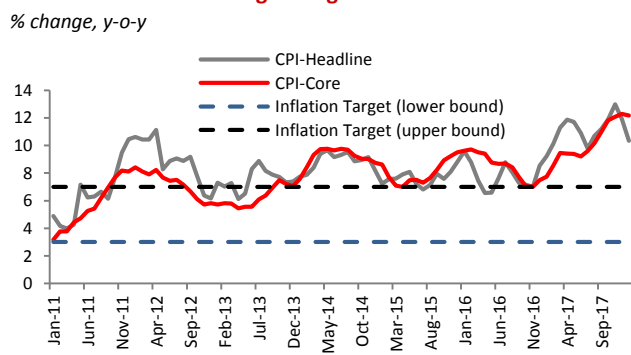
Turkish economy grew by 7.4% in 2017, up from 3.2% in 2016

Fig. 9. Turkey: Real GDP grows by robust 7.3% y-o-y in 4Q, led by government’s fiscal stimulus measures



Source: State Institute of Statistics Turkey

Fig. 10. Turkey: Both headline and core inflation remain well above CBRT target range



Source: State Institute of Statistics Turkey

We expect GDP growth to moderate in 2018 with a less expansionary fiscal stance. We believe that a gradual phasing out of the Credit Guarantee Fund (TRY250 billion) is likely to prevent the economy from overheating. However, the recent recovery in tourism activity is expected to remain supportive of growth. The TRY depreciation from September 2017 is also seen supporting export growth, though currency volatility remains a key concern. We believe that the weaker TRY and still firm domestic demand pressures are likely to keep inflation elevated in 2018. Thus, we see the CBRT maintaining its hawkish monetary policy stance until inflation decelerates meaningfully.

We expect CBRT to maintain hawkish stance until inflation softens meaningfully

II. Economic Calendar

Fig. 11. The week ahead

Time *	Country	Event	Period	Prior	Consensus
MENA data					
	UAE	UAE PMI	Mar	55.1	
	UAE	Dubai Airport Cargo Volume, y-o-y	Feb	-2.9%	
	Saudi Arabia	Unemployment Rate (Saudis)	4Q	12.8%	
	Saudi Arabia	Saudi Arabia PMI	Mar	53.2	
	Bahrain	GDP Constant Prices, y-o-y	4Q	3.6%	
	Egypt	Gross Official Reserves	Mar	42.5B	
	Egypt	Egypt PMI	Mar	49.7	
Monday, 2 Apr					
3:50	Japan	Tankan Large Manufacturing Index	1Q	25	25
3:50	Japan	Tankan Small Manufacturing Index	1Q	15	14
5:45	China	Caixin China PMI Manufacturing	Mar	51.6	51.7
15:30	India	Eight Infrastructure Industries	Feb	6.7%	
18:00	US	Construction Spending, m-o-m	Feb	0%	0.4%
18:00	US	ISM Manufacturing	Mar	60.8	60
18:00	US	ISM Prices Paid	Mar	74.2	72.5
Tuesday, 3 Apr					
3:50	Japan	Monetary Base, y-o-y	Mar	9.4%	
10:00	Germany	Retail Sales, m-o-m	Feb	-0.7%	0.7%
12:30	UK	Markit UK PMI Manufacturing SA	Mar	55.2	54.7
Wednesday, 4 Apr					
5:45	China	Caixin China PMI Composite	Mar	53.3	
13:00	Eurozone	Unemployment Rate	Feb	8.6%	8.5%
13:00	Eurozone	CPI Core, y-o-y	Mar A	1.0%	1.1%
13:00	Eurozone	CPI Estimate, y-o-y	Mar	1.2%	1.4%
16:15	US	ADP Employment Change	Mar	235K	205K
17:45	US	Fed's Bullard Speaks on U.S. Economy and Monetary Policy			
18:00	US	ISM Non-Manufacturing Composite	Mar	59.5	59
18:00	US	Factory Orders	Feb	-1.4%	1.7%
18:00	US	Durable Goods Orders	Feb F	3.1%	
18:00	US	Cap Goods Shipments, Non-def, ex-air	Feb F	1.4%	
Thursday, 5 Apr					
10:00	Germany	Factory Orders, m-o-m	Feb	-3.9%	1.5%
12:30	UK	Markit/CIPS UK Composite PMI	Mar	54.5	53.9
13:00	Eurozone	Retail Sales, m-o-m	Feb	-0.1%	0.6%
13:00	India	RBI Repurchase Rate	5-Apr	6%	6%
13:00	India	RBI Reverse Repo Rate	5-Apr	5.75%	5.75%
13:00	India	RBI Cash Reserve Ratio	5-Apr	4%	4%
16:30	US	Trade Balance	Feb	-\$56.6B	-\$56.5B
Friday, 6 Apr					
9:00	Japan	Leading Index CI	Feb P	105.6	105.5
10:00	Germany	Industrial Production SA, m-o-m	Feb	-0.1%	0.2%
14:00	Eurozone	Bank of Spain's Linde Speaks at Conference in Lisbon			
16:30	US	Change in Nonfarm Payrolls	Mar	313K	189K
16:30	US	Change in Private Payrolls	Mar	287K	195K
16:30	US	Unemployment Rate	Mar	4.1%	4%
16:30	US	Average Hourly Earnings, m-o-m	Mar	0.1%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Mar	2.6%	2.7%
16:30	US	Average Weekly Hours All Employees	Mar	34.5	34.5
16:30	US	Labor Force Participation Rate	Mar	63%	

* UAE time

Source: Bloomberg

Fig. 12. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC data						
	UAE	CPI, y-o-y	Feb	4.8%		4.5%
	Saudi Arabia	M2 Money Supply, y-o-y	Feb	0.5%		0.3%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Feb	1825.2B		1798.3B
	Saudi Arabia	GDP Constant Prices, y-o-y	4Q	-0.4%		-1.2%
	Kuwait	M2 Money Supply, y-o-y	Jan	3.8%	3.4%	3.3%
	Qatar	Trade Balance Month	Feb	15732M		14053M
	Qatar	GDP Constant Prices, y-o-y	4Q	1.9%		1.8%
	Qatar	M2 Money Supply, y-o-y	Feb	19.6%		15.7%
Monday, 26 Mar						
16:30	US	Chicago Fed National Activity Index	Feb	0.02	0.15	0.88
Tuesday, 27 Mar						
12:00	Eurozone	M3 Money Supply, y-o-y	Feb	4.5%	4.6%	4.2%
13:00	Eurozone	Consumer Confidence	Mar F	0.1	0.1	0.1
18:00	US	Richmond Fed Manufacturing Index	Mar	28	22	15
18:00	US	Conf. Board Consumer Confidence	Mar	130	131	127.7
Wednesday, 28 Mar						
16:30	US	Wholesale Inventories, m-o-m	Feb P	1%	0.5%	1.1%
16:30	US	GDP Annualized, q-o-q	4Q T	2.5%	2.7%	2.9%
16:30	US	Personal Consumption	4Q T	3.8%	3.8%	4%
18:00	US	Pending Home Sales, m-o-m	Feb	-5%	2%	3.1%
Thursday, 29 Mar						
3:50	Japan	Retail Trade, y-o-y	Feb	1.5%	1.7%	1.6%
12:30	UK	Mortgage Approvals	Feb	67.1K	66K	63.9K
12:30	UK	GDP, q-o-q	4Q F	0.4%	0.4%	0.4%
12:30	UK	GDP, y-o-y	4Q F	1.4%	1.4%	1.4%
16:00	Germany	CPI EU Harmonized, m-o-m	Mar P	0.5%	0.5%	0.4%
16:00	Germany	CPI EU Harmonized, y-o-y	Mar P	1.2%	1.6%	1.5%
16:30	US	Personal Income	Feb	0.4%	0.4%	0.4%
16:30	US	Personal Spending	Feb	0.2%	0.2%	0.2%
16:30	US	PCE Core, m-o-m	Feb	0.3%	0.2%	0.2%
16:30	US	PCE Core, y-o-y	Feb	1.5%	1.6%	1.6%
17:45	US	Chicago Purchasing Manager Index	Mar	61.9	62	57.4
18:00	US	U. of Mich. Sentiment	Mar F	102	102	101.4
	Egypt	Lending Rate	29-Mar	18.75%		17.75%
	Egypt	Deposit Rate	29-Mar	17.75%	16.75%	16.75%
Friday, 30 Mar						
3:30	Japan	Jobless Rate	Feb	2.4%	2.6%	2.5%
3:50	Japan	Industrial Production, m-o-m	Feb P	-6.8%	5%	4.1%

* UAE time

Source: Bloomberg

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC (“ADCB”) to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.