

The Week Ahead: UK CPI data and China GDP growth in focus

► UK: CPI data and Carney's speech in spotlight

Markets will closely scrutinise inflation data and comments from BoE Governor Mark Carney to gauge the likelihood of a November rate hike. The testimonies of Deputy Governor David Ramsden and MPC member Silvana Teneyro to the Treasury Select Committee (17 October) will also be crucial. This is after BoE communication turned markedly more hawkish at its September meeting, pointing to a 25bps hike in November. The magnitude in the pickup in September inflation will also be important, with a number of factors expected to add to inflationary pressure, including gas price increases and the Ryanair flight cancellations. Consensus expects inflation accelerated to 3% y-o-y in September (August: 2.9%). A number of other economic releases are also due this week including retail sales and labour market data. Softening retail sales, tepid wage growth and the uncertain political environment do not indicate the need for higher rates, in our view.

► China: GDP growth expected to soften in 3Q

China's 3Q GDP growth data (due 19 October) is estimated to show a gradual softening to 6.8% (1Q and 2Q: 6.9%). This is likely due to slowing housing investment and weaker export growth. However, solid personal consumption, as reflected in recent imports growth, should provide some support. Recent high frequency data has largely pointed to a deceleration in economic momentum, as both monetary and fiscal support have moderated. Indeed, CPI inflation weakened to 1.6% y-o-y in September (August: 1.8%), partly due to subdued food price pressure. The economic growth trajectory will likely be high on the agenda of the Communist Party Congress, which starts on 18 October. Policy will likely focus on targeted structural reforms to support sustainable growth whilst controlling credit expansion.

► Global: Speeches by Yellen and Dudley; Iran developments

In the US, the key focus will be on speeches by Fed Chair Janet Yellen (20 October) and NY Fed President William Dudley. Both have been proponents of the need to progress with gradual monetary tightening, despite inflation remaining below target. We expect this stance to be maintained this week, including on interest rates. Headline and core inflation again printed below consensus expectations for September (page 3). The key US data releases will be housing related and industrial production, where distortions due to the recent hurricanes are expected. Meanwhile last week, President Donald Trump did not recertify the Iranian nuclear deal, the Joint Comprehensive Plan of Action (JCPOA). Congress now has 60 days to review the agreement, potentially imposing new conditions on Iran. This will add to Congress's already busy schedule, possibly impacting the tax reform agenda. Uncertainty over the Iran nuclear deal could also increase oil price volatility in the coming months, though we do not expect any changes in Iranian oil output or exports at this point. Separately, media comments indicate that Saudi Aramco is considering a private placement, though the company has indicated that its planned IPO is on track.

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I. Recent Events and Data Releases

A. Global

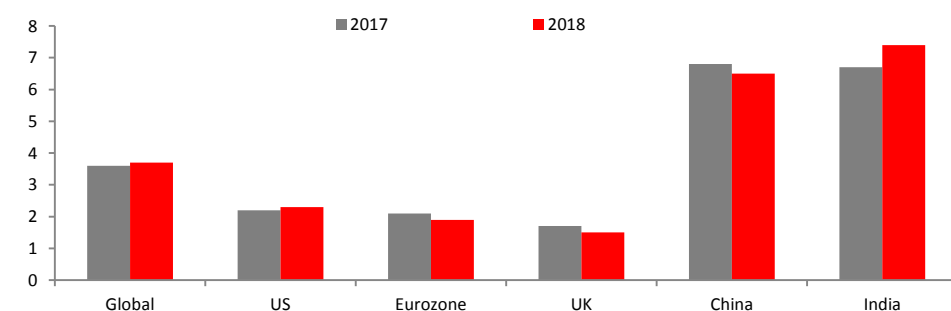
Global: IMF marginally raises global growth projection to 3.6%

The IMF raised its global GDP growth forecast in its October World Economic Outlook (WEO) report. The forecast for 2017 was raised moderately to 3.6% (3.5% previously, July) and the 2018 estimate to 3.7% (3.6% previously). The revisions are largely due to a broad-based firming in the cyclical recovery, with improvements seen in domestic demand, investments, trade and business sentiment. The Eurozone, Japan, China and Turkey all saw their growth projections revised upwards. The US forecasts also saw a moderate uptick (from July). However, the Fund highlighted policy uncertainty, especially on the fiscal policy front, where the base scenario is for no meaningful easing. The IMF also envisages US growth moderating in the long term. The IMF lowered significantly its estimates for 2017 growth in India, due to the demonetisation programme and the implementation of the goods and service tax.

Eurozone, Japan and China growth forecasts raised

Fig. 1. Global: New IMF growth projections for 2017 and 2018

% change



Source: IMF

Despite the healthy growth outlook, the IMF reduced its inflation projections for both advanced and emerging economies. The Fund cut its estimates for inflation in advanced economies to 1.7% in 2017 and 2018, from its July forecasts of 1.9% and 1.8% respectively. The weaker inflation outlook is partly due to lower oil prices and the still existing slack in the global labour market. In its analytical chapter, the IMF argued that softer wage growth is due to a big share of part time workers in some sectors as well as sluggish labour productivity. The WEO assumes lower oil prices (for a basket of main crudes) at USD50.3 p/b in 2017 (April WEO: USD55.2 p/b), and expects the same level in 2018, due to stronger than expected shale production in the US.

Inflation outlook remains weak – due to low oil prices and global slack

B. MENA Economies

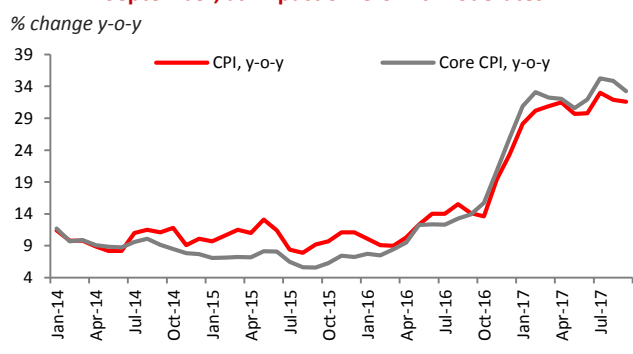
Egypt: Inflation moderates gradually for second consecutive month

Consumer inflation decelerated in September on a yearly basis, for both the headline and core indices. The CPI softened to 31.6% y-o-y in September (August: 31.9%), whilst core inflation decelerated to 33.3% y-o-y (August: 34.9%). Moreover, the monthly rise in prices also slowed for the second consecutive month to 1% m-o-m in September, down

Yearly fall in prices was broad-based in September

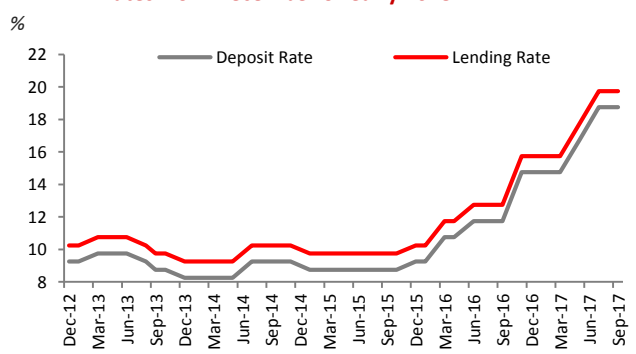
from a recent peak of 3.2% in July, reflecting the softer build-up in inflationary pressure. Notably, monthly food price inflation (which accounts for 40% of the CPI basket) slowed to 0.4% m-o-m in September, down from 1.1% in the previous month. Nevertheless, on a yearly basis food inflation remains high at 41.2% y-o-y. Overall, the slowing in price growth was broad-based in September. This partly reflects the weak domestic demand backdrop while the inflationary impact of changes in fuel and utility prices is starting to lessen. The CBE has raised interest rates aggressively to reduce the secondary impact of fiscal reforms, including by 200 bps in a surprise move in July.

Fig. 2. Egypt: Both headline and core inflation slow in September, as impact of reforms moderates



Source: CAPMAS

Fig. 3. Egypt: We see CBE starting to cut benchmark interest rates from December or early 2018



Source: Central Bank of Egypt

As we have highlighted in our earlier research, we see the CBE starting to lower interest rates at end December (meeting scheduled for 28 December) or in early 2018. This is with inflation (headline and core) expected to decelerate sharply from November, as the end-2016 EGP devaluation falls out of the y-o-y data. Moreover, the impact of subsidy reforms is also likely to diminish further. We believe that the first rate cut will be c. 100 bps, and expect benchmark rates to be lowered by some 300 bps in 2018. Further fiscal reform and the need to anchor inflation expectations will limit a more aggressive rate-cutting cycle, in our view. The CBE’s move to increase the RRR on 10 October shows a flexible stance to monetary policy. For more details, please see our **Global Data Watch 9-13 October**, published on 9 October 2017.

Inflation expected to decelerate more sharply from November

C. G4 economies

US: Slightly more dovish tilt to September FOMC minutes

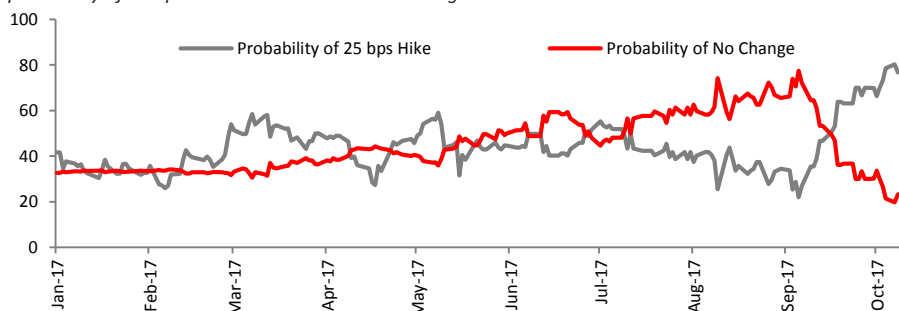
The minutes of the FOMC’s 19-20 September meeting were moderately more dovish than the post-meeting statement, as the debate on inflation highlighted differences in the outlook and policy requirement. These have also been reflected in recent comments and speeches by the FOMC members, though the majority seem to be in the camp calling for a further 25 bps hike in 2017. The minutes of the meeting showed a broad discussion on the inflation outlook with the committee assessing whether the factors driving inflation down were transitory or more persistent. Notably, “many participants” expressed concern that the recent weaker inflation readings might not just be due to “transitory factors” but could be more persistent. Moreover, concerns were expressed that the weak inflation backdrop could soften inflation expectations, impacting the Fed’s future policy path. In contrast, some participants seemed more worried about upside

Divisions within FOMC on inflation outlook highlighted

surprises to inflation due to the strong labour market, and the potential difficulty in controlling prices once they start increasing. Most meeting participants expected to see the intensifying labour scarcity driving wage pressures higher, resulting in firmer inflation in the medium term. The minutes confirmed that 12 out of 16 participants projected a third 2017 rate hike, as was noted in the September statement.

Fig. 4. US: Market expectations of hike at December meeting remain high though moderate after release of September FOMC minutes and inflation data

% probability of 25 bps rate hike at December meeting



Source: Bloomberg

FOMC members noted that interpreting the upcoming inflation reports would be more to have a negative impact in the near term only, with members seeing near-term risks to the economic outlook as roughly balanced. We are already seeing some support for growth from retail sales and reconstruction.

We maintain our outlook for 25 bps rate hike in December

US: September inflation remains muted, below market expectations

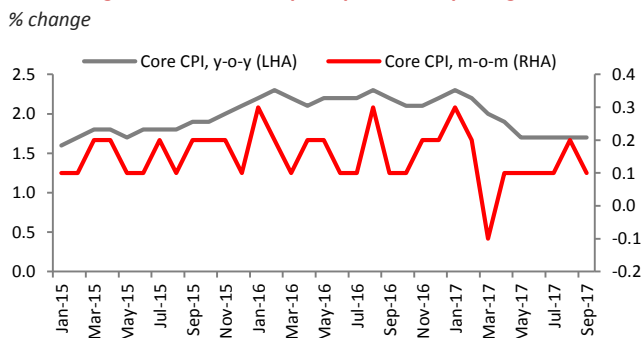
Both headline and core inflation for September once again surprised to the downside of market expectations. Headline inflation accelerated to 0.5% m-o-m in September (August: 0.4%) albeit below the consensus forecast of 0.6%. The pickup in headline CPI was due to a sharp rise in gasoline prices (13.1% m-o-m), reflecting the disruption caused by the hurricanes. However, there was little impact elsewhere, with core inflation remaining muted and moderating to 0.1% m-o-m in September (August and consensus: 0.2%). Yearly core inflation remained unchanged at 1.7% for the fifth month in a row. All the major sub-components of core goods recorded deflation on a monthly basis, including new vehicle sales, apparel and medical care commodities. Meanwhile, core services inflation remains the major driver of core inflation, with rents, transportation services and medical service prices rising on a monthly basis. Nevertheless, part of the miss in core inflation was due to rent growth slowing.

Yearly core inflation steady at 1.7% y-o-y, for fifth consecutive month

Despite the disappointing CPI print, the signals emanating from labour market and economic momentum remain intact. The September jobs report showed a pick-up in wage growth over the previous few months, whilst a further fall in the unemployment rate bodes well for the FOMC's arguments. Recent comments from FOMC members suggest that a majority of them still expect a 25bp FFTR rate hike in December.

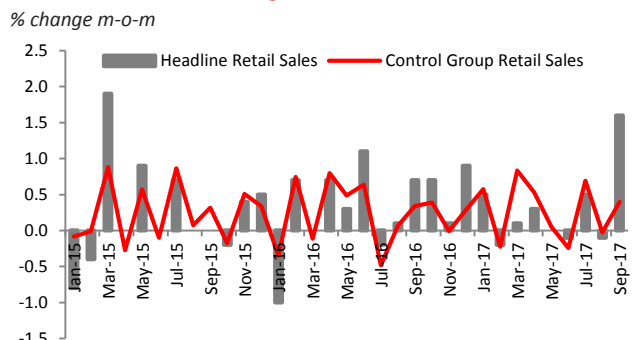
Signs of pickup in wage inflation recently

Fig. 5. US: Monthly softening in core inflation driven by goods and weaker pickup in rental price growth



Source: Bureau of Labor Statistics

Fig. 6. US: Headline retail sales accelerate sharply, driven by auto and building material sales



Source: US Census Bureau

Retail sales: Retail sales picked up sharply in September as expected, driven by the rebuilding efforts caused by hurricanes Harvey and Irma. Headline retail sales recorded a 30-month high of 1.6% m-o-m in September, though slightly below the consensus estimate of 1.7%. However, this was partly due to upward revisions to August data, with all the major sub-categories upgraded. Overall, the data points to strong personal spending momentum feeding into 4Q. The sharp pick up was mainly due to the rise in demand for building materials and motor vehicles. Core control retail sales, which feeds into GDP data, increased by 0.4% in September (August: 0%).

Eurozone: Spanish politics in wait and see mode

European bonds and the EUR found some relief with signs that tensions between Spain and the Catalan government had been contained, following the post-independence referendum speech by Catalan President Carles Puigdemont on 10 October. The pressure put on Puigdemont by the Spanish authorities, the EU, the Spanish king and banks threatening to leave Catalonia likely had a material impact, resulting in a more conciliatory outcome than markets had feared. Even though Catalan independence was declared and signed, it was suspended for a few weeks to allow negotiations with Spain. Prime Minister Mariano Rajoy has asked for clarification by 16 October on whether the Catalan government has declared independence. If independence has been declared, then the Spanish government might take control of the region by invoking article 155 of the constitution, which has so far not been tested. If independence has not been declared at that point, then Puigdemont is likely to lose some of his base voters as well as coalition partners, which could trigger new elections in Catalonia.

Some moderation in tension – but clarity required

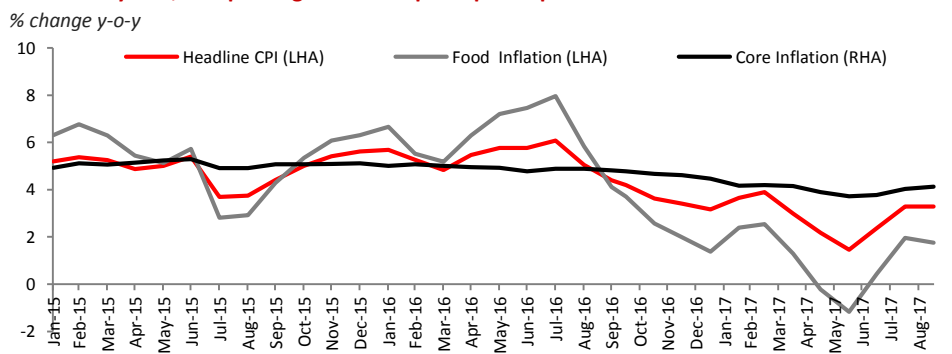
D. Emerging Market Economies

India: September inflation steady, below consensus expectations

Consumer price inflation in September printed softer than consensus expectations, supporting calls for further rate cuts at the RBI’s December policy meeting. Headline inflation remained unchanged at 3.3% y-o-y, below the market estimate of 3.5%, mainly due to a deceleration in vegetable prices (to 3.9% y-o-y, from a 14-month high of 6% in August). Furthermore, the August inflation rate was revised down to 3.3% from 3.4% (first print). The impact of a rainfall deficit during the South-West monsoon, which was expected to have placed upward pressure on food prices, is yet to reflect in the data. With the deceleration in vegetable and fruit prices, due to increased supply including imports, food inflation softened to 1.3% y-o-y in September (August: 1.5%). However, clothing prices rose for a third consecutive month due to the positive impact of GST implementation in July. Fuel prices also accelerated, for the fourth month in a row, though we expect them to moderate slightly in the coming months due to the cut in excise duty of INR2 per litre on diesel and petrol (effective from October). Moreover, recent action by Madhya Pradesh state to slash VAT on diesel and petrol by 5% and 3% respectively, could influence other states, potentially weakening fuel inflation in the coming months.

Food inflation weakens in September – with increased supply of fruits and vegetables

Fig. 7. India: Gradual moderation in food inflation compensates for rise in core prices, driven by GST; fuel prices growth also pick up in September



Source: India Central Statistical Organisation

Though the RBI remained more neutral than expected at its October meeting, we believe that the recent weaker inflation report has the potential to tilt its stance towards a cut. We had previously argued for a 25 bps repo rate cut either in December or early 2018, and the chance of a December move has increased, in our view. The October inflation report will be critical, as it comes ahead of the December policy meeting. The print will be closely scrutinised for the inflationary impact of the festive season (Diwali) spending on clothing, food and recreation activities.

Steady headline inflation rate increases support for December rate cut

II. Economic Calendar

Fig. 8. The week ahead

Time*	Country	Event	Period	Prior	Surv(M)
MENA data					
	UAE	M2 Money Supply, m-o-m	Sep	-1.5%	--
	UAE	CPI, y-o-y	Sep	0.8%	--
	UAE	CPI, m-o-m	Sep	0.1%	--
	Saudi Arabia	CPI, y-o-y	Sep	-0.1%	--
Monday, 16 Oct					
5:30	China	CPI, y-o-y	Sep	1.8%	1.6%
5:30	China	PPI, y-o-y	Sep	6.3%	6.4%
8:30	Japan	Industrial Production, m-o-m	Aug F	2.1%	--
Tuesday, 17 Oct					
12:15	UK	BOE's Carney, Ramsden and Tenreiro Testify to Lawmakers			
12:30	UK	CPI, m-o-m	Sep	0.6%	0.3%
12:30	UK	CPI, y-o-y	Sep	2.9%	3%
12:30	UK	CPI Core, y-o-y	Sep	2.7%	2.7%
13:00	Germany	ZEW Survey Current Situation	Oct	87.9	88.5
13:00	Eurozone	ZEW Survey Expectations	Oct	31.7	--
13:00	Germany	ZEW Survey Expectations	Oct	17	20
16:30	US	Import Price Index, m-o-m	Sep	0.6%	0.6%
17:15	US	Industrial Production, m-o-m	Sep	-0.9%	0.2%
Wednesday, 18 Oct					
12:10	Eurozone	ECB President Draghi speaks in Frankfurt			
12:30	UK	Jobless Claims Change	Sep	-2.8K	--
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Aug	2.1%	2.1%
12:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Aug	2.1%	2%
12:30	UK	ILO Unemployment Rate, 3Mths	Aug	4.3%	4.3%
16:00	US	Fed's Dudley and Kaplan Discuss Economic Development			
16:30	US	Housing Starts	Sep	1180K	1175K
16:30	US	Housing Starts, m-o-m	Sep	-0.8%	-0.4%
16:30	US	Building Permits	Sep	1272K	1240K
16:30	US	Building Permits, m-o-m	Sep	3.4%	-2.5%
22:00	US	US Federal Reserve Releases Beige Book			
Thursday, 19 Oct					
3:50	Japan	Trade Balance	Sep	¥112.6B	¥559.8B
3:50	Japan	Exports, y-o-y	Sep	18.1%	15%
3:50	Japan	Imports, y-o-y	Sep	15.2%	14.7%
6:00	China	GDP, y-o-y	3Q	6.9%	6.8%
6:00	China	Retail Sales, y-o-y	Sep	10.1%	10.2%
6:00	China	Industrial Production, y-o-y	Sep	6%	6.4%
8:30	Japan	All Industry Activity Index, m-o-m	Aug	-0.1%	0.2%
10:00	Japan	Machine Tool Orders, y-o-y	Sep F	45.3%	--
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Sep	1%	-0.2%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Sep	2.8%	2.2%
12:30	UK	Retail Sales Inc Auto Fuel, m-o-m	Sep	1%	-0.1%
12:30	UK	Retail Sales Inc Auto Fuel, y-o-y	Sep	2.4%	2.1%
16:30	US	Initial Jobless Claims	14-Oct	243K	240K
16:30	US	Philadelphia Fed Business Outlook	Oct	23.8	22
Friday, 20 Oct					
18:00	US	Existing Home Sales	Sep	5.35M	5.3M
18:00	US	Existing Home Sales, m-o-m	Sep	-1.7%	-0.9%
22:00	US	Fed's Mester Speaks on Global Regulatory Structure			

* UAE time

Source: Bloomberg

Fig. 9. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA data						
	UAE	Dubai Economy Tracker SA	Sep	56.3	--	55.2
	Egypt	Urban CPI, y-o-y	Sep	31.9%	--	31.6%
	Egypt	Urban CPI, m-o-m	Sep	1.1%	--	1%
	Egypt	CPI Core, y-o-y	Sep	34.9%	--	33.3%
	Qatar	CPI, m-o-m	Sep	-0.4%	--	0.1%
	Qatar	CPI, y-o-y	Sep	-0.4%	--	-0.5%
Monday, 9 Oct						
5:45	China	Caixin China PMI Composite	Sep	52.4	--	51.4
5:45	China	Caixin China PMI Services	Sep	52.7	--	50.6
Tuesday, 10 Oct						
3:50	Japan	BoP Current Account Balance	Aug	JPY2320B	JPY2223.3B	JPY2380.4B
12:30	UK	Industrial Production, m-o-m	Aug	0.3%	0.2%	0.2%
12:30	UK	Manufacturing Production, m-o-m	Aug	0.4%	0.2%	0.4%
	China	Money Supply M2, y-o-y	Sep	8.9%	9%	--
	China	New Yuan Loans CNY	Sep	1090B	1230B	--
	China	Aggregate Financing CNY	Sep	1480B	1572.4B	--
	India	Exports, y-o-y	Sep	10.3%	--	--
	India	Imports, y-o-y	Sep	21%	--	--
Wednesday, 11 Oct						
3:50	Japan	Core Machine Orders, m-o-m	Aug	8%	1%	3.4%
3:50	Japan	Core Machine Orders, y-o-y	Aug	-7.5%	0.7%	4.4%
10:00	Japan	Machine Tool Orders, y-o-y	Sep P	36.2%	--	45.3%
15:00	US	MBA Mortgage Applications	6-Oct	-0.4%	--	-2.1%
18:00	US	JOLTS Job Openings	Aug	6140	6125	6082
22:00	US	FOMC Meeting Minutes	20-Sep	--	--	--
Thursday, 12 Oct						
3:01	UK	RICS House Price Balance	Sep	6%	4%	6%
3:50	Japan	PPI, y-o-y	Sep	2.9%	3%	3%
8:30	Japan	Tertiary Industry Index, m-o-m	Aug	0.1%	0.1%	-0.2%
13:00	Eurozone	Industrial Production SA, m-o-m	Aug	0.3%	0.6%	1.4%
16:00	India	CPI, y-o-y	Sep	3.3%	3.5%	3.3%
16:00	India	Industrial Production, y-o-y	Aug	0.9%	2.6%	4.3%
16:30	US	PPI Final Demand, m-o-m	Sep	0.2%	0.4%	0.4%
16:30	US	Initial Jobless Claims	7-Oct	258K	250K	243K
16:30	US	PPI Final Demand, y-o-y	Sep	2.4%	2.6%	2.6%
16:30	US	Continuing Claims	30-Sep	1921K	1930K	1889K
Friday, 13 Oct						
16:30	US	CPI, m-o-m	Sep	0.4%	0.6%	0.5%
16:30	US	CPI, ex-Food and Energy, m-o-m	Sep	0.2%	0.2%	0.1%
16:30	US	CPI, y-o-y	Sep	1.9%	2.3%	2.2%
16:30	US	CPI, ex-Food and Energy, y-o-y	Sep	1.7%	1.8%	1.7%
16:30	US	Retail Sales Advance, m-o-m	Sep	-0.1%	1.7%	1.6%
16:30	US	Retail Sales, ex-Auto and Gas, m-o-m	Sep	0.1%	0.4%	0.5%
16:30	US	Retail Sales Control Group	Sep	0%	0.4%	0.4%
18:00	US	U. of Mich. Sentiment	Oct P	95.1	95	101.1
	China	Trade Balance	Sep	\$41.9B	\$38B	\$28.5B
	China	Imports, USD y-o-y	Sep	13.5%	14.7%	18.7%
	China	Exports, USD y-o-y	Sep	5.1%	10%	8.1%

* UAE time

Source: Bloomberg

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