The Week Ahead: Powell testimony and April FOMC minutes in the spotlight

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Oil: Easing of lockdown restrictions helping to improve demand

The gradual re-opening of the global economies gathered pace last week, with data indicating that people resumed some outdoor activities while maintaining social distancing rules. The demand for oil has improved with the resumption of economic activity, leading the Brent crude price to strengthen to a five-week high of USD33.5 p/b at the time of publishing. The IEA in its monthly report last week highlighted that demand in OECD countries is improving at a faster pace than its earlier expectations, and revised its annual global oil demand estimate to an 8.6 million b/d fall from a previous forecast of a 9.3 million b/d decline. On the supply side, key GCC producers, including Saudi Arabia, UAE and Kuwait have announced further production cuts to help markets recover from the deep supply glut conditions of April (page 2). Overall, the positive developments in both supply and demand side factors have helped improve oil market sentiment.

Global: Powell and Mnuchin testify before Senate committee

The key events and releases in the US this week are Fed Chair Jerome Powell and Treasury Secretary Steven Mnuchin testifying before the Senate Banking Committee (19 May) on the pandemic response, and the April FOMC minutes (20 May). We expect Powell to reiterate that the Fed will continue with its easy monetary policy to help the economy recover from the COVID-19 crisis. We also expect him to re-emphasise that the Fed does not see negative interest rates as an “appropriate” policy tool at this point and instead that it will focus on asset purchases. In the April FOMC meeting minutes we will be watching for any discussion of the Fed shifting to targeted asset purchases from the current open-ended programme. We see potential for some updated guidance on the asset purchase programme by the FOMC at its upcoming meetings. In terms of data, May PMI readings for the US, Eurozone and the UK are due this week. We expect to see a pickup in economic activity from record lows in April, albeit with the readings continuing to point to a contraction in growth (i.e. below 50). The other key global data due this week are UK CPI and labour data, and Japan inflation and exports.

EM: CBRT likely to lower benchmark rates further in May

We and consensus expect the CBRT to cut its benchmark one-week repo rate by 50 bps to 8.25% at its 21 May policy meeting. We believe that the CBRT is in a delicate situation at this point and needs to balance supporting growth with limiting capital outflows which are putting downwards pressure on the TRY. Elsewhere, market attention will also be on the China’s annual National People's Congress (NPC) meeting due on 22 May. We expect policymakers to announce a meaningful fiscal package to aid the economic recovery post-COVID-19 and set a flexible GDP growth target of 2-3% for 2020. Furthermore, we also expect the PBoC to continue with its monetary easing measures through RRR cuts and targeted liquidity bolstering measures.

The next issue of Global Data Watch will be published on Monday 1 June 2020

I. Recent Events and Data Releases

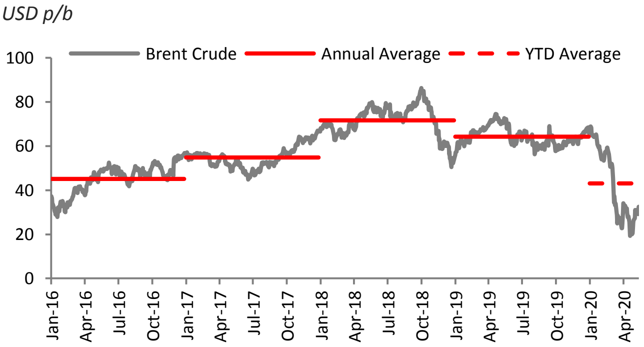
A. MENA Economies

GCC: OPEC producers to enact voluntary production cuts in June

Saudi oil production to fall below 7.5 million b/d in June

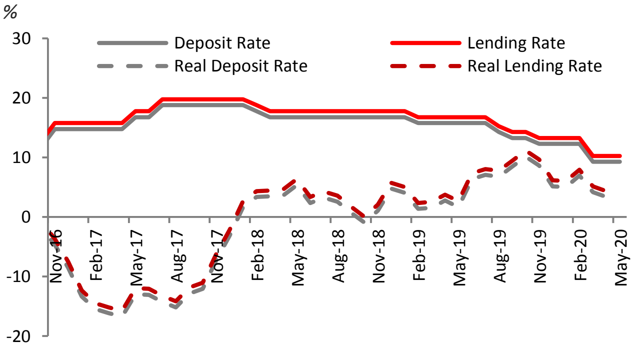
Saudi Arabia, UAE and Kuwait have announced additional voluntary crude production cuts to restore further stability to the energy markets. Saudi Arabia plans to lower output by an additional 1 million b/d from June, taking total production to 7.492 million b/d – its lowest in almost two decades. The UAE has also committed to undertaking an additional voluntary output cut of 100K b/d from June, while Kuwait pledged to lower production by 80K b/d. The key GCC countries' decisions to cut production and the modest improvement in global demand following the reopening of global economies helped the Brent price to strengthen to USD32.7 p/b at the end of last week. On the macroeconomic side, we have not revised our economic forecasts on the back of these voluntary production cuts as yet. We will wait until there is greater clarity on the length of these additional output reductions and the impact on price. These cuts will exert further downwards pressure on real GDP growth, although they will likely provide some upside to our oil price forecast.

Fig. 1. Oil: Brent crude price closed at five-week high of over USD32 p/b at the end of last week



Source: Bloomberg

Fig. 2. Egypt: CBE kept benchmark rates steady at its May policy meeting



Source: CBE, COPMAS

UAE: Government to keep VAT rate steady at 5.0%

Steady VAT rate at 5% in UAE will boost competitive advantage over Saudi retailers

The UAE government announced that it has no plans to raise the VAT rate from the current 5.0% after Saudi Arabia surprisingly increased its consumption tax rate threefold to 15.0% from 1 July. For more details on the Saudi VAT hike, please see our note **Saudi Arabia Economic Update: Austerity measures announced to limit the fiscal deficit**, published on 11 May 2020. The UAE government's decision to keep the VAT rate steady will provide a competitive advantage for UAE corporates in the region, particularly over Saudi retailers. The steady tax rate will also help UAE households and corporates plan how best to cope with the negative consequences of the ongoing shutdown. Moreover, we do not see any other GCC countries following Saudi Arabia in this respect in the near term. Kuwait and Qatar have not introduced VAT as yet, while Oman will introduce the indirect tax in 2021. We expect that Oman's starting rate will be 5.0%, with any higher rates being introduced later. In the near term, we see Bahrain as most likely to follow Saudi in raising the VAT rate.

Egypt: CBE on hold; IMF approves USD2.8 billion of support

The steady policy stance was expected after the fall in FX reserves in March and April

The CBE kept monetary policy steady at its 14 May meeting, in line with our and consensus expectations. The benchmark lending rate remains at 10.25% and the deposit rate at 9.25%. We had envisaged this steady stance after sizable capital outflows and the fall in FX reserves over the last two months. As highlighted in our recent research, the CBE's net international reserves (NIR) fell by USD3.07 billion in April to USD37.0 billion, after moderating by USD5.4 billion in March. The official statement noted that the CBE decided to keep key policy rates unchanged following the deterioration in global activity and the 300 bps rate cut in March. The CBE also noted that the stance remains consistent with achieving its inflation target of 9% y-o-y (±3 pp) for end-2020. There was limited detail on the MPC discussions or the outlook for policy. We believe that the CBE will look for stability in capital flows and support for the EGP before looking to implement any potential rate cuts as economic activity deteriorates. The recent drawdown in reserves partly reflect a desire to support the EGP, in our view.

IMF approved USD2.8 billion of emergency funding

Positively, the IMF approved an emergency USD2.8 billion loan under a Rapid Financing Instrument as requested by Egypt, aimed at providing balance of payments support and enabling extra healthcare spending. This should help limit the pace of overall FX drawdowns in 2020, although it will account for a relatively small portion of the expected current account deficit. Egypt is also negotiating a stand-by arrangement (SBA) with the IMF, which should provide additional funding support this year alongside safeguarding the structural economic improvements and reforms undertaken between 2016 and 2019 with the USD12 billion extended fund facility (EFF).

B. G4 Economies

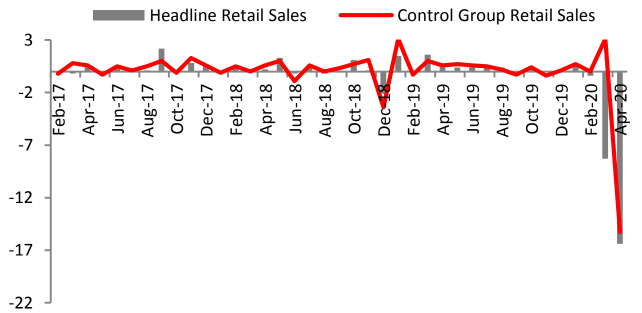
US: April data confirm record drop in monthly retail sales

Retail sales plunged 16.4% m-o-m in April, after -8.3% in March

The incoming data for April show the severe effects that the nationwide lockdowns have had on domestic economic activity in the US, with retail sales and industrial production contracting sharply during the month. Headline retail sales contracted by 16.4 m-o-m in April (consensus: -12.0%, March: -8.3%), suggesting that household consumption fell steeply at the beginning of 2Q. Industrial production also dropped 17.2% m-o-m in April following -4.5% m-o-m in March. Fed Chair Jerome Powell highlighted that "the scope and speed of this downturn are without modern precedent, significantly worse than any recession since World War II", and that a recovery could take more time to gather speed than initially thought. There are indications that most states are moving towards a soft lockdown from a hard shutdown rather than towards a complete lifting of restrictions, which will likely result in a gradual and limited economic improvement in our view. Looking ahead, we expect economic activity in essential sectors in May to show a modest improvement from the deep and unprecedented contraction in April.

Fig. 3. US: Retail sales fell by a record 16.4% m-o-m in April, reflecting the impact of the shutdown

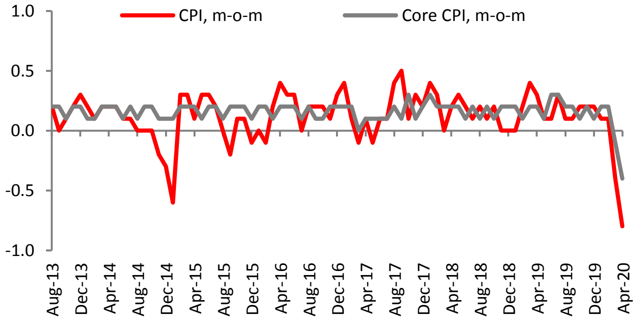
% change m-o-m



Source: US Census Bureau

Fig. 4. US: Core CPI deflation rate deepened to -0.4% m-o-m in April, from -0.1% in March

% change m-o-m



Source: Bureau of Labor statistics

Second consecutive month of deflation in April

The weak domestic demand resulted in consumer prices falling for a second consecutive month in April. Core CPI deflation deepened further to -0.4% m-o-m in April from -0.1% in March. This is the largest monthly drop in the series, which dates back to 1957. The April deflation was due to a record drop in airline fares, apparel, and motor vehicle insurance prices – the segments most severely affected by the stay-at-home orders. The monthly deflation resulted in y-o-y core CPI inflation softening to 1.4%, the lowest rate since early 2011. We expect core inflation to remain soft at least until the end of 2020 despite activity resuming after the COVID-19 restrictions are relaxed.

UK: Real GDP contracted by 2.0% q-o-q in 1Q2020

Economic contraction in 2Q to be significantly worse than 1Q's 2.0% q-o-q drop

The UK economy contracted by 2.0% q-o-q in 1Q2020 (1Q2019: 0.0%), the sharpest quarterly fall since the end of 2008. However, this was better than the consensus expectations (-2.6%) and the BoE's forecasts (-3.0%). The UK's GDP contraction in 1Q was also better than the 3.8% q-o-q decline in the Eurozone. This was likely due to the full lockdown in the UK only beginning on 23 March while it was much earlier in key Eurozone countries. The fall in economic activity in the UK was broad-based with private consumption contracting by 1.7% q-o-q and government spending falling by 2.6% q-o-q. Weak domestic demand due to the lockdown was evident across all segments, albeit with some variations based on necessity. The shutdown of economies across the globe and a fall in external demand led exports to fall by a steep 10.8% q-o-q. Looking ahead, the economic contraction in 2Q is likely to be much worse than in 1Q after six full weeks of shutdown and a subsequent gradual and limited re-opening. The BoE in its "illustrative" scenario published on 7 May forecast a 25.0% contraction in 2Q, while the Office for Budget Responsibility (OBR) estimates a 35.0% drop during the quarter. We believe that the economic recovery is likely to be only gradual even after the reopening, with both households and corporates cutting costs to limit further deterioration of their balance sheets. We think that corporate and household balance sheets will mostly remain below pre-crisis levels until at least 2021.

C. Emerging Market Economies

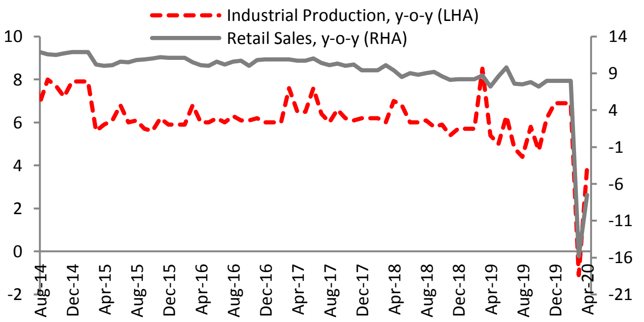
India: Targeted stimulus measures announced to revive the economy

We now expect combined fiscal deficit of central and state governments to be around 10.0% of GDP in FY21

Indian Prime Minister Narendra Modi last week announced a stimulus package of INR20 trillion (USD266 billion), equivalent to c.10% of GDP, to provide immediate support to individuals and firms severely impacted by the COVID-19 related shutdown. The support package consists of a number of new policy reforms, including those related land, labour, agriculture etc., and additional spending measures to support affected households and corporates. The package also includes RBI's liquidity support measures (INR8 trillion) announced earlier and the initial fiscal spending package announced in April. Direct spending measures in the new package are limited in size and will likely have a modest fiscal impact of about INR0.84 trillion (0.45% of GDP), based on our calculations. We believe that the central government's fiscal deficit would be around 6.0% of GDP in FY21 (April 2020 – March 2021), while the state governments' deficit would be close to 4.0% of GDP, taking the total fiscal deficit to c.10.0% of GDP. We envisage that most of the fiscal deficit will be attributable to the fall in government revenues due to lockdown. The limited direct spending measures announced in the fiscal package also make us believe that the economic recovery will be gradual. We expect real GDP to contract by c.2.0% in FY21.

Fig. 5. China: Industrial production growth rebounded into positive territory in April

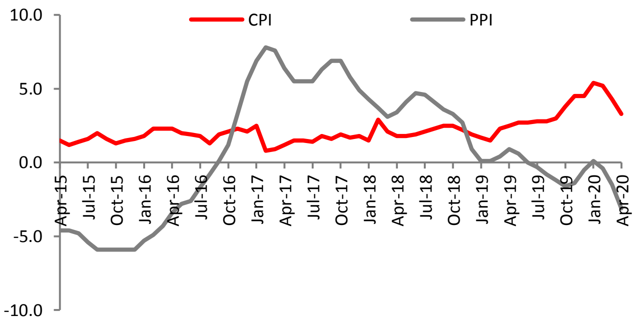
% change y-o-y



Source: National Bureau of Statistics

Fig. 6. China: Headline CPI inflation decelerated sharply in April while PPI deflation deepened

% change y-o-y



Source: National Bureau of Statistics

China: April data present mixed picture about recovery post COVID-19

Domestic demand remains subdued despite resumption of activity

China's activity data for April presented a mixed picture, with industrial activity strengthening but retail sales remaining subdued. Industrial production growth accelerated to 3.9% y-o-y in April, from -1.1% in March, likely due to firms resuming production to deliver goods for existing orders. The recovery in industrial activity was consistent with the PMI survey and exports data released earlier, with both indicators showing continued improvement in manufacturing and goods exports. However, retail sales data remained in the contractionary zone in April, indicating that domestic demand remained muted despite the reopening and easing of lockdown restrictions. Retail sales contracted by 7.5% y-o-y in April (March: -15.8%), coming in lower than consensus expectations for a 6% drop. The lower-than-expected retail sales data indicate that consumers remained cautious amid heightened economic uncertainty and some clusters of a new wave of COVID-19 infections. Looking ahead, the prospects of further strengthening in industrial activity will largely depend on demand recovery on both the domestic and external fronts.

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Apr	-1.8%	
	UAE	Abu Dhabi CPI, y-o-y	Apr	-2.6%	
	Saudi Arabia	CPI, y-o-y	Apr	1.5%	
	Bahrain	CPI, y-o-y	Apr	-1.8%	
	Oman	CPI, y-o-y	Apr	-0.3%	
	Kuwait	CPI, y-o-y	Apr	1.9%	
Monday, 18 May					
3:50	Japan	GDP SA, q-o-q	1Q P	-1.8%	-1.1%
3:50	Japan	GDP Annualized SA, q-o-q	1Q P	-7.1%	-4.5%
22:00	US	Fed's Bostic Holds Virtual Discussion About Economy			
Tuesday, 19 May					
10:00	UK	Jobless Claims Change	Apr	12.2K	
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Mar	2.8%	2.6%
10:00	UK	Weekly Earnings ex-Bonus 3M/y-o-y	Mar	2.9%	2.6%
10:00	UK	ILO Unemployment Rate, 3M	Mar	4.0%	4.3%
16:30	US	Housing Starts	Apr	1216K	923K
16:30	US	Building Permits	Apr	1353K	1000K
18:00	Eurozone	ECB Chief Economist Lane Speaks at Policy Webinar			
18:00	US	Powell Testifies Before Senate Banking Committee			
Wednesday, 20 May					
3:50	Japan	Core Machine Orders, m-o-m	Mar	2.3%	-6.8%
5:30	China	1-Year Loan Prime Rate	20-May	3.9%	3.9%
10:00	UK	CPI, y-o-y	Apr	1.5%	0.9%
10:00	UK	CPI Core, y-o-y	Apr	1.6%	1.4%
10:00	UK	PPI Output NSA, m-o-m	Apr	-0.2%	-0.5%
17:30	UK	BOE's Bailey, Broadbent, Cunliffe Speak at Treasury Committee			
18:00	Eurozone	Consumer Confidence	May A	-22.7	-23.4
22:00	US	FOMC Meeting Minutes	29-Apr		
Thursday, 21 May					
3:50	Japan	Exports, y-o-y	Apr	-11.7%	-23.1%
4:30	Japan	Jibun Bank Japan PMI Mfg	May P	41.9	
12:30	UK	Markit UK PMI Manufacturing SA	May P	32.6	35.0
12:30	UK	Markit/CIPS UK Services PMI	May P	13.4	22.1
15:00	Turkey	One-Week Repo Rate	21-May	8.75%	8.25%
16:30	US	Philadelphia Fed Business Outlook	May	-56.6	-40.0
16:30	US	Initial Jobless Claims	16-May	2981K	2425K
16:30	US	Continuing Claims	9-May	22833K	23500K
17:45	US	Markit US Manufacturing PMI	May P	36.1	38.0
17:45	US	Markit US Services PMI	May P	26.7	32.3
18:00	US	Leading Index	Apr	-6.7%	-5.7%
18:00	US	Fed's Williams Takes Part in Discussion via Webinar			
18:00	US	Existing Home Sales	Apr	5.27M	4.3M
21:00	US	Fed's Clarida Takes Part in Virtual Discussion on Economy			
22:30	US	Powell to Makes Opening Remarks at `Fed Listens' Event			
Friday, 22 May					
3:30	Japan	National CPI, y-o-y	Apr	0.4%	0.1%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Apr	0.4%	-0.1%
10:00	UK	Retail Sales, inc-Auto Fuel, m-o-m	Apr	-5.1%	-15.5%
12:00	Eurozone	Markit Eurozone Manufacturing PMI	May P	33.4	38.0
12:00	Eurozone	Markit Eurozone Services PMI	May P	12.0	24.5
15:30	Eurozone	ECB Publishes Account of Monetary Policy Meeting			

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Monday, 11 May						
8:15	UAE	Dubai PMI	Apr	45.5		41.7
11:30	China	Money Supply M2, y-o-y	Apr	10.1%	10.3%	11.1%
11:30	China	New Yuan Loans CNY	Apr	2850.0B	1300.0B	1700.0B
Tuesday, 12 May						
5:30	China	PPI, y-o-y	Apr	-1.5%	-2.5%	-3.1%
5:30	China	CPI, y-o-y	Apr	4.3%	3.7%	3.3%
9:00	Japan	Leading Index CI	Mar P	91.7	84.4	83.8
16:00	India	Industrial Production, y-o-y	Mar	4.6%	-8.0%	-16.7%
16:30	US	CPI, m-o-m	Apr	-0.4%	-0.8%	-0.8%
16:30	US	CPI, ex-Food and Energy, m-o-m	Apr	-0.1%	-0.2%	-0.4%
16:30	US	CPI, y-o-y	Apr	1.5%	0.4%	0.3%
16:30	US	CPI, ex-Food and Energy, y-o-y	Apr	2.1%	1.7%	1.4%
Wednesday, 13 May						
3:50	Japan	BoP Current Account Balance	Mar	¥3168.8B	¥2043.0B	¥1971.0B
10:00	UK	Industrial Production, m-o-m	Mar	-0.1%	-5.6%	-4.2%
10:00	UK	Trade Balance, GBP Million	Mar	-£1540M	-£6676M	-£2500M
10:00	UK	GDP, q-o-q	1Q P	0.0%	-2.6%	-2.0%
10:00	UK	GDP, y-o-y	1Q P	1.1%	-2.2%	-1.6%
16:30	US	PPI Final Demand, m-o-m	Apr	-0.2%	-0.5%	-1.3%
Thursday, 14 May						
3:50	Japan	Money Stock M2, y-o-y	Apr	3.3%	3.4%	3.7%
11:00	Turkey	Industrial Production, m-o-m	Mar	1.9%	-4.0%	-7.1%
16:30	US	Import Price Index, m-o-m	Apr	-2.4%	-3.2%	-2.6%
16:30	US	Initial Jobless Claims	9-May	3176K	2500K	2981K
16:30	US	Continuing Claims	2-May	22377K	25120K	22833K
	Egypt	Lending Rate	14-May	10.25%		10.25%
	Egypt	Deposit Rate	14-May	9.25%	9.25%	9.25%
Friday, 15 May						
6:00	China	Industrial Production, y-o-y	Apr	-1.1%	1.5%	3.9%
6:00	China	Retail Sales, y-o-y	Apr	-15.8%	-6.0%	-7.5%
13:00	Eurozone	GDP SA, q-o-q	1Q P	-3.8%	-3.8%	-3.8%
13:00	Eurozone	GDP SA, y-o-y	1Q P	-3.3%	-3.3%	-3.2%
16:30	US	Retail Sales Advance, m-o-m	Apr	-8.3%	-12.0%	-16.4%
16:30	US	Retail Sales Control Group	Apr	3.1%	-5.0%	-15.3%
16:30	US	Empire Manufacturing	May	-78.2	-60.0	-48.5
17:15	US	Industrial Production, m-o-m	Apr	-4.5%	-12.0%	-11.2%
18:00	US	JOLTS Job Openings	Mar	7004	5800	6191
18:00	US	University of Michigan Sentiment	May P	71.8	68.0	73.7
	India	Exports, y-o-y	Apr	-34.6%		-60.30%

* UAE time
Source: Bloomberg

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