The Week Ahead: Further aggressive easing by global central banks

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

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US: Fed delivers second emergency rate cut in March

In a surprise move, the Fed cut the FFTR by 100 bps taking the range to 0.0-0.25%. Moreover, a large-scale quantitative easing (QE) programme was announced, with the Fed pledging to purchase USD500 billion in Treasuries and USD200 billion in mortgage-backed securities (MBS). Powell highlighted that the purpose of these purchases are to ensure the proper functioning of markets. We expect GCC central banks to follow the Fed's rate cut. The Fed's easing was ahead of its 17-18 March scheduled policy meeting, which is now cancelled. This easing follows the Fed's lowering of the FFTR by 50 bps on 3 March and its announcement of new measures to bolster liquidity in the financial system. The new liquidity measures announced last week include: i) USD500 billion in repo operations; ii) USD1 trillion in short-term loans to banks and brokers; and iii) the purchase of USD37 billion of Treasury bonds to reduce volatility in the bonds market. We believe the Fed will continue these operations until markets normalise. On the fiscal side, the House of Representatives last week passed the COVID-19 relief bill, which guarantees free coronavirus testing and emergency paid sick leave. We expect the bill to be approved in the Senate and signed by President Donald Trump this week. Furthermore, Trump declared a national emergency last week, freeing up over USD50 billion worth of funds to combat the coronavirus. Overall, the announced and expected monetary and fiscal easing measures are likely to help limit the negative spill-overs from the virus shock.

Japan: BoJ likely to announce liquidity measures

Consensus expects the BoJ to announce a combination of targeted lending measures and increased asset purchases (ETFs and JGBs) at its 18-19 March policy meeting. We expect the BoJ to follow the other major central banks (Fed, ECB and BoE) in announcing monetary easing measures to support economic activity. However, we believe the BoJ has limited monetary loosening space relative to other G4 central banks to counter the downside economic risks. We therefore believe that any monetary easing measures will be targeted at alleviating the stress in specific sectors, rather than aiming to support the economy as a whole.

EM: CBRT to lower benchmark rate by 50 bps to 10.25%

We and the consensus expect the CBRT to cut its benchmark one-week repo rate by 50 bps at its 19 March policy meeting. We believe the ongoing global monetary easing in both developed and emerging economies provides new space for the MPC to continue with its monetary easing cycle. Moreover, the recent drop in global oil prices will help Turkey lower rates further in our view, given the weaker inflation outlook. Separately, China released its retail sales and industrial production data for 2M2020 earlier this morning. Both retail sales (-20.5% YTD y-o-y) and industrial production (-13.5% YTD y-o-y) contracted sharply in 2M2020 and we expect this trend to continue into March. The PBoC last week cut the RRR by 50-150bps for banks that extended more loans to SMEs in 2019, freeing up CNY550 billion of reserves for lending.

I. Recent Events and Data Releases

A. MENA Economies

UAE: Announces sizable fiscal and monetary support measures

Size of central bank package is significant at AED100 billion or 6.5% of estimated GDP

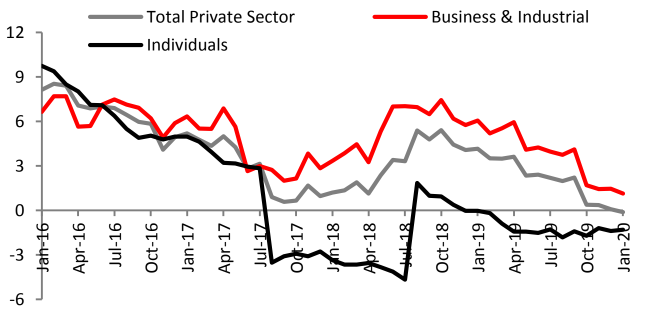
Monetary and fiscal support measures have been announced over the last few days aimed at reducing the impact of COVID-19 on corporates and individuals. We believe that the combined measures are proactive and will be vital in easing near-term pressure on businesses and households whose cash flow has been affected, as well providing liquidity to the banking system. The UAE economy is externally facing, with a number of key sectors highly impacted by the concurrent global demand and supply shocks (directly and indirectly). There are already signs of corporates asking employees to take unpaid leave, alongside some signs of job losses. The Central Bank of the UAE announced an AED100 billion targeted economic support scheme, intended to provide temporary relief for corporates and individuals who may be facing difficulties in making principal and/or interest payments on outstanding loans for a period of up to six months. The size of the package is meaningful, at c.6.5% of estimated 2019 GDP and 5.8% of gross outstanding loans in January 2020. We believe the most significant measure is an AED50 billion central bank fund from which banks can access interest free loans (collateralised). AED50 billion will also be freed up from banks' capital buffers. A number of other support measures were announced, including a 15-25% reduction in the capital banks are required to hold in order to help lending to SMEs. The central bank also indicated that the loan-to-value for mortgages for first-time home buyers would be reduced by 5ppt to support the real estate sector (currently it is 80% for UAE nationals and 75% for non-UAE nationals for their first property up to AED5 million). The central bank is also reviewing the existing limits on banks' exposure to the real estate sector. The central bank's communication indicated that more support measures will be introduced shortly.

Dubai's fiscal package targets individuals and key sectors – trade, tourism, etc.

Meanwhile, Dubai announced an AED1.5 billion (c.0.4 % of Dubai's estimated 2019 GDP) stimulus package at the end of last week, again aimed at shielding the economy from COVID-19. Key measures will help to reduce costs (corporates and individuals) over the next three months. Water and electricity bills will be discounted by 10% for residential, commercial, and industrial facilities. There are a number of initiatives targeted to sectors particularly impacted, such as retail, trade, tourism and energy. These include a 50% reduction of hotel municipality fees.

Fig. 1. UAE: Private sector credit growth was already weak, even before global coronavirus shock

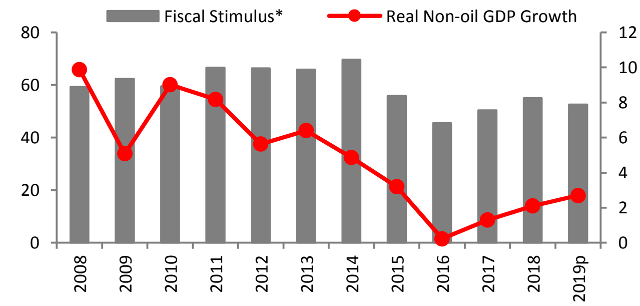
% change y-o-y



Source: UAE Central Bank, ADCB calculations

Fig. 2. Saudi Arabia: Government spending remains a key driver of real non-oil GDP growth

Fiscal stimulus (LHA); real non-oil GDP growth; % change (RHA)*



* Government spending as a % of non-oil GDP growth

Source: Bloomberg; ADCB estimates

Saudi Arabia: SAMA announces support package; government spending cuts planned

Government asks state agencies to look at lowering spending by 20%

SAMA unveiled an SAR50 billion (1.7% of preliminary 2019 GDP) economic stimulus package to support the private sector to reduce the potential economic impacts of COVID-19. The programme particularly targets SMEs, with SAMA highlighting the volatility of their cash flows. The package earmarks up to SAR30 billion for banks and financial institutions to enable deferred payments by SMEs for six months with immediate effect. SMEs will also be granted concessional loans of up to SAR13.2 billion from banks and financial institutions to maintain their operations, contribute to economic growth and sustain their employment rates. SAMA will also coordinate with banks and financial institutions to facilitate the payment of loans secured by SMEs, which are impacted by the precautionary measures adopted in Makkah and Madina. As with the UAE, these measures should help counterbalance the near-term impact of COVID-19. However, the size of the Saudi package is smaller relative to GDP than in the UAE. At the same time, the government is looking to retrench spending with the sharp fall in the oil price. The Saudi government has asked state agencies to submit proposals for a 20% cut in spending this year, according to Reuters. The outlook for the oil price requires a sharp pullback in government and related expenditure, which should result in a marked weakening in economic activity. Government spending still remains a key driver of non-oil activity. Aramco has also indicated lower capital expenditure plans for 2020 versus the level outlined in the IPO prospectus.

B. G4 Economies

UK: BoE announces package of easing measures to counter COVID-19

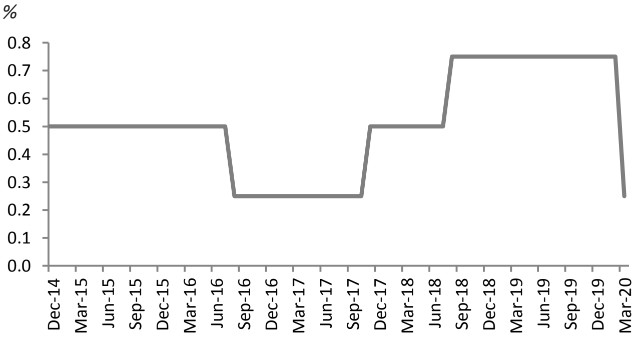
BoE announces 50bps inter-meeting rate cut on 11 March, alongside other liquidity boosting measures

The BoE delivered an emergency 50 bps benchmark policy rate cut to 0.25% on 11 March, to counter the negative economic impact of the COVID-19 pandemic. The MPC also introduced additional easing measures to boost liquidity in the economy. These include: i) a new term funding scheme worth over GBP100 billion to support small and medium-sized enterprises (the TFSME); and ii) a lowering of banks' counter-cyclical capital buffer requirement to 0%, from the current 1%. This measure will free up around GBP190 billion in potential lending, according to the BoE estimate, and will be equivalent to 13 times banks' net lending to businesses in 2019. We believe that the package of monetary easing measures announced by the BoE will bolster credit supply to the economy and will help households and companies during this difficult period. The BoE also highlighted that it is prepared to take additional action (in whatever form) if necessary, though it did not provide specific forward guidance regarding its potential course of action. Despite announcing a package of easing measures, the BoE left the asset purchase programme unchanged at the March meeting, keeping some monetary easing space for the near future.

We expect additional rate cuts and QE purchases by BoE in coming policy meetings

Looking ahead, we see scope for an additional 15 bps benchmark rate cut to 0.10%, although we do not expect negative interest rates at this point. We also expect the MPC to restart a government and corporate bond purchase programme if financial conditions deteriorate further. We forecast gilt purchases to be increased by c.GBP40-50 billion over four months starting from April (taking the total stock to GBP475-485 billion) and corporate bond purchases by GBP10 billion (to GBP20 billion). However, the timing of the additional monetary easing measures is likely to depend on COVID-19 related developments in the coming days.

Fig. 3. UK: BoE lowers benchmark rate by 50 bps in emergency meeting



Source: Bank of England

Fig. 4. UK: GBP weakens against USD after coordinated monetary and fiscal policy easing

Source: Bloomberg

UK: Expansionary budget announced to combat coronavirus

Fiscal stimulus announced for FY2020-21 is worth GBP30 billion, accounting for 1.3% of nominal GDP.

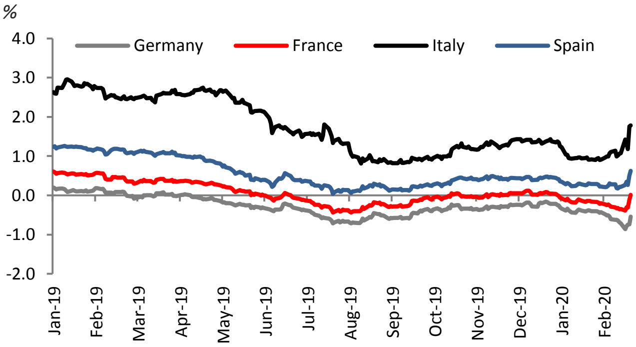
Following the BoE's emergency rate cut on 11 March, the UK's Chancellor of the Exchequer Rishi Sunak presented the FY2020-21 (Apr. 2020 – Mar. 2021) budget and announced sizeable fiscal stimulus measures to counter the COVID-19 pandemic. The fiscal stimulus announced for FY2020-21 is worth GBP30 billion, accounting for 1.3% of nominal GDP. Of the GBP30 billion, the Treasury allotted GBP12 billion (0.5% of GDP) for handling the coronavirus outbreak. The coordinated economic plan announced by the Treasury and the BoE in response to coronavirus should help soften the negative impact on the economy. Chancellor Sunak also announced an additional GBP175 billion of capital spending for infrastructure projects over the next five years, taking spending on roads, railways, houses and broadband to a total of GBP640 billion. According to the Office for Budget Responsibility (OBR), extra spending on government departments and investment is the biggest Budget "giveaway" since 1992, and will add around GBP100 billion to public borrowing by 2024. Overall, the announced fiscal stimulus measures in the Budget should be of great help in countering the negative shock of coronavirus.

Eurozone: ECB announces additional EUR120 billion of QE purchases

ECB announces package of monetary easing measures at its 12 March policy meeting

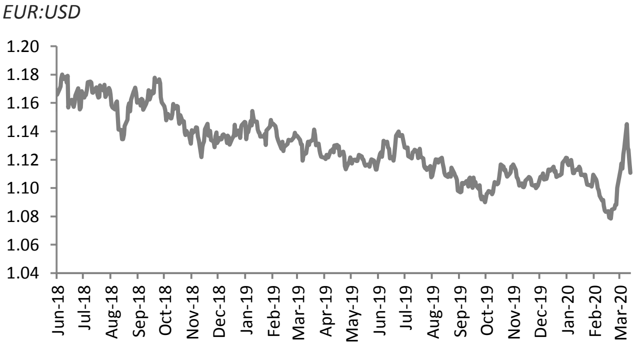
The ECB announced a package of monetary easing measures at its 12 March policy meeting. These include: i) additional longer-term refinancing operations (LTROs) to provide immediate liquidity support to the financial system; ii) an easing of TLTRO III conditions to support bank lending to those affected most by the spread of the coronavirus, in particular small and medium-sized enterprises; and iii) additional net asset purchases of EUR120 billion until end-2020. The announced asset purchases will be on top of the existing QE programme of EUR20 billion per month. Thus, total monthly asset purchases will be around EUR32-33 billion until end-2020. We believe that the package of measures announced will help boost financing conditions in the economy at this time of heightened uncertainty, although it may not be enough to counter the elevated downside risks. Meanwhile, the Governing Council (GC) left the benchmark deposit rate unchanged at -0.5% at the March meeting, likely indicating that the ECB is not keen on lowering interest rates further into negative territory. Forward guidance was also left unchanged, and continues to highlight that interest rates will remain at their present or lower levels until the inflation outlook moves robustly towards its goal. Overall, the announced monetary stimulus package fell short of market expectations, which had been for a more sizeable increase in net asset purchases and a potential 10 bps rate cut.

Fig. 5. Eurozone: 10-year bond yield rises sharply after Lagarde's post-meeting press conference comments



Source: Bloomberg

Fig. 6. Eurozone: EUR weakens sharply against USD after monetary stimulus package announcement by ECB



Source: Bloomberg

ECB calls for additional fiscal stimulus measures to counter COVID-19

We believe the ECB will announce additional monetary stimulus measures if necessary after it sees the impact of its current fiscal stimulus measures to counter COVID-19. ECB President Christine Lagarde during her post-meeting press conference pressed the Eurozone countries for an ambitious and coordinated fiscal policy response to support businesses and workers. The other key development during the press conference was Lagarde's failure to effectively answer a question on Italian bond spreads. Lagarde stated that the "ECB is not here to close spreads", which resulted in Italian bond yields rising sharply, affecting the market sentiment at a time of volatile market conditions. However, she tried to make up for the remark later in a TV interview, noting that "I am fully committed to avoiding any fragmentation in a difficult moment for the euro area".

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Feb	-1.3%	
	Qatar	CPI, y-o-y	Feb	-0.4%	
	Oman	CPI, y-o-y	Feb	0.4%	
	Bahrain	GDP Constant Prices, y-o-y	4Q	1.6%	
Monday, 16 March					
6:00	China	Retail Sales YTD, y-o-y	Feb	-20.5%	-4.0%
6:00	China	Industrial Production, YTD, y-o-y	Feb	-13.5%	-3.0%
6:00	China	Fixed Assets, ex-Rural, YTD, y-o-y	Feb	-24.5%	-2.0%
10:30	India	Wholesale Prices, y-o-y	Feb	3.1%	2.3%
16:30	US	Empire Manufacturing	Mar	12.9	4.9
Tuesday, 17 March					
8:30	Japan	Industrial Production, m-o-m	Jan F	0.8%	
8:30	Japan	Industrial Production, y-o-y	Jan F	-2.5%	
13:30	UK	Claimant Count Rate	Feb	3.4%	
13:30	UK	Jobless Claims Change	Feb	5.5K	
13:30	UK	Average Weekly Earnings 3M/y-o-y	Jan	2.9%	3.0%
13:30	UK	Weekly Earnings. Ex-Bonus 3M/y-o-y	Jan	3.2%	3.2%
13:30	UK	ILO Unemployment Rate, 3M	Jan	3.8%	3.8%
14:00	Eurozone	ZEW Survey Expectations	Mar	10.4	
14:00	Eurozone	ECB's Rehn in Finnish Parliament Hearing on Strategy Review			
16:30	US	Retail Sales Advance, m-o-m	Feb	0.3%	0.2%
16:30	US	Retail Sales, ex-Auto, m-o-m	Feb	0.3%	0.1%
16:30	US	Retail Sales Control Group	Feb	0.0%	0.4%
17:15	US	Industrial Production, m-o-m	Feb	-0.3%	0.4%
18:00	US	JOLTS Job Openings	Jan	6423	6401
Wednesday, 18 March					
3:50	Japan	Trade Balance	Feb	-¥1312.6B	¥916.7B
3:50	Japan	Exports, y-o-y	Feb	-2.6%	-4.2%
3:50	Japan	Imports, y-o-y	Feb	-3.6%	-14.1%
14:00	Eurozone	CPI, y-o-y	Feb F	1.2%	1.2%
16:30	US	Building Permits	Feb	1551K	1500K
16:30	US	Housing Starts	Feb	1567K	1502K
22:00	US	FOMC Rate Decision (Upper Bound)	18-Mar	1.25%	0.75%
22:00	US	FOMC Rate Decision (Lower Bound)	18-Mar	1.00%	0.50%
22:00	US	Interest Rate on Excess Reserves	19-Mar	1.10%	0.48%
22:30	US	Powell Holds Post-FOMC Meeting Press Conference			
Thursday, 19 March					
3:30	Japan	National CPI, y-o-y	Feb	0.7%	0.5%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Feb	0.8%	0.6%
8:30	Japan	All Industry Activity Index, m-o-m	Jan	0.0%	0.5%
15:00	Turkey	One-Week Repo Rate	19-Mar	10.75%	10.25%
16:30	US	Current Account Balance	4Q	-$124.1B	-$109.0B
16:30	US	Philadelphia Fed Business Outlook	Mar	36.7	10.0
18:00	US	Leading Index	Feb	0.8%	0.1%
	Egypt	Trade Balance	Jan	-3454.0M	
	Japan	BOJ Policy Balance Rate	19-Mar	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	19-Mar	0.0%	0.0%
Friday, 20 March					
5:30	China	1-Year Loan Prime Rate	Mar	4.05%	3.95%
5:30	China	5-Year Loan Prime Rate	Mar	4.75%	4.70%
13:30	UK	PSNB, ex-Banking Groups	Feb	-9.8B	0.8B
18:00	US	Existing Home Sales	Feb	5.46M	5.55M

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Last week's data						
	China	New Yuan Loans CNY	Feb	3340.0B	1120.0B	905.7B
	China	Money Supply M2, y-o-y	Feb	8.4%	8.5%	8.8%
	India	Exports, y-o-y	Feb	-1.7%		2.9%
	India	Imports, y-o-y	Feb	-0.7%		2.5%
Monday, 9 March						
3:50	Japan	GDP SA, q-o-q	4Q F	-1.6%	-1.7%	-1.8%
3:50	Japan	GDP Annualized SA, q-o-q	4Q F	-6.3%	-6.6%	-7.1%
8:15	UAE	Dubai PMI	Feb	50.6		50.1
13:30	Eurozone	Sentix Investor Confidence	Mar	5.2	-11.4	-17.1
Tuesday, 10 March						
3:50	Japan	Money Stock M2, y-o-y	Feb	2.8%		3.0%
5:30	China	PPI, y-o-y	Feb	0.1%	-0.3%	-0.4%
5:30	China	CPI, y-o-y	Feb	5.4%	5.2%	5.2%
10:00	Japan	Machine Tool Orders, y-o-y	Feb P	-35.6%		-30.1%
14:00	Eurozone	GDP SA, q-o-q	4Q F	0.1%	0.1%	0.1%
14:00	Eurozone	GDP SA, y-o-y	4Q F	0.9%	0.9%	1.0%
14:00	Eurozone	Household Cons, q-o-q	4Q	0.5%	0.1%	0.1%
14:00	US	NFIB Small Business Optimism	Feb	104.3	102.9	104.5
	Egypt	Urban CPI, y-o-y	Feb	7.2%		5.3%
	Egypt	CPI Core, y-o-y	Feb	2.7%		1.9%
Wednesday, 11 March						
11:00	Turkey	Current Account Balance	Jan	-2.2B	-2.6B	-1.8B
13:30	UK	Monthly GDP, m-o-m	Jan	0.3%	0.2%	0.0%
13:30	UK	Index of Services, 3M/3M	Jan	0.1%	0.1%	0.0%
13:30	UK	Industrial Production, m-o-m	Jan	0.1%	0.3%	-0.1%
13:30	UK	Manufacturing Production, m-o-m	Jan	0.3%	0.2%	0.2%
13:30	UK	Trade Balance, GBP million	Jan	£6279M	-£356M	£4212M
15:30	UK	Bank of England Bank Rate	Mar	0.75%		0.25%
16:30	US	CPI, m-o-m	Feb	0.1%	0.0%	0.1%
16:30	US	CPI, ex-Food and Energy, m-o-m	Feb	0.2%	0.2%	0.2%
16:30	US	CPI, y-o-y	Feb	2.5%	2.2%	2.3%
16:30	US	CPI, ex-Food and Energy, y-o-y	Feb	2.3%	2.3%	2.4%
22:00	US	Monthly Budget Statement	Feb	-$234.0B	-$238.5B	-$235.3B
Thursday, 12 March						
3:50	Japan	BSI Large All Industry, q-o-q	1Q	-6.2		-10.1
14:00	Eurozone	Industrial Production SA, m-o-m	Jan	-1.8%	1.5%	2.3%
16:00	India	CPI, y-o-y	Feb	7.6%	6.7%	6.6%
16:00	India	Industrial Production, y-o-y	Jan	0.1%	0.5%	2.0%
16:30	US	PPI Final Demand, m-o-m	Feb	0.5%	-0.1%	-0.6%
16:30	US	PPI Final Demand, y-o-y	Feb	2.1%	1.8%	1.3%
16:45	Eurozone	ECB Main Refinancing Rate	12-Mar	0.0%	0.0%	0.0%
16:45	Eurozone	ECB Marginal Lending Facility	12-Mar	0.25%	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	12-Mar	-0.5%	-0.5%	-0.5%
Friday, 13 March						
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	-0.3%	0.0%	0.8%
11:00	Turkey	Industrial Production, m-o-m	Jan	1.9%	0.5%	-0.2%
11:00	Turkey	Industrial Production, y-o-y	Jan	9.0%	8.4%	7.9%
16:30	US	Import Price Index, m-o-m	Feb	0.1%	-1.0%	-0.5%
18:00	US	University of Michigan Consumer Sentiment	Mar P	101.0	95.0	95.9

* UAE time
Source: Bloomberg

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