The Week Ahead: OPEC+ likely to announce production cuts amid softening demand

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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Global: Growth risks rise with spread of coronavirus

Global growth risks have increased with the spread of the coronavirus, with new cases emerging around the world. We expect to see global growth forecasts downgraded after data for end-2019 already showed a loss in momentum. We now envisage 2020 global growth to weaken to the softest level since 2009, with corporate and household spending both moderating. We made some tentative downward adjustments to our GCC economic forecasts in February, but highlighted the potential for further revisions depending on the severity of the virus' spread. We now see greater downside risks, with the global spread reducing the propensity for travel and leading to new regional travel restrictions. As highlighted in our earlier research, we believe the impact on the GCC region will come through weaker hydrocarbon demand and prices, tourism, trade and logistics. Meanwhile, the deepening of the coronavirus crisis is pushing rate expectations lower, including for the US. The market is now pricing in 93 bps of rate cuts by the Fed by end-2020 due to the sharp sell-off in global equity markets at the end of last week, with 38 bps priced in for the 17-18 March policy meeting. The Fed turned significantly more dovish last week, raising March rate cut expectations (pages 3-4). A number of Fed members have speaking engagements this week ahead of the Fed's blackout period, which starts on 7 March.

US: Super Tuesday primary elections and February NFP data

The February NFP and ISM readings will be watched closely this week to assess any initial impact of the coronavirus on the US economy. Consensus expects a solid 175K jobs to have been created in February following a robust 225K print for January. Wage growth is also forecast to have accelerated to 0.3% m-o-m in February, from 0.2% in January. Separately, the Democratic Party presidential primaries have entered a crucial stage with 14 states (including Texas and California) and one territory holding their primary elections on 3 March (Super Tuesday). Recent polling data shows Bernie Sanders leading the race so far, with Joe Biden and others trailing behind. Historically, the winners of the Super Tuesday primaries have mostly gone on to win their party's nomination for the presidential race.

Oil: OPEC+ to announce additional production cuts for 2Q2020

OPEC and its non-OPEC oil producing partner countries (OPEC+) are expected to agree on an additional output cut at their 5-6 March meeting, despite different opinions over the magnitude of reduction needed. We expect the output cut to be in the range of c.600-800K b/d, taking the total reduction to 2.7-2.9 million b/d from the October 2018 base production level (including Saudi Arabia's voluntary cuts). Indications are that Saudi Arabia and some other countries are looking for a 1 million b/d output cut for 2Q2020 amidst weakening global demand. The joint technical committee earlier proposed a 600K b/d cut in early February, which Russia refused to endorse. However, this week Russia outlined its support for an output cut to bolster the oil market. This meeting is critical for the cohesion of OPEC+.

I. Recent Events and Data Releases

A. MENA Economies

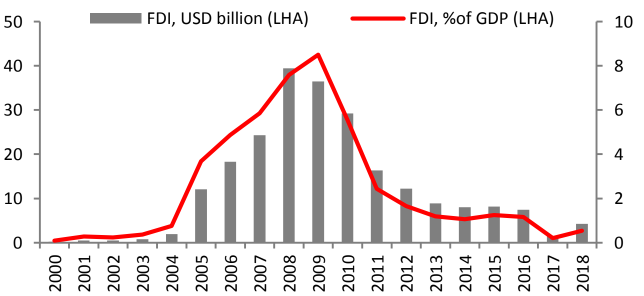
Saudi Arabia: Government reshuffle; temporary halt to religious tourism

Government reshuffle to support the transformation plan

Saudi Arabia announced a government reshuffle last week, with royal orders issued by King Salman bin Abdulaziz al-Saud. We believe that the changes were aimed at supporting and accelerating the transformation plan, while there were no changes to key portfolios, including oil. Saudi state entities governing investment, tourism and sport were promoted to full ministries as part of the reshuffle. Notably, Khalid Al-Falih, who was the energy minister until September and previously chaired state oil company Aramco, was appointed as the new investment minister. The new ministry replaces the Saudi Arabian General Investment Authority (SAGIA), which had been responsible for attracting and issuing investment licences to foreign companies, although it did not control other key regulations. Raising domestic and foreign investment levels remains critical for Saudi Arabia given the funds required for the planned investment programme (including various mega projects) and for the creation of jobs. Khalid Al-Falih has a strong international profile and a reputation for being highly capable and effective. Saudi Arabia has raised funds through the part-IPO of Aramco in 2019 and the planned sale of SABIC, but given the scale of the planned development, significantly greater capital is required. FDI inflows into Saudi Arabia remain weak in absolute terms and as a percentage of GDP. The formation of two new ministries for sport and tourism reflects the importance of their roles in developing new sectors of the economy and supporting the economic diversification plans. A number of high-profile sporting and entertainment events have been held in Saudi Arabia, whilst a number of key planned mega-projects are related to developing the tourism sector. The civil service ministry, which is responsible for public employees, was also merged with the labour ministry.

Fig. 1. Saudi Arabia: FDI flows stand at less than 1.0% of GDP in 2018; interim data indicates similar level for 2019

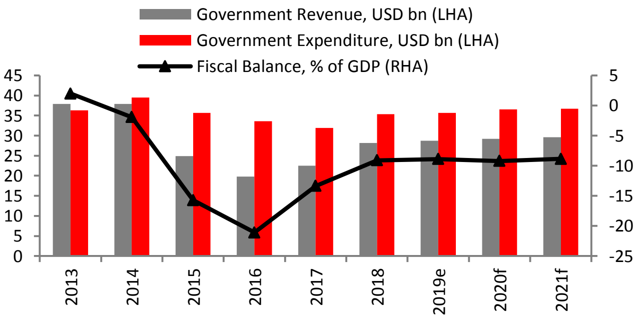
USD billion (LHA); % of GDP (RHA)



Source: UNCTAD, SAMA, ADCB calculations

Fig. 2. Oman: Fiscal deficit expected to remain large at an estimated 9.2% of GDP in 2020

USD billion (LHA); % of GDP (RHA)



Source: Central Bank of Oman, IMF, ADCB estimates

Temporary ban on religious tourism is precautionary measure – impact depends on length

Separately, Saudi Arabia has temporarily halted religious travel to Mecca and Medina from end-February to prevent the spread of the coronavirus as cases in the region have increased. Religious tourism is the greatest source of foreign visitors to the country, although overall the tourism sector accounts for just c.3.0% of GDP. The economic impact will depend on the length of the ban and if it continues into the two peak periods – i) Ramadan (April and May 2020), a traditional period to undertake Umrah; and ii) Hajj (from end-July), which accounts for around a quarter of total annual foreign pilgrims. The ban is likely to have an impact on the wider region through the airlines, as Saudi Arabia is a major destination. At this point, we still expect Saudi non-oil activity to strengthen in 2020 with a build-up of investment momentum. Interim data continues to point to a further rise in activity, including private sector loan demand. Notably, recently released data showed that real non-oil GDP growth accelerated 3.3% in 2019 (2018: 2.4%), with private sector activity expanding by 3.8% - reaching its highest level since 2014.

Oman: New Sultan highlights need for fiscal reforms

Supporting economic activity while implementing fiscal reforms will be challenging

Sultan Haitham bin Tariq al-Said highlighted last week that the government would work to reduce public debt and outlined moves to support economic activity. These priorities were mentioned in the new ruler's second public speech since he acceded to the throne in January. We believe that these are the greatest challenges facing Oman – namely balancing the vital need for fiscal reform with supporting growth and job creation for the national population. A meaningful austerity programme will dampen economic activity, although it remains vital for maintaining Oman's access to international debt capital markets. Oman's fiscal and external funding requirements remain high and the international debt market will need to see signs of meaningful fiscal reform going forward. We estimate a fiscal deficit of c.9.2% of GDP in 2020 and note that Oman is particularly vulnerable to a lower oil price backdrop, although we see some support in 2020 with new gas production coming on stream. No new fiscal reform measures have been announced, although VAT is expected to be introduced in 2021. On the measures to support economic activity, Sultan Haitham mentioned that public institutions and companies will be restructured to boost their performance and their efficiency. He also pledged to review employment in government institutions. Creating jobs for nationals remains a key economic and social challenge given the high level of youth unemployment. Focus remains on raising Omanisation rates (including in areas such as tourism, industrial and logistics in 2020) to provide more employment opportunities for nationals. Separately, no changes have been announced regarding the government structure, new senior appointments or any decentralisation of power. However, this was likely due to the 40-day mourning period.

B. G4 Economies

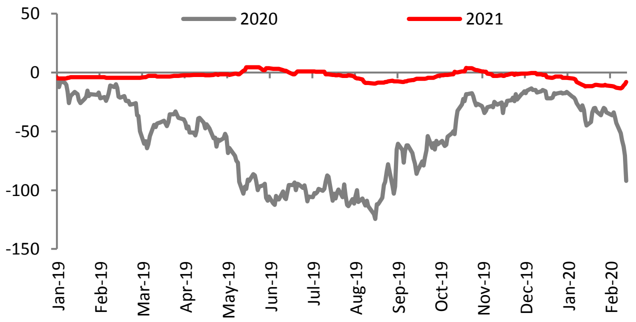
Global: Financial stability concerns rising; Fed ready to act

Risk-off sentiment roils global equity and oil markets

Global equity markets sold off sharply last week amid heightened concerns over coronavirus spreading at a rapid pace outside of China. A number of new countries, including Brazil, Greece, Mexico, New Zealand, and Nigeria, reported their first COVID-19 cases last week. Demand side concerns resulted in global crude prices (Brent) dropping sharply to close at USD50.5 p/b on 28 February, from USD58.5 p/b on 21 February. The safe-haven assets including US treasuries, German Bunds, JPY and EUR have gained amid heightened uncertainties. To counter the negative impact of coronavirus on the economy, Hong Kong (USD15.4 billion), Malaysia (USD4.8 billion), Taiwan (USD2 billion) and Indonesia (USD750 million) have recently announced fresh fiscal stimulus measures. Moreover, there are indications that South Korea is preparing a stimulus package to boost economic activity. We believe that the increased government spending will only have limited success in boosting economic activity in the near term, especially with consumers staying at home and many businesses working at lower capacity. The market sell-off could also lower economic activity by affecting sentiment, even in areas with limited cases of the virus. However, the announced stimulus measures will be of greater help in boosting domestic demand once virus concerns ease and activity resumes.

Fig. 3. US: Market pricing in 90 bps of FFTR cuts by end-2020; 38 bps already priced in for March meeting

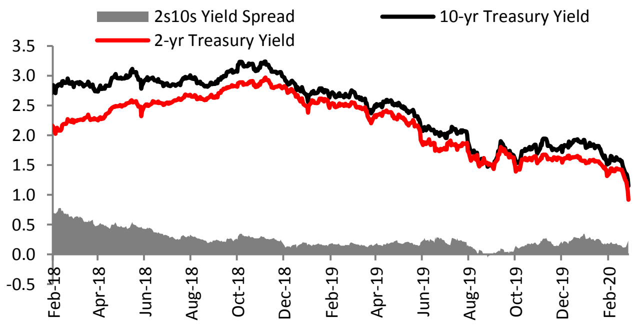
Bps rate cuts to FFTR priced in rates market



Source: Bloomberg

Fig. 4. US: Demand for safe haven assets leads 10-year treasury yield to drop to record low of 1.148 last week

%



Source: Bloomberg

Asian central banks turn dovish, while Fed and other major central banks maintain wait-and-see approach

Some central banks, including the Federal Reserve and Bank of Korea, turned dovish last week, highlighting their readiness to act if necessary. The PBOC has already reduced its benchmark lending rates to improve liquidity conditions and to boost lending to real sectors. The Fed last week issued a statement highlighting that it will "act as appropriate to support the economy" amidst increasing risks from the spread of coronavirus. The short statement also underlined that the FOMC is "closely monitoring developments and their implications for the economic outlook". Markets have already priced in a total of 93 bps of cuts by end-2020, with 38 bps expected at the March FOMC meeting. We now believe that the Fed will cite increasing financial stability concerns as the key reason for lowering interest rates in the upcoming policy meeting in March. The magnitude of the FFTR cut will largely depend on coronavirus related developments over the next two weeks. The coming week's Fed communication (John Williams, Robert Kaplan, Loretta Mester) before the beginning of the black-out period (7 March) will also be critical to assess the magnitude of the rate cut the FOMC is ready to deliver at its 17-18 March policy meeting. We believe that monetary policy easing will have limited success in countering any supply-side shocks created by the coronavirus, although interest rate cuts would be of some help in countering the increasing financial stability risks.

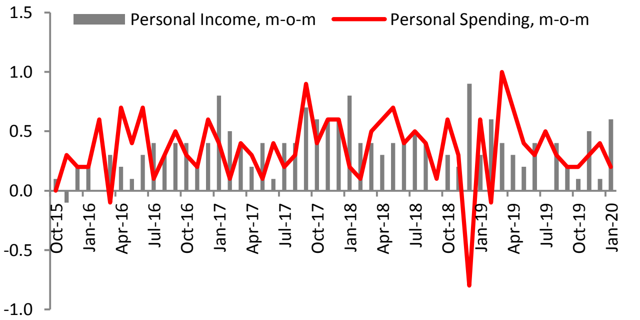
US: Solid January data reflects domestic economic strength

Coronavirus spread has limited or no significant impact on US economic activity in January

Incoming data from the US continues to suggest that domestic economic momentum remained solid in early 2020, albeit with further signs of weaker household spending. Personal income growth accelerated sharply in January to 0.6% m-o-m, from a downwardly revised 0.1% in December. The strong labour market conditions and robust hiring activity in January likely helped personal income rise at a solid pace in our view. However, the rising personal income did not translate into increasing household spending during the month, likely due to consumers turning cautious. Personal spending growth decelerated to 0.2% m-o-m in January, from an upwardly revised 0.4% in December. The other high-frequency data, including new home sales and capital goods shipments, for January suggests that investment activity strengthened in early 2020. Overall, January data still indicates that the negative impact of COVID-19 on the US economy has not been significant so far. However, we believe that the coronavirus effect will gradually show up in the US data in the coming months, particularly through trade channels. The broken global supply chains are also likely to diminish inventories and delay new investment activity in the next few months. Anecdotal evidence of e.g. supply chain disruption, stalling port activities, and tightening financial conditions suggests that global growth is likely to slow markedly in 1Q2020, which will also have an adverse effect on the US economy.

Fig. 5. US: Personal income strengthens in January, whilst household spending decelerates

% change m-o-m



Source: Bureau of Economic Analysis

Fig. 6. US: Consumer confidence stable in February, despite rising coronavirus concerns

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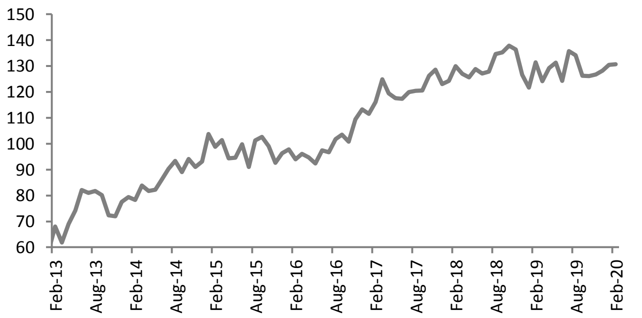


Source: Conference Board

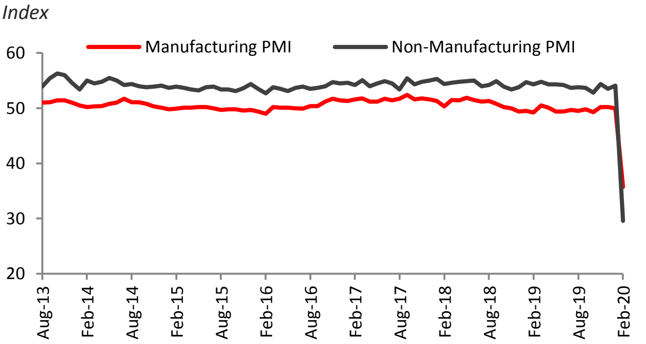
C. Emerging Market Economies

China: Manufacturing PMI hits record low in February

Manufacturing and non-manufacturing PMIs fall sharply in February

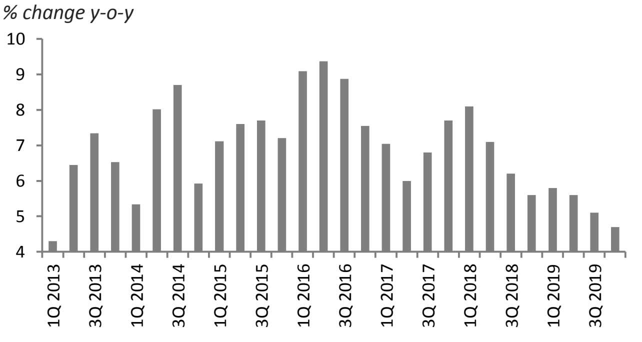
China's manufacturing PMI for February fell to its weakest level of 35.7, below both the consensus forecast of 45.0 and January reading of 50.0. The February reading was lower than the previous lowest point of 38.8 recorded during the global financial crisis in 2008. The non-manufacturing PMI also dropped to 29.6 in February, from 54.1 in the previous month, indicating that the impact of the coronavirus on the domestic economy was more severe than the market economists had projected. The restrictions placed on residents and businesses during February likely brought the economy to a near shutdown. The February PMI reading further strengthens our view that any normalisation in China's economic activity is likely to be delayed further into late 2Q2020. We expect both consumer and business sentiment to remain weak even if health authorities are successful in containing the virus in the coming days. We believe that China's real GDP growth is likely to contract in 1Q2020, both in yearly and quarterly terms. We expect the Chinese government and the PBOC to announce more stimulus measures in the coming months to support the economy.

Fig. 7. China: Coronavirus has larger than expected negative impact on economic activity in February



Source: China Federation of Logistics and Purchasing

Fig. 8. India: Real GDP growth slows to 4.7% y-o-y in 4Q2019, from upwardly revised 5.1% in 3Q2019



Source: India Central Statistical Organisation

India: Personal consumption growth ticks up in 4Q2019

Investment activity continues to contract in 4Q, but household spending ticks up

India's real GDP grew by 4.7% y-o-y in 4Q2019, in line with the consensus expectation. The 3Q2019 and 2Q2019 GDP growth rates were revised up to 5.1% (from 4.5%) and 5.6% (5.0% earlier) respectively. The economic expansion in 4Q2019 was driven by solid government spending (11.8% y-o-y) and an increase in private household consumption growth (5.9% from 5.6% in 3Q). The improvement in private spending reflects increased festive and wedding season demand in 4Q2019, which is unlikely to continue in the subsequent quarters. Gross fixed capital contracted for the second consecutive quarter in 4Q2019, suggesting that private sector investment activity is yet to show signs of a pick-up despite the government's corporate tax rate cuts in September 2019. We believe that there is sufficient output capacity in the economy and that companies will start investing only when they see signs of a meaningful and sustained strengthening in consumer demand. Moreover, the ongoing risk averse environment due to the coronavirus outbreak and supply chain disruption is likely to delay investments further into 2H2020 in our view. Exports growth also contracted in 4Q2019 (-5.5%), indicating that trade tensions between the US and China during that quarter have had a negative impact on external demand. However, imports growth fell by a deeper 11.2% y-o-y in 4Q2019 (3Q: -9.3%), reflecting the still overall weak domestic demand. Looking ahead, 1Q2020 is likely to witness the negative impact of coronavirus on the global economy and on India's exports. Markets are already pricing in a 25 bps rate cut by the RBI at the April meeting. We would not be surprised if the RBI goes ahead with a rate cut at the April meeting, especially given the RBI's dovish tilt even in a time of rising inflation. However, a benchmark rate reduction could result in real interest rates deepening further into negative territory, likely putting downward pressure on the INR.

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jan	-1.4%	
Monday, 2 March					
9:00	India	Markit India PMI Manufacturing	Feb	55.3	
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Feb	51.3	
13:30	UK	Mortgage Approvals	Jan	67.2K	68.0K
14:00	Eurozone	OECD Publishes Interim Economic Outlook			
18:45	US	Markit US Manufacturing PMI	Feb F	50.8	50.8
19:00	US	ISM Manufacturing	Feb	50.9	50.5
19:00	US	ISM New Orders	Feb	52.0	51.8
Tuesday, 3 March					
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Feb	54.9	
8:15	UAE	IHS Markit UAE PMI	Feb	49.3	
8:15	Egypt	IHS Markit Egypt PMI	Feb	46.0	
11:00	Turkey	CPI, y-o-y	Feb	12.2%	12.7%
11:00	Turkey	CPI Core Index, y-o-y	Feb	9.9%	10.4%
13:30	UK	Markit/CIPS UK Construction PMI	Feb	48.4	49.0
14:00	Eurozone	CPI Core, y-o-y	Feb P	1.1%	1.2%
14:00	Eurozone	CPI Estimate, y-o-y	Feb	1.4%	1.2%
14:00	Eurozone	Unemployment Rate	Jan	7.4%	7.4%
23:50	US	Fed's Mester to Address UK Society of Professional Economists			
Wednesday, 4 March					
1:30	US	New York Fed's Logan Discusses Ample Reserves Regime			
3:30	US	Fed's Evans Takes Part in Moderated Q&A			
5:45	China	Caixin China PMI Manufacturing	Feb	51.1	46.0
5:45	China	Caixin China PMI Services	Feb	51.8	48.0
14:00	Eurozone	Retail Sales, m-o-m	Jan	-1.6%	0.6%
14:00	Eurozone	Retail Sales, y-o-y	Jan	1.3%	1.1%
14:00	Qatar	Qatar Financial Center PMI	Feb	48.7	
17:15	US	ADP Employment Change	Feb	291K	170K
19:00	US	ISM Non-Manufacturing Index	Feb	55.5	55.0
23:00	US	US Federal Reserve Releases Beige Book			
Thursday, 5 March					
3:30	US	Fed's Bullard Makes Opening Remarks			
17:00	UK	BOE Chief Economist Andy Haldane speaks in Paris			
19:00	US	Factory Orders	Jan	1.8%	-0.2%
19:00	US	Factory Orders, ex-Transport	Jan	0.6%	
19:00	US	Durable Goods Orders	Jan F	-0.2%	-0.2%
21:00	UK	BOE's Carney Speaks in London.			
Friday, 6 March					
3:30	US	Fed's Kaplan Speaks at Chicago Event			
5:45	US	Fed's Williams Speaks at Foreign Policy Association Dinner			
9:00	Japan	Leading Index CI	Jan P	91.6	91.3
17:30	US	Trade Balance	Jan	-$48.9B	-$47.0B
17:30	US	Change in Nonfarm Payrolls	Feb	225K	175K
17:30	US	Change in Manufacturing Payrolls	Feb	-12K	-4K
17:30	US	Unemployment Rate	Feb	3.6%	3.6%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.2%	0.3%
17:30	US	Average Hourly Earnings, y-o-y	Feb	3.1%	3.0%
17:30	US	Labor Force Participation Rate	Feb	63.4%	63.4%
20:20	US	Fed's Bullard Speaks at Shadow Committee Event in New York			
23:00	US	Fed's Williams, Rosengren Speak at Shadow Committee Event			

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Saudi Arabia	SAMA Net Foreign Assets SAR	Jan	1852.6B		1861.3B
	Saudi Arabia	M3 Money Supply, y-o-y	Jan	7.1%		6.6%
	Bahrain	CPI, y-o-y	Jan	1.2%		0.1%
	Kuwait	CPI, y-o-y	Jan	1.5%		1.7%
Tuesday, 25 February						
9:00	Japan	Leading Index CI	Dec F	91.6		91.6
19:00	US	Conf. Board Consumer Confidence	Feb	130.4	132.2	130.7
19:00	US	Richmond Fed Manufacturing Index	Feb	20.0	10.0	-2.0
Wednesday, 26 February						
16:00	US	MBA Mortgage Applications	21-Feb	-6.4%		1.5%
19:00	US	New Home Sales	Jan	708K	718K	764K
Thursday, 27 February						
13:00	Eurozone	M3 Money Supply, y-o-y	Jan	4.9%	5.3%	5.2%
17:30	US	GDP Annualized, q-o-q	4Q S	2.1%	2.1%	2.1%
17:30	US	Personal Consumption	4Q S	1.8%	1.7%	1.7%
17:30	US	Core PCE, q-o-q	4Q S	1.3%	1.3%	1.2%
17:30	US	Durable Goods Orders	Jan P	2.9%	-1.4%	-0.2%
17:30	US	Cap Goods Orders, Non-defence, ex-Air	Jan P	-0.5%	0.1%	1.1%
17:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jan P	-0.1%	0.0%	1.1%
19:00	US	Pending Home Sales, m-o-m	Jan	-4.3%	3.0%	5.2%
Friday, 28 February						
3:30	Japan	Tokyo CPI, y-o-y	Feb	0.6%	0.5%	0.4%
3:30	Japan	Jobless Rate	Jan	2.2%	2.2%	2.4%
3:50	Japan	Retail Sales, m-o-m	Jan	0.2%	-0.1%	0.6%
3:50	Japan	Retail Sales, y-o-y	Jan	-2.6%	-1.3%	-0.4%
3:50	Japan	Industrial Production, m-o-m	Jan P	1.2%	0.2%	0.8%
3:50	Japan	Industrial Production, y-o-y	Jan P	-3.1%	-3.1%	-2.5%
4:01	UK	GfK Consumer Confidence	Feb	-9.0	-8.0	-7.0
11:00	Turkey	Trade Balance	Jan	-4.65B	-4.60B	-4.45B
11:00	Turkey	GDP, y-o-y	4Q	1.0%	5.0%	6.0%
11:00	Turkey	GDP SA/WDA, q-o-q	4Q	0.4%	1.5%	1.9%
16:00	India	GDP, y-o-y	4Q	5.1%	4.7%	4.7%
16:00	India	GVA, y-o-y	4Q	4.8%	4.4%	4.5%
16:00	India	GDP Annual Estimate, y-o-y	2020	6.1%	5.0%	5.0%
17:30	US	Wholesale Inventories, m-o-m	Jan P	-0.3%	0.1%	-0.2%
17:30	US	Personal Income	Jan	0.1%	0.4%	0.6%
17:30	US	Personal Spending	Jan	0.4%	0.3%	0.2%
17:30	US	PCE Deflator, m-o-m	Jan	0.3%	0.2%	0.1%
17:30	US	PCE Deflator, y-o-y	Jan	1.5%	1.8%	1.7%
17:30	US	PCE Core Deflator, m-o-m	Jan	0.2%	0.2%	0.1%
17:30	US	PCE Core Deflator, y-o-y	Jan	1.5%	1.7%	1.6%
18:45	US	MNI Chicago PMI	Feb	42.9	46.0	49.0
19:00	US	U. of Mich. Sentiment	Feb F	100.9	100.7	101.0

* UAE time
Source: Bloomberg

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