

The Week Ahead: Stringent virus control measures to result in global recession in 2Q

► US: COVID-19 starting to be reflected in high frequency data

Markets remain volatile and under pressure due to the ongoing rise and containment measures of COVID-19. In the US, the New York governor has ordered most of the state's workforce to stay at home, in a similar move that was taken in California. US research houses are now expecting GDP growth to contract by double digits in 2Q2020 (SAAR) with jobless claims likely rising to more than 2 million. The deterioration in economic activity is already being reflected in the data. This includes an increase in initial jobless claims to 281K for the week ending 14 March, an increase of 70K from the previous week. This reading marks the highest level of claims since September 2017, but is likely to be just the start, with an acceleration expected over the next few weeks. Moreover, the forward-looking business activity indicators for March, including the Empire manufacturing survey and Philadelphia Fed business outlook, slumped to their lowest levels since mid-2009, indicating a sharp deterioration in business sentiment. To counter the negative consequences of COVID-19, US law makers are preparing an additional massive stimulus package worth c.USD1.6 trillion to help individuals and corporates bridge their income/earnings losses during the shutdown. As such, the focus this week will be on the US Congress, which is expected to vote on the Coronavirus Rescue Bill today.

► Europe: Additional fiscal and monetary easing announced

The ECB and the BoE also stepped up their monetary stimulus measures last week to mitigate the COVID-19 impact. The ECB announced a Pandemic Emergency Purchase Programme (PEPP) worth EUR750 billion until end-2020 and highlighted its readiness to increase the size of its QE programme if necessary (page 4). On the fiscal side, there were indications over the weekend that Germany is preparing a sizable stimulus package worth EUR350 billion, which is larger than the markets had anticipated. In the UK, Chancellor of Exchequer Rishi Sunak announced additional fiscal stimulus of GBP20 billion last week, taking the total to GBP50 billion for FY2020-21 (Apr.2020 – Mar.2021). The BoE also announced additional quantitative easing of GBP200 billion in 2020 and lowered its benchmark rate to 0.1%, from 0.25% (page 4). Globally, the sizable fiscal expansion plans and monetary easing are likely to help contain the negative consequences of COVID-19 in the short term, but the recovery will largely depend on the control and reduction of the virus.

► GCC: Support measures announced; oil price under pressure

We have seen more support packages released by the GCC over the last week (page 2), whilst Egypt has cut central bank rates by 300 bps (page 3). Despite the global monetary and fiscal measures to support demand, crude prices moderated for the fourth consecutive week and touched a multi-year low of USD24.5 p/b on 18 March. Talks between the Texas energy regulator and OPEC secretary over stabilising oil markets at the end of last week resulted in Brent prices touching USD30.9 p/b on Friday. However, downside pressures have returned with global growth concerns. Brent is currently at USD26.4 p/b.

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I. Recent Events and Data Releases

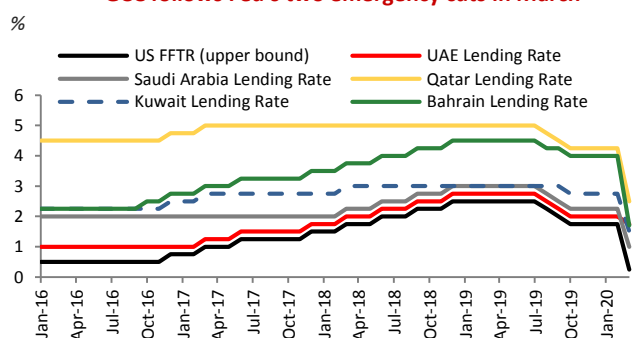
A. MENA Economies

GCC: Following Fed rate cuts, further economic packages announced

GCC central banks cut benchmark rates again last week after the Fed lowered its FFTR by 100 bps on Sunday 15 March, taking the range to 0.0-0.25%. This was the second inter-meeting emergency rate cut by the Fed this month after a 50 bps reduction on 3 March. For more details, please see our note – **GCC Economic Update: Regional central banks follow Fed in lowering rates**, published on 4 March 2020. In this latest round, there were again variations in the magnitude of the rate cuts, with Kuwait reducing by 100 bps across the board. Saudi Arabia and the UAE implemented a 75 bps cut, likely aimed at preserving some firepower for further easing. We believe that the rate reductions are positive given the already weak trend in private sector credit growth in the region and the deteriorating economic outlook due to COVID-19 and the sharp fall in the oil price. Lower interest rates will help to reduce the cost of servicing debt. However, we believe that rate cuts alone will have a limited impact in terms of reducing economic headwinds or stimulating growth.

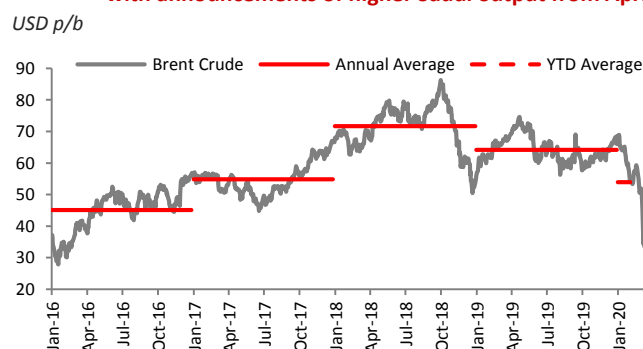
Rate cuts by themselves to have limited impact on counterbalancing COVID-19 headwinds

Fig. 1. GCC: Sharp reduction in central bank interest rates as GCC follows Fed's two emergency cuts in March



Source: GCC central banks, US Federal Reserve

Fig. 2. Oil: Brent falls to its lowest levels since 2002 last week with announcements of higher Saudi output from April



Source: Bloomberg, ADCB estimates

We believe that the most supportive measures are those that reduce near-term pressures on corporates and households, with traditional policy levers less effective given the specific characteristics of this crisis. We outlined the packages introduced by the Central Bank of the UAE, Dubai and SAMA in last week's **Economic Research Weekly - Global Data Watch 16-20 March 2020**, published on 16 March 2020. We have seen further support measures announced across the region since then. The UAE increased its support package by an additional AED16 billion (USD4.4 billion). Abu Dhabi launched a new set of initiatives under its Ghadan 21 programme last week. Some of the measures included AED5 billion of water and electricity subsidies for citizens and the commercial and industrial sectors and AED3 billion for an SME Credit Guarantee Scheme. Saudi Arabia widened its support measures by SAR70 billion to help businesses with initiatives such as exemptions and postponements of some government fees and taxes. Oman introduced measures to ensure ongoing lending by banks, including adjusting capital and credit ratios, and allowing repayments to be postponed for up to six months, mainly for SMEs. Bahrain announced USD11.4 billion (c.30.0% of GDP) of largely ex-budget actions, including covering electricity and water payments for individuals and companies for three months starting in April. One draft proposal also involves paying the salaries of all

Further regional fiscal and monetary measures introduced, although need for fiscal austerity is rising

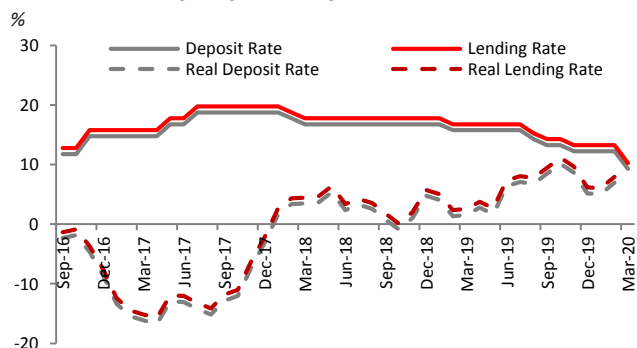
private sector employees for three months from April from the country’s unemployment fund – though this measure has not been passed as yet. The sharp fall in the oil price means that most GCC countries have limited space to increase spending in any sustained manner. Saudi Arabia has agreed to cut spending by SAR50 billion (USD13.3 billion), representing less than 5% of its 2020 budget, in areas that have the least social and economic impact. The government will also raise the debt ceiling from 30% to 50% of GDP with a higher borrowing requirement due to COVID-19 and the fall in oil price. Oman has cut the budget allocated to government agencies by 5.0%, while revising subsidy and planned capital expenditure. We believe that greater fiscal austerity will have to be introduced to have any meaningful impact on limiting the fiscal deterioration.

Egypt: CBE cuts interest rates by 300 bps

The CBE cut benchmark interest rates by 300 bps in an emergency, unscheduled meeting on 16 March. The overnight deposit rate now stands at 9.25% and the overnight lending rate at 10.25%. The post-meeting communication noted that the move was to provide “appropriate support to domestic economic activity given the current challenging external environment” due to the outbreak of COVID-19 globally. It also stated that the inflation outlook remains consistent with the CBE’s year-end target of 9% (±3 pp). We had already expected a 100 bps rate cut at the February meeting on the back of the weakening global outlook, especially in the context of the strengthening EGP, and a total of 200-250 bps of rate cuts this year. Notably, the rate cuts by the Fed and other EM central banks from early March provided greater space for the CBE to reduce rates further. We believe that the magnitude of the rate cut reflects the CBE’s desire to support economic activity whilst maintaining a sufficient interest rate differential to limit capital outflows. Real interest rates are still forecast to be positive (core and headline), which should help contain the pace of capital outflows. We note that the EGP has weakened since end-February, likely reflecting capital outflows from EMs due to heightened risk aversion. We expect to see a further gradual weakening of the EGP due to the rising global risks and the negative outlook for Egypt’s main FX earners (energy, tourism and Suez Canal revenues). We expect the EGP to steadily depreciate beyond USD:EGP16 as external pressures intensify.

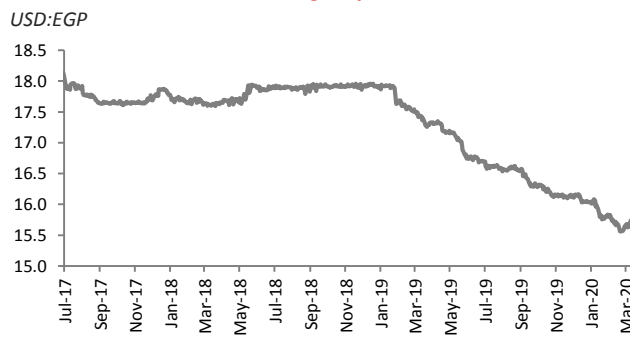
CBE looking to balance support to economy with limitation of capital outflows

Fig. 3. Egypt: Real interest rates to remain in positive territory despite 300 bps cut to nominal rates



Source: CBE, CAPMAS, ADCB calculations

Fig. 4. Egypt: EGP already starting to weaken against USD ahead of CBE’s emergency rate cut



Source: Bloomberg

B. G4 Economies

US: Congress planning additional c.USD1.6 trillion fiscal stimulus

US President Donald Trump and Treasury Secretary Steven Mnuchin last week indicated that they are working on a large fiscal stimulus package of around USD1.6 trillion to counter the negative economic consequences of COVID-19. The proposed measures include: i) c.USD500 billion for pay-outs to individual Americans; ii) c.USD350 billion of aid for small businesses; iii) a c.USD50 billion bailout for the airline industry; iv) c.USD150 billion of bailouts for other affected industries; and v) assistance with student loan repayments. The key takeaway is that the proposed package, if passed by Congress, would be larger in size than the bailout package (USD900 billion) initially committed to by the US government during the 2008 financial crisis. Moreover, the proposed spending measures are on top of the USD8.3 billion stimulus bill passed for containment and research and the c.USD105 billion package for paid sick-leave and unemployment benefits for workers and families approved earlier in March. All the fiscal stimulus measures announced so far account for c. 7.8% of GDP and could help soften the negative consequences of the disruption caused to both individuals and businesses. However, offsetting the negative impact of COVID-19 on the economy will also depend on how quickly the proposed bill is finalised and passed in Congress. In 2008, it took about two months to get the hand-outs to people, although it could be faster this time around thanks to advances in technology. There are indications that the Treasury Department is planning to issue the first pay-out in early April and the second in May. Overall, we believe that these fiscal stimulus measures, alongside the Fed's interest rate cuts and quantitative easing measures, will provide help to households and corporates during these difficult times.

US administration planning for cash hand-outs for individuals and aid for small and affected industries

Global: UK and Eurozone reveal additional support measures

Elsewhere in the G4, the UK and Eurozone have announced fiscal stimulus measures to ease the economic strain of COVID-19 on both households and corporates. UK Chancellor of the Exchequer Rishi Sunak announced an additional GBP20 billion of tax relief measures for corporates last week, taking the total loosening to GBP50 billion for FY2020-21 (Apr.2020 – Mar.2021). In addition, the government announced an unlimited guarantee on business lending worth around GBP330 billion (15% of GDP) "on attractive terms". Sunak highlighted that these measures were only the first steps and that the government stands ready to increase fiscal spending if necessary. We expect additional fiscal stimulus measures in the coming months with a focus on ways to reduce stress on private sector balance sheets whilst absorbing some of the losses incurred by corporates in specific sectors. On the monetary side, the BoE announced a further package of measures at its special meeting on 19 March. The benchmark interest rate was lowered by 15 bps to 0.1%, with a unanimous vote. The MPC also announced that it will restart its quantitative easing programme, increasing the gilt bonds and GBP denominated non-financial investment-grade corporate bonds by GBP200 billion to a total of GBP645 billion.

Global policy response to COVID-19 likely to help world economy recover from shock once virus spread recedes

In Europe, the commission proposed a EUR37 billion "Corona Response Investment Initiative" directed towards healthcare systems, SMEs, labour markets and other vulnerable parts of the bloc's constituent economies. Moreover, indications are that Germany is considering EUR350 billion worth of fiscal stimulus in 2020, which, if it materialises, will be significant in our view, considering Germany's general fiscal prudence. Separately, the ECB last week announced a Pandemic Emergency Purchase Programme (PEPP) – a new temporary purchase programme of private and public sector securities – worth EUR750 billion until the end of 2020. The ECB highlighted that the programme will remain in place at least for this year, and beyond if the COVID-19 shock

ECB announces Pandemic Emergency Purchase Programme worth EUR750 billion

persists. The Governing Council underlined its commitment to use all options available and to do “everything necessary within its mandate” during these difficult times. We believe that this QE programme was intended to ease the selling pressure in the bond markets, and particularly to counter the recent rise in Eurozone government bond spreads. In Japan, the BoJ announced additional monetary easing measures last week including: i) an ample supply of funds to facilitate corporate financing; and ii) an increase in its annual ETF (exchange-traded funds) and J-REIT (real estate investment trusts) purchases to JPY12 trillion and JPY180 billion, respectively. The BoJ’s incremental monetary easing measures were smaller than the measures taken by other major central banks, suggesting that the central bank has limited policy-easing space. However, we believe that co-ordinated global fiscal and monetary measures in the developed economies and across the globe are likely to help contain the negative impact of the coronavirus on the world economy and to help countries recover from the shock once the virus spread recedes.

C. Emerging Market Economies

Turkey: Fiscal and monetary easing measures announced

The CBRT lowered its benchmark one-week repo rate by 100 bps to 9.75% in an emergency meeting on 17 March – two days ahead of the MPC meeting originally scheduled for 19 March. The 100 bps rate cut was greater than the 50 bps reduction the market had been expecting on 19 March. The central bank’s cumulative interest rate cuts since July 2019 now stand at 14.25%, taking the benchmark rate to single digit, a level not seen since May 2018. The MPC highlighted that the rate cut was necessary in light of the sharp fall in global oil prices, weakening global trade, and travel restrictions, which would trigger deflationary pressures. We believe that the lower global crude price will help soften inflation in the coming months, opening up further room for rate cuts. We now expect the MPC to reduce the benchmark rate by an additional 100-150 bps by end-2020. Moreover, the CBRT announced a number of liquidity-boosting measures to increase lending to corporates and ensure the financial stability of the economy. We believe that looser financial conditions will bode well for growth in 2H2020, after a marked tightening recently due to the spread of coronavirus. Following the CBRT’s monetary easing measures, Turkish President Recep Tayyip Erdogan unveiled a TRY100 billion (USD15.4 billion) fiscal stimulus package to help businesses affected by COVID-19. The fiscal measures announced include: i) a six-month deferral on some tax and insurance premium payments for retail and transportation sectors; ii) support for Turkish Airlines; iii) an increase in the basic state pension to TRY1,500 a month (from TRY1,000); and iv) cheaper loans through the Credit Guarantee Fund. Turkey’s co-ordinated monetary and fiscal loosening measures are likely to help counter the deteriorating macroeconomic environment, but may not be sufficient if the coronavirus continues to spread, in our view.

Coordinated fiscal and monetary loosening measures announced to counter COVID-19 economic impact

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Abu Dhabi CPI, y-o-y	Feb	-1.8%	
	Saudi Arabia	CPI, y-o-y	Feb	0.4%	
	Saudi Arabia	GDP Constant Prices, y-o-y	4Q	-0.5%	
	Saudi Arabia	M3 Money Supply, y-o-y	Feb	6.6%	
	Bahrain	GDP Constant Prices, y-o-y	4Q	1.6%	
	Bahrain	CPI, y-o-y	Feb	0.1%	
	Kuwait	CPI, y-o-y	Feb	1.7%	
	Oman	CPI, y-o-y	Feb	0.4%	
Monday, 23 March					
16:30	US	Chicago Fed National Activity Index	Feb	-0.25	-0.29
19:00	Eurozone	Consumer Confidence	Mar A	-6.6	-13.0
Tuesday, 24 March					
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Mar P	47.8	
4:30	Japan	Jibun Bank Japan PMI Services	Mar P	46.8	
9:00	Japan	Leading Index CI	Jan F	90.3	
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Mar P	49.2	39.0
13:00	Eurozone	Markit Eurozone Services PMI	Mar P	52.6	40.0
13:30	UK	Markit UK PMI Manufacturing SA	Mar P	51.7	45.0
13:30	UK	Markit/CIPS UK Services PMI	Mar P	53.2	45.0
17:45	US	Markit US Manufacturing PMI	Mar P	50.7	44.0
17:45	US	Markit US Services PMI	Mar P	49.4	42.0
18:00	US	New Home Sales	Feb	764K	750K
18:00	US	Richmond Fed Manufacturing Index	Mar	-2.0	-10.0
Wednesday, 25 March					
13:30	UK	CPI, y-o-y	Feb	1.8%	1.7%
13:30	UK	CPI Core, y-o-y	Feb	1.6%	1.5%
16:30	US	Durable Goods Orders	Feb P	-0.2%	-1.0%
16:30	US	Durables, ex-Transportation	Feb P	0.8%	-0.4%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Feb P	1.0%	0.1%
Thursday, 26 March					
13:00	Eurozone	M3 Money Supply, y-o-y	Feb	5.2%	5.2%
13:30	UK	Retail Sales, incl-Auto Fuel, m-o-m	Feb	0.9%	0.2%
13:30	UK	Retail Sales, incl-Auto Fuel, y-o-y	Feb	0.8%	0.7%
16:00	UK	Bank of England Bank Rate	26-Mar	0.1%	0.1%
16:00	UK	BOE Asset Purchase Target	Apr	645B	645B
16:30	US	Wholesale Inventories, m-o-m	Feb P	-0.4%	-0.4%
16:30	US	GDP Annualized, q-o-q	4Q T	2.1%	2.1%
16:30	US	Personal Consumption	4Q T	1.7%	1.7%
19:00	US	Kansas City Fed Manufacturing Activity	Mar	5.0	-10.0
Friday, 27 March					
3:30	Japan	Tokyo CPI, y-o-y	Mar	0.4%	0.3%
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Mar	0.5%	0.4%
16:30	US	Personal Income	Feb	0.6%	0.4%
16:30	US	Personal Spending	Feb	0.2%	0.2%
16:30	US	PCE Deflator, m-o-m	Feb	0.1%	0.1%
16:30	US	PCE Deflator, y-o-y	Feb	1.7%	1.7%
16:30	US	PCE Core Deflator, m-o-m	Feb	0.1%	0.2%
16:30	US	PCE Core Deflator, y-o-y	Feb	1.6%	1.7%
18:00	US	University of Michigan Sentiment	Mar F	95.9	90.0

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Feb	-1.3%		-1.2%
	Qatar	CPI, y-o-y	Feb	-0.4%		-0.5%
Monday, 16 March						
10:30	India	Wholesale Prices, y-o-y	Feb	3.1%	2.4%	2.3%
16:30	US	Empire Manufacturing	Mar	12.9	3	-21.5
	Japan	BOJ Policy Balance Rate	19-Mar	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	19-Mar	0.0%	0.0%	0.0%
Tuesday, 17 March						
8:30	Japan	Industrial Production, m-o-m	Jan F	0.8%		1.0%
8:30	Japan	Industrial Production, y-o-y	Jan F	-2.5%		-2.3%
13:30	UK	Claimant Count Rate	Feb	3.4%		3.50%
13:30	UK	Jobless Claims Change	Feb	-0.2K		17.3K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Jan	2.9%	3.0%	3.1%
13:30	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Jan	3.2%	3.2%	3.1%
13:30	UK	ILO Unemployment Rate, 3M	Jan	3.8%	3.8%	3.9%
14:00	Eurozone	ZEW Survey Expectations	Mar	10.4		-49.5
15:00	Turkey	One-Week Repo Rate	19-Mar	10.75%	10.25%	9.75%
16:30	US	Retail Sales Advance, m-o-m	Feb	0.6%	0.2%	-0.5%
16:30	US	Retail Sales, ex-Auto, m-o-m	Feb	0.6%	0.1%	-0.4%
16:30	US	Retail Sales, ex-Auto and Gas	Feb	0.7%	0.3%	-0.2%
16:30	US	Retail Sales Control Group	Feb	0.4%	0.4%	0.0%
17:15	US	Industrial Production, m-o-m	Feb	-0.5%	0.4%	0.6%
18:00	US	JOLTS Job Openings	Jan	6552	6400	6963
Wednesday, 18 March						
3:50	Japan	Trade Balance	Feb	-¥1312.6B	¥916.7B	¥1109.8B
3:50	Japan	Exports, y-o-y	Feb	-2.6%	-4.2%	-1.0%
3:50	Japan	Imports, y-o-y	Feb	-3.6%	-14.1%	-14.0%
14:00	Eurozone	CPI, y-o-y	Feb F	1.2%	1.2%	1.2%
14:00	Eurozone	CPI, m-o-m	Feb F	0.2%	0.2%	0.2%
16:30	US	Building Permits	Feb	1562K	1500K	1599K
16:30	US	Housing Starts	Feb	1150K	1500K	1464K
22:00	US	Interest Rate on Excess Reserves	19-Mar	1.10%	0.48%	0.10%
Thursday, 19 March						
3:30	Japan	National CPI, y-o-y	Feb	0.7%	0.5%	0.4%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Feb	0.8%	0.6%	0.6%
8:30	Japan	All Industry Activity Index, m-o-m	Jan	0.0%	0.5%	0.6%
18:00	US	Leading Index	Feb	0.7%	0.1%	0.10%
	UK	Bank of England Bank Rate	Mar	0.25%		0.10%
Friday, 20 March						
5:30	China	1-Year Loan Prime Rate	Mar	4.05%	4.00%	4.05%
5:30	China	5-Year Loan Prime Rate	Mar	4.75%	4.70%	4.75%
13:30	UK	PSNB, ex-Banking Groups	Feb	-12.4B	0.8B	0.3B
18:00	US	Existing Home Sales	Feb	5.42M	5.51M	5.77M

* UAE time

Source: Bloomberg

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