

## The Week Ahead: US labour market report in focus; BoE likely on hold

### ► **US: Unemployment rate likely to rise to a record 16.0% in April**

All eyes this week will be on the April labour market report to gauge the magnitude of job losses during the intense lockdown period. Consensus forecasts nonfarm payrolls to have declined by an unprecedented 21.3 million in April, after falling by 0.7 million in March. The expected record drop in April will be significantly higher than the total job losses of around 8.6 million seen during the 2008-2009 global financial crisis. Details of the report are likely to show that job losses are seen in every major sub-segment, although the impact will vary between essential and non-essential services. Leisure and hospitality, professional business services, trade and construction are widely expected to be severely impacted, while medical services and government payrolls are likely to be affected only moderately. The expected record job losses are likely to cause an exponential rise in the unemployment rate to 16.0% in April, from 4.4% in March. However, on the positive side, the initial jobless claims for the week ending 2 May are expected to fall to 3.0 million, from 3.8 million in the previous week. The partial re-opening of some key states in early May is likely to result in some improvement in labour market conditions in May compared with the intense lockdown period during April.

### ► **UK: BoE expected to be on hold in May with a dovish tone**

We and consensus expect the BoE to keep its monetary policy steady, including the benchmark policy rate (0.1%) and QE programme, at its 7 May policy meeting. This on-hold policy comes after the MPC's increase in the purchase target for government bonds by GBP200 billion to GBP625 billion and for corporate bonds to GBP20 billion from GBP10 billion announced on 19 March. The current asset purchase target is unlikely to be exhausted until mid-July at the earliest, even at the current rapid pace of buying, in our view. Consequently, the MPC still has time to further assess the COVID-19 impact before increasing the asset purchase target again. However, we believe that the overall tone of the MPC is likely to be dovish, highlighting that it stands ready to increase the size of asset purchases as necessary, keeping space open for further policy action at its June meeting. Our base case is that the MPC will increase the government bond purchase target by another GBP200 billion to GBP825 billion at its 18 June meeting. Market focus will also be on the economic projections, including GDP which is widely expected to be revised down sharply for 2020.

### ► **EM: China's April trade data and Turkey inflation due**

China's trade data for April is expected to show that both exports and imports contracted sharply, after some modest improvement in March. Consensus forecasts exports to contract by 9.5% y-o-y in April (March: -6.6%), with a greater expected fall in imports of 10.0% y-o-y (March: -0.9%). Notably, April manufacturing PMI data released last week showed that new export orders fell to 33.5, from 46.4 in March, reflecting weakening global demand. Elsewhere, Turkey's April inflation reading is due this week, with consensus projecting headline inflation to ease to 10.8% y-o-y, from 11.9% in March.

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## I. Recent Events and Data Releases

### A. MENA Economies

#### Saudi Arabia: Moody's lowers sovereign outlook to negative

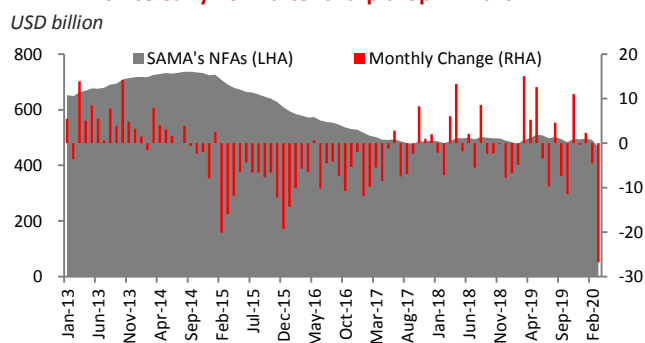
Moody's lowered Saudi Arabia's outlook to "negative" from "stable" on Friday, while affirming the A1 rating. The ratings agency cited higher fiscal risks due to the crash in oil prices, and uncertainty over the government's ability to offset the oil revenue losses and stabilise its debt in the medium term. However, Moody's maintained the sovereign credit rating, citing the government's still relatively robust, albeit deteriorating, balance sheet, moderate debt level and substantial fiscal and external liquidity buffers. Moody's rating for Saudi Arabia is higher than those of Fitch Ratings and S&P.

*Moody's cited Saudi's large fiscal and external buffers and low debt level for maintaining the A1 rating.*

Moody's projects that Saudi's fiscal deficit will widen to 12.3% of GDP in 2020 and 8.4% of GDP in 2021, from 4.5% in 2019. We are currently forecasting a wider deficit of 16.3% of GDP in 2020 and 11.5% in 2021. We see government debt rising to 36.7% of GDP in 2020 and breaching the 40% level in 2021, from c.23.7% in 2019. We believe that Saudi Arabia will have to retrench government spending by a greater amount than already announced to contain the widening in the deficit. For more details, please see our note **Saudi Arabia Economic Update: Relatively contained fiscal deficit in 1Q; marked deterioration from 2Q**, published 29 April 2020. We see the government favouring debt to help cover its fiscal deficit, to limit the drawdown in net foreign assets (NFAs). This is after SAMA's NFAs dropped by a sharp USD26.8 billion (SAR100.4 billion) in March to USD465.1 billion. For more details, please see our note **Saudi Arabia Economic Update: Sharp fall in SAMA's net foreign assets in March**, published on 29 April 2020. Moody's noted that the plans to diversify Saudi Arabia's economy away from oil could lift the country's medium- to long-term growth potential. However, we see risks to the implementation of the diversification agenda with the lower oil price and the need to retrench government spending. Moreover, the ability to deepen non-oil revenue will be impacted by the weak economic backdrop.

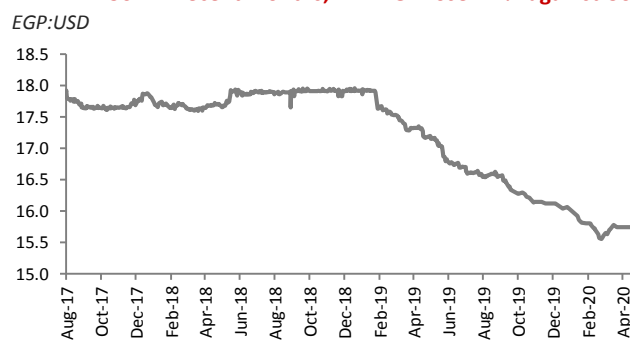
*We are estimating a wider deficit for Saudi Arabia in 2020 and 2021 than Moody's expects*

**Fig. 1. Saudi: Net foreign assets fall to their lowest levels since early 2011 after sharp drop in March**



Source: SAMA, ADCB calculations

**Fig. 2. Egypt: EGP has remained broadly steady against the USD in recent months; YTD EGP rose 2.2% against USD**



Source: Bloomberg

## Egypt: Turns to the IMF for financial support

Egypt has formally asked the IMF for financial support to mitigate the impact of the COVID-19 pandemic on the economy. The government indicated that it is looking for relief through two facilities: i) the Rapid Financing Instrument (RFI); and ii) a Stand-by Agreement (SBA). At this point it is still unclear how much would be made available or when the funds would be disbursed, although the criteria of the IMF suggest that Egypt could receive c.USD7.8-9.0 billion. Both facilities will have to be negotiated with the IMF. The most immediate financial support is likely to come from the RFI, which is available to mitigate sudden payment difficulties, thereby requiring softer attached criteria. We estimate that the RFI could be disbursed in the next few weeks. The SBA will require a framework with specific reform targets, with funds disbursed in tranches. We regard the fact that Egypt is looking for IMF support as highly positive. Initially, it will help to reduce the strain on the balance of payments from COVID-19, which has impacted key areas such as tourism receipts, remittances and Suez Canal receipts. The funds will help meet Egypt's external financing needs, reduce the drawdown in FX reserves and support further access to international private capital. As highlighted in our earlier research, Egypt's FX reserves remain high at USD40.1 billion, albeit seeing a sharp drop in March of USD5.4 billion. With the expected IMF funds and the reserve buffers, we believe that Egypt is in a strong position to meet its external funding needs over the next two years, although external debt levels will rise. Meanwhile, the likelihood of an SBA provides confidence for continued progress with the structural reform programme. A critical near-term question remains whether the Egyptian authorities will allow the EGP to weaken gradually, given its currently overvalued position. Egypt completed a USD12 billion three-year extended fund facility (EFF) programme in 2019.

*External support will be vital in limiting drawdowns of FX reserves, while also raising confidence over the reform outlook*

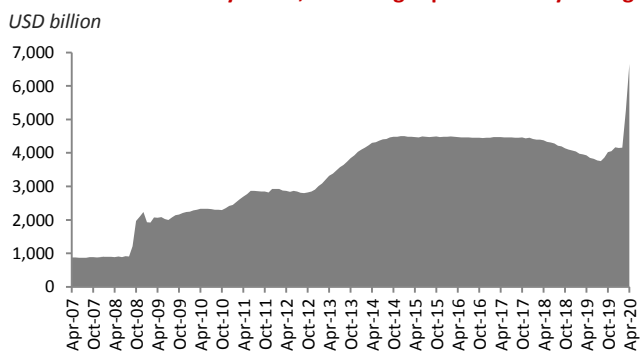
## B. G4 Economies

### US: No major surprises from the Fed at its April meeting

The US Federal Reserve kept its monetary policy steady at its 28-29 April FOMC meeting, including the FFTR at the zero lower bound and unlimited asset purchases, in line with our and market expectations. The overall tone of the FOMC meeting was notably dovish, and highlighted that the pandemic poses considerable downside risks to the economic outlook over the medium term. The forward guidance reiterated that the Fed stands ready to do whatever is necessary to help the economy recover from the COVID-19 impact. Fed Chair Jerome Powell during his webinar also restated that the FOMC is willing to "forcefully, proactively and aggressively" use all available tools at its disposal to support the economy. We believe that the Fed will continue with its accommodative monetary policy stance and provide sufficient liquidity into the real economy during these challenging times. We also expect the FFTR to remain unchanged at the zero lower bound throughout 2020 and 2021. On asset purchases, the Fed retained its earlier language that it will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities in the amounts needed to support smooth market functioning. The FOMC did not announce a set schedule for its QE programme and retained the flexibility to adjust asset purchases on a weekly basis. We believe that the weekly asset purchase adjustments will help accelerate or reduce buying as necessary until market volatility diminishes. Moreover, the Fed left its IOER (Interest Rate on Excess Reserves) and ON RRP (Overnight Reverse Repurchase) rates unchanged despite markets pricing in a 50% chance of a 5 bps increase.

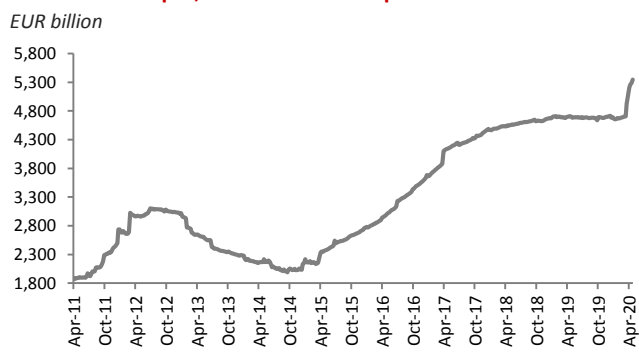
*Fed sees increasing downside risks to economic outlook over medium term*

**Fig. 3. US: Fed's balance sheet size increased by 60.1% from end-February levels, reflecting rapid monetary easing**



Source: US Federal Reserve

**Fig. 4. Eurozone: ECB balance sheet also increased in March and April, albeit at a slower pace than the Fed**



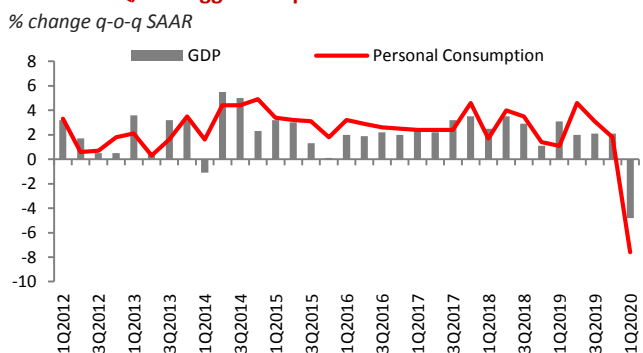
Source: ECB

### Eurozone: Additional liquidity bolstering measures announced by ECB

The ECB announced new liquidity bolstering measures at its 30 April policy meeting, while keeping the deposit interest rate and size of the Pandemic Emergency Purchase Programme (PEPP) steady. The new support measures announced include: i) reducing the interest rate on TLTRO III operations (June 2020 – June 2021) to 50 bps below the average refinancing rate; and ii) introducing a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) commencing from May 2020. We believe that the announced liquidity bolstering measures will help cut funding costs for banks and help loosen financial conditions in the economy. The Governing Council (GC) further highlighted that it is fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed. The ECB President during her post-meeting virtual press conference reiterated that the ECB is ready to do whatever is necessary, including increasing the size of asset purchases (PEPP) to help the economy recover from the pandemic. The ECB's dovish tilt makes us believe that the asset purchases under the PEPP programme will likely be increased (from EUR750 billion), although the magnitude of the rise will depend on how the economy evolves after the re-opening. We see potential for strengthening the PEPP programme as early as at the next policy meeting on 4 June. Furthermore, Lagarde called on the EU leaders to enact "an ambitious and coordinated" fiscal policy response to counter the negative consequences of the pandemic. Looking ahead, the Eurogroup will hold a video conference on 8 May to discuss the economic situation and the necessary fiscal support measures to counter the crisis. We expect the Eurogroup to reveal some details regarding the scale and shape of a European Recovery Fund after this meeting.

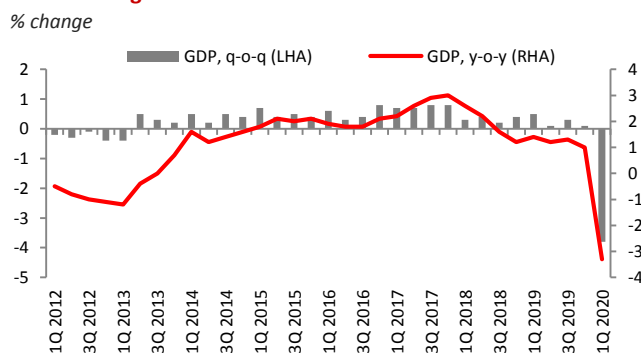
*ECB lowered funding costs for banks to improve monetary transmission into the economy*

**Fig. 5. US: Real GDP growth contracted by 4.8% q-o-q SAAR in 1Q, the biggest drop since the financial crisis**



Source: Bureau of Economic Analysis

**Fig. 6. Eurozone: 1Q2020 GDP growth fell by 3.8% q-o-q, the largest fall since the Eurozone formation in 1999**



Source: Eurostat

### Global: 1Q GDP contracted sharply in the US and Eurozone

Real GDP data released for the US and the Eurozone showed that the COVID-19 shutdowns had had a severe negative impact on their economies in 1Q2020. Real GDP for the US contracted by 4.8% q-o-q SAAR in 1Q (4Q2019: 2.0%), ending the longest ever expansionary cycle. The contraction was led by personal consumption, which plunged by 7.6%, the largest drop since 1980. Business investments also fell in 1Q, with corporates holding back planned spending. The sharp fall in economic activity was despite the COVID-19 impact only beginning to intensify in the US at the tail end of the quarter. In the Eurozone, real GDP fell by 3.8% q-o-q in 1Q2020, from +0.1% in 4Q2019, led by a broad-based contraction across the segments. The quarterly drop in 1Q2020 was the deepest contraction since the Eurozone's formation in 1999. In annualised growth terms, Eurozone GDP dropped by 14.4% in 1Q, a much greater contraction than in the US (-4.8%). The greater contraction in the Eurozone was due to shutdowns in the region taking place well before the US lockdown. Looking ahead, we believe that the impact of the COVID-19 lockdown will be more severe in 2Q than in 1Q, with a double-digit drop in both economies. The 2Q GDP data will also likely confirm that the global economy entered a deep technical recession in 2020.

*US economy fell by 4.8% q-o-q SAAR in 1Q2020, from +2.0% in 4Q2019*

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	CPI, y-o-y	Mar	-1.3%	
	Kuwait	CPI, y-o-y	Mar	1.7%	
	Oman	CPI, y-o-y	Mar	0.2%	
	Egypt	Gross Official Reserves	Apr	40.1B	
<b>Monday, 4 May</b>					
9:00	India	Markit India PMI Manufacturing	Apr	51.8	
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Apr	48.1	
11:00	Turkey	CPI, y-o-y	Apr	11.9%	10.8%
11:00	Turkey	CPI, m-o-m	Apr	0.6%	0.6%
11:00	Turkey	CPI Core Index, y-o-y	Apr	10.5%	10.7%
12:30	Eurozone	Sentix Investor Confidence	May	-42.9	-28.0
18:00	US	Factory Orders	Mar	0.0%	-9.4%
18:00	US	Durable Goods Orders	Mar F	-14.4%	-14.4%
<b>Tuesday, 5 May</b>					
7:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Apr	42.4	
7:15	UAE	IHS Markit UAE PMI	Apr	45.2	
8:15	Egypt	IHS Markit Egypt PMI	Apr	44.2	
12:30	UK	Markit/CIPS UK Composite PMI	Apr F	12.9	12.9
13:00	Qatar	Qatar Financial Center PMI	Apr	46.6	
16:30	US	Trade Balance	Mar	-\$39.9B	-\$44.2B
18:00	US	Fed's Evans Holds Media Briefing			
18:00	US	ISM Non-Manufacturing Index	Apr	52.5	37.8
22:00	US	Fed's Bostic Discusses Affordable Housing During COVID-19			
22:00	US	Fed's Bullard Holds Virtual Discussion on Economy			
<b>Wednesday, 6 May</b>					
9:00	India	Markit India PMI Composite	Apr	50.6	
13:00	Eurozone	Retail Sales, m-o-m	Mar	0.9%	-10.9%
16:15	US	ADP Employment Change	Apr	-27K	-20500K
21:30	US	Fed's Bostic Discusses Response to Virus			
<b>Thursday, 7 May</b>					
5:45	China	Caixin China PMI Services	Apr	43.0	50.5
10:00	UK	Bank of England Bank Rate	7-May	0.1%	0.1%
13:00	UK	BOE Publishes Briefing With Governor Bailey			
13:00	Eurozone	EU Commission Economic Forecasts			
16:30	US	Fed's Bostic Discusses Financial Impacts of COVID-19			
16:30	US	Initial Jobless Claims	2-May	3839K	3000K
16:30	US	Continuing Claims	25-Apr	17992K	19600K
20:00	US	Fed's Kashkari Discusses the Virus			
	China	Exports, y-o-y	Apr	-6.6%	-9.5%
	China	Imports, y-o-y	Apr	-0.9%	-10.0%
	China	Trade Balance	Apr	\$19.9B	\$15.8B
	China	Foreign Reserves	Apr	\$3060.6B	\$3060.0B
<b>Friday, 8 May</b>					
0:00	US	Fed's Harker Discusses the Response to COVID-19			
16:30	US	Change in Nonfarm Payrolls	Apr	-701K	-21300K
16:30	US	Change in Private Payrolls	Apr	-713K	-21700K
16:30	US	Change in Manufacturing Payrolls	Apr	-18K	-2250K
16:30	US	Unemployment Rate	Apr	4.4%	16.0%
16:30	US	Average Hourly Earnings, m-o-m	Apr	0.4%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Apr	3.1%	3.3%

\* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Saudi Arabia	M3 Money Supply, y-o-y	Mar	7.5%		9.8%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Mar	1844.4B		1744.3B
	Bahrain	CPI, y-o-y	Mar	0.1%		-1.8%
<b>Monday, 27 April</b>						
18:30	US	Dallas Fed Manufacturing Activity	Apr	-70.0	-75.0	-73.7
	Japan	BOJ Policy Balance Rate	27-Apr	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	27-Apr	0.0%	0.0%	0.0%
<b>Tuesday, 28 April</b>						
16:30	US	Wholesale Inventories, m-o-m	Mar P	-0.6%	-0.4%	-1.0%
18:00	US	Conference Board Consumer Confidence	Apr	118.8	87.0	86.9
18:00	US	Richmond Fed Manufacturing Index	Apr	2.0	-41.0	-53.0
<b>Wednesday, 29 April</b>						
12:00	Eurozone	M3 Money Supply, y-o-y	Mar	5.5%	5.5%	7.5%
16:30	US	GDP Annualized, q-o-q	1Q A	2.1%	-4.0%	-4.8%
16:30	US	Personal Consumption	1Q A	1.8%	-3.6%	-7.6%
16:30	US	Core PCE, q-o-q	1Q A	1.3%	1.7%	1.8%
18:00	US	Pending Home Sales, m-o-m	Mar	2.3%	-14.3%	-20.8%
22:00	US	FOMC Rate Decision (Upper Bound)	29-Apr	0.25%	0.25%	0.25%
22:00	US	FOMC Rate Decision (Lower Bound)	29-Apr	0.0%	0.0%	0.0%
22:00	US	Interest Rate on Excess Reserves	30-Apr	0.1%	0.1%	0.1%
<b>Thursday, 30 April</b>						
3:50	Japan	Retail Sales, m-o-m	Mar	0.6%	-4.5%	-4.5%
3:50	Japan	Industrial Production, m-o-m	Mar P	-0.3%	-5.0%	-3.7%
5:00	China	Manufacturing PMI	Apr	52.0	51.0	50.8
5:00	China	Non-manufacturing PMI	Apr	52.3	52.5	53.2
13:00	Eurozone	GDP SA, q-o-q	1Q A	0.1%	-3.8%	-3.8%
13:00	Eurozone	GDP SA, y-o-y	1Q A	1.0%	-3.4%	-3.3%
13:00	Eurozone	CPI, m-o-m	Apr P	0.5%	0.1%	0.3%
13:00	Eurozone	CPI Estimate, y-o-y	Apr	0.7%	0.1%	0.4%
15:45	Eurozone	ECB Main Refinancing Rate	30-Apr	0.0%	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	30-Apr	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	30-Apr	-0.5%	-0.5%	-0.5%
16:30	US	Personal Income	Mar	0.6%	-1.7%	-2.0%
16:30	US	Personal Spending	Mar	0.2%	-5.1%	-7.5%
16:30	US	PCE Deflator, m-o-m	Mar	0.1%	-0.3%	-0.3%
16:30	US	PCE Deflator, y-o-y	Mar	1.8%	1.3%	1.3%
16:30	US	PCE Core Deflator, m-o-m	Mar	0.2%	-0.1%	-0.1%
16:30	US	PCE Core Deflator, y-o-y	Mar	1.8%	1.6%	1.7%
16:30	US	Initial Jobless Claims	25-Apr	4442K	3500K	3839K
16:30	US	Continuing Claims	18-Apr	15818K	19476K	17992K
17:45	US	MNI Chicago PMI	Apr	47.8	36.9	35.4
<b>Friday, 1 May</b>						
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Apr	0.4%	0.1%	-0.1%
12:30	UK	Markit UK PMI Manufacturing SA	Apr F	32.9	32.8	32.6
12:30	UK	Mortgage Approvals	Mar	73.7K	58.0K	56.2K
17:45	US	Markit US Manufacturing PMI	Apr F	36.9	36.7	36.1
18:00	US	ISM Manufacturing	Apr	49.1	36.0	41.5

\* UAE time

Source: Bloomberg

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