

The Week Ahead: Important week with US elections, Fed and BoE meeting

► **US: Polls point to Joe Biden winning presidential election**

Risk-off sentiment gathered pace last week with rising global COVID-19 cases leading to fresh lockdowns in Europe (the UK, Germany and France) and increasing election-related uncertainty in the US. The concern over the economic impact of growing global COVID-19 infections resulted in renewed downward pressure on the oil price last week, with Brent closing at a five-month low of USD37.5 p/b. In the week ahead, all eyes will be on the US elections to be held on 3 November, with polls still pointing to a victory for the Democrats, though the margins have tightened slightly of late in some key swing states. An average of recent nationwide polls indicates that Joe Biden has a lead of c.7.2 ppt, though the combined lead in top battleground states (Florida, Pennsylvania, North Carolina, Arizona, Michigan and Wisconsin) is just c.3.3 ppt, according to Real Clear Politics. Attention will particularly be on the Florida, Arizona and Pennsylvania results as Donald Trump will likely need to win all these three swing states to have a chance of retaining the presidency. In the event of a close-run election – a key market concern – Pennsylvania (20 electoral votes) could turn out to be a key deciding state, where the deadline for mail ballots to arrive is 6 November. Thus, there remains uncertainty over the timing of the final result. Focus will also be on the Senate elections where recent polls suggest a narrowing in the race.

► **US: Fed to remain on hold with a dovish tone**

The FOMC is likely to remain in wait-and-see mode at its 4-5 November policy meeting and will assess the implications of the US election results on an additional fiscal stimulus package. The tone of the meeting is likely to be dovish with the FOMC reiterating its commitment to maintaining accommodative monetary policy amidst rising numbers of COVID-19 cases domestically, globally and the reintroduction of lockdowns. The focus of the meeting will be on discussions surrounding the pace of asset purchases in 2021 and beyond. Fed Governor Lael Brainard recently noted that the FOMC is likely to deliberate and “clarify how the asset purchase program could best work in combination with [Flexible Average Inflation Target] forward guidance”. On the data side, consensus expects the US economy to have added another 600K jobs in October (September: 661K), though with risks tilting to the downside amidst recently announced corporate layoffs. Consensus sees the unemployment rate moderating to 7.7% in October (September: 7.9%).

► **UK: BoE likely to expand asset purchase programme**

Consensus expects the BoE to expand its QE programme by an additional GBP100 billion to GBP845 billion at its 5 November meeting to minimise the negative impact of recent lockdowns. The BOE is also expected to revise down its 2021 GDP growth and inflation projections to reflect increasing downside risks to the economic outlook. Market economists expect 2021 GDP growth to be revised down to c.8.0%, from +9.0% in August. Focus will also be on any hints related to negative interest rates, though updated guidance on this subject is widely expected at the December meeting.

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I. Recent Events and Data Releases

A. MENA Economies

Kuwait: Central bank lowers deposit rates; lending rate steady

The Central Bank of Kuwait (CBK) last week lowered its benchmark repo rates (deposit rates) by 0.125%, and made a similar cut to others across the interest rate yield curve up to the ten-year term. This included the rates for CBK bonds, the term-deposits system, direct intervention instruments, and public debt instruments. The benchmark discount rate (lending) was kept steady at 1.5%, with the CBK noting that it was at an historically low level. The official statement indicated that the latest cuts were aimed at reducing the margin with the US federal funds rate, which is decreasing closer to the zero level, thereby increasing the attractiveness of the KWD. Moreover, the move was a part of the CBK's special measures to cope with the ramifications of the COVID-19 pandemic on economic and banking conditions. The lower deposit rate will be positive for banks, though given the limited diversification of the Kuwaiti economy, we do not expect a significant boost to economic activity from any weakening in the KWD. Private sector credit expanded at a rate of 5.0% y-o-y in August, up from 4.3% at end-2019. There are no signs of a slowdown in credit demand as a result of the COVID-19 crisis.

Repo rate cut aimed at reducing attractiveness of KWD

B. G4 Economies

Eurozone: ECB hints at further monetary easing in December

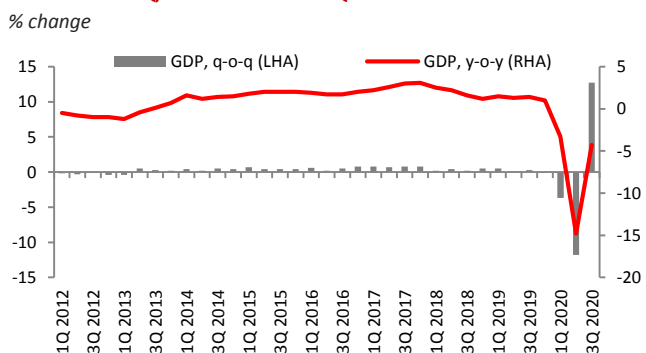
At its 29 October policy meeting the ECB left its monetary policy unchanged but signalled that a stimulus package would be announced in December. The Governing Council (GC) highlighted that amid growing downside risks it "will recalibrate its instruments, as appropriate, to respond to the unfolding situation and to ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic on the projected inflation path". During the post-meeting press conference, ECB President Christine Lagarde also underlined that all of the GC members agreed that "it was necessary to take action", making it clear that there was a broad consensus to act amidst a deteriorating economic outlook. She also emphasised that the measures would be in the form of a package and not just expanding and extending the pandemic emergency purchase programme (PEPP). These comments indicate that an extension of targeted longer-term refinancing operations (TLTROs) is also likely, alongside with tiering of deposit rates and a further easing of collateral rules. However, a deposit rate cut looks less likely in our view, as the rate was not lowered even during the peak of the COVID-19 crisis in March and April 2020.

A new package of monetary easing measures likely to be announced in December

On the economic outlook, the tone of the meeting was extremely dovish with the GC underlining clear downside risks to the outlook. The highlighted uncertainties surrounding the outlook include: i) the recent resurgence of COVID-19 infections; ii) intensification of containment measures; and iii) the highly uncertain timeline of the pandemic and its implications for economic and financial conditions. The GC noted that it will do a thorough reassessment of the economic outlook and publish its new macroeconomic projections in December. The latest developments indicate that both growth and inflation projections for 4Q2020 and 2021 are likely to be revised down notably in December, though the magnitude of adjustments will depend on how the situation evolves in the weeks between now and the 10 December policy meeting.

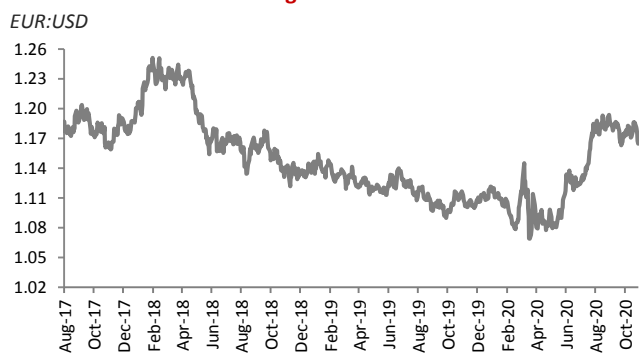
Significant downward revisions to economic indicators likely in December

Fig. 1. Eurozone: Real GDP growth rebounded to 12.7% q-o-q in 3Q, from -11.8% in 2Q



Source: Eurostat

Fig. 2. Eurozone: EUR weakened by 1.8% against USD last week amidst GDP growth concerns



Source: Bloomberg

Eurozone: GDP growth rebounded sharply in 3Q2020

The Eurozone’s real GDP surprised to the upside and rebounded to 12.7% q-o-q in 3Q2020 after contracting by a record 11.8% in 2Q2020. The rebound reflects the pick-up in activity following the easing of pandemic-related restrictions and pent-up consumer demand. On a y-o-y basis, the Eurozone economy continued to contract and declined by 4.3% in 3Q, from an upwardly revised fall of 14.8% in 2Q2020. Despite the strong rebound in economic activity in 3Q, the data seems especially backward looking given the emergence of a second wave of COVID cases and the subsequent new lockdown measures announced recently in a number of countries, including Germany and France. Meanwhile, the labour market remains under pressure, with the unemployment rate elevated at 8.3% in September, the same as in the August reading, which was revised up from 8.1% in the first estimate. The unemployment rate is likely to rise in the coming months amidst newly announced lockdowns or curfews.

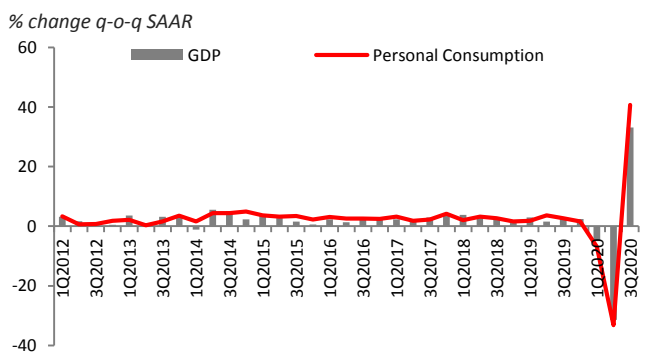
3Q2020 GDP growth surprised to the upside, but economic activity to weaken in 4Q given the resurgence of COVID cases

US: Sharp rebound in 3Q GDP, led by personal consumption

Incoming data from the US including 3Q GDP and September PCE data surprised to the upside last week, indicating that the fading fiscal stimulus had limited impact on the economic momentum. Real GDP rose 33.1% q-o-q SAAR in 3Q2020 (2Q: -31.4%), led by a rebound in consumer spending and an acceleration in housing activity. Despite that, GDP remained 3.5% below pre-pandemic levels, indicating that the strong quarterly rebound was not sufficient for a return to pre-crisis levels. The September PCE report issued after the GDP data release also showed that personal spending accelerated to 1.4% m-o-m, from 1.0% in August, suggesting that some consumers are likely utilising their savings in the absence of fresh fiscal stimulus for unemployed households. Indeed, the savings rate fell for the fifth consecutive month in September to 14.3%, from 14.8% in August and 18.1% in July. Indications are that savings are likely to decline further in the coming months until a fresh fiscal stimulus bill is approved, which will largely depend on the outcome of the election results. Looking ahead, rising numbers of COVID-19 cases in some states and increasing permanent job losses are likely to slow the pace of economic recovery in 4Q2020 and 1Q2021. Consensus is currently expect GDP growth in 4Q2020 to be c.3.0% q-o-q SAAR.

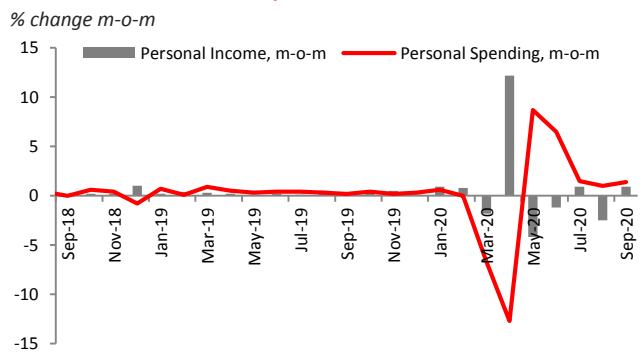
Real GDP still 3.5% below pre-pandemic levels despite the sharp quarterly rebound in 3Q

Fig. 3. US: 3Q GDP growth driven by personal consumption, and residential investments



Source: US Bureau of Economic Analysis

Fig. 4. US: Both personal income and personal consumption accelerated in September



Source: US Bureau of Economic Analysis

Japan: BoJ revises down GDP and inflation forecasts for FY2020

The BoJ kept its monetary policy unchanged at its 28-29 October policy meeting, including policy rates, asset purchases and the special programme for supporting corporate financing. The forward guidance reiterated that it would continue with "quantitative and qualitative monetary easing with yield curve control" as long as necessary. The BoJ highlighted that economic activity had "picked up" (from "having started to pick up") but underlined that risks to the outlook are skewed to the downside. The emphasised risks include: i) the negative impact of COVID-19 on domestic and overseas economies; and (ii) weakening growth expectations by domestic corporates and households. Amidst these downside risks, the BoJ lowered its FY2020 GDP forecast to -5.5%, from -4.7% previously, citing a delayed recovery in the services sector. However, it revised its FY2021 GDP growth forecast upwards to 3.6%, from 3.3% earlier. Core inflation projections also saw a similar trend, with downward revisions to the FY2020 forecast (-0.6% vs. -0.5% previously) and an upward revision for FY2021 (+0.4% vs +0.3% earlier). Looking ahead, the focus in Japan will be on the government's third extra budget, which is likely to be announced by mid-December.

BoJ highlights rising downside risks to economic outlook

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Sep	-2.6%	
	UAE	Abu Dhabi CPI, y-o-y	Aug	-2.8%	
	UAE	M3 Money Supply, m-o-m	Aug	1.5%	
	Bahrain	CPI, y-o-y	Sep	-3.6%	
	Kuwait	CPI, y-o-y	Sep	2.2%	
Monday, 2 November					
9:00	India	Markit India PMI Manufacturing	Oct	56.8	
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Oct	52.8	
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Oct F	54.4	54.4
13:30	UK	Markit UK PMI Manufacturing SA	Oct F	53.3	53.3
16:00	Eurozone	ECB's Rehn Speaks on Strategy Review			
18:45	US	Markit US Manufacturing PMI	Oct F	53.3	53.3
19:00	US	ISM Manufacturing	Oct	55.4	55.8
Tuesday, 3 November					
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Oct	50.7	
8:15	UAE	IHS Markit UAE PMI	Oct	51.0	
8:15	Egypt	IHS Markit Egypt PMI	Oct	50.4	
11:00	Turkey	CPI, y-o-y	Oct	11.8%	12.0%
11:00	Turkey	CPI Core Index, y-o-y	Oct	11.3%	11.8%
19:00	US	Factory Orders	Sep	0.7%	1.0%
19:00	US	Durable Goods Orders	Sep F	1.9%	1.9%
Wednesday, 4 November					
3:50	Japan	BOJ Minutes of September Meeting			
5:45	China	Caixin China PMI Services	Oct	54.8	55.0
13:00	Eurozone	Markit Eurozone Composite PMI	Oct F	49.4	49.4
13:30	UK	Markit/CIPS UK Services PMI	Oct F	52.3	52.3
16:00	US	MBA Mortgage Applications	30-Oct	1.7%	
17:15	US	ADP Employment Change	Oct	749K	650K
17:30	US	Trade Balance	Sep	-\$67.1B	-\$63.9B
18:45	US	Markit US Services PMI	Oct F	56.0	56.0
19:00	US	ISM Services Index	Oct	57.8	57.5
Thursday, 5 November					
13:30	UK	Markit/CIPS UK Construction PMI	Oct	56.8	54.8
14:00	Eurozone	Retail Sales, m-o-m	Sep	4.4%	-1.5%
14:00	Eurozone	EU Commission Economic Forecasts			
15:40	Eurozone	ECB Executive Board member Guindos Speaks			
16:00	UK	Bank of England Bank Rate	5-Nov	0.1%	0.1%
16:00	UK	BOE Asset Purchase Program Total	5-Nov	745B	845B
16:30	UK	BOE Governor Speaks at Press Conference in London			
17:30	US	Initial Jobless Claims	31-Oct	751K	735K
17:30	US	Continuing Claims	24-Oct	7756K	7350K
19:00	Eurozone	ECB's Weidmann Speaks at OMFIF Virtual Forum			
23:00	US	FOMC Rate Decision (Upper Bound)	5-Nov	0.25%	0.25%
23:00	US	FOMC Rate Decision (Lower Bound)	5-Nov	0.00%	0.00%
23:30	US	Powell Holds Post-FOMC Meeting Press Conference			
Friday, 6 November					
17:30	US	Change in Nonfarm Payrolls	Oct	661K	600K
17:30	US	Change in Private Payrolls	Oct	877K	700K
17:30	US	Unemployment Rate	Oct	7.9%	7.7%
17:30	US	Average Hourly Earnings, m-o-m	Oct	0.1%	0.2%
17:30	US	Labor Force Participation Rate	Oct	61.4%	61.5%

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Monday, 26 October						
16:30	US	Chicago Fed National Activity Index	Sep	1.1	0.7	0.3
18:00	US	New Home Sales	Sep	994K	1025K	959K
18:30	US	Dallas Fed Manufacturing Activity	Oct	13.6	13.5	19.8
Tuesday, 27 October						
5:30	China	Industrial Profits, y-o-y	Sep	19.1%		10.1%
13:00	Eurozone	M3 Money Supply, y-o-y	Sep	9.5%	9.6%	10.4%
16:30	US	Durable Goods Orders	Sep P	0.4%	0.5%	1.9%
16:30	US	Durables, ex-Transportation	Sep P	1.0%	0.4%	0.8%
18:00	US	Conference Board Consumer Confidence	Oct	101.3	102.0	100.9
18:00	US	Richmond Fed Manufacturing Index	Oct	21.0	18.0	29.0
Wednesday, 28 October						
15:00	US	MBA Mortgage Applications	23-Oct	-0.6%		1.7%
16:30	US	Wholesale Inventories, m-o-m	Sep P	0.3%	0.4%	-0.1%
	Saudi Arabia	M3 Money Supply, y-o-y	Sep	9.4%		10.6%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Sep	1682.7B		1661.0B
Thursday, 29 October						
3:50	Japan	Retail Sales, m-o-m	Sep	4.6%	1.0%	-0.1%
3:50	Japan	Retail Sales, y-o-y	Sep	-1.9%	-7.6%	-8.7%
13:30	UK	Mortgage Approvals	Sep	85.5K	76.1K	91.5K
14:00	Eurozone	Economic Confidence	Oct	90.9	89.6	90.9
16:30	US	Initial Jobless Claims	24-Oct	791K	770K	751K
16:30	US	Continuing Claims	17-Oct	8465K	7775K	7756K
16:30	US	GDP Annualized, q-o-q	3Q A	-31.4%	32.0%	33.1%
16:30	US	Personal Consumption	3Q A	-33.2%	38.9%	40.7%
16:45	Eurozone	ECB Main Refinancing Rate	29-Oct	0.0%	0.0%	0.0%
16:45	Eurozone	ECB Deposit Facility Rate	29-Oct	-0.5%	-0.5%	-0.5%
18:00	US	Pending Home Sales, m-o-m	Sep	8.8%	2.7%	-2.2%
	Japan	BOJ Policy Balance Rate	29-Oct	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	29-Oct	0.0%	0.0%	0.0%
Friday, 30 October						
3:30	Japan	Tokyo CPI, y-o-y	Oct	0.2%	-0.1%	-0.3%
3:30	Japan	Jobless Rate	Sep	3.0%	3.1%	3.0%
3:50	Japan	Industrial Production, m-o-m	Sep P	1.0%	3.0%	4.0%
11:00	Turkey	Trade Balance	Sep	-6.29B	-4.9B	-4.83B
14:00	Eurozone	Unemployment Rate	Sep	8.3%	8.2%	8.3%
14:00	Eurozone	GDP SA, q-o-q	3Q A	-11.8%	9.6%	12.7%
14:00	Eurozone	GDP SA, y-o-y	3Q A	-14.8%	-7.0%	-4.3%
14:00	Eurozone	CPI Estimate, y-o-y	Oct	-0.3%	-0.3%	-0.3%
14:00	Eurozone	CPI Core, y-o-y	Oct P	0.2%	0.2%	0.2%
15:30	India	Eight Infrastructure Industries	Sep	-8.5%		-0.8%
16:30	US	Personal Income	Sep	-2.5%	0.4%	0.9%
16:30	US	Personal Spending	Sep	1.0%	1.0%	1.4%
16:30	US	PCE Deflator, m-o-m	Sep	0.3%	0.2%	0.2%
16:30	US	PCE Core Deflator, m-o-m	Sep	0.3%	0.2%	0.2%
17:45	US	MNI Chicago PMI	Oct	62.4	58.0	61.1
18:00	US	University of Michigan Consumer Sentiment	Oct F	81.2	81.2	81.8

* UAE time

Source: Bloomberg

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