

The Week Ahead: US presidential election called for Joe Biden

► US: Divided Congress likely to limit size of fiscal stimulus

The presidential election has been called for Joe Biden after his lead widened to a probably unassailable level in Pennsylvania, which took him over the needed 270 electoral votes. Legal challenges and recounts in some key states are likely to decide the final tally, but are unlikely to change the presidential outcome. However, the Democratic Party's chance of taking control of the Senate looks slim at this point and the final composition will likely depend on run-off elections for two seats in the state of Georgia in early January. A split government is likely to pose challenges for Biden in pushing through his reform agenda, and to reduce the prospects of a substantial fiscal stimulus. A smaller support package is expected to be agreed by Congress, though the timing is uncertain. The divided Congress is likely to make it tough for Biden to enact his proposed tax hikes, which is seen as positive for the equity markets. Limited fiscal stimulus at times of rising COVID-19 cases could put pressure on the Fed to increase the pace of asset purchases if the economic outlook deteriorates in the coming weeks (page 3). Looking ahead, focus will remain on the political developments, including President Donald Trump's next moves and potentially Biden's cabinet picks. Data wise, October CPI inflation is due this week, with consensus forecasting both headline and core CPI inflation to remain steady at 0.2% m-o-m.

► Europe: Broadening localised lockdowns cause concern

Last week, Italy, Greece and Portugal announced fresh regional lockdowns to contain the surging COVID-19 cases, following Germany, France, Spain and the UK's restrictions. The new localised lockdowns are likely to have a significant impact on both the Eurozone and the UK's economy in 4Q2020 and potentially into early 2021, though the magnitude of the effect will depend on how COVID-19 evolves. To minimise the negative consequences of fresh lockdown measures on the economy, the BoE and the UK government last week announced additional monetary and fiscal stimulus measures (page 4). In the Eurozone, the ECB had earlier hinted that it is likely to expand its asset purchase programme in December. The key data releases due this week in Europe are the UK's 3Q GDP and the September labour market report, and the Eurozone's second estimate of 3Q GDP. Consensus expects the UK's 3Q GDP to rebound to 15.7% q-o-q (2Q: -19.8%) reflecting a bounce back in summer economic activity as the economy reopened.

► EM: CBE likely to cut again, inflationary pressure benign

We see the Central Bank of Egypt (CBE) lowering benchmark interest rates by a further 50 bps on 12 November, the same magnitude as the September cut. Egypt's October inflation print is due ahead of the meeting and we see price pressure remaining benign. Elsewhere, India and China will also release their October CPI inflation readings this week. Consensus expects India's CPI inflation to remain elevated at 7.1% y-o-y in October (September: 7.3%). The sharp rise in onion and potato prices in October due to floods in key producing regions is likely to keep food inflation high, in our view.

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I. Recent Events and Data Releases

A. MENA Economies

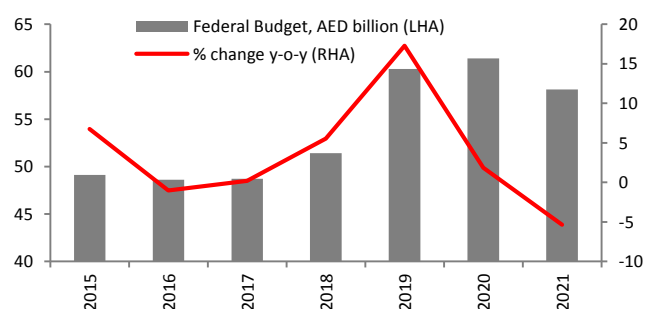
UAE: Announces smaller federal budget for 2021

The UAE's federal budget for 2021 has been set at AED58.0 billion (USD15.8 billion), down from AED61.35 billion in 2020, which was the largest ever announced spending plan. Of this, the cabinet plans to spend AED26.04 billion on social projects. The federal budget only accounts for a relatively small portion – around 14-15% – of overall government spending in the UAE. Nevertheless, the planned pullback in spending reflects a cautious approach, as the economy continues to be impacted by the COVID-19 pandemic. Budgets of different emirates have been revised in 2020 to reflect the lower revenue outlook, resulting in adjustments to the expenditure side. We also expect to see weaker spending on a country-wide level in 2021, with key sectors likely to continue to feel the impact of the pandemic, especially in 1H2021.

Federal spending planned to contract by 5.4% in 2021

Fig. 1. UAE: Federal spending to remain historically high despite its decline from 2018 and 2019 levels

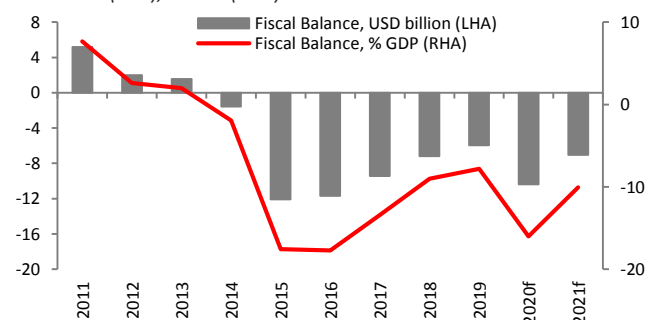
AED billion (LHA); % change y-o-y (RHA)



Source: UAE Ministry of Finance, ADCB calculations

Fig. 2. Oman: Fiscal deficit expected to widen in 2020 with sharp fall in government revenue

USD billion (LHA); % GDP (RHA)



Source: Ministry of Finance, ADCB estimates

Oman: Medium-term fiscal adjustment plan released

Oman released the details of its medium-term fiscal adjustment plan (2020-24) last week, after indicating in October that the plan had been approved by Sultan Haitham bin Tariq. We had highlighted in a recent report that the fiscal position had deteriorated markedly since 2015 and remained fragile. For more details, please see our note – **Oman Economic Update: Fiscal position to remain fragile despite the introduction of VAT in 2021**, published on 22 October 2020. Oman has already progressed with some fiscal consolidation this year, alongside announcing the planned introduction of VAT in April 2021. We believe the medium-term plan is positive and vital for anchoring policy. Nevertheless, we think the targets look ambitious, especially given the impact of fiscal consolidation on economic activity. The reform plan is expected to dampen non-oil activity, limiting the private sector's ability to create jobs. We have seen other GCC countries with a relatively short fiscal transformation plan face difficulties with continued implementation given the importance of government spending as a driver of economic activity.

A plan to structurally reduce fiscal deficit is positive, but targets look ambitious

The key objective of the plan is to reach financial sustainability, with the fiscal deficit target set at just 1.7% of GDP by 2024, from a deficit of 15.8% this year (official estimate). The plan also aims to increase non-oil income to 35.0% of total government revenue by 2024, up from c.28.0% in 2020. The fiscal reform measures are broad-based, including a gradual lifting of electricity and water subsidies until they are completely removed by 2025. Of particular note is the plan's aim to implement an income tax on high-income individuals in 2022, though an official statement noted that "this initiative is still under study, all aspects of its application are being considered". We believe the introduction of personal income tax would be a significant development in the region, with none of the six countries currently having one. There are also measures within the plan to support economic activity, including expanding the visa fee exemption to more than 100 countries to boost tourism and cutting real estate transaction fees to 3.0% from 5.0%.

Plan proposes introduction of personal income tax – which would be significant development in region

B. G4 Economies

US: Fed on hold with no major surprises in November

The FOMC kept its monetary policy steady at its 4-5 November policy meeting, in line with our and consensus expectations. There were no changes to the forward guidance on interest rates and asset purchases in the FOMC statement, though some minor tweaks related to economic activity were made to reflect the evolving conditions. The language on economic activity and employment was slightly changed from "picked up in recent months" to "continued to recover". Fed Chair Jerome Powell highlighted during his press conference that the "recent rise in new Covid-19 cases, both here in the United States and abroad, is particularly concerning" and argued that "it will take a while" to get back to the pre-COVID levels of economic activity and employment. Against this economic backdrop, Powell called for continued support from both monetary and fiscal policy to ensure a strong economic recovery. On the monetary policy side, the FOMC members engaged in a "full discussion" on the available asset purchase programme options. Powell noted that the Fed will adjust the programme to deliver more accommodation, if necessary. We see this as an indication that the Fed may increase the pace of asset purchases at its December policy meeting if the economic outlook deteriorates significantly. Moreover, the Fed noted that after the December policy meeting, it will release the entire package of Fed projections at the same time as the FOMC statement. Until now, the Fed has released only a subset of economic projections at the time of the meeting with the remainder released later with the FOMC minutes. We believe that the new communication strategy will allow Powell to use and cite additional information during his post-meeting press conference.

Additional asset purchases to be preferred tool for Fed if economic conditions deteriorate significantly

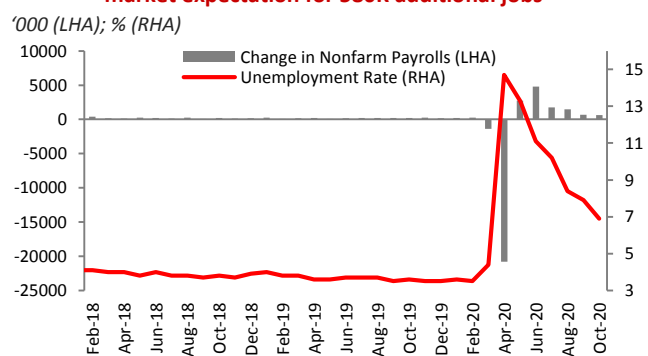
US: Labour market recovery continues in October

The US economy added 638K jobs in October, beating the consensus expectation for 580K, but coming in lower than the upwardly revised 672K in September. The US economy has regained 54.5% of the total jobs lost in March and April 2020. Notable gains in October were in leisure and hospitality (271K), professional and business services (208K), retail trade (104K), and construction (84K). Leisure and hospitality, which was the key driver of the job recovery in October, has added 4.8 million jobs since April, though the pace of further additions in this segment may slow in the coming months due to cold weather and rising COVID-19 cases. Meanwhile, the unemployment rate continued to decline rapidly to 6.9% in October, lower than both the consensus estimate of 7.6% and the September reading of 7.9%. The drop in unemployment was mainly due to a fall in

Unemployment rate falls to 6.9% in October, from 7.9% in September

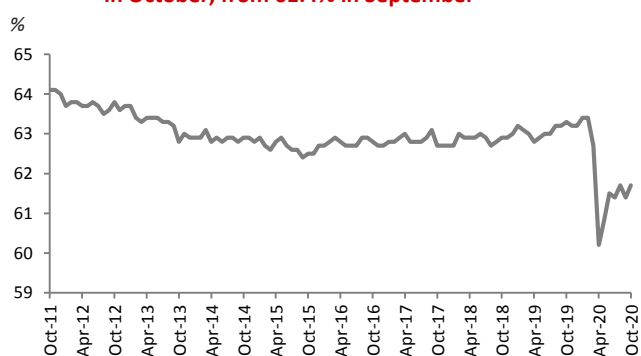
temporary layoffs of 1.4 million to a total of 3.2 million in October, from a high of 18.1 million in April. The number of permanent job losses was broadly steady at 3.68 million in October (September: 3.76 million), but was 2.4 million higher than in February. The ongoing improvement in labour market conditions also resulted in the participation rate increasing to 61.7% in October, from 61.4% in September. Overall, the stronger than expected incoming data and potentially divided Congress suggest that additional fiscal stimulus could be measured and limited.

Fig. 3. US: US economy adds 638K jobs in October, beating market expectation for 580K additional jobs



Source: Bureau of Labor Statics

Fig. 4. US: Labour force participation rate increases to 61.7% in October, from 61.4% in September



Source: Bureau of Labor Statics

UK: BoE expands QE programme by GBP150 billion

The BoE voted unanimously last week to increase the target stock of purchased UK government bonds by an additional GBP150.0 billion to GBP875.0 billion. The expansion was greater than the consensus expectation for an additional GBP100.0 billion. The expanded QE stock target of GBP875.0 billion would be reached by early-September 2021, if the BoE maintains its October Gilt purchase rate of GBP18.0 billion. However, the MPC highlighted that the monthly pace of asset purchases will vary depending on economic conditions. Meanwhile, the benchmark policy rate and corporate asset purchases were kept unchanged at 0.1% and GBP20 billion respectively. Moreover, there was no new guidance on negative interest rates, though Governor Andrew Bailey highlighted that a review is under way. Consensus believes that the BoE’s review work on negative rates is likely to be completed in December, leading to new guidance potentially at its next MPC meeting on 17 December.

BoE leaves interest rate steady but raises QE purchase programme target

On the economy, the MPC highlighted that the outlook remains unusually uncertain with a rapid rise in new COVID-19 infections and ongoing Brexit-related uncertainty. The rising infections are expected to weigh negatively on near-term consumer spending, leading to a decline in GDP in 4Q2020. Indeed, the BoE now expects UK GDP to contract by 11.0% in 2020 compared with its 9.5% drop in August. The GDP growth estimate for 2021 was revised down to 7.25%, from +9.0% previously, with 2H growth expected to be stronger than in 1H. The MPC also underlined that the unemployment rate is expected to peak at c.7.75% in 2Q2021 and soften thereafter with the expected pickup in economic activity.

MPC expects UK economy to contract in 4Q2020 with fresh lockdowns

UK: Chancellor Sunak extends Job Retention Scheme to end-March

After the BOE voted to expand the QE programme on Thursday, the UK’s Chancellor of the Exchequer Rishi Sunak extended the Job Retention Scheme (also known as the

furlough scheme) until the end of March; it had been previously due to end on 31 October. The scheme will pay furloughed workers 80.0% of their wages up to GBP2,500 a month until end-March. Sunak also announced further support measures for self-employed workers until January. Consensus estimates that the new fiscal support measures will cost c.GBP30.0 billion to the exchequer, equivalent to c.1.5% of GDP. The measures will help to contain the unemployment rate and impact on households from the latest lockdown measures, thereby also reducing the burden on businesses. However, overall domestic demand is still expected to diminish given the uncertain economic outlook. Consensus forecasts the UK economy to witness a double dip recession following the re-emergence of COVID-19.

Extension of furlough scheme to cost c.GBP30 billion to exchequer, equivalent to c.1.5% of GDP

C. Emerging Market Economies

Turkey: Former Finance Minister Naci Agbal named as new CBRT head

Turkish President Recep Tayyip Erdogan replaced CBRT governor Murat Uysal with former Finance Minister Naci Agbal on Friday. Murat Uysal was appointed as governor in July 2019 for a four-year term and had completed just 16 months at the time of replacement. During Murat Uysal’s term, the Turkish Lira weakened by 48.0% against the USD, making it the worst performing currency among the emerging market economies. The sustained weakness in the TRY and the CBRT’s inability to contain the decline is likely to have been a key factor in replacing Murat Uysal. At the September policy meeting, the CBRT raised its key benchmark rate by 200 bps to 10.25% whilst enacting a number of liquidity-tightening measures to limit the TRY’s softening. However, the TRY has continued to touch new lows. We believe that the new governor’s primary objective will be to limit the TRY’s weakness and hence see potential for a one-time sharp interest rate hike (c.400-500 bps) in the coming days or at least at the CBRT’s next MPC meeting, which is due on 19 November. Moreover, media indications are that Turkey’s Finance Minister Berat Albayrak has announced his resignation yesterday, adding further uncertainty to the already clouded outlook.

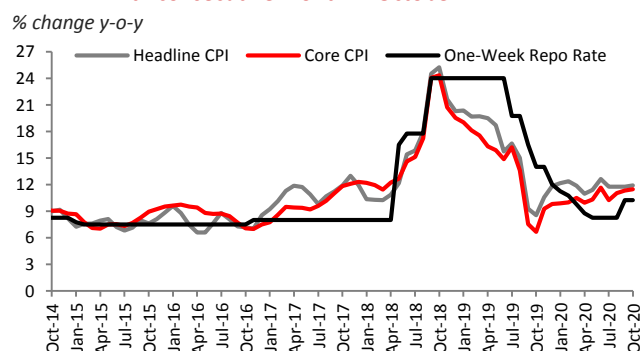
Appointment of new CBRT governor opens up possibility of one-off sharp interest rate hike in coming days or weeks

Fig. 5. Turkey: TRY weakens by 48.0% against USD during Murat Uysal’s term as governor



Source: Bloomberg

Fig. 6. Turkey: Headline inflation remains in double digits for 12th consecutive month in October



Source: Turkish Statistical Institute, CBRT

On the data side, the October inflation report released last week showed that both headline inflation and core readings strengthened to 11.9% and 11.5% y-o-y respectively

from 11.8 and 11.3% in September. The strengthening in headline inflation was driven mainly by food, vehicles and household equipment, where the TRY weakness pass-through effect tends to be significant. We believe that the TRY depreciation since early August is likely to put further upward pressure on inflation in the coming months. In its 4Q inflation outlook report, the CBRT projected headline inflation to be 12.1% at the end of 2020 but expects it to soften to 9.4% at the end of 2021. We believe that risks to the inflation outlook are tilted further to the upside than the CBRT's year-end forecasts for 2020 and 2021.

Ongoing TRY weakness to add further upside pressure to inflation outlook

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Sep	-2.6%	
	UAE	Dubai CPI, y-o-y	Oct	-3.4%	
	UAE	Abu Dhabi CPI, y-o-y	Aug	-2.8%	
	Oman	CPI, y-o-y	Oct	-1.2%	
	China	Money Supply M2, y-o-y	Oct	10.9%	10.9%
	China	New Yuan Loans CNY	Oct	1900.0B	735.0B
	India	Exports, y-o-y	Oct	6.0%	
Monday, 9 November					
8:15	UAE	Dubai PMI	Oct	51.5	
9:00	Japan	Leading Index Cl	Sep P	88.4	92.7
13:25	Eurozone	ECB President Lagarde Speaks			
14:35	UK	BOE Governor Andrew Bailey Speaks			
18:00	UK	BOE's Andy Haldane Speaks			
Tuesday, 10 November					
2:00	US	Fed's Kaplan Takes part in Virtual Event			
5:30	China	PPI, y-o-y	Oct	-2.1%	-1.9%
5:30	China	CPI, y-o-y	Oct	1.7%	0.8%
11:00	UK	Average Weekly Earnings 3M/y-o-y	Sep	0.0%	1.1%
11:00	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Sep	0.8%	1.5%
11:00	UK	ILO Unemployment Rate, 3M	Sep	4.5%	4.8%
19:00	US	JOLTS Job Openings	Sep	6493	6500
23:00	US	Fed's Quarles Appears Before Senate Banking Panel			
	Egypt	Urban CPI, y-o-y	Oct	3.7%	
Wednesday, 11 November					
3:50	Japan	Money Stock M2, y-o-y	Oct	9.0%	9.2%
17:00	Eurozone	Lagarde Speaks at ECB Forum on Central Banking			
Thursday, 12 November					
3:50	Japan	Core Machine Orders, m-o-m	Sep	0.2%	-1.1%
8:30	Japan	Tertiary Industry Index, m-o-m	Sep	0.8%	1.4%
11:00	UK	Industrial Production, m-o-m	Sep	0.3%	0.9%
11:00	UK	Trade Balance, GBP Million	Sep	£1364M	£850M
11:00	UK	GDP, q-o-q	3Q P	-19.8%	15.7%
11:00	UK	GDP, y-o-y	3Q P	-21.5%	-9.5%
11:00	UK	Private Consumption, q-o-q	3Q P	-23.6%	16.9%
12:00	UK	BOE Governor Andrew Bailey Speaks			
16:00	India	CPI, y-o-y	Oct	7.3%	7.1%
16:00	India	Industrial Production, y-o-y	Sep	-8.0%	-2.0%
17:30	US	CPI, m-o-m	Oct	0.2%	0.2%
17:30	US	CPI, ex-Food and Energy, m-o-m	Oct	0.2%	0.2%
17:30	US	CPI, y-o-y	Oct	1.4%	1.3%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	1.7%	1.7%
17:30	US	Initial Jobless Claims	7-Nov	751K	730K
17:30	US	Continuing Claims	31-Oct	7285K	6750K
20:45	Eurozone	ECB's Lagarde, BOE's Bailey, Fed's Powell Speak at ECB Forum			
	Egypt	Lending Rate	12-Nov	9.75%	9.75%
	Egypt	Deposit Rate	12-Nov	8.75%	8.75%
Friday, 13 November					
14:00	Eurozone	GDP SA, q-o-q	3Q P	12.7%	12.7%
16:00	US	Fed's Williams Takes part in FT Webinar			
17:30	US	PPI Final Demand, m-o-m	Oct	0.4%	0.2%
19:00	US	University of Michigan Sentiment	Nov P	81.8	81.8

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	M3 Money Supply, m-o-m	Aug	1.5%		1.1%
	Bahrain	CPI, y-o-y	Sep	-3.6%		-1.5%
	Kuwait	CPI, y-o-y	Sep	2.2%		2.0%
Monday, 2 November						
9:00	India	Markit India PMI Manufacturing	Oct	56.8		58.9
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Oct	52.8		53.9
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Oct F	54.4	54.4	54.8
13:30	UK	Markit UK PMI Manufacturing SA	Oct F	53.3	53.3	53.7
18:45	US	Markit US Manufacturing PMI	Oct F	53.3	53.3	53.4
19:00	US	ISM Manufacturing	Oct	55.4	56.0	59.3
Tuesday, 3 November						
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Oct	50.7		51.0
8:15	UAE	IHS Markit UAE PMI	Oct	51.0		49.5
8:15	Egypt	IHS Markit Egypt PMI	Oct	50.4		51.4
11:00	Turkey	CPI, y-o-y	Oct	11.8%	12.0%	11.9%
11:00	Turkey	CPI Core Index, y-o-y	Oct	11.3%	11.8%	11.5%
19:00	US	Factory Orders	Sep	0.6%	1.0%	1.1%
19:00	US	Durable Goods Orders	Sep F	1.9%	1.9%	1.9%
Wednesday, 4 November						
3:50	Japan	Monetary Base, y-o-y	Oct	14.3%		16.3%
5:45	China	Caixin China PMI Services	Oct	54.8	55.0	56.8
9:00	India	Markit India PMI Services	Oct	49.8		54.1
13:00	Eurozone	Markit Eurozone Composite PMI	Oct F	49.4	49.4	50.0
13:30	UK	Markit/CIPS UK Services PMI	Oct F	52.3	52.3	51.4
14:00	Qatar	Qatar Financial Center PMI	Oct	51.4		51.5
16:00	US	MBA Mortgage Applications	30-Oct	1.7%		3.8%
17:15	US	ADP Employment Change	Oct	753K	643K	365K
17:30	US	Trade Balance	Sep	-\$67.0B	-\$63.9B	-\$63.9B
18:45	US	Markit US Services PMI	Oct F	56.0	56.0	56.9
19:00	US	ISM Services Index	Oct	57.8	57.5	56.6
Thursday, 5 November						
4:30	Japan	Jibun Bank Japan PMI Services	Oct F	46.6		47.7
11:00	UK	Bank of England Bank Rate	5-Nov	0.1%	0.1%	0.1%
11:00	UK	BOE Asset Purchase Program Total	5-Nov	745B	845B	895B
13:30	UK	Markit/CIPS UK Construction PMI	Oct	56.8	55.0	53.1
14:00	Eurozone	Retail Sales, m-o-m	Sep	4.2%	-1.5%	-2.0%
17:30	US	Initial Jobless Claims	31-Oct	758K	735K	751K
17:30	US	Continuing Claims	24-Oct	7823K	7200K	7285K
23:00	US	FOMC Rate Decision (Upper Bound)	5-Nov	0.25%	0.25%	0.25%
23:00	US	FOMC Rate Decision (Lower Bound)	5-Nov	0.00%	0.00%	0.00%
Friday, 6 November						
17:30	US	Change in Nonfarm Payrolls	Oct	672K	580K	638K
17:30	US	Change in Private Payrolls	Oct	892K	680K	906K
17:30	US	Unemployment Rate	Oct	7.9%	7.6%	6.9%
17:30	US	Average Hourly Earnings, m-o-m	Oct	0.0%	0.2%	0.1%
17:30	US	Average Hourly Earnings, y-o-y	Oct	4.6%	4.5%	4.5%
17:30	US	Labor Force Participation Rate	Oct	61.4%	61.5%	61.7%

* UAE time

Source: Bloomberg

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