

The Week Ahead: ECB expected to remain on hold; US Senate returns from recess

► **Global: Political developments to be in focus**

Incoming economic data from the US, including labour market reports (page 4) and the ISM manufacturing index, continue to point to an ongoing recovery from the pandemic. However, the solid economic data failed to boost global market sentiment at the end of last week, with the market increasingly concerned about the rising political uncertainty ahead of November's US presidential elections and the slowing pace of global recovery after the initial rebound. The latest nationwide polls data from the US showed that Joe Biden's lead had narrowed against incumbent Donald Trump. Moreover, market participants are worried that the still solid strength of US economic data may reduce the urgency for securing a new fiscal stimulus package. The US Congress reconvenes this week after the recess, though a new fiscal stimulus deal looks less likely as both Democrats and Republicans are trying to stick to their red lines ahead of the elections. Moving away from the US, political risks in Japan (LDP leadership elections) and the UK (Brexit-related) are also likely to be key issues in the coming weeks. Amidst rising political risks, the global markets saw a sharp sell-off at the end of last week, including equities, bonds and oil. The Brent crude price closed down at USD42.7 p/b last week amidst increasing concerns about the recovery in global demand.

► **Eurozone: ECB on hold; focus to be on economic projections**

We do not expect any major policy changes from the ECB at its 10 September Governing Council (GC) meeting, including on interest rates and the asset purchase programme. Focus at this meeting will be on two areas: i) new economic projections; and ii) the impact of recent EUR appreciation on inflation and exports. Consensus expects the ECB to modestly lower its 2020 GDP contraction forecast to -8.5% (June: -8.7%) to reflect the recent upside surprises from the economic data. On the inflation side, the GC's tone is likely to be dovish given the weak domestic demand conditions and the pass-through effect of EUR appreciation since the end of May. August inflation data released last week also confirmed subdued price pressures despite higher global oil prices than in previous months and gradually improving economic activity. The Eurozone's 2Q GDP final estimate is also due this week. Elsewhere, the US, China, India and Egypt are due to release their August inflation readings this week.

► **GCC: Dubai and SABIC raise international debt**

GCC governments and corporates continued to take advantage of the favourable global funding conditions and the low interest rate backdrop. Dubai tapped the international debt market for first time in six years, issuing USD2.0 billion in a two-part bond (page 2). The associated prospectus provided insight into recent fiscal developments, including revisions to the 2020 budget. In Saudi, SABIC sold USD1 billion in dual-tranche bonds. We see the GCC debt supply continuing to be high for the remainder of the year with the ongoing economic impact of COVID-19 and as the oil price remains below the GCC budget breakeven oil price.

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I. Recent Events and Data Releases

A. MENA Economies

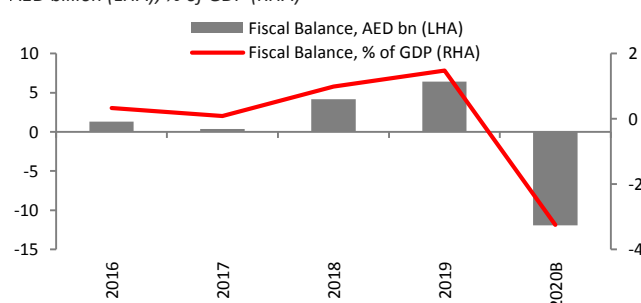
UAE: Dubai raises USD2.0 billion; changes 2020 budget objectives

Dubai returned to the global debt market last week for the first time since 2014, issuing USD2.0 billion from an equal two-part bond sale. A 10-year sukuk was priced at 210 bps over US Treasuries (2.763%), alongside a 30-year conventional bond with a yield of 4.0%. The book exceeded USD6.5 billion for the 10-year notes and USD3.5 billion for the 30-year notes. The pricing was tightened from the initial guidance and was in line with the secondary market. Nevertheless, the pricing reflected a premium linked to the fact that the Dubai government is not rated by the major credit rating agency, limiting the degree of transparency. As a result, a number of international investors would have also been unable to take part in the sale. Dubai has tended to raise debt through private placements over the last six years. The bond prospectus indicated that Dubai has already raised some USD3.6 billion through various debt instruments this year. This includes the government raising AED7.7 billion (USD2.1 billion) in a 10-year Islamic loan, which has been partially drawn down to provide financial support to the Emirates airline.

This was Dubai's first debt issuance since 2014

Fig. 1. Dubai: Fiscal balance expected to deteriorate in 2020 with the impact of COVID-19 on government revenue

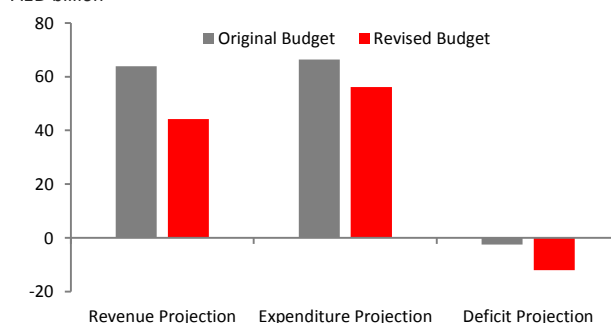
AED billion (LHA); % of GDP (RHA)



Source: Dubai Department of Finance, ADCB calculations

Fig. 2. Dubai: Revenue projection lowered by 30.8% from the initial 2020 budget, expenditure reduced by 15.5%

AED billion



Source: Dubai Department of Finance, ADCB calculations

Dubai's funding requirement has increased sharply with COVID-19 impacting a number of key sectors such as aviation, tourism and real estate. The lower activity in these areas and measures introduced to support the private sector (such as reductions in government fees) will severely impact government revenue. Consequently, new fiscal projections for 2020 were outlined in the bond prospectus, with budgeted revenues revised down to AED44.2 billion in light of COVID-19 – 28.1% lower than actual revenues in 2019. Meanwhile, budgeted expenditure has been reduced to AED56.2 billion, 1.9% higher than actual expenditure in 2019, though down from the AED66.4 billion earmarked in the January budget. For more details, please see our note – **UAE Economic Update: Dubai announces a growth-supportive budget with a sharp rise in expenditure**, published on 8 January 2020. The revised budget deficit of AED11.9 billion is equivalent to 2.8% of 2019 GDP, though it will be a greater percentage of 2020 GDP due to the expected fall in economic activity. The government originally budgeted an AED2.5 billion deficit for 2020. The prospectus also noted that government debt (excluding overdraft facilities) was at AED123.5 billion (USD33.6 billion) in 1H2020, equivalent to c.28.6% of 2019 GDP. However, the bond documentation did not provide details of GRE debt, noting

Government debt stood at AED123.5 billion in 1H2020, equivalent to c.28.6% of 2019 GDP

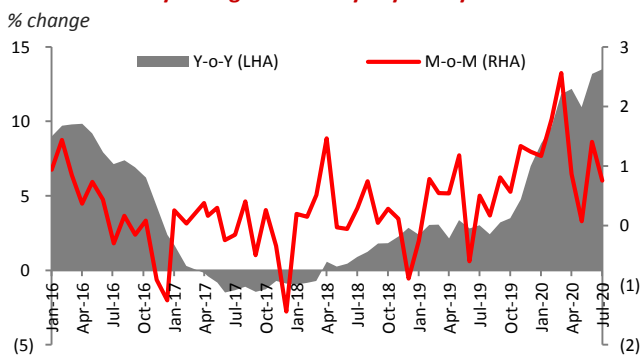
“there is no official information on either the aggregate amount or maturity profile of the indebtedness of Dubai’s GREs”. The IMF previously estimated Dubai’s overall government (including overdraft) and GRE debt burden at c.USD122.5 billion in August 2018, equivalent to c.106.7% of 2018 GDP.

Saudi: Solid loan growth in July; private consumption indicators soften

SAMA monetary data for July show that credit growth remains robust and continues to be driven by new mortgage loans and government borrowing. Total gross credit growth accelerated to 13.2% y-o-y, from 7.6% at the end of 2019. The widening fiscal deficit is continuing to bolster bank claims on the government (up 20.8% y-o-y), including bonds, whilst government deposits in the banking sector have fallen by 9.9% y-o-y. Meanwhile, private sector loan growth has strengthened to 13.5% y-o-y, the strongest level since October 2014. This robust pace of year-on-year expansion partly reflects the Aramco part-IPO at the end of 2019. Nevertheless, the monthly pace of private sector borrowing has been solid, averaging 1.3% m-o-m in 7M2020, from an average of 0.4% for the same period in 2019. A central factor driving this private sector credit growth is demand for mortgages, which are up 61.4% y-o-y. The monthly data continued to show a strong willingness of banks to lend in the form of mortgages, despite the government suspending two of its mortgage programmes (announced in May) as it looks to cut costs given the coronavirus pandemic and the lower oil prices. Moreover, the impact on house purchases from the tripling of VAT to 15.0% in July would also have been dampened by the government covering the cost of VAT for first-home buyers on properties of SAR850,000 or less. Despite the strong loan growth, liquidity in the banking system remains ample. Total system-wide deposits are up 9.4% y-o-y. This would have been supported by the SAR50 billion (USD13.3 billion) injected into the banking system in the form of zero-interest, one-year deposits to help boost liquidity and support credit to the private sector.

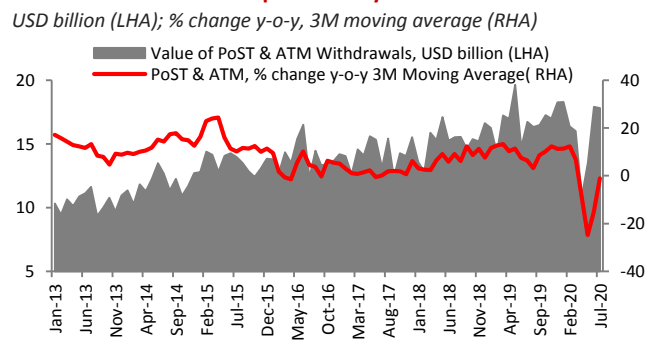
Liquidity remains comfortable, in part supported by SAMA deposits injected into the banking system

Fig. 3. Saudi Arabia: Private sector credit growth rose to a multi-year high of 13.5% y-o-y in July



Source: SAMA, ADCB calculations

Fig. 4. Saudi Arabia: Modest monthly nominal decline in the level of consumption in July with VAT hike



Source: SAMA, ADCB calculations

Meanwhile, economic indicators released by the SAMA in July reflected the impact of the increase in VAT on private consumption. Combined point-of-sales transactions (PoST) and ATM withdrawals, indicators of private consumption, fell by 0.6% m-o-m in July. Further highlighting a more cautious spending approach, the average value of spending per PoST fell to SAR117.4 in July – from SAR167.6 in June 2020 and SAR177.6 in July 2019. However, the strong annual growth of PoST and ATM withdrawals (+6.5% y-o-y) would

Other indicators of non-oil activity remain weak, including private sector imports

reflect a number of factors, including a frontloading of spending ahead of the VAT introduction in June and the impact of the higher VAT on nominal prices from July. Thus, we believe that the monthly decline in real spending would have been greater in July. Fewer people travelling outside Saudi Arabia during the peak seasonal period would also have provided support to personal consumption. Other indicators of economic activity remain soft, including new letters of credit opened for private imports, down 18.1% y-o-y in July.

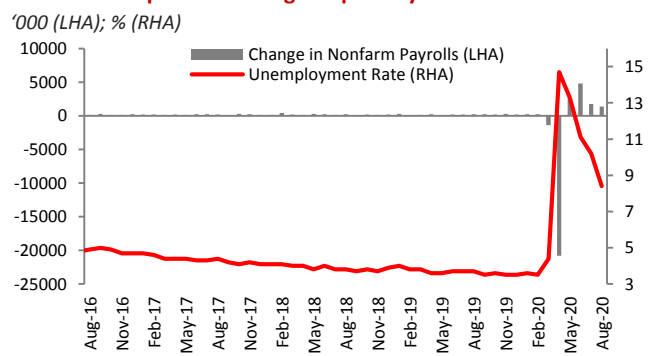
B. G4 Economies

US: Labour market recovery continues in August

August NFP data showed that labour market conditions continued to recover from the COVID-19 impact, albeit at a slower pace than in previous months. The US economy added 1.37 million jobs in August, slightly above consensus expectations of 1.35 million but lower than the 1.73 million in July and 4.78 million in June. Job growth in August was particularly firm in the government (344K), retail (249K) and professional services (197K) segments. The rise in government hiring reflects the temporary hiring for 2020 census related activities. The retail sector which was hard hit by the COVID-19 lockdowns continued to recover at a rapid pace, with the sector now having already re-hired for 73% of the jobs lost due to pandemic. Overall, rapid re-hiring in recent months helped the US economy re-absorb around 10.6 million workers, representing 48.0% of the 22.1 million jobs lost in March and April.

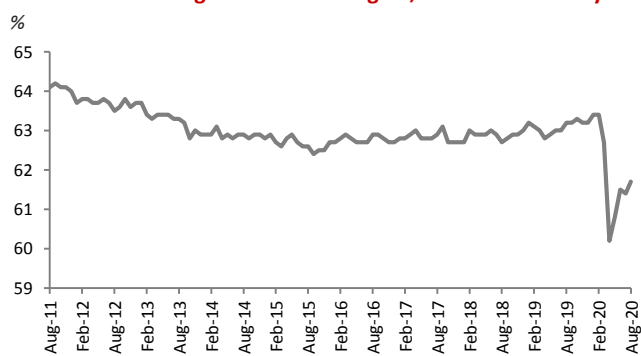
Re-hiring activity continued in August, with solid gains seen in government and services sector

Fig. 5. US: Sharp drop in unemployment rate in August with companies rehiring temporarily laid-off workers



Source: Bureau of Labor Statics

Fig. 6. US: Labour force participation rate increased to a five-month high of 61.7% in August, from 61.4% in July



Source: Bureau of Labor Statics

The other positive development in the August labour market report was the sharp drop in the unemployment rate, which fell to 8.4% from 10.2% in July. The fall in the unemployment rate reflected an astonishing 3.8 million increase in the household survey measure of employment. Please note that the household survey used for unemployment rate calculations is different from the establishment survey that measures nonfarm employment, hours and earnings by industry. The household survey, which also categorises temporary and permanent job losses, showed a diverging trend between these two segments. The total number of temporarily unemployed workers fell by 3.1 million in August to 6.2 million, substantially below the series high of 18.1 million in April. However, the number of permanent job losers increased by 534K to 3.4 million in the month, compared to 2.0 million in April. The increase in permanent job losers is a

Unemployment rate fell to 8.4% in August from 10.2% in July

reflection of companies cutting operational costs by downsizing employee levels particularly in the sectors that are severely affected by the pandemic. We believe that this diverging trend of falling temporary layoffs and rising permanent job losses is likely to continue in the coming months, leading to long-lasting structural shifts in labour market conditions.

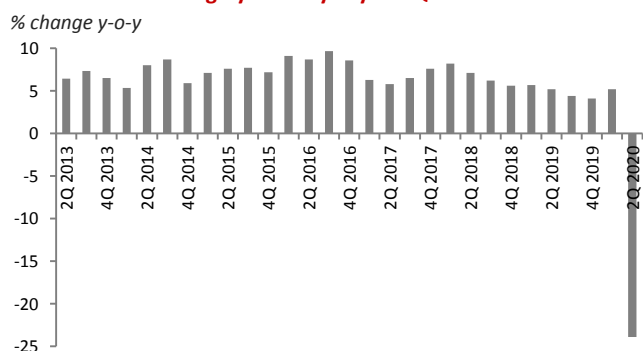
C. Emerging Market Economies

India: Real GDP contracts by 23.9% y-o-y in 2Q2020

Real GDP contracted by a record -23.9% y-o-y in 2Q2020 (1Q2020: +5.2%), coming in much worse than the consensus expectations for an 18.0% drop. India's 2Q GDP contraction on a sequential (-25.6% q-o-q) and y-o-y basis is the worst among the G20 economies. The sharp fall in 2Q GDP was mainly due to personal consumption (-26.7%) and investment activity (-47.5%), reflecting the impact of the strict nationwide lockdown and a gradual subsequent re-opening. The deep contraction was despite government consumption rising by 16.4% y-o-y and net exports contributing positively (+5.5 ppt) to headline growth during the quarter. The positive contribution from net exports was rather due to a sharp fall in imports during the lockdown. We believe that the economic recovery in India is likely to be more gradual than in other major economies as it is still struggling to bring COVID-19 infections under control. For more details, please see our note – **India Economic Update: Economic recovery remains uncertain amidst still rising COVID-19 cases**, published on 26 August 2020. We envisage that there is very limited additional fiscal space to ease further to help speed up the recovery process. Against this backdrop, we continue to believe that the first positive y-o-y GDP growth is likely only in 1Q2021. We now expect real GDP to contract in the range of 8.0-8.5% y-o-y in FY21 (Apr. 2020 – Mar. 2021), compared to our earlier expectation of a c.6.0% drop.

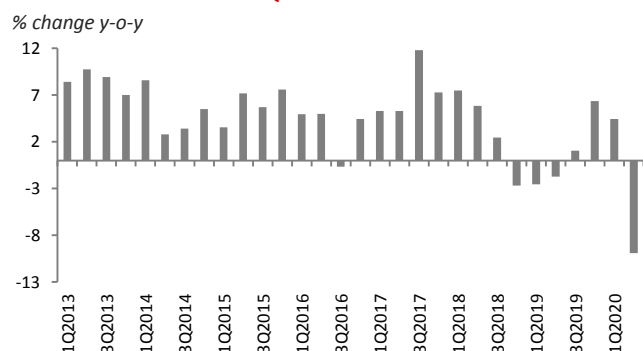
Sharp GDP contraction in 1Q reflects the impact of strict nationwide lockdown

Fig. 7. India: Nationwide lockdown resulted in economy contracting by 23.9% y-o-y in 2Q2020



Source: India Central Statistical Organisation

Fig. 8. Turkey: Real GDP declined by 9.9% y-o-y in 2Q2020, from +4.4% in 1Q2020



Source: Turkish Statistical Institute

Meanwhile, last week the RBI announced a number of support measures to ensure orderly market conditions and congenial financial conditions. These measures include: i) additional special open market operations involving a simultaneous purchase and sale of government securities for a total of INR200 billion; (ii) conducting term repo operations for a total of INR1 trillion at the current repo rate; and (iii) increasing the Held to Maturity

RBI announced additional liquidity bolstering measures to support the economic recovery

(HTM) limit of banks to boost demand for government bonds. We believe that these steps will keep government bond yields in check and help improve liquidity in the system. The announced measures will also help alleviate pressures from advance tax outflows in mid-September. We believe that the RBI is looking to ensure comfortable liquidity and financing conditions in the economy. However, we do not expect any benchmark rate cuts for the rest of 2020, with inflation remaining elevated and above the RBI's upper-bound target of 6.0%.

Turkey: 2Q GDP contraction was less severe than expectations

Turkey's GDP declined by 9.9% y-o-y in 2Q (1Q: +4.4%), the largest contraction since the series began in 1998. However, the 2Q GDP contraction was better than the consensus expectation of -10.7% y-o-y, likely due to a number of factors including: i) the government's fiscal spending measures; ii) the government-sponsored credit push through bank lending; and iii) the CBRT's benchmark rate cuts and other monetary loosening measures. Component-wise data indicates that there was a broad-based decline across the segments, with household consumption (-8.6%) and exports (-35.3%) the most impacted. The latest high-frequency data suggest that the economic recovery has been encouraging since the easing of restrictions, but it remains to be seen whether this will continue into the coming months amidst tightening monetary conditions. Note that in recent weeks, the CBRT announced a number of liquidity-tightening measures to limit the TRY depreciation.

Broad-based 2Q GDP decline led by a sharp drop in household consumption during lockdown

Meanwhile, increased domestic demand resulted in core inflation accelerating sharply in August to 11.0% y-o-y, from 10.3% in July, although headline inflation remained steady at 11.8%. We believe that the recent depreciation of TRY against USD will likely add further upside pressure to inflation (through imported goods) in the coming months. Amidst increasing upside risks, we expect the CBRT to further tighten its liquidity measures whilst leaving the benchmark rate unchanged. However, if TRY continues to depreciate further in the coming weeks and months, an emergency rate hike should not be ruled out, in our view.

Core inflation strengthened to 11.0% y-o-y in August, from 10.3% in July

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jul	-2.4%	
	UAE	Dubai CPI, y-o-y	Aug	-3.1%	
	Oman	CPI, y-o-y	Aug	-1.4%	
	China	Money Supply M2, y-o-y	Aug	10.7%	10.7%
	China	New Yuan Loans CNY	Aug	992.7B	1250.0B
Monday, 7 September					
12:30	Eurozone	Sentix Investor Confidence	Sep	-13.4	-10.5
	China	Exports, y-o-y	Aug	7.2%	7.5%
	China	Imports, y-o-y	Aug	-1.4%	0.2%
	China	Trade Balance	Aug	\$62.3B	\$49.7B
	China	Foreign Reserves	Aug	\$3154.4B	\$3170.5B
Tuesday, 8 September					
3:50	Japan	GDP SA, q-o-q	2Q F	-7.8%	-8.1%
3:50	Japan	GDP Annualized SA, q-o-q	2Q F	-27.8%	-28.5%
3:50	Japan	BoP Current Account Adjusted	Jul	¥1049.2B	¥1444.7B
13:00	Eurozone	GDP SA, q-o-q	2Q F	-12.1%	-12.1%
13:00	Eurozone	GDP SA, y-o-y	2Q F	-15.0%	-15.0%
13:00	Eurozone	Household Cons, q-o-q	2Q	-4.7%	-12.4%
14:00	US	NFIB Small Business Optimism	Aug	98.8	99.0
Wednesday, 9 September					
3:50	Japan	Money Stock M2, y-o-y	Aug	7.9%	8.1%
5:30	China	PPI, y-o-y	Aug	-2.4%	-1.9%
5:30	China	CPI, y-o-y	Aug	2.7%	2.4%
8:15	UAE	Dubai PMI	Aug	51.7	
18:00	US	JOLTS Job Openings	Jul	5889	6000
Thursday, 10 September					
3:50	Japan	Core Machine Orders, m-o-m	Jul	-7.6%	2.0%
3:50	Japan	Core Machine Orders, y-o-y	Jul	-22.5%	-18.2%
15:45	Eurozone	ECB Main Refinancing Rate	10-Sep	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	10-Sep	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	10-Sep	-0.5%	-0.5%
16:30	Eurozone	ECB President Christine Lagarde Holds Press Conference			
16:30	US	PPI Final Demand, m-o-m	Aug	0.6%	0.2%
16:30	US	Initial Jobless Claims	5-Sep	881K	845K
16:30	US	Continuing Claims	29-Aug	13254K	12904K
21:00	Eurozone	ECB President Christine Lagarde Speaks at Bundesbank Event			
	Egypt	Urban CPI, y-o-y	Aug	4.2%	
	Egypt	CPI Core, y-o-y	Aug	0.7%	
Friday, 11 September					
10:00	UK	Monthly GDP, m-o-m	Jul	8.7%	6.7%
10:00	UK	Industrial Production, m-o-m	Jul	9.3%	4.2%
10:00	UK	Manufacturing Production, m-o-m	Jul	11.0%	5.0%
10:00	UK	Trade Balance, GBP Million	Jul	£5336M	£3000M
11:00	Turkey	Current Account Balance	Jul	-2.93B	-2.0B
12:00	Eurozone	ECB's Weidmann and Villeroy Speak at Bundesbank Event			
16:00	India	Industrial Production, y-o-y	Jul	-16.6%	-12.0%
16:00	Eurozone	ECB Chief Economist Philip Lane Participates in Online Event			
16:30	US	CPI, m-o-m	Aug	0.6%	0.3%
16:30	US	CPI, ex-Food and Energy, m-o-m	Aug	0.6%	0.2%
16:30	US	CPI, y-o-y	Aug	1.0%	1.2%
16:30	US	CPI, ex-Food and Energy, y-o-y	Aug	1.6%	1.6%

* UAE time

Source: Bloomberg

Fig. 10. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Saudi Arabia	M3 Money Supply, y-o-y	Jul	9.0%		9.5%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Jul	1661.1B		1662.7B
	Bahrain	CPI, y-o-y	Jul	-3.4%		-2.7%
	Kuwait	CPI, y-o-y	Jul	1.8%		1.9%
Monday, 31 August						
11:00	Turkey	GDP, y-o-y	2Q	4.4%	-10.7%	-9.9%
16:00	India	GDP, y-o-y	2Q	3.1%	-18.0%	-23.9%
Tuesday, 1 September						
3:30	Japan	Jobless Rate	Jul	2.8%	3.0%	2.9%
5:45	China	Caixin China PMI Manufacturing	Aug	52.8	52.5	53.1
9:00	India	Markit India PMI Manufacturing	Aug	46.0		52.0
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Aug	56.9		54.3
12:30	UK	Mortgage Approvals	Jul	39.9K	55.0K	66.3K
13:00	Eurozone	Unemployment Rate	Jul	7.7%	8.0%	7.9%
13:00	Eurozone	CPI Estimate, y-o-y	Aug	0.4%	0.2%	-0.2%
13:00	Eurozone	CPI Core, y-o-y	Aug P	1.2%	0.8%	0.4%
18:00	US	ISM Manufacturing	Aug	54.2	54.8	56.0
Wednesday, 2 September						
16:15	US	ADP Employment Change	Aug	212K	1000K	428K
18:00	US	Factory Orders	Jul	6.4%	6.1%	6.4%
18:00	US	Durable Goods Orders	Jul F	11.2%	11.2%	11.4%
18:00	US	Cap Goods Shipments, Non-defence, ex-Air	Jul F	2.4%	2.4%	2.6%
Thursday, 3 September						
4:30	Japan	Jibun Bank Japan PMI Composite	Aug F	44.9		45.2
5:45	China	Caixin China PMI Services	Aug	54.1	53.9	54.0
7:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Aug	50.0		48.8
7:15	UAE	IHS Markit UAE PMI	Aug	50.8		49.4
8:15	Egypt	IHS Markit Egypt PMI	Aug	49.6		49.4
11:00	Turkey	CPI, y-o-y	Aug	11.8%	11.9%	11.8%
11:00	Turkey	CPI Core Index, y-o-y	Aug	10.3%	11.1%	11.0%
12:00	Eurozone	Markit Eurozone Composite PMI	Aug F	51.6	51.6	51.9
12:30	UK	Markit/CIPS UK Composite PMI	Aug F	60.3	60.3	59.1
13:00	Eurozone	Retail Sales, m-o-m	Jul	5.3%	1.0%	-1.3%
16:30	US	Initial Jobless Claims	29-Aug	1011K	950K	881K
16:30	US	Continuing Claims	22-Aug	14492K	14000K	13254K
16:30	US	Trade Balance	Jul	-\$53.5B	-\$58.0B	-\$63.6B
18:00	US	ISM Services Index	Aug	58.1	57.0	56.9
Friday, 4 September						
16:30	US	Change in Nonfarm Payrolls	Aug	1734K	1350K	1371K
16:30	US	Change in Private Payrolls	Aug	1481K	1325K	1027K
16:30	US	Unemployment Rate	Aug	10.2%	9.8%	8.4%
16:30	US	Average Hourly Earnings, m-o-m	Aug	0.1%	0.0%	0.4%
16:30	US	Average Hourly Earnings, y-o-y	Aug	4.7%	4.5%	4.7%
16:30	US	Labor Force Participation Rate	Aug	61.4%	61.8%	61.7%

* UAE time

Source: Bloomberg

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