

## The Week Ahead: ECB expected to remain on hold; UK economic data in focus

### ► Eurozone: No major changes expected at April ECB meeting

We and consensus expect the ECB to keep policy steady at its 22 April monetary policy meeting, after having announced at the March meeting that it would conduct asset purchases at "a significantly higher pace" over the next quarter versus the first months of the year. The ECB has modestly increased the pandemic emergency purchase programme (PEPP) since mid-March, to c.EUR20.0 billion per week from EUR18.0 billion earlier. We believe that any further increase in PEPP looks unlikely at this point with the recent stabilisation in bond yields (including for German and French bonds), the pick-up in the vaccinations and the expected economic outlook on the back of this. At the April meeting, the main focus area will be Christine Lagarde's post-meeting press conference comments to gauge: i) whether the ECB had any discussion on defining a "significantly higher pace" of asset purchases; and ii) what conditions would lead the GC to replace the word "significantly" (e.g. with "modest"/"moderate") in the statement. We believe that any revisions regarding the pace of PEPP purchases is likely at the June meeting, when the governing council (GC) will have new economic projections available. On the economic outlook, the ECB is likely to sound relatively more optimistic about the recovery process amidst the recent pick-up in vaccination programmes.

### ► UK: Economic activity to gain further momentum in April

A number of key economic data releases, including CPI inflation, retail sales and labour market figures are due this week. Consensus expects headline retail sales to decelerate to 1.5% m-o-m in March, from a strong 2.1% growth in February. The latest credit and debit card spending data indicates still solid household expenditure in March, despite the growth rate moderating from February. The reopening of non-essential shops from 12 April should provide further boost to personal consumption. Headline CPI inflation is also projected to strengthen to 0.8% y-o-y in March (February: 0.4%) on higher energy costs and a partial unwinding of recent declines in clothing and recreation prices.

### ► US: Relatively quiet week with FOMC entering blackout period

The key economic data for March largely continued to beat expectations, with retail sales and CPI inflation both surprising to the upside (page 2). The initial jobless claims data also witnessed a marked drop for the week ending 10 April, indicating that labour market conditions improved further after strong March hiring. Despite strong data, the 10-year treasury yields closed lower at 1.58% last week, from 1.66% in the previous week. The movement in bond yields indicate that the market had already priced in the economic rebound in 1Q2021. Moreover, the Fed's communication has been more nuanced and detailed recently, with FOMC members highlighting that any hikes would be preceded with asset purchase tapering, whilst maintaining that they are not in a rush to raise rates (page 3). We believe that tapering asset purchases is likely to begin in early 2022, followed by potential rate hikes from 2023. Looking ahead, the upcoming week will be relatively quiet with the Fed's blackout period from 17 to 29 April.

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## I. Recent Events and Data Releases

### A. MENA Economies

#### Oman: Introduces announced 5.0% VAT, albeit with a narrower base

Oman introduced 5.0% VAT on goods and services on 16 April, in line with earlier announcements and after a six-month transition period. However, earlier in April the government had expanded the list of goods subject to zero-rate VAT from 93 basic food commodities to 488 items. Oman also announced that it will raise the level of subsidies on fuel, electricity and water consumption for families receiving government financial support to help mitigate the impact of VAT on low-income citizens. The government expects that the VAT will generate c.OMR400 million in revenue annually, which is around 1.4% of our estimated GDP for 2021. We see potentially smaller revenue generated by the indirect tax, around 1.0-1.1% of GDP, given the narrow VAT base. The increase in the number of zero-rated goods reflects the government's focus on balancing social welfare with much needed fiscal reforms. Nevertheless, the introduction of VAT and other reforms reflects the willingness to strengthen Oman's fiscal position. We see a marked narrowing in Oman's fiscal deficit in 2021 to 2.4% of GDP (2020: 16.6%), with the higher oil price, cutbacks to spending and the introduction of VAT. However, part of the reduction in central government expenditure will reflect spending shifting to GREs. For more details, please see our note – **Oman Economic Update: 2021 budget looks to reduce fiscal shortfall, in line with medium-term plan**, published on 12 January 2021.

*Oman introduces social welfare support measures ahead of VAT introduction*

### B. G4 Economies

#### US: Retail activity strengthens in March, supported by fiscal stimulus

Retail sales surged to 9.8% m-o-m in March, beating consensus expectations for a 5.8% increase, with the February reading also revised upwards to -2.7% (-3.0% previously). The additional fiscal support to households through stimulus cheques (USD1,400) was a key factor behind the strong rebound in retail activity in March, as was also the case in January (USD600). March retail sales data showed a broad-based strengthening across key segments including, apparel-store sales (18.3% m-o-m), sports/hobby (14.6%), restaurants (13.4%), building materials and supplies (12.1%), gasoline (10.9%), and electronics (10.5%). The incoming data indicates that consumers are preferring to spend rather than save the additional income received from the government's pandemic-relief packages, which should be supportive for household consumption in the coming months. The reopening of service activities and increased domestic travel is also likely to continue to support economic momentum into 2Q2021, in our view.

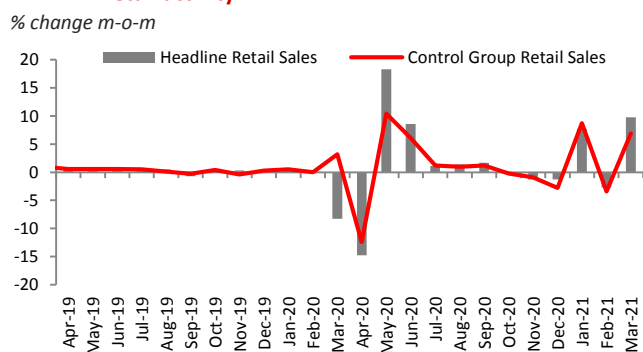
*Strong household spending in March bodes well for 1Q GDP growth*

The strong household spending activity alongside rising global oil prices resulted in headline CPI inflation strengthening to 0.6% m-o-m in March (consensus: 0.5%; February: 0.4%). This is the highest monthly reading since August 2012. Energy prices firmed for a tenth consecutive month and rose to 5.0% m-o-m in March. On a y-o-y basis, headline CPI and core CPI surged to 2.6% and 1.6%, respectively, in March, from 1.7% and 1.3% in February. Part of the rise in inflation was due to low base effects during the initial COVID lockdown in March 2020. Yearly services prices also strengthened, with the opening in hospitality activity boosting hotel and transportation costs, and it will be important to monitor this over the coming months. Shelter prices will also be critical for the inflation outlook, especially with the recent tightening in housing market conditions. Moreover,

*Upside surprise to the March CPI inflation was modest*

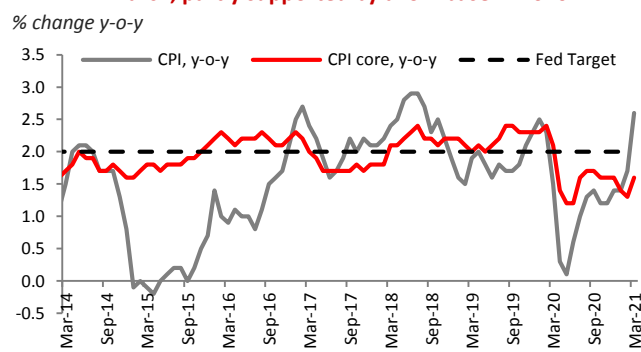
the "transitory" effects linked to the low base will be more pronounced in the coming months, followed by some moderation from June.

**Fig. 1. US: Additional fiscal stimulus behind the sharp rise in retail activity**



Source: US Census Bureau

**Fig. 2. US: Both headline and core inflation strengthened in March, partly supported by a low base in 2020**



Source: Bureau of Labor statistics

Despite the upside surprises in March economic data, 10-year treasury yields moderated to 1.58% last week, from 1.66% in the previous week. The movement in bond yields indicate that the market had already priced in the economic rebound in 1Q2021. Moreover, the Fed's steady guidance appears to have convinced investors that the FOMC is likely to tolerate high inflation throughout 2021 and any monetary policy adjustment will start with reducing the pace of asset purchases, likely in 2022. Fed Chair Jerome Powell last week highlighted that the FOMC will likely scale back its bond purchases as a first step before considering raising interest rates. The sequencing of policy action provided more visibility to investors regarding the interest rate outlook, in our view. Market economists currently expect asset purchase tapering to begin from early 2022, followed by the first interest rate hike, potentially from end-2022 or early 2023.

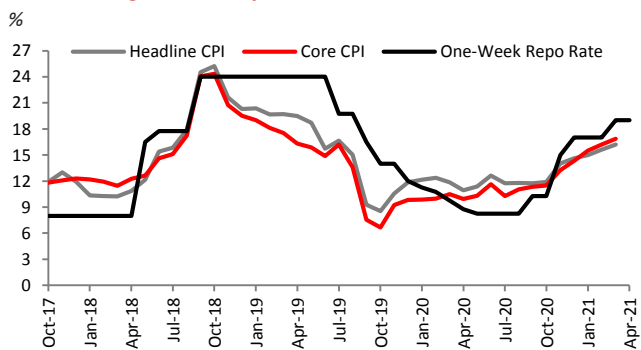
*The Fed appears to have convinced bond market investors that monetary policy will remain steady throughout 2021*

## C. Emerging Market Economies

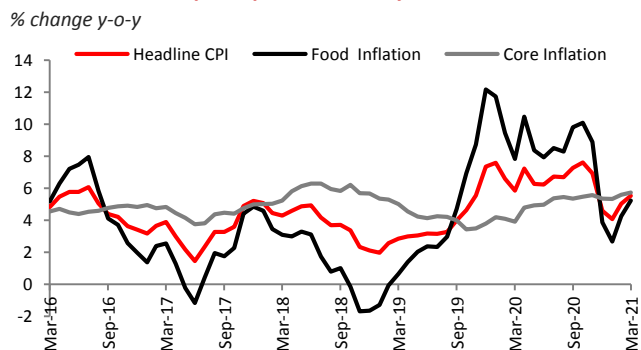
### Turkey: CBRT keeps benchmark policy rate steady as expected

CBRT kept its benchmark one-week repo rate unchanged at 19.0% at its April meeting, in line with our and consensus expectations. The MPC statement highlighted that the policy rate will be maintained above inflation until there is a meaningful drop in price pressures from the current elevated levels. This communication was broadly in line with Governor Şahap Kavcıoğlu's recent speech before the April policy meeting. On inflation, the MPC noted that, "demand and cost factors, supply constraints in some sectors, and high levels of inflation expectations continue to pose risks to the pricing behaviour and inflation outlook". However, key comments in the March meeting communication pointing to the continuation of tight monetary policy were removed in this month's statement. In March, the MPC vowed to keep monetary policy tight "for an extended period" and is ready to "deliver additional monetary tightening, if needed". We see this as a softening in stance, opening the door to some monetary policy easing in the upcoming policy meetings. The real one-week repo rate now stands at 2.8% and we see the CBRT potentially looking to lower this to c.1.5% in the coming months. We believe that the easing cycle could likely start as early as at the May or June policy meetings with a 50-100 bps rate cut, though this is not necessary given the elevated inflation rate.

*CBRT reiterates that policy rate will be maintained above inflation level*

**Fig. 3. Turkey: CBRT on hold in April; Easing cycle likely to begin from May**

Source: Turkish Statistical Institute, CBRT

**Fig. 4. India: Both headline and core inflation strengthened in March; upside pressures likely to continue**

Source: MOSPI

### India: Inflation strengthens in March; COVID-related uncertainty rising

Headline inflation strengthened to 5.5% y-o-y in March 2021, from 5.0% in February, taking the FY2020-21 rate to 6.2%. This is the first time that headline inflation has breached the RBI's upper ceiling target of 6.0% since the adoption of an inflation targeting regime in 2016. The increase in March headline inflation was mainly due to a rise in fuel prices and to the low base effect. Core inflation also picked up to 6.0% y-o-y in March from 5.9% in February, driven mainly by higher transport prices. There were also signs that firms are passing through high input costs (commodity related) to the end consumer. Looking ahead, the recent sharp rise in daily COVID-19 cases and related state-wide lockdown measures to restrict mobility could accentuate supply-side pressures from already high input prices. However, the supply chain issues are unlikely to be as severe as during the last lockdown in 2020, in our view. The RBI at its April policy meeting moderately revised up its inflation forecasts and highlighted both upside and downside risks to the outlook. Amidst increasing uncertainty for both the economic growth and inflation outlooks due to the emergence of a new COVID wave, we expect the RBI to maintain liquidity in the banking sector at comfortable levels in the coming months, whilst keeping interest rates steady.

*Daily COVID cases reached new record levels last week*

### China: Economy expanded by a record 18.3% in 1Q2021

Real GDP growth strengthened to a record 18.3% y-o-y in 1Q2021 (4Q2020: 6.5%), supported by last year's low base. Real GDP growth softened sequentially (-0.6 q-o-q), though with wider economic indicators pointing to more balanced drivers. In yearly terms, the 1Q expansion was the fastest growth since records began in 1992, though was slightly below the consensus expectations for 18.5% growth. The pick-up in domestic demand with the easing of domestic travel restrictions and ongoing exports momentum are likely behind the sharp rise. The monthly retail sales data also confirmed that household spending strengthened markedly to 34.2% y-o-y in March, from 33.8% in 2M2021. Looking ahead, domestic consumption is likely to be the major growth driver in the coming quarters. However, industrial production growth slowed to 14.1% y-o-y in March (2M2021: 35.1%), though still showed double-digit growth. Overall, China's economic growth is likely to revert to c.6.0% y-o-y levels in the coming quarters with the normalisation of base levels. Consensus currently expects the Chinese economy to expand by c.8.0% in 2021.

*Domestic consumption is likely to be the key driver of economic growth in the coming quarters*

## II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	CPI, y-o-y	Feb	-1.9%	
	UAE	M3 Money Supply, y-o-y	Feb	4.7%	
	UAE	Dubai CPI, y-o-y	Mar	-4.5%	
	Kuwait	CPI, y-o-y	Mar	3.0%	
<b>Monday, 19 April</b>					
3:50	Japan	Trade Balance	Mar	¥217.4B	¥493.2B
8:30	Japan	Industrial Production, m-o-m	Feb F	-2.1%	
<b>Tuesday, 20 April</b>					
5:30	China	1-Year Loan Prime Rate	20-Apr	3.85%	3.85%
8:30	Japan	Tertiary Industry Index, m-o-m	Feb	-1.7%	0.5%
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Feb	4.8%	4.8%
10:00	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Feb	4.2%	4.2%
10:00	UK	ILO Unemployment Rate, 3M	Feb	5.0%	5.0%
10:00	UK	Employment Change, 3M/3M	Feb	-147K	-150K
10:00	Japan	Machine Tool Orders, y-o-y	Mar F	65.0%	
16:50	Spain	ECB's Pablo Hernandez de Cos speaks online			
17:30	Eurozone	Bank of Italy Deputy Governor Cipollone speaks at event			
<b>Wednesday, 21 April</b>					
10:00	UK	CPI, m-o-m	Mar	0.1%	0.4%
10:00	UK	CPI, y-o-y	Mar	0.4%	0.8%
10:00	UK	CPI Core, y-o-y	Mar	0.9%	1.1%
12:05	UK	BOE's Ramsden Speaks on Webinar			
12:30	UK	House Price Index, y-o-y	Feb	7.5%	8.0%
14:30	UK	BOE's Bailey Speaks at Diversity Event			
15:00	US	MBA Mortgage Applications	16-Apr	-3.7%	
<b>Thursday, 22 April</b>					
15:45	Eurozone	ECB Main Refinancing Rate	22-Apr	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	22-Apr	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	22-Apr	-0.5%	-0.5%
16:30	Eurozone	ECB President Christine Lagarde Holds Press Conference			
16:30	US	Initial Jobless Claims	17-Apr	576K	625K
16:30	US	Continuing Claims	10-Apr	3731K	
18:00	US	Leading Index	Mar	0.2%	0.8%
18:00	Eurozone	Consumer Confidence	Apr A	-10.8	-11.0
18:00	US	Existing Home Sales	Mar	6.22M	6.2M
<b>Friday, 23 April</b>					
3:30	Japan	National CPI, y-o-y	Mar	-0.4%	-0.2%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Mar	-0.4%	-0.2%
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Apr P	52.7	
4:30	Japan	Jibun Bank Japan PMI Services	Apr P	48.3	
10:00	UK	Retail Sales, inc-Auto Fuel, m-o-m	Mar	2.1%	1.5%
10:00	UK	Retail Sales, inc-Auto Fuel, y-o-y	Mar	-3.7%	3.6%
10:00	UK	PSNB, ex-Banking Groups	Mar	19.1B	22.0B
12:00	Eurozone	ECB Survey of Professional Forecasters			
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Apr P	62.5	62.0
12:00	Eurozone	Markit Eurozone Services PMI	Apr P	49.6	49.1
12:30	UK	Markit UK PMI Manufacturing SA	Apr P	58.9	59.0
12:30	UK	Markit/CIPS UK Services PMI	Apr P	56.3	58.9
17:45	US	Markit US Manufacturing PMI	Apr P	59.1	60.5
17:45	US	Markit US Services PMI	Apr P	60.4	61.5
18:00	US	New Home Sales	Mar	775K	885K

\* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Oman	CPI, y-o-y	Mar	-1.4%		-0.4%
<b>Monday, 12 April</b>						
11:00	Turkey	Current Account Balance	Feb	-1.82B	-2.5B	-2.6B
12:00	China	New Yuan Loans CNY	Mar	1359.4B	2300.0B	2730.0B
12:00	China	Money Supply M2, y-o-y	Mar	10.1%	9.5%	9.4%
13:00	Eurozone	Retail Sales, m-o-m	Feb	-5.2%	1.7%	3.0%
16:00	India	CPI, y-o-y	Mar	5.0%	5.4%	5.5%
16:00	India	Industrial Production, y-o-y	Feb	-0.9%	-3.0%	-3.6%
<b>Tuesday, 13 April</b>						
3:50	Japan	Money Stock M2, y-o-y	Mar	9.6%	9.7%	9.5%
10:00	UK	Industrial Production, m-o-m	Feb	-1.8%	0.5%	1.0%
10:00	UK	Monthly GDP, 3M/3M	Feb	-1.4%	-1.9%	-1.6%
10:00	UK	Trade Balance, GBP Million	Feb	-£3370M	-£2400M	-£7123M
11:00	Turkey	Industrial Production, m-o-m	Feb	0.9%	0.0%	0.1%
14:00	US	NFIB Small Business Optimism	Mar	95.8	98.5	98.2
16:30	US	CPI, m-o-m	Mar	0.4%	0.5%	0.6%
16:30	US	CPI, ex-Food and Energy, m-o-m	Mar	0.1%	0.2%	0.3%
16:30	US	CPI, y-o-y	Mar	1.7%	2.5%	2.6%
16:30	US	CPI, ex-Food and Energy, y-o-y	Mar	1.3%	1.5%	1.6%
	China	Trade Balance	Mar	\$37.88B	\$52.0B	\$13.8B
	China	Exports, y-o-y	Mar	154.9%	38.0%	30.6%
	China	Imports, y-o-y	Mar	17.3%	24.4%	38.1%
<b>Wednesday, 14 April</b>						
3:50	Japan	Core Machine Orders, m-o-m	Feb	-4.5%	2.5%	-8.5%
13:00	Eurozone	Industrial Production SA, m-o-m	Feb	0.8%	-1.3%	-1.0%
16:30	US	Import Price Index, m-o-m	Mar	1.3%	0.9%	1.2%
<b>Thursday, 15 April</b>						
10:00	Saudi Arabia	CPI, y-o-y	Mar	5.2%		4.9%
15:00	Turkey	One-Week Repo Rate	15-Apr	19.0%	19.0%	19.0%
15:30	India	Exports, y-o-y	Mar	0.7%		60.3%
16:30	US	Initial Jobless Claims	10-Apr	769K	700K	576K
16:30	US	Continuing Claims	3-Apr	3727K	3700K	3731K
16:30	US	Retail Sales Advance, m-o-m	Mar	-2.7%	5.8%	9.8%
16:30	US	Retail Sales Control Group	Mar	-3.4%	7.2%	6.9%
16:30	US	Empire Manufacturing	Apr	17.4	20.0	26.3
16:30	US	Philadelphia Fed Business Outlook	Apr	44.5	41.5	50.2
17:15	US	Industrial Production, m-o-m	Mar	-2.6%	2.5%	1.4%
<b>Friday, 16 April</b>						
6:00	China	GDP, y-o-y	1Q	6.5%	18.5%	18.3%
6:00	China	Industrial Production YTD, y-o-y	Mar	35.1%	26.5%	24.5%
6:00	China	Retail Sales YTD, y-o-y	Mar	33.8%	31.7%	33.9%
13:00	Eurozone	CPI, y-o-y	Mar F	0.9%	1.3%	1.3%
16:30	US	Building Permits	Mar	1720K	1750K	1766K
16:30	US	Housing Starts	Mar	1457K	1613K	1739K
18:00	US	University of Michigan Sentiment	Apr P	84.9	89.0	86.5

\* UAE time

Source: Bloomberg

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