

The Week Ahead: Major central banks to reaffirm steady monetary policy stance

► **US: Fed to signal no rush to tighten policy, despite strong data**

We and the consensus expect the Fed to keep its monetary policy steady at its 28 April meeting, with a wait-and-see stance. The market's focus will be on the language of the policy statement and we expect the Fed to acknowledge the marked strengthening in economic data since the last meeting. However, we believe the FOMC will continue to reiterate that the economic recovery is broadly along expected lines and that it would like to see further improvement in labour market conditions. We also do not expect any new information on the timing or path of asset purchase tapering. Market focus this week will also be on President Biden's speech on 28 April regarding the additional fiscal stimulus plan. The new spending proposal comes on top of the USD2.2 trillion package that was announced weeks ago. Indications are that this new stimulus package will be funded by rising personal income taxes and capital gains taxes for high-income earners and it will therefore be scrutinised closely. Data wise, the first estimate of 1Q GDP and the March PCE report are the key releases due this week. Consensus expects real GDP growth to accelerate to 6.9% q-o-q SAAR in 1Q2021 (4Q: 4.3%), reflecting the positive impact of fiscal stimulus and the pick-up in household consumption.

► **Japan: BoJ on hold; state of emergency declared in Tokyo**

The BoJ is widely expected to keep its monetary policy steady at its 26-27 April policy meeting. The expected on-hold stance is after the BoJ tweaked its policy framework at its March meeting to enhance the sustainability of its easing programme. We expect the BoJ to highlight the rising domestic headwinds amidst a resurgence of COVID cases in a number of key cities. Prime Minister Yoshihide Suga earlier declared a state of emergency in Tokyo, Osaka, Kyoto and Hyogo in an effort to contain rising numbers of COVID-19 cases. Against the backdrop, the focus will be on the BoJ's latest economic projections. Consensus expects only minor tweaks to both real GDP and inflation projections. Elsewhere, in Egypt, we expect the CBE to also keep interest rates steady at its 29 April meeting. We see the US reflation story being a key factor behind this, though domestic inflationary pressures remain muted.

► **Oil: OPEC to assess impact of worsening pandemic in India**

OPEC and the non-OPEC partnering countries (OPEC+) will meet on 28 April to discuss and assess the latest oil market developments. OPEC+ had already announced its plan to increase output by 1.1 million b/d between May and July 2021 at its 1 April meeting. We do not see any changes to the announced production plan at this point, but we expect the group to highlight increasing concerns about the pandemic situation in India and its potential impact on the global demand outlook. We expect OPEC to reiterate that it stands ready to adjust its output policy if necessary. There have also been some suggestions that the US is open to easing some of its sanctions related to Iran's economy, including on oil and finance. Any such move would lead to supply-side concerns returning to the oil market. However, recent US comments indicate that a wide gap still remains with Iran over negotiations.

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I. Recent Events and Data Releases

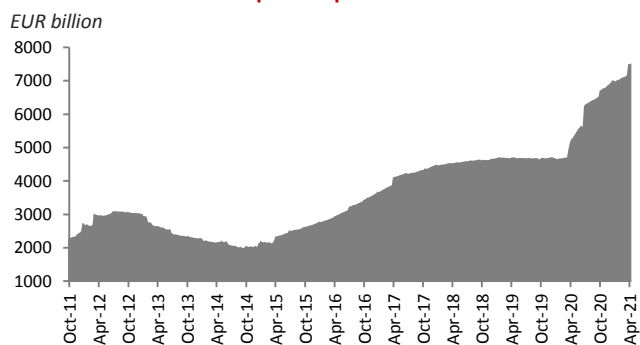
A. G4 Economies

Eurozone: No major surprises at ECB's April policy meeting

The ECB kept its monetary policy steady at its 22 April meeting, as had been widely expected. The forward guidance reiterated the central bank's commitment to significantly increasing the pace of asset purchases in 2Q. ECB President Christine Lagarde did not provide any guidance during her post-meeting conference on whether the current stance of a "significant" pace of asset purchases would be maintained into 3Q. However, she pointed to July 2020 (EUR20 billion) as a reference for the pace of purchases in 2Q2021. The Governing Council did not discuss the phasing out of PEPP purchases and emphasised the importance of looking at monthly asset purchase numbers rather than weekly readings. On the macro economy, the ECB's statement highlighted that progress with vaccination programmes and the expected gradual easing of restrictions are likely to lead to a strong economic activity rebound in the rest of 2021, although it still sees near-term risks tilting to the downside. On inflation, underlying price pressures are expected to increase somewhat in 2021 due to short-term supply constraints, although they are expected to be partly offset by low wage pressures and the appreciation of the EUR. Looking ahead, we believe that the strengthening of economic activity in the coming quarters could lead the ECB to gradually reduce the pace of asset purchases from end-3Q, albeit continuing with the programme until March 2022. We also envisage that the ECB's monetary policy review, which is expected in 2H2021, will be critical for shaping the monetary policy outlook for 2022.

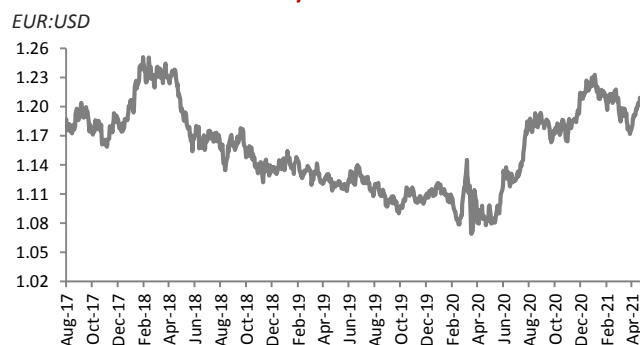
No discussion of PEPP purchase tapering at Governing Council's April policy meeting

Fig. 1. Eurozone: ECB balance sheet size rises further in April with increased pace of purchases



Source: ECB, ADCB calculations

Fig. 2. Eurozone: EUR strengthens further last week despite ECB's overall steady stance



Source: Bloomberg, ADCB calculations

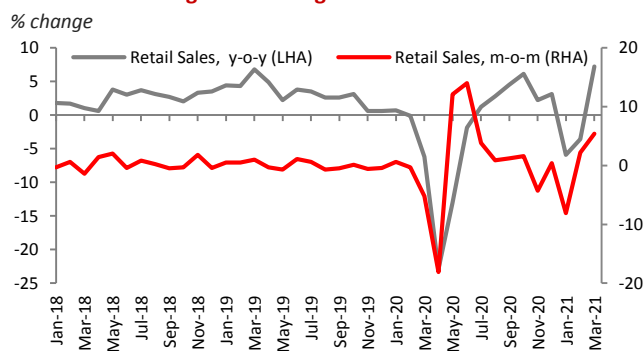
UK: March retail sales point to strong economic recovery

Retail sales growth accelerated markedly in March to 5.4% m-o-m, reflecting the impact of easing COVID-19-related restrictions on consumer spending. This was compared to February retail sales growth of 2.2% m-o-m, which had been revised up from 2.1%. There was a broad-based strengthening in retail activity across major subcomponents in March, with clothing stores (17.5% m-o-m) and other non-food stores (13.4%) seeing a marked pick-up. Despite the strong March reading, overall retail sales in 1Q were subdued and contracted by 5.8% q-o-q, reflecting the tighter lockdown restrictions in January and February. However, with the opening of retail and non-essential stores on 12 April, pent-

Broad-based pick-up in retail sales growth in March

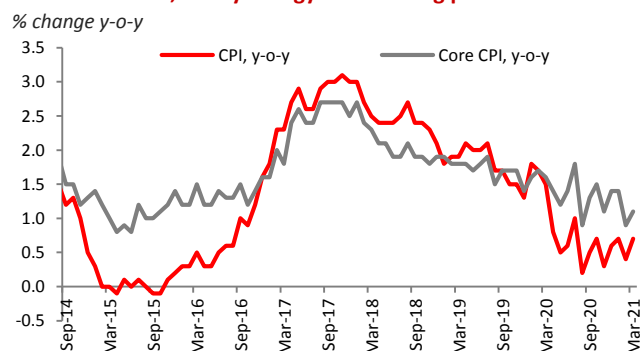
up demand is likely to result in stronger sales in the coming months. The accumulated household savings and ongoing support programmes for unemployed people will also remain supportive for household spending activity, in our view.

Fig. 3. UK: Retail sales growth strengthens markedly in March following some easing of COVID restrictions



Source: UK Office for National Statistics, ADCB calculations

Fig. 4. UK: Both headline and core inflation strengthen in March, led by energy and clothing prices



Source: UK Office for National Statistics, ADCB calculations

The strong household spending activity alongside rising global oil prices resulted in headline CPI inflation strengthening to 0.3% m-o-m in March (consensus: 0.4%; February: 0.1%). The rise in monthly CPI inflation was due to: i) low base effects; and ii) firming clothing price inflation, following an unexpected fall in February. On a y-o-y basis, both headline CPI and core CPI rose in March, to 0.7% (February: 0.4%) and 1.1% (February: 0.9%), respectively. Looking ahead, the April inflation reading is expected to capture the rise in hospitality services prices, particularly in the Restaurants & Hotels and Recreation & Culture segments, reflecting the impact of the re-opening of these sectors. Consequently, we think headline inflation is likely to touch 2.0% y-o-y in the coming months, although it is unlikely to remain around this level once the low base effect fades.

CPI Inflation strengthens in March, but is slightly below consensus expectations

B. Emerging Market Economies

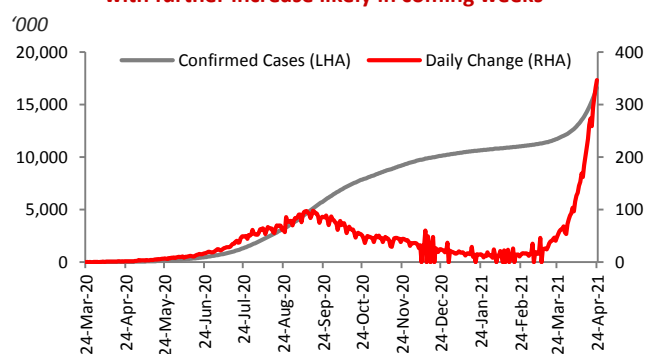
India: Severe second COVID wave halts economic recovery

New COVID cases in India continue to rise at a rapid pace, with new infections hitting a record of 350K on 25 April. This is the fifth consecutive day to record COVID cases of over 300K. The strong upward trend in infections has led the health care system in major cities to grapple with a shortage of hospital beds, ventilators, man power and oxygen. Indications are that most of the hospitals and testing centres are operating at full capacity and a sustained further increase in infections could lead the COVID crisis to worsen in the coming days. Despite conditions being in line with a national emergency, the central government has ruled out the possibility of a nationwide lockdown and asked state governments to opt for targeted local lockdowns as necessary. A number of state governments have already announced localised lockdowns and night/weekend curfews to curb the virus's spread. The stringency index shows that the restrictions have tightened in April and this trend is likely to increase as states look to constrain mobility. Meanwhile, the government has announced that all citizens above 18 years will be eligible for vaccination from 1 May 2021 and has allowed private hospitals to administer

Health care system is operating at full capacity and struggling to handle second COVID wave

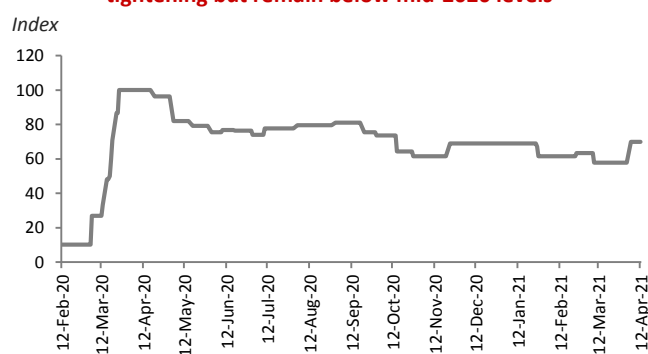
inoculations. This should allow the pace of vaccinations to rise in coming months, but may not be a game changer given the limited capacity to produce and administer shots. So far, 8.47 people per hundred have been vaccinated and pushing this above the 50 level will be a tough task given the large size of the Indian population.

Fig. 5. India: Sharp rise in new COVID cases since end-March with further increase likely in coming weeks



Source: University of Oxford, Bloomberg, ADCB calculations

Fig. 6. India: Stringency index shows that restrictions are tightening but remain below mid-2020 levels



Source: University of Oxford, Bloomberg

The recent lockdown measures are too new to be reflected in the data so far, but will increasingly have a more meaningful impact, especially if the state governments tighten restrictions further in the coming weeks. There are already signs that labour migration to native villages has started amid fears of stricter lockdown measures and curtailment of activity. Mobility indicators are also showing a sharp fall in recent weeks, with households voluntarily opting to stay at home irrespective of the restrictions. We believe that the magnitude of the impact on economic growth is likely to depend on a number of factors, including the length of the wave and the breadth of the restrictions. Given the size of the COVID challenge facing India currently, we believe that the impact of the latest wave will be significant on the economy, resulting in a marked deterioration in economic activity. Moreover, anecdotal evidence points to a sharp deterioration in consumer confidence since the onset of the second wave and the recovery this time could be more protracted than after the first wave considering the fear that's gripping households. The economic impact on the services sector is likely to be much more severe than on manufacturing, as has been the case globally.

Anecdotal evidence points to consumer confidence falling sharply since onset of second COVID wave

We now see a quarterly contraction in real GDP in 2Q2021, with a drop in household consumption. Note that private final consumption accounted for c.59.1% of nominal GDP in FY20-21 (Apr.2020-Mar.2021). Moreover, the limited fiscal space will also constrain government investments alongside labour shortages, in our view. We see any economic recovery in India beginning potentially in 4Q2020 if the COVID crisis is contained, with some release of pent-up demand after the easing of restrictions. We also see inflationary pressures building up in coming quarters due to a rise in commodity prices and medical and transportation costs, despite weak household consumption. Moreover, wage pressures in the labour-intensive sectors are likely to increase due to a shortage of low-skilled workers. Against this backdrop, we do not see any potential for rate cuts by the RBI at this point, though fresh liquidity-bolstering measures to support economic growth are still a possibility at the upcoming policy meetings.

Real GDP likely to contract on q-o-q basis in 2Q2021

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	SAMA Net Foreign Assets SAR	Mar	1638.0B	
	Kuwait	CPI, y-o-y	Mar	3.0%	
	Bahrain	CPI, y-o-y	Mar	-3.0%	
Monday, 26 April					
16:30	US	Durable Goods Orders	Mar P	-1.2%	2.5%
16:30	US	Capital Goods Shipments, Non-defence, ex-Air	Mar P	-1.1%	1.5%
18:30	US	Dallas Fed Manufacturing Activity	Apr	28.9	30.0
Tuesday, 27 April					
18:00	US	Conference Board Consumer Confidence	Apr	109.7	112.0
18:00	US	Richmond Fed Manufacturing Index	Apr	17.0	22.0
	Japan	BOJ Policy Balance Rate	27-Apr	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	27-Apr	0.0%	0.0%
Wednesday, 28 April					
3:50	Japan	Retail Sales, y-o-y	Mar	-1.5%	4.6%
3:50	Japan	Retail Sales, m-o-m	Mar	3.1%	0.6%
16:30	US	Wholesale Inventories, m-o-m	Mar P	0.6%	0.5%
18:00	Eurozone	ECB's Lagarde Speaks			
22:00	US	FOMC Rate Decision (Lower Bound)	28-Apr	0.0%	0.0%
22:00	US	FOMC Rate Decision (Upper Bound)	28-Apr	0.25%	0.25%
22:00	US	Interest Rate on Excess Reserves	29-Apr	0.10%	0.12%
22:30	US	Powell Holds Press Conference Following FOMC Meeting			
Thursday, 29 April					
12:00	Eurozone	M3 Money Supply, y-o-y	Mar	12.3%	10.2%
16:30	US	Initial Jobless Claims	24-Apr	547K	550K
16:30	US	Continuing Claims	17-Apr	3674K	3590K
16:30	US	GDP Annualized, q-o-q	1Q A	4.3%	6.9%
16:30	US	Personal Consumption	1Q A	2.3%	10.3%
16:30	US	Core PCE, q-o-q	1Q A	1.3%	2.4%
18:00	US	Pending Home Sales, m-o-m	Mar	-10.6%	4.0%
19:00	US	Fed's Quarles Discusses Financial Regulation			
	Egypt	Lending Rate	29-Apr	9.25%	9.25%
	Egypt	Deposit Rate	29-Apr	8.25%	8.25%
Friday, 30 April					
3:30	Japan	Jobless Rate	Mar	2.9%	2.9%
3:50	Japan	Industrial Production, m-o-m	Mar P	-1.3%	-2.0%
5:00	China	Non-manufacturing PMI	Apr	56.3	56.0
5:00	China	Manufacturing PMI	Apr	51.9	51.7
11:00	Turkey	Trade Balance	Mar	-3.3B	-4.7B
13:00	Eurozone	Unemployment Rate	Mar	8.3%	8.3%
13:00	Eurozone	CPI Estimate, y-o-y	Apr	1.3%	1.6%
13:00	Eurozone	CPI Core, y-o-y	Apr P	0.9%	0.8%
13:00	Eurozone	GDP SA, q-o-q	1Q A	-0.7%	-0.8%
13:00	Eurozone	GDP SA, y-o-y	1Q A	-4.9%	-2.0%
16:30	US	Personal Income	Mar	-7.1%	20.0%
16:30	US	Personal Spending	Mar	-1.0%	4.2%
16:30	US	PCE Deflator, m-o-m	Mar	0.2%	0.5%
16:30	US	PCE Deflator, y-o-y	Mar	1.6%	2.3%
16:30	US	PCE Core Deflator, m-o-m	Mar	0.1%	0.3%
16:30	US	PCE Core Deflator, y-o-y	Mar	1.4%	1.8%
17:40	US	Fed's Kaplan Takes Part in Moderated Q&A			
18:00	US	University of Michigan Sentiment	Apr F	86.5	87.5

*UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Mar	-4.5%		-3.9%
	UAE	M3 Money Supply, y-o-y	Feb	4.7%		4.3%
	UAE	CPI, y-o-y	Feb	-1.9%		-2.0%
Monday, 19 April						
3:50	Japan	Trade Balance	Mar	¥215.9B	¥493.2B	¥663.7B
8:30	Japan	Industrial Production, m-o-m	Feb F	-2.1%		-1.3%
Tuesday, 20 April						
5:30	China	1-Year Loan Prime Rate	20-Apr	3.85%	3.85%	3.85%
8:30	Japan	Tertiary Industry Index, m-o-m	Feb	-1.0%	0.5%	0.3%
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Feb	4.8%	4.8%	4.5%
10:00	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Feb	4.3%	4.2%	4.4%
10:00	UK	ILO Unemployment Rate, 3M	Feb	5.0%	5.0%	4.9%
10:00	UK	Employment Change, 3M/3M	Feb	-147K	-145K	-73K
10:00	Japan	Machine Tool Orders, y-o-y	Mar F	65.0%		65.1%
Wednesday, 21 April						
10:00	UK	CPI, m-o-m	Mar	0.1%	0.4%	0.3%
10:00	UK	CPI, y-o-y	Mar	0.4%	0.8%	0.7%
10:00	UK	CPI Core, y-o-y	Mar	0.9%	1.1%	1.1%
12:30	UK	House Price Index, y-o-y	Feb	8.0%	8.0%	8.6%
15:00	US	MBA Mortgage Applications	16-Apr	-3.7%		8.6%
Thursday, 22 April						
15:45	Eurozone	ECB Main Refinancing Rate	22-Apr	0.0%	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	22-Apr	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	22-Apr	-0.5%	-0.5%	-0.5%
16:30	US	Chicago Fed Nat Activity Index	Mar	-1.2	1.25	1.71
16:30	US	Initial Jobless Claims	17-Apr	586K	610K	547K
16:30	US	Continuing Claims	10-Apr	3708K	3650K	3674K
18:00	US	Leading Index	Mar	-0.1%	1.0%	1.3%
18:00	Eurozone	Consumer Confidence	Apr A	-10.8	-11.0	-8.1
18:00	US	Existing Home Sales	Mar	6.24M	6.11M	6.01M
Friday, 23 April						
3:01	UK	GfK Consumer Confidence	Apr	-16.0	-12.0	-15.0
3:30	Japan	National CPI, y-o-y	Mar	-0.4%	-0.2%	-0.2%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Mar	-0.4%	-0.2%	-0.1%
4:30	Japan	Jibun Bank Japan PMI Mfg	Apr P	52.7		53.3
4:30	Japan	Jibun Bank Japan PMI Services	Apr P	48.3		48.3
4:30	Japan	Jibun Bank Japan PMI Composite	Apr P	49.9		50.2
10:00	UK	Retail Sales, incl-Auto Fuel, m-o-m	Mar	2.2%	1.5%	5.4%
10:00	UK	Retail Sales, incl-Auto Fuel, y-o-y	Mar	-3.6%	3.5%	7.2%
10:00	UK	PSNB, ex-Banking Groups	Mar	16.0B	22.0B	28.0B
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Apr P	62.5	62.0	63.3
12:00	Eurozone	Markit Eurozone Services PMI	Apr P	49.6	49.1	50.3
12:00	Eurozone	Markit Eurozone Composite PMI	Apr P	53.2	52.9	53.7
12:30	UK	Markit UK PMI Manufacturing SA	Apr P	58.9	59.0	60.7
12:30	UK	Markit/CIPS UK Services PMI	Apr P	56.3	58.9	60.1
17:45	US	Markit US Manufacturing PMI	Apr P	59.1	61.0	60.6
17:45	US	Markit US Services PMI	Apr P	60.4	61.5	63.1
18:00	US	New Home Sales	Mar	846K	885K	1021K

* UAE time

Source: Bloomberg

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