

The Week Ahead: Powell's speech and FOMC minutes in spotlight; RBI on hold

► **Global: March FOMC minutes to be scrutinised for new insights**

March US data, including NFP, ISM manufacturing and conference board consumer confidence, revealed a marked strengthening in economic activity, keeping both the US growth exceptionalism and reflationary risk themes alive. President Joe Biden also announced the infrastructure development part of his fiscal stimulus plan, amounting to c.USD2.2 trillion, which should sustain the economic momentum from 4Q2021. The substantial fiscal stimulus, progress with the vaccination programme and reopening of the service sector are expected to be key tailwinds to US economic growth, though concerns about a potential overheating are also rising on the back of the strong economic rebound. Looking ahead, March FOMC minutes will be scrutinised closely for any new insights, especially on the conditions necessary for a tapering of asset purchases and eventual rate hike. Chair Jerome Powell has a speaking engagement on 8 April and his comments on the economy will be closely watched after upside data surprises, including labour market (page 3).

► **EM: RBI to remain on hold with accommodative liquidity stance**

The RBI is widely expected to keep its benchmark policy rates unchanged at its 7 April meeting. A number of new economic risks have emerged since the February meeting, including a new pandemic wave in India, strengthening commodity prices (oil, copper, etc.), higher global and domestic bond yields and emerging risk of capital outflows from EM economies. The MPC is likely to highlight downside risks to its GDP growth forecast amidst the rapidly rising COVID cases in some key states, while acknowledging upside risks to the inflation outlook due to higher domestic pump prices and corporates passing higher costs on to consumers. We expect the overall tone of the meeting to be dovish, highlighting the need to maintain ample liquidity in the banking system to support the economic recovery. Elsewhere in EM, March inflation data is due for China, Egypt and Turkey and will provide an initial view on the impact of last year's low base on annual readings.

► **Oil: OPEC+ to resume tapering of supply cuts from May**

OPEC+ again surprised the market by announcing its plan to gradually increase production from May as pressure mounted from inside and outside to pump more to keep crude prices in check (page 2). OPEC+ is to raise output by 1.1 million b/d between May and July 2021, with Saudi Arabia also unwinding its 1.0 million b/d voluntary output cut during this period. The overall OPEC+ stance is still supportive of the oil price as the supply deficit continues, though the output increase should help avoid a sharp spike in the price as demand picks up. We maintain our GCC economic forecasts, as we had already factored in an increase in oil output from mid-2021. While the timing is slightly earlier than envisaged, the overall magnitude of the increase in production is broadly in line. For Saudi Arabia, we had factored in a 500K b/d rise in output in both June and July, versus over the three month plan announced. Brent softened modestly to USD64.5 p/b in early morning trade, likely supported by market expectations of higher demand in the coming months.

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I. Recent Events and Data Releases

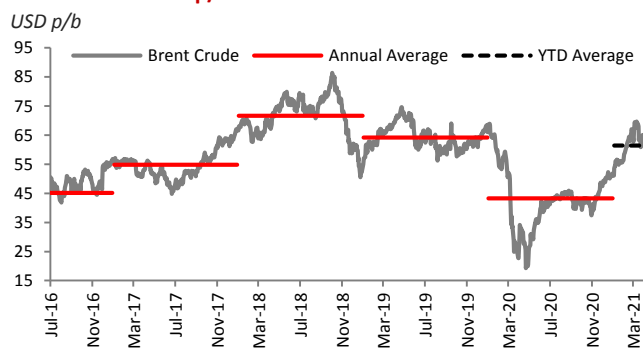
A. MENA Economies

Oil: OPEC+ agrees to raise production gradually from May

OPEC and its non-OPEC partnering countries decided to increase output by 1.1 million b/d between May and July 2021. Consensus had expected the April production level for the group to be rolled over for another month. Over the next three months, the group will increase production by 350K b/d in May, 350K b/d in June and 440K b/d in July. In addition, Saudi Arabia will unwind its 1.0 million b/d voluntary output cut gradually, by 250K b/d in May, 350K b/d in June and 400K b/d in July. The total volumes from the OPEC+ group will increase by 2.1 million b/d over May-July. The announced OPEC+ plan involves a rolling back of about 85% of the output cuts implemented in April 2020. We had expected OPEC+ to remain on hold this month, albeit raising output in the coming months to meet the seasonal demand. We believe that the gradual increase in output should remain supportive of oil prices as the supply deficit will continue. However, it should help to limit any abrupt rise in prices if global oil demand strengthens during the summer. On the demand side, OPEC expects a strong economic recovery in the US and China to offset the softening demand from Europe, which is witnessing a fresh wave of infections. Overall, we continue to believe that the drawdown in global inventories will continue in 2Q and 3Q despite the OPEC+ group's decision to increase production.

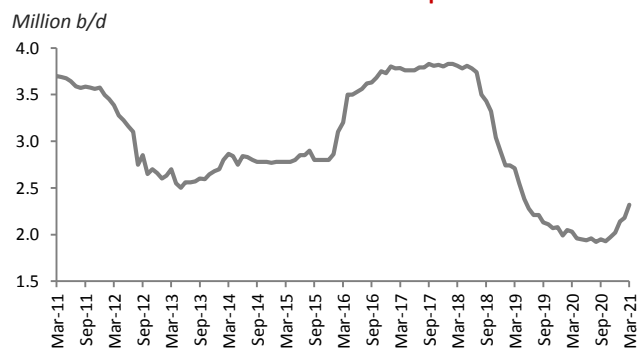
Gradual output increase by OPEC+ likely to keep oil market tight in 2Q and 3Q

Fig. 1. Oil: Brent crude price strengthens and closes at USD64.5 p/b last week after OPEC+ decision



Source: Bloomberg, ADCB estimates

Fig. 2. Oil: Iran oil output rising gradually since Biden's election win but still well below pre-sanctions level



Source: Bloomberg

Saudi Arabia's energy minister Abdulaziz bin Salman highlighted that the output increases were a "conservative measure" and that "the cautiousness is still there". He also underlined that the oil market recovery was "far from complete" as pandemic related concerns linger. Against this backdrop, the OPEC+ group decided to continue with its monthly meeting schedule despite announcing output increases until July, which indicates its flexibility to adjust the planned production increase if necessary. We still believe that OPEC+ will lower output if there is a deterioration in the demand backdrop due to new COVID waves. Moreover, a key risk to the oil market is a potential return of Iranian oil to the market. This week, the US and Iran will hold indirect discussions to revive the nuclear deal negotiations at a meeting in Vienna. We currently assume that additional Iranian oil is unlikely to return to global markets in a meaningful way before 4Q, though the timing could vary depending on the progress of negotiations. Any easing of sanctions on Iran's oil exports is likely to bring supply-side concerns back to the fore,

Iran's potential return to global oil market remains key supply-side risk

as the market will have to absorb c.1.5 million b/d of Iranian oil. For more details please see our note – **Oil and GCC Economic Update: Raising our oil price and GCC forecasts following OPEC+ decision**, published on 7 March 2021.

B. G4 Economies

US: Biden unveils infrastructure spending plan

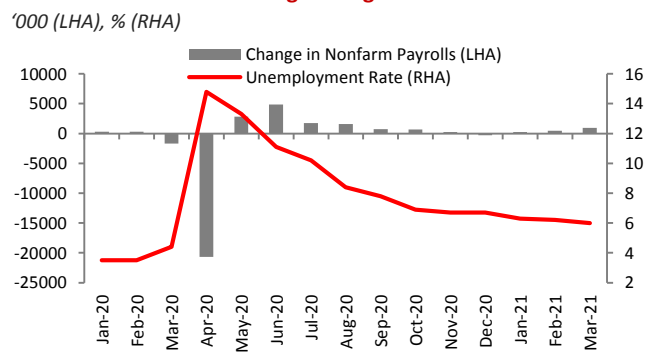
President Biden last week unveiled a USD2.2 trillion infrastructure spending plan, which will be rolled out over eight years, largely in line with market expectations. The plan involves spending on average around USD275 billion (1.25% of GDP) per year and is divided into five broad categories. These include: i) transportation infrastructure and electric vehicles (USD621 billion); ii) green housing, schools, power and water upgrades (USD561 billion); iii) manufacturing subsidies, research and development (USD480 billion); iv) elderly and disability care (USD400 billion); and v) broadband and job training (USD200 billion). The spending plan will be partly funded by: i) raising the corporate tax rate to 28.0% from the current 21.0% for 15 years (USD695 billion); ii) implementing a minimum tax on foreign earnings (USD495 billion); iii) repealing the tax loophole for intangible income (USD217 billion); and iv) ending fossil fuel tax breaks and anti-inversion measures (USD54 billion). Moreover, indications are that another fiscal stimulus plan will be proposed in April, which could be USD1-2 trillion in size and is likely to be funded by raising income tax rates for high earners.

Infrastructure spending plan likely to provide additional support to economic recovery

However, the proposed infrastructure spending plan is likely to undergo a number of changes to garner the votes necessary for passing the bill in Congress. Moreover, there is still considerable uncertainty regarding how this bill will be passed, i.e. as either bipartisan legislation or as a Democrat-only reconciliation process. The proposal is most likely to pass through the reconciliation process, which would need only 51 votes in the Senate (50 Democrat senators and the vice president as tie breaker). Passage of the final bill in Congress is most likely to happen in 4Q2021, when ‘reconciliation’ can be used to get around the filibuster. There is also no particular pressure on the administration to pass this legislation immediately, as this bill addresses long-term structural issues, unlike the earlier pandemic-related emergency bills.

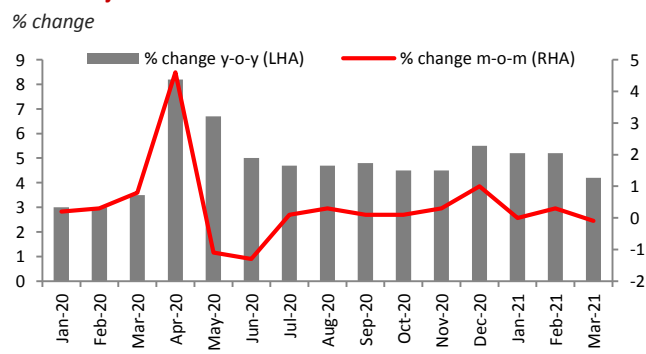
A number of changes to proposed spending plan likely to garner necessary Senate votes

Fig. 3. US: Non-farm payrolls grow by 916K in March with broad-based strengthening across sectors



Source: Bureau of Labor Statics

Fig. 4. US: Subdued wage growth indicates abundant slack in job market



Source: Bureau of Labor Statics

US: Unemployment rate falls to 6.0% in March with pick-up in hiring

The US economy added a robust 916K jobs in March (consensus: 660K), reflecting the strong recovery in economic activity. This was the third consecutive month with an upside surprise in non-farm payrolls, indicating that the easing of restrictions and the vaccination programme have helped many workers return to their jobs. There was a 2-month upward net revision of 156K to payrolls for January and February. The strong March payrolls data, alongside upward revisions, is a positive development heading into 2Q. In March, notable job gains also occurred in leisure and hospitality (+280K), construction (+110K), government (+136) and education (+64K). Despite the broad-based increase in non-farm payrolls in many sectors, the level of payrolls was still down by 8.4 million from the pre-pandemic peak in February 2020, indicating that there is still significant scope for a labour market recovery.

Accelerating hiring activity for third consecutive month in March; net upward revision for previous two months

The unemployment rate dropped to 6.0% in March (February: 6.2%) from the peak of 14.8% in April 2020, but was still 2.5% higher than pre-pandemic level in February 2020. The number of temporary layoffs declined to 2.0 million in March, from the high of 18.0 million in April 2020. However, temporary layoffs are still 1.3 million higher than in February 2020, indicating that there is scope for further rehiring in the coming months. Meanwhile, permanent job losses were broadly steady at 3.4 million in March. Bringing back jobs for this set of people is likely to take longer and be very gradual. Wage growth fell by 0.1% m-o-m in March from an upwardly revised 0.3% in February. The drop in wage growth at a time of rising non-farm payrolls indicates that there is abundant slack in the job market and that most of the newly added jobs were in lower-wage sectors.

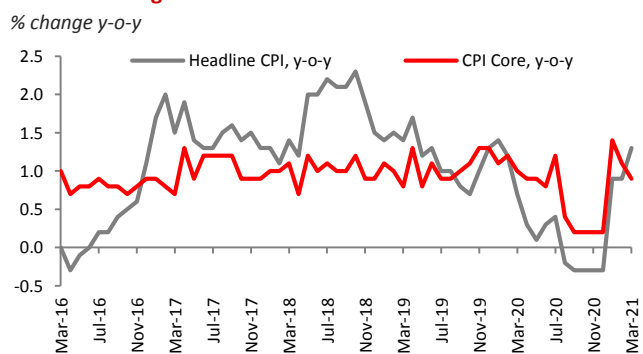
Temporary lay-offs decreasing markedly whilst permanent job losses are broadly steady

Eurozone: Headline inflation strengthens in March, led by energy prices

Headline inflation strengthened to a 14-month high of 1.3% y-o-y in March, from 0.9% in February, but came in less than the consensus expectation for 1.4%. The recent surge in crude prices and the low base in March 2020 were the key factors behind the increase. However, core inflation softened to 0.9% y-o-y in March, lower than both the February reading and consensus estimate of 1.1%. The muted core price pressures were likely due to the re-introduction of tight COVID-19 restrictions to contain the virus's spread. The prevailing restrictions in travel, recreation and retail trade are likely to keep overall services inflation muted in the coming months, including over Easter – a traditional time for travel. Looking ahead, any pick-up in domestic and international travel would provide some boost to services inflation once the restrictions are eased.

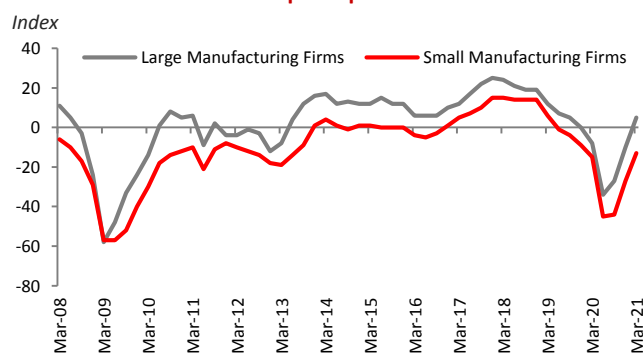
Subdued core inflation in March points to weak underlying price pressures

Fig. 5. Eurozone: Headline inflation strengthens in March, though core inflation softens



Source: Eurostat

Fig. 6. Japan: Business confidence strengthens in 1Q2020, with broad-based pick-up in momentum



Source: Bank of Japan

Japan: Business sentiment strengthens in 1Q2021

The Tankan survey showed that business sentiment improved further in 1Q2021, led by an improvement in the manufacturing sector. The headline business conditions for large manufacturers improved sharply to +5 in 1Q2021, from -10 in 4Q2020, with 13 out of 16 sectors seeing an improvement. The manufacturing sector's recovery largely reflects the pick-up in demand for household goods and an increase in capital spending plans. Non-manufacturers also sounded positive in 1Q2021, though the sentiment was not as strong as in the manufacturing segment. The relatively weaker service sector activity was likely due to the impact of the government's imposition of a 'state of emergency' in a number of areas to contain COVID's spread. Looking ahead, further improvement in the service sector will largely depend on how the pandemic evolves ahead of the Olympics, which is scheduled to begin on 23 July and end on 8 August 2021. A fresh wave of COVID could hinder the arrival of delegates, including athletes, business representatives, government officials and members of the media. The surveyed corporates assumed the USD:JPY rate for FY2021 would be around JPY106 but that it could see a downward revision in coming quarters if the currency remains at the current level of c.110-111. The weaker JPY, if sustained, could also boost corporate earnings, especially for manufacturers, in our view.

13 out of 16 manufacturing sectors see improvement in business confidence

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Bahrain	GDP Constant Prices, y-o-y	4Q	-6.9%	
	China	New Yuan Loans CNY	Mar	1359.4B	2258.3B
	China	Money Supply M2, y-o-y	Mar	10.1%	9.6%
Monday, 5 April					
8:15	Egypt	IHS Markit Egypt PMI	Mar	49.3	
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Mar	53.9	
8:15	UAE	IHS Markit UAE PMI	Mar	50.6	
9:00	India	Markit India PMI Mfg	Mar	57.5	
11:00	Turkey	CPI, y-o-y	Mar	15.6%	16.2%
11:00	Turkey	CPI Core Index, y-o-y	Mar	16.2%	16.3%
17:45	US	Markit US Services PMI	Mar F	60.0	60.2
18:00	US	ISM Services Index	Mar	55.3	59.0
18:00	US	Factory Orders	Feb	2.6%	-0.5%
18:00	US	Durable Goods Orders	Feb F	-1.1%	-1.1%
18:00	US	Cap Goods Shipments, Non-defence, ex-Air	Feb F	-1.0%	
Tuesday, 6 April					
5:45	China	Caixin China PMI Services	Mar	51.5	52.1
13:00	Eurozone	Unemployment Rate	Feb	8.1%	8.1%
18:00	US	JOLTS Job Openings	Feb	6917	6900
Wednesday, 7 April					
8:30	India	RBI Repurchase Rate	7-Apr	4.0%	4.0%
8:30	India	RBI Reverse Repo Rate	7-Apr	3.35%	3.35%
9:00	India	Markit India PMI Services	Mar	55.3	
9:00	Japan	Leading Index CI	Feb P	98.5	99.7
12:00	Eurozone	Markit Eurozone Composite PMI	Mar F	52.5	52.5
12:30	UK	Markit/CIPS UK Services PMI	Mar F	56.8	56.8
16:30	US	Trade Balance	Feb	-\$68.2B	-\$70.4B
17:00	US	Fed's Evans Discusses Economic Outlook			
18:00	Italy	G20 Finance Ministers & central bankers final press conference			
19:00	US	Fed's Kaplan Takes Part in Panel Discussion			
20:00	US	Fed's Barkin Discusses Monetary Policy and the Economy			
22:00	US	FOMC Meeting Minutes	17-Mar		
	China	Foreign Reserves	Mar	\$3204.9B	\$3178.0B
Thursday, 8 April					
3:50	Japan	BoP Current Account Balance	Feb	¥646.8B	¥1999.7B
12:30	UK	Markit/CIPS UK Construction PMI	Mar	53.3	55.0
15:30	Eurozone	ECB Publishes Account of Its March 10-11 Policy Meeting			
16:30	US	Initial Jobless Claims	3-Apr	719K	690K
16:30	US	Continuing Claims	27-Mar	3794K	3650K
19:00	US	Fed's Bullard Discusses Economy and Monetary Policy			
20:00	US	Powell Takes Part in IMF Panel on Global Economy			
	Egypt	Urban CPI, y-o-y	Mar	4.5%	
	Egypt	CPI Core, y-o-y	Mar	3.7%	
Friday, 9 April					
5:30	China	CPI, y-o-y	Mar	-0.2%	0.3%
5:30	China	PPI, y-o-y	Mar	1.7%	3.5%
11:30	Eurozone	ECB Vice President Luis de Guindos at AECM Event			
16:30	US	PPI Final Demand, m-o-m	Mar	0.5%	0.5%
16:30	US	PPI Final Demand, y-o-y	Mar	2.8%	3.8%
18:00	US	Fed's Kaplan Takes Part in Moderated Q&A			
18:00	US	Wholesale Inventories, m-o-m	Feb F	0.5%	0.5%

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	CPI, y-o-y	Jan	-2.1%		
	Kuwait	CPI, y-o-y	Feb	3.0%		3.0%
	Qatar	GDP Constant Prices, y-o-y	4Q	-4.5%		-3.9%
Monday, 29 March						
12:30	UK	Mortgage Approvals	Feb	97.4K	95.0K	87.7K
18:30	US	Dallas Fed Manufacturing Activity	Mar	17.2	16.8	28.9
Tuesday, 30 March						
3:30	Japan	Jobless Rate	Feb	2.9%	3.0%	2.9%
3:50	Japan	Retail Sales, y-o-y	Feb	-2.4%	-2.8%	-1.5%
18:00	US	Conference Board Consumer Confidence	Mar	90.4	96.9	109.7
Wednesday, 31 March						
3:50	Japan	Industrial Production, m-o-m	Feb P	4.3%	-1.3%	-2.1%
5:00	China	Non-manufacturing PMI	Mar	51.4	52.0	56.3
5:00	China	Manufacturing PMI	Mar	50.6	51.2	51.9
9:00	Saudi Arabia	Unemployment Rate (Saudis)	4Q	14.9%		12.6%
10:00	UK	GDP, q-o-q	4Q F	1.0%	1.0%	1.3%
10:00	UK	GDP, y-o-y	4Q F	-7.8%	-7.8%	-7.3%
10:00	UK	Private Consumption, q-o-q	4Q F	-0.2%	-0.2%	-1.7%
13:00	Eurozone	CPI, m-o-m	Mar P	0.2%	1.0%	0.9%
13:00	Eurozone	CPI Estimate, y-o-y	Mar	0.9%	1.4%	1.3%
13:00	Eurozone	CPI Core, y-o-y	Mar P	1.1%	1.1%	0.9%
16:15	US	ADP Employment Change	Mar	176K	550K	517K
17:45	US	MNI Chicago PMI	Mar	59.5	61.0	66.3
18:00	US	Pending Home Sales, m-o-m	Feb	-2.4%	-3.0%	-10.6%
	Egypt	GDP Constant, q-o-q	4Q	-4.3%		6.2%
Thursday, 1 April						
3:50	Japan	Tankan Large Mfg Index	1Q	-10.0	-1.0	5.0
3:50	Japan	Tankan Large Non-Mfg Index	1Q	-5.0	-4.0	-1.0
3:50	Japan	Tankan Large Mfg Outlook	1Q	-8.0	4.0	4.0
3:50	Japan	Tankan Large Non-Mfg Outlook	1Q	-6.0	-1.0	-1.0
3:50	Japan	Tankan Large All Industry Capex	1Q	-1.2%	-1.4%	3.0%
5:45	China	Caixin China PMI Mfg	Mar	50.9	51.4	50.6
11:00	Turkey	Markit/ISO Turkey PMI Mfg	Mar	51.7		52.6
16:30	US	Initial Jobless Claims	27-Mar	658K	675K	719K
16:30	US	Continuing Claims	20-Mar	3840K	3750K	3794K
18:00	US	Construction Spending, m-o-m	Feb	1.2%	-1.0%	-0.8%
18:00	US	ISM Manufacturing	Mar	60.8	61.5	64.7
18:00	US	ISM Prices Paid	Mar	86.0	85.0	85.6
Friday, 2 April						
3:50	Japan	Monetary Base, y-o-y	Mar	19.6%		20.8%
16:30	US	Change in Nonfarm Payrolls	Mar	468K	660K	916K
16:30	US	Change in Private Payrolls	Mar	558K	647K	780K
16:30	US	Unemployment Rate	Mar	6.2%	6.0%	6.0%
16:30	US	Average Hourly Earnings, m-o-m	Mar	0.3%	0.1%	-0.1%
16:30	US	Average Hourly Earnings, y-o-y	Mar	5.2%	4.5%	4.2%
16:30	US	Labor Force Participation Rate	Mar	61.4%	61.5%	61.5%

* UAE time

Source: Bloomberg

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