

## The Week Ahead: UK 2021 budget and US February NFP data

### ► **US: Fed speeches and NFP data to be scrutinised; yields surge**

Markets continue to price in earlier interest rate hikes than the Fed is forecasting amidst expectations of a strong economic recovery and pickup in inflation. This is despite Jerome Powell highlighting that the FOMC is not in a rush to taper asset purchases or tighten monetary policy (page 2). US 10-year Treasury yields spiked to 1.6% last Thursday (albeit moderating the day after), challenging the Fed's lower-for-longer guidance. Equities and commodity markets also witnessed a strong sell-off at the end of last week. Market volatility is likely to continue into this week, with market participants looking for fresh clues from Fed members and incoming data releases, particularly NFP, with Powell maintaining that there is significant slack in the labour market as a result of the COVID crisis. A number of Fed members have speaking engagements this week, including Chair Jerome Powell (Thursday), John Williams and Lael Brainard. Markets will be looking for any hints of a possible yield curve control programme, which could reduce bond market volatility. However, this is unlikely at this stage. Data wise, consensus expects the US economy to have created 180K jobs in February after two consecutive months of weak data. Data releases for February could be distorted, reflecting the Texas winter storms, making it hard to gauge the degree of underlying economic recovery following the decline in COVID cases.

### ► **UK: Moderately expansionary 2021 budget expected**

Chancellor of the Exchequer Rishi Sunak will present the FY2021-22 (Apr. 2021-Mar.2022) budget on 3 March, with the focus on the next phase of the government's plan to strengthen the economic recovery. An expansionary budget looks likely, including additional fiscal stimulus of c. GBP50-60 billion, though this would be markedly lower than during 2020. A number of existing COVID-19 relief measures, such as the flagship 'furlough scheme', are also likely to be maintained. However, the chancellor is expected to stress the importance of returning to a fiscal consolidation approach in the medium term to bring the fiscal deficit down to sustainable levels. Media reports last week indicated the possibility of tax rate hikes (income and corporate), though these are unlikely at this point in our view, given the still uncertain economic outlook.

### ► **Oil: OPEC+ likely to boost oil production from April**

OPEC and its non-OPEC partnering countries (OPEC+) will meet on 4 March to decide on the output policy for April. We expect OPEC+ to increase group oil output by 500-750K b/d compared to official February and March target levels, starting from April. Moreover, Saudi Arabia is expected to announce an end to its voluntary production cuts of 1.0 million b/d set for February and March, due to the tightening in physical oil market conditions and the rise in the Brent crude price (USD65.5 p/b currently). The reduction in inventories and expected demand pickup due to the vaccination programmes provide fundamental space to increase output. A further strengthening in the oil price could dampen the global recovery trajectory.

#### Economics Team

##### Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

[Monica.Malik@adcb.com](mailto:Monica.Malik@adcb.com)

##### Thirumalai Nagesh

Economist

+971 (0)2 696 2704

[Thirumalainagesh.Venkatesh@adcb.com](mailto:Thirumalainagesh.Venkatesh@adcb.com)

#### Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	5

## I. Recent Events and Data Releases

### A. MENA Economies

#### Saudi Arabia: Issues EUR debt, with three-year tranche at negative rate

Saudi Arabia returned to the international debt capital market last week, for the second time this year, after having raised USD5.0 billion earlier. Moreover, this was the second time that the Saudi government had raised EUR debt, with the first in July 2019 when it sold EUR3 billion of 2027 and 2039 securities. Saudi Arabia issued a total of EUR1.5 billion in two tranches: i) EUR1.0 billion in three-year notes with a yield of -0.057 (40 bps over mid-swaps); and ii) EUR500 million in nine-year notes at 0.646% (70 bps over mid-swaps). The bond was more than three times oversubscribed with total orders in excess of EUR5.0 billion according to the Ministry of Finance, resulting in the pricing tightening by c.20 bps from initial guidance. The strong rally in the oil price since the beginning of the year likely helped support demand. After this successful placement in EUR, other GCC sovereigns could follow, especially the higher-rated ones.

*Bond is more than three times oversubscribed, helping narrow pricing from guidance*

Issuing debt in EUR has a number of advantages in our view, especially the lower rates versus the USD debt thanks to the negative ECB interest rates. This is especially so at a time when US medium- and longer-term USD Treasury rates have risen on the back of reflation concerns. The EUR issuances also help to diversify the funding base, and meet the strong appetite for Saudi paper from European investors looking for relatively higher yields than those available at home. The unusual maturities of this bond were likely chosen to increase investor demand, particularly from European banks, which likely helped support the negative rate for the three-year tranche. The Ministry of Finance noted that the three-year tranche was the largest issued with a negative return from outside the EU. The Saudi fiscal deficit is expected to narrow sharply in 2021 (vs. 2020), given the higher oil revenue outlook and planned retrenchment in government spending. However, the funding requirement will be boosted by some USD5.5 billion of government debt maturing in October 2021.

*Three-year tranche is largest issued with negative interest rates from outside EU*

### B. G4 Economies

#### US: Powell reaffirms on-hold stance, but markets price in rate hikes

Fed Chair Jerome Powell gave no hints in his testimony to Congress that the current accommodative monetary policy stance may be altered. He reiterated that the FOMC is in no rush to taper or tighten monetary policy and will remain on hold for “some time”. He also reaffirmed that the Fed would communicate any decisions on changes to the asset purchase programme well in advance of their implementation. When asked about recently rising bond yields, Powell echoed other recent comments by Fed officials, saying that it is a positive sign reflecting confidence in domestic activity. He also highlighted that inflation might be somewhat volatile over the next year due to transitory factors, but that it is not expected to reach persistently high levels. These comments were largely in line with the minutes of the 26-27 January FOMC meeting and recent comments by Fed officials.

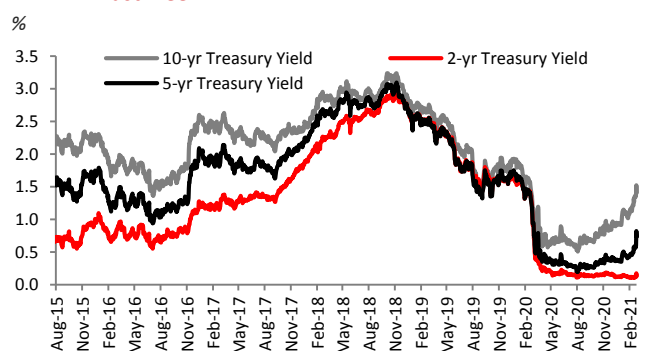
*Powell reiterates earlier comments that Fed will remain on hold for “some time”*

Despite the steady Fed communication, bond markets remain increasingly concerned about reflation pressures amidst expectations for a strong economic recovery. Indeed, market participants continue to challenge the Fed’s lower-for-longer interest rate stance amidst rising confidence in the economic outlook amidst the expansionary fiscal

*Fed likely to strengthen its forward guidance to anchor long-term interest rates*

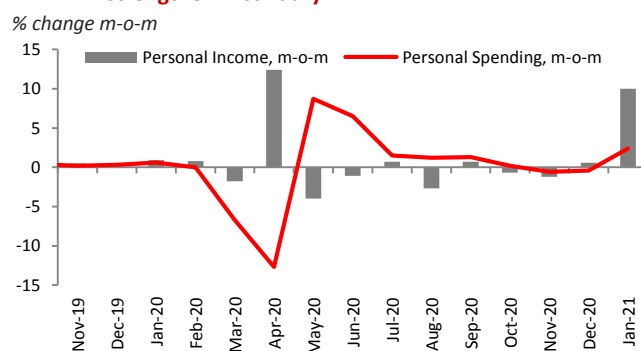
backdrop. Last week, US 10-year Treasury yields touched 1.6%, a level last seen a year ago in February 2020. We believe that the Fed will have to strengthen its forward guidance, to bridge the gap between the market's expectations for higher inflation (and higher interest rates) and the FOMC's flexible average inflation targeting framework (FAIT), which implies a steady rates outlook. Going forward, we will be looking for any comments related to the yield curve control programme, which has potential to anchor long-term bond yields and provide some space for the FOMC to re-calibrate its policy outlook.

**Fig. 1. US: Treasury yields surge at mid-to-long end of curve last week**



Source: Bloomberg, ADCB calculations

**Fig. 2. US: Both personal income and personal spending strengthen in January**



Source: Bureau of Economic Analysis

Meanwhile, the PCE data for January released last week reaffirmed that the government stimulus checks have boosted household personal income, with some of this trickling down into personal spending. Personal income grew by 10.0% m-o-m in January (December: 0.6%), whilst personal spending accelerated to 2.4% m-o-m, from a downwardly revised 0.4% contraction in December. Consequently, accumulated household savings increased to USD1.7 trillion in January, from USD1.5 trillion in December. The outlook for additional fiscal stimulus under Biden's plan (approved last week in the House), alongside the accumulated savings, indicates that there is strong scope for a strengthening in domestic demand. Further progress with the vaccination programme and a full re-opening of the services sector would also be important for a broadening in household spending. That said, it remains to be seen how much increased spending will lead to inflationary pressure in the coming months. So far, the strengthening in inflation has been rather limited, with core PCE inflation at 1.5% in January, up from 1.4% in December. Looking ahead, the low base during the pandemic crisis in 2020 could lead to core PCE strengthening over 2.0% in 2Q2021, though is unlikely to be sustained for long enough for the Fed to tighten monetary policy.

*Personal income growth accelerates to 10.0% m-o-m in January, from 0.6% in December*

## UK: Plans to ease restrictions from March

The government last week announced a four-step easing of COVID-19 restrictions. According to the plan, schools will reopen on 8 March followed by non-essential retail, indoor leisure and certain outdoor activities from 12 April. There will be a further relaxation of restrictions for outdoor performances from 17 May, and the remaining restrictions should be lifted on 21 June. The planned easing will, however, depend on: i) successful deployment of the vaccines; ii) the effectiveness of the vaccines in reducing the burden on the health service; iii) NHS capacity levels if cases rise, and iv)

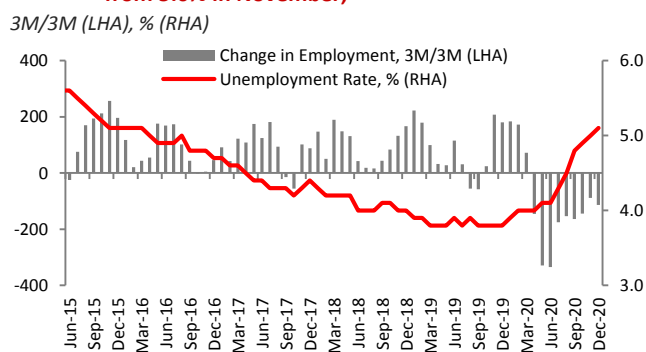
*Four-step easing of COVID-19 restrictions announced*

developments regarding new virus mutations and variants. The planned easing of restrictions is likely to help the economic recovery gather momentum from March, while overall economic activity in 1Q2021 is likely to be soft due to the third national lockdown. Consensus now expects the UK economic recovery to gather momentum from 2Q2021, driven by a pickup in demand for services.

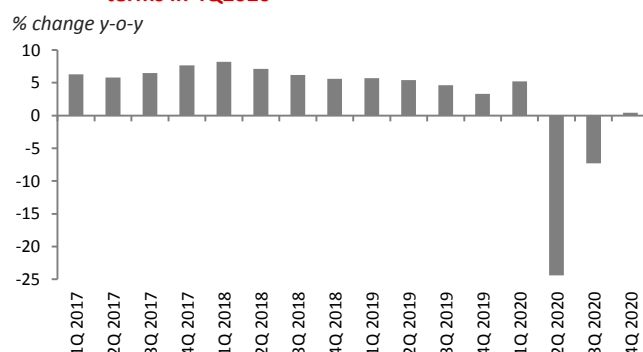
Meanwhile, the labour market data for December showed that the unemployment rate had risen to 5.1%, from 5.0% in November. The sixth consecutive month of an increase in unemployment came despite the continuation of the government's generous furlough scheme. Indeed, an extension of the furlough scheme will be essential to avoid a sharp spike in unemployment after its scheduled end in April 2021. Consensus believe that Chancellor Rishi Sunak is likely to announce an extension of the furlough scheme for another four to five months during his budget presentation on 3 March. This extension and the planned easing of pandemic-related restrictions should help to bring the economy back onto a recovery track, in our view.

*Unemployment rate rises for sixth consecutive month in December*

**Fig. 3. UK: Unemployment rate rises to 5.1% in December, from 5.0% in November,**



**Fig. 4. India: Real GDP returns to positive growth in y-o-y terms in 4Q2020**



## C. Emerging Market Economies

### India: Real GDP grows by 0.4% y-o-y in 4Q2020

The economy expanded by 0.4% y-o-y in 4Q2020 (consensus: 0.6%), after contracting in the previous two quarters. A key driver of 4Q GDP growth was a pick-up in investment activity, which expanded by 2.6% y-o-y (3Q: -6.8%). The contraction in domestic demand also moderated, with a sequential improvement in both government and private spending in 4Q. The drop in private consumption (-2.4% y-o-y vs. -11.3% in 3Q) happened despite the strong recovery in household demand during and after the festive season. The contraction was partly due to the government's policy change towards food subsidy accounting. The food subsidy related statistical impact is likely to continue into 1Q2021, resulting in real GDP returning to a contraction on a y-o-y basis. Despite the statistical distortions, we expect overall economic activity to see a further recovery in the coming quarters. The expansionary budget announced for FY2021-22 (Apr.2021-Mar.2022) with a focus on capital expenditure and support schemes for bolstering exports is likely to be the key driver of growth, in our view. However, we envisage that the increase in COVID-19 cases in February and subsequent state-wide localised lockdowns (Maharashtra and Gujarat) remain key headwinds to the economic outlook.

*Investment activity gathers pace in 4Q*

## II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	CPI, y-o-y	Jan	-2.1%	
	Oman	CPI, y-o-y	Jan	-1.4%	
	Bahrain	CPI, y-o-y	Feb	-1.6%	
<b>Monday, 1 March</b>					
9:00	India	Markit India PMI Manufacturing	Feb	57.7	
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Feb	54.4	
11:00	Turkey	GDP SA/WDA, q-o-q	4Q	15.6%	3.9%
11:00	Turkey	GDP, y-o-y	4Q	6.7%	6.9%
13:30	UK	Mortgage Approvals	Jan	103.4K	98.0K
13:30	UK	Markit UK PMI Manufacturing SA	Feb F	54.9	54.9
18:00	US	Fed's Williams Makes Opening Remarks at Conference			
18:00	US	Fed's Brainard Discusses Financial Stability			
18:45	US	Markit US Manufacturing PMI	Feb F	58.5	58.0
19:00	US	Construction Spending, m-o-m	Jan	1.0%	0.7%
19:00	US	ISM Manufacturing	Feb	58.7	58.6
23:00	US	Fed's Bostic, Mester and Kashkari Discuss Racism and Economy			
<b>Tuesday, 2 March</b>					
3:30	Japan	Jobless Rate	Jan	2.9%	3.0%
3:50	Japan	Capital Spending, y-o-y	4Q	-10.6%	-2.0%
14:00	Eurozone	CPI, m-o-m	Feb P	0.2%	0.2%
14:00	Eurozone	CPI Estimate, y-o-y	Feb	0.9%	0.9%
22:00	US	Fed's Brainard Speaks to the Council on Foreign Relations			
23:00	US	Fed's Daly Speaks to Economic Club of new York			
<b>Wednesday, 3 March</b>					
5:45	China	Caixin China PMI Services	Feb	52.0	51.5
8:15	Egypt	IHS Markit Egypt PMI	Feb	48.7	
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Feb	57.1	
8:15	UAE	IHS Markit UAE PMI	Feb	51.2	
9:00	India	Markit India PMI Composite	Feb	55.8	
11:00	Turkey	CPI, m-o-m	Feb	1.7%	0.7%
11:00	Turkey	CPI, y-o-y	Feb	15.0%	16.1%
17:15	US	ADP Employment Change	Feb	174K	183K
18:45	US	Markit US Services PMI	Feb F	58.9	58.9
19:00	US	ISM Services Index	Feb	58.7	58.6
20:00	UK	BOE's Teneyro Speaks on Negative Rate Policies			
22:00	US	Fed's Evans Discusses the Economic Outlook			
<b>Thursday, 4 March</b>					
9:00	Japan	Consumer Confidence Index	Feb	29.6	29.7
14:00	Eurozone	Unemployment Rate	Jan	8.3%	8.3%
14:00	Eurozone	Retail Sales, m-o-m	Jan	2.0%	-1.3%
17:30	US	Initial Jobless Claims	44254	730K	755K
17:30	US	Continuing Claims	44247	4419K	4300K
19:00	US	Durable Goods Orders	Jan F	3.4%	3.4%
19:00	US	Factory Orders	Jan	1.1%	1.8%
<b>Friday, 5 March</b>					
17:30	US	Change in Nonfarm Payrolls	Feb	49K	180K
17:30	US	Change in Private Payrolls	Feb	6K	190K
17:30	US	Unemployment Rate	Feb	6.3%	6.4%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.2%	0.2%
17:30	US	Labor Force Participation Rate	Feb	61.4%	61.4
17:30	US	Trade Balance	Jan	-\$66.6B	-\$67.4B

\* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Kuwait	CPI, y-o-y	Jan	3.0%		3.0%
<b>Monday, 22 February</b>						
17:30	US	Chicago Fed Nat Activity Index	Jan	0.5	0.5	0.7
19:00	US	Leading Index	Jan	0.4%	0.4%	0.5%
19:30	US	Dallas Fed Manufacturing Activity	Feb	7.0	5.0	17.2
<b>Tuesday, 23 February</b>						
11:00	UK	Claimant Count Rate	Jan	7.3%		7.2%
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Dec	3.7%	4.1%	4.7%
11:00	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Dec	3.6%	4.0%	4.1%
11:00	UK	ILO Unemployment Rate, 3M	Dec	5.0%	5.1%	5.1%
14:00	Eurozone	CPI, y-o-y	Jan F	-0.3%	0.9%	0.9%
19:00	US	Conference Board Consumer Confidence	Feb	88.9	90.0	91.3
19:00	US	Richmond Fed Manufacturing Index	Feb	14.0	15.0	14.0
<b>Wednesday, 24 February</b>						
19:00	US	New Home Sales	Jan	885K	856K	923K
<b>Thursday, 25 February</b>						
9:00	Japan	Leading Index CI	Dec F	94.9		95.3
13:00	Eurozone	M3 Money Supply, y-o-y	Jan	1.4%	12.5%	12.5%
17:30	US	Durable Goods Orders	Jan P	1.2%	1.1%	3.4%
17:30	US	Durables, ex-Transportation	Jan P	1.7%	0.7%	1.4%
17:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jan P	1.0%	0.6%	2.1%
17:30	US	GDP Annualized, q-o-q	4Q S	4.0%	4.2%	4.1%
17:30	US	Personal Consumption	4Q S	2.5%	2.5%	2.4%
17:30	US	Initial Jobless Claims	20-Feb	841K	825K	730K
17:30	US	Continuing Claims	13-Feb	4520K	4460K	4419K
19:00	US	Pending Home Sales, m-o-m	Jan	0.5%	0.0%	-2.8%
20:00	US	Kansas City Fed Manufacturing Activity	Feb	17.0	15.0	24.0
<b>Friday, 26 February</b>						
3:30	Japan	Tokyo CPI, y-o-y	Feb	-0.5%	-0.4%	-0.3%
3:50	Japan	Industrial Production, m-o-m	Jan P	-1.0%	3.8%	4.2%
3:50	Japan	Retail Sales, y-o-y	Jan	-0.2%	-2.6%	-2.4%
16:00	India	GDP, y-o-y	4Q	-7.3%	0.6%	0.4%
16:00	India	GVA, y-o-y	4Q	-7.3%	0.7%	1.0%
17:30	US	Advance Goods Trade Balance	Jan	-\$83.2B	-\$83.0B	-\$83.7B
17:30	US	Wholesale Inventories, m-o-m	Jan P	0.5%	0.4%	1.3%
17:30	US	Personal Income	Jan	0.6%	9.5%	10.0%
17:30	US	Personal Spending	Jan	-0.4%	2.5%	2.4%
17:30	US	PCE Deflator, m-o-m	Jan	0.4%	0.3%	0.3%
17:30	US	PCE Deflator, y-o-y	Jan	1.3%	1.4%	1.5%
17:30	US	PCE Core Deflator, m-o-m	Jan	0.3%	0.1%	0.3%
17:30	US	PCE Core Deflator, y-o-y	Jan	1.4%	1.4%	1.5%
18:45	US	MNI Chicago PMI	Feb	63.8	61.0	59.5
19:00	US	University of Michigan Sentiment	Feb F	76.2	76.5	76.8

\* UAE time

Source: Bloomberg

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