

The Week Ahead: US remains in focus with Powell's testimony and fiscal stimulus bill

► US: Powell's Humphrey-Hawkins testimony the key event

Fed Chair Jerome Powell will deliver his Humphrey-Hawkins testimony to the Senate Banking Committee (23 February) and House Financial Services Committee (24 February) this week. The markets will focus on his comments on rising global bond yields and their impact on the interest-rate outlook. The US 10-year treasury yield has risen by 42 bps since the start of 2021, and by 27 bps in February (month-to-date), amidst growing confidence over the economic outlook and rising inflation expectations. FOMC Vice Chair John Williams highlighted last week that higher yields are not "a concern" for him as they reflect greater confidence in the stronger growth outlook. We expect Powell to reiterate that the Fed is not in a rush to taper asset purchases or tighten monetary policy, whilst also noting that he is not overly concerned about rising yields at this point. We expect the tone of Powell's testimony to remain cautious, with the expected rise in inflation likely to be transitory and unsustainable with the prevailing slack in the domestic economy – including the labour market. On the fiscal side, House Democrats released their version of the America Rescue Plan stimulus package last week, with the majority leader Steny Hoyer signalling that the bill could be passed by the House before the end of this week. However, the passage of the fiscal stimulus bill will be much easier through the House than the Senate, where Democrats have little margin for error. Moreover, some provisions that are in the House bill are likely to be altered or removed in the Senate to get the bill approved.

► G4: US PCE report and second estimate of 4Q2020 GDP

The upcoming week will also be important for US data releases including the January PCE report, durable goods orders and the second estimate of 4Q GDP. US personal income is forecast to accelerate sharply by 9.5% m-o-m in January (December: 0.6%), with the additional government stimulus to households. The rise in disposable income is also expected to result in a strengthening in personal spending to 2.4% m-o-m in January (December: -0.2%). An increase in consumer spending has already witnessed in the retail sales data for January (page 3). Meanwhile, the second estimate of 4Q2020 GDP data is expected to be upwardly revised to 4.2% q-o-q SAAR, from 4.0% in the first print. The upward revisions are likely due to stronger residential investment, inventory build and net exports. Elsewhere, the UK's labour market report for December and Japan's January retail sales data are due (page 6).

► India: Modest GDP growth expected in 4Q2020

Consensus expects India's GDP to have expanded by 0.5% y-o-y in 4Q2020 (3Q: -7.5%; 2Q: -23.9%), bolstered by fiscal and monetary policy support. Notably, this would be a return to y-o-y growth, after two quarters of contractions. The steady decline of COVID-19 case numbers, the easing of restrictions and the festive season also likely helped the recovery. Moreover, there are some indications that corporates are becoming more optimistic, though it remains to be seen how much of this growing confidence will translate into private investments.

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Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	6

I. Recent Events and Data Releases

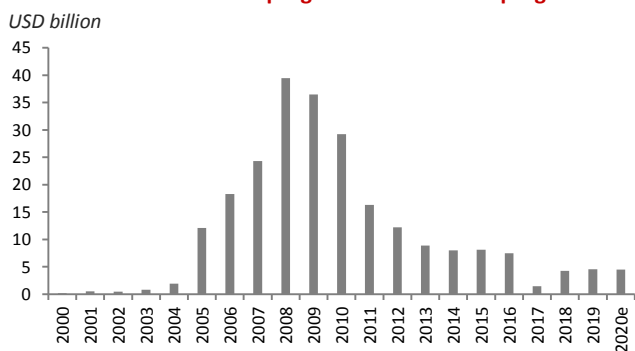
A. MENA Economies

Saudi Arabia: Push for companies to shift headquarters to kingdom

Saudi Arabia announced last week that from 2024 the government will no longer sign contracts with foreign companies that do not have their regional headquarters in the kingdom. Few details have been given so far with the regulation due to be issued before the end of the year. The rule will also apply to government agencies, institutions and funds, thereby including the PIF, though it will exclude the private sector. The aim is to encourage foreign firms to open a permanent in-country presence that would help create local jobs, transfer expertise and limit “economic leakages” out of the country. We believe that this move highlights the pressure on the government to create jobs for nationals, which in our view will ultimately define the success of the Vision 2030 transformation programme. Despite the reforms made so far and the FDI commitments announced at Saudi Arabia’s annual investor conferences, foreign investment levels have remained weak. The latest development follows Crown Prince Mohammed bin Salman directly calling on international firms to relocate to the capital Riyadh during last month’s Future Investment Initiative (FII) conference. Alongside the new development projects (e.g., tourism-related), last week the PIF signed contracts worth more than SAR8.0 billion for construction work on the King Abdullah Financial District – a project which is yet to attract much foreign interest. Mohammed bin Salman has also announced a USD800 billion strategy plan to double the size of Riyadh and turn it into a global hub.

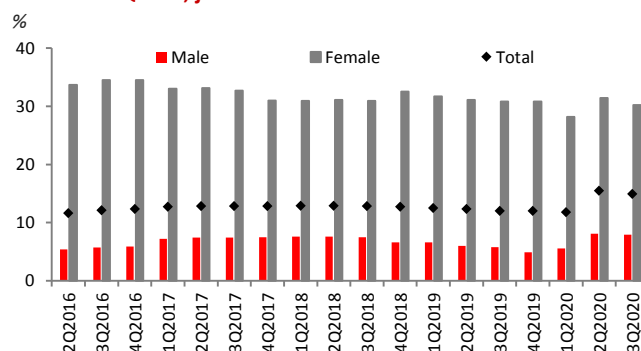
Headquarter rules to be applied to government agencies and funds but not private sector

Fig. 1. Saudi: FDI tends to be linked to project activity and should rise with progress in investment programme



Source: UNCTAD, ADCB estimates

Fig. 2. Saudi: Unemployment remains elevated at 14.9% in 3Q2020; job creation for locals remains critical



Source: General Authority for Statistics, ADCB calculations

We had previously envisioned that the FDI into Saudi Arabia over our outlook period would have been largely linked to diversification projects and the strengthening of domestic demand rather than the relocation of foreign businesses. We see a shift in construction activity along with the related workforce to Saudi Arabia in the coming years, with the completion of projects elsewhere in the Gulf region. The impact of this latest development on FDI into Saudi Arabia will depend on its enforceability and on the definition of a regional headquarters. A broad definition could just mean that offices in Saudi Arabia need to be rebranded, with a number of large companies already having a presence in several locations across the GCC. However, new entrants looking for business opportunities related to Saudi Arabia’s investment programme will likely need to have their main regional position in the kingdom. Saudi Finance Minister Mohammed Al-

Definition and enforceability – concessions will be important including those related to employment

Jadaan has already indicated that certain sectors will be exempt from the regulation, whilst reports indicate that companies that set up regional headquarters in Riyadh will be offered zero corporate tax for 50 years and a waiver on mandatory quotas for employing Saudis for at least 10 years. They may also be favoured in tenders and contracts from government entities. Thus, there may be a limited effect in creating employment for nationals despite this being one of the key aims behind the regulation. We believe that areas around construction will largely be exempt from the labour nationalisation requirement given the nature of that work despite it being a strong area of growth going forward.

One of the key hindrances to FDI moving to Saudi will be the country’s labour nationalisation policies and the cost, skills and productivity of the domestic labour force. Other factors for foreign companies will likely be issues such as housing, office space availability and lifestyle, despite the moves towards social liberalisation over the last few years. The tighter availability of real estate (residential and office) could increase costs for companies. There is also more uncertainty over the business and policy environment in Saudi Arabia than in other areas of the GCC, particularly the UAE. Saudi Arabia is also looking to introduce major changes to the legal environment this year to strengthen the investment environment. However, the compulsory approach outlined by the government is not in line with the open and liberalised Saudi Arabia that the government is aiming to move towards. Many foreign companies will likely use Saudi private sector companies as partners, as they did in the past, when FDI regulations on ownership were more restrictive. A more stringent approach would therefore go against some of the recent measures to loosen the business environment.

Various wider hurdles for FDI into Saudi Arabia

B. G4 Economies

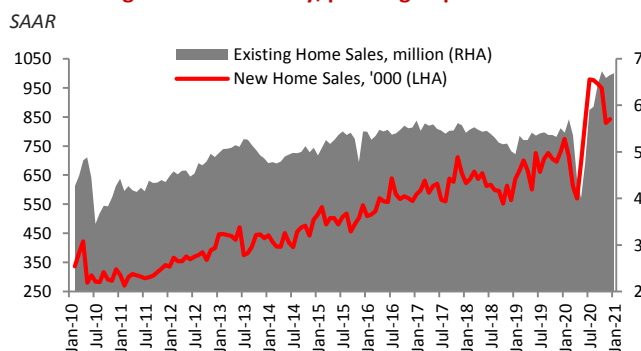
US: Strong rebound in retail activity in January led by fiscal stimulus

Fig. 3. US: Both headline and core retail sales rebounded sharply in January after three months of contraction



Source: US Census Bureau

Fig. 4. US: Existing home sales remained close to the series high levels in January, pointing to persistent demand



Source: National Association of Realtors

Retail sales surged to 5.3% m-o-m in January, beating consensus expectations for a 1.1% increase, though the December reading was revised downwards to -1.0% (-0.7% previously). Total retail sales in January were 7.8% higher than the pre-pandemic levels (February 2020). The additional fiscal support to households through federal unemployment assistance (USD300 per week) and individual stimulus checks (USD600) were key factors behind the strong rebound in retail activity in January. Moreover, the

Solid household consumption at beginning of 1Q2021

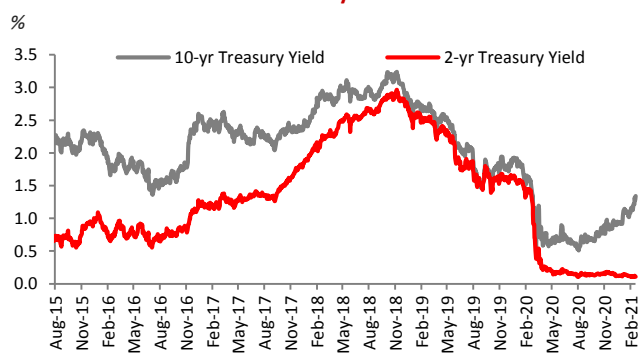
weaker-than-usual Christmas spending also helped the monthly rebound in January, both in terms of base and pent-up demand. Most of the major sub-categories witnessed monthly gains in the month, with consumer spending tilted towards discretionary goods such as furniture and electronic items. There are signs that consumers are preferring to spend rather than save the additional income received from the government’s pandemic-relief packages. The increase in consumer confidence seen in January and expectations of an additional fiscal stimulus package under President Biden’s plan are likely to remain supportive of household spending in the coming months, leading to strong 1Q GDP growth. Moreover, existing home sales for January rose modestly to 6.69 million (December: 6.65 million), indicating that strong housing sector activity continued into 2021.

US: No major surprises from January FOMC meeting minutes

The minutes from the 26-27 January FOMC meeting contained no major new insights regarding potential changes to the ongoing asset purchase programme. The FOMC’s tone on the domestic economic recovery was slightly more optimistic than at the December meeting, largely due to the prospect of increased fiscal support to the economy and the progress on the vaccination programme. The increased economic optimism among the FOMC members indicates that there could be potential upward revisions to GDP growth projections for 2021 at the upcoming March meeting. On inflation, “many participants stressed the importance of distinguishing between such one-time changes in relative prices and changes in the underlying trend for inflation, noting that changes in relative prices could temporarily raise measured inflation but would be unlikely to have a lasting effect.” Chair Jerome Powell has already made it clear in his recent comments that the Fed will look through the expected rise in inflation due to transitory factors from March 2021.

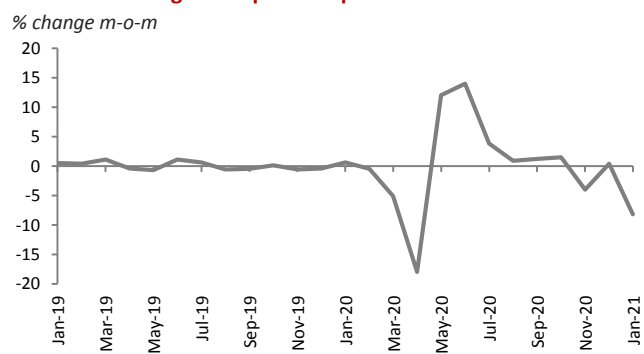
FOMC slightly optimistic on economic recovery given potential for additional fiscal stimulus

Fig. 5. US: 10-year treasury yield increased by 42 bps YTD in 2021 amidst reflationary concerns



Source: Bloomberg

Fig. 6. UK: Headline retail sales fell by 8.2% m-o-m in January, the largest drop since April 2020’s 18.0% fall



Source: UK Office for National Statistics

UK: Sharp drop in retail activity in January with the third lockdown

Retail sales data showed that the third lockdown that started in January had a severe impact on household consumption. Headline retail sales contracted by 8.2% m-o-m in January, the largest drop since April 2020. Consensus was expecting a 3.0% m-o-m drop in January. To put this into context, during the first lockdown, retail sales fell by 5.1% in March and 18.0% in April 2020, whilst there was a more muted drop during the second national lockdown of 4.0% in November. January retail sales were down across all the

Headline retail sales contracted by 8.2% m-o-m in January, from an upwardly revised 0.4% in December

major sub-segments except for online sales. The lockdown also resulted in the online sales share of total sales rising to 35.2% in January, from 29.6% in December. Looking forwards, the pace of the retail sales contraction is likely to moderate with the progress in the vaccination programme and the government's plans to ease restrictions in the coming weeks. The UK government has indicated that reopening of schools and allowing families to have more social contact will be an "absolute priority". The full details regarding easing of restrictions to be announced today. Despite the expected easing of restrictions in the coming weeks, overall economic activity in 1Q2021 is likely to be soft and there is unlikely to be any meaningful rebound until 2Q2021 or thereafter.

C. Emerging Market Economies

Turkey: CBRT on hold with hawkish stance as expected

The CBRT kept its one-week benchmark repo rate steady at 17.0% at its 18 February policy meeting, in line with our and consensus expectations. The February MPC statement strengthened the committee's forward guidance by stating that "the balance between the monetary policy rate and actual/expected inflation will be sustained decisively to maintain a strong disinflationary effect until permanent price stability and the 5 percent target are reached". We see this as a more hawkish tone than at the January meeting, which is likely intended to anchor the medium- and long-term inflation expectations towards the 5.0% target and the TRY. Moreover, the CBRT remains increasingly concerned about the inflation outlook and underlined that "the ongoing upward trend" in commodity prices is a key risk to the outlook. The CBRT in its 1Q2021 inflation report, released earlier, forecast headline inflation at 9.4% y-o-y by end-2021, which in our view looks very optimistic given the outlook for higher food and energy prices. We see inflation remaining in double digits throughout 2021, with headline inflation likely peaking in 2Q2021 followed by a gradual deceleration. Against this backdrop, we expect the CBRT to remain on hold, maintaining a tight monetary policy stance until mid-year, with an easing cycle potentially starting in 2H2021.

CBRT strengthened its forward guidance at its February meeting

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Kuwait	CPI, y-o-y	Jan	3.0%	
	Oman	CPI, y-o-y	Jan	-1.4%	
Monday, 22 February					
17:30	US	Chicago Fed Nat Activity Index	Jan	0.5	0.5
17:45	Eurozone	ECB's Lagarde Gives Keynote			
18:00	US	Fed's Kaplan Speaks at International Energy Forum			
19:00	US	Leading Index	Jan	0.3%	0.4%
19:30	US	Dallas Fed Manufacturing Activity	Feb	7.0	5.0
Tuesday, 23 February					
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Dec	3.6%	4.1%
11:00	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Dec	3.6%	4.0%
11:00	UK	ILO Unemployment Rate, 3M	Dec	5.0%	5.1%
14:00	Eurozone	CPI, y-o-y	Jan F	-0.3%	0.9
19:00	US	Powell To Deliver Semi-Annual Monetary Policy Report			
19:00	US	Conference Board Consumer Confidence	Feb	89.3	90.0
19:00	US	Richmond Fed Manufacturing Index	Feb	14.0	16.0
Wednesday, 24 February					
16:00	UK	BOE's Haldane Speaks at BOE Seminar			
18:00	UK	BOE's Bailey, Broadbent, Vlieghe and Haskel Speak			
19:00	US	New Home Sales	Jan	842K	865K
19:30	US	Fed's Brainard Discusses Maximum Employment Mandate			
21:00	US	Fed's Clarida Discusses US Economic Outlook			
Thursday, 25 February					
13:00	Eurozone	M3 Money Supply, y-o-y	Jan	12.3%	12.5%
17:30	US	Fed's Bostic Gives Opening Remarks at Banking Conference			
17:30	US	Durable Goods Orders	Jan P	0.5%	1.1%
17:30	US	Durables, ex-Transportation	Jan P	1.1%	0.7%
17:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jan P	0.7%	0.6%
17:30	US	GDP Annualized, q-o-q	4Q S	4.0%	4.2%
17:30	US	Personal Consumption	4Q S	2.5%	2.5%
17:30	US	Initial Jobless Claims	20-Feb	861K	840K
17:30	US	Continuing Claims	13-Feb	4494K	4420K
19:00	US	Pending Home Sales, m-o-m	Jan	-0.3%	-0.5%
19:30	US	Fed's Bullard Discusses Economy and Monetary Policy			
Friday, 26 February					
0:00	US	Fed's Williams Takes Part in Virtual Discussion			
3:30	Japan	Tokyo CPI, y-o-y	Feb	-0.5%	-0.4%
3:50	Japan	Industrial Production, m-o-m	Jan P	-1.0%	3.9%
3:50	Japan	Retail Sales, y-o-y	Jan	-0.2%	-2.6%
16:00	India	GDP, y-o-y	4Q	-7.5%	0.5%
16:00	India	GVA, y-o-y	4Q	-7.0%	0.7%
17:30	US	Advance Goods Trade Balance	Jan	-\$82.5B	-\$83.0B
17:30	US	Wholesale Inventories, m-o-m	Jan P	0.3%	0.3%
17:30	US	Personal Income	Jan	0.6%	9.5%
17:30	US	Personal Spending	Jan	-0.2%	2.4%
17:30	US	PCE Deflator, m-o-m	Jan	0.4%	0.3%
17:30	US	PCE Deflator, y-o-y	Jan	1.3%	1.4%
17:30	US	PCE Core Deflator, m-o-m	Jan	0.3%	0.1%
17:30	US	PCE Core Deflator, y-o-y	Jan	1.5%	1.4%
18:45	US	MNI Chicago PMI	Feb	63.8	61.0
19:00	US	University of Michigan Sentiment	Feb F	76.2	76.4

* 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	Jan	-4.3%		-4.4%
	Qatar	CPI, y-o-y	Jan	-3.4%		-1.3%
Monday, 15 February						
3:50	Japan	GDP SA, q-o-q	4Q P	5.3%	2.4%	3.0%
10:30	India	Wholesale Prices, y-o-y	Jan	1.2%	1.1%	2.0%
14:00	Eurozone	Industrial Production SA, m-o-m	Dec	2.6%	-0.8%	-1.6%
15:30	India	Exports, y-o-y	Jan	0.1%		6.2%
Tuesday, 16 February						
8:30	Japan	Tertiary Industry Index, m-o-m	Dec	-0.6%	-0.6%	-0.4%
10:00	Saudi Arabia	CPI, y-o-y	Jan	5.3%		5.7%
14:00	Eurozone	GDP SA, q-o-q	4Q P	-0.7%	-0.7%	-0.6%
14:00	Eurozone	GDP SA, y-o-y	4Q P	-5.1%	-5.1%	5.0%
14:00	Eurozone	ZEW Survey Expectations	Feb	58.3		69.6
17:30	US	Empire Manufacturing	Feb	3.5	6.0	12.1
Wednesday, 17 February						
3:50	Japan	Trade Balance	Jan	¥749.6B	-¥625.0B	-¥323.9B
3:50	Japan	Exports, y-o-y	Jan	2.0%	6.8%	6.4%
3:50	Japan	Core Machine Orders, m-o-m	Dec	1.5%	-6.1%	5.2%
11:00	UK	CPI, y-o-y	Jan	0.6%	0.6%	0.7%
11:00	UK	CPI Core, y-o-y	Jan	1.4%	1.3%	1.4%
17:30	US	PPI Final Demand, m-o-m	Jan	0.3%	0.4%	1.3%
17:30	US	PPI Final Demand, y-o-y	Jan	0.8%	0.9%	1.7%
17:30	US	Retail sales, inc Auto and Gas	Jan	-1.0%	1.1%	5.3%
17:30	US	Retail Sales, ex-Auto and Gas	Jan	-2.5%	0.8%	6.1%
17:30	US	Retail Sales Control Group	Jan	-2.4%	1.0%	6.0%
18:15	US	Industrial Production, m-o-m	Jan	1.3%	0.4%	0.9%
Thursday, 18 February						
15:00	Turkey	One-Week Repo Rate	18-Feb	17.0%	17.0%	17.0%
17:30	US	Building Permits	Jan	1704K	1680K	1881K
17:30	US	Housing Starts	Jan	1680K	1660K	1580K
17:30	US	Initial Jobless Claims	13-Feb	848K	773K	861K
17:30	US	Continuing Claims	6-Feb	4558K	4425K	4494K
17:30	US	Import Price Index, m-o-m	Jan	1.0%	1.0%	1.4%
17:30	US	Philadelphia Fed Business Outlook	Feb	26.5	20.0	23.1
19:00	Eurozone	Consumer Confidence	Feb A	-15.5	-15.0	-14.8
Friday, 19 February						
3:30	Japan	National CPI, y-o-y	Jan	-1.2%	-0.7%	-0.6%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Jan	-1.0%	-0.6%	-0.6%
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Feb P	49.8		50.6
11:00	UK	Retail Sales, incl-Auto Fuel, m-o-m	Jan	0.4%	-3.0%	-8.2%
11:00	UK	Retail Sales, incl-Auto Fuel, y-o-y	Jan	3.1%	-0.8%	-5.9%
11:00	UK	PSNB ex Banking Groups	Jan	26.8B	25.0B	8.8B
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Feb P	54.8	54.3	57.7
13:00	Eurozone	Markit Eurozone Services PMI	Feb P	45.4	45.9	44.7
13:30	UK	Markit UK PMI Manufacturing SA	Feb P	54.1	53.1	54.9
13:30	UK	Markit/CIPS UK Services PMI	Feb P	39.5	42.0	49.7
18:45	US	Markit US Manufacturing PMI	Feb P	59.2	58.8	58.5
18:45	US	Markit US Services PMI	Feb P	58.3	58.0	58.9
19:00	US	Existing Home Sales	Jan	6.65M	6.6M	6.69M

* UAE time

Source: Bloomberg

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