

The Week Ahead: ECB meeting and US inflation data in focus

► **US: Fiscal stimulus bill final sign-off and February CPI data due**

US reflation concerns continue to build momentum with the outlook for loose policy, additional fiscal stimulus and signs of a pickup in economic activity. Moreover, Fed Chair Jerome Powell did not calm markets last week in his comments as he stopped short of disregarding the market's pricing-in of earlier rate hikes. He noted that the rise in treasury yields had caught his attention but indicated he would only be worried if the rising yields led to a persistent tightening in financial conditions, whilst reiterating that the current accommodative monetary policy stance is appropriate for now. Moreover, the strong labour market data for February adds to the robust recovery outlook (page 2). On the fiscal side, the US Senate on Saturday passed its version of the coronavirus relief bill (USD1.8-1.9 trillion), which is equivalent to c.8.0% of estimated 2021 GDP. The House of Representatives is scheduled to vote on the bill on Tuesday, which will subsequently be sent to President Joe Biden for final sign off. The fiscal stimulus bill, if approved as expected this week, could lead to stimulus checks reaching households in March itself. The additional fiscal stimulus is likely to strengthen the economic recovery in the coming quarters, with the potential for increased domestic demand also likely strengthening the inflation outlook. Consequently, the focus this week will be on February CPI inflation, with consensus expecting headline inflation to accelerate to 0.4% m-o-m (January: 0.3%), driven mainly by energy prices.

► **Eurozone: Focus on the ECB's comments on rising bond yields**

The rising government yields and their impact on tightening financial conditions will be the key area of focus at this week's ECB policy meeting (11 March). We believe that ECB President Christine Lagarde will highlight that the ECB will keep monetary conditions accommodative and also will be ready to increase the pace of asset purchases if necessary. Moreover, she is likely to emphasise that the temporary nature of the inflationary pressure is unlikely to change the current monetary policy stance. The ECB will also publish its latest economic projections at this meeting. Consensus expects real GDP growth for 2021 to be revised lower to c.3.5% (December: 3.9%), factoring in the weak 1Q economic activity under COVID-related restrictions. Rising global oil prices are likely to result in headline inflation being revised up to c.1.4% for 2021, from 1.0% in the December projections.

► **Oil: Tighter oil market conditions to continue**

OPEC and its non-OPEC partnering countries (OPEC+) decided to raise output by just 150K b/d for April despite the prevailing tight physical market conditions. Saudi Arabia also maintained its voluntary 1.0 million b/d production cut for April. We have increased our oil price forecasts due to the outlook for a further tightening in the oil market with a greater drawdown in inventories as demand continues to strengthen. We have also upwardly revised our GCC forecast. For more details please see our note – **Oil and GCC Update – Raising our oil price forecast and GCC forecasts following OPEC+ decision**, published on 7 March 2021.

Economics Team

Monica Malik, Ph.D.

Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

Thirumalai Nagesh

Economist
+971 (0)2 696 2704
Thirumalainagesh.Venkatesh@adcb.com

Contents

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

I. Recent Events and Data Releases

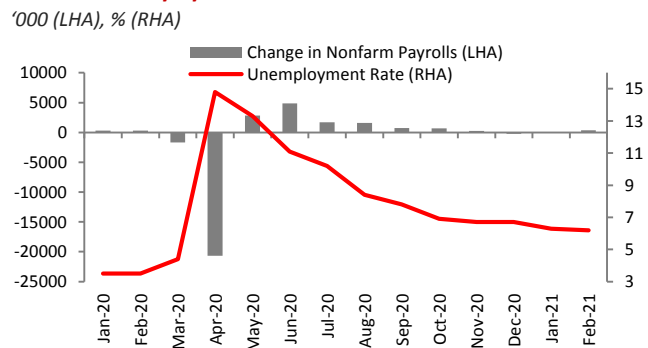
A. G4 Economies

US: Strong hiring activity in February despite weather distortions

Nonfarm payrolls surprised to the upside in February with 379K jobs created (consensus: 200K; January: 166K), supported by an easing of COVID-related restrictions. Hiring activity strengthened markedly across the service sector, including leisure and hospitality sector (+355K), professional business services (+63K), retail trade (+41K), and education and health (+44K). Despite this strong rebound in hiring in the leisure and hospitality sector in February, employment in the sector is still 20.4% below the pre-pandemic February 2020 levels. The existing space for further hiring activity in the leisure and hospitality sector and other virus-sensitive sectors is likely to remain positive for the payrolls data in the coming months. Manufacturing payrolls also rebounded in February, after declining in January. Jobs in the construction industry fell (-61K) in February with weather disruptions in Texas, whilst government payrolls also contracted due to the seasonal impact of the winter break on employment in the education sector. Job creation in both the construction and public-sector education is likely to rebound in March in our view. Overall, the underlying trend for hiring appears to be gathering pace despite the seasonal distortions seen in February.

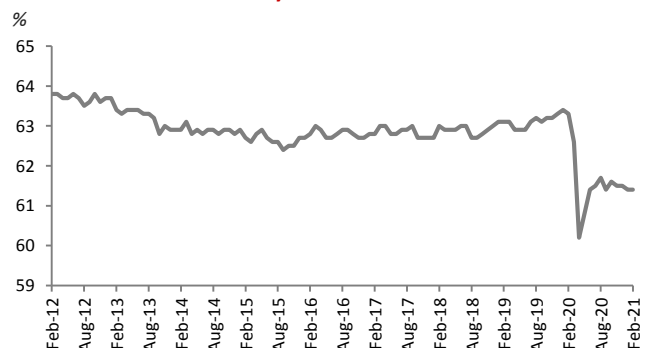
Leisure and hospitality sector added 355K jobs in February with the easing of COVID-related restrictions

Fig. 1. US: Non-farm payrolls rose by 379K in February driven mainly by the service sectors



Source: Bureau of Labor Statics

Fig. 2. US: Labour force participation rate remained steady at 61.4% in February



Source: Bureau of Labor Statics

Overall employment is still 9.5 million below its February 2020 levels, indicating that there is still ample labour market slack for a recovery. The unemployment rate remained high at 6.2% in February, though continued to trend down from the elevated levels in 2020 supported by temporary hiring. The number of long-term unemployed was broadly steady at 4.1 million in February, accounting for 41.5% of the total unemployed. Fed Chair Jerome Powell last week highlighted that the labour market faces a lengthy recovery and the economy will not see maximum employment in 2021. The Fed communication so far suggests that reaching maximum employment will be one of the necessary conditions for an interest rate hike, though may not be sufficient on its own. Meanwhile, wage growth remained steady in February, with a 0.2% m-o-m increase. The pickup in wage growth, sustainable inflation above 2.0% and developments in financial conditions will be other factors that will be considered in any change in policy guidance, in our view.

Unemployment rate moderated to 6.2% in February, from 6.3% in January

UK: Expansionary budget announced to support economic recovery

The Chancellor of the Exchequer Rishi Sunak announced an expansionary budget for FY2021/22 last week, with GBP59 billion (c.2.6% of GDP) of additional fiscal stimulus to support households and the economic recovery. The economic support measures include extensions of the furlough scheme, the VAT rate cut for the hospitality sector and stamp duty holidays. A subsidy for business investments equivalent to GBP25.0 billion over next two fiscal years is a positive development and is likely to help boost business confidence. The expansionary budget managed to strike a balance between: i) providing income support for affected households; ii) stimulating domestic demand; and iii) facilitating business investments to bolster growth and job creation in the coming years. The announced fiscal stimulus should provide a short-term boost to economic growth, in our view. Moreover, the Chancellor laid out a fiscal consolidation road map for the medium term to narrow the deficit in the coming years. A number of fiscal retrenchment measures were announced, including a corporate tax hike from FY2022/23 (to 25% from 19%), freezing income tax allowances, inheritance tax thresholds and pension allowances for individuals. However, these measures could see modifications in later budgets depending upon the evolution of the economy in the coming years.

Fiscal stimulus of GBP59 billion announced for FY2021/22

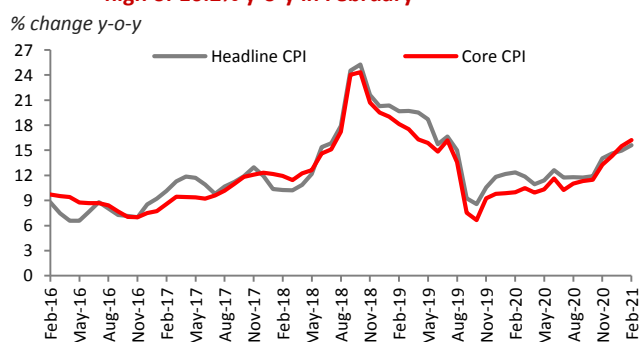
Meanwhile, the Office for Budget Responsibility (OBR) published its latest economic projections for the UK last week. Real GDP growth for 2021 was revised down to 4.0% (November: 5.5%), whilst the 2022 forecast was revised upwardly to 7.3% (November: 6.6%). The OBR also estimated higher government borrowing than assumed in the November projections, with GBP233.9 billion for FY2021/22 (November: GBP164.2 billion) and GBP106.9 billion for FY2022/23 (GBP104.6 billion). However, with fiscal tightening measures planned from FY2022/23, borrowing requirements are expected to diminish significantly thereafter.

Government borrowing to remain high for next two fiscal years

B. Emerging Market Economies

Turkey: Inflation continues to accelerate in February

Fig. 3. Turkey: Core inflation strengthened to a 22-month high of 16.2% y-o-y in February



Source: Turkish Statistical Institute

Fig. 4. Turkey: TRY weakening since mid-February against USD, with reflationary concerns affecting EM assets



Source: Bloomberg

Both headline and core inflation continued to strengthen in February, opening up the possibility of a rate hike by the CBRT at its March meeting. Headline inflation rose for the fifth consecutive month in February to 15.6% y-o-y (consensus: 15.4%), from 15.0% in

Headline inflation continues to surprise to the upside

January, led by higher global oil prices. Core inflation also picked up to a 22-month high of 16.2% y-o-y (January: 15.5%), led by clothing and transport prices. Looking ahead, we expect headline inflation to peak at around 16.0% in April, followed by a gradual moderation from May with the effect of a favourable base kicking-in. A number of upside risks to the inflation outlook persist, including higher commodity prices, and TRY weakening again against USD since mid-February and its pass-through effect to imported goods items. With this backdrop, we continue to believe that headline inflation will remain above 10.0% throughout 2021, higher than the CBRT forecast of 9.4% by end-2021.

The CBRT recently raised the reserve requirement ratios (RRR) for all liability types and maturity brackets in order to support the currency. However, the announced measures have not stemmed the TRY depreciation so far. A weakening in TRY at the time of a rising inflationary pressures (including commodity led) opens up the possibility of additional interest rate hikes, in our view. However, our core view is that the CBRT will likely remain on hold at its 18 March meeting for two reasons: i) to provide some more time to assess the impact of RRR hikes; and ii) to see how the global central banks respond to the rising global yields, which was also a factor negatively affecting the EM assets.

Rising inflation opens up possibility of rate hike though this is still not our core view

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jan	-2.1%	
	UAE	Dubai CPI, y-o-y	Feb	-4.4%	
	Oman	CPI, y-o-y	Jan	-1.4%	
	China	New Yuan Loans CNY	Feb	3580.0B	950.0B
	China	Money Supply M2, y-o-y	Feb	9.4%	9.4%
Monday, 8 March					
9:00	Japan	Leading Index Cl	Jan P	95.3	96.8
13:30	Eurozone	Sentix Investor Confidence	Mar	-0.2	1.4
14:00	UK	BOE Governor Bailey Speaks on Economic Outlook			
19:00	US	Wholesale Inventories, m-o-m	Jan F	1.3%	1.3%
Tuesday, 9 March					
3:50	Japan	GDP SA, q-o-q	4Q F	3.0%	3.0%
3:50	Japan	GDP Annualized SA, q-o-q	4Q F	12.7%	12.6%
3:50	Japan	Money Stock M2, y-o-y	Feb	9.4%	9.5%
8:15	UAE	Dubai PMI	Feb	50.6	
14:00	Eurozone	GDP SA, q-o-q	4Q F	-0.6%	-0.6%
14:00	Eurozone	GDP SA, y-o-y	4Q F	-5.0%	-5.0%
15:00	US	NFIB Small Business Optimism	Feb	95.0	96.5
Wednesday, 10 March					
5:30	China	CPI, y-o-y	Feb	-0.3%	-0.3%
5:30	China	PPI, y-o-y	Feb	0.3%	1.4%
17:30	US	CPI, m-o-m	Feb	0.3%	0.4%
17:30	US	CPI, ex-Food and Energy, m-o-m	Feb	0.0%	0.2%
17:30	US	CPI, y-o-y	Feb	1.4%	1.7%
17:30	US	CPI, ex-Food and Energy, y-o-y	Feb	1.4%	1.4%
23:00	US	Monthly Budget Statement	Feb	-\$162.8B	-\$300.0B
	Egypt	Urban CPI, y-o-y	Feb	4.3%	
	Egypt	CPI Core, y-o-y	Feb	3.6%	
Thursday, 11 March					
3:50	Japan	PPI, y-o-y	Feb	-1.6%	-0.7%
11:00	Turkey	Current Account Balance	Jan	-3.2B	-1.5B
16:45	Eurozone	ECB Main Refinancing Rate	11-Mar	0.0%	0.0%
16:45	Eurozone	ECB Marginal Lending Facility	11-Mar	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	11-Mar	-0.5%	-0.5%
17:30	Eurozone	ECB President Christine Lagarde Holds Press Conference			
17:30	US	Initial Jobless Claims	6-Mar	745K	725K
17:30	US	Continuing Claims	27-Feb	4295K	4201K
19:00	US	JOLTS Job Openings	Jan	6646	6650
Friday, 12 March					
11:00	UK	Industrial Production, m-o-m	Jan	0.2%	-0.8%
11:00	UK	Industrial Production, y-o-y	Jan	-3.3%	-4.2%
11:00	UK	Manufacturing Production, m-o-m	Jan	0.3%	-0.8%
11:00	UK	Index of Services, 3M/3M	Jan	0.6%	-3.2%
11:00	UK	Trade Balance, GBP million	Jan	-£6202M	-£4563M
11:00	UK	Monthly GDP, m-o-m	Jan	1.2%	-4.9%
11:00	Turkey	Industrial Production, m-o-m	Jan	1.3%	
14:00	Eurozone	Industrial Production SA, m-o-m	Jan	-1.6%	0.3%
16:00	India	CPI, y-o-y	Feb	4.1%	4.8%
16:00	India	Industrial Production, y-o-y	Jan	1.0%	1.0%
17:30	US	PPI Final Demand, m-o-m	Feb	1.3%	0.4%
19:00	US	University of Michigan Sentiment	Mar P	76.8	78.0

* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Bahrain	CPI, y-o-y	Feb	-1.6%		-2.7%
Monday, 1 March						
9:00	India	Markit India PMI Manufacturing	Feb	57.7		57.5
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Feb	54.4		51.7
11:00	Turkey	GDP SA/WDA, q-o-q	4Q	15.9%	3.9%	1.7%
11:00	Turkey	GDP, y-o-y	4Q	6.3%	6.9%	5.9%
13:30	UK	Mortgage Approvals	Jan	102.8K	98.0K	99.0K
13:30	UK	Markit UK PMI Manufacturing SA	Feb F	54.9	54.9	55.1
18:45	US	Markit US Manufacturing PMI	Feb F	58.5	58.5	58.6
19:00	US	Construction Spending, m-o-m	Jan	1.1%	0.8%	1.7%
19:00	US	ISM Manufacturing	Feb	58.7	58.9	60.8
19:00	US	ISM Prices Paid	Feb	82.1	80.0	86.0
Tuesday, 2 March						
3:30	Japan	Jobless Rate	Jan	3.0%	3.0%	2.9%
3:50	Japan	Capital Spending, y-o-y	4Q	-10.6%	-2.0%	-4.8%
3:50	Japan	Monetary Base, y-o-y	Feb	18.9%		19.6%
14:00	Eurozone	CPI, m-o-m	Feb P	0.2%	0.2%	0.2%
14:00	Eurozone	CPI Estimate, y-o-y	Feb	0.9%	0.9%	0.9%
Wednesday, 3 March						
4:30	Japan	Jibun Bank Japan PMI Composite	Feb F	47.6		48.2
5:45	China	Caixin China PMI Composite	Feb	52.2		51.7
5:45	China	Caixin China PMI Services	Feb	52.0	51.5	51.5
8:15	Egypt	IHS Markit Egypt PMI	Feb	48.7		49.3
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Feb	57.1		53.9
8:15	UAE	IHS Markit UAE PMI	Feb	51.2		50.6
9:00	India	Markit India PMI Composite	Feb	55.8		57.3
11:00	Turkey	CPI, m-o-m	Feb	1.7%	0.7%	0.9%
11:00	Turkey	CPI, y-o-y	Feb	15.5%	16.0%	16.2%
13:00	Eurozone	Markit Eurozone Composite PMI	Feb F	48.1	48.1	48.8
13:30	UK	Markit/CIPS UK Services PMI	Feb F	49.7	49.7	49.5
17:15	US	ADP Employment Change	Feb	195K	205K	117K
18:45	US	Markit US Services PMI	Feb F	58.9	58.9	59.8
19:00	US	ISM Services Index	Feb	58.7	58.7	55.3
Thursday, 4 March						
9:00	Japan	Consumer Confidence Index	Feb	29.6	30.0	33.8
14:00	Eurozone	Unemployment Rate	Jan	8.1%	8.3%	8.1%
14:00	Eurozone	Retail Sales, m-o-m	Jan	1.8%	-1.4%	-5.9%
17:30	US	Initial Jobless Claims	44254	736K	750K	745K
17:30	US	Continuing Claims	44247	4419K	4300K	4295K
19:00	US	Durable Goods Orders	Jan F	3.4%	3.4%	3.4%
19:00	US	Factory Orders	Jan	1.6%	2.1%	2.6%
Friday, 5 March						
17:30	US	Change in Nonfarm Payrolls	Feb	166K	200K	379K
17:30	US	Change in Private Payrolls	Feb	6K	200K	465K
17:30	US	Unemployment Rate	Feb	6.3%	6.3%	6.2%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.1%	0.2%	0.2%
17:30	US	Average Hourly Earnings, y-o-y	Feb	5.3%	5.3%	5.3%
17:30	US	Labor Force Participation Rate	Feb	61.4%	61.4%	61.4%
17:30	US	Trade Balance	Jan	-\$67.0B	-\$67.5B	-\$68.2B

* UAE time

Source: Bloomberg

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC (“ADCB”) to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.