

## The Week Ahead: BoE meeting and Chinese 2Q GDP

### ► UK: BoE to provide initial assessment of Brexit

In its first monetary policy meeting (14 July) following the Brexit vote, the BoE should provide an outline of its post-referendum monetary policy outlook. We do not believe an extensive package of monetary easing measures will be announced yet, though the overall tone of the bank's comments on the economy and credit conditions is likely to be significantly dovish. In our view, any major monetary easing measures are likely to follow only after the inflation report is released (4 August), in which the bank assesses how the inflationary risks from a weaker GBP are stacked against the disinflationary drag from tepid domestic demand. In 2H2016, we expect the BoE to announce a slew of monetary easing measures – including a policy rate cut of 25 basis points and a resumption of its asset purchase programme. In addition, targeted measures could be announced to ease credit conditions for domestic firms, including direct purchases of corporate bonds and an extension of the Funding for Lending scheme to encourage bank lending to corporates.

### ► China: 2Q GDP to show gradual deceleration

We expect 2Q GDP to have moderated to 6.5% y-o-y (6.7% y-o-y previously), which is slightly lower than the consensus expectation of 6.6% y-o-y. We believe that the pullback in monetary stimulus will have a stronger drag on residential investment and domestic consumption than what the markets expect. Furthermore, despite solid public infrastructure investment in 2Q, total investment contribution to GDP is likely to remain below 2 pp (1.9 pp in 1Q). Overall, we expect growth to stabilise in the 6.3-6.5% y-o-y range through 2H2016, as the government keeps credit conditions tight for private sector firms and state-owned enterprises saddled with excessive debt. Other data for June – IP, retail sales and fixed asset investment – are also likely to indicate a gradual moderation in economic momentum.

### ► India: Institutional changes at RBI on cards

The Indian government is likely to announce a successor to the outgoing RBI governor, Raghuram Rajan next week and introduce new measures to make the RBI's decision-making processes more transparent. We believe that members of a new Monetary Policy Committee (like the BoE's) and a formal long-term inflation target will also be announced alongside Rajan's successor. We expect the target to be set at 4% y-o-y, which will play a significant role in anchoring long-term inflation expectations in the economy. Data for June inflation are likely to reinforce our view of a gradual pick-up in inflationary pressures towards end 2016.

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## I. Recent Data and Events

### A. G4 Economies

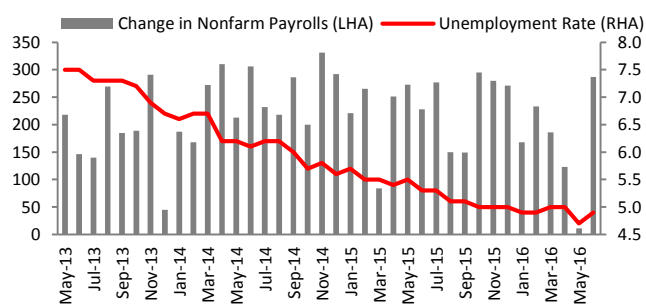
#### US: June NFP data confirms robust labour market momentum

Non-farm payrolls in June rose by a stunning 287K, more than offsetting a meagre 11K rise in May. The latest data further support our view that the US economy is likely to hold up well despite worsening global economic sentiment after the Brexit vote. In particular, the bulk of these jobs (114K) were created in sectors dependent on discretionary spending – retail, leisure and personal services – suggesting that domestic demand remains buoyant. We expect these dynamics to be reflected in this week's retail sales data as well (due on 15 July). In addition, there was also an acceleration in the labour force participation rate to 62.7% (62.6% previously), which pushed up the unemployment rate to 4.9% (4.7% previously) and pulled down the wage growth to 0.1% m-o-m (0.2% previously), due to a greater number of people looking for jobs. The June payroll numbers strengthen our call for a rate hike by the Fed in December, by which time it should remain convinced that the economic strains from the Brexit vote will remain localised in Europe.

*June payroll data more than reversed weakness in May numbers*

**Fig. 1. Non-farm payrolls reverse one-off decline seen in May, but unemployment rate edges up slightly**

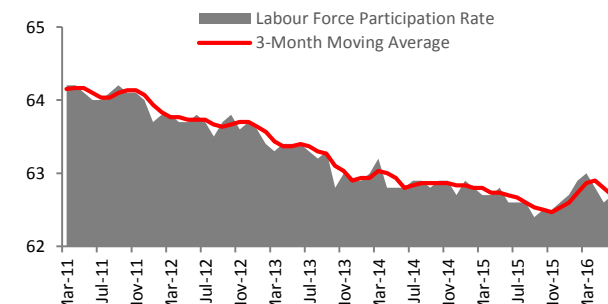
'000 (LHA), % (RHA)



Source: Bloomberg

**Fig. 2. Labour force participation rate edges up in June after steady decline since March**

%



Source: Bloomberg

#### US: Fed policy makers remain watchful of Brexit spillover

New York Fed President Dudley, in the first speech by a senior Fed member since the Brexit vote, suggested that policymakers at the Fed remain watchful of financial contagion risks from the recent developments in Europe. We believe the ultimate decision point for the Fed will lie in assessing how widespread the risks to the domestic market from the uncertainty around Brexit are. In our view, the recent concerted moves by European politicians and the ECB are likely to keep the fallout limited, which should pave the way for a rate hike by the Fed at its December monetary policy meeting. Reassuringly, domestic indicators have so far shown no signs of fatigue-non-farm payroll growth at 172K in 1H2016 was clearly above the Fed's break-even level of 147K and economic growth looks set to print well above 2% y-o-y in 2Q2016 despite a deterioration in global economic sentiment over the future of the EU.

*Fed to raise rates in December once uncertainty around Brexit spillover subsides*

Meanwhile, the minutes of the June FOMC meeting showed an increasing uncertainty among the members regarding the economic outlook. However, the conclusions were

slightly outdated in our view, since the meeting was held before the Brexit vote and had to factor in exceptionally weak May labour market data to its assessment. Given that the economy has remained resilient despite sharp falls in European financial markets, we expect the Fed's tone to be more neutral in the upcoming FOMC meetings. However, considering the downward revisions to the neutral interest rates and domestic productivity by Fed members at the June meeting, we expect any rate hikes by the Fed, this year and next, to be smaller and more gradual than previously pencilled by the markets.

*However, given its downward revision of productivity growth, upcoming Fed hikes may be smaller and more gradual*

### UK: BoE announces interim credit easing measures

The BoE's Financial Policy Committee (FPC) recommended a reduction in counter-cyclical capital buffers for bank lending to 0% (0.5% previously) – a move aimed at reducing the cost of credit for domestic enterprises. The cut is likely to free GBP5.7 billion in regulatory capital for banks, increasing their lending capacity by GBP150 billion. We expect more such unconventional credit easing measures in the future, which, unlike a policy rate cut, should help to ease funding conditions for firms without significantly weakening the GBP. In its comments, the FPC specifically noted the risks to stability of commercial real estate markets, where portfolio inflows had fallen by -50% y-o-y in 1H2016. However, we think that the current measures will only have a limited impact on the UK economy, since credit demand from firms might be tempered by subdued consumer spending, pushed down by an elevated household debt burden and a weaker GBP.

*BoE changes capital buffers for banks to allow them to lend up to GBP150 billion*

## II. Economic Calendar

Fig. 3. Upcoming events and releases

Time*	Country	Data point	Period	Prior	Survey
<b>Expected this week</b>					
	Qatar	GDP Constant Prices, y-o-y	1Q	4%	
	Qatar	GDP Constant Prices, q-o-q	1Q	-0.5%	
	Kuwait	GDP Current Prices, y-o-y	1Q		
	Kuwait	M2 Money Supply, y-o-y	Apr	4.1%	
	Egypt	Gross Official Reserves	Jun	17.5B	
	Egypt	GDP Constant Prices, q-o-q	1Q	-3.2%	
	China	Aggregate Financing, RMB bn	Jun	660	1100
	China	New Yuan Loans, RMB bn	Jun	986	1000
	China	M2 Money supply, y-o-y	Jun	11.8%	11.5%
<b>Monday 11 July</b>					
	Eurozone	Eurogroup Meeting			
<b>Tuesday 12 July</b>					
16:00	India	Industrial Production, y-o-y	May	-0.8%	
16:00	India	CPI, y-o-y	Jun	5.8%	
<b>Wednesday 13 July</b>					
	US	Fed's Harker Speaks in Philadelphia			
	China	Exports, y-o-y	Jun	-4.1%	-5%
	China	Trade Balance, USD billion	Jun	50	46
15:00	US	MBA Mortgage Applications	8-Jul	14.2%	
<b>Thursday 14 July</b>					
	US	Fed's Lockhart Speaks in Idaho			
11:00	Turkey	Industrial Production, y-o-y	May	0.7%	3.9%
11:00	Turkey	Current Account Balance, USD bn	May	-2.81	-2.96
15:00	UK	BoE Monetary Policy Meeting			
<b>Friday 15 July</b>					
6:00	China	Industrial Production, y-o-y	Jun	6%	5.9%
6:00	China	Retail sales, YTD y-o-y	Jun	10.2%	10.2%
6:00	China	Fixed Asset Investment, YTD y-o-y	Jun	9.6%	9.4%
6:00	China	GDP, y-o-y	2Q	6.7%	6.6%
13:00	Eurozone	CPI, y-o-y	Jun	0.1%	0.1%
13:00	Eurozone	CPI Core, y-o-y	Jun	0.9%	0.9%
16:30	US	CPI, y-o-y	Jun	1%	1.1%
16:30	US	CPI core, y-o-y	Jun	2.2%	2.2%
16:30	US	Retail Sales, m-o-m	Jun	0.5%	0.1%
16:30	US	Retail Sales ex-Auto, m-o-m	Jun	0.4%	0.4%
17:15	US	Industrial Production, m-o-m	Jun	0.2%	-0.4%
18:00	US	University of Michigan consumer confidence	Jun	93	93.5

\*UAE time

Source: Bloomberg

Fig. 4. Last Week's Data

Time*	Country	Data point	Period	Prior	Survey	Actual
Monday 4 July						
3:50	Japan	Monetary Base, y-o-y	Jun	25.5%		24.3%
Tuesday 5 July						
5:45	China	Caixin China PMI Services	Jun	51.2		52.7
6:00	Japan	Nikkei Japan PMI Composite	Jun	49.2		49.2
9:00	India	Nikkei India PMI Services	Jun	51		50.3
12:00	Eurozone	Markit Eurozone Composite PMI	Jun	52.8	52.8	53.1
12:30	UK	Markit/CIPS UK Services PMI	Jun	53.5	52.8	52.3
13:00	Eurozone	Retail Sales, m-o-m	May	0%	0.4%	0.4%
13:30	UK	Carney Publishes BOE Financial Stability Report				
18:00	US	Factory Orders, m-o-m	May	1.9%	-0.8%	-1%
Wednesday 6 July						
10:00	Germany	Factory Orders, m-o-m	May	-2%	1%	0%
15:00	US	MBA Mortgage Applications	1-Jul	-2.6%		14.2%
16:30	US	Trade Balance	May	-\$37.4B	-\$40B	-\$41.1B
18:00	US	ISM Non-Manf. Composite	Jun	52.9	53.3	56.5
22:00	US	FOMC Meeting Minutes	15-Jun			
Thursday 7 July						
	China	Foreign Reserves	Jun	\$3191.7B	\$3160B	\$3205B
10:00	Germany	Industrial Production SA, m-o-m	May	0.8%	0.1%	-1.3%
11:30	UK	Halifax House Prices, m-o-m	Jun	0.6%	0.3%	1.3%
12:30	UK	Industrial Production, m-o-m	May	2%	-1%	-0.5%
12:30	UK	Manufacturing Production, m-o-m	May	2.4%	-1.2%	-0.5%
15:30		Eurozone ECB account of the monetary policy meeting				
16:15	US	ADP Employment Change ('000)	Jun	173K	160K	172K
16:30	US	Initial Jobless Claims	2-Jul	268K	269K	254K
Friday 8 July						
3:50	Japan	BoP Current Account Balance	May	¥1878.5B	¥1732.3B	¥1810B
16:30	US	Change in Nonfarm Payrolls ('000)	Jun	11K	175K	287K
16:30	US	Unemployment Rate	Jun	4.7%	4.8%	4.9%
16:30	US	Average Hourly Earnings, m-o-m	Jun	0.2%	0.2%	0.1%
16:30	US	Average Hourly Earnings, y-o-y	Jun	2.5%	2.7%	2.6%
16:30	US	Average Weekly Hours All Employees	Jun	34.4	34.4	34.4
16:30	US	Labor Force Participation Rate	Jun	62.6%		62.7%
16:30	US	Underemployment Rate	Jun	9.7%		9.6%
23:00	US	Consumer Credit	May	\$13.4B	\$16B	\$18.56B

\*UAE time

Source: Bloomberg

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