The Week Ahead: Fed minutes and US and UK inflation

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US: July inflation data and Fed minutes

The key US release this week will be the inflation data for July. Consensus expectations are that the CPI remained steady (0% m-o-m) on the back of falling energy prices and flat food costs. This will be balanced by a 0.2% m-o-m increase in core prices, supported by the cost of shelter and other services. The yearly core inflation rate is expected to remain at 2.3%, whilst headline inflation is expected to moderate to 0.9% y-o-y, down from 1% in June. We expect the drag from energy prices to moderate in 4Q2016, which should be supportive of a 25 bps rate hike by the Fed. Markets will also scrutinise the minutes of the 26-27 July FOMC meeting, to be released on 17 August. We expect the tone to be more optimistic, in line with the post-meeting statement. Three areas are of particular interest: i) the Fed's assessment of global risks after the limited spill-overs onto financial markets after the Brexit vote; ii) the progress of the labour market towards full employment; and iii) the inflation outlook. We believe that improved sentiment on the first two points should outweigh the limited build-up in inflationary pressure so far.

UK: First set of post-Brexit vote data

Markets will see the first set of UK post-referendum macroeconomic data this week, which we expect to confirm our bearish view on the economy. We expect a sharper increase in inflation to 0.8% y-o-y (due on 16 August) than the consensus expectations (unchanged at 0.5% y-o-y), as GBP depreciation is likely to have outweighed softer energy prices. Retail sales (due 18 August) could also disappoint expectations (0.3% m-o-m after -0.9% m-o-m in June), given the weakness in consumer footfall reported by retailers. We see GDP growth remaining flat in 3Q2016.

MENA: Egypt IMF deal agreed; UAE non-oil forecasts maintained

Egypt and the IMF reached a staff-level agreement on a three-year USD12 billion extended fund facility (EFF) on 11 August (see page 2). The EFF is aimed at supporting Egypt's economic reform programme, as approved by parliament. There are two areas of focus: i) improving the country's fiscal position; and ii) moving to a more flexible exchange rate. The reforms highlighted are all critical for improving the sustainability of the Egyptian economy. However, the depth of the structural adjustment proposed looks somewhat ambitious for the timescale, especially on the fiscal front. Moreover, the size of the EFF will not fully cover Egypt's FX funding requirements, thus additional external support and tapping of the international debt market will be needed. Separately, in the UAE, we have maintained our real non-oil GDP growth forecast for 2016 (2.3%) and 2017 (2.9%) after the 2015 data came in broadly in line with our expectations (page 3).

I. Recent Data and Events

A. MENA Economies

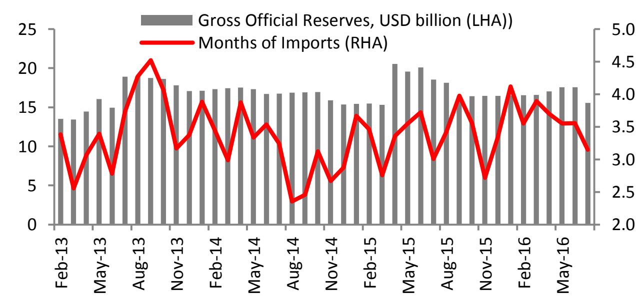
Egypt: Three-year staff-level deal agreed with IMF

Fiscal and currency reforms highlighted in IMF's post-mission statement

Egypt and the IMF reached a staff-level agreement on a three-year USD12 billion extended fund facility (EFF) on 11 August. The limited details so far indicate that the key focus of the facility is to support Egypt's comprehensive economic reform programme, as approved by parliament. The IMF's post-mission statement highlighted the government's desire for the reform programme to be implemented quickly. We can see this greater political will already reflected in the draft VAT law (sent to parliament in July) and in the latest round of energy price reforms (page 3). In line with our expectations, the programme will focus on two areas: i) improving the country's fiscal position; and ii) moving to a more flexible exchange rate. On the fiscal front, the targets look overwhelming, including the objective to reduce government debt to 88% of GDP by FY2018-19 from 98% in FY2015-16. Rationalising spending and implementing measures to increase revenue will be vital for improving the fiscal dynamics. On the monetary and currency fronts, the objective is to raise FX reserves and bring inflation down to single digits. A move to a more flexible exchange rate was also highlighted to support external competitiveness and attract greater foreign investment.

Fig. 1. Egypt: FX reserves fall to 16-month low of USD15.5 billion in July after repayment of some loans

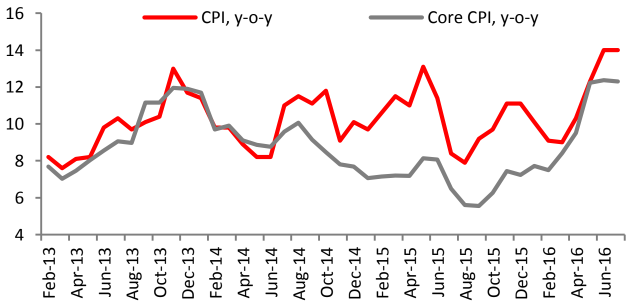
USD billion (LHA); months of import cover (RHA)



Source: Central Bank of Egypt, ADCB estimates

Fig. 2. Egypt: CPI remains at multi-year high of 14% y-o-y in July; inflationary pressure to increase with reforms

%



Source: Central Bank of Egypt

Short timeframe likely to pose challenges to implementation

We believe that this IMF deal will help Egypt to execute its reform programme, partly meet its funding requirements (fiscal and external) and reduce short-term FX shortages. The reforms highlighted are all critical for improving the sustainability of the Egyptian economy. However, the depth of the structural adjustment proposed looks somewhat ambitious for the timescale, especially on the fiscal front. Fiscal reform and the expected weakening of the EGP will push up inflation and have negative impact on both consumer and corporate spending. Real GDP growth is forecast to decelerate sharply, which could also make the government's revenue objectives difficult to achieve. Moreover, the weaker EGP and higher interest rates will also impact the fiscal adjustment. Social risks are also a concern, though the IMF noted that social protection is a cornerstone of the government's reform programme. Finally, the overall size of the EFF will not cover Egypt's overall FX funding requirements. Thus, Egypt will need additional external support (bilateral and multilateral) and will have to tap the international debt market.

Egypt is also looking to issue international bonds (USD2-3 billion), which could be offered as soon as September or October, supported by an IMF agreement.

Energy reforms around 1% of GDP

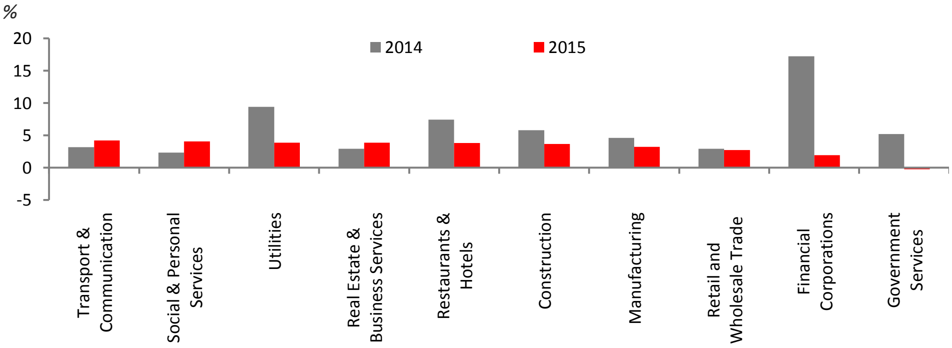
Energy reforms: Last week, Egypt raised electricity prices by 25–40% for households and 9.4–19% for commercial users, depending on consumption. The prices will be applied retroactively from July, according to the official statement. This is the third round of price increases since 2014. Electricity Minister Muhammad Shakir said that the price increases will help reduce the cost of government electricity subsidies to EGP29 billion this year, compared to EGP48 billion if prices remained unchanged. We estimate this saving is equivalent to around 1% of 2016 GDP.

UAE: No change to our non-oil GDP forecasts after 2015 data released

Real non-oil GDP growth slowed to 3.2% in 2015 as lower oil price filtered into economy

We retain our real non-oil GDP growth forecasts for 2016 (2.3%) and 2017 (2.9%), after the 2015 data (released last week) came in close to our estimates. Real non-oil GDP growth decelerated to 3.2% in 2015 (down from 4.1% in 2014), marginally above our estimate of 3%. Most sectors experienced weakening growth on the back of the lower oil price and the pullback in government spending. The government-service sector contracted -0.2% in 2015 (versus expansion of 5.2% in 2014 and 11.3% in 2013), reflecting the weaker government spending. Meanwhile, construction growth moderated to 3.7% in 2015 (from 5.8% in 2014) as government projects were prioritised and slower progress was made with real estate projects as prices in Dubai continued to fall. One of the few non-oil sectors to see an acceleration in 2015 was transportation and storage, with growth of 4.6% (versus 3% in 2014). We believe that this was supported by still-solid demand in other GCC countries in 2015, where fiscal policy remained supportive. The UAE's headline GDP growth (3.8% in 2015) was supported by the hydrocarbon sector (5%), which surprised us to the upside.

Fig. 3. UAE: Real non-oil GDP growth moderates to 3.2% in 2015, with most sub-sectors seeing a deceleration



Source: National Bureau of Statistics

Further slowdown expected in 2016 for real non-oil sector

We foresee non-oil growth moderating further in 2016, as fiscal consolidation in Abu Dhabi remains strong and external headwinds increase. Tightening fiscal policy in the wider GCC (particularly Saudi Arabia) and lacklustre global demand are contributing to the external challenges. Domestically, corporate adjustments to the weaker demand environment (including on the labour front) are also adding to the slowdown in 2016. Please see our recent UAE note – **Non-oil sectors responding to softer demand backdrop**, published on 4 July 2016.

Saudi Arabia: Increases visa and traffic fees, fiscal impact limited

Latest reform likely to be equivalent to less than 0.3% of GDP

Saudi Arabia's cabinet approved higher fees for a number of government services last week, aimed at raising non-oil revenues. These include the cost of issuing visas (from October 2016) and fines for certain traffic violations. The adjustments include raising the price of a three-month multi-entry visa to SAR500 (which was previously the cost for a six-month one). The new fee for a two-year multi-entry visa was raised to SAR8,000 (USD2,133). We expect the overall impact of the higher fees on government revenues to be quite small (less than 0.3% of GDP). However, the limited fiscal data make estimating the effect of the reforms difficult. The higher visa fees will largely be felt by corporates and non-nationals, and may be aimed partly at supporting the hiring of Saudi nationals. We see a need for further and deeper fiscal reforms to improve the sustainability of the country's fiscal position, though this would strain the economy further. The increase in fees was the first fiscal reform to be announced since the subsidy cuts in December 2015 and January 2016, which have had a marked impact on consumer and corporate spending.

Reforms accelerated to September aimed at boosting portfolio inflows

Stock market reforms: The Capital Market Authority (CMA) has announced that it is to ease restrictions on foreign investment in the Saudi stock market on 4 September, in a move aimed at encouraging international participation in the Tadawul. This is earlier than previously indicated (end of June 2017) when the draft regulation was announced (please see **Global Data Watch 9-13 May 2016**). The new regulations broaden the definition of Qualified Foreign Investors (QFIs, who can buy and sell Saudi stocks directly) to include sovereign wealth funds, university endowments, and banks. Moreover, the minimum AUM requirement for QFIs is to be reduced to SAR3.75 billion (USD1 billion), from SAR18.75 billion currently. Another important aspect is raising the foreign ownership limit to 49% for listed equities (from 20% currently), with a 10% limit per investor per listed company (5% currently). We see increasing the Tadawul's liquidity as essential to the government's privatisation programme, as highlighted in Vision 2030.

B. G4 Economies

Eurozone: GDP data highlight need for ECB action

Though growth remained stable, regional variations in momentum increased

Eurozone's 2Q GDP growth was unrevised at 0.3% q-o-q in its second estimate, albeit with significant regional variations. Though the headline numbers were unchanged, growth dynamics in Italy (down to 0% from 0.3% in 1Q2016) and France (down to 0% from 0.7% in 1Q) deteriorated sharply. Growth held up slightly better in Germany (down to 0.4% from 0.7% in 1Q), but this was mainly on account of a higher contribution from net exports due to a contraction in import demand. Last week's data, alongside the rising risks to the Eurozone economy from a likely recession in the UK, increase the urgency of ECB action. We expect a six-month extension of QE by the central bank at its 8 September meeting, alongside some changes to its sovereign asset purchase rules.

US: Retail sales flat in July though after a number of solid months

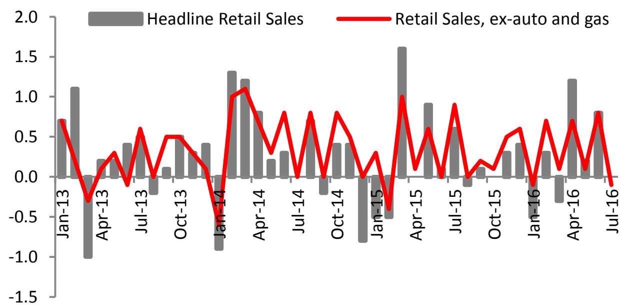
Weak data likely reflects payback for strong 2Q growth

Retail sales for July were flat (i.e. 0% m-o-m), coming in below consensus expectations of a 0.4% m-o-m rise. The data likely reflect some cooling after the strong increases seen from April to June. Indeed, the June figure was revised upwards to 0.8% m-o-m growth from 0.6% initially. Core retail sales (which excludes volatile components and feeds into GDP data) were also flat in July, down from 0.5% m-o-m in June. By sector, auto sales saw a solid increase of 1.1% m-o-m, which may have diverted spending away from discretionary items. For example, sales at food and drink outlets fell by -0.2% m-o-m in

July. The data also continued to show the shift to non-store retail sales (online), which saw solid 1.3% m-o-m growth in July (up 10.1% y-o-y). Meanwhile, general merchandise sales, which includes department stores and superstores, were down -1.1% y-o-y in July.

Fig. 4. US: Headline retail sales flat in July, though June data revised up to 0.8% m-o-m

% change m-o-m



Source: Bloomberg

Fig. 5. US: Job openings remained close to a series high in June

Million jobs

Source: Bloomberg

We believe that the ongoing momentum in the labour market and rising home prices should continue to underpin solid consumer spending. Indeed, the Job Openings and Labour Turnover Survey (JOLTS) data for June continued to point to a healthy labour market. Job openings rose to 5.624 million in June, close to the all-time high reached in April 2016, and up from the May figure of 5.514 million, which was tweaked upwards slightly. Job openings have remained high this year, possibly pointing to a skills gap. This could lead to a gradual pick-up in wages as the economy moves further towards full employment.

Retail spending should be supported by still-healthy labour market and rising house prices

C. Emerging Market Economies

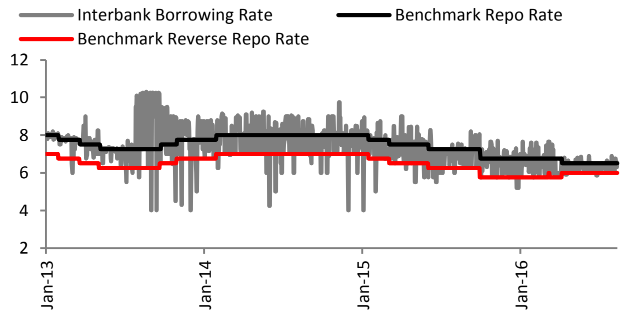
India: RBI keeps rates on hold but will continue liquidity injections

The RBI kept its benchmark policy rate at 6.5% at its August meeting, in line with market expectations. However, its overall monetary stance was slightly more accommodative. The bank's statements show a clear preference for further liquidity injections in the near term. We now see the possibility of a 25 bps rate cut in 1Q2017, despite short-term inflationary risks. July inflation breached the RBI's 6% y-o-y upper limit, and public sector salary hikes (beginning this month) should also feed into core inflation. That said, with the ongoing monsoon season being favourable, we expect pressure on food prices to abate from November onwards. This may bring inflation below the RBI's 5% target for March 2017, opening up the possibility of a rate cut in 1Q. However, we do not expect any rate cuts beyond 1Q2017 unless the economy slips into a sharp recession, which is not our scenario.

We expect rate cut in 1Q2017 but long pause thereafter

Fig. 6. India: RBI repo operations have capped volatility in interbank rates

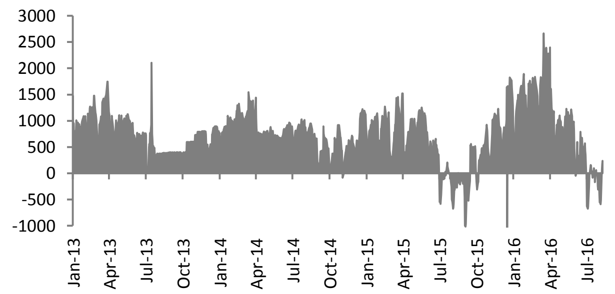
%



Source: Reserve Bank of India

Fig. 7. India: Repos across varying maturities have reduced banks' daily liquidity borrowings from RBI

INR billion, net daily borrowings



Source: Reserve Bank of India

Repo operations likely to prevent near-term liquidity squeeze

The RBI also reiterated its commitment to the liquidity management framework it had announced in April. The bank will continue to conduct repo purchases across different maturities to reduce net systemic liquidity to a more neutral level. So far this year, repo operations worth INR800 billion have managed to lower the liquidity deficit (Figs. 6-7). We believe that this policy will help keep interbank rates closer to the benchmark policy rate and facilitate better monetary transmission. Such a commitment will also allay concerns about a funding squeeze in 4Q2016 when USD26 billion worth of non-resident deposits mature. We also expect the RBI to shortly announce changes to the way banks set their consumer lending rates in an effort to improve the pass-through of its previous rate cuts to retail borrowers.

We don't expect significant policy change under new Governor

We expect little change to the RBI's monetary stance under a new Governor, expected to be announced by end-August. The medium-term inflation target of 4+/-2% pursued by the outgoing Governor Raghuram Rajan is now written into a law recently approved by parliament, making any substantial change to the policy stance by a new Governor difficult to achieve.

China: July macroeconomic data re-emphasise need for fiscal stimulus

Economic data slowed across board in July

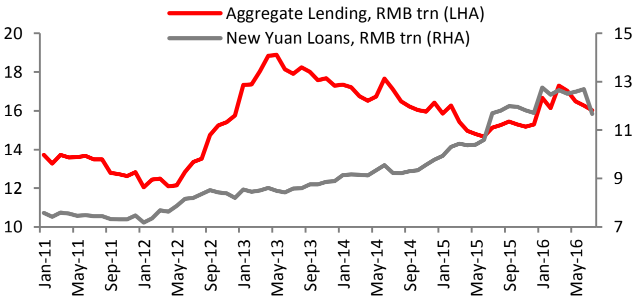
Macroeconomic data for China in July softened across the board (industrial activity, lending, fixed investment and import demand) with key indicators all showing a sharper deceleration than the market was expecting. In our view, Chinese economic growth will be increasingly dependent on fiscal spending, as clear signs of private sector recession have emerged. Much of the slowdown in July could be attributed to a moderation in the pace of government spending (0.3% y-o-y after 20.3% in June), though some of it was also driven by flood-related disruption in large parts of the country.

Private sector appears to be in recession, preferring deleveraging to investment

The data showed private sector activity and sentiment deteriorating severely in 2H2016. In particular, fixed asset investment growth slowed to 8.1% y-o-y in 7M2016 (consensus: 8.9%; previous: 9%), with private sector investment growth contracting for a second straight month. Aggregate loans slumped to CNY488 billion (June: 1,630; consensus: 1,000), as corporates deleveraged, citing sluggish external and domestic demand. Another alarming sign was the widening gap between M1 and M2 money supply. Though currency in circulation increased by 12.2% y-o-y in July (12.4% in June), M2 money supply, which includes its deployment by businesses and banks towards new investments and loans, rose by a more modest 10.2% y-o-y (11.8% in June). We believe this to be a strong signal reflecting the weak private sector demand outlook.

Fig. 8. China: Credit data in July deteriorated sharply as corporate borrowing shrank

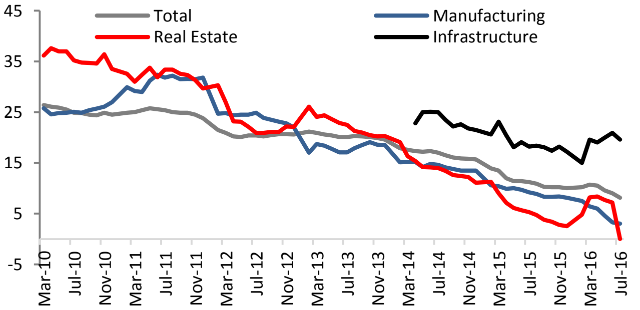
RMB trillion



Source: National Bureau of Statistics

Fig. 9. China: Fixed investment fell to record low as real estate capital expenditure softened dramatically

YTD, % change y-o-y



Source: National Bureau of Statistics

We expect public spending to be ramped up in September, and likely complemented by RRR cuts from PBoC

In such a situation, we believe that aggressive fiscal stimulus on infrastructure with a moderately accommodative monetary stance is necessary to prevent a sharp drop in China's GDP growth. Indeed, risks of a tighter fiscal stance on economic activity were visible in July. Furthermore, with property sector and manufacturing growth both likely to be adversely impacted by the tightening of regulations on shadow banking and housing ownership, public spending will have to fill the void. However, the government may prefer to wait until September to ramp up fiscal spending to double-digit levels, by when the one-off dampening effects of the recent floods on the economy fade. This may also be accompanied by a 50-100 bps cut in reserve ratios by the PBoC, should the loan off-take by the private sector continue to disappoint. We see downside risks to our 2016 growth forecast of 6.5% y-o-y.

II. Economic Calendar

Fig. 10. Date Time

Date Time	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	Non-Oil Exports, y-o-y	May	-18.4%	--
	Saudi Arabia	CPI, y-o-y	Jul	4.1%	--
	UAE	Dubai’s July Real Estate Sales, YTD y-o-y			
	UAE	Central Bank Foreign Assets	Jul	314.1B	--
	UAE	M2 Money Supply, m-o-m	Jul	-0.5%	--
	Bahrain	CPI, y-o-y	Jul	3.3%	--
	Qatar	CPI, y-o-y	Jul	2.5%	--
	Qatar	GDP Constant Prices, y-o-y	1Q	4%	--
	Oman	Nominal GDP YTD, y-o-y	1Q	-14.1%	--
Monday, 15 Aug					
03:50	Japan	GDP SA, q-o-q	2Q P	0.5%	0.2%
03:50	Japan	GDP Annualized SA, q-o-q	2Q P	1.9%	0.7%
03:50	Japan	GDP Deflator, y-o-y	2Q P	0.9%	0.7%
08:30	Japan	Industrial Production, m-o-m	Jun F	1.9%	--
08:30	Japan	Industrial Production, y-o-y	Jun F	-1.9%	--
16:30	US	Empire Manufacturing	Aug	0.6	2
Tuesday, 16 Aug					
00:00	US	Net Long-term TIC Flows	Jun	$41.1B	--
10:30	India	Wholesale Prices, y-o-y	Jul	1.6%	2.8%
12:30	UK	CPI, m-o-m	Jul	0.2%	-0.1%
12:30	UK	CPI, y-o-y	Jul	0.5%	0.5%
12:30	UK	CPI Core, y-o-y	Jul	1.4%	1.4%
13:00	Germany	ZEW Survey Current Situation	Aug	49.8	50.2
13:00	Germany	ZEW Survey Expectations	Aug	-6.8	2
16:30	US	Housing Starts ('000)	Jul	1189K	1180K
16:30	US	CPI, m-o-m	Jul	0.2%	0%
16:30	US	CPI Ex Food and Energy, m-o-m	Jul	0.2%	0.2%
17:15	US	Industrial Production, m-o-m	Jul	0.6%	0.3%
Wednesday, 17 Aug					
12:30	UK	Claimant Count Rate	Jul	2.2%	2.2%
12:30	UK	Jobless Claims Change	Jul	0.4K	9K
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Jun	2.3%	2.4%
12:30	UK	ILO Unemployment Rate 3m	Jun	4.9%	4.9%
15:00	US	MBA Mortgage Applications	12-Aug	7.1%	--
21:00	US	Fed's Bullard Speaks in St. Louis			
22:00	US	U.S. Fed Releases Minutes from July 26-27 FOMC Meeting			
Thursday, 18 Aug					
03:50	Japan	Trade Balance	Jul	¥692.8B	¥234.5B
12:30	UK	Retail Sales Ex Auto Fuel, m-o-m	Jul	-0.9%	0.3%
12:30	UK	Retail Sales Inc Auto Fuel, m-o-m	Jul	-0.9%	0.1%
13:00	Eurozone	CPI, y-o-y	Jul F	0.1%	0.2%
15:30	Eurozone	ECB account of the monetary policy meeting			
16:30	US	Initial Jobless Claims	13-Aug	266K	265K
16:30	US	Philadelphia Fed Business Outlook	Aug	-2.9	2
18:00	US	Leading Index	Jul	0.3%	0.3%
Friday, 19 Aug					
00:00	US	Fed's Williams Speaks in Anchorage			
08:30	Japan	All Industry Activity Index, m-o-m	Jun	-1%	0.9%

* UAE time
Source: Bloomberg

Fig. 11. Date Time

Date Time	Country	Event	Period	Prior	Consensus	Actual
MENA Data						
	UAE	Dubai Airport Cargo Volume, y-o-y	Jun	4.7%	--	3.8%
	UAE	GDP, y-o-y		3.1%		3.8%
	UAE	Dubai Economy Tracker SA	Jul	54.6	--	55.9
	Oman	CPI, y-o-y	Jul	1.5%	--	1.3%
	Egypt	Gross Official Reserves	Jul	17.6B	--	15.6B
	China	New Yuan Loans CNY	Jul	1380B	850B	437B
	China	Aggregate Financing CNY	Jul	1630B	1000B	488B
	China	Money Supply M2, y-o-y	Jul	11.8%	11%	10.2%
Monday 8 Aug						
	China	Trade Balance	Jul	$48.11B	$47.3B	$52.3B
	China	Exports, y-o-y	Jul	-4.8%	-3.5%	-4.4%
	China	Imports, y-o-y	Jul	-8.4%	-7%	-12.5%
03:50	Japan	BoJ Summary of Opinions at July.28-29 Meeting				
03:50	Japan	BoP Current Account Balance	Jun	¥1809.1B	¥1103.5B	¥974.4B
Tuesday 9 Aug						
03:50	Japan	Money Stock M2, y-o-y	Jul	3.5%	3.3%	3.3%
05:30	China	CPI, y-o-y	Jul	1.9%	1.8%	1.8%
09:30	India	RBI Repurchase Rate	9-Aug	6.5%	6.5%	6.5%
09:30	India	RBI Reverse Repo Rate	9-Aug	6%	6%	6%
12:30	UK	Industrial Production, m-o-m	Jun	-0.6%	0.1%	0.1%
12:30	UK	Manufacturing Production, m-o-m	Jun	-0.6%	-0.2%	-0.3%
18:00	US	Wholesale Inventories, m-o-m	Jun	0.2%	0%	0.3%
Wednesday 10 Aug						
	Egypt	CPI, y-o-y	Jul	14%	--	14%
	India	Exports, y-o-y	Jul	1.3%	--	-6.8
03:50	Japan	Machine Orders, m-o-m	Jun	-1.4%	3.3%	8.3%
03:50	Japan	PPI, y-o-y	Jul	-4.2%	-4%	-3.9%
08:30	Japan	Tertiary Industry Index, m-o-m	Jun	-1.2%	0.3%	0.8%
15:00	US	MBA Mortgage Applications	5-Aug	-3.5%	--	7.1%
Thursday 11 Aug						
16:30	US	Import Price Index, m-o-m	Jul	0.6%	-0.4%	0.1%
16:30	US	Initial Jobless Claims	6-Aug	267K	265K	266K
Friday 12 Aug						
06:00	China	Industrial Production, y-o-y	Jul	6.2%	6.2%	6%
06:00	China	Retail Sales, y-o-y	Jul	10.6%	10.5%	10.2%
06:00	China	Fixed Assets Ex Rural YTD, y-o-y	Jul	9.0%	8.9%	8.1%
10:00	Germany	GDP SA, q-o-q	2Q P	0.7%	0.2%	0.4%
13:00	Eurozone	Industrial Production SA, m-o-m	Jun	-1.2%	0.5%	0.6%
13:00	Eurozone	GDP SA, q-o-q	2Q P	0.3%	0.3%	0.3%
13:00	Eurozone	GDP SA, y-o-y	2Q P	1.6%	1.6%	1.6%
16:00	India	CPI, y-o-y	Jul	5.8%	5.9%	6.1%
16:00	India	Industrial Production, y-o-y	Jun	1.1%	1.5%	2.1%
16:30	US	Retail Sales Advance, m-o-m	Jul	0.8%	0.4%	0%
16:30	US	Retail Sales Control Group, m-o-m	Jul	0.5%	0.3%	0%
18:00	US	U. of Mich. Sentiment	Aug P	90	91.5	90.4

* UAE time

Source: Bloomberg

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