

## Global Data Watch: US remains in focus with Yellen's testimony

### ► **US: Yellen's Humphrey-Hawkins testimony and CPI data**

Fed Chair Janet Yellen's Humphrey-Hawkins testimony to Congress on 12-13 July will be closely examined for further indications of the monetary policy outlook. We expect Yellen to remain hawkish overall, in line with her post-June meeting communication, despite some emerging differences within the FOMC (see page 4). We believe that Yellen will likely point to further normalisation of monetary policy, including another rate hike and balance-sheet reduction, provided there are no unexpected economic or financial shocks. The ease at which financial markets have absorbed the two rate hikes this year likely supports this outlook. Moreover, global central banks seem to be increasingly concerned over financial stability and overheating markets. However, we do not expect Yellen to provide any new information on the possible timeframe of balance-sheet reduction. Other Fed members have speaking engagements this week, and it will be a heavy week for data, including CPI and retail spending for June, both due on 14 July. Core inflation is expected to remain weak at 1.7% y-o-y in June (the same as in May) given ongoing moderation in auto prices and the falling price of cell phone plans.

### ► **Asia: Chinese economic data to have softened marginally in June**

China's economic data for June are likely to exhibit some softening in momentum vis-à-vis 1Q2017. Specifically, aggregate credit growth is likely to come in at RMB1 trillion (consensus: 1.4; May: 1.06), largely reflecting the impact of tightening measures introduced by the PBoC in 2Q to curb off-balance sheet lending. However, some respite to economic activity from tighter monetary policy is likely from stronger exports, which are likely to pick up to 9% y-o-y (May: 8.7%). Meanwhile in India, we estimate that the June inflation should come in below 2% y-o-y (May: 2.2%), reflecting lower food prices and discounts given by retailers to de-stock ahead of the implementation of GST in July. We believe that this could make a strong case for a 25 bps rate cut by the RBI in its August MPC meeting.

### ► **Saudi Arabia: Signs of gradual pick-up in consumer spending; fuel reforms could be delayed**

SAMA data released this weekend point to a gradual pick-up in household expenditure (page 2) from March, with a further rise in May. We believe that private consumption is benefiting from a reversal of the public-sector wage and benefit cuts implemented in September 2016. Moreover, official comments indicate a possible delay in further energy price reforms, initially slated for mid-2017, to later in 2017 or early 2018. We believe that these factors will likely further support private consumption into 3Q2017 despite the introduction of fees on expatriates' dependants as of July. Nevertheless, overall economic non-oil activity remains weak, as reflected in private sector credit growth. Meanwhile, SAMA's net foreign assets saw a substantial moderation in the pace of monthly decline. Elsewhere, the Central Bank of Egypt (CBE) surprised markets with a further 200 bps hike in benchmark interest rates (page 3).

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#### Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	8

## I. Recent Events and Data Releases

### A. MENA Economies

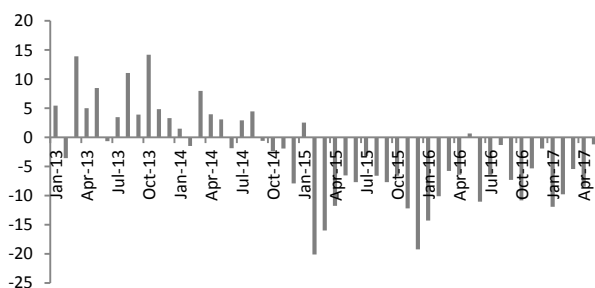
#### Saudi Arabia: Fall in net foreign assets moderates substantially in May; signs of gradual pick-up in consumer spending

Monetary data for May shows that the pace of the fall in SAMA's net foreign assets (NFAs) moderated substantially in May, dropping by just USD1.2 billion to USD491.7 billion. This is down from an average monthly drop of USD8.9 billion per month in 4M2017. Notably, the May contraction was the weakest since May 2016. We believe that most of the fall in 4M2017 reflected either strong foreign spending or investment, with signs of domestic spending remaining restrained. The May fall in NFAs was broadly in line with a USD1.6 billion drop in the government's reserves and deposits held with SAMA. Other areas also reflected overall weaker government spending in May, with a generally smaller fall in government deposits with commercial banks than earlier in the year.

*NFAs fell by USD1.2 billion in May vs an average of USD8.9 billion in 4M2017*

**Fig. 1. Saudi Arabia: Fall in SAMA's NFAs moderated substantially in May despite weaker oil prices**

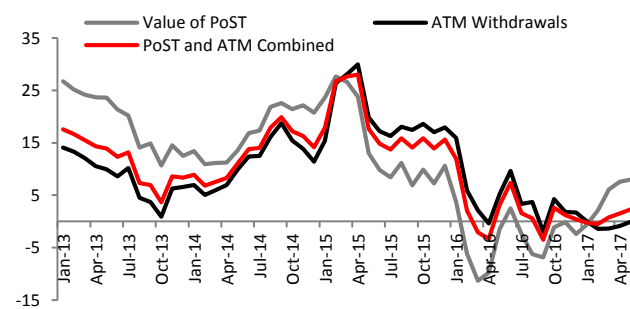
Monthly change in SAMA's NFAs, USD billion



Source: SAMA

**Fig. 2. Saudi Arabia: PoST and ATM data suggest a pick-up in private consumption in 2Q**

% change y-o-y, 3M moving average



Source: SAMA, ADCB calculations

Meanwhile, the proxy data continues to point to non-oil activity remaining lacklustre. This includes private sector credit growth rising by just 0.3% m-o-m in May. However, there are some signs of a moderate pick-up in private consumption activity. Combined ATM withdrawals and value of point of sales transactions have gradually risen since March (Fig. 1), and increased by 2.3% y-o-y (three-month moving average) in May. We believe that private consumption is benefiting from the reversal of the public-sector wage and benefit cuts implemented in September 2016. The reinstatement was announced in April and likely implemented in May. In addition, financial allowances to civil servants and military personnel were retroactively restored to mark the appointment of Prince Mohammed bin Salman to the post of crown prince in June. Moreover, official comments indicate a possible delay in further energy price reforms, initially slated for mid-2017, to later in 2017 or early 2018. We believe that these factors will likely further support private consumption into 3Q2017 despite the introduction of fees on expatriates' dependants in July. Expatriates account for c.30% of Saudi Arabia's population, and this figure will likely reduce following the introduction of the fee.

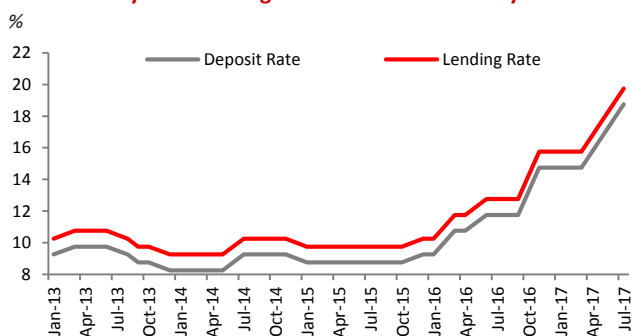
*Private consumption benefiting from reinstatement of public sector wages*

### Egypt: CBE raises benchmark rates by 200 bps at July meeting

In a surprise move, the CBE raised benchmark interest rates by 200 bps. This saw the overnight deposit rate move to 18.75% and the overnight lending rate to 19.75%. We and consensus had expected the CBE to remain on hold after it raised rates by a similar amount at its end-May meeting. The main reason for the July hike was ongoing concern over the inflation outlook, with the CBE noting that “the balance of risks... has tilted more strongly to the upside with recent economic and monetary developments”. We believe that this is largely linked to the fuel reforms announced at end-June, which saw prices increase by over 50%. Indeed, the central bank noted that its tighter monetary stance is aimed at containing second-round inflation. Looking ahead, we expect fiscal reforms to determine the rate policy, though we believe that Egypt is likely coming close to the end of its tightening cycle. We expect inflation rates to moderate from November 2017 as the sharp EGP devaluation effect falls out of the y-o-y data.

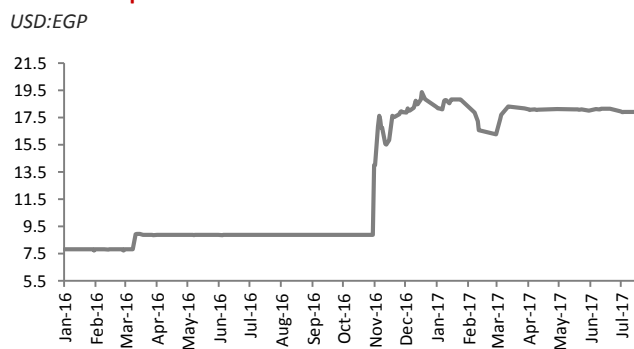
*Rate hike aims to contain secondary inflation*

**Fig. 3. Egypt: Benchmark interest rates raised by 200 bps at July CBE meeting after similar hike in May**



Source: Central Bank of Egypt

**Fig. 4. Egypt: Inflation to moderate from November 2017 as impact of devaluation falls out of the data**



Source: Bloomberg

### Qatar: Moody's lowers outlook to 'Negative' from 'Stable'

Moody's Investors Service lowered Qatar's rating to 'Negative' from 'Stable' last week; however, the rating was affirmed at Aa3. The central driver for the outlook change is the economic and financial risk arising from the ongoing impact of the blockade facing Qatar. Moody's noted that the likelihood of a prolonged period of uncertainty extending into 2018 has increased, which is a risk to Qatar's sovereign credit fundamentals. The rating affirmation at Aa3 takes into account a number of strengths embedded in Qatar's credit profile and reflects Moody's view that the sizable net asset position of the Qatari government provides significant support to the sovereign credit profile. According to Moody's, Qatar has no external refinancing needs until 1Q2018, when a USD2 billion sovereign sukuk issuance will mature.

*Rating maintained at Aa3*

## B. G4 Economies

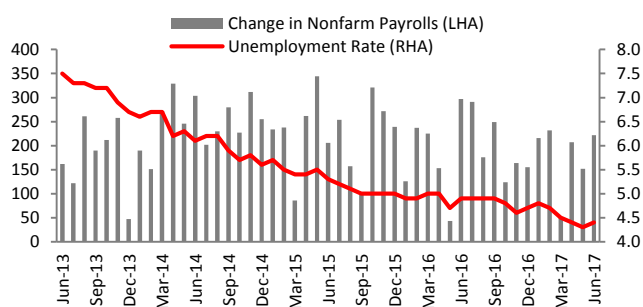
### US: June NFP data strong overall, but wage growth continues to disappoint

The June labour data was strong, with 222K jobs created, above the consensus expectation of 178K. Moreover, there was a 47K upward revision to the April and May job growth data. Consequently, job growth has averaged a healthy 180K in 1H2017, comfortably above the breakeven level of c.100K. The job creation was broad-based, though the service sectors generally saw stronger growth, including health and education (+45K in June) and leisure and hospitality (+36K). The unemployment rate rose to 4.4% in June from 4.3% in the previous month. However, this was mostly due to the rise in the participation rate to 62.8% from 62.7% in May. The key area of softness remains wage growth – up 0.2% m-o-m and 2.5% y-o-y in June. The consensus expectation was for wage growth of 0.3% m-o-m in June. Wage growth has moderated in 1H2017 to average 2.5% y-o-y, down from 2.7% in 2H2016. We believe that the ongoing improvement in the labour market is supportive of further monetary policy normalisation in 2017, though the soft wage growth provides space for a pause until September, when we expect the announcement of balance sheet disinvestment (see page 5).

*Jobs growth has averaged a healthy 180K in 1H2017*

**Fig. 5. US: Unemployment ticked up to 4.4% in June mostly due to a rise in the participation rate**

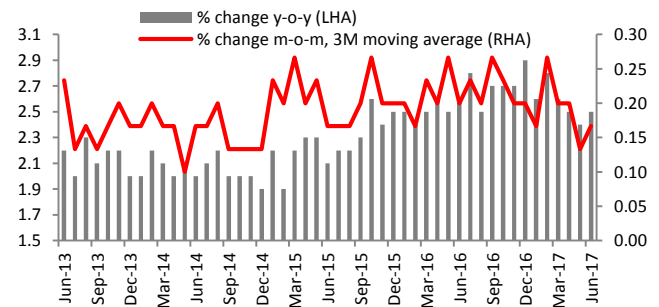
'000 (LHA); % (RHA)



Source: Bureau of Labor Statistics

**Fig. 6. US: Pace of wage growth moderating in 2017 from 2H2016 levels**

% change



Source: Bureau of Labor Statistics

### US: Varying views emerge within FOMC at June meeting

The markets were looking for greater clarity in two particular areas in the minutes of the June FOMC meeting: i) how Fed members are interpreting weaker inflation and ii) the timing of the Fed's asset run-off plans. On the inflation front, there was broad belief that the recent weakness in inflation was due to "idiosyncratic factors" and will thus prove to be transitory. However, the minutes also noted that "several participants expressed concern" that the recent softness in inflation might persist. Therefore, a few policymakers said that the inflation weakness made them less comfortable with the current implied path of rate hikes and that the economy should be allowed to overheat a little for wage growth and inflation to pick up. Meanwhile, there was also some difference on the timing of the announcement of the normalisation of the Fed's balance sheet, though there was consensus that the process should start this year. Several members wanted to announce a start to the process of reducing the Fed's asset run-off plans within a "couple of months", which could mean as early as the 25–26 July meeting. Others wanted to wait until later in the year for more data.

*Differences on inflation outlook and announcement of balance sheet normalisation within the FOMC*

Despite the signs of uncertainty within the Fed, our core scenario remains for the central bank to announce its balance sheet reduction plans at the September FOMC meeting, with implementation likely starting in October. Meanwhile, we see potential for a further rate hike in December, though this would require a pick-up in inflation from the current levels. We believe that the overall message from the Fed is that it is looking to normalise monetary policy gradually. Indeed, the minutes showed that that the FOMC questioned why financial conditions had not tightened despite recent rate rises, whilst a few said that equity prices were elevated. However, if inflationary pressures remain muted, we see risks to the likelihood of a third rate hike.

*No changes to our core scenario following release of minutes*

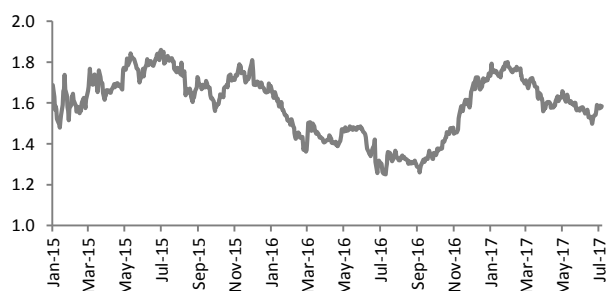
### Eurozone: ECB Governing Council continues to opt for accommodative monetary stance

The minutes of the ECB’s June monetary policy meeting released last week revealed a broad consensus among Governing Council (GC) members to keep the current accommodative monetary stance given the prevailing downside risks to inflation. Specifically, the comments tempered any expectations of a further reduction in the ECB’s QE program this year, which had arisen following President Mario Draghi’s speech in Portugal in late June. Indeed, the ECB continued to emphasise the need for a substantial degree of accommodation to allow inflation to converge towards its medium-term inflation target of 2%. Moreover, the GC members widely agreed that the inflation outlook had worsened in June compared to at the time of their last round of economic forecasts in March, and they agreed to revise down their inflation forecasts by 0.6pp cumulatively for 2017-19. That said, the comments on the growth outlook were more positive, with activity indicators recovering faster than the ECB had expected this year.

*ECB Governing Council sees further downside risks to inflation in medium term*

**Fig. 7. Eurozone: ECB likely to be cautious with policy normalisation as inflation expectations have dipped**

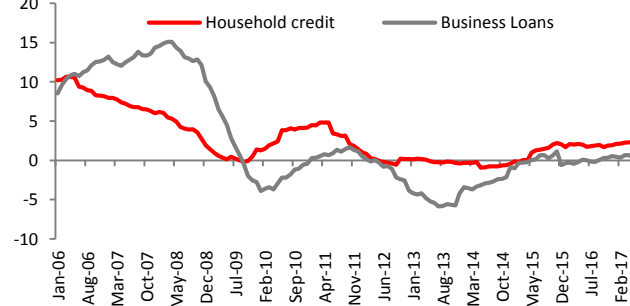
Market implied annual inflation expectations 5 years ahead



Source: Bloomberg

**Fig. 8. Eurozone: Weak credit growth is further limiting any upside pressure to inflation**

% change y-o-y



Source: Eurostat

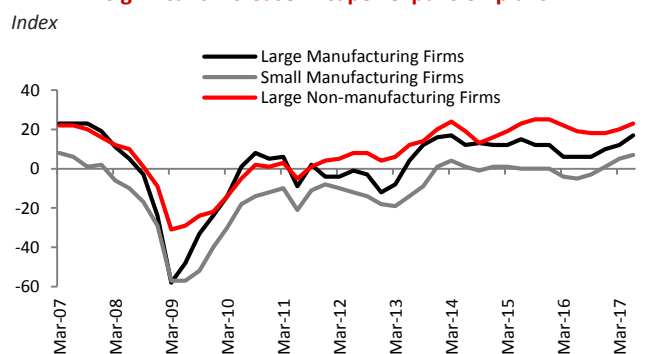
In our view, the ECB is likely to wait for further evidence of a sustained increase in inflation pressures before announcing a further reduction in its asset purchase program. We estimate that a gradual rise in headline inflation is likely only from 4Q2017 at the earliest. Accordingly, the ECB could again reduce its asset purchases from 1Q2018, after potentially announcing at the December 2017 meeting.

## Japan: Corporate sentiment at post-recession high as export and domestic outlook steadily improves

The Tankan business conditions index for large manufacturing industries rose to its highest level in 2Q2017 since 2007, coming in at 17 (consensus: 15, 1Q2017: 12). Encouragingly, the firming-up in corporate sentiment was broad-based, with corporate sentiment for non-manufacturers (23 after 20 in 1Q2017) and small businesses (7 after 5 in 1Q2017) also increasing significantly. Largely, this bullish corporate sentiment was driven by an upbeat outlook on external demand, which seems to have strengthened further in 2Q2017. Overall, firms expected a remarkably high 8% increase in capex over FY2017-18 (April 2017-March 2018) as the inventory run-down in export-oriented sectors was fairly steep in 1Q2017. In particular, firms in the machinery, shipbuilding and fabricated metal sectors expressed the strongest intention to increase their capex this fiscal year. Furthermore, the boost in small manufacturing business sentiment implies that the fiscal stimulus measures launched in 3Q2016 is gradually translating into domestic demand for services and construction. Furthermore, firms' USD:JPY exchange rate expectations remained virtually unchanged at 108.31 (1Q2017: 108.36) versus the prevailing level of 113. This indicates that export activity and firms' capex expansion plans could withstand a mild appreciation of the JPY in the near term.

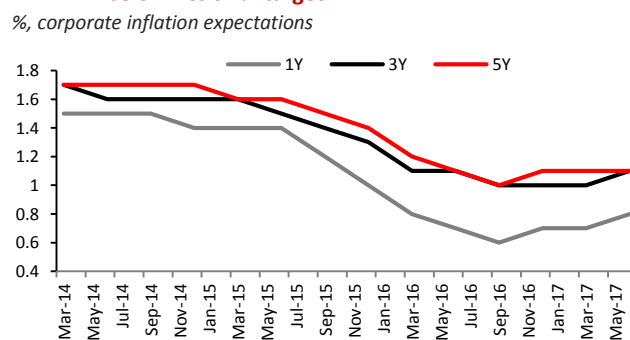
*Firms expect to expand capacity significantly to meet rising external demand*

**Fig. 9. Japan: Broad improvement in Tankan sentiment index; significant increase in capex expansion plans**



Source: Bank of Japan

**Fig. 10. Japan: Firm inflation expectations pick up but still well below BoJ's 2% target**



Source: Bank of Japan

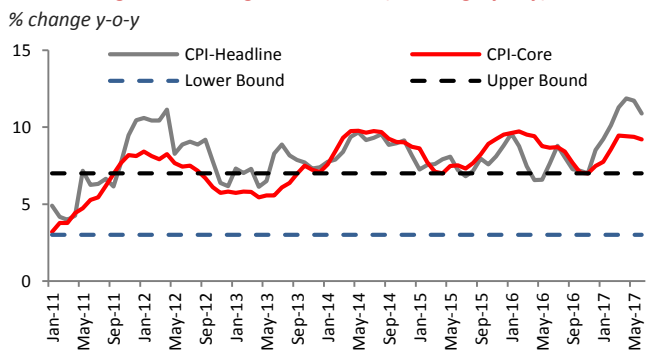
## C. Emerging Market Economies

### Turkey: Inflation decelerates significantly as government measures cool down food prices

Inflation softened to 10.9% y-o-y in June (consensus: 11.2%; May: 11.7%), coming in significantly below the market's expectations. Much of the slowdown was due to lower food prices, which subtracted 0.56pp from the headline figure. The easing in food inflation to 14.3% y-o-y (May: 16.9%) was largely due to the emergency measures taken by the government to curb inflation by cutting customs taxes on imported meat and increasing surveillance of profiteering measures by wholesalers. The dip in inflation was also aided by weaker energy prices, which subtracted c.0.15 pp from transport inflation. The impact of a more stable TRY in 2017 was also visible, particularly on core inflation, which eased to 9.2% (May: 9.4%).

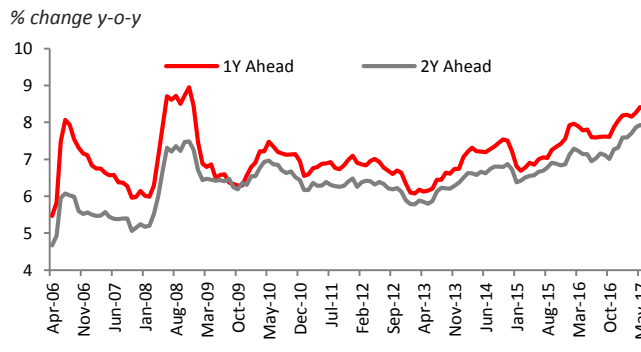
*Food and fuel prices ease, bringing down headline inflation by 0.7pp cumulatively*

**Fig. 11. Turkey: Inflation dipped in June; likely to rebound again from August onwards (% change y-o-y)**



Source: Turk Stat

**Fig. 12. Turkey: CBRT likely to remain on hold in July as inflation expectations remain sticky and high**



Source: Turk Stat

Looking ahead, we expect the recent dip in inflation over the past two months to be transient. Furthermore, 12-month ahead inflation expectations at 8.3% remain close to the record high of 8.4% in May this year. This is likely to continue feeding into services prices in the near term. We believe that headline inflation will likely ease back into single digits at end-2017. The CBRT is likely to stay on hold at its monetary policy meeting on 27 July given the relative stability in the TRY since its last policy meeting and signs of better transmission of past monetary tightening to commercial lending rates. Nevertheless, in our view, the central bank is likely to reiterate that inflation has not yet peaked and that it will continue to keep its monetary policy tight until inflation expectations display further improvement.

*Inflation expectations remain sticky and high; CBRT to remain on hold in July*

## II. Economic Calendar

Fig. 13. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	Kuwait	M2 Money Supply, y-o-y	May	0.9%	
	Qatar	CPI, y-o-y	Jun	0.1%	
	Oman	CPI, y-o-y	Jun	2%	
	Bahrain	GDP Constant Prices, y-o-y	1Q	1.1%	
	China	Money Supply M2, y-o-y	Jun	9.6%	9.5%
	China	New Yuan Loans CNY	Jun	1110B	1300B
	China	Aggregate Financing CNY	Jun	1063B	1400B
	China	Imports, y-o-y	Jun	14.8%	14%
	China	Exports, y-o-y	Jun	8.7%	9%
	China	Trade Balance	Jun	\$40.8B	\$43B
<b>Monday ,10 Jul</b>					
	Egypt	Urban CPI, y-o-y	Jun	29.7%	
	Egypt	CPI Core, y-o-y	Jun	30.6%	
3:50	Japan	Machine Orders, y-o-y	May	2.7%	7.6%
3:50	Japan	BoP Current Account Adjusted	May	¥1807.4B	¥1629.5B
5:30	China	CPI, y-o-y	Jun	1.5%	1.6%
5:30	China	PPI, y-o-y	Jun	5.5%	5.5%
8:15	UAE	Dubai Economy Tracker SA	Jun	55	
11:00	Turkey	Industrial Production, y-o-y	May	6.7%	5%
23:00	US	Consumer Credit	May	\$8.2B	\$13.5B
<b>Tuesday ,11 Jul</b>					
7:05	US	Fed's Williams Speaks in Sydney			
18:00	US	JOLTS Job Openings	May	6044	
12:00	US	Fed's Brainard Speaks in New York			
<b>Wednesday ,12 Jul</b>					
12:30	UK	Average Weekly Earnings, y-o-y	May	2.1%	1.8%
12:30	UK	Weekly Earnings, ex- Bonus, y-o-y	May	1.7%	1.9%
12:30	UK	ILO Unemployment Rate 3Mths	May	4.6%	4.6%
12:30	UK	Employment Change 3m/3m	May	109K	120K
13:00	Eurozone	Industrial Production, y-o-y	May	1.4%	3.5%
15:00	US	MBA Mortgage Applications	7-Jul	1.4%	
16:00	India	CPI, y-o-y	Jun	2.2%	
16:00	India	Industrial Production, y-o-y	May	3.1%	
16:30	US	Fed Releases Chair Yellen's testimony to Congress			
18:00	US	Yellen to appear before US House Panel			
22:00	US	U.S. Federal Reserve Releases Beige Book			
22:15	US	Fed's George Speaks in Denver on the Economic Outlook			
<b>Thursday, 13 Jul</b>					
16:30	US	Initial Jobless Claims	8-Jul	248K	
18:00	US	Fed Chair Yellen testifies before Senate Banking Panel			
19:30	US	Fed's Evans Speaks at Rocky Mountain Summit in Victor, Idaho			
<b>Friday, 14 Jul</b>					
16:30	US	CPI, m-o-m	Jun	-0.1%	0.1%
16:30	US	CPI, ex- Food and Energy, m-o-m	Jun	0.1%	0.2%
16:30	US	CPI, y-o-y	Jun	1.9%	1.7%
16:30	US	CPI, ex-Food and Energy, y-o-y	Jun	1.7%	1.7%
16:30	US	Retail Sales Advance, m-o-m	Jun	-0.3%	0.1%
16:30	US	Retail Sales Control Group	Jun	0%	0.3%
17:15	US	Industrial Production, m-o-m	Jun	0%	0.3%
17:15	US	Fed's Kaplan Speaks in Mexico City			
18:00	US	U. of Mich. Sentiment	Jul P	95.1	95

\* UAE time

Source: Bloomberg



Fig. 14. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>MENA data</b>						
	UAE	Dubai Airport Cargo Volumes, y-o-y	May	1.9%		2.6%
	Egypt	GDP Constant Prices, q-o-q	1Q	-1.7%		-4.7%
	Egypt	Gross Official Reserves	Jun	31.1B	--	31.3B
<b>Monday, 3 Jul</b>						
3:50	Japan	Tankan Large Manufacturing Index	2Q	12	15	17
3:50	Japan	Tankan Large Non-Manufacturing Index	2Q	20	23	23
9:00	India	Manufacturing PMI	Jun	51.6		50.9
11:00	Turkey	CPI, y-o-y	Jun	11.7%	11.2%	10.9%
12:30	US	Fed's Bullard speaks at BoE conference in London				
13:00	Eurozone	Unemployment Rate	May	9.3%	9.3%	9.3%
18:00	US	ISM Manufacturing PMI	Jun	54.9	55.3	57.8
<b>Tuesday, 4 Jul</b>						
8:15	UAE	UAE PMI	Jun	54.3	--	55.8
8:15	Saudi Arabia	Saudi Arabia PMI	Jun	55.3	--	54.3
8:15	Egypt	Egypt PMI	Jun	47.3	--	47.2
<b>Wednesday, 5 Jul</b>						
9:00	India	Services PMI	Jun	52.2		53.1
12:30	UK	Services PMI	Jun	53.8	53.5	53.4
13:00	Eurozone	Retail Sales, y-o-y	May	2.5%	2.3%	2.6
22:00	US	FOMC releases minutes of June 14-15 meeting				
<b>Thursday, 6 Jul</b>						
	Saudi Arabia	M2 Money Supply, y-o-y	May	4.2%	--	3.4%
	Egypt	Lending Rate		17.75%	--	19.75%
	Egypt	Deposit Rate		16.75%	16.75%	18.75%
15:00	US	MBA Mortgage Applications	30-Jun	-6.2%	--	1.4%
15:30	Eurozone	ECB publishes minutes of June MPC meeting				
16:15	US	ADP Employment Change	Jun	230K	188K	158K
16:30	US	Initial Jobless Claims	1-Jul	244K	243K	248K
16:30	US	Trade Balance	May	-\$47.6B	-\$46.3B	-\$46.5B
18:00	US	ISM Non-Manufacturing PMI	Jun	56.9	56.5	57.4
<b>Friday, 7 Jul</b>						
4:00	Japan	Labor Cash Earnings, y-o-y	May	0.5%	0.4%	0.7%
12:30	UK	Industrial Production, m-o-m	Jun	0.2%	0.4%	-0.1%
12:30	UK	Industrial Production, y-o-y	Jun	-0.8%	0.2%	-0.2%
16:30	US	Change in Non-farm Payrolls	Jun	152K	178K	222K
16:30	US	Unemployment Rate	Jun	4.3%	4.3%	4.4%
16:30	US	Average Hourly Earnings, y-o-y	Jun	2.4%	2.6%	2.4%
16:30	US	Labour Force Participation Rate	Jun	62.7%	62.7%	62.8%

\* UAE time

Source: Bloomberg

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