

The Week Ahead: FOMC minutes, US and UK data, and geopolitical developments key

► **US: FOMC's July minutes and retail sales in focus**

Geopolitical developments will continue to dominate markets this week; the heightened tension between the US and North Korea has resulted in a sharp rise in risk aversion. There is also a return to important fundamental data releases. In the US, July retail sales will highlight the momentum of personal consumption into 3Q. Consensus sees retail sales rebounding in July, after two consecutive months of m-o-m contraction in both headline and control group sales. Both these categories are expected to have increased by 0.4% m-o-m in July, with some support to the headline figure from auto sales. Meanwhile, the minutes from the FOMC's 25-26 July meeting will be released on 16 August. Markets will focus on the debate surrounding the inflation outlook, especially if there is any further discussion on transitory versus persistent factors. The post-meeting statement reflected a moderately more bearish tone on inflation, compared to the June meeting. We expect the minutes to highlight a low bar to start balance sheet normalisation, with broad consensus over the timing. The minutes will be scrutinised to see if there is any further clue on the announcement – the meeting statement noted that the normalisation process would start “relatively soon”. We expect the Fed to announce the reduction process at the September meeting with implementation starting in October.

► **Europe: UK inflation and labour data; ECB July minutes**

The upcoming week will also be important for UK releases with inflation, retail sales and jobs data due. Consensus expects core inflation to have ticked up in July to 2.5% y-o-y, after its surprise deceleration to 2.4% in June (May: 2.6%). Part of the June softening was due to volatile components that could see some reversals. However, we see the impact of the weaker GBP (following the mid-2016 Brexit vote) easing in the yearly data from July and in 2H2017. On the labour front, pay growth is predicted to remain weak, whilst the unemployment rate is forecast to remain steady at 4.5%. Meanwhile, the minutes of the ECB's 20 July meeting will be released on 17 August. Market focus will particularly be on any comments related to the strengthening of the EUR and its impact on the growth and inflation outlooks. Another area of interest will be on the expected changes to the ECB's QE programme, though we do not envisage any further details in these minutes. ECB President Mario Draghi indicated following the meeting that a decision would only be taken in the “autumn”, which could include the 7 September meeting.

► **Egypt: CBE to remain on hold despite further rise in inflation**

We expect the CBE to remain on hold at its 17 August meeting. This is despite headline CPI inflation accelerating to 33% in July, on the back of fiscal reforms (page 2). The CBE frontloaded rate hikes at its July meeting, raising benchmark interest rates by 200 bps, so as to reduce the impact of secondary inflation from the reforms.

Economics Team

Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

Monica.Malik@adcb.com

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I. Recent Events and Data Releases

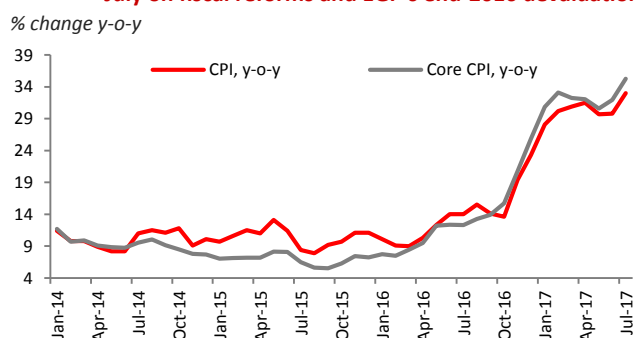
A. MENA Economies

Egypt: Headline inflation jumps to 33% y-o-y on fiscal reforms

Headline inflation accelerated to 33% in July from 29.8% in June, largely driven by the ongoing fiscal reforms. This was the highest rate of inflation since 1986. On a monthly basis, headline inflation strengthened to 3.2% m-o-m from 0.8% the previous month. Core inflation rose to 35.3% y-o-y in July (June: 31.9%), the highest level since the current series began in 2005. The fiscal reforms included the further liberalisation of fuel prices on 1 July, with market prices rising between 42-55% as a result. Moreover, the cost of cooking gas doubled. The VAT rate was also raised to 14% in July from 13% previously. Reflecting these reforms, transportation inflation saw a marked monthly rise of 10.7% m-o-m, pushing up the yearly rate to 38.8% y-o-y (June: 25.9%). The higher transportation costs and VAT were reflected in most categories, including food inflation accelerating to 42.3% y-o-y (2.5% m-o-m) in July, up from 40.3% y-o-y (0.6% m-o-m) in June. We see the potential for a further but more moderate rise in inflation in August, with increases in electricity, water and sewage tariffs.

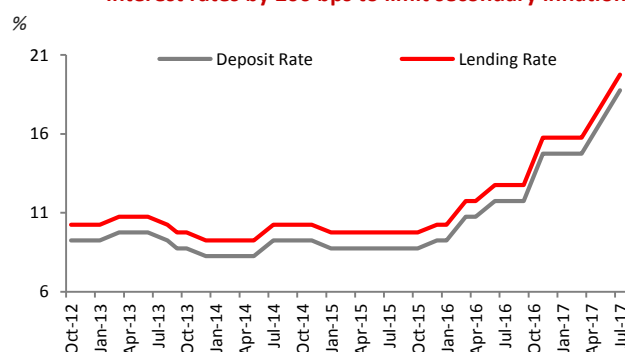
Fiscal reforms introduced in July include fuel price liberalisation and increase in VAT rate

Fig. 1. Egypt: Both headline and core inflation accelerate in July on fiscal reforms and EGP's end-2016 devaluation



Source: CAPMAS

Fig. 2. Egypt: CBE frontloads rate rise, lifting benchmark interest rates by 200 bps to limit secondary inflation



Source: Central Bank of Egypt

We expect inflation (core and headline) to start to decelerate in 4Q2017, particularly November as the end-2016 devaluation of the EGP is phased out of the comparative base. The impact of earlier rounds of tax and subsidy reforms should also start to fade in 4Q, such as the introduction of VAT, with a higher rate and broader base than the previous general sales tax. Underlying demand in the economy remains weak, in large part due to the much-needed fiscal reforms. As noted earlier, we expect the CBE to keep benchmark rates on hold at the MPC meeting on 17 August. The CBE frontloaded rate hikes at its July meeting when benchmark interest rates were raised by 200 bps. Please see our **Economic Research Weekly - Global Data Watch 10-14 July 2017**, published on 10 July.

Inflation expected to moderate from 4Q2017, particularly in November

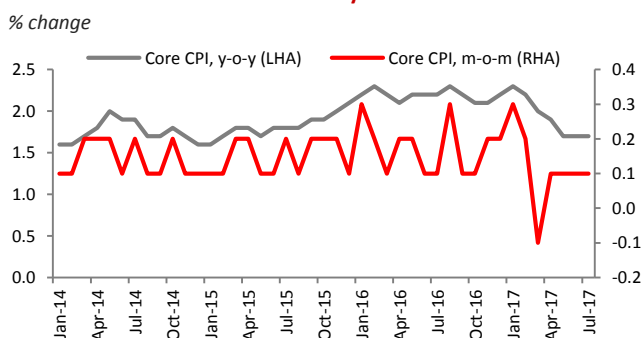
B. G4 Economies

US: July inflation remains subdued and below market expectations

Both headline and core inflation rose by 0.1% m-o-m in July, missing consensus expectations of a 0.2% increase and highlighting the muted price pressure. Yearly core inflation remained steady at 1.7% y-o-y. Part of the miss in core inflation was a m-o-m fall in the lodging away from home category and primary rent growth slowing to 0.2% m-o-m from 0.3% in the previous month. However, the lodging away from home component is volatile in the CPI basket and could provide support to core CPI when it normalises. Meanwhile, core goods inflation continues to be negatively affected by falling auto sales. However, there was some support from increases in the prices of clothing and prescription drugs. Despite the weak inflation data, comments from New York Fed President William Dudley reinforced the outlook for gradual policy-tightening by the Fed in a prepared speech last week. He highlighted that he expects inflation to rise over the coming months due to the weakening USD and further strengthening in the labour market. Dudley noted that "sluggish" productivity growth is behind persistently "modest" wage growth.

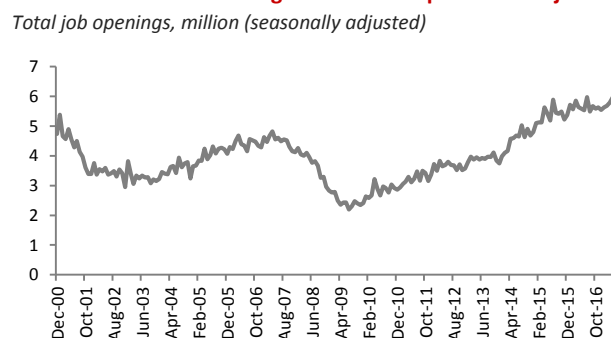
Some volatility in underlying data – could provide some support to inflation if it reverses

Fig. 3. US: Core inflation rises by 0.1% m-o-m for the fourth consecutive month in July



Source: Bureau of Labor Statistics

Fig. 4. US: Job openings jumped to 6.2 million in June; broad-based drivers of growth include professional jobs



Source: Bureau of Labour Statistics

Labour market: The JOLTs data for June continued to reflect the healthy state of the US labour market. Job openings jumped by 461K to 6.2 million in June – a record high for the data series (started in December 2000). This was the largest monthly increase since July 2015. There were strong increases in professional and business service openings, which is positive for the outlook for higher-paid jobs. Health and education also saw a rise in available jobs. The hiring rate remained steady at 3.7%, while the quit rate moderated marginally to 2.1% (May: from 2.2%). The steady hiring rate indicates that companies are having difficulties finding qualified workers, which should eventually lead to a pick-up in wage inflation. Nevertheless, the broad-based nature of openings and the healthy hiring rate should also continue to support job growth in 2H2017. JOLTs data is one of the job market metrics on Fed Chair Janet Yellen's dashboard. The ongoing health of the labour market is therefore a key factor in our continued call for a December rate hike.

Series high reached in June; openings in better paid professional jobs

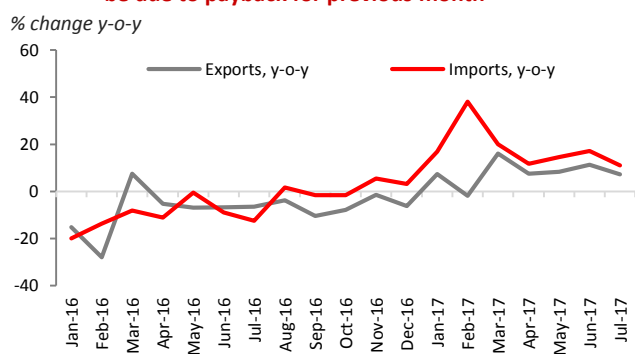
C. Emerging Market Economies

China: Both export and import growth weaken in July

Both export and import growth moderated in July, which resulted in an improvement in the trade balance for the fifth consecutive month. Export growth slowed to 7.2% y-o-y in USD terms from 11.3% the previous month and below market expectations of 11%. The deceleration could be some payback for the strong June growth, and the monthly data can be volatile. It will be important to see how the data develops in the coming months. The still-healthy global demand backdrop and gradual weakening of the CNY (in real effective terms) is positive for the outlook for exports. We expect export growth to remain solid and contribute positively to real GDP growth in 2H2017. However, there is likely to be some moderation in yearly growth in 2H2017 from the 1H levels as the base becomes less favourable (global trade started to pick up in 2H2016). Meanwhile, import growth slowed to 11% y-o-y in July from 17.2% in June. Much of the slowdown was due to weaker commodity prices. Again, we await further data to see if there is a further moderation in the coming months with the expected slowdown in domestic demand.

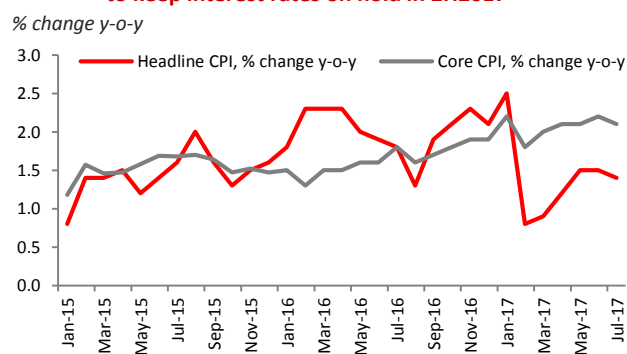
Trade data tend to be volatile, thus we await further data to see a trend

Fig. 5. China: Some deceleration in July export growth could be due to payback for previous month



Source: Customs General Administration

Fig. 6. China: Steady core inflation outlook should allow PBoC to keep interest rates on hold in 2H2017



Source: National Bureau of Statistics of China

Inflation: CPI eased in July to 1.4% y-o-y, marginally below consensus expectations and down from 1.5% the previous month. Food price deflation moderated with a rise in vegetable prices in July. However, this was compensated by a deceleration in core inflation to 2.1% from 2.2% in June. The slowdown in core CPI supports our view that the PBoC will continue to keep key benchmark interest rates on hold for the remainder of 2017. This is reinforced by the downside risks to real GDP growth after the frontloading of government expenditure in 1H2017 and the prospect of the Party Congress at the end of the year. The PBoC is therefore likely to continue to focus on reducing leverage in the economy and reducing financial risks. We expect core inflation to remain broadly steady in 2H2017 though expect a moderate rise in headline inflation as food inflation gradually normalises.

CPI decelerated to 2.1% y-o-y in July; outlook broadly stable

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jul	2%	--
	Saudi Arabia	CPI, y-o-y	Jul	-0.4%	--
	Qatar	CPI, y-o-y	Jul	0.8%	--
	China	New Yuan Loans, CNY	Jul	1540B	800B
	China	Aggregate Financing, CNY	Jul	1776.2B	1000B
	China	Foreign Direct Investment, CNY y-o-y	Jul	2.3%	--
	India	Exports, y-o-y	Jul	4.4%	--
	India	Imports, y-o-y	Jul	19%	--
Monday, 14 Aug					
3:50	Japan	GDP SA, q-o-q	2Q P	0.3%	0.6%
3:50	Japan	GDP Annualized SA, q-o-q	2Q P	1%	2.5%
3:50	Japan	GDP Private Consumption, q-o-q	2Q P	0.3%	0.5%
3:50	Japan	GDP Business Spending, q-o-q	2Q P	0.6%	1.2%
6:00	China	Retail Sales, y-o-y	Jul	11%	10.8%
6:00	China	Fixed Assets, ex-Rural, YTD y-o-y	Jul	8.6%	8.6%
6:00	China	Industrial Production, y-o-y	Jul	7.6%	7.1%
16:00	India	CPI, y-o-y	Jul	1.5%	2%
Tuesday, 15 Aug					
8:30	Japan	Industrial Production, m-o-m	Jun F	1.6%	--
12:30	UK	CPI, m-o-m	Jul	0%	0%
12:30	UK	CPI, y-o-y	Jul	2.6%	2.7%
12:30	UK	CPI Core, y-o-y	Jul	2.4%	2.5%
16:30	US	Retail Sales Advance, m-o-m	Jul	-0.2%	0.4%
16:30	US	Retail Sales, ex-Auto, m-o-m	Jul	-0.2%	0.3%
16:30	US	Retail Sales Control Group	Jul	-0.1%	0.4%
Wednesday, 16 Aug					
12:30	UK	Average Weekly, 3M/y-o-y	Jun	1.8%	1.8%
12:30	UK	ILO Unemployment Rate, 3Mths	Jun	4.5%	4.5%
13:00	Eurozone	GDP SA, q-o-q	2Q P	0.6%	0.6%
13:00	Eurozone	GDP SA, y-o-y	2Q P	2.1%	2.1%
16:30	US	Housing Starts	Jul	1215K	1220K
16:30	US	Housing Starts, m-o-m	Jul	8.3%	0.4%
22:00	US	FOMC Meeting Minutes	26-Jul	--	--
Thursday, 17 Aug					
3:50	Japan	Trade Balance	Jul	¥439.8B	¥353.6B
3:50	Japan	Exports, y-o-y	Jul	9.7%	13.4%
3:50	Japan	Imports, y-o-y	Jul	15.5%	17.3%
12:30	UK	Retail Sales, ex- Auto Fuel, m-o-m	Jul	0.9%	0.1%
12:30	UK	Retail Sales, ex-Auto Fuel, y-o-y	Jul	3%	1.2%
13:00	Eurozone	CPI, y-o-y	Jul F	1.3%	1.3%
13:00	Eurozone	CPI Core, y-o-y	Jul F	1.2%	1.2%
15:30	Eurozone	ECB Account of the Monetary Policy Meeting			
16:30	US	Initial Jobless Claims	12-Aug	244K	240K
17:15	US	Industrial Production, m-o-m	Jul	0.4%	0.3%
21:00	US	Fed's Kaplan Speaks in Lubbock, Texas			
	Egypt	Deposit Rate	17-Aug	18.75%	18.75%
	Egypt	Lending Rate	17-Aug	19.75%	19.75%
Friday, 18 Aug					
	US	U. of Mich. Sentiment	Aug P	93.4	94
	US	Fed's Kaplan Speaks in Dallas			
	Egypt	Egypt Sovereign Debt to be rated by Moody's			

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Data						
	Oman	CPI, y-o-y	Jul	0.87%	--	0.66%
Monday, 7 Aug						
10:00	Germany	Industrial Production SA, m-o-m	Jun	1.2%	0.2%	-1.1%
10:00	Germany	Industrial Production WDA, y-o-y	Jun	4.8%	3.7%	2.4
11:30	UK	Halifax House Price, 3mths/year	Jul	2.6%	2.1%	2.1%
11:30	UK	Halifax House Prices, m-o-m	Jul	-0.9%	0.3%	0.4%
	China	Foreign Reserves	Jul	\$3056.8B	\$3074.9B	\$3080.7B
Tuesday, 8 Aug						
3:50	Japan	BoP Current Account Balance	Jun	¥1653.9B	¥860.5B	¥934.6B
3:50	Japan	BoP Current Account Adjusted	Jun	¥1400.9B	¥1502.9B	¥1522.5B
3:50	Japan	Trade Balance BoP Basis	Jun	-¥115.1B	¥571.5B	¥518.5B
18:00	US	JOLTS Job Openings	Jun	5702	5750	6163
	China	Imports, y-o-y	Jul	17%	18%	11%
	China	Exports, y-o-y	Aug	11.3%	11%	7.2%
	China	Trade Balance	Jul	\$42.75B	\$45B	\$46.74B
	China	Trade Balance CNY	Jul	294.3B	293.6B	321.2B
Wednesday, 9 Aug						
5:30	China	CPI, y-o-y	Jul	1.5%	1.5%	1.4%
5:30	China	PPI, y-o-y	Jul	5.5%	5.6%	5.5%
8:15	UAE	Dubai Economy Tracker SA	Jul	56.5	--	56.3
10:00	Japan	Machine Tool Orders, y-o-y	Jul P	31.1%	--	26.3%
15:00	US	MBA Mortgage Applications	4-Aug	-2.8%	--	3%
Thursday, 10 Aug						
3:50	Japan	Machine Orders, m-o-m	Jun	-3.6%	3.6%	-1.9%
3:50	Japan	Machine Orders, y-o-y	Jun	0.6%	-1.1%	-5.2%
3:50	Japan	PPI, y-o-y	Jul	2.2%	2.3%	2.6%
12:30	UK	Industrial Production, m-o-m	Jun	0%	0.1%	0.5%
12:30	UK	Industrial Production, y-o-y	Jun	-0.2%	-0.1%	0.3%
12:30	UK	Manufacturing Production, m-o-m	Jun	-0.1%	0%	0%
12:30	UK	Manufacturing Production, y-o-y	Jun	0.3%	0.6%	0.6%
16:30	US	Initial Jobless Claims	5-Aug	241K	240K	244K
16:30	US	Continuing Claims	29-Jul	1967K	1960K	1951K
16:30	US	PPI Final Demand, m-o-m	Jul	0.1%	0.1%	-0.1%
16:30	US	PPI, ex-Food and Energy, m-o-m	Jul	0.1%	0.2%	-0.1%
16:30	US	PPI Final Demand, y-o-y	Jul	2%	2.2%	1.9%
18:00	US	Fed's Dudley to Hold Press Briefing				
	Egypt	Urban CPI, m-o-m	Jul	0.8%	--	3.2%
	Egypt	Urban CPI, y-o-y	Aug	29.8%	--	33%
	Egypt	CPI Core, y-o-y	Jul	31.95%	--	35.26%
Friday, 11 Aug						
16:00	India	Industrial Production, y-o-y	Jun	2.8%	0.1%	-0.1%
16:30	US	CPI, m-o-m	Jul	0.0%	0.2%	0.1%
16:30	US	CPI, ex-Food and Energy, m-o-m	Jul	0.1%	0.2%	0.1%
16:30	US	CPI, y-o-y	Jul	1.6%	1.8%	1.7%
16:30	US	CPI, ex-Food and Energy, y-o-y	Jul	1.7%	1.7%	1.7%

* UAE time

Source: Bloomberg

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