

## The Week Ahead: US inflation and Chinese July data in focus

### ► **US: Core inflation growth to have remained soft**

The upcoming week will be quieter, following last week's busy schedule of data releases and central bank meetings. The key focus will be on US inflation data for July, due on 11 August. Consensus forecasts that core inflation expanded at a still soft pace of 0.2% m-o-m, partly supported by favourable rounding, albeit up from 0.1% in the previous three months. On a yearly basis, core inflation should remain steady at 1.7% y-o-y. There is expected to be some gradual tick up in m-o-m goods inflation, due to the weakening of the USD. Rental inflation is also expected to rise moderately in July. However, any rise in core inflation will likely continue to be limited by falling auto prices. Headline inflation is envisaged to have accelerated in July on higher monthly gasoline prices, thereby pushing y-o-y inflation up to 1.8% in July from 1.6% in the previous month. We believe that the Fed is keen to progress with balance sheet normalisation, even if inflation continues to disappoint (as was the case between April and June). We see more downside risks to our forecast of a further 25 bps rate hike of the FFTR in December. Nevertheless, a steady inflation rate, moderately above trend growth, buoyant equity markets and a strong labour market – the current backdrop – should still allow the Fed to raise in December. July's NFP data was robust, showing ongoing tightening in the labour market (page 3).

### ► **China: Exports supported by strengthening global demand**

A number of economic releases are scheduled from China, which will reflect the momentum of the economy entering 2H2017, alongside highlighting the global demand backdrop. China's trade data is predicted to have remained robust in July, with exports supported by the healthy and building external demand. Markets expect that exports grew by 11% y-o-y in July, following a strong 11.3% in the previous month. Import growth is forecast to edge up to 18% y-o-y, boosted by broad-based growth drivers. Meanwhile, CPI should remain steady at 1.5% y-o-y in July, with weaker food price deflation being offset by softer non-food price inflation. We see the PBoC keeping interest rates on hold in 2H2017, given signs of slower credit growth and a benign inflation environment.

### ► **Qatar: Banking sector data for June reflects official support**

Monetary and trade data for June reflects the initial impact of the regional crisis on Qatar's economy (page 2). The central bank data shows official support helped counterbalance capital outflows. Stronger government and public sector deposits more than compensated for a fall in non-resident and private sector deposits in June, resulting in total banking sector deposits rising 1.1% m-o-m. Moreover, the QCB more than doubled its balances with local banks to USD24 billion (May: USD10.8 billion). Qatar remains in a strong position to support domestic funding requirements further, though we believe that access to foreign capital remains vital especially given the size of the domestic investment programme.

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## I. Recent Events and Data Releases

### A. MENA Economies

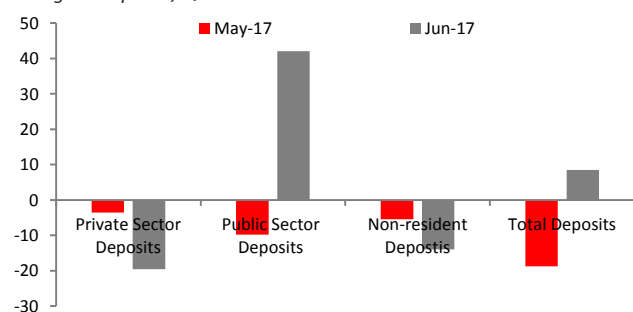
#### Qatar: Central bank FX reserves fall in June on support for banking sector

Recently released trade and central bank data reflects the initial impact of the regional dispute that started on 5 June. We have highlighted in our earlier research that we see the main channels of the dispute filtering into the economy being: i) capital flows; and ii) trade disruptions affecting the domestic investment programme. However, Qatar's FX reserves provide a substantial buffer, and we do not expect any systemic economic or financial shocks, especially given gas exports are continuing. Please see our note – **Qatar: Economic risks and supports**, published on 13 July 2017. The initial data is in line with this view.

*Data shows that Qatar can weather crisis*

**Fig. 1. Qatar: Total banking sector deposits rise in June on higher public sector deposits**

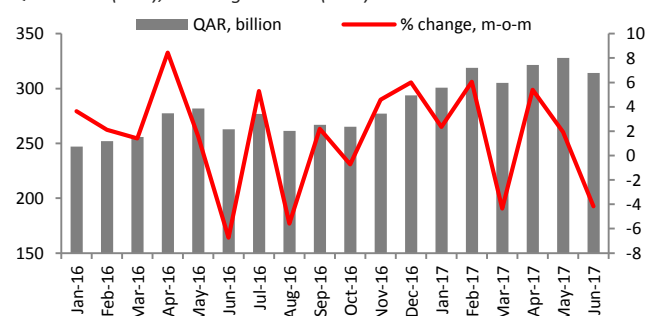
Change in deposits, QAR billion



Source: Qatar Central Bank, ADCB calculations

**Fig. 2. Public sector borrowing from banking sector also falls in June 2017, likely aimed at supporting liquidity**

QAR billion (LHA); % change m-o-m (RHA)



Source: Qatar Central Bank, ADCB calculations

Data from the Qatar Central Bank (QCB) for June shows that the outflows of external funding were replaced by government, public sector and QCB deposits. Non-resident deposits in the banking sector fell by 7.6% m-o-m in June (QAR14 billion or USD3.8 billion). Meanwhile, private sector deposits contracted by 5.2% m-o-m (by USD5.4 billion) with the heightened political uncertainty. However, stronger government and public sector deposits more than compensated for these drops, resulting in total banking sector deposits rising 1.1% m-o-m (June: 12.7% y-o-y vs May: 11.7% y-o-y). Government and public sector deposits combined rose 21% y-o-y (USD11.2 billion), whilst the QCB more than doubled its balances with local banks to USD24 billion (May: USD10.8 billion). The rise in government and public sector deposits was mostly in the form of foreign currency, likely reflecting stronger demand for the USD, and likely supported by the QIA. To reduce liquidity pressure, the government and public sector reduced borrowing from the commercial banking sector and Qatari banks repatriated deposits held overseas. Thus, net banking sector claims on the public sector fell sharply. Meanwhile, in line with the rise in the QCB's balance with commercial banks, the central bank's net international reserves fell by USD10.4 billion, largely due to a reduction in foreign security assets and, to a lesser degree, balances with foreign banks.

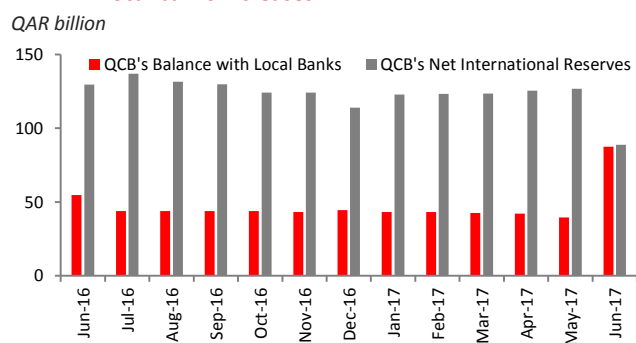
*System-wide deposits rise, with rise in public sector deposits counterbalancing fall in external and private sector*

We believe that the strong rise in government deposits and the QCB's balance with commercial banks (more than the June outflows) are aimed at: i) bolstering confidence;

*Signs of stability vital for access to foreign capital*

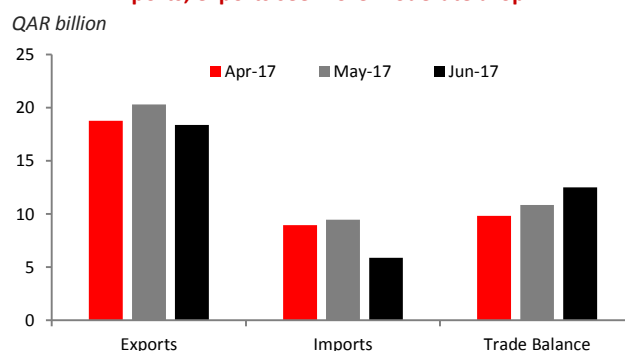
and ii) ensuring sufficient liquidity in the banking sector so as not to add to the economic pressures. We see the possibility of further non-residential deposit outflows as they mature; non-resident deposits still account for 22.1% of total deposits in June (May: 24.2%). Moreover, whilst Qatar is in a strong position to support domestic funding requirements further, we believe that access to foreign capital remains vital. This is especially so given the size of the funding requirements of the domestic investment programme and to preserve Qatar's liquid FX reserves. Signs of stability are vital if Qatar is to access foreign capital and limit some of the outflows.

**Fig. 3. Qatar: QCB's net FX reserves fall as QCB's balance with local banks increases**



Source: Central Bank of Qatar, ADCB calculations

**Fig. 4. Qatar: Trade balance rises in June with sharp fall in imports; exports see more moderate drop**



Source: Ministry of Development Planning Statistics

Meanwhile, the trade data for June shows a sharp fall in imports into Qatar due to the disruption in trade flows. Imports contracted by 40% y-o-y in June and were down 37.9% from May. We believe that the impact would have been particularly strong in June given the initial time needed to re-route imports. Thus, we see the potential for the contraction in imports to normalise, albeit at a higher cost and with longer time required. Importantly for Qatar, the data showed the country's continued ability to export LNG – its main FX earner. Total exports were up 5.4% y-o-y in June, albeit down 9.5% m-o-m. Exports of petroleum gases were up 15.8% y-o-y and only saw a limited monthly drop of 1.8% m-o-m. However, the export data shows a greater impact on petroleum and non-hydrocarbon exports.

*Sharp drop in June imports as trade routes had to be changed*

## B. G4 Economies

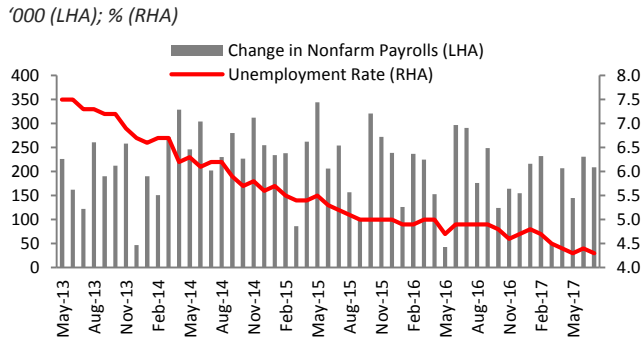
### US: July NFP data robust, reflecting healthy labour market

The July labour report was strong, beating market expectations in a number of areas. The data continues to show healthy momentum in the labour market, likely leaving the Fed comfortable enough to announce balance sheet normalisation at its September meeting (implementation expected to start in October). The US economy added 209K jobs last month with broad-based gains, above the consensus expectation of 180K. The six-month moving average jobs growth stood at a solid 179K, especially given the late stage of the economic cycle and the employment breakeven level of c. 100K. Notably the unemployment rate ticked back down to 4.3% (in line with consensus), despite the participation rate rising to 62.9% (June: 62.8%). Wage growth remains the weak point, though average hourly earnings rose by 0.3% m-o-m in July, up from 0.2% in June. That was the biggest rise in five months. On a yearly basis, wage growth remained steady at

*Wage growth remains weak link – though fears ease of further downside risk to wages and inflation*

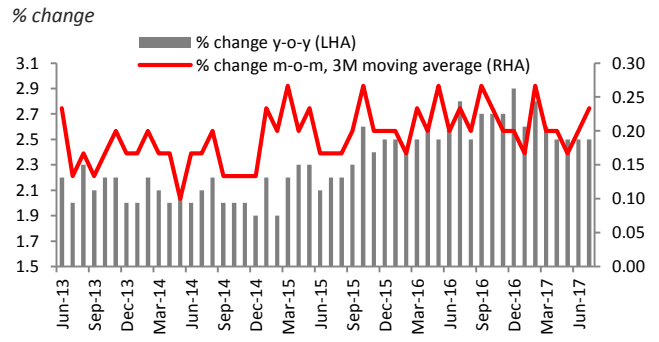
2.5% y-o-y for the fourth straight month. This should reduce the perceived downside risk of a further slowdown in wages and prices.

**Fig. 5. US: Economy added 209K jobs in July, with unemployment rate falling to 4.3%**



Source: Bureau of Labor Statistics

**Fig. 6. US: Yearly wage growth remains steady at 2.5% y-o-y for past four months**



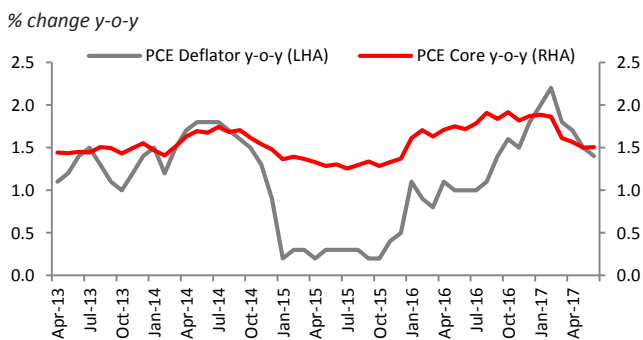
Source: Bureau of Labor Statistics

**US: June PCE inflation weak but stable**

There were no major surprises regarding the PCE data for June. The headline PCE deflator was flat m-o-m, in line with consensus expectations. The core PCE price index – the Fed’s preferred gauge of inflation – increased by 0.1% m-o-m, again in line with market predictions. On a yearly basis, core PCE remained steady at 1.5% y-o-y after an upward revision to the May print (initially 1.4% y-o-y). Whilst core PCE remains below the Fed’s target of 2%, the fact that it is showing signs of stabilisation is positive. Meanwhile, the weakness in energy prices in June meant that the gap between core and headline inflation in y-o-y terms was eliminated.

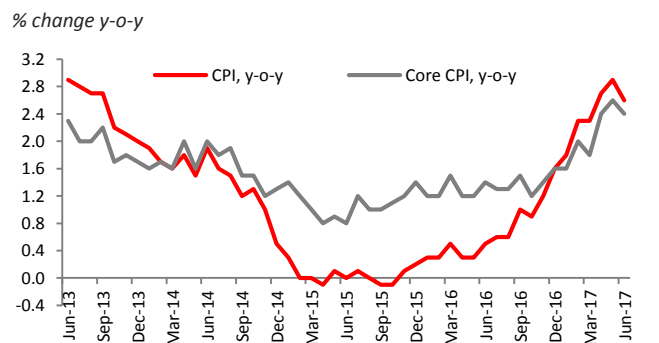
*Core PCE inflation remains steady at 0.1% m-o-m*

**Fig. 7. US: Weakness in energy prices virtually eliminates gap between headline and core PCE**



Source: Bureau of Economic Analysis

**Fig. 8. UK: Inflation to moderate in 2H2017 reducing pressure on BoE to raise rates**



Source: Office for National Statistics

### UK: BoE remains on hold, with no changes to voting pattern

The BoE kept monetary policy steady at its August meeting, including rates and its asset purchase target. Six out of eight MPC members voted to keep the base rate at 0.25% with no changes to the voting pattern from the July meeting. Notably, Chief Economist Andrew Haldane did not vote to raise rates, despite indicating in a recent speech that the decision had become a close one for him. There were relatively modest changes to the BoE’s inflation and growth forecasts in the inflation report, with the tone of the report remaining broadly steady. There were downward revisions to the 2017 and 2018 GDP growth forecasts to 1.7% (from 1.9% earlier) and 1.6% (from 1.7%), respectively. The weaker growth forecasts largely reflect uncertainty about the UK’s departure from the EU. The BoE also lowered its wage forecast, despite the fall in the unemployment rate. The inflation predictions were little changed and showed only a small increase for 2018 to 2.5%, from 2.4%. The BoE continued to highlight that “monetary policy could need to be tightened by a somewhat greater extent over the forecast period than the path implied by the yield curve”. However, we expect the BoE to remain on hold over the next 12 months given the uncertainties around the Brexit negotiations and the subdued economic outlook.

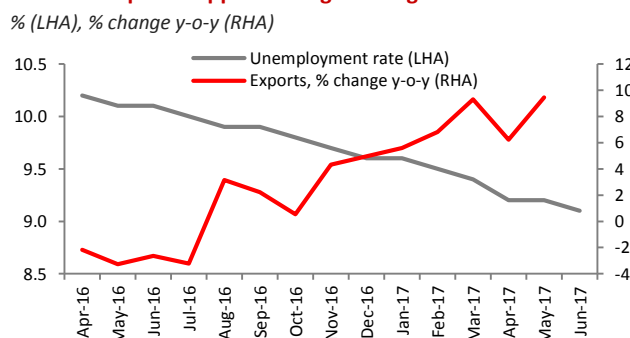
*Inflation report broadly unchanged from May – minor changes to forecast and tone*

### Eurozone: 2Q GDP growth remains solid but inflation still weak

The first print of the 2Q GDP data shows that the pace of expansion remains solid at 0.6% q-o-q. This was in line with consensus estimates and marginally up from the 0.5% q-o-q seen in 1Q. In yearly terms, the growth rate accelerated to 2.1% y-o-y in 2Q from 1.9% in Q1 2017. A breakdown of the data is not yet available but we continue to see private consumption as the main driver of GDP growth in 2Q, supported by a pick-up in investment. Notably, the labour data shows that Eurozone unemployment fell to 9.1% in June. This is the lowest rate since February 2009 and the level that ECB President Mario Draghi recently indicated was the natural unemployment rate. We believe that the ongoing build-up in GDP momentum and the fall in the unemployment rate will give the ECB confidence to scale back asset purchases further. These factors should eventually help to reduce the economic spare capacity. However, the still-tepid inflation will mean that any monetary normalisation is likely to remain gradual. Headline inflation remained steady at 1.3% y-o-y in July, though there was a slight tick up in core inflation to 1.2% y-o-y (June: 1.1%). This matched the recent high seen in core in April 2017. The June increase in core inflation was driven by goods prices, with services inflation down slightly.

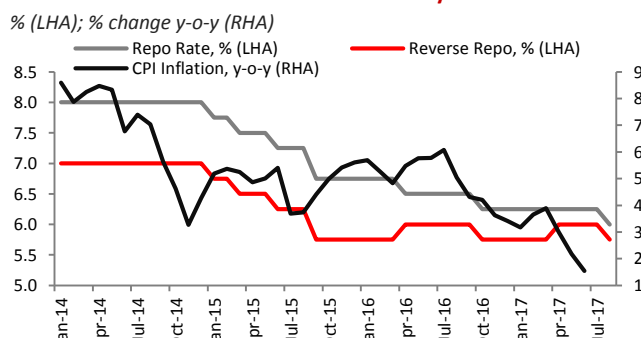
*Solid GDP growth should give ECB confidence to progress with further reductions of asset purchases*

**Fig. 9. Eurozone: Falling unemployment rate and pick-up in exports support stronger GDP growth**



Source: Eurostat

**Fig. 10. India: RBI cuts benchmark interest rates in August after inflation decelerates steadily**



Source: RBI, India Central Statistical Organisation

## C. Emerging Market Economies

### India: RBI cuts benchmark rates by 25 bps; statement neutral

The RBI cut its benchmark interest rates by 25 bps at its 1-2 August meeting, in line with the market's expectations and our own. This brought the repo rate to 6% and the reverse repo rate to 5.75%. The steady lower-than-expected inflation reading was central to the cut, with the RBI noting that core inflation has fallen significantly over the past three months. The smooth roll-out of the GST and favourable monsoon also supported the rate cut. The tone of the meeting statement was neutral, indicating a wait-and-see approach. The bank indicated that upside risks to inflation remain but are smaller than before. On the growth side, the RBI also acknowledged the weakness in the investment cycle. We still see potential for the bank to lower interest rates once more in 2017, likely at the December meeting after it sees the trajectory of inflation. We expect headline inflation to tick up from the current low levels due to a rise in food prices, but remain below the RBI's 4% inflation target. Core inflation should gradually moderate further in our view. We continue to see the need for lower real interest rates to boost investment activity. Our real GDP growth forecast for the current fiscal year is below that of the RBI's.

*We see need for reduction in real interest rates to boost investment activity*

## II. Economic Calendar

Fig. 11. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>GCC Data</b>					
	Qatar	CPI, y-o-y	Jul	0.8%	--
	Qatar	CPI, m-o-m	Jul	0.7%	--
	Oman	CPI, y-o-y	Jul	0.87%	--
	Oman	Budget Balance Month	Jun	-302.3M	--
<b>Monday, 7 Aug</b>					
10:00	Germany	Industrial Production SA, m-o-m	Jun	1.2%	0.2%
10:00	Germany	Industrial Production WDA, y-o-y	Jun	5.0%	2.7%
11:30	UK	Halifax House Price, 3mths/year	Jul	2.6%	2.1%
11:30	UK	Halifax House Prices, m-o-m	Jul	-1%	0.3%
19:45	US	Fed's Bullard Speaks on U.S. Economy in Nashville, TN			
21:25	US	Fed's Kashkari Speaks in Bloomington, MN			
	China	Foreign Reserves	Jul	\$3056.8B	\$3074.9B
<b>Tuesday, 8 Aug</b>					
3:50	Japan	BoP Current Account Balance	Jun	¥1653.9B	¥860.5B
3:50	Japan	Trade Balance BoP Basis	Jun	-¥115.1B	¥549B
18:00	US	JOLTS Job Openings	Jun	5666	5700
	China	Imports, y-o-y	Jul	17.2%	18%
	China	Exports, y-o-y	Aug	11.3%	11%
	China	Trade Balance	Jul	\$42.75B	\$45.2B
	China	Exports, CNY y-o-y	Jul	17.3%	15.0%
	China	Imports, CNY y-o-y	Jul	23.1%	22.8%
	China	Trade Balance CNY	Jul	294.3B	291.8B
<b>Wednesday, 9 Aug</b>					
5:30	China	CPI, y-o-y	Jul	1.5%	1.5%
5:30	China	PPI, y-o-y	Jul	5.5%	5.6%
8:15	UAE	Dubai Economy Tracker SA	Jul	56.5	--
15:00	US	MBA Mortgage Applications	4-Aug	-2.8%	--
<b>Thursday, 10 Aug</b>					
3:50	Japan	Machine Orders, m-o-m	Jun	-3.6%	3.7%
3:50	Japan	Machine Orders, y-o-y	Jun	0.6%	-1.1%
3:50	Japan	PPI, y-o-y	Jul	2.1%	2.4%
12:30	UK	Industrial Production, m-o-m	Jun	-0.1%	0.1%
12:30	UK	Industrial Production, y-o-y	Jun	-0.2%	-0.1%
12:30	UK	Manufacturing Production, m-o-m	Jun	-0.2%	0%
12:30	UK	Manufacturing Production, y-o-y	Jun	0.4%	0.6%
16:30	US	Initial Jobless Claims	5-Aug	240K	240K
16:30	US	Continuing Claims	29-Jul	1968K	1960K
16:30	US	PPI Final Demand, m-o-m	Jul	0.1%	0.1%
16:30	US	PPI Ex Food and Energy, m-o-m	Jul	0.1%	0.2%
16:30	US	PPI Final Demand, y-o-y	Jul	2%	2.2%
18:00	US	Fed's Dudley to Hold Press Briefing			
	Egypt	Urban CPI, y-o-y	Jul	29.8%	--
	Egypt	Urban CPI, m-o-m	Jul	0.8%	--
	Egypt	CPI Core, y-o-y	Jul	31.95%	--
<b>Friday, 11 Aug</b>					
16:00	India	Industrial Production, y-o-y	Jun	1.7%	--
16:30	US	CPI, m-o-m	Jul	0%	0.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	Jul	0.1%	0.2%
16:30	US	CPI, y-o-y	Jul	1.6%	1.8%
16:30	US	CPI, ex-Food and Energy, y-o-y	Jul	1.7%	1.7%

\* UAE time

Source: Bloomberg

Fig. 12. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>MENA Data</b>						
	Egypt	Net Reserves, USD	Jul	31.3B	--	36B
	Egypt	Gross Official Reserves, USD	Jul	31.3B	--	36B
<b>Monday, 31 Jul</b>						
3:50	Japan	Industrial Production, m-o-m	Jun P	-3.6%	1.5%	1.6%
3:50	Japan	Industrial Production, y-o-y	Jun P	6.5%	4.8%	4.9%
13:00	Eurozone	Unemployment Rate	Jun	9.2%	9.2%	9.1%
13:00	Eurozone	CPI Estimate, y-o-y	Jul	1.3%	1.3%	1.3%
13:00	Eurozone	CPI Core, y-o-y	Jul A	1.1%	1.1%	1.2%
18:00	US	Pending Home Sales, m-o-m	Jun	-0.7%	1%	1.5%
<b>Tuesday, 1 Aug</b>						
5:45	China	Caixin China PMI Mfg	Jul	50.4	50.4	51.5%
9:00	India	Nikkei India PMI Mfg	Jul	50.9	--	47.9
13:00	Eurozone	GDP SA, q-o-q	2Q A	0.5%	0.6%	0.6%
13:00	Eurozone	GDP SA, y-o-y	2Q A	1.9%	2.1%	2.1%
16:30	US	Personal Income	Jun	0.3%	0.4%	0%
16:30	US	Personal Spending	Jun	0.2%	0.1%	0.1%
16:30	US	Real Personal Spending	Jun	0.2%	0.1%	0%
16:30	US	PCE Deflator, m-o-m	Jun	0%	0%	0%
16:30	US	PCE Deflator, y-o-y	Jun	1.5%	1.3%	1.4%
16:30	US	PCE Core, m-o-m	Jun	0.1%	0.1%	0.1%
16:30	US	PCE Core, y-o-y	Jun	1.5%	1.4%	1.5%
18:00	US	ISM Manufacturing	Jul	57.8	56.5	56.3
<b>Wednesday, 2 Aug</b>						
13:00	India	RBI Repurchase Rate	2-Aug	6.25%	6%	6%
13:00	India	RBI Reverse Repo Rate	2-Aug	6%	5.75%	5.75%
13:00	India	RBI Cash Reserve Ratio	2-Aug	4%	4%	4%
15:00	US	MBA Mortgage Applications	28-Jul	0.4%	--	-2.8
16:15	US	ADP Employment Change	Jul	191K	190K	178K
<b>Thursday, 3 Aug</b>						
8:15	UAE	Emirates NBD UAE PMI	Jul	55.8	--	56
8:15	Saudi Arabia	Emirates NBD Saudi Arabia PMI	Jul	54.3	--	55.7
8:15	Egypt	Emirates NBD Egypt PMI	Jul	47.2	--	48.6
13:00	Eurozone	Retail Sales, m-o-m	Jun	0.4%	0%	0.5%
13:00	Eurozone	Retail Sales, y-o-y	Jun	2.4%	2.5%	3.1%
15:00	UK	Bank of England Bank Rate	3-Aug	0.25%	0.25%	0.25%
15:00	UK	BOE Asset Purchase Target	Aug	435B	435B	435B
16:30	US	Initial Jobless Claims	29-Jul	245K	243K	240K
18:00	US	ISM Non-Manf. Composite	Jul	57.4	56.9	53.9
18:00	US	Factory Orders	Jun	-0.3%	3%	3%
18:00	US	Factory Orders, ex-Trans	Jun	-0.1%	--	-0.2%
<b>Friday, 4 Aug</b>						
16:30	US	Change in Nonfarm Payrolls	Jul	231K	180K	209K
16:30	US	Two-Month Payroll Net Revision	Jul	47K	--	2K
16:30	US	Change in Private Payrolls	Jul	194K	180K	205K
16:30	US	Unemployment Rate	Jul	4.4%	4.3%	4.3%
16:30	US	Average Hourly Earnings, m-o-m	Jul	0.2%	0.3%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Jul	2.5%	2.4%	2.5%
16:30	US	Labor Force Participation Rate	Jul	62.8%	--	62.9%
16:30	US	Trade Balance	Jun	-\$46.4B	-\$44.5B	-\$43.6B

\* UAE time

Source: Bloomberg



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