The Week Ahead: Jackson Hole symposium and G-7 summit take centre stage

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Global: Sentiment weak amid rising recession concerns

Fears of a global recession have heightened and are dominating market sentiment amid a deteriorating global growth backdrop, elevated trade tensions between the US and China, concerns over an Argentine default, and the Hong Kong protests. These developments have been accompanied by worsening economic data releases, including a 2Q GDP growth contraction in Germany (page 3) and the UK, and China's weakening industrial and retail growth momentum (page 4). Investors' concerns about the precariousness of the global economy have boosted demand for safe haven assets, including bonds, the USD and gold. The US and UK yield curves (2y-10y) inverted last week – the first time since the global financial crisis – accentuating fears of recession. The risk-off market environment and weakening global demand have kept the Brent crude price under downward pressure, currently at USD59.3 p/b. Looking ahead, the G-7 Summit on 24-26 August to be attended by US President Donald Trump and European leaders will be critical in shaping the policy outlook for trade and Brexit developments.

US: Jackson Hole economic symposium and July FOMC minutes

Fed Chair Jerome Powell's speech at the Jackson Hole economic symposium on 23 August will be critical in shaping market expectations regarding interest rates ahead of the next FOMC meeting on 18-19 September. We expect Powell to highlight increasing downside risks to the global growth outlook and the need for further easing. However, we do not expect Powell to make an aggressive shift away from his mid-cycle adjustment stance adopted in the July policy meeting, at this point. The July FOMC meeting minutes are due on 21 August, though are a bit outdated as the meeting happened before the re-escalation of trade tensions in early August and the brief inversion of the 2y-10y yield curve last week. Nevertheless, we will be looking for a detailed rationale behind the FOMC's adoption of a mid-cycle monetary policy adjustment and the degree of support among members for such a stance.

Egypt: CBE likely to cut rates by 100 bps

We and consensus now expect the CBE to lower its benchmark interest rates by 100 bps at its 22 August meeting, with the lending rate reduced to 15.75%. This follows the recent rate cuts by key global and EM central banks, the outlook for further global monetary easing and a softening in domestic inflation. We had previously expected the CBE to resume its easing cycle in September. Headline inflation slowed to 8.7% y-o-y in July (June: 9.4%), its weakest level since August 2015, despite increases in fuel and electricity prices. The weaker pace of the subsidy reforms in mid-2019 versus 2018 is contributing to the annual disinflation, alongside the strengthening of the EGP. Inflation over the last two months has been back in the CBE's target range of 9% (±3%) for 4Q2020, while core inflation slowed to 5.9% y-o-y in July (June: 6.4%). We see potential for a further 100-200 bps of cuts in 2019, with EGP treasury yields remaining sufficiently attractive to support capital inflows. Notably, domestic fuel prices will be subject to a review in September 2019.

I. Recent Events and Data Releases

A. G4 Economies

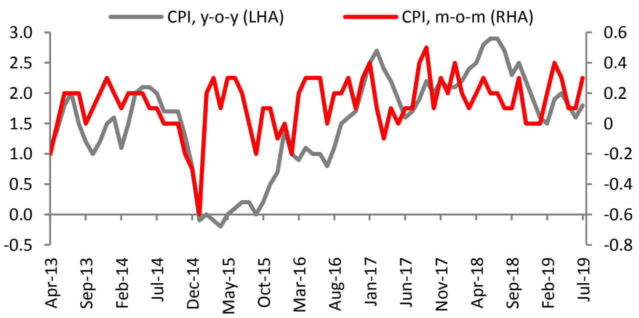
US: CPI inflation strengthens in July, driven by transitory factors

Transitory factors behind pick-up in CPI inflation in July

Both headline and core CPI inflation surprised to the upside in July on a y-o-y basis after remaining relatively subdued for most of 1H2019. Headline inflation accelerated to 1.8% y-o-y, from 1.6% in June (consensus: 1.7%), while core inflation picked up to 2.2% from 2.1% (consensus: 2.1%). Notably, this is the first time since January 2019 that the annual headline and core prints have come in above the consensus estimates. On a monthly basis, headline inflation strengthened due to a sharp rebound in energy prices following their contraction in June. Core CPI rose by 0.3% m-o-m in July, the same as in June, with strong increases in used car prices, apparel prices, and the lodging away from home sub-segments. This pick-up in core inflation probably emanated from transitory factors affecting components such as used car prices, air fares and apparel prices, and should moderate in the coming months. However, these factors are likely to have less of an impact on July's PCE inflation than on CPI given the differences in weighting and composition. Indeed, the consensus estimates core PCE inflation (due 30 August) to have remained steady at 0.2% m-o-m in July, keeping the annual rate also unchanged at 1.6%.

Fig. 1. US: Headline inflation picks up on both monthly and annual basis in July

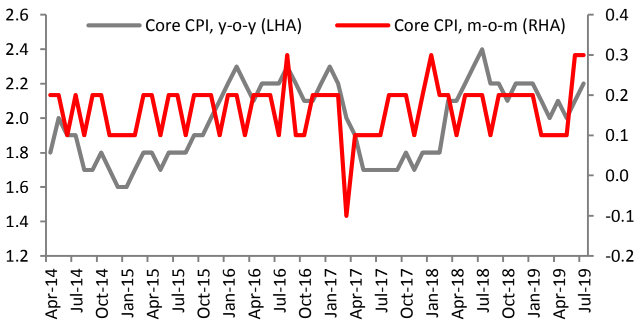
% change



Source: Bureau of Labor statistics

Fig. 2. US: Monthly core inflation steady at 0.3% in July, taking annual print to 2.2% from 2.1% in June

% change



Source: Bureau of Labor statistics

No clear evidence of trade tariffs imposed on Chinese imports feeding into CPI inflation, as yet

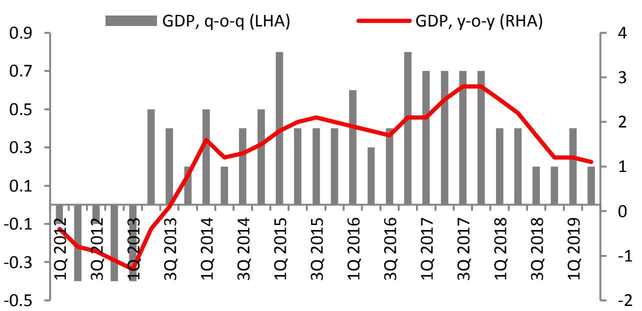
Despite the pick-up in CPI inflation in July, there was no clear evidence that the increase in trade tariffs, to 25% from 10%, on Chinese goods worth USD200 billion (effective from 10 May) has had any significant impact on inflation. Separately, the United States Trade Representative (USTR) last week announced that the proposed 10% tariff on an additional USD300 billion of Chinese imports will be divided into two lists (4A and 4B). Goods under List 4A will be subject to tariffs effective from 1 September, as previously announced by President Trump, though the duty on products listed under 4B will be delayed until 15 December. Products listed under 4B include consumer goods such as cell phones, laptop computers, video games, certain toys, computer monitors, and some items of footwear and clothing. The delay of tariffs on some key consumer goods until 15 December is also likely to limit the upside pressure on inflation in the coming months.

Retail Sales: Headline retail sales growth strengthened to 0.7% m-o-m in July, beating both the consensus and June estimate of 0.3%. The acceleration was largely due to a solid acceleration in online sales and restaurant spending. The pick-up in online sales in July was due to a boost from Amazon Prime Day promotions. Retail 'control group' sales, which feed into the personal consumption component of the GDP report, also accelerated to 1.0% m-o-m in July, from 0.7% in June. It remains to be seen how US consumers will respond in the coming months to the rising global growth concerns and US-China trade tensions.

Online sales growth is key driver of retail activity in July

Fig. 3. Eurozone: 2Q2019 GDP growth reaffirmed at 0.2% q-o-q in second estimate

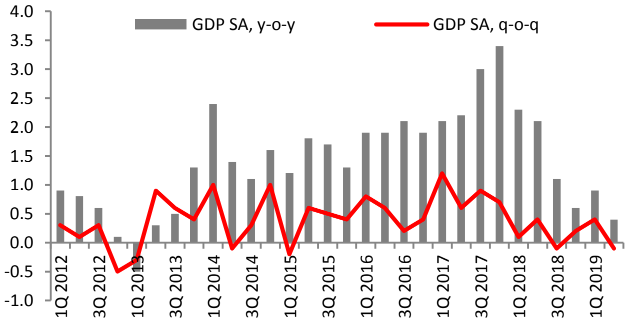
% change



Source: Eurostat

Fig. 4. Germany: Real GDP growth contracts by 0.1% q-o-q in 2Q2019, down from 0.4% growth in 1Q

% change



Source: German Federal Statistical Office

Eurozone: Real GDP growth slows to 0.2% in 2Q

Eurozone GDP growth was reaffirmed at 0.2% q-o-q in 2Q2019 in the second estimate, down from 0.4% in 1Q. On a y-o-y basis, GDP grew by 1.1% in 2Q, the slowest pace of expansion since 2013. The breakdown into components is not yet available, though there are indications that headline growth was mainly driven by domestic demand, with both consumption and investment still expanding, albeit probably at a slower pace than in 1Q. However, net exports and inventories likely contributed negatively to 2Q GDP growth. On a country basis, German GDP growth contracted by 0.1% q-o-q in 2Q, following a 0.4% expansion in 1Q, while growth slowed in France, Italy and Spain. On the supply side, high-frequency data continued to show weak manufacturing activity as the key factor behind the economic slowdown. The heightened US-China trade tensions and their negative impact on global growth, as well as the increasing probability of a hard Brexit, continue to pose downside risks to the Eurozone's economic outlook going into 2H2019. Given the increasing growth concerns and muted inflation outlook, we believe the ECB is likely to announce a number of policy measures at its September meeting, including a 10 bps deposit rate cut and tiered interest rates for reserves.

German GDP growth contracts to 0.1% q-o-q in 2Q, from 0.4% growth in 1Q

B. Emerging Market Economies

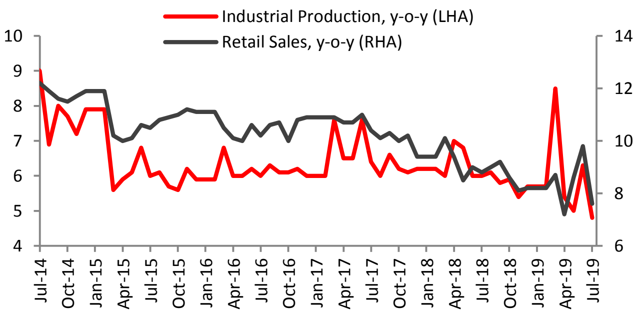
China: Broad-based slowdown in economic activity in July

July activity data surprises on downside, with IP and retail sales growth decelerating

China's high-frequency data for July showed that economic momentum softened further amid heightened trade tensions with the US and increasing external headwinds. Chinese industrial output growth decelerated to 4.8% y-o-y in July (June: 6.3%) – the slowest growth rate since February 2002 – likely reflecting the weak global demand for manufacturing and capital goods. The breakdown into components showed that automobile production contracted in July, while general equipment and computers, communications & other electronic production slowed markedly. On the domestic consumption side, retail sales growth slowed to a three-month low of 7.6% y-o-y in July. The July deceleration was due to: i) a fall in auto sales; and ii) lower spending on home appliances and furniture. The broad-based slowdown in activity and spending puts renewed downward pressure on the economic growth outlook, which will likely result in GDP growth weakening further in 2H after decelerating to 6.2% y-o-y in 2Q from 6.6% in 4Q2018.

Fig. 5. China: Industrial output growth softens to 4.8% y-o-y in July – the slowest expansion since February 2002

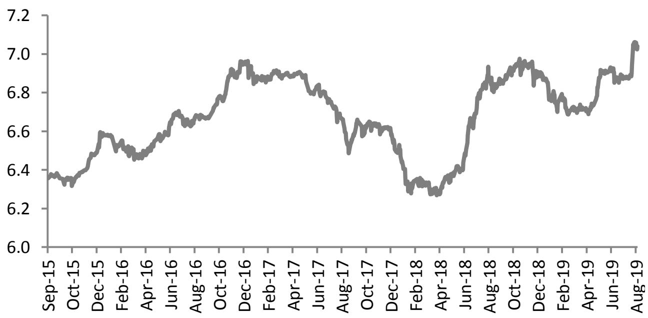
% change y-o-y



Source: National Bureau of Statistics

Fig. 6. China: CNY weakens sharply against USD in early August, breaking psychologically key 7.0 level

USD:CNY



Source: Bloomberg

We see scope for both fiscal and monetary easing in near term if economic growth slows further

Following the data releases, China's National Bureau of Statistics highlighted that the economy is facing increasing downward pressure and that the government should stick to its current stable macro policy and flexible micro policy. If the economic momentum weakens further, we believe the Chinese government is likely to announce more proactive fiscal policies to stimulate domestic demand. Moreover, we also see scope for additional monetary easing in the near term, with the PBoC likely cutting benchmark rates to boost lending to the targeted sectors.

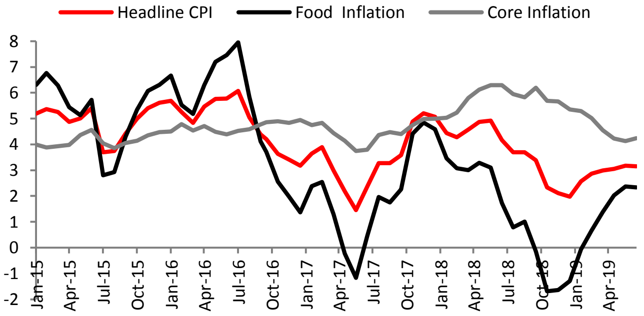
India: Steady inflation to support further RBI rate cuts in near term

Core inflation ticks up to 4.2% y-o-y in July from 4.1% in June

CPI inflation remained unchanged at 3.2% y-o-y in July, the same as in June, but came in slightly higher than the consensus estimate of 3.1%. There were some reversals in recent trends, with i) core inflation rising after eight months of deceleration, and ii) a tick down in food inflation after it increased in 1H. Food inflation softened marginally to 2.3% y-o-y in July (June: 2.4%), driven partly by the favourable base, though seasonal factors continued to boost perishable goods prices on a sequential basis. The excessive rain in some parts of the country and the consequent damage to crops pose upside risks to food inflation (fruit and vegetable) in the coming months, in our view. Meanwhile, core inflation (excl. food, tobacco and fuel) inched up to 4.2% y-o-y in July from 4.1% in June. The rise in core inflation largely reflects the central government's decision to increase the tax on petrol and diesel by an additional INR2 per litre in the full-year budget presented in July.

Fig. 7. India: Core inflation inches up marginally to 4.2% y-o-y in July, from 4.1% in June

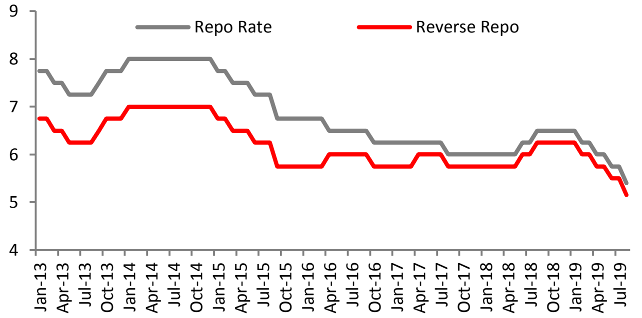
% change y-o-y



Source: India Central Statistical Organisation

Fig. 8. India: RBI lowers benchmark rate by 35 bps at its August meeting; we expect another 40 bp cut in 2019

%



Source: RBI

We estimate CPI inflation to average 3.7% in FY2020

Looking ahead, we expect headline inflation to strengthen marginally from August, led by higher food prices, and partly reflecting the low base in 2H2018. We forecast headline inflation to average 3.7% in FY2020 (April 2019 – March 2020), higher than an estimated 3.2% in 1H. However, we do not believe this relatively contained projected rise in inflation in 2H will have any major impact on the RBI's accommodative monetary policy stance, as the MPC's focus has been on boosting the economic growth momentum, while inflation remains broadly under control. Citing these factors, the RBI reduced its repo rate by an unconventional 35 bps at its 7 August meeting, with an accommodative monetary policy stance. We expect the RBI to continue its monetary easing cycle, with an additional 40 bps of cuts to the benchmark rate by end-2019, taking the repo rate to 5%.

II. Economic Calendar

Fig. 9. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Central Bank Foreign Assets	Jul	364.3B	
	UAE	M2 Money Supply, m-o-m	Jul	2.2%	
	UAE	CPI, y-o-y	Jul	-1.5%	
	Saudi Arabia	CPI, y-o-y	Jul	-1.4%	
	Saudi Arabia	Non-Oil Exports, y-o-y	Jun	-19.9%	
	Kuwait	CPI, y-o-y	Jul	1.1%	
	Kuwait	Annual GDP Current, y-o-y	2018	9.7%	
	Bahrain	CPI, y-o-y	Jul	0.2%	
	Oman	Oil Output, y-o-y Month	Jul	-0.3%	
	Egypt	Trade Balance	May	-3875.0M	
Monday, 19 August					
3:50	Japan	Trade Balance	Jul	¥589.6B	-¥194.5B
3:50	Japan	Exports, y-o-y	Jul	-6.6%	-2.3%
3:50	Japan	Imports, y-o-y	Jul	-5.2%	-2.3%
12:00	Eurozone	ECB Current Account SA	Jun	29.7B	
13:00	Eurozone	CPI Core, y-o-y	Jul F	0.9%	0.9%
13:00	Eurozone	CPI, y-o-y	Jul F	1.3%	1.1%
Tuesday, 20 August					
	Japan	Convenience Store Sales, y-o-y	Jul	0.0%	
Wednesday, 21 August					
2:00	US	Fed's Quarles Discusses Community Development			
9:30	Japan	Nationwide Department Sales, y-o-y	Jul	-0.9%	
12:30	UK	PSNB, ex-Banking Groups	Jul	7.2B	-2.7B
15:00	US	MBA Mortgage Applications	16-Aug	21.7%	
18:00	US	Existing Home Sales	Jul	5.27M	5.39M
22:00	US	FOMC Meeting Minutes	31-Jul		
Thursday, 22 August					
4:30	Japan	Japan PMI Manufacturing	Aug P	49.4	
8:30	Japan	All Industry Activity Index, m-o-m	Jun	0.3%	-0.8%
10:00	Japan	Machine Tool Orders, y-o-y	Jul F	-33.0%	
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Aug P	46.5	46.2
12:00	Eurozone	Markit Eurozone Composite PMI	Aug P	51.5	51.2
15:30	Eurozone	ECB Publishes Account of Policy Meeting			
16:30	US	Initial Jobless Claims	17-Aug	220K	216K
17:45	US	Markit US Manufacturing PMI	Aug P	50.4	50.5
17:45	US	Markit US Services PMI	Aug P	53.0	52.8
17:45	US	Markit US Composite PMI	Aug P	52.6	
18:00	US	Leading Index	Jul	-0.3%	0.2%
18:00	Eurozone	Consumer Confidence	Aug A	-6.6	-7.0
	Egypt	Lending Rate	22-Aug	16.75%	
	Egypt	Deposit Rate	22-Aug	15.75%	14.75%
Friday, 23 August					
3:30	Japan	National CPI, y-o-y	Jul	0.7%	0.6%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Jul	0.6%	0.6%
18:00	US	Annual Federal Reserve Policy Symposium in Jackson Hole			
19:00	US	Fed Chair Powell Speaks at Jackson Hole			
18:00	US	New Home Sales	Jul	646K	645K

* UAE time
Source: Bloomberg

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