

## The Week Ahead: ECB and BoJ expected to be on hold; important global data week

### ► Eurozone: ECB expected to be on hold with wait-and-see stance

We and the consensus expect the ECB to maintain a steady policy at its 16 July meeting after it expanded its pandemic emergency purchase programme (PEPP) by EUR600 billion to a total of EUR1,350 billion at its June meeting. As of 3 July, the ECB has purchased only EUR365.7 billion of the total PEPP programme, indicating that the central bank has enough fire power to accelerate the pace of purchases to help support the economy if necessary. Amidst this backdrop, we expect the ECB to keep its asset purchase programme target steady at least until end-2020. However, we still expect some adjustments to the composition of bond purchases in coming months, with the possibility of the ECB starting to buy 'fallen angel' bonds (where the rating is downgraded to junk status from investment grade due to COVID-19). Board Member Fabio Panetta recently highlighted the possibility of the ECB buying 'fallen angels' if necessary, but stated that the Governing Council had not discussed it yet. As such, the market's focus will be on President Christine Lagarde's post-meeting press conference to gauge whether any discussion or decision was made regarding the purchase of 'fallen angels' at this meeting.

### ► Japan: BoJ likely to revise down its GDP projections for FY2020

The BOJ is also widely expected to keep its monetary policy steady at its 14-15 July meeting. The key focus of this meeting will be on the BoJ's latest economic projections. We expect the BOJ to revise its real GDP forecast down further to a median contraction of c.5.0% for FY2020 from its earlier range estimate of -3.0-5.0% in April. BoJ Governor Haruhiko Kuroda last week highlighted that the Japanese economy will remain in a severe state for the time being, but that he expects some improvement once the COVID-19 impact subsides. He also reiterated that the BoJ would not hesitate to add monetary easing if necessary. We expect the policy statement and post-meeting conference to offer similar dovish views on the economy.

### ► Global: US retail sales and China 2Q GDP data in focus

The upcoming week is an important one for data, with a number of key releases from the US (retail sales and CPI inflation), UK (inflation and labour market conditions), China (2Q GDP) and India (inflation). Consensus forecasts US retail sales activity to have expanded for the second consecutive month by 5.0% m-o-m in June after rising by a solid 17.7% in May. However, the tightening or re-imposing of restrictions in some US states at end-June after a surge in COVID-19 cases may negatively affect household spending going forward. Looking ahead, the US administration's difficulty in controlling new infections remains a key downside risk to the 3Q economic outlook. Meanwhile in China, 2Q GDP and June activity data are expected to show a further economic recovery. Consensus expects 2Q GDP growth to rebound to +2.2% y-o-y after contracting by 6.8% in 1Q, likely driven by net exports and infrastructure investment. However, 2Q GDP growth is likely to be well below the pre-COVID-19 level of c.6.0%. Some of the improvement in net exports will be due to weaker import levels (y-o-y), reflecting softer demand.

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## I. Recent Events and Data Releases

### A. MENA Economies

#### UAE: Dubai announces third fiscal support package

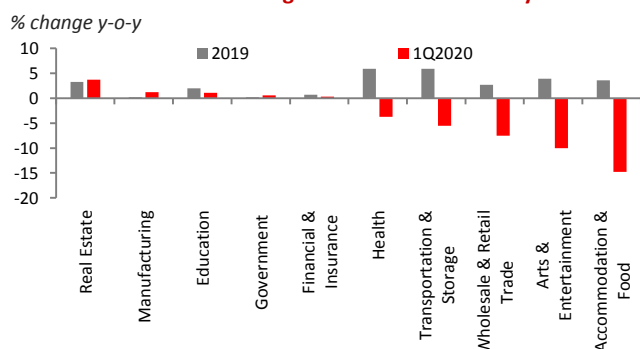
Dubai announced a new package of support measures over the weekend to help the economy cope with the effects of COVID-19. The package is the third announced by Dubai and is equivalent to AED1.5 billion (USD408 million). All three packages combined are worth AED6.3 billion, which is equivalent to c.1.5% of 2019 GDP. We believe most of the measures are aimed at reducing pressure on corporates and the cost of doing business. The measures include the cancellation of some government and customs fines, tax reimbursements (hotels and restaurants), financial guarantee refunds and accelerated payments (construction sector), and the suspension of licencing renewal fees (private schools). Thus, the package targets both some of the largest sectors of the economy and those most impacted by the global pandemic. The latest initiative will refund hotels and restaurants 50.0% of the 7.0% municipality fees charged on sales until December 2020. Regarding the international trade sector, fines for some customs cases will be reduced by 80.0%.

*Measures aim at reducing pressure on corporates and the cost of doing business*

We believe that the additional support is positive and highlights the proactive stance of the government in announcing new measures. This also builds on initiatives implemented at country-wide level, most notably by the Central Bank of the UAE. However, given the overall size of the fiscal support packages and the severe impact of COVID-19 on Dubai's economy, we believe that their overall impact will be relatively modest. This is also given signs of tighter fiscal policy in Dubai, including a pullback in capital expenditure. For more details, please see our note – **UAE Economic Update: Growth recovery outlook as economy reopens**, published on 11 June 2020. Given the externally facing nature of Dubai's economy, we believe that a strengthening of global activity and a meaningful return of international travel will be essential. Recently published data showed that Dubai's economy contracted by 3.5% y-o-y in 1Q2020, which poses downside risks to our UAE GDP growth forecasts. For more details, please see our note – **UAE Economic Update: Dubai's economy contracts by 3.5% y-o-y in 1Q2020 amid COVID-19 impact**, published on 2 July 2020. Notably, S&P estimates a 11.0% contraction in real GDP growth in 2020.

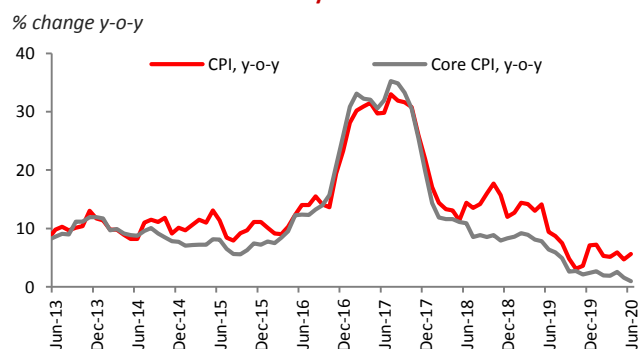
*Latest package highlights proactive stance of government; external recovery vital*

**Fig. 1. UAE: Dubai GDP contracts by 3.5% y-o-y in 1Q, with lockdown affecting services sector severely**



Source: Dubai Statistics Center, ADCB calculations

**Fig. 2. Egypt: Headline inflation accelerates while core CPI decelerates to multi-year low in June**



Source: CAPMAS, ADCB calculations

## Egypt: Annual inflation rises in June, but underlying trend benign

Headline CPI accelerated to 5.6% y-o-y in June, from 4.7% in the previous month. However, this annual strengthening was largely due to base effects, with ongoing signs of weak underlying inflation. Moreover, headline inflation remains below the CBE's year-end inflation target of 9.0% ( $\pm 3$  pp). A key factor behind the higher annual June inflation rate was the pickup in food inflation to a broadly flat level year-on-year, after it contracted 0.7% y-o-y in May, which was largely due to the altered timing of Ramadan. The benign inflationary trend is reflected in headline prices rising by just 0.1% m-o-m in June, whilst core prices fell by 0.3%. We expect a further pickup in headline inflation in yearly terms in the coming months, albeit again driven by the base and with underlying pressures remaining subdued. We expect soft domestic demand due to the COVID-19 pandemic and a limited weakening in the EGP. We believe that the softening economic outlook and still high real interest rates provide space for monetary easing. However, with the CBE likely to remain focused on ensuring capital inflows and stability of the EGP, we see benchmark interest rates remaining steady for the remainder of the year.

*We expect benchmark interest rates to remain steady, despite subdued inflationary pressures*

## B. G4 Economies

### UK: Additional fiscal stimulus announced

UK Chancellor Rishi Sunak announced additional fiscal stimulus worth up to GBP30 billion during his summer economic update to the House of Commons on 8 July. The announced new spending measures include: i) a job retention bonus plan (GBP9 billion), ii) a VAT rate reduction to 5% (from 20.0%) for the next six months on food, accommodation and attractions, iii) an infrastructure package (GBP5.6 billion), and iv) a temporary stamp duty cut (worth GBP3.8 billion). The announced fiscal loosening measures account for c.1.5% of GDP for FY2020-21 and should be helpful in improving labour market conditions and the economic recovery from COVID-19. We believe there will be further fiscal loosening measuring in the autumn, with a focus possibly on personal tax cuts. However, no revenue increasing measures were announced during the economic update, indicating that public borrowing will increase significantly to cover the fiscal deficit. Moreover, retrenching public services spending may prove difficult to unwind given the expectations for a subdued economic recovery, leading to a more persistent period of elevated borrowing. However, we do not expect the increased public spending to put significant upward pressure on the inflation outlook given the ongoing weak domestic demand. With inflation expected to remain under control, we expect the BoE to continue with its easy monetary policy stance for the rest of 2020 and 2021. Our core view is that the QE programme will be extended further into 2021 by the MPC expanding asset purchases by another GBP100 billion to GBP845 billion at its November policy meeting.

*VAT on food, accommodation and attractions lowered to 5.0%, from 20.0%*

## C. Emerging Market Economies

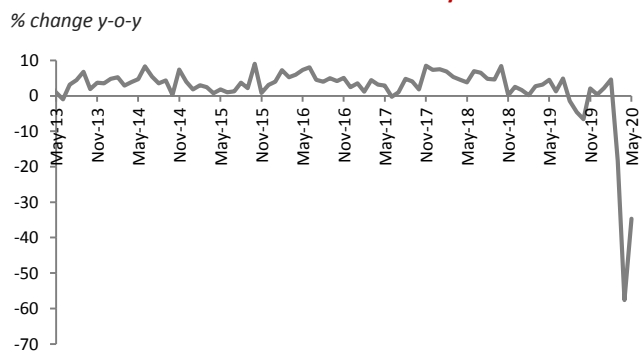
### India: Industrial production contracts significantly in May

Industrial production contracted by 34.7% y-o-y in May, after falling by a record 57.6% in April, reflecting the negative impact of COVID-19 related lockdowns. Despite the significant drop in industrial activity, the May reading was better than the April print (in index), indicating that some key industries resumed activity during the month.

*Broad-based drop in industrial activity in May*

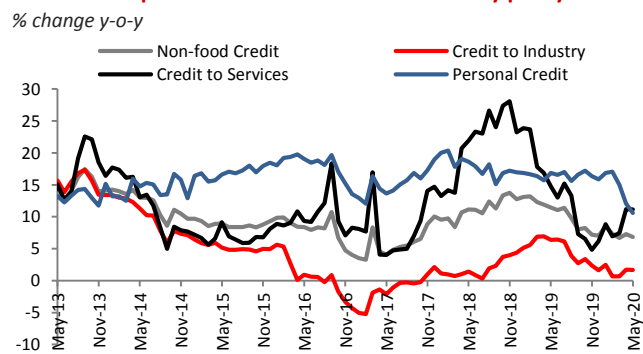
Nevertheless, sectorial data suggests that all major sub-segments saw a y-o-y contraction in May. We believe that the pace of contraction is likely to slow in the coming months, although we do not expect positive y-o-y growth at least until end-3Q, given the still rising COVID-19 infections and imposition of new localised lockdowns in many states. We expect India’s economic recovery to be uneven and more gradual than in the developed economies. RBI Governor Shaktikanta Das highlighted during the weekend that "the Indian economy has started showing signs of getting back to normalcy in response to the staggered easing of restrictions. It is, however, still uncertain when supply chains will be restored fully; how long will it take for demand conditions to normalise; and what kind of durable effects the pandemic will leave behind on our potential growth." The governor’s comments make us believe that the RBI is increasingly concerned about the economic outlook as there are still no clear signs of the virus being effectively contained in many states. We believe that the RBI will continue with its monetary policy easing cycle and expect benchmark policy rates to be down by at least 50bps in 2H2020.

**Fig. 3. India: Industrial production contracts by double digits for third consecutive month in May**



Source: India Central Statistical Organisation

**Fig. 4. India: Lending to industrial sector remains weak despite RBI’s accommodative monetary policy stance**



Source: RBI, ADCB calculations

## II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	Dubai CPI, y-o-y	Jun	-3.5%	
	Oman	CPI, y-o-y	Jun	-1.0%	
<b>Monday, 13 July</b>					
8:30	Japan	Tertiary Industry Index, m-o-m	May	-6.0%	-3.7%
11:00	Turkey	Industrial Production, m-o-m	May	-30.4%	10.6%
16:00	India	CPI, y-o-y	Jun		5.3%
19:30	UK	BOE Governor Bailey Speaks on Libor			
19:30	US	Fed's Williams Discusses Libor in a Joint Webinar			
22:00	US	Monthly Budget Statement	Jun	-\$398.8B	-\$863.0B
<b>Tuesday, 14 July</b>					
10:00	UK	Industrial Production, m-o-m	May	-20.3%	6.0%
10:00	UK	Trade Balance GBP/Mn	May	£305M	-£635M
10:30	India	Wholesale Prices, y-o-y	Jun	-3.2%	-2.4%
13:00	Eurozone	Industrial Production SA, m-o-m	May	-17.1%	15.0%
14:00	US	NFIB Small Business Optimism	Jun	94.4	97.5
16:30	US	CPI, m-o-m	Jun	-0.1%	0.5%
16:30	US	CPI, ex-Food and Energy, m-o-m	Jun	-0.1%	0.1%
16:30	US	CPI, y-o-y	Jun	0.1%	0.6%
16:30	US	CPI, ex-Food and Energy, y-o-y	Jun	1.2%	1.1%
22:00	US	Fed's Brainard Discusses Economy and Monetary Policy			
	China	Exports, y-o-y	Jun	-3.3%	-2.0%
	China	Imports, y-o-y	Jun	-16.7%	-9.0%
<b>Wednesday, 15 July</b>					
10:00	UK	CPI, y-o-y	Jun	0.5%	0.5%
10:00	UK	CPI Core, y-o-y	Jun	1.2%	1.2%
10:00	UK	PPI Output NSA, m-o-m	Jun	-0.3%	0.2%
16:30	US	Import Price Index, m-o-m	Jun	1.0%	1.0%
16:30	US	Empire Manufacturing	Jul	-0.2	7.7
17:15	US	Industrial Production, m-o-m	Jun	1.4%	4.3%
	India	Exports, y-o-y	Jun	-36.5%	
	Japan	BOJ Policy Balance Rate	15-Jul	-0.1%	
	Japan	BOJ 10-Yr Yield Target	15-Jul	0.0%	
<b>Thursday, 16 July</b>					
6:00	China	Industrial Production, y-o-y	Jun	4.4%	4.8%
6:00	China	GDP, y-o-y	2Q	-6.8%	2.2%
6:00	China	Retail Sales, y-o-y	Jun	-2.8%	0.5%
10:00	UK	Average Weekly Earnings, 3M/y-o-y	May	1.0%	-0.4%
10:00	UK	ILO Unemployment Rate, 3M	May	3.9%	4.2%
15:45	Eurozone	ECB Main Refinancing Rate	16-Jul	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	16-Jul	0.25%	0.25
15:45	Eurozone	ECB Deposit Facility Rate	16-Jul	-0.5%	-0.5%
16:30	US	Retail Sales Advance, m-o-m	Jun	17.7%	5.0%
16:30	US	Retail Sales Control Group	Jun	11.0%	3.8%
16:30	US	Philadelphia Fed Business Outlook	Jul	27.5	20.0
16:30	US	Initial Jobless Claims	11-Jul	1314K	1250K
16:30	US	Continuing Claims	4-Jul	18062K	17500K
19:00	US	Fed's Evans Takes Part in Rocky Mountain Economic Summit			
<b>Friday, 17 July</b>					
13:00	Eurozone	CPI, y-o-y	Jun F	0.1%	0.3%
16:30	US	Housing Starts	Jun	974K	1174K
18:00	US	University of Michigan Sentiment	Jul P	78.1	79.1

\* UAE time

Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>EM Economies</b>						
	UAE	CPI, y-o-y	May	-1.9%		-2.7%
	UAE	Abu Dhabi CPI, y-o-y	May	-1.4%		-2.8%
	Bahrain	GDP Constant Prices, y-o-y	1Q	-0.4%		-1.1%
	Egypt	GDP Constant, q-o-q	1Q	4.2%		3.0%
	China	Money Supply M2, y-o-y	Jun	11.1%	11.1%	11.1%
	China	New Yuan Loans CNY	Jun	1482.1B	1800.0B	1810.0B
<b>Monday, 6 July</b>						
8:15	Egypt	IHS Markit Egypt PMI	Jun	40.7		44.6
12:30	Eurozone	Sentix Investor Confidence	Jul	-24.8	-10.4	-18.2
12:30	UK	Markit/CIPS UK Construction PMI	Jun	28.9	46.0	55.3
13:00	Eurozone	Retail Sales, m-o-m	May	-12.1%	15.0%	17.8%
13:00	Eurozone	Retail Sales, y-o-y	May	-19.6%	-6.5%	-5.1%
13:00	Qatar	Qatar Financial Center PMI	Jun	36.6		42.1
17:45	US	Markit US Services PMI	Jun F	46.7	46.9	47.9
18:00	US	ISM Non-Manufacturing Index	Jun	45.4	50.2	57.1
<b>Tuesday, 7 July</b>						
9:00	Japan	Leading Index CI	May P	77.7	79.3	79.3
10:00	Saudi Arabia	Unemployment Rate (Saudis)	1Q	12.0%		11.8%
18:00	US	JOLTS Job Openings	May	4996	4500	5397
	Egypt	Net Reserves	Jun	36.0B		38.2B
	China	Foreign Reserves	Jun	\$3101.7B	\$3111.5B	\$3112.3B
<b>Wednesday, 8 July</b>						
3:50	Japan	BoP Current Account Balance	May	¥262.7B	¥1083.6B	¥1176.8B
15:00	US	MBA Mortgage Applications	3-Jul	-1.8%		2.20%
<b>Thursday, 9 July</b>						
3:50	Japan	Money Stock M2, y-o-y	Jun	5.1%	5.7%	7.2%
3:50	Japan	Core Machine Orders, m-o-m	May	-12.0%	-5.0%	1.7%
3:50	Japan	Core Machine Orders, y-o-y	May	-17.7%	-16.8%	-16.3%
5:30	China	PPI, y-o-y	Jun	-3.7%	-3.2%	-3.0%
5:30	China	CPI, y-o-y	Jun	2.4%	2.5%	2.5%
8:15	UAE	Dubai PMI	Jun	46.0		50.0
10:00	Japan	Machine Tool Orders, y-o-y	Jun P	-52.8%		-32.0%
16:30	US	Initial Jobless Claims	4-Jul	1413K	1375K	1314K
16:30	US	Continuing Claims	27-Jun	18760K	18800K	18062K
18:00	US	Wholesale Inventories, m-o-m	May F	-1.2%	-1.2%	-1.2%
	Egypt	Urban CPI, y-o-y	Jun	4.7%		5.6%
<b>Friday, 10 July</b>						
3:50	Japan	PPI, y-o-y	Jun	-2.8%	-2.0%	-1.6%
11:00	Turkey	Unemployment Rate	Apr	13.2%		12.8%
16:30	US	PPI Final Demand, m-o-m	Jun	0.4%	0.4%	-0.2%
16:30	US	PPI, ex-Food and Energy, m-o-m	Jun	-0.1%	0.1%	-0.3%
16:30	US	PPI Final Demand, y-o-y	Jun	-0.8%	-0.2%	-0.8%
16:30	US	PPI, ex-Food and Energy, y-o-y	Jun	0.3%	0.4%	0.1%

\* UAE time

Source: Bloomberg

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