

## The Week Ahead: UK Chancellor Rishi Sunak's speech in spotlight

### ► **Global: UK Chancellor Sunak may announce new fiscal stimulus**

The risk-on sentiment prevailed in global equity markets last week due to the better-than-expected economic data, including US non-farm payrolls (page 2), ISM manufacturing index (page 3) and Eurozone unemployment rate. The improved market sentiment was despite the rise in new COVID-19 cases in the US, Brazil and India. On Saturday, key US states (Florida and Texas) announced a record rise in daily new cases, which, if continued in the coming week, may negatively impact the recovering consumer and business sentiment. Looking ahead, the US data calendar looks light, with only the June ISM non-manufacturing index (consensus: 50.0; May: 45.4) and May JOLTS job openings due. The key event this week will be UK Chancellor of the Exchequer Rishi Sunak's summer economic update on 8 July. Media sources suggest that Sunak may announce some new fiscal stimulus measures to bolster domestic demand, including further hand-outs to households and VAT rate cuts. Separately, the Eurogroup will meet on 9 July to discuss areas such as fiscal policy. ECB President Christine Lagarde will participate in the meeting.

### ► **EM: China inflation and India industrial production data due**

The main data releases due this week are in Asia. China's June CPI inflation is expected to have marginally strengthened to 2.5% y-o-y (May: 2.4%), led by food prices. Vegetable prices are likely to have risen during the month, with the flooding in southern China affecting supply. The contraction in producer price inflation (PPI) is expected to have slowed to -3.2% y-o-y (May: -3.7%), with the increase in commodity prices, including global crude and industrial metals, likely to have been a major contributing factor. Meanwhile, in India, consensus forecasts industrial production to have contracted for a third consecutive month to -36.3 y-o-y in May, albeit a smaller drop than the -55.5% in April. Proxy indicators, including exports and PMI data, showed that economic activity picked up in May from the trough in April. We expect a similar recovery in industrial production in May.

### ► **GCC: 1Q GDP data shows initial impact of COVID-19**

Official 1Q GDP data was released for Dubai and Saudi Arabia last week, with both showing the initial impact of COVID-19. A much greater deterioration is expected for 2Q. Dubai's economy saw a real contraction of 3.5% y-o-y, driven by the externally facing sectors. 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. The data reaffirms our view that overseas demand will be essential for Dubai's and the UAE's recovery, including labour force requirements in the vital externally facing sectors. Saudi Arabia's non-oil sector is less externally facing and still saw positive GDP growth in 1Q, albeit significantly weaker than in 2H2019. Please see our note – **Saudi Arabia Economic Update: Marked slowdown in 1Q non-oil GDP growth with initial COVID-19 impact**, published on 30 June 2020. However, the outlook for recovery from 3Q will be dampened by the tighter fiscal policy, including the VAT rate being hiked to 15.0% from 1 July, from 5.0%.

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## I. Recent Events and Data Releases

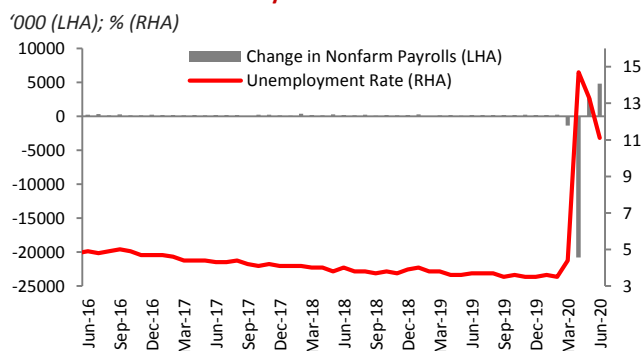
### A. G4 Economies

#### US: Unemployment rate falls to 11.1% in June with pick-up in hiring

The US economy added 4.8 million jobs in June, beating both the consensus expectation of 3.23 million and the May reading of 2.69 million. This is the second consecutive month with an upside surprise in non-farm payrolls and indicates that the easing of restrictions has helped many workers return to their jobs. There was a 2-month upward net revision to payrolls of 90K for April and May. The strong May and June payrolls data, alongside upward revisions, is a positive development heading into 3Q, but the recent increase in COVID-19 cases in key states may limit the pace of recovery in July. In June, notable job gains also occurred in leisure and hospitality (2.1 million), retail trade (740K), education and health services (568K), other services (357K), manufacturing (356K), and professional and business services (306K). However, employment continued to decline in mining, likely reflecting the weak economic activity in the oil and gas sector. Despite the broad-based increase in non-farm payrolls in many sectors, the economy has recovered only about 34% of the jobs lost during March and April, leaving 14.7 million people still out of work.

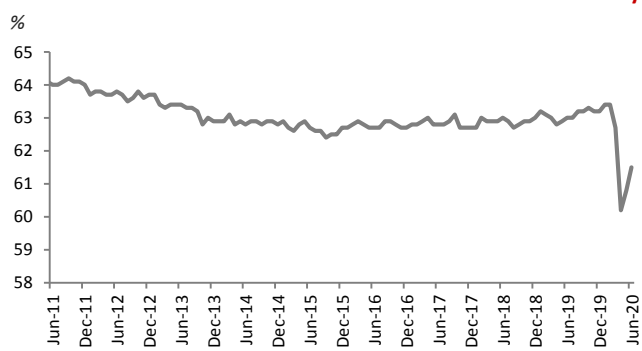
*Hiring activity picks up for second consecutive month in June; net upward revision for the previous two months*

**Fig. 1. US: Nonfarm payrolls grow by 4.8 million in June from 2.7 million in May**



Source: Bureau of Labor Statics

**Fig. 2. US: Labour force participation rate rises for second successive month to 61.5% in June from 60.8% in May**



Source: Bureau of Labor Statics

The unemployment rate dropped to 11.1% in June (May: 13.3%), the biggest one-month drop on record. The reduction in this rate in both May and June was due to fewer people classified as on temporary layoff. Indeed, unemployment in this category decreased for the second consecutive month by 4.8 million in June following a 2.7 million drop in May – in line with the jobs created by the economy. The labour force participation rate also improved to 61.5% in June, from 60.8 in May and 60.2 in April, with greater labour market confidence. However, the number of permanent job losses continued to rise, increasing by 588K to 2.9 million in June, indicating that some companies are downsizing their workforce to adjust to new economic conditions. Wage growth continued its third monthly contraction in June and fell by 1.2% m-o-m versus 1.0% in May. The drop in wage growth at a time of rising non-farm payrolls indicates that there is abundant slack in the job market and that most of the newly added jobs were in lower-wage sectors.

*Temporary lay-offs decrease whilst permanent job losses rise*

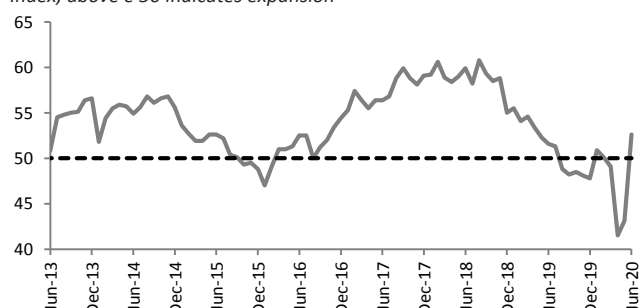
## US: ISM manufacturing index moves into expansionary territory in June

Economic data released last week, including ISM manufacturing, durable goods orders, pending home sales and Conference Board consumer confidence, showed that economic activity is gaining momentum with the relaxation of COVID-19 restrictions and re-opening of businesses. The ISM manufacturing index for June moved into expansionary territory for the first time since February with a reading of 52.6, up from 43.1 in May. Notably, the new orders index rose sharply in June after contracting for four consecutive months, led by a pick-up in domestic activity. Eleven of the eighteen manufacturing industries reported growth in new orders in June, led by food, beverage & tobacco, and chemical products. However, the new export orders index continued its fall in June, albeit more modestly than in the previous two months, suggesting that external demand remains subdued. Despite the pick-up in economic data in June, the FOMC communication continues to highlight the “uncertain” economic outlook. Fed Chair Jerome Powell during his testimony to the House Financial Services Committee noted that “the path forward for the economy is extraordinarily uncertain and will depend in large part on our success in containing the virus”. The June FOMC meeting minutes released after Powell’s testimony underlined that the members discussed various monetary policy tools, including strengthening the forward guidance, large scale asset purchase programmes, and a yield curve target. We believe that the Fed will continue with its steady pace of asset purchases in the coming months followed by a strengthening of the forward guidance and then a move towards a yield curve target by the end of 2020 or early 2021.

*Economic activity gathering momentum with relaxation of restrictions*

**Fig. 3. US: ISM manufacturing activity strengthens in June with re-opening of businesses**

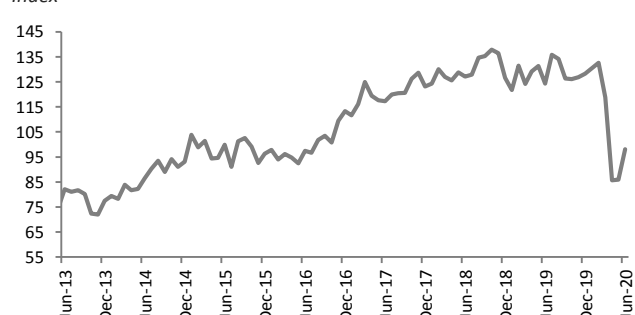
Index, above e 50 indicates expansion



Source: Institute for Supply Management

**Fig. 4. US: Consumer confidence strengthens in June to 98.1, from 85.9 in May**

Index



Source: Conference Board

## Japan: Tankan survey shows sharp fall in business sentiment

The Tankan survey for 2Q2020 showed that business confidence deteriorated markedly to the lowest level since the global financial crisis. The Large Manufacturing Index fell to -34.0 (consensus: -31.0), the softest level since 2Q2009, after an already weak -8.0 in 1Q2019. A negative reading indicates that pessimists outnumber optimists. Confidence among big service and construction businesses fell into negative territory for the first time since the 2011 tsunami and nuclear disaster. Sentiment among hotels and restaurants plunged to a record low of -91, reflecting the severity of the COVID-19 impact on travel and tourism. However, supermarkets, home centres and retailers saw better business conditions than other sectors as demand for essential goods was steady. Overall, the 2Q2020 Tankan report suggests that all firms were affected by the coronavirus but that the severity was uneven among sectors. In these difficult times, we

*Tankan survey indicates significant damage to corporate and household sectors, which will slow Japan's recovery*

expect both the government and BoJ to continue their accommodative monetary policy and expansionary fiscal policy at least until end-2021.

## B. Emerging Market Economies

### India: Re-imposing lockdown in some key states to delay recovery

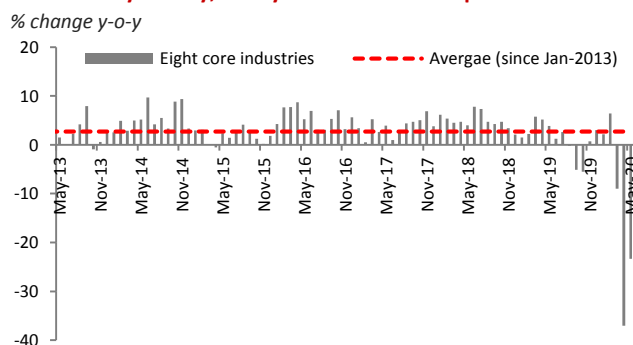
The activity data released last week showed that the Indian economy contracted for a third consecutive month in May in annual terms, albeit at a slower pace than in April. Output in eight core industries, which account for around 40% of the industrial production index, fell by 23.4% y-o-y in May from a series low of -38.1% in April. The ongoing contraction in economic activity suggests that factories have yet to return to full capacity despite the gradual easing of restrictions from 20 April. The manufacturing PMI index points to a further improvement in activity in June with a reading of 47.2 (May: 30.8), marking a recovery from 30.8 in May. With COVID-19 cases still rising in a number of key states, including Maharashtra, Tamil Nadu and Telangana, factories may be far from returning to full capacity – this may take months if not quarters, in our view. The re-imposing of lockdowns in Tamil Nadu and Karnataka indicates that states are still struggling to curb the spread of the virus despite the existing containment measures. Indian Railways recently announced the cancellation of all regular trains until 12 August, while domestic flights are operating at below 50% of capacity, suggesting that movement between states is still limited. The suspension of international travel (excluding repatriation) has been extended until 31 July from 15 July earlier.

*Factories still operating below normal capacity despite easing of restrictions*

On the demand side, the indications are that consumers remain cautious given the still-rising COVID-19 cases and ongoing restrictions. Virus infections surpassed 600,000 last week and are still increasing. We believe that the monsoon rains that began in June may accentuate the spread of the virus. In these circumstances, we believe that domestic household demand will remain subdued in 3Q and potentially into the festive season in 4Q. In its latest forecasts, the IMF estimated a 4.5% real GDP contraction for FY21 (April 2020 – March 2021), down from a 1.9% expansion in its April projections. We believe that the Indian economy will recover from the COVID-19 crisis more gradually than developed economies and in an uneven manner across sectors and states.

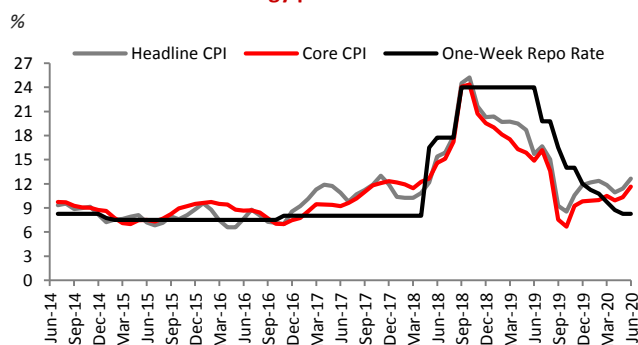
*Consumer confidence remains weak amid rising virus infections*

**Fig. 5. India: Core industrial production contracts by 23.4% y-o-y in May, led by steel and cement production**



Source: India Central Statistical Organisation

**Fig. 6. Turkey: Headline inflation accelerates in June with rise in food and energy prices**



Source: Turkish Statistical Institute, CBRT

## Turkey: Inflation outlook deteriorates further in June

Headline CPI inflation accelerated sharply to 12.6% y-o-y in June from 11.4% in May – the highest reading since August 2019. This was well above the consensus expectation for June of 12.0% y-o-y. The rise in inflation was broad-based, with a pick-up in prices seen in most of the major sub-categories. Core inflation (excluding energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold) strengthened to 11.6% y-o-y, from 10.3% in May, with both core goods and services seeing an acceleration. We believe that the rise in inflation was partly due to the TRY's depreciation since January 2020. We anticipate a further acceleration in headline inflation in the coming months, taking the real one-week rate deeper into negative territory. The CBRT at its 25 June policy meeting surprisingly left its benchmark interest rate unchanged, and adopted a relatively hawkish tone on the inflation outlook. We believe that the CBRT will continue with its newly cautious monetary stance until it sees inflation return to a disinflationary trend. Our base case is that the CBRT will resume its easing cycle in 4Q2020 after remaining on hold in 3Q.

*Both headline and core inflation rise sharply in June*

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	CPI, y-o-y	May	-1.9%	
	UAE	Abu Dhabi CPI, y-o-y	May	-1.4%	
	Bahrain	GDP Constant Prices, y-o-y	1Q	-0.4%	
	Egypt	GDP Constant, q-o-q	1Q	4.2%	
	Oman	CPI, y-o-y	Jun	-1.0%	
	China	Money Supply M2, y-o-y	Jun	11.1%	11.1%
	China	New Yuan Loans CNY	Jun	1480.0B	1800.0B
<b>Monday, 6 July</b>					
8:15	Egypt	IHS Markit Egypt PMI	Jun	40.7	
12:30	Eurozone	Sentix Investor Confidence	Jul	-24.8	-10.4
12:30	UK	Markit/CIPS UK Construction PMI	Jun	28.9	46.0
13:00	Eurozone	Retail Sales, m-o-m	May	-11.7%	15.0%
13:00	Eurozone	Retail Sales, y-o-y	May	-19.6%	-6.5%
13:00	Qatar	Qatar Financial Center PMI	Jun	36.6	
17:45	US	Markit US Services PMI	Jun F	46.7	47.0
18:00	US	ISM Non-Manufacturing Index	Jun	45.4	50.0
<b>Tuesday, 7 July</b>					
9:00	Japan	Leading Index CI	May P	77.7	79.3
10:00	Saudi Arabia	Unemployment Rate (Saudis)	1Q	12.0%	
17:00	US	Fed's Bostic Takes Part in Webinar on Economy			
18:00	US	JOLTS Job Openings	May	5046	4800
21:00	UK	BOE's Haldane Speaks on Webcast			
22:00	US	Fed's Daly and Barkin Takes Part in NABE Talk on Economy			
	Egypt	Net Reserves	Jun	36.0B	
	China	Foreign Reserves	Jun	\$3101.7B	\$3111.0B
<b>Wednesday, 8 July</b>					
3:50	Japan	BoP Current Account Balance	May	¥262.7B	¥1088.2B
15:00	US	MBA Mortgage Applications	3-Jul	-1.8%	
20:15	US	Fed's Bostic Takes Part in Webinar on Economy			
<b>Thursday, 9 July</b>					
3:50	Japan	Money Stock M2, y-o-y	Jun	5.1%	5.6%
3:50	Japan	Core Machine Orders, m-o-m	May	-12.0%	-3.2%
3:50	Japan	Core Machine Orders, y-o-y	May	-17.7%	-16.8%
5:30	China	PPI, y-o-y	Jun	-3.7%	-3.2%
5:30	China	CPI, y-o-y	Jun	2.4%	2.5%
8:15	UAE	Dubai PMI	Jun	46.0	
10:00	Japan	Machine Tool Orders, y-o-y	Jun P	-52.8%	
14:00	Spain	ECB's Hernandez de Cos speaks			
16:30	US	Initial Jobless Claims	4-Jul	1427K	
16:30	US	Continuing Claims	27-Jun	19290K	
18:00	US	Wholesale Inventories, m-o-m	May F	-1.2%	-1.2%
	Egypt	Urban CPI, y-o-y	Jun	4.7%	
	Egypt	CPI Core, y-o-y	Jun	1.5%	
<b>Friday, 10 July</b>					
3:50	Japan	PPI, y-o-y	Jun	-2.7%	-2.0%
11:00	Turkey	Unemployment Rate	Apr	13.2%	
16:00	India	Industrial Production, y-o-y	May	-55.5%	-36.3%
16:30	US	PPI Final Demand, m-o-m	Jun	0.4%	0.4%
16:30	US	PPI, ex-Food and Energy, m-o-m	Jun	-0.1%	0.1%
16:30	US	PPI Final Demand, y-o-y	Jun	-0.8%	-0.2%
16:30	US	PPI, ex-Food and Energy, y-o-y	Jun	0.3%	0.5%

\* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Bahrain	CPI, y-o-y	May	-3.6%		-2.6%
	Kuwait	CPI, y-o-y	May	1.9%		1.9%
<b>Monday, 29 June</b>						
3:50	Japan	Retail Sales, y-o-y	May	-13.9%	-11.6%	-12.3%
12:30	UK	Mortgage Approvals	May	15.9K	25.0K	9.3K
18:00	US	Pending Home Sales, m-o-m	May	-21.8%	19.3%	44.3%
<b>Tuesday, 30 June</b>						
3:30	Japan	Jobless Rate	May	2.6%	2.8%	2.9%
3:50	Japan	Industrial Production, m-o-m	May P	-9.8%	-5.9%	-8.4%
5:00	China	Manufacturing PMI	Jun	50.6	50.5	50.9
5:00	China	Non-manufacturing PMI	Jun	53.6	53.6	54.4
10:00	UK	GDP, q-o-q	1Q F	-2.0%	-2.0%	-2.2%
10:00	UK	GDP, y-o-y	1Q F	-1.6%	-1.6%	-1.7%
10:00	Saudi Arabia	GDP Constant Prices, y-o-y	1Q	-0.3%		-1.0%
13:00	Eurozone	CPI Estimate, y-o-y	Jun	0.1%	0.2%	0.3%
13:00	Eurozone	CPI Core, y-o-y	Jun P	0.9%	0.8%	0.8%
17:45	US	MNI Chicago PMI	Jun	32.3	45.0	36.6
18:00	US	Conference Board Consumer Confidence	Jun	85.9	91.5	98.1
	India	BoP Current Account Balance	1Q	-\$2.60B	-\$3.05B	\$0.6B
	Saudi Arabia	Current Account Balance	1Q	\$9.2B		\$2.86B
<b>Wednesday, 1 July</b>						
3:50	Japan	Tankan Large Mfg Index	2Q	-8.0	-31.0	-34.0
3:50	Japan	Tankan Large Non-Mfg Index	2Q	8.0	-20.0	-17.0
3:50	Japan	Tankan Large All Industry Capex	2Q	1.8%	1.3%	3.2%
5:45	China	Caixin China PMI Mfg	Jun	50.7	50.5	51.2
9:00	India	Markit India PMI Mfg	Jun	30.8		47.2
11:00	Turkey	Markit/ISO Turkey PMI Mfg	Jun	40.9		53.9
16:15	US	ADP Employment Change	Jun	3065K	2900K	2369K
18:00	US	ISM Manufacturing	Jun	43.1	49.8	52.6
<b>Thursday, 2 July</b>						
13:00	Eurozone	Unemployment Rate	May	7.3%	7.7%	7.4%
16:30	US	Trade Balance	May	-\$49.8B	-\$53.2B	-\$54.6B
16:30	US	Change in Nonfarm Payrolls	Jun	2699K	3230K	4800K
16:30	US	Change in Private Payrolls	Jun	32324K	3000K	4767K
16:30	US	Unemployment Rate	Jun	13.3%	12.5%	11.1%
16:30	US	Average Hourly Earnings, m-o-m	Jun	-1.0%	-0.8%	-1.2%
16:30	US	Average Hourly Earnings, y-o-y	Jun	6.6%	5.30%	5.0%
16:30	US	Initial Jobless Claims	27-Jun	1482K	1350K	1427K
16:30	US	Continuing Claims	20-Jun	19231K	19000K	19290K
18:00	US	Factory Orders	May	-13.5%	8.6%	8.0%
<b>Friday, 3 July</b>						
5:45	China	Caixin China PMI Services	Jun	55.0	53.2	58.4
9:00	India	Markit India PMI Services	Jun	12.6		33.7
11:00	Turkey	CPI, y-o-y	Jun	11.4%	12.0%	12.6%

\* UAE time

Source: Bloomberg

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