

The Week Ahead: OPEC+ expected to raise output for August; US labour data in focus

► **US: Unemployment rate forecast to fall to 5.7% in June**

June NFP data will be even more in focus than usual this week after Fed Chair Jerome Powell highlighted that a broad labour market recovery will be needed for any monetary tightening decisions (page 3). However, comments from FOMC members last week highlighted divisions, including on the transitory nature of inflation. Consensus expects the US economy to have added 700K jobs in June after surprising to the downside in the previous two months. The rolling back of unemployment benefits by some states should see people take up jobs during the month, alongside the re-opening of the economy and strong demand for labour in the services sectors. Average hourly wage growth is expected by consensus to slow to 0.3% m-o-m in June (May: 0.5%, April: 0.7%) as more people return to the jobs market, albeit remaining elevated as supply constraints persist. The subdued participation rate since the beginning of the pandemic, due to childcare requirements, unemployment benefits and early retirements, was a key factor driving wage growth up in recent months. A pick-up in the participation rate would be essential for boosting hiring activity further and easing wage pressures, in our view. Consensus expects the participation rate to inch up to 61.7% in June (May: 61.6%), though this would be markedly below the pre-pandemic level of 63.3% in February 2020.

► **US: Infrastructure spending deal for c.USD1.0 trillion agreed**

US president Joe Biden and a bipartisan Senate group last week reached a deal on the infrastructure spending package. The total package is close to USD1.0 trillion, of which USD559 billion would be new spending with the remainder for projects that had already been announced. The overall package was lower than market expectations for a USD2.0 trillion infrastructure plan. However, the Democrats are planning to add another spending programme for 'human infrastructure' of c.USD5.0-6.0 trillion through the budget reconciliation procedure. It remains uncertain whether both these bills will be moved together for their passage through Congress or will be submitted separately. This week should provide more clarity on the next steps and timeline of the bill.

► **Oil: OPEC+ likely to raise output to ease supply side concerns**

We expect the OPEC+ group of countries to raise the production quota for August by at least 500K b/d at its 1 July policy meeting to ease the tightening in physical market conditions. The strengthening in global demand, particularly over the summer, and moderating inventories are likely to push the OPEC+ group to phase out some of the remaining 5.8 million b/d of production cuts in 2H. Any further overheating in the oil market could add to global inflationary pressures and derail the economic recovery. Saudi Energy Minister Prince Abdulaziz bin Salman last week highlighted that OPEC+ has a role to play in "taming and containing inflation", which we see as an indication that it will increase supply whilst also supporting the oil price. The increase in output and still strong oil prices will be supportive for GCC economic fundamentals and oil income outlook. Our GCC GDP growth forecasts already assume increased oil production in 2H2021.

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I. Recent Events and Data Releases

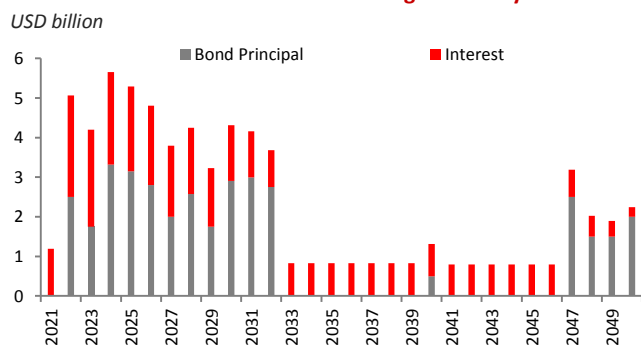
A. MENA Economies

Egypt: IMF completes review of Stand-By Arrangement

The IMF completed the second and final review of its 12-month Stand-By Arrangement (SBA) with Egypt last week. This will allow the Egyptian authorities to draw the third instalment of c.USD1.7 billion of the c.USD5.4 billion programme. We had expected the final tranche of the SBA programme shortly in our note published earlier in June. For more details, please see our note – **Egypt: Resilience during the pandemic; multi-speed recovery expected**, published on 2 June 2021. The IMF also concluded the 2021 Article IV Consultation and lauded Egypt's outperformance in meeting the policy targets set under the SBA programme. The completion of the SBA programme also opens up the possibility for Egypt to engage in a new programme with the IMF if necessary. We see the likelihood of Egypt's engagement with the IMF to continue in some form going forward, though there is still no clarity at this point on whether the new collaboration will be within a financing framework. Egypt has USD2.5 billion of bonds maturing in January 2022, alongside principal payments to multilateral creditors of c.USD2.5 billion due in FY2021/22 (Jul-Jun). The sizable funding needs and increasing dependency on volatile portfolio inflows are likely to encourage Egypt to approach the IMF for another deal, potentially in 2H2021.

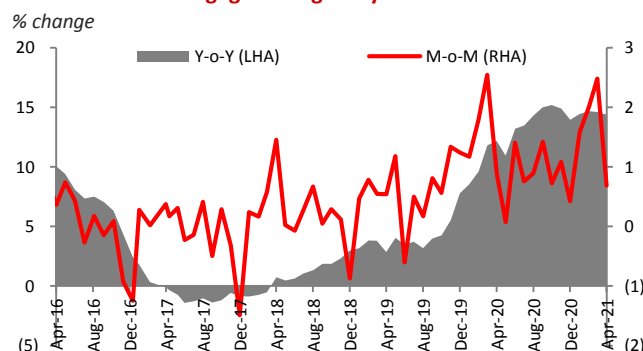
Egypt can now draw remaining c.USD1.7 billion of c.USD5.4 billion SBA programme

Fig. 1. Egypt: Funding needs to remain significant ahead with a USD2.5 billion bond maturing in January 2022



Source: Bloomberg, ADCB calculations

Fig. 2. Saudi: Private sector credit growth remains strong with mortgages being a key driver



Source: SAMA, ADCB calculations

Saudi Arabia: Loan deferral programme extended until end-3Q2021

SAMA extended the deferred payment programme for the private sector for an additional three months until end-September. The loan deferral scheme is part of a wider Private Sector Financing Support Programme (PSFSP) introduced in March 2020 to help Micro, Small and Medium Enterprises (MSMEs) cope with the fallout of the pandemic. The PSFSP also includes a loan guarantee and point-of-sale and e-commerce service fee support programmes. The deferred payments scheme initially ran until September 2020, though it has been extended a number of times. SAMA indicated that the value of deferred payments has totalled c.SAR167.0 billion (c.USD44.53 billion), with more than 106,000 contracts benefiting from the programme since it was launched. The central bank also noted that the extension was to support economic growth and employment, and to maintain financial sector stability. The extension will support credit quality in the

Deferral payments total around USD44.5 billion

banking system. The loan guaranteed facility has already been extended until 14 March 2022.

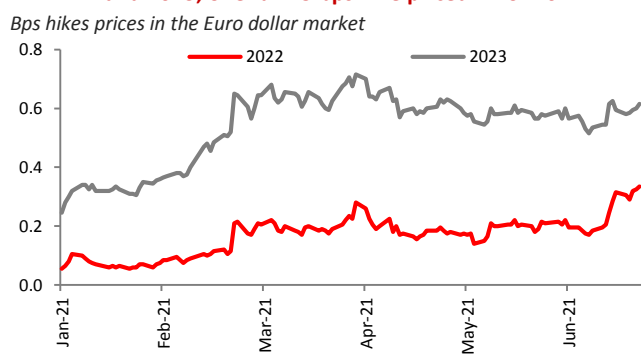
B. G4 Economies

US: Divisions in FOMC on inflation outlook

Commentary from the FOMC members has indicated divisions within the Fed, with some members raising concerns about more persistent inflation and others viewing it as transitory. This is after the Fed's communication turned more hawkish at its 16 June Meeting. Fed Chair Jerome Powell, during his testimony to Congress, played down concerns about a medium-term spike in inflation, while highlighting the uncertainty surrounding it. He also noted that fear of inflation alone would not be enough to prompt rate rises as the Fed also has a goal of a broad labour market recovery. FOMC Vice Chair John Williams noted that the spike in inflation mostly reflects the temporary effects of the surprisingly rapid opening of the economy and also downplayed the prospect of an imminent tapering of asset purchases. However, other FOMC members including, Robert Kaplan, Eric Rosengren and James Bullard expressed increasing concern regarding inflationary pressures, particularly on the housing prices. The differences within the MPC on inflationary pressures are stark at this point given the uncertainty surrounding the outlook. We expect the incoming data in 2H2021 to provide more clarity on how much of the rise in inflation was due to transitory and persistent factors specifically.

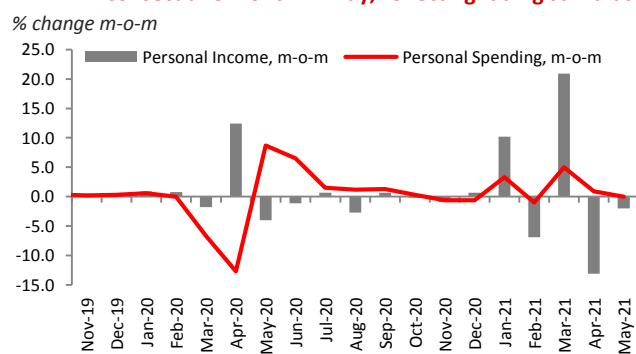
Powell downplays concerns about medium-term spike in inflation

Fig. 3. US: Market pricing in 95 bps of rate hikes during 2022 and 2023; one full 25 bps hike priced in for 2022



Source: Bloomberg, ADCB calculations

Fig. 4. US: Personal income contracted for the second consecutive month in May, reflecting fading stimulus



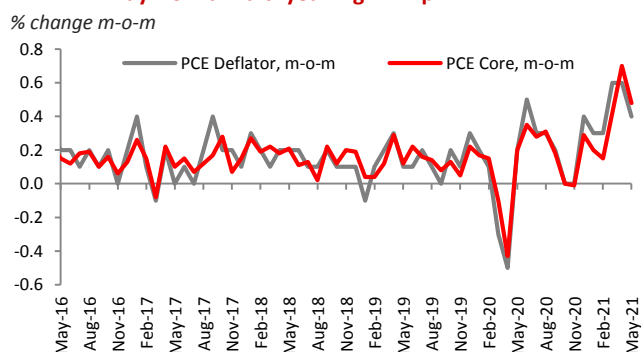
Source: Bureau of Economic Analysis, ADCB calculations

On monetary policy, Raphael Bostic, who is seen as one of the contenders to replace Powell if Biden decides to change the Fed leadership, underlined that the Fed may move towards asset purchase tapering in the next three to four months and begin rate hikes in 2022. These comments indicate that the formal announcement of asset purchase tapering could happen at the September or October policy meeting, which is broadly in line with our expectations. Other FOMC members, including Robert Kaplan and Eric Rosengren, leaned more towards the hawkish side, anticipating the first rate hike to be in 2022. Despite the differing views on interest rate lift-off timing, all the FOMC members who spoke recently were broadly supportive of asset purchase tapering beginning towards the end of 2021. Financial markets have so far absorbed the Fed's subtly hawkish

FOMC members were broadly supportive of asset purchase tapering beginning towards the end of 2021

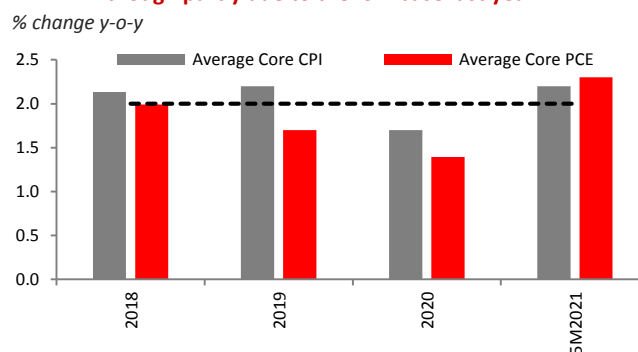
shift in an orderly manner, and are currently pricing in a total of 95 bps of rate hikes between 2022 and 2023. The first 25 bps hike is now priced in for late 2022.

Fig. 5. US: Both headline and core PCE inflation moderated in May from a multi-year high in April



Source: Bureau of Economic Analysis, ADCB calculations

Fig. 6. US: Core PCE inflation averages 2.3% y-o-y in 5M2021, though partly due to the low base last year



Source: Bureau of Economic Analysis, Bureau of Labor statistics, ADCB calculations

The May PCE report was broadly along the lines of expectations, with headline PCE inflation rising to 3.9% y-o-y in May (April: 3.6%), the highest level since 2008. Core PCE inflation – the Fed’s preferred gauge of inflation – also accelerated to 3.4% y-o-y in May (April: 3.1%), the highest level since 1992. The strengthening in inflation reflects temporary shortages of goods, supply chain disruptions, and a reopening rebound in travel prices. Looking ahead, some of these temporary pressures are likely to moderate in the coming months, whilst other areas such as shelter prices are likely to be more persistent. Meanwhile, personal income declined for the second consecutive month and fell by 2.0% m-o-m in May, reflecting the fading impact of pandemic-related assistance programmes. The drop in incomes also led to a stabilisation in household spending in May to flat (0.0% m-o-m), from an upwardly revised 0.9% in April (first estimate: 0.5%). However, overall household spending in the first two months of 2Q2021 was still robust and personal consumption will remain a key driver of GDP growth during the quarter.

Personal spending growth moderates in May; April reading revised up markedly

UK: No major surprises at the BoE’s June policy meeting

The MPC left monetary policy unchanged, including the benchmark rate at 0.1% (9-0 vote) and the target quantity of asset purchases at GBP895 billion (8-1). As widely expected, the outgoing Chief Economist Andy Haldane was the lonely dissenter calling for beginning of QE tapering. The tone of the meeting was relatively more dovish than markets had anticipated, with the MPC assuring that it would not tighten monetary conditions prematurely. On the economy, the BoE acknowledged upside risks to its growth and inflation forecast though it sees downside risks to unemployment. The MPC expects CPI inflation to rise to over 3.0% in the coming months, though underlined that it was mainly due to transitory factors. The MPC also highlighted that there is no need to stress heightened “vigilance” on inflation outlook at this point. The central bank also acknowledged the upside risks to the growth outlook, as the incoming data since the May meeting have largely surprised positively, reflecting the pick-up in activity in the consumer-facing services sector. Indeed, the real GDP growth forecast for 2Q was revised up to 5.5% q-o-q, from 4.25% in May. However, the MPC highlighted increasing concerns about potential distortions in labour market conditions once the furlough scheme ends in September. The next course of the BoE’s monetary policy action is likely to be more

The MPC sounded optimistic over near-term economic recovery outlook and revised up its GDP growth forecasts

dependent on how the labour market conditions evolve in 2H2020. We believe that the MPC will continue with its patient wait-and-see approach until the end of furlough scheme before making any meaningful shift in its monetary policy stance. Our core view remains that the ongoing QE programme will last until end-December 2021 as planned.

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	Current Account Balance	1Q	\$3.35B	
	Kuwait	CPI, y-o-y	May	3.1%	
	Bahrain	GDP Constant Prices, y-o-y	1Q	-5.5%	
Monday, 28 June					
16:00	UK	BOE's Haldane speaks on ``leveling up''			
17:00	US	Fed's Williams Takes Part in BIS Panel Discussion			
18:30	US	Dallas Fed Manufacturing Activity	Jun	34.9	32.5
20:00	US	Fed's Barkin Discusses Inflation Risks			
21:10	US	Fed's Quarles Discusses Central Bank Digital Currency			
Tuesday, 29 June					
3:50	Japan	Retail Sales, y-o-y	May	12.0%	8.0%
12:30	UK	Mortgage Approvals	May	86.9K	85.8K
17:40	Eurozone	ECB's Lagarde Speaks			
18:00	US	Conf. Board Consumer Confidence	Jun	117.2	119.0
	Egypt	GDP Constant, q-o-q	1Q	6.2%	
Wednesday, 30 June					
3:50	Japan	Industrial Production, m-o-m	May P	2.9%	-2.1%
5:00	China	Non-manufacturing PMI	Jun	55.2	55.3
5:00	China	Manufacturing PMI	Jun	51.0	50.8
10:00	UK	GDP, q-o-q	1Q F	-1.5%	-1.5%
10:00	UK	GDP, y-o-y	1Q F	-6.1%	-6.1%
10:00	Saudi Arabia	Unemployment Rate (Saudis)	1Q	12.6%	
11:00	Turkey	Trade Balance	May	-3.06B	-4.1B
13:00	Eurozone	CPI Core, y-o-y	Jun P	1.0%	0.9%
13:00	Eurozone	CPI Estimate, y-o-y	Jun	2.0%	1.9%
16:15	US	ADP Employment Change	Jun	978K	550K
18:00	US	Pending Home Sales, m-o-m	May	-4.4%	-1.0%
	India	BoP Current Account Balance	1Q	-\$1.7B	-\$7.5B
	Saudi Arabia	SAMA Net Foreign Assets SAR	May	1636.2B	
Thursday, 1 July					
3:50	Japan	Tankan Large Manufacturing Index	2Q	5.0	16.0
3:50	Japan	Tankan Large Non-Manufacturing Index	2Q	-1.0	3.0
5:45	China	Caixin China PMI Manufacturing	Jun	52.0	51.9
9:00	India	Markit India PMI Manufacturing	Jun	50.8	
11:00	Eurozone	ECB's Lagarde Speaks as ESRB Chair			
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Jun	49.3	
13:00	UK	BOE's Bailey speaks at 'Plain Numbers Launch'			
16:30	US	Initial Jobless Claims	26-Jun	411K	389K
16:30	US	Continuing Claims	19-Jun	3390K	3335K
18:00	US	ISM Manufacturing	Jun	61.2	61.0
18:00	US	ISM Prices Paid	Jun	88.0	86.0
Friday, 2 July					
16:30	Eurozone	ECB's Lagarde Speaks			
16:30	US	Change in Nonfarm Payrolls	Jun	559K	700K
16:30	US	Change in Private Payrolls	Jun	492K	600K
16:30	US	Unemployment Rate	Jun	5.8%	5.7%
16:30	US	Average Hourly Earnings, y-o-y	Jun	2.0%	3.6%
16:30	US	Average Hourly Earnings, m-o-m	Jun	0.5%	0.3%
16:30	US	Labor Force Participation Rate	Jun	61.6%	61.7%
16:30	US	Trade Balance	May	-\$68.9B	-\$71.3B
18:00	US	Factory Orders	May	-0.6%	1.5%

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	CPI, y-o-y	Mar	-2.0%		-1.1%
	Bahrain	CPI, y-o-y	Apr	-2.0%		-0.1%
	Oman	CPI, y-o-y	May	1.6%		1.7%
Tuesday, 22 June						
10:00	UK	PSNB, ex-Banking Groups	May	29.1B	25.5B	24.3B
18:00	US	Existing Home Sales	May	5.85M	5.73M	5.8M
18:00	Eurozone	Consumer Confidence	Jun A	-5.1	-3.1	-3.3
Wednesday, 23 June						
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Jun P	53.0		51.5
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Jun P	63.1	62.3	63.1
12:30	UK	Markit UK PMI Manufacturing SA	Jun P	65.6	64.0	64.2
16:30	US	Current Account Balance	1Q	-\$175.1B	-\$206.2B	-\$195.7B
17:45	US	Markit US Manufacturing PMI	Jun P	62.1	61.5	62.6
17:45	US	Markit US Services PMI	Jun P	70.4	70.0	64.8
18:00	US	New Home Sales	May	817K	865K	769K
Thursday, 24 June						
15:00	UK	Bank of England Bank Rate	24-Jun	0.1%	0.1%	0.1%
15:00	UK	BOE Corporate Bond Target	Jun	20B	20B	20B
15:00	UK	BOE Gilt Purchase Target	Jun	875B	875B	875B
16:30	US	Wholesale Inventories, m-o-m	May P	1.0%	0.8%	1.1%
16:30	US	Durable Goods Orders	May P	-0.8%	2.8%	2.3%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	May P	1.0%	0.8%	0.9%
16:30	US	GDP Annualized, q-o-q	1Q T	6.4%	6.4%	6.4%
16:30	US	Personal Consumption	1Q T	11.3%	11.4%	11.4%
16:30	US	Initial Jobless Claims	19-Jun	418K	380K	411K
16:30	US	Continuing Claims	12-Jun	3534K	3460K	3390K
Friday, 25 June						
3:30	Japan	Tokyo CPI, y-o-y	Jun	-0.4%	-0.3%	0.0%
12:00	Eurozone	M3 Money Supply, y-o-y	May	9.2%	8.5%	8.4%
16:30	US	Personal Income	May	-13.1%	-2.5%	-2.0%
16:30	US	Personal Spending	May	0.9%	0.4%	0.0%
16:30	US	PCE Deflator, m-o-m	May	0.6%	0.5%	0.4%
16:30	US	PCE Deflator, y-o-y	May	3.6%	3.9%	3.9%
16:30	US	PCE Core Deflator, m-o-m	May	0.7%	0.6%	0.5%
16:30	US	PCE Core Deflator, y-o-y	May	3.1%	3.4%	3.4%
18:00	US	University of Michigan Sentiment	Jun F	86.4	86.5	85.5

* UAE time

Source: Bloomberg

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