

The Week Ahead: Important data week to gauge US and UK economic momentum

► **US: Fed blackout period begins ahead of September meeting**

The Fed members' communication last week and ahead of the blackout period (11-23 September) reiterated that it might be appropriate to announce asset purchase tapering this year. The steady guidance came despite the recent weak NFP data, which was in part affected by supply-side labour constraints and seasonal distortions. However, other labour data, including JOLTS job openings and weekly jobless claims, indicates that demand for labour remains robust and broad-based. JOLTS job openings rose to a new series high of 10.9 million in July, which is significantly higher than the 8.4 million unemployed. The further tightening in the underlying labour market supports our expectation that the Fed will announce asset purchase tapering at its November meeting, with the scaling back beginning in December. This week, August CPI inflation and retail sales data are due, with consensus forecasting core CPI inflation to remain unchanged at 0.3% m-o-m. A moderation in used car prices is expected to be offset by a strengthening in shelter prices. Sustained price pressures are also likely to support the Fed's tapering outlook.

► **UK: August activity data in focus; new tax hike announced**

The key data releases out of the UK this week are August CPI inflation, retail sales and July labour market conditions. Recent high-frequency data including July monthly GDP and the August PMI survey indicate that the underlying economic momentum slowed sharply over the summer. This could be partly due to: i) the Delta-wave related impact on household consumption; and ii) cautious spending by households ahead of the winding down of income support programmes (furlough) at end-September. Looking ahead, the July labour market data is expected to show the unemployment rate falling marginally to 4.6% in July (June: 4.7%), though it will be difficult to interpret the underlying conditions given that c.1.4 million people were still on furlough at end-July. On the fiscal side, the government last week announced a 1.25 pp tax hike in the national insurance rate to fund spending on health and social care. This move is expected to raise an additional c.GBP12-14 billion in revenues per year, with the largest portion to be spent on the National Health Service (NHS) and ongoing pandemic costs. The new tax will come into effect in April 2022.

► **Egypt: CBE expected to be on hold at September meeting**

We and consensus expect the Central Bank of Egypt (CBE) to keep benchmark rates on hold for the seventh consecutive time at its 16 September MPC meeting, maintaining the lending rate at 9.25%. Headline inflation strengthened to 5.7% y-o-y in August (July: 5.4%) due to a rise in food prices (page 2), but was still comfortably within the lower band of the CBE's 7.0% (+/-2pp) target range. We believe the CBE's near-term focus will be to keep real interest rates high to support portfolio flows, alongside a stable EGP. For more details, please see our note – Egypt Economic Update – **Focus on vaccination programme; tourism rebound critical for recovery**, published on 8 September 2021.

Economics Team

Monica Malik, Ph.D.

Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

Thirumalai Nagesh

Economist
+971 (0)2 696 2704
Thirumalainagesh.Venkatesh@adcb.com

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I. Recent Events and Data Releases

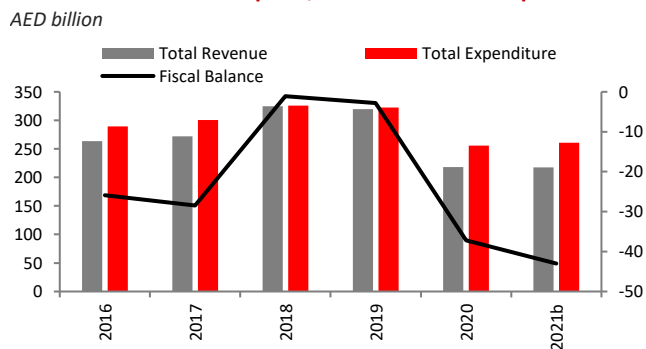
A. MENA Economies

UAE: Abu Dhabi raises USD3.0 billion, taking advantage of low yields

The government of Abu Dhabi returned to the international debt capital market last week, raising USD3.0 billion. The bond was split into two tranches: i) a USD1.75 billion 10-year note at 63 bps over US Treasuries, and ii) a USD1.25 billion 30-year tranche at 3.0%. There was strong demand for the paper, highlighting the investor appetite for high-grade credit, with orders of over USD9.75 billion. The robust demand led to a tightening in spreads from the initial pricing guidance. Abu Dhabi had already raised USD2.0 billion of debt earlier this year in May, and we see the decision to tap the international debt market as a positive because it takes advantage of the low interest rates and locks them in for long-term funding. The USD5.0 billion debt raised in 2021 YTD is significantly lower than the USD15.0 billion raised through bond issuances last year when the oil prices was markedly weaker. We forecast a fiscal surplus both for Abu Dhabi and the UAE (consolidated) due to the strengthening oil price and a limited increase in government spending. As such, we believe that the timing of last week's bond was likely aimed at taking advantage of the low yields following soft US NFP data for August, and precedes the 21-22 September FOMC meeting, where the Fed is widely expected to discuss asset purchase tapering at length.

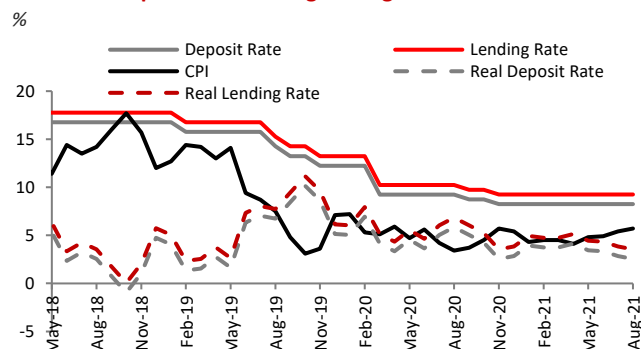
Abu Dhabi raises cumulative debt of USD5.0 billion in 2021 YTD

Fig. 1. UAE: Abu Dhabi 2021 fiscal budget has conservative oil revenue assumption; we see return to surplus



Source: Abu Dhabi DoF, ADCB Economic Research

Fig. 2. Egypt: Real interest rates remain relatively high despite recent strengthening in inflation



Source: CBE, CAPMAS, ADCB Economic Research

Egypt: Headline inflation accelerates in August, albeit modestly

Headline inflation accelerated to 5.7% y-o-y in August (July: 5.4%), matching the recent highest reading of November 2020. The strengthening of annual inflation had been widely expected, as the base was lower than in July. However, the underlying price pressures remained subdued overall, with headline inflation decelerating sequentially to 0.1% m-o-m in August and down from 0.9% in the previous month. Moreover, core inflation softened marginally to 4.5% y-o-y in August, from 4.6% in July. In headline terms, six out of the 12 major sub-components of inflation were either flat or declined on monthly terms. The only area where inflationary pressures were particularly evident was transportation prices (0.7% m-o-m), reflecting the recent increase in regulated fuel costs. Overall, we expect headline inflation to remain comfortably within the lower band of the central bank's target range of 7% (± 2 pp) for the rest of 2021 and in 1H2022. We

Core inflation remains subdued, slowing modestly to 4.5% in August, from 4.6% in July

also expect the CBE to keep the benchmark rate steady throughout 2021 and 1H2022, with the objective of keeping the EGP stable and attracting inflows. Egypt has the highest real interest rate among the emerging market countries, supporting the carry trade and portfolio inflows.

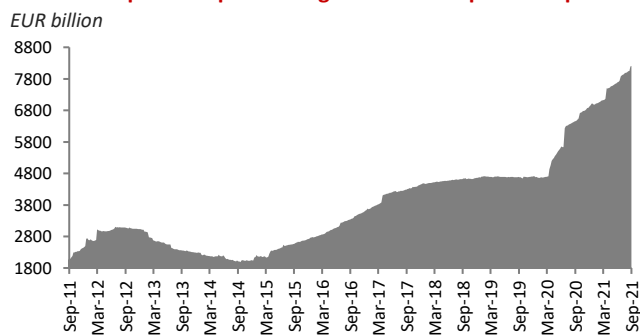
B. G4 Economies

Eurozone: ECB reduces pace of PEPP purchases for 4Q

The ECB announced a reduction in the pace of monthly asset purchases under the Pandemic Emergency Purchase Programme (PEPP) for 4Q2021 at its 9 September meeting. The decision was in line with our and market expectations. The statement highlighted that “favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the PEPP than in the previous two quarters”. We and consensus believe that the ECB is likely to lower its purchase of assets under the PEPP to around EUR60.0-70.0 billion per month, from its current pace of EUR80.0 billion per month. We expect this pace to be maintained until the programme ends in March 2022. ECB President Christine Lagarde highlighted that “trimming is not tapering” and a decision on the future of PEPP and APP (Asset Purchase Programme) will be announced at the December meeting. The market believes that the ECB is likely to increase APP purchases from 2Q2022, i.e. after the PEPP ends in March, to keep financial conditions accommodative.

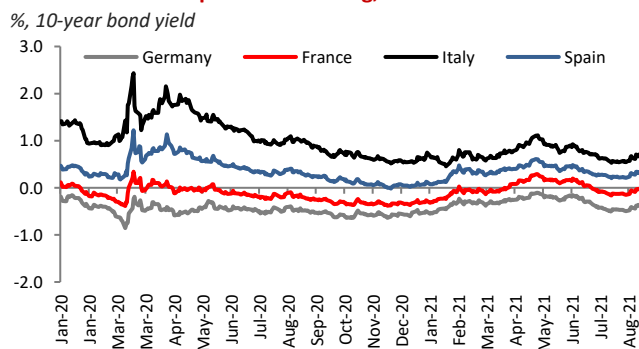
ECB scales back pandemic-related asset purchase programme amidst improved macro backdrop

Fig. 3. Eurozone: ECB balance sheet size to continue to expand despite scaling back of PEPP purchase pace



Source: ECB, ADCB Economic Research

Fig. 4. Eurozone: Long-term bond yields rise marginally before September meeting, albeit still at low levels



Source: Bloomberg, ADCB Economic Research

On the macroeconomic side, the Governing Council (GC) noted that the Eurozone economy rebounded strongly in 2Q and is on track for further strengthening in 3Q. The statement highlighted that the success of the vaccination campaigns and significant reopening will help boost the economic recovery. The ECB revised its economic growth projections for 2021 up to 5.0%, from 4.6% in the June forecasts. However, 2022 real GDP growth was marginally lowered to 4.6%, from 4.7% in June. On inflation, the GC noted that the current rise is largely due to temporary factors and that underlying price pressures will build up only gradually. Headline inflation was revised upwards for 2021 to 2.2% (June: 1.9%), for 2022 to 1.7% (June: 1.5%) and for 2023 to 1.5% (June: 1.4%).

Real GDP growth and inflation forecasts for 2021 and 2022 revised upwards

The revisions to the 2022 inflation forecast look potentially conservative, with the pandemic likely to still impact global supply chains.

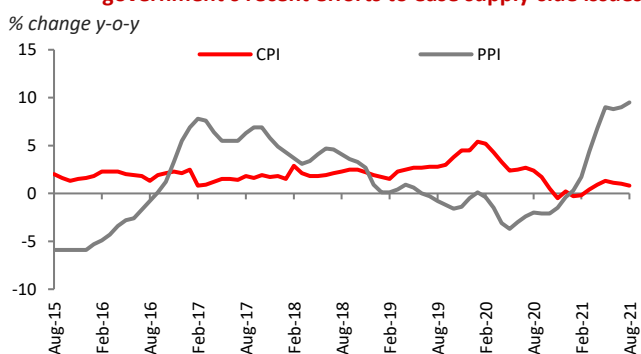
C. Emerging Market Economies

China: Producer prices elevated while consumer prices remain subdued

China's inflation data continues to present a mixed picture, with a strengthening in producer price inflation on the one hand and subdued consumer prices on the other. PPI inflation accelerated to 9.5% y-o-y in August, (July: 9.0%), the highest reading since September 2008, reflecting the broad-based rise in commodity prices and supply-side shortages. The acceleration in producers' costs was despite the government's steps to boost market supply by releasing commodities (copper, aluminium and zinc) from the national reserves. Meanwhile, CPI inflation for August surprised to the downside and decelerated to 0.8% y-o-y, from 1.0% in July. The softening in August consumer prices was likely due to the recent COVID wave's impact on household spending and also the reduction in online education-related expenses following the crack-down on education technology companies. The PPI-CPI inflation divergence reflects a delay in the transmission of prices from producers to consumers. We believe there will be a pass-through of increased costs by corporates in the coming months. We believe that the PBOC is in a delicate position at this point, and it remains to be seen how it will respond to and tackle the diverging price pressures at a time of softening economic growth. We see a bias for a slight loosening in monetary policy amidst weakening economic momentum and domestic slowdown concerns. This is especially as the underlying PPI inflationary pressures are due to supply-side constraints rather than strong demand conditions.

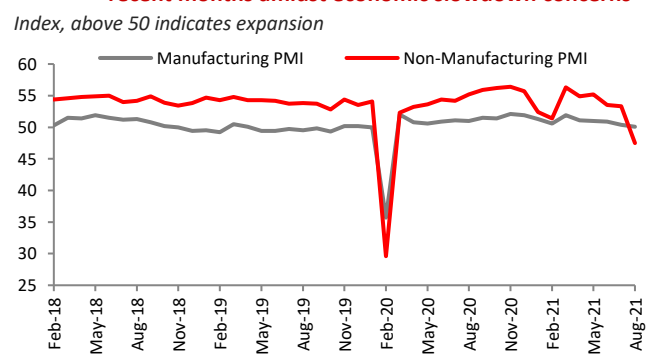
Soft consumer price inflation provides some room for PBOC to maintain wait-and-see stance

Fig. 5. China: PPI inflation rises further in August despite government's recent efforts to ease supply-side issues



Source: National Bureau of Statistics of China, ADCB Economic Research

Fig. 6. China: Non-manufacturing PMI softens markedly in recent months amidst economic slowdown concerns



Source: China Federation of Logistics and Purchasing, ADCB Economic Research

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jun	-0.4%	
	UAE	Abu Dhabi CPI, y-o-y	Jul	0.8%	
	UAE	Dubai CPI, y-o-y	Aug	-2.5%	
	Kuwait	CPI, y-o-y	May	3.1%	
	Oman	CPI, y-o-y	Aug	2.2%	
Monday, 13 September					
10:00	Saudi Arabia	GDP Constant Prices, y-o-y	2Q F	1.5%	
11:00	Turkey	Current Account Balance	Jul	-1.13B	-0.5B
16:00	India	CPI, y-o-y	Aug	5.6%	5.6%
Tuesday, 14 September					
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Jul	8.8%	8.2%
10:00	UK	Weekly Earnings, ex-Bonus, 3M/y-o-y	Jul	7.4%	6.8%
10:00	UK	ILO Unemployment Rate, 3M	Jul	4.7%	4.6%
10:00	UK	Employment Change, 3M/3M	Jul	95K	199K
10:30	India	Wholesale Prices, y-o-y	Aug	11.2%	10.8%
14:00	US	NFIB Small Business Optimism	Aug	99.7	99.0
16:30	US	CPI, m-o-m	Aug	0.5%	0.4%
16:30	US	CPI, ex-Food and Energy, m-o-m	Aug	0.3%	0.3%
16:30	US	CPI, y-o-y	Aug	5.4%	5.3%
16:30	US	CPI, ex-Food and Energy, y-o-y	Aug	4.3%	4.2%
Wednesday, 15 September					
3:50	Japan	Core Machine Orders, m-o-m	Jul	-1.5%	2.8%
6:00	China	Retail Sales, y-o-y	Aug	8.5%	7.0%
6:00	China	Industrial Production, y-o-y	Aug	6.4%	5.8%
8:30	Japan	Tertiary Industry Index, m-o-m	Jul	2.3%	0.1%
10:00	UK	CPI, m-o-m	Aug	0.0%	0.5%
10:00	UK	CPI, y-o-y	Aug	2.0%	2.9%
10:00	UK	CPI Core, y-o-y	Aug	1.8%	2.9%
10:00	Saudi Arabia	CPI, y-o-y	Aug	0.4%	
13:00	Eurozone	Industrial Production SA, m-o-m	Jul	-0.3%	0.6%
15:30	India	Exports, y-o-y	Aug	49.9%	
16:30	US	Empire Manufacturing	Sep	18.3	18.0
16:30	US	Import Price Index, m-o-m	Aug	0.3%	0.3%
17:15	US	Industrial Production, m-o-m	Aug	0.9%	0.4%
19:00	Eurozone	ECB's Lane Speaks at Webinar			
Thursday, 16 September					
3:50	Japan	Trade Balance	Aug	¥439.4B	-¥52.7B
13:00	Eurozone	Trade Balance SA	Jul	12.4B	14.9B
16:30	US	Retail Sales Advance, m-o-m	Aug	-1.1%	-0.8%
16:30	US	Retail Sales Control Group	Aug	-1.0%	-0.1%
16:30	US	Initial Jobless Claims	11-Sep	310K	320K
16:30	US	Continuing Claims	4-Sep	2783K	2740K
16:30	US	Philadelphia Fed Business Outlook	Sep	19.4	19.0
	Egypt	Lending Rate	16-Sep	9.25%	9.25%
	Egypt	Deposit Rate	16-Sep	8.25%	8.25%
Friday, 17 September					
10:00	UK	Retail Sales, incl-Auto Fuel, m-o-m	Aug	-2.5%	0.8%
10:00	UK	Retail Sales, incl-Auto Fuel, y-o-y	Aug	2.4%	2.7%
13:00	Eurozone	CPI, y-o-y	Aug F	2.2%	3.0%
13:00	Eurozone	CPI Core, y-o-y	Aug F	1.6%	1.6%
18:00	US	University of Michigan Sentiment	Sep P	70.3	72.0

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Monday, 6 September						
12:30	UK	Markit/CIPS UK Construction PMI	Aug	58.7	56.0	55.2
12:30	Eurozone	Sentix Investor Confidence	Sep	22.2	19.7	19.6
Tuesday, 7 September						
7:00	China	Trade Balance	Aug	\$56.6B	\$53.2B	\$58.4B
7:00	China	Exports, y-o-y	Aug	19.3%	17.3%	25.6%
7:00	China	Imports, y-o-y	Aug	28.1%	26.9%	33.1%
7:00	China	Foreign Reserves	Aug	\$3235.9B	\$3233.0B	\$3232.1B
9:00	Japan	Leading Index CI	Jul P	104.6	103.5	104.1
13:00	Eurozone	GDP SA, q-o-q	2Q F	2.0%	2.0%	2.2%
13:00	Eurozone	GDP SA, y-o-y	2Q F	13.6%	13.6%	14.3%
13:00	Eurozone	Household Consumption, q-o-q	2Q	-2.1%	3.0%	3.7%
13:00	Eurozone	ZEW Survey Expectations	Sep	42.7		31.1
Wednesday, 8 September						
3:50	Japan	BoP Current Account Balance	Jul	¥905.1B	¥2288.2B	¥1910.8B
3:50	Japan	GDP SA, q-o-q	2Q F	0.3%	0.4%	0.5%
3:50	Japan	GDP Annualized SA, q-o-q	2Q F	1.3%	1.6%	1.9%
18:00	US	JOLTS Job Openings	Jul	10185K	10049K	10934K
Thursday, 9 September						
3:50	Japan	Money Stock M2, y-o-y	Aug	5.3%	4.6%	4.7%
5:30	China	CPI, y-o-y	Aug	1.0%	1.0%	0.8%
5:30	China	PPI, y-o-y	Aug	9.0%	9.0%	9.5%
8:15	UAE	Dubai PMI	Aug	53.2		53.3
15:45	Eurozone	ECB Main Refinancing Rate	9-Sep	0.0%	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	9-Sep	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	9-Sep	-0.5%	-0.5%	-0.5%
16:30	US	Initial Jobless Claims	4-Sep	345K	335K	310K
16:30	US	Continuing Claims	28-Aug	2805K	2740K	2783K
	Egypt	Urban CPI, y-o-y	Aug	5.4%		5.7%
	Egypt	CPI Core, y-o-y	Aug	4.6%		4.5%
Friday, 10 September						
10:00	UK	Monthly GDP, m-o-m	Jul	1.0%	0.5%	0.1%
10:00	UK	Industrial Production, m-o-m	Jul	-0.7%	0.4%	1.2%
10:00	UK	Manufacturing Production, m-o-m	Jul	0.2%	0.1%	0.0%
10:00	UK	Index of Services, 3M/3M	Jul	5.7%	4.7%	4.5%
10:00	UK	Trade Balance, GBP Million	Jul	-£2514M	-£1600M	-£3117M
12:30	China	New Yuan Loans CNY	Aug	1083.2B	1400.0B	1220.0B
12:30	China	Money Supply M2, y-o-y	Aug	8.3%	8.4%	8.2%
16:00	India	Industrial Production, y-o-y	Jul	13.6%	10.1%	11.5%
16:30	US	PPI Final Demand, m-o-m	Aug	1.0%	0.6%	0.7%
18:00	US	Wholesale Inventories, m-o-m	Jul F	0.6%	0.6%	0.6%

* UAE time

Source: Bloomberg

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