

## The Week Ahead: Fed Chair Powell to speak at Jackson Hole Symposium

### ► **US: Powell's comments on asset purchase tapering in focus**

Fed Chair Jerome Powell's speech at the Jackson Hole economic symposium on 27 August will be critical in shaping market expectations regarding the timing of the asset purchase tapering announcement. Amidst rising Delta variant cases, the Jackson Hole symposium will now happen virtually rather than as the originally planned in-person gathering. We do not expect Powell to provide any firm commitment on the timing of asset purchase tapering at this point, given the ongoing uncertainties related to the Delta variant's impact on the economy. However, we see the potential tone of Powell's speech to be more neutral than his dovish stance so far, given the noticeable strengthening in the labour market since the July FOMC meeting and elevated inflation levels. The July FOMC minutes released last week highlighted that "it could be appropriate to start reducing the pace of asset purchases this year" if economic activity continues to evolve in line with the committee's expectations. However, there was no consensus within the FOMC over the start date or the pace of tapering. The next Fed meeting is scheduled for 21-22 September and by then we will have an additional set of key economic releases, including August NFP, CPI inflation and retail sales. This will be especially important given recent signs of softening economic momentum, including retail sales, with rising numbers of Delta variant cases. A solid reading for the August NFP report would likely help build up further consensus within the FOMC, in our view. We believe that the September meeting will be used by the Fed to provide "advance notice", which would then be followed by a formal tapering announcement at the November policy meeting.

### ► **US: July PCE report and second estimate of 2Q GDP due**

Several key US data releases are due this week, including the July PCE report, durable goods orders and the second estimate of 2Q GDP. These will be vital in gauging how the economy is dealing with the rise in COVID-19 cases and the removal of fiscal support measures. These include cheques to households under the American Rescue Plan (Jan., Mar.-Apr.), whilst some states have started to end federal pandemic unemployment programmes from June. The drop in July retail sales partly reflects the fading fiscal stimulus and lower disposable income. The retail sales data released last week showed that headline sales contracted by 1.1% m-o-m in July (consensus -0.3%), from an upwardly revised +0.7% for June. The retail control group, which feeds into the calculation of the personal consumption part of the GDP report, also fell, by 1.0% m-o-m in July (June: 1.4%). The softer consumer spending backdrop is likely to be reflected in the PCE personal spending data due this week. Consensus expects personal spending growth to decelerate to 0.4% m-o-m in July (June: 1.0%), while personal income is forecast to inch up marginally to 0.2% (June: 0.1%). Meanwhile, core PCE inflation is forecast to moderate to 0.3% m-o-m in July (June: 0.4%), in line with the 0.3% rise seen in July core CPI. However, the year-on-year reading is forecast to strengthen to 3.6% from 3.5% y-o-y in June, supported by the low base in 2020. Overall, still-rising annual core PCE inflation should be supportive for an asset purchase tapering announcement being made in the coming months.

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► **UK: Activity data presents mixed signals at the start of 3Q**

Economic data released last week presented a mixed picture, with improvement in labour market conditions on the one hand and a softening in retail spending on the other. Headline retail sales contracted by 2.5% m-o-m in July, much weaker than the consensus expectations of 0.2% growth. The June reading was also revised down to 0.2% m-o-m, from 0.5% in the first estimate. The contraction in July retail sales growth was likely due to a number of factors, including: i) bad weather and flooding at the start of the month; ii) large numbers of people isolating after coming into contact with COVID-19 positive cases; and iii) supply shortages in some areas. However, the majority of these factors are unlikely to have a significant impact in the coming months, given the drop in Delta variant COVID-19 cases in the country and further progress in vaccinations. A pick-up in services activity during the summer holiday season is also expected to bolster retail activity in August. The soft demand backdrop was also evident in the July inflation readings, with monthly headline inflation moderating to flat (0.0% m-o-m), from 0.5% in June. Seven out of 12 major sub-segments fell on a monthly basis, including food, clothing & footwear and recreation. Consensus believes that the above mentioned one-off factors that affected household spending and inflation in July are likely to fade. On the labour market side, the easing of COVID-19 restrictions helped hiring activity to gather pace in June, adding 95K jobs (May: 25K). This resulted in a moderation in the unemployment rate to 4.7% in June, from 4.8% in the previous month, with both demand and supply-side factors being supportive for removing some slack from the market. The strong demand for labour also resulted in headline wage growth accelerating to 8.8% 3M/y-o-y in June, from 7.4% in May.

► **Oil: Demand-side concerns behind the sharp drop in crude prices**

Brent crude price fell by 7.7% last week and closed at USD65.2 p/d, due to rising numbers of Delta variant cases in the US and China and concerns about the potential impact on global oil demand. The strengthening of USD amidst global risk-off sentiment was also a factor affecting commodity prices. The demand for crude in the Asian physical market has weakened due to muted purchases by Chinese refiners and India's move to sell oil from its strategic reserves. We envisage that the oil market situation will remain fluid at this point, and we will await more clarity on the above-mentioned factors before any reassessment of our 2021 Brent crude forecast of USD68.5 p/b. Brent crude has averaged USD66.9 p/b YTD. The OPEC and its partnering countries (OPEC+) are scheduled to meet on 1 September. Our core view is that the OPEC+ group will likely maintain its plans to gradually increase output at its September meeting if prices stabilise around the current levels in the coming weeks. However, if the downward pressure on oil prices continues due to weak demand conditions, tweaks to the planned increase in OPEC+ production cannot be ruled out completely.

## I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	M3 Money Supply, y-o-y	Jun	0.1%	
	UAE	CPI, y-o-y	Jun	-0.4%	
	Kuwait	CPI, y-o-y	May	3.1%	
<b>Monday, 23 August</b>					
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Aug P	53.0	
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Aug P	62.8	62.0
12:00	Eurozone	Markit Eurozone Services PMI	Aug P	59.8	59.5
12:00	Eurozone	Markit Eurozone Composite PMI	Aug P	60.2	59.6
12:30	UK	Markit UK PMI Manufacturing SA	Aug P	60.4	59.5
12:30	UK	Markit/CIPS UK Services PMI	Aug P	59.6	59.1
12:30	UK	Markit/CIPS UK Composite PMI	Aug P	59.2	58.7
16:30	US	Chicago Fed Nat Activity Index	Jul	0.1	0.1
17:45	US	Markit US Manufacturing PMI	Aug P	63.4	62.3
17:45	US	Markit US Services PMI	Aug P	59.9	59.2
17:45	US	Markit US Composite PMI	Aug P	59.9	
18:00	US	Existing Home Sales	Jul	5.86M	5.83M
18:00	Eurozone	Consumer Confidence	Aug A	-4.4	-4.9
<b>Tuesday, 24 August</b>					
18:00	US	Richmond Fed Manufacturing Index	Aug	27.0	25.0
18:00	US	New Home Sales	Jul	676.0K	699.0K
<b>Wednesday, 25 August</b>					
9:00	Japan	Leading Index CI	Jun F	104.1	
10:00	Japan	Machine Tool Orders, y-o-y	Jul F	93.4%	
15:00	US	MBA Mortgage Applications	20-Aug	-3.9%	
16:30	US	Durable Goods Orders	Jul P	0.9%	-0.3%
16:30	US	Durables, ex-Transportation	Jul P	0.5%	0.5%
16:30	US	Cap Goods Shipments, Non-def, ex-Air	Jul P	0.6%	0.8%
<b>Thursday, 26 August</b>					
12:00	Eurozone	M3 Money Supply, y-o-y	Jul	8.3%	7.6%
15:30	Eurozone	ECB Publishes Account of July 21-22 Meeting			
16:30	US	Initial Jobless Claims	21-Aug	348K	350K
16:30	US	Continuing Claims	14-Aug	2820K	2780K
16:30	US	GDP Annualized, q-o-q	2Q S	6.5%	6.7%
16:30	US	Personal Consumption	2Q S	11.8%	12.2%
16:30	US	Core PCE, q-o-q	2Q S	6.1%	6.1%
18:10	Eurozone	ECB's Villeroy speaks in Paris			
19:00	US	Kansas City Fed Manufacturing Activity	Aug	30.0	25.0
<b>Friday, 27 August</b>					
3:30	Japan	Tokyo CPI, y-o-y	Aug	-0.4%	-0.4%
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Aug	-0.3%	-0.1%
5:30	China	Industrial Profits, y-o-y	Jul	20.0%	
16:30	US	Wholesale Inventories, m-o-m	Jul P	1.1%	1.0%
16:30	US	Personal Income	Jul	0.1%	0.2%
16:30	US	Personal Spending	Jul	1.0%	0.4%
16:30	US	PCE Deflator, m-o-m	Jul	0.5%	0.4%
16:30	US	PCE Deflator, y-o-y	Jul	4.0%	4.1%
16:30	US	PCE Core Deflator, m-o-m	Jul	0.4%	0.3%
16:30	US	PCE Core Deflator, y-o-y	Jul	3.5%	3.6%
18:00	US	U. of Michigan Sentiment	Aug F	70.2	70.6
18:00	US	Fed's Annual Jackson Hole Policy Retreat			

\* UAE time

Source: Bloomberg

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	UAE	Dubai CPI, y-o-y	Jul	-2.8%		-2.5%
	UAE	Abu Dhabi CPI, y-o-y	Jun	0.7%		0.9%
	Oman	CPI, y-o-y	Jul	1.3%		2.2%
<b>Monday, 16 August</b>						
3:50	Japan	GDP SA, q-o-q	2Q P	-0.9%	0.1%	0.3%
3:50	Japan	GDP Annualized SA, q-o-q	2Q P	-3.7%	0.5%	1.3%
6:00	China	Retail Sales, y-o-y	Jul	12.1%	10.9%	8.5%
6:00	China	Industrial Production, y-o-y	Jul	8.3%	7.9%	6.4%
10:30	India	Wholesale Prices, y-o-y	Jul	12.1%	11.3%	11.2%
16:30	US	Empire Manufacturing	Aug	43.0	28.5	18.3
<b>Tuesday, 17 August</b>						
8:30	Japan	Tertiary Industry Index, m-o-m	Jun	-2.9%	1.8%	2.3%
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Jun	7.4%	8.6%	8.8%
10:00	UK	Weekly Earnings, ex-Bonus 3M/y-o-y	Jun	6.6%	7.3%	7.4%
10:00	UK	ILO Unemployment Rate, 3M	Jun	4.8%	4.8%	4.7%
10:00	UK	Employment Change, 3M/3M	Jun	25K	100K	95K
13:00	Eurozone	GDP SA, q-o-q	2Q P	2.0%	2.0%	2.0%
13:00	Eurozone	GDP SA, y-o-y	2Q P	13.7%	13.7%	13.6%
16:30	US	Retail Sales Advance, m-o-m	Jul	0.7%	-0.3%	-1.1%
16:30	US	Retail Sales Control Group	Jul	1.4%	-0.2%	-1.0%
17:15	US	Industrial Production, m-o-m	Jul	0.2%	0.5%	0.9%
<b>Wednesday, 18 August</b>						
3:50	Japan	Trade Balance	Jul	¥384.0B	¥196.4B	¥441.0B
3:50	Japan	Exports, y-o-y	Jul	48.6%	39.4%	37.0%
3:50	Japan	Core Machine Orders, m-o-m	Jun	7.8%	-2.8%	-1.5%
10:00	UK	CPI, y-o-y	Jul	2.5%	2.3%	2.0%
10:00	UK	CPI Core, y-o-y	Jul	2.3%	2.0%	1.8%
13:00	Eurozone	CPI, y-o-y	Jul F	1.9%	2.2%	2.2%
13:00	Eurozone	CPI Core, y-o-y	Jul F	0.7%	0.7%	0.7%
16:30	US	Building Permits	Jul	1594K	1600K	1534K
16:30	US	Housing Starts	Jul	1594K	1610K	1635K
	Egypt	Trade Balance	Jun	-3343.0M		-2941.0M
<b>Thursday, 19 August</b>						
16:30	US	Initial Jobless Claims	14-Aug	377K	364K	348K
16:30	US	Continuing Claims	7-Aug	2899K	2800K	2820K
16:30	US	Philadelphia Fed Business Outlook	Aug	21.9	23.1	19.4
18:00	US	Leading Index	Jul	0.5%	0.7%	0.9%
<b>Friday, 20 August</b>						
3:01	UK	GfK Consumer Confidence	Aug	-7.0	-7.0	-8.0
3:30	Japan	National CPI, y-o-y	Jul	-0.5%	-0.4%	-0.3%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Jul	-0.5%	-0.4%	-0.2%
5:30	China	1-Year Loan Prime Rate	20-Aug	3.85%	3.85%	3.85%
5:30	China	5-Year Loan Prime Rate	20-Aug	4.65%	4.65%	4.65%
10:00	UK	Retail Sales, incl-Auto Fuel, m-o-m	Jul	0.2%	0.2%	-2.5%
10:00	UK	Retail Sales, incl-Auto Fuel, y-o-y	Jul	9.2%	5.9%	2.4%
10:00	UK	PSNB, ex-Banking Groups	Jul	21.5B	11.9B	10.4B

\* UAE time

Source: Bloomberg

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