

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

► US: Fed communication in spotlight

The key event this week will be Fed Chair Jerome Powell's speech (24 August) at the Jackson Hole Symposium, titled "Changing Market Structure and Implications for Monetary Policy". We expect limited new guidance on monetary policy, as was the case last year, though in the past the annual conference has been used to announce new measures and shape market expectations. We believe that Powell will reiterate his steady interest rate hike guidance, given the above-trend US economic growth, low unemployment rate and inflation being close to the Fed's 2% target. We continue to see the Fed raising the FFTR rate two more times in 2018 with a 25 bps hike each in September and December. Nevertheless, Powell will likely highlight the risks related to global protectionist policies and emerging market contagion arising from Turkey's currency crisis, with the latter developing after the last FOMC meeting. Moreover, market interest will especially be on any forward guidance for the 2019 interest rate outlook. Minutes from the FOMC's August meeting (due on 22 August) will be watched for greater details and discussion on balance sheet normalisation, the flattening yield curve, and the longer run operational framework.

► Eurozone: No major changes expected in ECB minutes

We also do not expect any new guidance on the ECB's policy outlook from the 26 July meeting minutes, due 23 August. We envisage a consistent message in line with the post-meeting statement and President Mario Draghi's press conference, with monetary policy to continue as outlined. This includes the asset purchase programme ending by December 2018 and interest rates remaining steady at least until the end of summer 2019. However, the minutes could highlight the uncertainties related to global trade policies. Elsewhere, Japan releases its July inflation report this week (24 August). Consensus forecasts headline inflation accelerated to 1% y-o-y in July (June: 0.7%) driven by higher energy and food prices. Core inflation is also expected to have risen to 0.3% y-o-y in July, from 0.2% in June. Despite this marginal uptick in July inflation, underlying price pressures remain muted with wage growth not feeding into inflation.

► Egypt: CBE keeps monetary policy steady at its August meeting

The CBE kept benchmark interest rates on hold at its 16 August meeting, in line with our and consensus expectations (page 2). There were no indications of future policy direction in the post-meeting statement. The overall tone on inflation was one of relative comfort, as the inflation trend is in line with the bank's target (13% \pm 3% by year-end). Nevertheless, given uncertainty around EM economies following the recent Turkey developments, we expect the CBE to wait until the November meeting before resuming its easing cycle.

The next issue of Global Data Watch will be published on Monday 3 September 2018.

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I. Recent Events and Data Releases

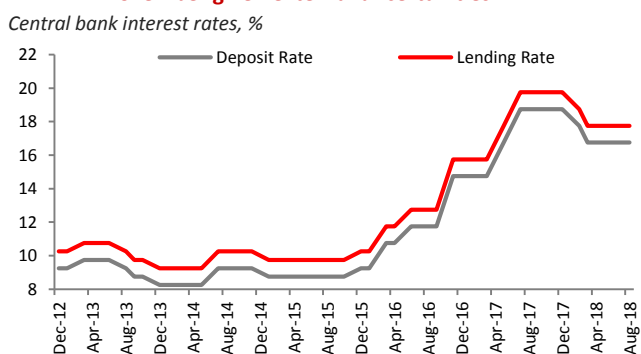
A. MENA Economies

Egypt: CBE keeps monetary policy steady at its August meeting

The CBE kept benchmark interest rates on hold at its 16 August meeting, in line with our and consensus expectations. The benchmark deposit rate remained at 16.75% and the lending rate at 17.75%. This was the third consecutive meeting that rates were kept steady, following a cumulative 200 bps of rate cuts at the January and February meetings. In line with expectations, the central bank highlighted both domestic and external factors for not changing monetary policy. Indeed, the central bank outlined the rise in inflation due to the mid-year subsidy reforms, whilst external factors emphasised included the ongoing tightening in global financial conditions and downward pressure on some EM currencies.

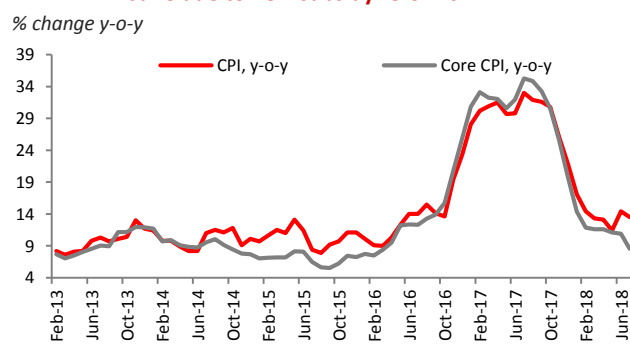
Third consecutive CBE meeting rates kept on hold

Fig. 1. Egypt: We only see CBE resuming its easing cycle in November given external uncertainties



Source: Central Bank of Egypt

Fig. 2. Egypt: Headline inflation moderates in July, after rising in June due to new subsidy reforms

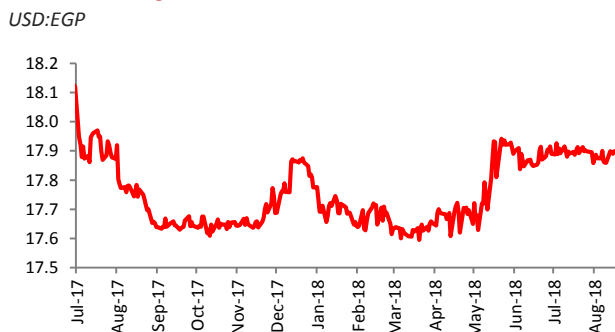


Source: CAPMAS, ADCB calculations

There were no indications of future policy direction in the CBE's post-meeting statement. However, the overall tone on inflation was one of relative comfort, highlighting that the inflation trend is in line with the target (13% \pm 3% by year-end) and that core inflation moderated for the 12th consecutive month to 8.5% y-o-y in July 2018. Notably, the CBE indicated for the first time that it sees headline inflation moderating to single digits after the "temporary effect of fiscal supply shocks dissipates". Based just on the inflation outlook alone, we believe that the CBE would cut benchmark interest rates at its next meeting on 27 September. However, given the uncertainty around EM economies, especially following the recent Turkey developments, we think the bank is likely to wait until the November meeting before resuming its easing cycle. Spreads of EGP bonds over US Treasuries widened sharply following the marked weakening in the TRY in mid-August, whilst data showed that foreign holding of Egyptian treasury bills moderated further to USD17.5 billion in July from USD21.6 billion in March. Notably, the EGP has remained broadly steady against the USD in mid-2018 despite the recent renewed downward pressure on EM currencies. This likely reflects a number of factors in our view, including tight monetary policy, expectation of sound economic policy due to the IMF programme (and related FX support), the outlook for gas exports and the FX repatriation mechanism (introduced in December 2017). Stability in the EGP is positive for the inflation outlook, alongside the range-bound oil price.

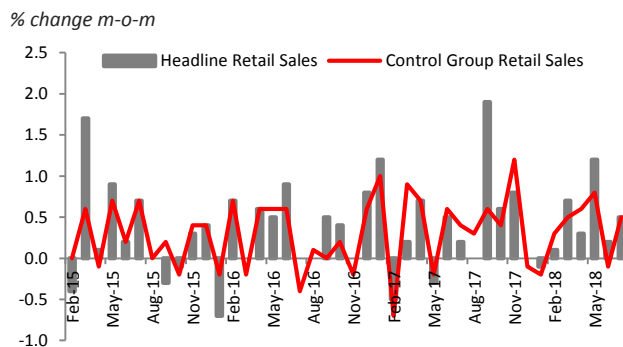
CBE statement comfortable on inflation, though we believe external concerns persist

Fig. 3. Egypt: EGP has not faced renewed downward pressure in August, unlike other EM currencies



Source: Bloomberg

Fig. 4. US: Retail activity solid in July, suggesting that strong momentum in 2Q continued to feed into 3Q



Source: US Census Bureau

B. G4 Economies

US: Retail sales and manufacturing production remain solid in July

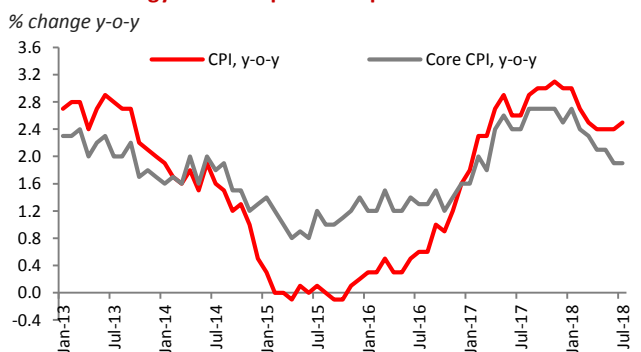
Incoming data continues to suggest that the economic momentum in the US remains solid, indicating a healthy start to 3Q consumption activity. The retail sales control group, which feeds into GDP growth, accelerated to 0.5% m-o-m after contracting by 0.1% in June. Headline retail sales also strengthened to 0.5% m-o-m in July (June: 0.2%), again higher than the consensus estimate of 0.1% growth. There was a broad-based increase across the sub-components with nine of the 13 primary categories strengthening in July. Within the various categories, food and drink (1.3%), clothing (1.3%), gasoline (0.8%) and non-store retailers (+0.8%) were the key drivers of retail activity. We expect this strong momentum to continue in the upcoming months on the back of the strong consumer confidence. We believe that the solid retail activity reflects households' higher disposable income following the tax reform measures.

Retail sales control group accelerates to 0.5% m-o-m in July after 0.1% contraction in June

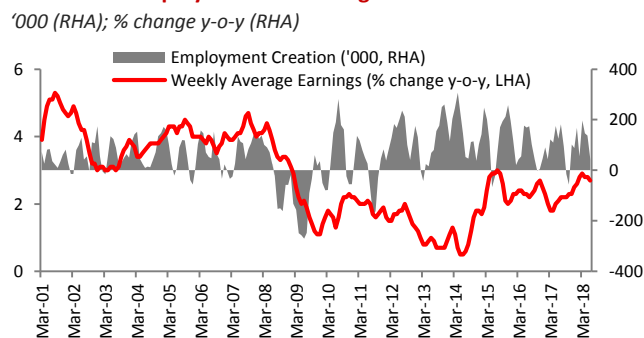
UK: Mixed data – wage growth subdued but inflation picking up

The UK data presented a mixed picture last week with wage growth surprising to the downside whilst headline inflation rose. Average weekly earnings decelerated to a 10-month low of 2.4% 3M y-o-y in July – lower than both the consensus estimate and the June print of 2.5%. This moderation was largely due to private sector wage growth whilst public sector wages remained largely stable. This is despite the unemployment rate dropping to 4% in July (June: 4.2%) – the lowest point since February 1975, though partly reflecting the drop in the participation rate. The moderation in unemployment was in line with the BoE's projection of 4% in 3Q2018. Importantly, the employment of EU nationals fell by 86K in July, potentially implying that EU citizens are moving back to their respective countries. We believe that there will be a further drop in EU nationals' employment in the UK in the near term, which could further tighten labour market conditions in our view. However, corporates' willingness to shift some of their workforce to the EU could partially offset the demand for labour in the UK, though these elements will largely depend on how the Brexit negotiations evolve ahead of the March 2019 separation deadline.

Wage growth remains subdued in July despite unemployment rate falling to 4%

Fig. 5. UK: Headline inflation strengthens in July, driven by energy and transportation prices

Source: UK Office for National Statistics

Fig. 6. UK: Wage growth remains subdued, despite unemployment rate falling to 4% in June

Source: UK Office for National Statistics

Headline inflation accelerated to 2.5% y-o-y in July from 2.4% in June, in line with the market's expectations. This was largely due to an increase in energy prices and transportation costs and volatile computer game prices. However, core inflation remained steady at 1.9% in the month, suggesting that underlying price pressures remained contained on the back of relatively muted service inflation. Moreover, non-energy industrial goods inflation decelerated further to 1.2% y-o-y in July (June: 1.3%), down from 2.1% in April 2018. However, the recent GBP depreciation will likely add upside pressure to imported inflation in 2H2018, though this is unlikely to alter the BoE's 2018 inflation projections given their already high estimate. We therefore expect the BoE to keep policy rates on hold until the UK leaves the EU in March 2019.

BoE likely to keep policy rates on hold for rest of 2H2018

C. Emerging Market Economies

India: July headline inflation softer but core remains steady

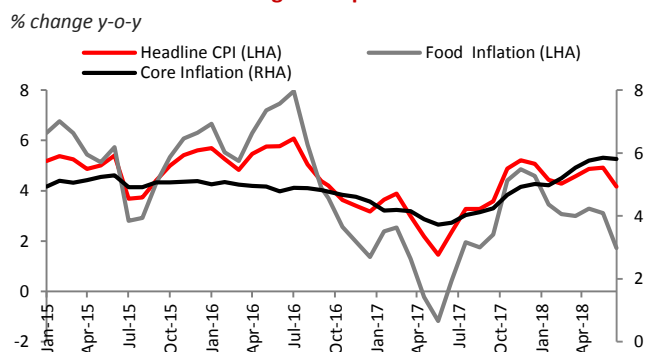
Headline inflation surprised to the downside in July and decelerated to 4.2% y-o-y (consensus: 4.5%) from a downwardly revised 4.9% in June. This downwards surprise was due to an unexpected contraction in vegetable prices (-2.2%), taking the food inflation component down to 1.7% y-o-y in July from 3.1% in June. We believe that food price inflation will remain benign on the back of widespread monsoon rainfall supporting agricultural production. However, core inflation (excluding food, tobacco and energy), which accounts for 45% of the CPI basket, remained steady at 6.3% y-o-y. The sub-components suggested that the rise in transport and communication prices was partially offset by a moderation in the clothing, health and recreation components. Meanwhile, fuel prices accelerated for a fourth consecutive month, up 8% in July compared to 7.2% in the previous month.

Core inflation steady at 6.3% y-o-y in July

The RBI continued to highlight upside risks to its inflation outlook from elevated crude prices, expansionary fiscal policy and rising domestic demand. Moreover, with the INR coming under downwards pressure on the back of developments in Turkey, we see further upside risks for imported inflation. The pre-emptive rate hikes by the RBI at its June and August meetings have had little impact so far in terms of curbing the INR's depreciation. If the INR depreciates further and the global crude price strengthens (potentially on the back of Iranian sanctions), the RBI could raise interest rates by another 25 bps in 4Q2018.

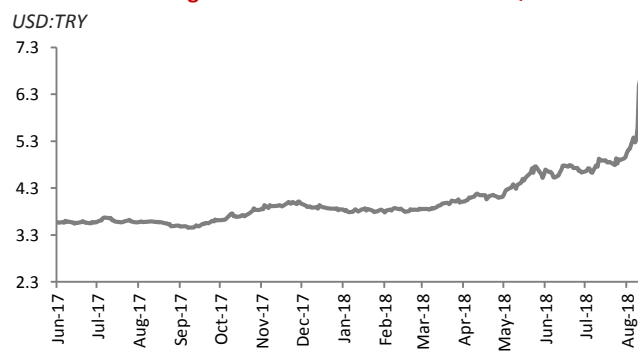
INR depreciation poses further upside risks to imported inflation in 2H2018

Fig. 7. India: Headline inflation decelerates in July, led by contraction in vegetable prices



Source: India Central Statistical Organisation

Fig. 8. Turkey: TRY strengthens against USD last week, following CBRT's counter measures and Qatar loan



Source: Bloomberg

Turkey: TRY stabilises moderately though tensions remain unabated

TRY stabilised somewhat at the end of last week down from the low seen on 13 August, following the CBRT's modest measures to cut the reserve requirement ratio for Turkish banks and restrain FX swap activity. Qatar's announcement to invest USD15 billion in Turkey also supported the TRY. However, we believe that neither of these measures will resolve Turkey's underlying economic problems including high inflation, the large current account deficit and a sizable external funding requirement. For further details please see our note, **GCC: Contained direct economic impact from Turkish crisis, UAE non-oil export risk**, published on 14 August 2018. The CBRT's unwillingness to raise benchmark policy rates at a time of heightened crisis suggests that policy inaction will be a key risk. We believe that the central bank should raise its benchmark policy rate by at least 300 bps as a token move to retain some credibility. Moreover, the increased political tensions between the US and Turkey are unlikely to abate given Turkey's counter measures to sanction some US products, in our view. Turkey's finance minister Berat Albayrak also ruled out the possibility of capital controls and stated that there were no plans to engage with the IMF. Citing the unpredictability of policy making and continuing weakening of the public institutions, Moody's downgraded Turkey's sovereign rating to 'Ba3' from 'Ba2' with a negative outlook. S&P also lowered Turkey's credit rating to 'B+' from 'BB-' last week, highlighting that the Turkish economy could be in recession in 2019. Overall, we are yet to see any credible plan from the government or the central bank to tackle the underlying causes of the current financial problems.

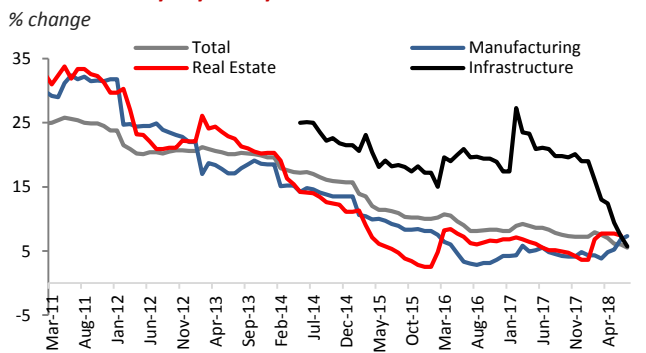
No credible plan yet to counter financial crisis

China: Economic activity softens further in July

China's economic activity data for July surprised to the downside, suggesting that domestic demand softened further at the beginning of 2H2018. Retail sales growth decelerated to 8.8% y-o-y in July – lower than both the consensus estimate of 9.1% and the June print of 9%. This was significantly below the 2017 average growth rate of 10.5% y-o-y and 1H2018's 9.4%. We believe that the downtrend in retail activity will continue in 2H2018, partly due to tighter credit conditions. Indeed, aggregate lending reached a 21-month low of RMB17.3 trillion in July, keeping the downtrend intact. The lower lending activity also had a marked impact on fixed asset investment growth, which moderated to a record low of 5.5% y-o-y in July (June: 6%). This was largely due to a sharp deceleration in infrastructure investment growth (Fig. 9), which is likely to face additional headwinds in the coming months due to the rising trade tensions between the US and China.

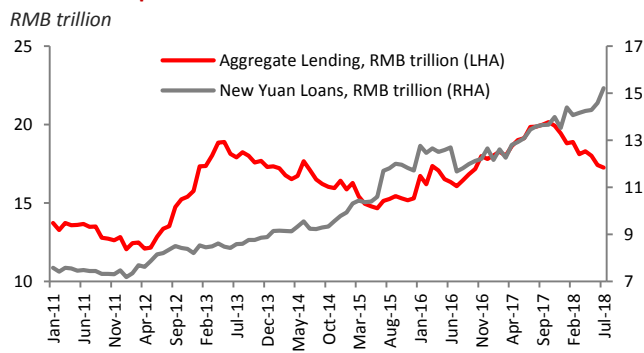
Retail sales growth decelerates to 8.8% y-o-y in July from 9% in June

Fig. 9. China: Infrastructure investment reaches series low of 5.5% y-o-y in July



Source: National Bureau of Statistics of China

Fig. 10. China: Aggregate lending continues downtrend in July despite rise in new loans



Source: PBoC

We believe that growth will remain subdued in 2H2018 though expect the government to initiate additional measures to support economic activity. The National Reform and Development Commission (NDRC) last week approved 17 investment projects worth USD11.24 billion in a move to support investment activity in China. We expect the government authorities to implement additional fiscal policy measures in the coming months to bolster the already-weak domestic demand. Moreover, the PBoC is expected to remain supportive by further reducing its reserve requirement ratios by at least 100 bps in 2H2018 to boost liquidity conditions in the economy.

Expansionary fiscal policy measures to remain key to supporting growth in 2H2018

II. Economic Calendar

Fig. 11. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Jul	3.3%	
	UAE	CPI, m-o-m	Jul	0.4%	
	Saudi Arabia	CPI, y-o-y	Jul	2.1%	
	Kuwait	CPI, y-o-y	Jul	0.5%	
	Kuwait	CPI, m-o-m	Jul	0.3%	
	Bahrain	CPI, y-o-y	Jul	2.8%	
	Oman	Budget Balance Month	Jun	-287.5M	
	Oman	Oil Output, y-o-y Month	Jul	0.5%	
Monday, 20 August					
3:01	UK	Rightmove House Prices, m-o-m	Aug	-0.1%	
13:00	Eurozone	Construction Output, m-o-m	Jun	0.3%	
19:00	US	Fed's Bostic Speaks on U.S. Economic Outlook in Tennessee			
22:00	Eurozone	Bundesbank President Jens Weidmann speaks in Frankfurt			
Tuesday, 21 August					
10:00	Japan	Machine Tool Orders, y-o-y	Jul F	13%	
12:30	UK	Public Finances (PSNCR)	Jul	13.3B	
12:30	UK	PSNB ex Banking Groups	Jul	5.4B	-1.1B
Wednesday, 22 August					
8:30	Japan	All Industry Activity Index, m-o-m	Jun	0.1%	-0.8%
15:00	US	MBA Mortgage Applications	17-Aug	-2%	
18:00	US	Existing Home Sales	Jul	5.38M	5.41M
22:00	US	FOMC Meeting Minutes	1-Aug		
Thursday, 23 August					
4:30	Japan	Nikkei Japan PMI Manufacturing	Aug P	52.3	
9:00	Japan	Leading Index CI	Jun F	105.2	
11:30	Eurozone	Bundesbank's Weidmann at Berlin Foreign Press Club			
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Aug P	55.1	55.2
12:00	Eurozone	Markit Eurozone Services PMI	Aug P	54.2	54.4
12:00	Eurozone	Markit Eurozone Composite PMI	Aug P	54.3	54.4
15:30	Eurozone	ECB Publishes Account of July Policy Meeting			
17:00	US	FHFA House Price Index, m-o-m	Jun	0.2%	0.3%
17:45	US	Markit US Manufacturing PMI	Aug P	55.3	55
17:45	US	Markit US Services PMI	Aug P	56	56
17:45	US	Markit US Composite PMI	Aug P	55.7	
18:00	US	New Home Sales	Jul	631K	648K
18:00	Eurozone	Consumer Confidence	Aug A	-0.6	-0.7
Friday, 24 August					
3:30	Japan	National CPI, y-o-y	Jul	0.7%	1%
3:30	Japan	National CPI, ex-Fresh Food, y-o-y	Jul	0.8%	0.9%
4:00	US	Fed Hosts Annual Jackson Hole Central Banking Symposium			
10:00	Germany	GDP SA, q-o-q	2Q F	0.5%	0.5%
10:00	Germany	GDP NSA, y-o-y	2Q F	2.3%	2.3%
10:00	Germany	GDP WDA, y-o-y	2Q F	2%	2%
16:30	US	Durable Goods Orders	Jul P	0.8%	-0.5%
16:30	US	Durables, ex-Transportation	Jul P	0.2%	0.5%
16:30	US	Capital Goods Orders, Non-defence, ex-Air	Jul P	0.2%	0.5%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jul P	0.7%	0.3%
17:00	US	Powell to Discuss Economy and Monetary Policy at Jackson Hole			

* UAE time

Source: Bloomberg

Fig. 12. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
MENA Economies						
	UAE	M2 Money Supply, m-o-m	Jul	-0.3%		0.2%
	UAE	Central Bank Foreign Assets	Jul	331.1B		332.3B
	UAE	Dubai Economy Tracker SA	Jul	56		54.9
	Oman	CPI, y-o-y	Jul	1.4%		1.4%
	Qatar	CPI, y-o-y	Jul	0.1%		0.2%
	Egypt	Trade Balance	Jun	-3846M		-3625M
	China	Money Supply M2, y-o-y	Jul	8%	8.2%	8.5%
	China	New Yuan Loans CNY	Jul	1840B	1275B	1450B
	India	Exports, y-o-y	Jul	17.6%		14.3%
Monday, 13 August						
16:00	India	CPI, y-o-y	Jul	4.9%	4.5%	4.2%
Tuesday, 14 August						
6:00	China	Retail Sales, y-o-y	Jul	9%	9.1%	8.8%
6:00	China	Industrial Production, y-o-y	Jul	6%	6.3%	6%
8:30	Japan	Industrial Production, m-o-m	Jun F	-2.1%		-2.2%
10:00	Germany	GDP SA, q-o-q	2Q P	0.3%	0.3%	0.3%
12:30	UK	Jobless Claims Change	Jul	9K		6.2K
12:30	UK	Average Weekly Earnings, 3M/y-o-y	Jun	2.5%	2.5%	2.4%
12:30	UK	Weekly Earnings, ex-bonus, 3M/y-o-y	Jun	2.8%	2.7%	2.7%
12:30	UK	ILO Unemployment Rate, 3M	Jun	4.2%	4.2%	4%
13:00	Eurozone	Industrial Production SA, m-o-m	Jun	1.4%	-0.7%	-0.4%
13:00	Eurozone	GDP SA, q-o-q	2Q P	0.3%	0.3%	0.4%
13:00	Eurozone	GDP SA, y-o-y	2Q P	2.1%	2.1%	2.2%
16:30	US	Import Price Index, m-o-m	Jul	-0.1%	0%	0%
Wednesday, 15 August						
11:00	Turkey	Unemployment Rate	May	9.6%		9.7%
12:30	UK	CPI, m-o-m	Jul	0%	0%	0%
12:30	UK	CPI, y-o-y	Jul	2.4%	2.5%	2.5%
12:30	UK	CPI Core, y-o-y	Jul	1.9%	1.9%	1.9%
16:30	US	Empire Manufacturing	Aug	22.6	20	25.6
16:30	US	Retail Sales Advance, m-o-m	Jul	0.2%	0.1%	0.5%
16:30	US	Retail Sales, ex-Auto, m-o-m	Jul	0.2%	0.3%	0.6%
16:30	US	Retail Sales Control Group	Jul	-0.1%	0.4%	0.5%
17:15	US	Industrial Production, m-o-m	Jul	1%	0.3%	0.1%
Thursday, 16 August						
3:50	Japan	Trade Balance	Jul	¥721.4B	-¥41.2B	-¥231.2B
11:00	Turkey	Industrial Production, y-o-y	Jun	6.5%	5%	3.2%
12:30	UK	Retail Sales, ex-Auto Fuel, m-o-m	Jul	-0.6%	0%	0.9%
12:30	UK	Retail Sales, incl.-Auto Fuel, m-o-m	Jul	-0.5%	0.2%	0.7%
16:30	US	Housing Starts	Jul	1158K	1260K	1168K
16:30	US	Building Permits	Jul	1292K	1310K	1311K
	Egypt	Lending Rate	16-Aug	17.75%		17.75%
	Egypt	Deposit Rate	16-Aug	16.75%	16.75%	16.75%
Friday, 17 August						
11:00	Turkey	Consumer Confidence Index	Aug	73.1		68.3
13:00	Eurozone	CPI Core, y-o-y	Jul F	1.1%	1.1%	1.1%
13:00	Eurozone	CPI, y-o-y	Jul F	2%	2.1%	2.1%
18:00	US	Leading Index	Jul	0.5%	0.4%	0.6%
18:00	US	University of Michigan Sentiment	Aug P	97.9	98	95.3

* UAE time

Source: Bloomberg

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