

## The Week Ahead: Central banks in focus – BoE to hike, Fed and RBI on hold

### ▶ **UK: BoE to hike in August; voting pattern in focus**

The BoE is widely expected to raise its benchmark rate by 25 bps to 0.75% at its 2 August meeting. The market's focus will likely be on the voting pattern, forward guidance, neutral rate estimate and inflation projections. We expect a vote split of 8-1 in favour of the hike with Jon Cunliffe likely to be the lone dissenter. The tone of the meeting is likely to be dovish given the softening core inflation and relatively subdued wage growth in recent months. Despite the dovish tone, we do not see the BoE changing its inflation and growth projections for 2018. Moreover, any adjustments to its 2019 and 2020 forecasts are unlikely to have a material impact on the financial markets, given the lack of clarity over future relationship with the EU.

### ▶ **US: FOMC meeting, labour data and PCE inflation**

The Fed is expected to keep the FFTR on hold with the upper bound remaining at 2% at its 1 August meeting. The market's focus will be on the post-meeting statement (no press conference scheduled) and we do not expect any major changes to it from the last time. The statement will likely reflect Fed Chair Jerome Powell's optimistic view on the economic outlook and the need for further gradual rate hikes. The coming week will also be important on the data front with releases including June PCE inflation and non-farm payrolls for July. Consensus forecasts a healthy labour market with 193K jobs created in July (June: 213K). The unemployment rate is estimated to have fallen back to 3.9% in July after an unexpected rise to 4% in June. Wage growth is projected to have risen a tad to 0.3% m-o-m in July (June: 0.2%) though with the y-o-y rate steady at 2.7%. Meanwhile, core PCE inflation is expected to have softened to 0.1% m-o-m in June (May: 0.2%), keeping the y-o-y reading steady at 2%.

### ▶ **India: RBI to remain on hold with neutral stance**

We expect the RBI to keep the repo rate steady at 6.25% at its 1 August policy meeting, with a neutral stance. We believe that the RBI will likely wait for additional data on inflation and growth indicators before probably proceeding with the next hike in October. The incoming data showed that inflation surprised to the downside in June alongside soft economic activity. We expect normal monsoon rainfall to keep food prices under control despite the government's proposed plan to hike the minimum support price for crops (details of procurement mechanism yet to be released). Crude prices have also stabilised since the last RBI meeting, supporting our call to hold rates steady.

### ▶ **Japan: BoJ to remain on hold with some likely tweaks**

BoJ's policy meeting will be watched closely this week, following market speculation that the bank may tweak its monetary policy. We believe that the BoJ is not in a position to exit from the accommodative monetary policy at this point, given the subdued inflation outlook. Despite that, the BoJ may add some flexibility to its policy, by switching from Nikkei 225 ETF purchases to Topix ETFs and changing the JGB bond buying operations policies (widening offer size ranges for JGB purchases and ending the release of JGB buying date).

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## I. Recent Events and Data Releases

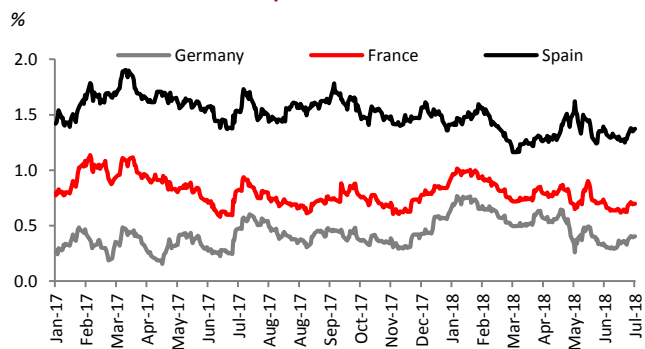
### A. G4 Economies

#### Eurozone: ECB kept monetary policy and rate hike guidance steady

The ECB left its monetary policy unchanged at its 26 July meeting, including forward guidance on interest rate hikes, the asset purchase programme and the reinvestment policy. The central bank reaffirmed that it will end the asset purchase programme by end-2018, as outlined in the previous meeting. The Governing Council (GC) reiterated that interest rates will remain at their current levels “at least through the summer of 2019”, with Draghi highlighting that market expectations regarding the next rate hikes are “very well aligned” with the GC’s view. Currently, markets are pricing in a 10 bps deposit rate hike in 4Q2019. Moreover, Draghi highlighted that the GC didn’t have any discussion about reinvestment policy, whilst he also stressed that there was not even a conversation on when to start the discussion on reinvestments. This suggests that the ECB is unlikely to tweak any of the forward guidance language in the upcoming meetings, in our view. Interestingly, Draghi used the word “optionality” several times during the post-meeting press conference, indicating that the ECB’s future course of action will likely be data dependent. The ECB’s “prudence, patience and persistence” guidance continues to indicate that the ECB will proceed with gradual monetary policy normalisation.

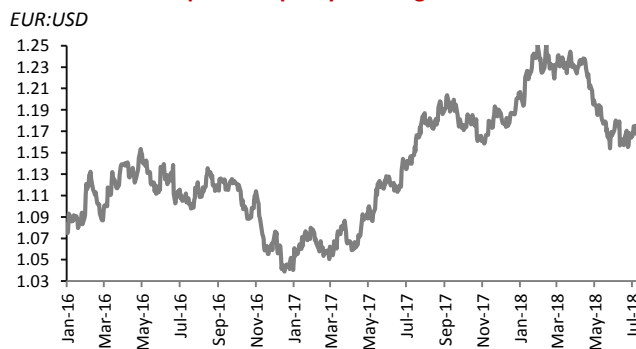
*ECB President Draghi backs expectations of late 2019 rate hike*

**Fig. 1. Eurozone: Bond yields hold steady, with ECB pushing back rate hike expectations to late-2019**



Source: Bloomberg

**Fig. 2. Eurozone: EURUSD continues to trade in range-bound manner post ECB policy meeting**



Source: Bloomberg

On the macro front, the GC expressed confidence that underlying inflation will pick up towards end-2018, with gradual increases thereafter over the medium term. Furthermore, Draghi underlined that wage growth is witnessing a meaningful pickup and is expected to support core inflation in the medium term. On the growth outlook, the ECB stated that the Eurozone economy continued to exhibit solid and broad-based economic growth, with risks to the outlook remaining broadly balanced. However, Draghi pointed out that the GC remains concerned about protectionism but the positive outcome from the recent EU and US negotiations was a “good sign” for multilateralism.

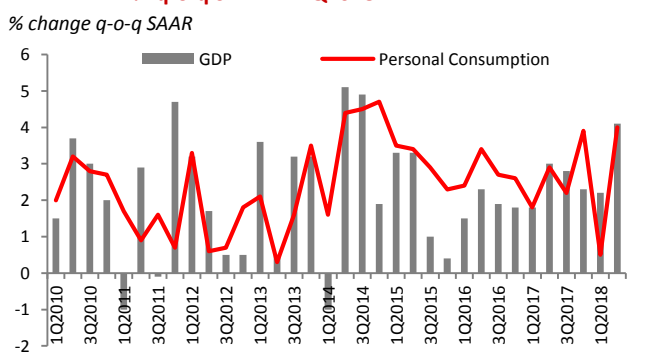
*ECB remains confident that core inflation will strengthen gradually in 2H2018 and 2019*

### US: Real GDP growth hits 4.1% in 2Q2018

The US economy expanded at a solid pace of 4.1% q-o-q SAAR in 2Q2018, albeit marginally lower than the consensus estimate of 4.2%. This is the fastest pace of growth recorded since 3Q2014, with the economy seeing a broad-based strengthening in activity supported by the government’s tax cuts and increased spending. Moreover, 1Q2018 GDP growth was revised up to 2.2% q-o-q SAAR from 2% in the previous estimate. Personal consumption was the key driver of the GDP growth in 2Q, which accelerated to 4% (consensus: 3%), up from 0.5% in the previous quarter. Non-residential business fixed investment was also robust, supported by strong durable goods orders and positive business sentiment on the back of tax cuts. Exports too contributed positively to the headline growth, led by a significant rise in soybeans exports ahead of proposed tariff measures. However, residential fixed investment and private inventories contributed negatively to the growth. We expect inventories to rebound and accumulate in the upcoming quarters, contributing positively to headline growth. Overall, we expect this solid economic momentum to continue into 2H2018, despite the trade tensions, which are expected to weigh negatively on net exports.

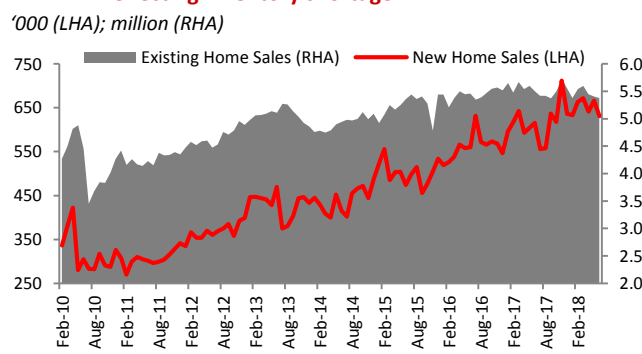
*Household spending solid in 2Q2018, supported by increasing real disposable income*

**Fig. 3. US: Real GDP growth strengthens to 15-quarter high of 4.1% q-o-q SAAR in 2Q2018**



Source: US Bureau of Economic Analysis

**Fig. 4. US: Both new and existing home sales fall in June, reflecting inventory shortage**



Source: National Association of Realtors

### US: New home sales hit eight-month low in June

Housing data for June showed a broad-based monthly contraction in activity, likely reflecting rising construction costs and mortgage rates. Housing starts moderated to a nine-month low of 1,173K in June from 1,337K in May (revised higher), likely suggesting that the housing market has peaked for the current business cycle. Moreover, both new and existing home sales fell in June with sales slowing down in most regions. New home sales contracted by 5.3% m-o-m in June and reached 631K – significantly lower than the consensus expectations of 668K. The May data was also revised down to 666K from the first estimate of 689K. Sales of under-construction and completed houses saw a sharp deceleration in June whilst houses sold with construction yet to start have accelerated. This suggests that there remains a marked shortage of properties for sale in the market, resulting in lower residential investment activity. We believe that rising construction costs – already reflected in higher lumber prices – and the shortage of land and labour will remain a major headwind for the housing sector in the coming period. Overall, the housing market continues to lag behind other key sectors of the economy which are witnessing a solid expansion in activity.

*Housing sector continues to underperform other key areas of economy*

### US: Trump and EU officials agree to work towards 'zero tariff' pact

European Commission President Jean-Claude Juncker and US President Donald Trump have agreed to work towards zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods. EU officials also pledged to reduce trade barriers in a number of sectors including chemicals, pharmaceuticals, medical products and services. Importantly, the EU has agreed to diversify its energy supply and import more liquefied natural gas. In addition, EU leaders also pledged to increase imports of soybeans, which will benefit the US agricultural sector. Lastly, both parties vowed to reform the WTO – particularly to address existing unfair trade practices, especially in the areas of intellectual property and technology transfers. We believe that this will be the first step towards easing the increasing trade tensions and protectionist policies across the globe.

*US President Donald Trump declares “new phase” in US-EU relationship*

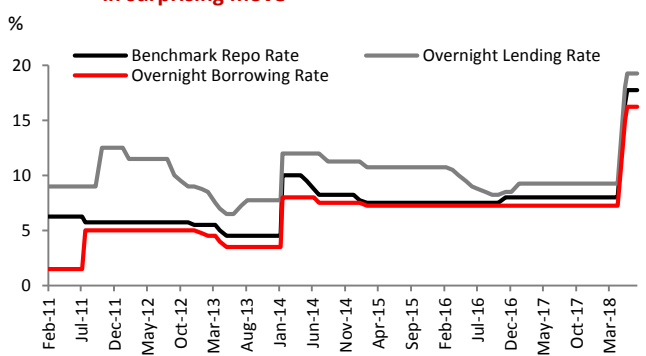
## B. Emerging Market Economies

### Turkey: CBRT keeps policy rate on hold in unexpected move

The CBRT left its one-week repo rate unchanged at 17.75% at its 24 July meeting, contrary to market expectations of a 100 bps rate hike. The central bank made notable changes to the post-meeting statement and highlighted that domestic demand is now decelerating at a faster pace, causing a sharp slowdown in economic activity. Moreover, the central bank’s statement underlined that it would first assess the lagged impact of its earlier rate hikes and the contribution of fiscal policy measures to inflation outlook before raising interest rates further. This suggests that the CBRT is pinning its hopes on the rate hikes delivered in 1H2018 to contain inflationary pressure in the near term. We remain unconvinced by this argument given that headline inflation reached an almost 15-year high of 15.3% y-o-y in June. Moreover, the inflation outlook is expected to deteriorate further in 3Q before showing some normalisation in 4Q. Thus, we believe that the CBRT has missed an opportunity to hike the policy rate when markets were expecting a hike. This has further increased the uncertainty related to the CBRT’s forward guidance and the near-term interest rate outlook, in our view.

*CBRT surprises markets by keeping one-week repo rate unchanged at 17.75%*

**Fig. 5. Turkey: CBRT leaves policy rates unchanged at 17.75% in surprising move**



Source: CBRT

**Fig. 6. Turkey: TRY comes under further pressure against USD last week due to increased policy uncertainty**



Source: Bloomberg

The central bank’s surprise decision led the USD/TRY to breach the 4.9 level once again, reflecting investors’ increasing concerns over the policy outlook. We believe that any further depreciation in the TRY is likely to negatively impact the near-term inflation

*Further depreciation in TRY could lead CBRT to raise policy rate in unscheduled meeting*

outlook. This in turn could lead the CBRT to raise interest rates at an unscheduled policy meeting, particularly to contain investors' pessimism regarding Turkish financial assets. In addition, the central bank's independence under the new presidential system remains a key area of concern for markets following the recent amendments to the Central Bank of Turkey law.

## II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
	UAE	CPI, y-o-y	Jun	3.5%	
	Saudi Arabia	Non-Oil Exports, y-o-y	May	26.5%	
	Saudi Arabia	M2 Money Supply, y-o-y	Jun	0.1%	
	Saudi Arabia	SAMA Net Foreign Assets SAR	Jun	1863.9B	
	Qatar	M2 Money Supply, y-o-y	Jun	11.6%	
<b>Monday, 30 July</b>					
3:50	Japan	Retail Trade, y-o-y	Jun	0.6%	1.7%
12:30	UK	Mortgage Approvals	Jun	64.5K	65.5K
18:00	US	Pending Home Sales, m-o-m	Jun	-0.5%	0.2%
<b>Tuesday, 31 July</b>					
3:30	Japan	Jobless Rate	Jun	2.2%	2.3%
3:50	Japan	Industrial Production, m-o-m	Jun P	-0.2%	-0.3%
5:00	China	Manufacturing PMI	Jul	51.5	51.3
13:00	Eurozone	Unemployment Rate	Jun	8.4%	8.3%
13:00	Eurozone	CPI Core, y-o-y	Jul A	0.9%	1%
13:00	Eurozone	CPI Estimate, y-o-y	Jul	2.0%	2%
13:00	Eurozone	GDP SA, q-o-q	2Q A	0.4%	0.4%
13:00	Eurozone	GDP SA, y-o-y	2Q A	2.5%	2.2%
16:30	US	PCE Core, m-o-m	Jun	0.2%	0.1%
16:30	US	PCE Core, y-o-y	Jun	2%	2%
16:30	US	Personal Income	Jun	0.4%	0.4%
16:30	US	Personal Spending	Jun	0.2%	0.4%
18:00	US	Conference Board Consumer Confidence	Jul	126.4	126.5
	Japan	BOJ Policy Balance Rate	31-Jul	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	31-Jul	0%	0%
<b>Wednesday, 1 August</b>					
5:45	China	Caixin China PMI Manufacturing	Jul	51	50.9
12:30	UK	Markit UK PMI Manufacturing SA	Jul	54.4	54.2
13:00	India	RBI Repurchase Rate	1-Aug	6.25%	6.5%
13:00	India	RBI Reverse Repo Rate	1-Aug	6%	6.25%
13:00	India	RBI Cash Reserve Ratio	1-Aug	4%	4%
18:00	US	ISM Manufacturing	Jul	60.2	59.3
22:00	US	FOMC Rate Decision (Upper Bound)	1-Aug	2%	2%
22:00	US	FOMC Rate Decision (Lower Bound)	1-Aug	1.75%	1.75%
<b>Thursday, 2 August</b>					
3:50	Japan	Monetary Base, y-o-y	Jul	7.4%	
15:00	UK	Bank of England Bank Rate	2-Aug	0.5%	0.75%
15:00	UK	BOE Asset Purchase Target	Aug	435B	435B
18:00	US	Factory Orders	Jun	0.4%	0.7%
<b>Friday, 3 August</b>					
5:45	China	Caixin China PMI Composite	Jul	53	
11:00	Turkey	CPI, y-o-y	Jul	15.4%	16.3%
12:30	UK	Markit UK Composite PMI	Jul	55.2	54.9
13:00	Eurozone	Retail Sales, y-o-y	Jun	1.4%	1.4%
16:30	US	Trade Balance	Jun	-\$43.1B	-\$46.1B
16:30	US	Change in Nonfarm Payrolls	Jul	213K	193K
16:30	US	Change in Manufacturing Payrolls	Jul	36K	22K
16:30	US	Unemployment Rate	Jul	4%	3.9%
16:30	US	Average Hourly Earnings, m-o-m	Jul	0.2%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Jul	2.7%	2.7%
16:30	US	Labor Force Participation Rate	Jul	62.9%	
18:00	US	ISM Non-Manufacturing Composite	Jul	59.1	58.6

\* UAE time

Source: Bloomberg

Fig. 8. Last week's events

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	UAE	Dubai Airport Cargo Volume, y-o-y	Jun	-4.9%		-0.5%
	Saudi Arabia	CPI, y-o-y	Jun	2.3%		2.1%
	Bahrain	CPI, y-o-y	Jun	2.8%		2.8%
	Kuwait	Annual GDP Current, y-o-y	2017	-4.1%		9.7%
<b>Monday, 23 July</b>						
16:30	US	Chicago Fed Nat Activity Index	Jun	-0.45	0.25	0.43
18:00	Eurozone	Consumer Confidence	Jul A	-0.6	-0.7	-0.6
18:00	US	Existing Home Sales	Jun	5.41M	5.44M	5.38M
<b>Tuesday, 24 July</b>						
4:30	Japan	Nikkei Japan PMI Manufacturing	Jul P	53		51.6
9:00	Japan	Leading Index CI	May F	106.9		106.9
12:00	Eurozone	Markit Eurozone Manufacturing PMI	Jul P	54.9	54.7	55.1
15:00	Turkey	One-Week Repo Rate	24-Jul	17.75%	18.75%	17.75%
17:00	US	FHFA House Price Index, m-o-m	May	0.2%	0.3%	0.2%
17:45	US	Markit US Manufacturing PMI	Jul P	55.4	55.1	55.5
17:45	US	Markit US Services PMI	Jul P	56.5	56.3	56.2
17:45	US	Markit US Composite PMI	Jul P	56.2		55.9
18:00	US	Richmond Fed Manufacturing Index	Jul	21	18	20
<b>Wednesday, 25 July</b>						
12:00	Eurozone	M3 Money Supply, y-o-y	Jun	4%	4%	4.4%
12:00	Germany	IFO Business Climate	Jul	101.8	101.5	101.7
12:00	Germany	IFO Expectations	Jul	98.5	98.3	98.2
12:00	Germany	IFO Current Assessment	Jul	105.2	104.9	105.3
15:00	US	MBA Mortgage Applications	20-Jul	-2.5%		-0.2%
18:00	US	New Home Sales	Jun	666K	668K	631K
<b>Thursday, 26 July</b>						
10:00	Germany	GfK Consumer Confidence	Aug	10.7	10.7	10.6
15:45	Eurozone	ECB Main Refinancing Rate	26-Jul	0%	0%	0%
15:45	Eurozone	ECB Marginal Lending Facility	26-Jul	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	26-Jul	-0.4%	-0.4%	-0.4%
16:30	US	Wholesale Inventories, m-o-m	Jun P	0.4%	0.5%	0%
16:30	US	Durable Goods Orders	Jun P	-0.3%	3%	1%
16:30	US	Durables, ex-transportation	Jun P	0.3%	0.5%	0.4%
16:30	US	Cap Goods Shipments, non-def, ex-air	Jun P	0.2%	0.4%	1%
<b>Friday, 27 July</b>						
3:30	Japan	Tokyo CPI, y-o-y	Jul	0.6%	0.7%	0.9%
3:30	Japan	Tokyo CPI, ex-Fresh Food, y-o-y	Jul	0.7%	0.7%	0.8%
16:30	US	GDP Annualized, q-o-q	2Q A	2.2%	4.2%	4.1%
16:30	US	Personal Consumption	2Q A	0.5%	3%	4%
16:30	US	GDP Price Index	2Q A	2%	2.3%	3%
16:30	US	Core PCE, q-o-q	2Q A	2.2%	2.2%	2%
18:00	US	U. of Mich. Sentiment	Jul F	97.1	97.1	97.9

\* UAE time

Source: Bloomberg

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