

Weekly Highlights

- **Powell's remains dovish even as inflation surges**
- **Housing data in focus**

- **BoJ starts slowly on its path to green policy**
- **Olympics finally here. Suga hoping for a boost**

- **ECB in focus as policy review to be actioned at July meeting.**
- **Hawk talk doing the rounds at the BoE**

- **China Q2 GDP expanded 7.9%YoY**
- **LRPs to remain unchanged, despite RRR cut**

- **Delta variant cases spike across ASEAN hurting the recovery**
- **BI to remain vigilant even as risks to growth become apparent**

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US – Fiscal and monetary policy in focus

Major Events and Data Releases

Date	Event	Survey	Prior
19-Jul	NAHB Housing index (DI, Jul)	82	81
20-Jul	Housing starts (%MoM, Jun)	1.2	3.6
22-Jul	Weekly jobless claims (k)	350	360
	Leading index (%MoM, Jun)	0.9	1.3
	Existing home sales (%MoM, Jun)	1.7	-0.9
	Composite PMI, flash (DI, Jul)	63.6	63.7

Source: Bloomberg

It was another eventful week with the data on both activity (retail sales) and prices (CPI and PPI) coming in ahead of expectations. Financial sector earnings were also on the firm side helped in part by reversing credit charges from last year. Covid case numbers in the US are edging higher as vaccination rates drop sharply but deaths remain low. The main focus was on the Fed with Chair Powell's testimony to Congress the highlight. The testimony was more in line with pre-June FOMC commentary stressing labour market metrics and suggesting that there was still some distance to go before making "substantial further progress". Powell stuck to the line that the bump in inflation is largely temporary. Even as the CPI surged to 5.4%YoY, the details lent some support to that view as re-opening categories dominated the month on month gains again. That said the price pressures in this week's business surveys (Empire State, Philly Fed, NFIB) suggest things will remain uncomfortable for the Fed for a while yet – not getting much worse but not easing back much either. Despite the upbeat data and the determination of the Fed Chair to run the economy hot, long-end yields dropped on the week, even as 2yr UST yields pushed higher. Equities edged lower on the week and the US dollar was firm against the G10 only losing ground to NZD, where a hawkish central bank ended QE ahead of expectations. NOK led the losers on the week as OPEC+ finally agreed a production increase and oil prices suffered their worst week since March.

Outlook

Ahead of the 28 July FOMC meeting the Fed will be in the quiet period and so there will be no official commentary. That will not stop Fed policy being at the heart of the discussion on markets in the coming week. Many investors do not seem as willing to be as patient as the Fed is. On the data front the focus is on housing with many commentators calling on the Fed to stop MBS purchases amid a relatively rapid increase in house prices. While housing starts are elevated, existing home sales are well off their Covid peak. Fiscal policy will also be in focus as the Senate majority leader Schumer has set Wednesday as the deadline to make progress on the infrastructure package and on the budget resolution. Earnings also remain a focus as the pace picks up in the coming week.

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Japan – Olympics finally due to get underway

Major Releases

Date	Event	Survey	Prior
20-Jul	CPI (%YoY, Jun)	0.2	-0.1
	Ex fresh food CPI (%YoY, Jun)	0.2	0.1
	Ex ff&E CPI (%YoY, Jun)	-0.2	-0.2
21-Jul	Trade balance, sa (¥bn, Jun)	17.5	43.1
	Exports (%YoY, Jun)	46.2	49.6
	Imports (%YoY, Jun)	28.3	27.9
	Supermarket sales (%YoY, Jun)		2.9

Source: Bloomberg

The BoJ meeting did not move markets as the Bank opted to start cautiously in its efforts to green policy in Japan. It was a lacklustre week for markets in Japan. Solid gains early in the week gave way to declines on Thursday and Friday but Japan's Topix still managed to end the week a little higher, despite concern at the rising Covid case count. JGB yields nudged lower while the yen was firm. It edged lower against the US dollar but was up on the week against most of the rest of the G10.

Outlook

The Olympics are finally here. It is hard not to feel some sympathy for the Japanese organisers trying to put the show on in the midst of a pandemic. Certainly, there has been some domestic resistance with a number of polls showing a substantial minority looking for the Games to be cancelled. We expect that once the Games get underway the resistance will ease. There have been many successful sporting events held without fans during the pandemic and it is likely that the Olympics will join the list. The home nation always do well and the circumstances likely mean a few extra medals for the home nation as some potential medal winners from overseas decide not to participate. Japan's vaccination rate is rising steadily with the daily number of doses around the 1.5mn mark. By autumn the economy should be a lot closer to re-opening and we expect this will boost sentiment and the fortunes of the LDP in the autumn Lower House election.

Next week's data include the national CPI and the trade report. Japan is likely to experience a little of the global pick up in inflation, with the headline CPI expected to rise to 0.2%YoY, its highest level since summer last year. The bulk of the gains will be driven by food and energy prices. Ex food and energy CPI is seen unchanged at -0.2%YoY. Even in Japan there are probably upside risks to current inflation forecasts, stemming from the rise in import prices amid the surge in manufactured goods and commodity prices the world over. That said, with the domestic economy still lagging domestically generated price pressures should remain subdued for now, but may pick up a little late in the year as Japan gets closer to a level of vaccinations that will allow much of normal life to resume. The trade report will be most closely watched for what it can tell us about the contribution of net exports to Q2 GDP. Our current forecast is for Q2 GDP to be flat to marginally positive but the risks for now are on the downside.

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Europe – ECB to put policy review into action. BoE hawks ready to fly**Major Events and Data Releases**

Date	Event	Survey	Prior
20-Jul	EZ – Current account, sa (€bn, May)	--	22.8
22-Jul	EZ – ECB meeting (% , depo)	-0.5	-0.5
	EZ – Consumer confidence (DI, Jul)	-2.5	-3.3
	UK – CBI industrial trends (DI, Jun)	35	38
23-Jul	EZ – Composite PMI, flash (DI, Jul)	60.0	59.5
	UK – Composite PMI, flash (DI, Jul)	62.0	62.2
	UK – Consumer confidence (DI, Jul)	-8	-9
	UK – Retail sales (%MoM, Jun)	0.4	-1.4

Source: Bloomberg

It has been an eventful week in Europe too. The EU launched its climate blueprint, President Lagarde promised new (and presumably more dovish) forward guidance at the upcoming policy meeting, while in the UK two neutral/dovish central bank speakers made the case for tightening sooner rather than later. Despite the more dovish nature of ECB commentary EUR/GBP actually rose on the week although both dropped against the US dollar in a modestly risk-off week for bonds and stocks. Cable's drop is especially curious given the hawkish BoE speak and the dovish edge to Fed Chair Powell's remarks. While UK inflation did push higher on the week, it still trails US CPI by some distance.

Outlook

The focus of the coming week will be ECB policy after President Lagarde told the press at the start of this week that "It's going to be an important meeting...Given the persistence that we need to demonstrate to deliver our commitment, forward guidance will certainly need to be revisited". If the ECB is serious about hitting the inflation target as early as possible, it will need to ease further. It could strengthen its commitment to keep rates low ensuring they are lower for longer, as Lagarde has hinted at. In addition to forward guidance the ECB has scope to boost asset purchases and/or make clear that, when the PEPP is scheduled to end in March next year, the existing Asset Purchase Programme will be beefed up and made more flexible to ensure that policy is not inappropriately tightened. There are question marks about the resistance to such a move but Lagarde will likely argue that all members have signed up to the new framework and thus rejecting the next steps is inconsistent. The flash PMI data will be watched for signs that price pressures remain elevated. In the UK the government is set to end the bulk of social restrictions on 19 July despite the fact the Delta variant is running amok, with daily cases close to 50k. Many in the medical establishment have urged caution and ONS data show many members of the public in the same camp. The government is encouraged that despite the fact that case numbers are surging, hospitalisation and deaths remain at much lower levels, although they are climbing slightly. The baseline assumption is that the vaccines do their job and, in the absence of a new variant, much of business as usual can return. UK retail sales and consumer confidence are also due.

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China – Firm data alleviate growth concerns after RRR cut

Major Events and Data Releases

Date	Event	Survey	Prior
20 Jul	1Y Loan Prime Rate (\$, Jul)	3.85	3.85
	5Y Loan Prime Rate (\$, Jul)	4.65	4.65
22 Jul	Swift Global Payments CNY (% , Jun)	--	1.9
23 Jul	FX Net Settlement – Client (CNY bn, Jun)	--	139.3

Source: Bloomberg

The China data/event calendar was busy. Firmer China hard data for June as well as robust Q2 GDP alleviated concern over slowing growth momentum driven by the PBoC's surprising Required Reserves Ratio (RRR) cut. Exports, retail sales, industrial production and fixed assets investment for June all came in stronger than expected. Q2 GDP matched consensus largely, expanding 7.9%YoY (vs. +8.0%YoY expected). Retail sales growth for June moderated slightly to +12.1%YoY (vs. 10.8%YoY expected) from +12.4%YoY, reflecting that improvement in consumption amid the reopening and stable pandemic conditions. Industrial production slowed to +8.3%YoY (vs. +7.9%YoY expected) from prior +8.8%YoY, given the support from exports orders and the high-tech sector. Fixed Assets Investment (FAI) YTD decelerated to +12.6%YoY (vs. +12.0%YoY expected) while the increasing local government supply should offer some funding support to the rather weak infrastructure FAI. Despite fluctuating capital inflow to A-shares and PBoC's easing bias, simulated CFETS RMB basket index remained elevated at above 98 level. Moreover, China-US tensions garnered some attention as Biden said situation in HK was deteriorating and the administration is expected to issue a warning of business to US firms.

Onshore liquidity condition remained stable as the PBoC's 0.5ppt RRR cut turned effective. The PBoC partially rolled over the matured 1Y Medium Lending Facilities (MLF) at 2.95% and net drained CNY 300bn liquidity. The net liquidity injection from the RRR cut turned out to be CNY 700bn. 7-day interbank CNY repo rate edged up to 2.18%. 10Y China Government Bond (CGB) yield was being capped below 3%. In the offshore RMB market, overnight CNH HIBOR fell back to around 2.6%.

Outlook

The CNH remained biased towards 6.5 handle as the PBoC's RRR cut opened door for further easing in H2. While 1Y MLF yield remained unchanged at 2.95%, the PBoC might set Loan Prime Rates (LPRs) marginally lower to reflect the liquidity injection via the RRR cut. We expect the PBoC to drive real interest rates lower to support small-and-medium enterprises in H2. Along with the upshot in US CPI inflation, the growing USD strength could keep the EM Asian currencies on the back foot. The development in China-US tensions is worth watching while room for any improvement under Biden's presidency should prove to be limited.

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EM Asia – Delta doldrums

Major Events and Data Releases

Date	Event	Survey	Prior
20 Jul	Australia RBA Minutes (July)	--	--
21 Jul	Australia Retail Sales (%MoM, Jun)	-0.8	0.4
	Australia Leading Index MoM (Jun)	--	-0.1
	Korea PPI (%YoY, Jun)	--	6.4
	Thailand Trade Balance (\$mn, Jun)	548	796
	Thailand Exports (%YoY, Jun)	38.0	41.6
22 Jul	Australia Business Confidence (2Q)	--	17
	Indonesia BI 7-Day Reverse Repo (%)	3.50	3.50
23 Jul	Singapore CPI (%YoY, Jun)	2.5	2.4
	Malaysia CPI (%YoY, Jun)	3.4	4.4

Source: Bloomberg

The highly transmissible delta variant is prolonging Southeast Asia's struggles with the COVID-19 pandemic and pushing these countries further into the doldrums. Indonesia, Malaysia and Thailand hit record daily cases in the past week. Indonesia's government will most likely extend social restrictions into August seeing as the daily case count exceeds 50,000 with hospital capacity stretched and the vaccination drive struggling to keep pace with the outbreak. In Malaysia, despite lockdown conditions for over a month, the daily case count shows little signs of relenting. The good news is that the pace of vaccinations is increasing but it will take time to outpace new infections.

Thailand is facing a dilemma with opening up Phuket to a tourism bubble but further imposing social restrictions in Bangkok. All this while the pace of vaccinations remains slow. Although daily cases in the Philippines have slowed, the first case of the delta variant was detected this week. Against a backdrop of slow vaccination procurement, the spread of this strain poses a serious blow to the recovery. Even Singapore is experiencing a spike in daily cases after the economy registered 14.3%YoY growth in Q2. But much of this was exaggerated by a low base effect and on a sequential basis, the economy contracted 2%.

Outlook

The focus for the next week is on Bank Indonesia. BI highlighted last week that 2021 growth could be 3.8% with the risks tilted to the downside; it will likely formalise this growth downgrade at its 22 July meeting. Despite this, BI will remain prudent in its approach to supporting the economy as it continues to prioritise macroeconomic stability while deferring growth support to fiscal policy. A firmer USD and higher oil prices (of which Indonesia is a net importer despite being a commodity exporter) will weigh on IDR. Elsewhere, BSP loaned the government PHP540bn, in the fourth transaction of this nature. The prudent and rule based approach to generating pandemic relief funds, however, reduces any risks around outright debt monetisation.

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