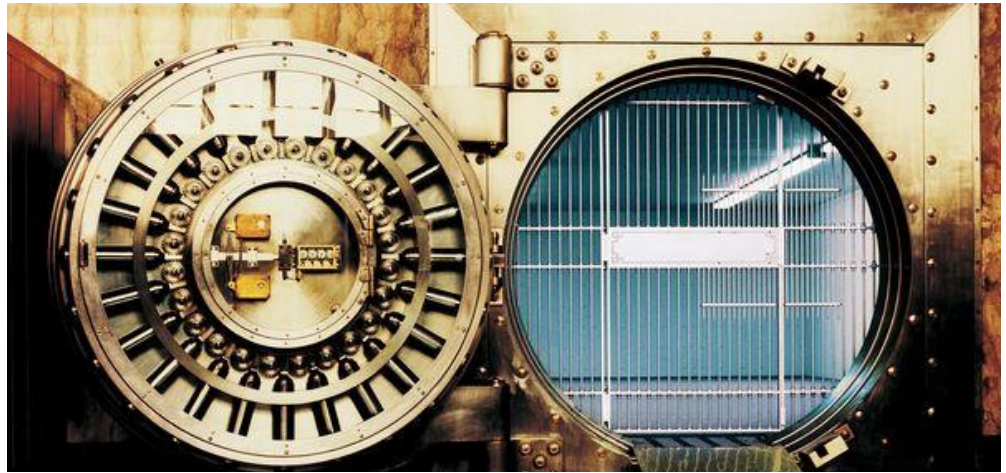




*R&R Weekly Column*  
*By Brunello Rosa*



### Central Banks Start Fine Tuning Their Monetary Policy Accommodation

Many countries are now dealing with the new variant of the Coronavirus, the Delta variant, which we [discussed recently](#). The spreading of this variant, which is already dominant in the UK and is gathering pace in the rest of the world, is following the same patterns exhibited by the original Covid-19 virus strain from Wuhan, if perhaps [with slightly reduced hospitalisation and mortality rates](#). In spite of the rapid rise in cases in various countries, the UK government decided to lift all Covid-related restrictions by July 19, even if some scientists believe doing so could be premature.

In any case, as discussed in our previous columns, if a new wave were to emerge as a result of a further spreading of the virus, governments would have to re-introduce some restrictions. This would have an obvious impact on economic activity. In the EU, the [latest economic forecasts exhibit a marked upward revision](#), as a result of the pick-up in economic activity recorded in Q2. However, if new restrictions were to be imposed, a downward revision of the estimates of economic activity would be inevitable.


Facing this uncertainty, central banks are cautiously starting to signal a measured reduction of the extraordinary accommodation they have provided since the beginning of the pandemic. But they have to perform a complex balancing act here, signalling the end of extra-easy money and yet not spooking the market into thinking that monetary stimulus will be withdrawn prematurely.

Some central banks, such as the ECB, the [BOE](#) and the [Riksbank](#), explicitly reassured market participants that their monetary stance will remain as easy as currently they are. Conversely, other central banks have clearly signalled that they intend to start reducing the pace of accommodation. [The Bank of Canada has already tapered its asset purchases from CAD 5bn a week to CAD 3bn](#), in successive steps, with a [further reduction to 2bn expected this week](#). In between these cases, there are central banks which have to juggle many objectives at once. The [RBA, for example, recently moved to implement open-ended QE](#), but it has also reduced the pace of asset purchases, and it has kept the 3y yield the April government bond as its point of reference to target, rather than using November 2021 as a reference, which would have been interpreted by the market as an intention to further extend QE.

Next week, the BoJ will unveil more details about its green-related lending program, and during the following days the ECB and the Fed will further clarify their stance, with the [Fed likely making more explicit its guidance](#) that asset purchases will likely be tapered starting from the year end or early 2022. [The ECB is instead a bit behind in the cycle](#); it will likely reaffirm its stance until March 2022. Throughout all this, market valuations [will remain supported by central bank liquidity in the G7 economies](#), as last week fears of slowing growth and worries that new COVID-19 variants could stall the global economic recovery prompted an equity sell-off and pushed down longer-term US Treasuries.

#### Our Recent Publications

 [Flash Preview: BOJ To Unveil Details of its New “Green” Lending Scheme](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 9 July 2021

 [Flash Preview – Bank of Canada To Further Taper its Asset Purchases](#), by Brunello Rosa and Karmen Meneses, 9 July 2021

 [Flash Review: RBA Moves To Open-Ended QE](#), by Brunello Rosa and Karmen Meneses, 6 July 2021

 [Flash Preview: RBA To Tweak QE Following New Lockdowns](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 2 July 2021

Looking Ahead

The Week Ahead: Inflation Readings To Start Softening In The US and Eurozone

**In the US**, June's IP is expected to soften to 12.2% y-o-y (p: 16.3%) and retail sales are expected to decline to 14.0% (p: 28.1%).

**In the EZ**, May's IP is expected to slow to 25.1% y-o-y (p: 39.3%).

**In the US**, June's headline inflation rate is projected to rise to 4.9% y-o-y (p: 3.8%), as core inflation is seen to slow down to 3.7% y-o-y (p: 3.8%).

**In the EZ**, headline inflation is expected to fall to 1.9% y-o-y (p: 2.0%), and core inflation is to slow down to 0.9% y-o-y (p: 1.0%).

The Quarter Ahead: High Geopolitical Risks; New Competition Policy To Reinforce US Recovery; CBs To Remain Accommodative  
**President Biden signed a sweeping executive order to promote more competition in the US economy**, urging agencies to crack down on anti-competitive practices in all sectors, from agriculture to drugs and labor. If fully implemented, the effort will: i) help lower Americans' internet costs; ii) allow for airline baggage fee refunds for delayed luggage; and iii) cut some prescription drug prices, among many other steps.

**In the first telephone conversation between President Biden and President Putin since the meeting in Geneva**, President Biden warned that "Russia would face consequences if it failed to act against hackers behind a spate of ransomware attacks". Mr. Biden also said the US would take "any necessary action" to protect its people and infrastructure.

**In the US**, minutes from the FOMC's June meeting revealed that policymakers do not believe the economic recovery "has yet reached the goal of substantial further progress" and suggested that most committee members are not eager to begin tapering the Fed's asset purchases.

**In the EZ**, after reviewing its strategy the ECB adopted a 2% inflation target over the medium term – abandoning the previous objective of "below, but close to, 2%". ECB's President Lagarde said the new target entails that "the ECB considers negative and positive deviations of inflation from the target to be equally undesirable."

**In China**, the PBoC announced that it would cut its RRR – the amount of cash most banks must hold in reserve at the central bank – unleashing about RMB 1tn of long-term liquidity into the economy.

Last Week's Review

Real Economy: Geopolitical Risks Weigh On Economic Outlook; CB Liquidity To Remain Ample

**In the US**, June's ISM gauge of 'service sector activity' came in lower-than-expected (a: 60.1; c: 63.5; p: 64.0); despite the slight pullback from the previous month's all-time high, the rate of expansion in the services sector remains strong.

**For the week ended on July 3**, initial jobless claims reached 373k (c: 350k; p: 371k), signaling that the labor market recovery remains far from complete.

**In the EZ**, May's retail sales rose more-than-expected by 9.0% y-o-y (c: 8.2%; p: 23.3%), the biggest increase since June 2020. The IHS Markit Composite PMI was revised slightly higher to 59.5 in June, from a preliminary estimate of 59.2 (p: 57.1), the fastest rate of increase in private sector activity since June 2006.

**In Australia**, the RBA kept the cash rate unchanged at a record low of 0.1%. Policymakers also: i) moved to "open-ended QE", maintaining in place the yield curve control program; and ii) decided to "extend the current bond-buying program to at least mid-November", while reducing the amount purchased to AUD 4bn a week, from the current AUD 5bn.

Financial Markets: Stocks Hit New Highs; Bonds Up; USD Strengthens; Gold Prices Rise

**Market drivers:** fears of slowing growth and worries that new COVID-19 variants could stall the global economic recovery prompted an equity sell-off and pushed down longer-term USTs.

**Global equities** fell w-o-w (MSCI ACWI, -0.1%, to 724). The S&P 500 Index reached a new high (+0.4% w-o-w, to 4,370), as: i) the interest rate-sensitive real estate sector performed best; while ii) energy stocks fared worst on concerns that disagreements among major oil producers would result in some violating output restrictions. In the EZ, shares recovered from a sharp pullback (Eurostoxx 50, -0.4% to 4,068).

**Fixed Income:** w-o-w global bonds rose (BAML Global, +0.3% to 295.8) and UST yields fell (-7 bps, to 1.36%).

**FX:** w-o-w, the USD fell against the EUR (DXY, -0.1%, to 92.130; EUR/USD +0.1%, to 1.187).

**Commodities:** Oil prices fell (Brent, -0.8% to 75.6 USD/b), amid concerns that OPEC+ countries would start to release crude independently after divergences between Saudi Arabia and the UAE over the extension of oil output. Gold prices rose (+1.2% to 1,808 USD/Oz) as rising fears of the COVID-19 boosted its safe-haven appeal.



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## Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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