



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



## Major Central Banks Provide First Hints of Policy Normalisation Ahead of Jackson Hole

As we have discussed in [several previous columns](#), the world is being hit by the delta variant of the Covid-19 pandemic. [This variant is considered to be much more transmissible](#) than the beta variant, which was in turn more infectious than the original virus isolated in Wuhan. It is not yet clear whether this new variant is also more deadly than previous strains, in part because it is hitting countries with widely differing vaccination rates. In any case, infection rates are increasing globally. The US, for example, is now back to 100,000 new cases per day.


For this reason, several governments are intensifying their vaccination campaigns and are providing either incentives or threatening to impose restrictions on the unvaccinated segments of their own populations. In the US, [the government promises USD 100](#) to citizens willing to get the vaccine. In Europe, [several governments are adopting “green passes”](#) that citizens must show if they want to attend public events or enter bars, restaurants, museums, etc. At the same time, most governments and central banks have noted how the economic impact of Covid has been decreasing over time, most likely as a result of the vaccination campaigns, which are reducing the hospitalisation of patients.


In effect, economic activity is enjoying the long-awaited rebound following the end of the severe restrictions imposed until Q1/Q2 2021, before which time generalised or localised lockdowns and widespread bans on domestic or international travel were in place. Public and private forecasters are beginning to factor in the impact of the delta and other variants, but in general this results in shaving off only a few decimals in economic growth estimates, which are often very large in 2021.


Meanwhile, inflation has showed up in several parts of the global economy. Mostly this has been as a result of base effects, higher energy prices, and supply bottlenecks. In some cases however, fiscal and income policies aimed at reducing inequality and increase the purchasing power of people who are less well-off (increases in minimum wages, for example) could mean that inflation may prove to be more persistent than currently thought.


As a result, central banks in [EMs have already started to tighten their policy stance](#). Even in the G10 countries economic thinking within policy committees is now shifting. The first banks to move have been the [Bank of Canada](#) (with a tapering of its net asset purchases) and [Norges Bank](#) (which has pre-announced a rate increase in September). In both cases, the domestic economies of these countries benefited from higher oil prices. The [Reserve Bank of Australia](#) has also tapered its weekly purchases, while introducing open-ended QE. The first hints of policy normalisation are starting to emerge among the major G10 central banks too, ahead of the annual summit at Jackson Hole which will be held on August 26-28. In the past, many central bankers used this forum to announce major policy shifts. The world's four largest central banks are divided in this case, however. The [European Central Bank](#) and the [Bank of Japan](#) are still exhibiting a strong easing bias; their next moves may be to provide more, rather than less, accommodation. The US Federal Reserve and the Bank of England are moving in the opposite direction, meanwhile. In the US, Chair Powell said [during the latest press conference](#) that the FOMC has had its first “deep dive” into the size, composition and timing of its asset purchases in July. We expect more colour to be added to this in Jackson Hole, with more official hints being provided at the FOMC meetings in September and November and an official announcement of QE tapering to be made in December. [The Bank of England, while saying last week](#) that negative rates had become part of its official toolkit, also reviewed its exit sequencing, and explicitly said that if economic conditions were to evolve in line with the MPC forecasts, a modest amount of tightening would be then warranted over the next few years. Markets seem content with these developments. Keeping inflation in check will keep bond and equity valuations up, as long-term yields that are used to discount future cash flows also remain low.

### ***Our Recent Publications***

 [Flash Review: BOE Adds Negative Rates To Its Toolkit and Modifies Its Policy Mix For The Exit Sequence](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 5 August 2021

 [Flash Preview: BoE On Hold, With A Discussion On Negative Rates And \(Possibly\) Exit Sequencing](#), by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 30 July 2021

 [The Future Of Banking: Amid Brisk Evolution, Banks Will Endure Disruption](#), by Alessandro Magnoli Bocchi, Fawaz Sulaiman Al Mughrabi and Karmen Meneses, 29 July 2021

 [Flash Review: The Fed Acknowledges “Progress” Toward Meeting Its Goals](#), by Brunello Rosa, 28 July 2021

Looking Ahead

The Week Ahead: Inflation Expected to Slow Down In the US; Growth Expected to Rebound In the UK

**In the US**, final data is likely to show a softening of the inflation rate to 4.3% y-o-y (p: 4.5%).

**In the EZ**, IP for June is likely to decline to 0.4% y-o-y (p: 20.5%).

**In the UK**, Q2 GDP growth rate is expected to rebound to 4.8% q-o-q (p: -1.6%) and 22.1% y-o-y (p: -6.1%).

The Quarter Ahead: Constraints Global Recovery Prospects Hampered By Rising Cases Of Delta COVID-19 Variant

**US senate to hold key vote on infrastructure bill.** In order for the USD 1.2tn infrastructure bill to pass, three-fifths of the US senators – i.e.: 60 of the 100 – would need to vote in support. The package, one of President Biden's top legislative priorities, would provide tens of billions of dollars to: i) repair the country's deteriorating roads and bridges; ii) advance broadband internet service throughout the country; iii) expand rail and transit services; and iv) replace lead-piped drinking water systems.

**In the US**, the future of the Fed leadership is under scrutiny, with Wall Street pushing President Biden to reappoint Chairman Powell, and progressives calling for "a fresh face". Progressive Democrats want Biden to appoint a Fed chair able to put greater emphasis on: i) bank regulation; ii) income inequality; and iii) climate change. Some Democrats, such as Biden Treasury Department nominee Graham Steele, have said it would be a "huge missed opportunity not to replace Powell with a woman or member of a minority".

**In the UK, hundreds of fully vaccinated people have been hospitalized with the highly contagious Delta COVID-19 variant.** In their latest COVID-19 update, public health experts warned of early signs that "people who have been inoculated may be able to transmit the Delta strain as easily as those who have not received any jabs". From July 19 to August 2, 55.1% of the people hospitalized with the Delta variant were unvaccinated, while 34.9% had received two doses.

**China's export slowdown in July may signal more bumps ahead.** Following outbreaks of COVID-19 cases, China's export growth unexpectedly slowed in July, and imports also lost momentum, pointing to a slowdown in the country's industrial sector. New infections in July – mainly caused by the highly transmissible Delta strain have spread to tens of Chinese cities – prompting local authorities to: i) lock down affected communities; ii) order millions to be tested; and iii) temporarily suspend operations of some businesses – including factories.

Last Week's Review

Real Economy: Economic Recovery Remains Frail, As New COVID-19 Cases Hinder The Outlook

**In the US**, July's labor market data came in above-consensus: i) non-farm payrolls increased to 938k (c: 870k; p: 933k), the most in eleven months; ii) average hourly earnings rose to 4.0% y-o-y (c: 2.8%; p: 3.7%), as the rising demand for labor puts upward pressure on wages; and iii) the unemployment rate fell to 5.4% (c: 5.7%; p: 5.9%), the lowest level since March 2020.

**In the EZ**, July's retail sales grew by 5.0% y-o-y (c: 4.5%; p: 8.6%), a fourth consecutive monthly growth, due to: 1) the loosening of COVID-19 restrictions; and 2) growing demand.

**In DMs**, in both Australia and the UK the CBs kept their interest rates unchanged at 0.1% each, and re-stated their commitment to maintaining their stance "until significant progress is made towards the inflation targets".

**In EMs**, India kept its benchmark repo rate at 4% during its August meeting, stating it was maintaining an accommodative stance "as long as necessary to support the recovery and mitigate the negative impact of COVID-19".

**In Brazil**, the CB announced its fourth interest rate hike in 2021 – and the largest in almost two decades – raising the Selic rate by 100bps to 5.25%.

Financial Markets: Global Stocks Rise; A Stronger USD Weighs On Commodity Prices

**Market drivers:** investor sentiment strengthened, driven by stronger-than-expected US labor data and strong earnings momentum.

**Global equities** rose w-o-w (MSCI ACWI, +1.0%, to 731). The US S&P 500 Index closed in record territory (+0.9% w-o-w, to 4,437), boosted by: 1) financials; and 2) the small utilities sectors. In the EZ, shares rose (Eurostoxx 50, +2.1% to 4,175) driven by: i) strong growth in corporate earnings; and ii) optimism about the economic recovery.

**Fixed Income:** w-o-w global bonds remained flat (BAML Global, -0.1% to 297.6) and UST yields rose slightly (+8 bps, to 1.31%), as risk sentiment improved after an above-consensus US jobs report.

**FX:** w-o-w, the US Dollar Index extended its upward momentum (DXY, +0.7%, to 92.800; EUR/USD -0.9%, to 1.176) – also driven by the strong nonfarm payrolls report.

**Commodities:** Oil prices fell (Brent, -7.4% to 70.7 USD/b), dragged down by a stronger USD, and as both the US and China are witnessing a spike in COVID-19 cases, limiting air traffic and threatening demand at the peak summer driving season. Gold prices fell (-2.8% to 1,763 USD/Oz), pressured by a stronger USD and soaring UST yields.



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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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