Russia balance of payments: mostly supportive of ruble

The Russian balance of payments data for 7M21 suggests that the monthly current account surplus widened from US$6.6bn in 2Q21 to US$8.7bn in July (and US$51.7bn in 7M21), exceeding our expectations of US$6-7bn and outnumbering the local net private capital outflow, which totaled US$6.6bn in July and US$34.9bn in 7M21. We have the following observations and takeaways:

Widening of the current account surplus in July is a positive result, given the relatively flat oil price performance and reopening of several popular summer tourism destinations, including Turkey. It points at a possible increase in volumes of fuel exports and continued strong performance of non-fuel export items. To remind, there is easing in the OPEC+ restrictions starting in August, which should also be supportive of the current acount until the year-end. Our full-year current account projections of US$65bn for this year have a scope for increase, but the fast growth of merchandise imports remains a constraining factor.

The July current account was only partially sterilized by the FX purchases, which totaled US$4.0 bn in July and were announced at US$4.3bn for August. We continue to believe, that the strong non-fuel component of the current account, especially as the period of annual dividend payments by the large corporates is over, lowers the importance of FX purchases for the balance of risks for the ruble until 4Q21, when some narrowing in the current account is possible. At the same time, our expectations of a reduction in the annual FX purchases by up to US$10bn this year failed to materialise, as the government indicated that the financing of the domestic infrastructure projects out of the sovereign fund is likely to be postponed till 2022.

Another positive point is that according to the preliminary estimates by the National Settlement Depository, the portfolio inflow into the local currency public debt market (OFZ) increased from US$0.6bn in June to US$2.3bn in July (the highest since pre-pandemic February 2020), with inflows continuing into August. This is the result of the continued tightening in the Bank of Russia's monetary policy stance and lack of negative events on the foreign policy front.

The strong current account and portfolio inflows assured the ruble's relatively strong performance vs. peers, as its discount narrowed from 14% in June to 13% in July, the lowest level since October 2020.

Bank of England to tighten monetary policy to tame runaway inflation

The Bank of England signalled today it is likely to start reining in the wave of monetary stimulus it unleashed in response to the Covid crisis to control inflation.

"At some point, monetary policy may need to tighten so that

the MPC can meet its remit" of achieving an inflation target of two per cent, the Bank said in remarks published in its latest monetary policy report.

Fresh forecasts provided alongside the latest round of announcements from the Bank's monetary policy committee show the Old Lady expects price rises to hit four per cent later this year.

The Bank does not expect inflation to return to target until the second half of 2023, governor Andrew Bailey told a press conference. He also said the MPC will not "hesitate to act" should inflation spiral out of control.

The Bank said it could reach its inflation target by increasing rates or "by a reduction in the stock of purchased assets, or some combination of the two."

Thomas Pugh, UK economist at RSM, said: "The MPC gave its clearest signal yet that its focus is moving away from supporting the economy through the pandemic and towards tightening policy."

UK inflation is primarily being driven by supply chains buckling under the weight of a resurgence in global demand as economies emerge from Covid restrictions. Firms are battling with each other to secure key inputs amid widespread scarcity of workers, raw materials and commodities, which is putting upward pressure on prices.

The monetary policy committee also published minutes from their latest round of meetings on Thursday.

Although members voted unanimously in favour of holding rates at 0.1 per cent, tremors of discontent toward the current bond buying programme emerged among officials at Threadneedle Street as one key member, Michael Saunders, voted against the plan.

Martin Beck, senior economic adviser to the EY Item Club, said: "Most MPC members remain content with the view that higher inflation will be a temporary issue. However, there were some inklings that a tightening of monetary policy may have moved closer."

Read more: Bank of England's MPC meeting: Who will take Haldane's hawkish reins?

The committee voted 7-1 in favour of leaving government and corporate debt purchases this year unchanged to bring the Bank's total stock of debt to £895bn by the end of the year.

The Bank said it will start to wind down bond purchases by not reinvesting the proceeds from its holdings once its main policy rate hits 0.5 per cent. It will start selling its holdings, known as quantitative tightening, once Bank rate reaches one per cent and only if economic conditions are favourable.

Yael Selfin, chief economist at KPMG UK, said: "The significantly revised sequencing guidance from the Bank could see a more gradual increase in rates over this cycle, as a reduction in its government bond holding is brought forwards."

Retail sales boost cools as consumers spend on entertainment

The British Retail Consortium (BRC) and KPMG monthly sales monitor found that online sales remain strong with formalwear and beauty sales particularly high, as weddings and events could once again take place following the lifting of restrictions.

Fashion store sales returned to pre-pandemic levels although with staff starting to return to offices, sales of equipment for working from home fell, alongside furniture and household appliances.

Total sales in July were up 6.4% compared to a year ago, although this is down on the three-month rolling average of 14.7%.

Online sales slowed to growth of just 0.6% in July compared with a year ago although in July 2020 online sales had jumped 41% as the pandemic saw a huge shift in online orders.

The reopening of non-essential retailers in April continues to skew the numbers, with non-food sales up 64.9% over the three months to July, compared with the same period a year ago at the height of the pandemic.

But on a two-year basis, before the pandemic, store sales remain down 3.6% by comparison.

Food sales remain in growth, up 2.9% compared with a year ago, but, have slowed as more consumers head to restaurants and cafes following restriction easing.

The switch away from shopping in stores was confirmed in separate data from Barclaycard, which found that spending on entertainment saw growth for the first time since the pandemic began, as consumers bought tickets to the theatre, cinema and sporting events.

Around one in four said they have also been dipping into savings to make the most of post-lockdown life, with pubs, bars and clubs seeing a strong month.

Barclaycard found consumer card spending grew 11.6% in July compared to the same period in 2019 including a 4.1% rise in fuel costs, the highest since before the pandemic due to rising oil prices and more people travelling on staycations.

The entertainment industry saw growth up 8.1% and pubs, bars and clubs saw sales up 30.5% compared to July 2019.

Helen Dickinson, chief executive of the British Retail Consortium (BRC), said: "July continued to see strong sales, although growth has started to slow.

"The lifting of restrictions did not bring the anticipated in-store boost, with the wet weather leaving consumers reluctant to visit shopping destinations.

"Online sales remained strong, and with weddings and other social events back on for the summer calendar, formalwear and beauty all began to see notable improvement, so fashion outlets in particular saw a bounce back to pre-pandemic levels."

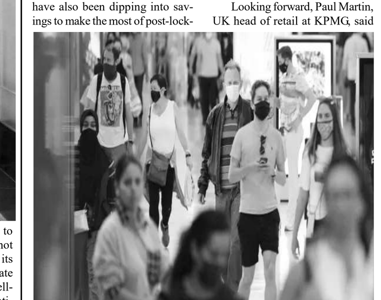
She also warned that the number of empty shops continue to rise and high streets require further investment, urging the government to implement wide ranging changes to the business rates system.

The chief said: "Retailers want to play their part in building back a better future for local communities, and government must give them the tools to do so."

In the food and drink sector, stores benefited from England's strong performance in the Euro 2020 football tournament, although concerns remain over price inflation.

Susan Barratt, chief executive of the Institute of Grocer Distribution (IGD) said: "Shoppers are increasingly concerned about food and grocery price inflation, with 16% of shoppers expecting that prices will get much more expensive in the year ahead, up from just 8% of shoppers in April."

Looking forward, Paul Martin, UK head of retail at KPMG, said



he expects to see a slowdown in spending habits as economic challenges hit.

He said: "Staffing pressures, increases in commodity and component costs, rising inflation eating into households' spending power and stalling consumer confidence could lead to a slowdown in retail sector growth as we head into autumn."

Australian dollar outlook: AUD/USD eyes Westpac consumer confidence

Markets across the Asia Pacific region may trade higher on Wednesday following a solid performance from stocks on Wall Street during Tuesday trade. The Dow Jones Industrial Average (DJIA) rose to a record high. Darling technology stocks lagged. Instead, investors moved into industrial, energy, and materials stocks after the Senate passed a sweeping infrastructure package. The risk-sensitive Australian Dollar reflected the chipper mood.

The Aussie Dollar will see its own specific event risk cross the wires today in the form of August's Westpac Consumer Confidence index. A drop in the reading from the month prior wouldn't be surprising, given the widespread lockdowns across the country as policymakers attempt to contain the highly transmissible Delta Covid variant. New South Wales saw 356 locally-sourced cases on Tuesday, according to the state government.

Surging cases and the resulting lockdowns have plunged the Aussie Dollar to new lows this year versus the US Dollar in recent months as traders priced in a slower rate of growth in Australia's economy. AUD/USD has dropped nearly 5% since June. That said, traders have already priced in an economic contraction. This may see the Australian Dollar appear somewhat resilient to further bad news in the short term. That is not to say prices can't weaken further, but downside reactions may appear relatively mild to losses seen in June and July.

Elsewhere in the Asia Pacific region, New Zealand will report third-quarter business inflation expectations. China is also expected to report new Yuan loans data for July sometimethis week, although no exact date is provided, so traders should keep their eyes peeled. Analysts expect CNY 1.2 trillion in new loans for last month, which would be down from CNY $2.12 trillion in June.

If so, that will account for a slowdown in credit growth. The People's Bank of China (PBOC) has taken measures to put the brakes on stimulus in recent months, although growing Covid cases threaten that narrative. The Australian Dollar may see volatility if the upcoming Chinese data surprises markets, given the economic link between the two countries.

AUD/USD is tracking higher after breaking lower from a Rising Wedge pattern. Prices may return to the wedge's former support level to retest before resuming the downtrend. That is not untypical of these post-wedge moves. A break higher, however, may provide some bullish energy to extend the move. The most likely path forward remains to the downside as prices remain below the pattern's limits.

Gold price forecast: Rebound chances dwindle as taper talk bets mount

Gold prices have come under immense pressure since last week's stellar non-farm payrolls report. The US reported an addition of 943k jobs for July. That fueled speculation that the Federal Reserve will accelerate its timetable to scale back monetary policy support. The US Dollar gained as rate traders priced in a more hawkish Fed. A stronger Greenback makes holding gold a more expensive endeavor for foreign investors.

XAU/USD has fallen nearly 5% since last week as gold bulls retreated. Some have seen the price drop as a buying opportunity, believing that the highly transmissible Delta Covid variant may throw a wrench into the US economic recovery. That narrative, however, is likely a long shot at best. The high US vaccination rate has policymakers favoring mask mandates and other soft restriction measures as opposed to economically crippling lockdowns. In fact, the CDC reported that the daily average for Americans receiving a shot has increased to the highest level since June 18.

Moreover, the hawkish view appears to be permeating further into the Fed's groupthink. Charles Evans, Chicago Fed President, said earlier this week that he expects strength in the labor market to continue. When asked about a timeline for beginning to taper asset purchases, Mr. Evans said, "We're coming upon a time when it's definitely going to be appropriate to start." This echoes commentary from Vice Chair Richard Clarida, who said earlier this month that tapering could start later this year.

Considering the recent Fed commentary, a clear path higher for gold is hard to see. One of the primary headwinds for gold now is a rise in real interest rates. Real rates reflect nominal bond yields after stripping out inflation and are seen as one of gold's primary underlying drivers in financial markets. Gold prices typically fall as real rates rise. That is because gold is a non-interest-bearing asset, and higher rates increase an investor's holding costs. The 10-year real yield – via the 10-year Treasury inflation-indexed rate – has risen sharply following last week's jobs report.