The Week Ahead: Powell's hawkish pivot brings forward rate hike expectations

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US: We now expect two 25 bps rate hikes by the Fed in 2022

In a significant move, Chair Jerome Powell turned more hawkish last week and highlighted that the FOMC will discuss accelerating the pace of asset purchase tapering at its December meeting. He also stressed that it would be highly appropriate to end the tapering "perhaps a few months sooner" and get to "live meetings very soon, in case we need them. But it is only optionality at this point." His comments were made despite the emergence of new risks to the economic outlook from the breakout of new COVID variant Omicron. On inflation, Powell acknowledged that the "threat of persistently higher inflation has grown" and noted that it is "a good time to retire" the word "transitory". The November FOMC minutes had earlier highlighted that many members were concerned about inflation turning out to be more persistent than previously assumed. We believe that the Fed is now more concerned about upside risks to the inflation outlook than downside risks to the economic growth outlook and the recovery in labour market conditions. Against this backdrop, we expect the FOMC to announce an accelerated pace of asset purchase tapering to USD30.0 billion per month from January (USD15.0 billion currently), which would mean finishing purchases in end-March. After highlighting upside risks to our forecast of one FFTR increase last week, we now expect two 25 bps rate hikes in 2022. We now expect the first hike to be made in June 2022, but highlight the possibility of an earlier lift-off if inflation continues to surprise to the upside. The markets also last week priced in the possibility of FFTR hikes beginning at the May meeting.

US: CPI inflation to hit new high in annual terms in November

The sharp drop in the November unemployment rate supports the outlook for a faster pace of tapering, despite the NFP report presenting a mixed picture. Nonfarm payrolls surprised to the downside in November at 210K (consensus: 550K), following an upwardly revised 546K in October. However, the household employment survey, which is used for unemployment rate calculations, showed robust job gains of 1.1 million in November, taking the unemployment rate down to 4.2% (October: 4.6%). The sharp fall in the unemployment rate came despite the increase in the labour force participation rate to 61.8%, from 61.6% in October. We believe that the Fed is likely to see the drop in unemployment as an indication that the economy is making progress towards maximum employment. Wage growth remained steady at an elevated 4.8% y-o-y in November (consensus: 5.0%), though there was a deceleration in monthly terms. We believe that corporates will gradually pass through the higher wage costs to consumers, feeding into the more persistent nature of inflation. Looking ahead, the focus this week will be on the November CPI inflation data. Consensus expects headline inflation to accelerate further to 6.7% y-o-y in November (October: 6.2%), which, if realised, will be the highest reading since 1982. Core inflation is also expected to strengthen to 4.9% y-o-y in November, from 4.6% in October, with broad-based drivers led by core goods and shelter components.

Oil: OPEC+ maintains status quo on output policy

OPEC+ last week decided to continue with its existing policy of a 400K b/d monthly output increase for January. This is despite increasing concerns over the global demand outlook following the breakout of the Omicron COVID variant and the expected build-up of inventories in 1Q2022. The announcement was made after the major consuming countries had come together to announce releases to their strategic petroleum reserves to ease the supply crunch. We see the OPEC+ decision as a conciliatory move to ease tensions with the major consuming countries, including the US. The OPEC+ group's consistent under-production vs its planned output targets was also likely a key factor behind its maintenance of the existing output policy. OPEC+ members highlighted that they will keep the "session" open to make immediate adjustments to the output policy if required, depending on pandemic-related developments. The open window will allow the OPEC+ members to convene again before the next scheduled policy meeting on 4 January 2022. This announcement provided some stability to the oil price, following an initial fall as consensus had expected OPEC+ to pause its planned production increases. We continue to believe that the oil market will be oversupplied in 1Q2022, supported by the weak seasonality and the re-imposition of some travel restrictions to contain the spread of Omicron. Brent crude is trading at USD71.2 p/b at the time of publishing. This is a comfortable level for most GCC economies, at either close to or above the budget break-even oil price (ex-Bahrain). Brent crude has averaged USD70.6 p/b YTD and GCC economies will see a marked improvement in their fiscal positions in 2021 with the sharply higher oil price (2020 average: USD43.2 p/b).

EM: RBI meeting and China's trade and inflation data due

The other key events and data releases due this week are India's RBI meeting, and China's inflation and trade balance (November). Consensus now expects the RBI to keep its monetary policy steady at its 8 December policy meeting amidst rising risks from the Omicron COVID variant to the growth outlook. Market economists earlier expected the RBI to normalise its monetary policy gradually and raise its reverse repo rate by 15 bps to 3.5% at the December meeting. We believe that the decision to raise the reverse repo rate will be a close call in December given the strong economic momentum and rising upside risks to the inflation outlook. The 3Q GDP data released last week showed that the Indian economy grew by 8.4% y-o-y (2Q: 20.1%), supported by robust investment activity and private consumption. Elsewhere in China, the focus will be on November trade data to gauge the impact of higher commodity prices and input costs on global demand. Consensus expects exports growth to moderate to 19.8% y-o-y in November, from 27.1% in October, albeit partly due to a higher base in 2020. There are also increasing signs that domestic economic activity has remained sluggish in recent months amidst increasing downward pressures from the property sector and power shortages. Against this backdrop, Premier Li Keqiang last week highlighted the possibility of cutting reserve requirement ratios "in a timely way" to increase support to the real economy.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	CPI, y-o-y	Oct	1.2%	
	UAE	Dubai CPI, y-o-y	Nov	-0.6%	
	Oman	CPI, y-o-y	Nov	3.4%	
	China	Money Supply M2, y-o-y	Nov	8.7%	8.6%
	China	New Yuan Loans CNY	Nov	826.2B	1590.0B
Monday, 6 December					
13:30	UK	Markit/CIPS UK Construction PMI	Nov	54.6	54.2
13:30	Eurozone	Sentix Investor Confidence	Dec	18.3	12.5
15:30	UK	BOE's Broadbent speaks			
Tuesday, 7 December					
8:15	UAE	IHS Markit UAE PMI	Nov	55.7	
9:00	Japan	Leading Index CI	Oct P	100.9	102.8
14:00	Eurozone	GDP SA, q-o-q	3Q F	2.2%	2.2%
14:00	Eurozone	GDP SA, y-o-y	3Q F	3.7%	3.7%
17:30	US	Trade Balance	Oct	-$80.9B	-$66.9B
	China	Exports, y-o-y	Nov	27.1%	19.8%
	China	Imports, y-o-y	Nov	20.6%	22.0%
	China	Foreign Reserves	Nov	$3217.6B	$3205.0B
Wednesday, 8 December					
3:50	Japan	BoP Current Account Balance	Oct	¥1033.7B	¥1274.9B
3:50	Japan	GDP SA, q-o-q	3Q F	-0.8%	-0.8%
3:50	Japan	GDP Annualized SA, q-o-q	3Q F	-3.0%	-3.1%
8:30	India	RBI Repurchase Rate	8-Dec	4.0%	4.0%
8:30	India	RBI Reverse Repo Rate	8-Dec	3.35%	3.35%
12:15	Eurozone	ECB's Lagarde Speaks at ESRB Conference			
17:10	Eurozone	ECB's Schnabel on Panel at ESRB Conference			
19:00	US	JOLTS Job Openings	Oct	10438K	10500K
Thursday, 9 December					
3:50	Japan	Money Stock M2, y-o-y	Nov	4.2%	4.1%
5:30	China	CPI, y-o-y	Nov	1.5%	2.5%
5:30	China	PPI, y-o-y	Nov	13.5%	12.0%
17:30	US	Initial Jobless Claims	4-Dec	222K	225K
17:30	US	Continuing Claims	27-Nov	1956K	1910K
19:00	US	Wholesale Inventories, m-o-m	Oct F	2.2%	2.2%
	Egypt	Urban CPI, y-o-y	Nov	6.3%	
	Egypt	CPI Core, y-o-y	Nov	5.2%	
Friday, 10 December					
3:50	Japan	PPI, y-o-y	Nov	8.0%	8.5%
11:00	UK	Monthly GDP, m-o-m	Oct	0.6%	0.4%
11:00	UK	Industrial Production, m-o-m	Oct	-0.4%	0.1%
11:00	UK	Index of Services, 3M/3M	Oct	1.6%	1.2%
11:00	UK	Trade Balance, GBP million	Oct	-£2777M	-£2400M
13:05	Eurozone	ECB's Lagarde, Bundesbank's Weidmann on Panel			
16:00	India	Industrial Production, y-o-y	Oct	3.1%	4.3%
17:30	US	CPI, m-o-m	Nov	0.9%	0.7%
17:30	US	CPI, ex-Food and Energy, m-o-m	Nov	0.6%	0.5%
17:30	US	CPI, y-o-y	Nov	6.2%	6.7%
17:30	US	CPI, ex-Food and Energy, y-o-y	Nov	4.6%	4.9%
19:00	US	U. of Michigan Sentiment	Dec P	67.4	68.0
23:00	US	Monthly Budget Statement	Nov	-$165.1B	-$195.0B

* UAE time
Source: Bloomberg

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Abu Dhabi CPI, y-o-y	Oct	3.0%		3.4%
Monday, 29 November						
11:00	Turkey	Trade Balance	Oct	-2.59B	-1.5B	-1.44B
13:30	UK	Mortgage Approvals	Oct	71.9K	70.0K	67.2K
19:00	US	Pending Home Sales, m-o-m	Oct	-2.4%	1.0%	7.5%
19:30	US	Dallas Fed Manufacturing Activity	Nov	14.6	15.0	11.8
Tuesday, 30 November						
3:50	Japan	Industrial Production, m-o-m	Oct P	-5.4%	1.9%	1.1%
5:00	China	Non-manufacturing PMI	Nov	52.4	51.5	52.3
5:00	China	Manufacturing PMI	Nov	49.2	49.7	50.1
11:00	Turkey	GDP, y-o-y	3Q	22.0%	7.4%	7.4%
14:00	Eurozone	CPI Estimate, y-o-y	Nov	4.1%	4.5%	4.9%
16:00	India	GDP, y-o-y	3Q	20.1%	8.3%	8.4%
18:45	US	MNI Chicago PMI	Nov	68.4	67.0	61.8
19:00	US	Conference Board Consumer Confidence	Nov	111.6	110.9	109.5
Wednesday, 1 December						
5:45	China	Caixin China PMI Mfg	Nov	50.6	50.6	49.9
9:00	India	Markit India PMI Mfg	Nov	55.9		57.6
11:00	Turkey	Markit/ISO Turkey PMI Mfg	Nov	51.2		52.0
17:15	US	ADP Employment Change	Nov	570K	525K	534K
19:00	US	ISM Manufacturing	Nov	60.8	61.2	61.1
19:00	US	ISM Prices Paid	Nov	85.7	85.5	82.4
Thursday, 2 December						
14:00	Eurozone	Unemployment Rate	Oct	7.4%	7.3%	7.3%
17:30	US	Initial Jobless Claims	27-Nov	194K	240K	222K
17:30	US	Continuing Claims	20-Nov	2063K	2003K	1956K
Friday, 3 December						
5:45	China	Caixin China PMI Services	Nov	53.8	53.0	52.1
11:00	Turkey	CPI, y-o-y	Nov	19.9%	20.7%	21.3%
11:00	Turkey	CPI Core Index, y-o-y	Nov	16.8%	17.5%	17.6%
14:00	Eurozone	Retail Sales, m-o-m	Oct	-0.4%	0.3%	0.2%
17:30	US	Change in Nonfarm Payrolls	Nov	546K	550K	210K
17:30	US	Two-Month Payroll Net Revision	Nov	235K		82K
17:30	US	Unemployment Rate	Nov	4.6%	4.5%	4.2%
17:30	US	Average Hourly Earnings, m-o-m	Nov	0.4%	0.4%	0.3%
17:30	US	Average Hourly Earnings, y-o-y	Nov	4.9%	5.0%	4.8%
17:30	US	Labor Force Participation Rate	Nov	61.6%	61.7%	61.8%
19:00	US	ISM Services Index	Nov	66.7	65.0	69.1
19:00	US	Factory Orders	Oct	0.5%	0.5%	1.0%

* UAE time
Source: Bloomberg

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