

The Week Ahead: Fed announces tapering, whilst BoE surprises by staying on hold

► **Global: Strong US CPI inflation report expected for October**

The Fed and the BoE last week sounded relatively dovish compared to market expectations, resulting in some reversing of the pricing of early rate hikes. The BoE kept the benchmark rate steady vs. the market's expectation of a 15 bps rate hike (page 4). The FOMC announced its asset purchase tapering pace of USD15.0 billion per month from mid-November, in line with expectations. However, Fed Chair Jerome Powell continued to reiterate the transitory nature of inflation, noting that pressures should moderate as supply constraints ease (page 2). Powell was non-committal on the timing of the first rate hike, noting that there is still ground to cover to reach maximum employment. The October NFP report released last week was strong, reflecting a tightening in labour conditions (page 3). Looking ahead, the key releases the market will focus on this week are October CPI and PPI inflation. Consensus forecasts headline inflation to accelerate to 0.6% m-o-m in October (September: 0.4%), led by energy and services costs, taking the annual rate to 5.9% y-o-y. Core inflation is envisaged to strengthen to 4.3% y-o-y in October (September: 4.0%) due to higher transportation costs and elevated housing prices. Separately, the House of Representatives passed a c.USD1.0 trillion bipartisan infrastructure bill that includes transport, broadband and utility funding. The bill has now been sent to President Joe Biden for a final signature. However, the Democrats failed to pass a larger social spending plan (c.USD1.75 trillion) amidst prevailing divisions.

► **Global: UK 3Q GDP data and EM inflation readings due**

A number of other key data releases are due this week, including 3Q GDP from the UK and October inflation from China, Egypt and India. Consensus forecasts the UK's GDP growth to decelerate to 1.5% q-o-q in 3Q, after a robust 5.5% expansion in 2Q that reflected the impact of the easing of COVID related restrictions. The high-frequency data in recent months also showed some softening in economic momentum amidst prevailing global supply-side bottlenecks and the impact of rising energy costs on household spending. Meanwhile, EM inflation data is expected to reflect higher global energy and food prices (page 6).

► **Oil: OPEC+ stays on course with planned increase in supply**

OPEC and the non-OPEC partnering countries (OPEC+) maintained their plan to increase production by 400K b/d in December. OPEC+ stated that it is providing clarity to markets at a time when other parts of the energy complex are experiencing extreme volatility and instability. OPEC+'s cautious stance was despite increasing pressure from key consuming countries, including the US and Japan, to raise output at a faster pace. The US administration last week said it would consider the "full range of tools", including tapping into the Strategic Petroleum Reserves (SPR), to increase supply. We believe that any potential SPR release would only provide temporary help and is unlikely to be a solution to the prevailing global energy crunch. Brent crude closed at USD82.7 p/b last week, from a recent high of USD86.4 p/b at end-October.

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I. Recent Events and Data Releases

A. MENA Economies

Saudi Arabia: Moody's raises outlook to stable, rating affirmed

Moody's Investors Service raised Saudi Arabia's outlook to "stable" from "negative", whilst affirming its rating as A1. The rating agency noted that the stable outlook reflects the fact that the government is likely to reverse most of the 2020 increase in its debt burden in the next several years, while also preserving its fiscal buffers. Moreover, Moody's highlighted the government's improving track record of fiscal policy effectiveness, as reflected in its policy responses in periods of both low and high oil prices. The A1 rating continues to reflect Saudi Arabia's structural vulnerability, with its economic and fiscal reliance on the hydrocarbon sector. We have highlighted in our research the marked improvement in Saudi Arabia's fiscal position in 2021 due to the higher oil price, fiscal reform and restrained government spending. The government realised a fiscal surplus in 3Q2021 and we see a contained full-year deficit for 2021. For more details, please see our note – **Saudi Arabia Economic Update: Realises a fiscal surplus in 3Q; lowering our deficit forecast for 2021**, published on 1 November 2021. Government spending will remain restrained in 2022, as outlined in the pre-budget statement, in part reflecting investment spending shifting to the PIF and away from the central government. For more details, please see our note – **Saudi Arabia Economic Update: 2022 pre-budget statement outlines spending discipline despite higher revenue**, published on 1 October 2021.

Moody's highlights greater fiscal policy effectiveness during periods of both higher and lower oil prices

Separately, S&P Global Ratings affirmed Qatar's rating as 'AA-/A-1+'. The ratings agency noted that fiscal and external buffers should continue to benefit LNG exports over the next two years, against a backdrop of high global energy demand.

S&P maintains Qatar's rating at 'AA-/A-1+'

B. G4 Economies

US: Fed to begin asset purchase tapering from mid-November

The Fed officially announced the tapering of its asset purchase programme at a pace of USD15.0 billion per month, consisting of USD10.0 billion in Treasuries and USD5.0 billion in mortgage-backed securities (MBS), at its November meeting. The tapering will begin in mid-November. The FOMC statement highlighted specific asset purchase targets for November and December, and retained the option to adjust the tapering pace from January 2022. The FOMC noted that a similar pace of net asset purchase reductions is likely in future months, although it did not commit to this. The lack of commitment, in our view, opens up the possibility of a faster pace of tapering at future meetings, especially if wage inflation continues to accelerate. This in turn could result in the programme ending earlier than the currently anticipated end-date of mid-June. The FOMC also did not provide clarity on the potential timing of the first interest rate hikes. Fed Chair Jerome Powell highlighted that there is still ground to cover when it comes to reaching maximum employment, and that it is too early to think about rate hikes. We currently forecast one 25 bps interest rate hike in July 2022, with upside risk for an additional increase before the end of the year. The market is currently pricing in two full 25 bps rate hikes by end-2022.

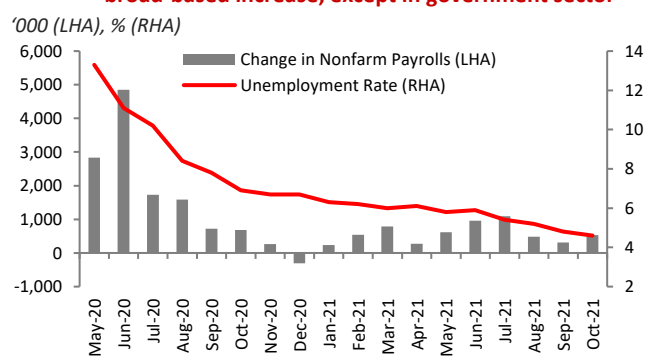
FOMC adopts flexible approach to pace of asset purchase tapering

Regarding the economy, the statement reiterated that "inflation is elevated, largely reflecting factors that are expected to be transitory". However, the statement

Transitory inflation language is modestly softened

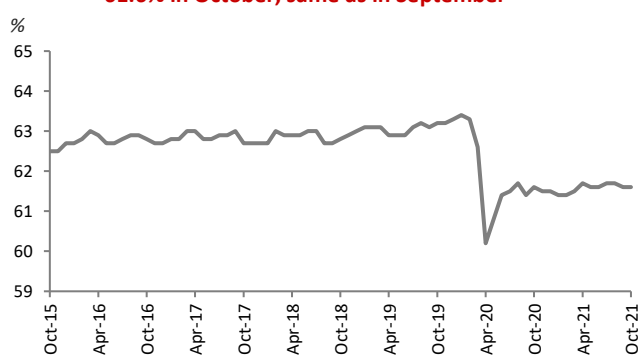
acknowledged that supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizable price increases in some sectors. Powell during his post-meeting press conference highlighted that inflation could remain elevated into 2022 and that the committee is less certain about the outlook. Overall, the Fed’s communication on the inflation outlook was more cautious than at the previous meetings in our view. Meanwhile, the Fed continued to emphasise that there is significant slack in the labour market and that full employment could be reached by 2H2022. On the economic growth side, the FOMC sees progress with vaccinations and an easing of supply constraints to support the recovery.

Fig. 1. US: Non-farm payrolls rise by 531K in October with broad-based increase, except in government sector



Source: Bureau of Labor Statics, ADCB Economic Research

Fig. 2. US: Labour force participation rate remains steady at 61.6% in October, same as in September



Source: Bureau of Labor Statics, ADCB Economic Research

US: Strong labour market report for October, with 531K jobs added

Nonfarm payrolls surprised to the upside in October with 531K jobs created (consensus: 450K; September: 312K), indicating that hiring activity gained momentum at the beginning of 4Q. There was a 2-month upward net revision of 235K to payrolls for August and September. The upward revisions suggest that the Delta COVID variant related impact during the summer months was not as bad as initially feared. In October, jobs growth was widespread, led by leisure and hospitality (+164K), professional and business services (+100K), manufacturing (+60K), and transportation and warehousing (+54K). On the other side, the state and local education sector shed 65K jobs in October, reflecting the ongoing seasonal distortions in the sector. The strong hiring activity resulted in the unemployment rate dropping to 4.6% in October, from 4.8% in September. However, the steady participation rate of 61.6%, even after the end of the federal government’s unemployment benefits, remains a cause for concern. The participation rate has remained within a small range of 61.4%-61.7% since June 2020. We believe that an increase in the participation rate would be essential to boost the labour market recovery, as well as to ease the worker shortages reported in a number of sectors. A modest increase from the current participation rate levels looks likely in the near term, though reaching the pre-pandemic level of 63.1% in February 2020 looks unlikely given the early retirement taken by many workers during the pandemic.

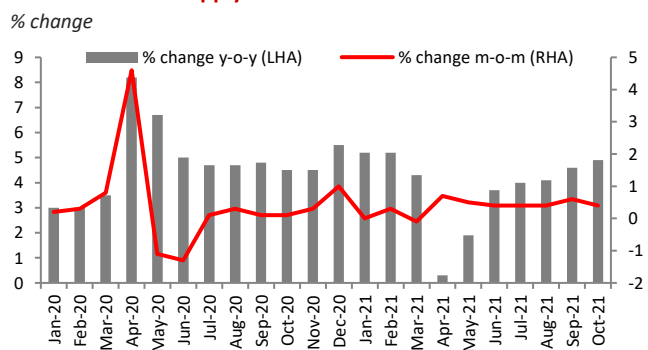
Unemployment rate falls to 4.6% in October, from 4.8% in September

The tightness in the labour market was also reflected in wage growth, with the annual reading strengthening to 4.9% y-o-y in October, from 4.6% in September. This is the sixth consecutive month of acceleration and points to rising demand for higher wages, particularly in the low-income groups. In monthly terms, the wage growth was strong at 0.4%, albeit down from 0.6% in September, led by the leisure and hospitality sector (0.95% m-o-m and 11.2% y-o-y). Wage growth is also rising across sectors and becoming

Wage growth strengthens further in annual terms to 4.9% y-o-y in October

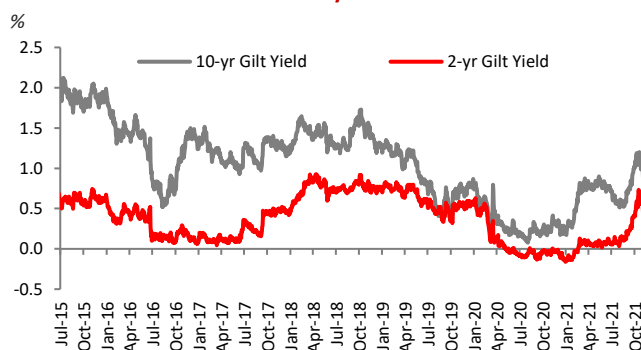
more apparent across categories, including education and health care and business services. The solid gains in wage and salary income are likely to be supportive for consumer spending, but could add to concerns regarding the inflation outlook. Overall, the lack of improvement in labour force participation at a time of increasing evidence of labour shortages could force the Fed to reassess its views on how far the economy is away from reaching its maximum employment objective.

Fig. 3. US: Monthly average hourly earnings growth strong amidst supply constraints



Source: Bureau of Labor Statics, ADCB Economic Research

Fig. 4. UK: Bond yields fall sharply after BoE decides to keep benchmark rates steady



Source: Bloomberg, ADCB Economic Research

UK: BoE keeps benchmark interest rate steady, surprising markets

The BoE surprised markets by keeping the benchmark rate steady at 0.1% at its November meeting, with a 7-2 vote majority. Michael Saunders and Dave Ramsden voted for an immediate 15 bps interest rate increase. The consensus was divided ahead of the meeting over when the rate hike cycle would start, though the bond market had fully priced in a 15 bps hike at the November meeting. The key surprise was that the MPC largely maintained its September message, highlighting that there remains significant uncertainty regarding labour market developments and that it would wait until enough post-furlough labour market data were made available. This communication was despite a number of key MPC members recently turning hawkish and expressing their intention to tighten policy in the face of rising inflation expectations. The BOE will have two additional labour market reports before the December policy meeting and any rate hike at that meeting will be largely labour data dependent. The MPC’s indication that tightening will happen over the “coming months” implies an interest rate hike in either December or February. Market economists are again divided on the timing of the rate hike, with some expecting a December increase and others forecasting it for February. On the QE programme, the MPC voted 6-3 in favour of maintaining the target stock of asset purchases at GBP895.0 billion, which is scheduled to end in December 2021. MPC member Catherine Mann joined Ramsden and Saunders in voting for an immediate end to net asset purchases.

Incoming labour data will be critical for deciding timing of interest rate hike

On the macroeconomic side, the MPC made notable changes to its economic forecasts. Real GDP growth was revised lower to 7.0% (August: 7.25%) for 2021 and to 5.0% (August: 6.0%) for 2022, to reflect the slowing growth momentum on the back of supply chain disruptions. Headline inflation was revised higher across the forecast period, factoring in the impact of higher energy prices. CPI inflation is now seen at 4.3% in 2021 (August: 4.0%), 3.5% in 2022 (August: 2.5%) and 2.3% in 2023 (August: 2.0%). The interesting takeaway from these inflation forecasts is that the BOE sees above 2.0% inflation until 2023. The MPC still sees risks to inflation tilting to both sides and

Real GDP growth forecast revised down and inflation estimates revised higher

dependent on energy prices. Overall, the inflation projections indicate that the MPC will continue to highlight the need to raise rates, albeit at a slower pace than the market anticipates.

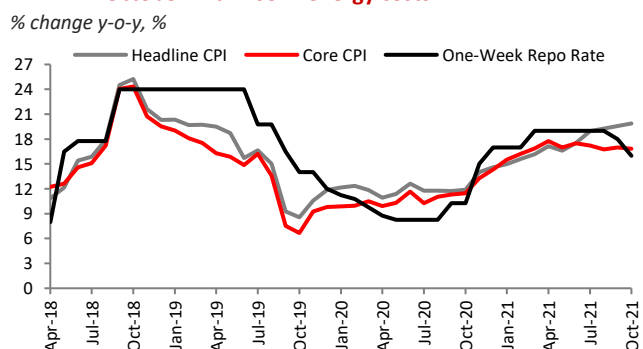
C. Emerging Market Economies

Turkey: October inflation remains elevated, despite core decelerating

Headline inflation accelerated to 19.9% y-o-y in October from 19.6% in September, though it was below consensus expectations for an increase to 20.4%. This is the highest reading since January 2019 and the fifth consecutive month of strengthening in y-o-y terms. The October inflation surge was driven mainly by the rising energy costs and the pass-through effect of a weak TRY. Despite the acceleration in the headline reading, core inflation softened modestly to 16.8% y-o-y in October, from 17.0% in September. The small improvement was due to durable goods inflation moderating in both monthly and annual terms. However, services inflation strengthened further in October, reflecting the upward trend in the prices charged by restaurants and hotels following the easing of COVID-related restrictions. Looking ahead, the high base in the previous year is likely to help both headline and core inflation to moderate slightly, albeit remaining at elevated levels. The CBRT in its latest quarterly inflation report revised up its 2021 year-end inflation forecast sharply to 18.4% y-o-y, from 14.1%, to reflect higher energy, commodity and food prices. The 2022 year-end inflation forecast was also upgraded to 11.8% from 7.8% earlier. Despite that, the governor, Şahap Kavcıoğlu, was dovish and said that there is additional room to cut the benchmark rate. This implies space for potentially deeper rate cuts than earlier communication suggested. The CBRT's October meeting statement outlined "limited room" for further interest rate cuts, after reducing the benchmark one-week repo rate by 200 bps to 16.0%. We see the likelihood for an additional 100 bps rate cut before the end of this year, though reiterate our view that tighter monetary policy is required.

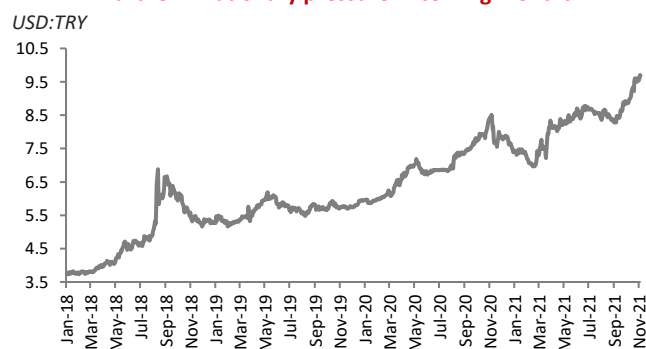
Rising energy costs key driver of headline inflation in October

Fig. 5. Turkey: Headline inflation strengthens further in October with rise in energy costs



Source: Turkish Statistical Institute, CBRT, ADCB Economic Research

Fig. 6. Turkey: Weakness in TRY in recent months to add further inflationary pressure in coming months



Source: Bloomberg, ADCB Economic Research

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Oct	-1.5%	
	Oman	CPI, y-o-y	Oct	2.5%	
	China	Money Supply M2, y-o-y	Oct	8.3%	8.3%
Monday, 8 November					
9:00	Japan	Leading Index CI	Sep P	101.3	99.8
17:10	Eurozone	ECB's Lane Speaks			
18:00	US	Fed's Clarida Discusses Prospects for Monetary Policy			
19:30	US	Powell to Make Opening Remarks at Fed Diversity Conference			
21:00	US	Fed's Bowman Discusses the US Housing Market			
21:00	UK	BOE's Bailey speaks at citizen's forum			
Tuesday, 9 November					
3:50	Japan	BoP Current Account Balance	Sep	¥1665.6B	¥1060.1B
8:15	UAE	Dubai PMI	Oct	51.5	
10:00	Saudi Arabia	GDP Constant Prices, y-o-y	3Q P	1.8%	
15:00	US	NFIB Small Business Optimism	Oct	99.1	99.5
17:00	Eurozone	ECB's Lagarde Speaks at Forum on Banking Supervision			
17:30	US	PPI Final Demand, m-o-m	Oct	0.5%	0.6%
18:00	US	Powell to Speak at Joint Fed, ECB and BoC Diversity Conference			
19:30	UK	BOE's Broadbent Speaks to Parliament on Labor Shortages			
22:30	US	Fed's Kashkari Takes Part in Moderated Discussion			
Wednesday, 10 November					
5:30	China	CPI, y-o-y	Oct	0.7%	1.4%
5:30	China	PPI, y-o-y	Oct	10.7%	12.5%
17:30	US	Initial Jobless Claims	6-Nov	269K	265K
17:30	US	Continuing Claims	30-Oct	2105K	
17:30	US	CPI, m-o-m	Oct	0.4%	0.6%
17:30	US	CPI, ex-Food and Energy, m-o-m	Oct	0.2%	0.4%
17:30	US	CPI, y-o-y	Oct	5.4%	5.9%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	4.0%	4.3%
18:00	UK	BOE's Tenreiro speaks on stagnation after Covid-19			
19:00	US	Wholesale Inventories, m-o-m	Sep F	1.1%	1.1%
23:00	US	Monthly Budget Statement	Oct	-\$61.5B	-\$175.0B
	Egypt	Urban CPI, y-o-y	Oct	6.6%	
Thursday, 11 November					
3:50	Japan	PPI, y-o-y	Oct	6.3%	6.9%
11:00	Turkey	Current Account Balance	Sep	0.53B	1.4B
11:00	UK	GDP, q-o-q	3Q P	5.5%	1.5%
11:00	UK	GDP, y-o-y	3Q P	23.6%	6.8%
11:00	UK	Private Consumption, q-o-q	3Q P	7.2%	3.1%
11:00	UK	Monthly GDP, m-o-m	Sep	0.4%	0.4%
11:00	UK	Industrial Production, m-o-m	Sep	0.8%	0.2%
11:00	UK	Trade Balance, GBP Million	Sep	-£3716M	-£3256M
14:45	UK	BOE's Catherine Mann speaks on women in finance			
Friday, 12 November					
11:00	Turkey	Industrial Production, m-o-m	Sep	5.4%	-0.7%
14:00	Eurozone	Industrial Production SA, m-o-m	Sep	-1.6%	-0.5%
16:00	India	Industrial Production, y-o-y	Sep	11.9%	4.6%
16:00	India	CPI, y-o-y	Oct	4.4%	4.3%
19:00	US	JOLTS Job Openings	Sep	10439K	10400K
19:00	US	University of Michigan Sentiment	Nov P	71.7	72.5
21:10	US	Fed's Williams Discusses Heterogeneity in Macroeconomics			

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Abu Dhabi CPI, y-o-y	Sep	2.6%		3.0%
Monday, 1 November						
9:00	India	Markit India PMI Mfg	Oct	53.7		55.9
11:00	Turkey	Markit/ISO Turkey PMI Mfg	Oct	52.5		51.2
18:00	US	Construction Spending, m-o-m	Sep	0.1%	0.3%	-0.5%
18:00	US	ISM Manufacturing	Oct	61.1	60.5	60.8
18:00	US	ISM Prices Paid	Oct	81.2	82.0	85.7
18:45	US	Markit US Manufacturing PMI	Oct F	59.2	59.2	58.4
Tuesday, 2 November						
3:50	Japan	Monetary Base, y-o-y	Oct	11.7%		9.9%
Wednesday, 3 November						
5:45	China	Caixin China PMI Services	Oct	53.4	53.1	53.8
8:15	Egypt	IHS Markit Egypt PMI	Oct	48.9		48.7
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Oct	58.6		57.7
8:15	UAE	IHS Markit UAE PMI	Oct	53.3		55.7
9:00	India	Markit India PMI Services	Oct	55.2		58.4
11:00	Turkey	CPI, y-o-y	Oct	19.6%	20.4%	19.9%
11:00	Turkey	CPI Core Index, y-o-y	Oct	17.0%	17.9%	16.8%
13:00	Qatar	IHS Markit Qatar PMI	Oct	60.6		62.2
13:30	UK	Markit/CIPS UK Composite PMI	Oct F	56.8	56.8	57.8
14:00	Eurozone	Unemployment Rate	Sep	7.5%	7.4%	7.4%
16:15	US	ADP Employment Change	Oct	523K	400K	571K
18:00	US	ISM Services Index	Oct	61.9	62.0	66.7
18:00	US	Factory Orders	Sep	1.0%	0.0%	0.7%
18:00	US	Durable Goods Orders	Sep F	-0.4%	-0.4%	-0.3%
18:45	US	Markit US Services PMI	Oct F	58.2	58.2	58.7
18:45	US	Markit US Composite PMI	Oct F	57.3		57.6
22:00	US	FOMC Rate Decision (Lower Bound)	3-Nov	0.0%	0.0%	0.0%
22:00	US	FOMC Rate Decision (Upper Bound)	3-Nov	0.25%	0.25%	0.25%
Thursday, 4 November						
4:30	Japan	Jibun Bank Japan PMI Composite	Oct F	50.7		50.7
13:00	Eurozone	Markit Eurozone Composite PMI	Oct F	54.3	54.3	54.2
13:30	UK	Markit/CIPS UK Construction PMI	Oct	52.6	52.0	54.6
16:00	UK	Bank of England Bank Rate	4-Nov	0.1%	0.10%	0.1%
16:00	UK	BOE Corporate Bond Target	Nov	20B	20B	20B
16:00	UK	BOE Gilt Purchase Target	Nov	875B	875B	875B
16:30	US	Initial Jobless Claims	30-Oct	283K	275K	269K
16:30	US	Continuing Claims	23-Oct	2239K	2150K	2105K
16:30	US	Trade Balance	Sep	-\$72.8B	-\$80.2B	-\$80.9B
Friday, 5 November						
14:00	Eurozone	Retail Sales, m-o-m	Sep	1.0%	0.2%	-0.3%
16:30	US	Change in Nonfarm Payrolls	Oct	312K	450K	531K
16:30	US	Change in Private Payrolls	Oct	365K	420K	604K
16:30	US	Unemployment Rate	Oct	4.8%	4.7%	4.6%
16:30	US	Average Hourly Earnings, m-o-m	Oct	0.6%	0.4%	0.4%
16:30	US	Average Hourly Earnings, y-o-y	Oct	4.6%	4.9%	4.9%

* UAE time

Source: Bloomberg

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