

The Week Ahead: BoE, RBI and OPEC+ meetings in the limelight

► **US: Fed hikes with a dovish tone; July NFP data in focus**

Recession risks continue to rise but inflation remains elevated, resulting in central banks continuing with aggressive interest rate hikes. The Fed last week raised the FFTR by 75 bps to 2.25%-2.5%, but it did not provide any clear guidance on the potential pace of interest rate rises going forward. The Fed's focus on data developments and a meeting-by-meeting approach provides some flexibility for a recalibration of the monetary policy outlook, if necessary. For further details, please see our note: **GCC Economic Update - Regional central banks again raise rates after Fed's 75 bps hike**, published on 28 July 2022. On the data side, core PCE inflation for June released on Friday surprised to the upside, accelerating to 0.6% m-o-m (May: 0.3%), taking the annual reading to 4.8% y-o-y (May: 4.7%). Meanwhile, US real GDP contracted for two consecutive quarters in 2Q – a technical recession – reflecting the impact of high inflation on economic activity (page 2). Looking ahead, the focus this week will be on the July labour market data, with consensus expecting NFP to grow at a slower pace of 250K in July, from 372K in June. Despite the expected moderation, 250K job additions should be seen as a strong reading given the limited slack available in the labour market. The unemployment rate is expected to remain steady at 3.6% in July. Wage growth is also forecast to remain unchanged at 0.3% m-o-m (same as in June).

► **UK: BoE to hike by 50 bps; QT details to be announced**

We and the consensus expect the BoE to raise its benchmark rate by 50 bps to 1.75% at its 4 August meeting, albeit with a split vote (7-2 majority). At its June meeting, the MPC signalled that it would “act forcefully” if there were indications of persistent inflationary pressures. The MPC is likely to highlight that the faster pace of rate hikes will continue, given expectations for a further build-up in inflationary pressures in the coming months. Headline inflation accelerated to 9.4% y-o-y in June and the consensus expects it to peak at c.12.0% in 4Q2022, driven by higher household energy costs. However, on the economic growth side, the BOE is likely to emphasise further downside risks to the outlook, providing a dovish undertone to the overall communication. Moreover, the BoE is also expected to announce details of quantitative tightening at this meeting. Governor Andrew Bailey earlier highlighted that the pace of balance sheet run-off (including redemptions) will be GBP50.0-GBP100.0 billion in the first year.

► **India: RBI expected to opt for a 50 bps hike in August**

The RBI is also expected to raise its benchmark rate at the 3-5 August meeting, though the consensus is divided over the magnitude of the hike (35 or 50 bps). We believe that it will be a close call with increasing likelihood of a 50 bps hike to 5.4%, given the headline inflation, which is still above the target range (2.0-6.0%), and rising global interest rates. However, the recent softening in inflation in India (June: 7.0% y-o-y; April: 7.8%) and rising global recession risks could lead to a smaller rate hike this week. Separately, an important OPEC+ meeting is due this week, please see page 2 for our expectations.

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I. Recent Events and Data Releases

A. MENA Economies

Oil: OPEC+ likely to raise group output to c.800K b/d for September

OPEC+ will hold a crucial meeting this week on 3 August to decide on the group's output for September and beyond. We expect a further rise in the OPEC+ production target of c.800K b/d in September, with the target output then remaining steady until end-2022. We also see potential for the introduction of a compensation mechanism to reduce the group's underproduction vs. allocated quotas. For further details, please see our note: **Oil Update - Market outlook clouded by both demand and supply side uncertainties**, published on 29 July 2022. We believe that OPEC+ will tread cautiously and seek a balance between easing oil supply shortages and exhausting limited available global spare capacity. A number of demand and supply uncertainties continue to cloud the oil market at this point, adding volatility to the oil price. On the demand side, global economic growth momentum is weakening and fears of a recession are rising amidst aggressive monetary policy tightening by the major central banks to curb high inflation. On the supply front, physical market conditions remain tight despite the increase in Russian oil production in recent months and OPEC+ raising its monthly output target for July and August. Against this backdrop, we expect OPEC+ to highlight that it will be flexible with its policy decisions and will continue to meet on a monthly basis to adjust the output policy if necessary.

OPEC+ likely to highlight flexibility to adjust output policy if necessary

As we have highlighted in the above-mentioned report, Saudi Arabia and the UAE will particularly benefit from any OPEC+ decision to increase production, given their spare output capacity. Our economic forecasts for Saudi Arabia and UAE already assume a further increase in output from September. The increase in oil production is already being reflected in Saudi GDP data. Flash GDP data for 2Q2022 showed that real GDP growth accelerated to 11.8% y-o-y, from 9.9% in the previous quarter. This is on the back of a further acceleration in real oil sector GDP growth (i.e. production changes). The oil sector grew by 23.1% y-o-y in 2Q, though non-oil sector growth also remained strong at 5.4%. We continue to see the latter underpinned by the investment programme.

Saudi 2Q GDP growth accelerated to 11.8% y-o-y – its fastest pace since 3Q2011 – with strong oil sector growth

B. G4 Economies

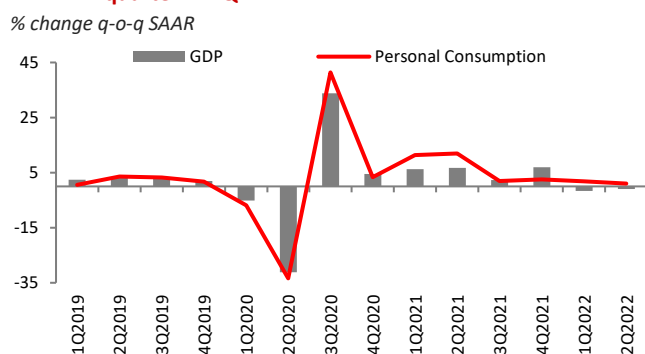
US: Real GDP contracts whilst price pressures continue to rise

Incoming activity data showed that core PCE inflation accelerated further in June, whilst real GDP contracted for the second consecutive quarter in 2Q, resulting in a technical recession. Real GDP fell by 0.9% q-o-q SAAR in 2Q, following a 1.6% drop in 1Q. Consensus had expected modest growth of 0.4% during the quarter. The breakdown of the data shows that private consumption – the biggest part of the economy – and net exports contributed positively to the headline GDP figure, whilst investments, inventories and government spending fell. Despite the positive contribution from private consumption, its growth decelerated to 1.0% q-o-q SAAR in 2Q, from 1.8% in 1Q, with high inflation leading to a reduction in household spending. Fed Chair Powell during his July post-meeting conference dismissed the notion that the US economy was already in a recession in 1H, given the still-strong labour market conditions and ongoing hiring activity. The debate over whether the US economy is just in a technical recession or in a real recession continues given the divergence of soft (leading indicators) and hard data (lagging indicators). Despite the vagueness surrounding the definition of recession, there are

Real GDP contracted by 0.9% q-o-q SAAR in 2Q

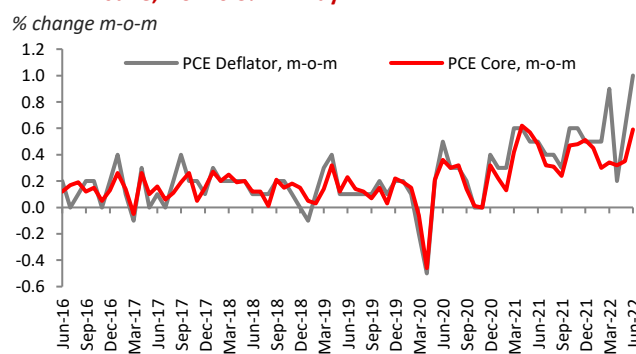
early indications that the economy is at risk of a 'real' recession, where weakening demand pushes up the unemployment rate.

Fig. 1. US: Real GDP contracted for the second consecutive quarter in 2Q



Source: US Bureau of Economic Analysis, ADCB Economic Research

Fig. 2. US: Core PCE inflation accelerated to 0.6% m-o-m in June, from 0.3% in May



Source: US Bureau of Economic Analysis, ADCB Economic Research

Meanwhile, core PCE inflation for June surprised to the upside and accelerated to 0.6% m-o-m (May: 0.3%), taking the annual reading to 4.8% y-o-y (May: 4.7%). The headline PCE deflator also strengthened to 1.0% m-o-m and 6.8% y-o-y (May: 6.3%). There was a broad-based acceleration in monthly PCE inflation, driven by food, energy and shelter. The rental prices, which tend to be sticky, are widely expected to keep overall inflation elevated in the coming months, even if goods inflation softens due to easing supply bottlenecks. Moreover, strong wage growth is likely to continue to add to cost-push inflation. This was already evident in the 2Q employment cost index released last week, which also surprised to the upside at 1.3% (q-o-q sa), led by wages and salaries (+1.4%) and benefits (+1.2%).

Core PCE inflation strengthened in June, led by shelter costs

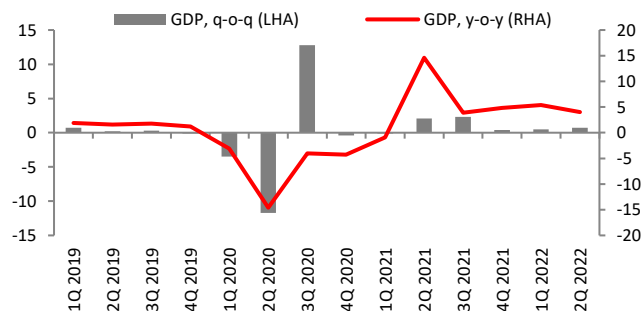
Eurozone: 2Q GDP growth and July inflation surprise to the upside

The Eurozone's real GDP growth surprisingly accelerated to 0.7% q-o-q in 2Q (consensus: 0.2%), from 0.5% in 1Q. However, on an annual basis, it decelerated to 4.0% y-o-y, from 5.4% in 1Q. The data showed a divergence of manufacturing-oriented economies, such as Germany, and tourism-driven economies, such as Spain and Italy. On the one hand, Germany's real GDP growth showed stagnation (0.0% q-o-q) in 2Q, reflecting the negative impact of reduced Russian gas supplies on industrial activity. On the other hand, Spain's GDP grew by 1.1% q-o-q (1Q: 0.2%), Italy's by 1.0% (1Q: 0.1%) and France's by 0.5% q-o-q (1Q: -0.2%), led by a pickup in tourism activity due to the re-opening of borders after tight restrictions. This diverging trend is also likely to be visible in 3Q, with a further pick-up in travel activity during the summer. Despite the positive 2Q GDP data, the incoming leading indicators are showing weakening business and consumer sentiment. Consensus expects the Eurozone economy to be in recession during the winter, with the impact of gas shortages likely to be significant. The magnitude of economic contraction in the Eurozone will be largely dependent on how the Russian gas flows evolve in the coming months.

Pick-up in tourism activity led the real GDP growth in 2Q

Fig. 3. Eurozone: Real GDP growth accelerated on a q-o-q basis to 0.7%, beating consensus estimate of 0.2%

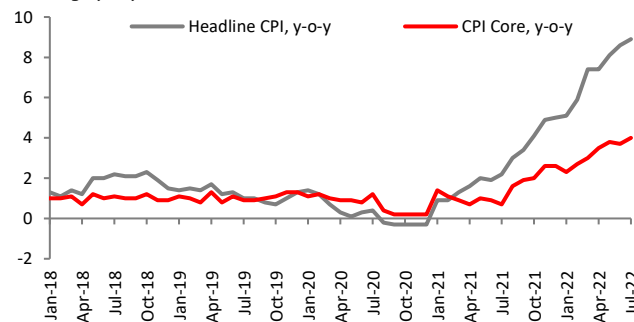
% change q-o-q (LHA), % y-o-y (RHA)



Source: Eurostat, ADCB Economic Research

Fig. 4. Eurozone: Both headline and core inflation strengthened further in July

% change y-o-y



Source: Eurostat, ADCB Economic Research

Meanwhile, the Eurozone’s headline inflation accelerated to 8.9% y-o-y in July, beating the consensus expectation of 8.7% and the June reading of 8.6%. Core inflation also strengthened to 4.0% y-o-y (consensus 3.9%), from 3.7% in June. Services, non-energy industrial goods and food prices strengthened in July, whilst energy inflation decelerated modestly, though is still at an elevated level (39.7% y-o-y). Looking ahead, inflation is likely to strengthen further, with higher gas prices seen pushing up energy bills.

Both headline and core inflation strengthen in July

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Kuwait	CPI, y-o-y	Jun	4.5%	
Monday, 1 August					
5:45	China	Caixin China PMI Mfg	Jul	51.7	51.5
9:00	India	S&P Global India PMI Mfg	Jul	53.9	
11:00	Turkey	S&P Global/ICI Turkey Manufacturing PMI	Jul	48.1	
12:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Jul F	49.6	49.6
12:30	UK	S&P Global/CIPS UK Manufacturing PMI	Jul F	52.2	52.2
13:00	Eurozone	Unemployment Rate	Jun	6.6%	6.6%
17:45	US	S&P Global US Manufacturing PMI	Jul F	52.3	52.3
18:00	US	ISM Manufacturing	Jul	53.0	52.0
18:00	US	ISM Prices Paid	Jul	78.5	73.5
Tuesday, 2 August					
18:00	US	Fed's Evans Hosts Media Breakfast			
18:00	US	JOLTS Job Openings	Jun	11254K	11000K
21:00	US	Fed's Mester Takes Part in Washington Post Live Event			
Wednesday, 3 August					
2:45	US	Fed's Bullard Speaks to the Money Marketeers			
5:45	China	Caixin China PMI Services	Jul	54.5	54.0
8:15	UAE	S&P Global United Arab Emirates PMI	Jul	54.8	
8:15	Egypt	S&P Global Egypt PMI	Jul	45.2	
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Jul	57.0	
9:00	India	S&P Global India PMI Services	Jul	59.2	
11:00	Turkey	CPI, y-o-y	Jul	78.6%	80.1%
11:00	Turkey	CPI Core, y-o-y	Jul	57.3%	61.2%
12:00	Eurozone	S&P Global Eurozone Composite PMI	Jul F	49.4	49.4
12:30	UK	S&P Global/CIPS UK Services PMI	Jul F	53.3	53.3
12:30	UK	S&P Global/CIPS UK Composite PMI	Jul F	52.8	52.8
13:00	Eurozone	Retail Sales, m-o-m	Jun	0.2%	0.0%
13:00	Qatar	Qatar Financial Center PMI	Jul	67.5	
17:45	US	S&P Global US Services PMI	Jul F	47.0	47.0
18:00	US	ISM Services Index	Jul	55.3	53.7
18:00	US	Durable Goods Orders	Jun F	1.9%	1.9%
18:00	US	Cap Goods Shipments, Non-def, ex-Air	Jun F	0.7%	
18:00	US	Factory Orders	Jun	1.6%	1.0%
Thursday, 4 August					
12:30	UK	S&P Global/CIPS UK Construction PMI	Jul	52.6	52.0
15:00	UK	Bank of England Bank Rate	4-Aug	1.25%	1.75%
15:30	UK	BOE Governor Bailey press conference			
16:30	US	Trade Balance	Jun	-\$85.5B	-\$80.0B
16:30	US	Initial Jobless Claims	30-Jul	256K	260K
16:30	US	Continuing Claims	23-Jul	1359K	1338K
Friday, 5 August					
8:30	India	RBI Repurchase Rate	5-Aug	4.9%	5.4%
8:30	India	RBI Cash Reserve Ratio	5-Aug	4.5%	4.5%
9:00	Japan	Leading Index CI	Jun P	101.2	
16:30	US	Change in Nonfarm Payrolls	Jul	372K	250K
16:30	US	Change in Private Payrolls	Jul	381K	230K
16:30	US	Unemployment Rate	Jul	3.6%	3.6%
16:30	US	Average Hourly Earnings, m-o-m	Jul	0.3%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Jul	5.1%	4.9%
16:30	US	Labor Force Participation Rate	Jul	62.2%	62.2%

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Bahrain	CPI, y-o-y	Jun	3.5%		3.1%
Monday, 25 July						
18:30	US	Dallas Fed Manufacturing Activity	Jul	-17.7	-18.5	-22.6
Tuesday, 26 July						
3:50	Japan	PPI Services, y-o-y	Jun	1.9%	2.0%	2.0%
17:00	US	FHFA House Price Index, m-o-m	May	1.5%	1.5%	1.4%
18:00	US	Richmond Fed Manufacturing Index	Jul	-9.0	-14.0	0.0
18:00	US	Conference Board Consumer Confidence	Jul	98.4	97.0	95.7
18:00	US	New Home Sales	Jun	642K	655K	590K
Wednesday, 27 July						
5:30	China	Industrial Profits, y-o-y	Jun	-6.5%		0.8%
9:00	Japan	Leading Index CI	May F	101.4		101.2
12:00	Eurozone	M3 Money Supply, y-o-y	Jun	5.8%	5.4%	5.7%
16:30	US	Wholesale Inventories, m-o-m	Jun P	1.9%	1.5%	1.9%
16:30	US	Durable Goods Orders	Jun P	0.8%	-0.4%	1.9%
16:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jun P	1.0%	0.3%	0.7%
18:00	US	Pending Home Sales, m-o-m	Jun	0.4%	-1.0%	-8.6%
22:00	US	FOMC Rate Decision (Lower Bound)	27-Jul	1.5%	2.25%	2.25%
22:00	US	FOMC Rate Decision (Upper Bound)	27-Jul	1.8%	2.5%	2.5%
Thursday, 28 July						
13:00	Eurozone	Economic Confidence	Jul	103.5	102.0	99.0
16:30	US	GDP Annualized, q-o-q	2Q A	-1.6%	0.4%	-0.9%
16:30	US	Personal Consumption	2Q A	1.8%	1.2%	1.0%
16:30	US	Initial Jobless Claims	23-Jul	261K	250K	256K
16:30	US	Continuing Claims	16-Jul	1384K	1386K	1359K
Friday, 29 July						
3:30	Japan	Tokyo CPI, y-o-y	Jul	2.3%	2.4%	2.5%
3:30	Japan	Jobless Rate	Jun	2.6%	2.5%	2.6%
3:50	Japan	Retail Sales, m-o-m	Jun	0.7%	0.2%	-1.4%
3:50	Japan	Retail Sales, y-o-y	Jun	3.7%	2.9%	1.5%
3:50	Japan	Industrial Production, m-o-m	Jun P	-7.5%	4.2%	8.9%
3:50	Japan	Industrial Production, y-o-y	Jun P	-3.1%	-7.0%	-3.1%
11:00	Turkey	Trade Balance	Jun	-10.6B	-8.2B	-8.2B
12:30	UK	Mortgage Approvals	Jun	65.7K	65.0K	63.7K
12:30	UK	Money Supply M4, m-o-m	Jun	0.6%		-0.3%
13:00	Eurozone	CPI Estimate, y-o-y	Jul	8.6%	8.7%	8.9%
13:00	Eurozone	CPI Core, y-o-y	Jul P	3.7%	3.9%	4.0%
13:00	Eurozone	GDP SA, q-o-q	2Q A	0.5%	0.2%	0.7%
13:00	Eurozone	GDP SA, y-o-y	2Q A	5.4%	3.4%	4.0%
16:30	US	Personal Income	Jun	0.6%	0.5%	0.6%
16:30	US	Personal Spending	Jun	0.3%	1.0%	1.1%
16:30	US	PCE Deflator, m-o-m	Jun	0.6%	0.9%	1.0%
16:30	US	PCE Deflator, y-o-y	Jun	6.3%	6.8%	6.8%
16:30	US	PCE Core Deflator, m-o-m	Jun	0.3%	0.5%	0.6%
16:30	US	PCE Core Deflator, y-o-y	Jun	4.7%	4.7%	4.8%
17:45	US	MNI Chicago PMI	Jul	56.0	55.0	52.1
18:00	US	U. of Michigan Sentiment	Jul F	51.1	51.1	51.5

* UAE time

Source: Bloomberg, ADCB Economic Research

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