

The Week Ahead: Important data week in the US and Europe; Oil market also in focus

► **US: Hiring activity expected to soften in November**

This week, the market will pay close attention to incoming data to gauge the impact of Fed rate hikes on the economy and when it will be able to end its hiking cycle. The key data releases include non-farm payrolls, JOLTS job openings, PCE inflation, ISM manufacturing and the second estimate of 3Q GDP. Consensus expects the pace of non-farm payroll hiring to slow to 200K in November, from 261K in October, albeit remaining strong and still reflecting a tight labour market. Despite the expected moderation in the pace of job additions in November, the envisaged print will still be stronger than the 2018-19 average of 178K. The unemployment rate is forecast to remain steady at 3.7% in November. Most importantly, wage growth in November is forecast to decelerate to 0.3% m-o-m (vs. 0.4% in October) and 4.6% y-o-y (vs. 4.7% in October). Monthly wage growth has hovered in the range of 0.3-0.6% since April 2021, though the market will look for an overall downward trend. Meanwhile, consensus expects the core PCE deflator – the Fed’s preferred inflation gauge – to decelerate to 0.3% m-o-m in October (September: 0.5%), taking the annual reading to 5.0% (September: 5.1%). October CPI data came in softer than expected, with core printing at 6.3% y-o-y, from 6.6% in September.

► **Global: Eurozone inflation likely to decelerate in November**

In the Eurozone, November inflation data due this week will play a critical role in shaping the outcome of the December ECB meeting – a hike of either 50 bps or 75 bps. Consensus expects headline inflation to decelerate to 10.4% in November, from the multi-decadal high of 10.7% in October. The softening in November inflation is likely to have been driven by the start of energy disinflation underpinned by weaker oil and natural gas prices, as well as the kick-in of high base effects in the previous year. However, core inflation is expected to remain steady at 5.0% y-o-y in November, with the downward pressure on core goods prices to be offset by rising core services costs. Elsewhere, India and Turkey will release their 3Q GDP data this week (page 5).

► **Oil: Brent price drops further on protests in China**

The Brent crude price fell further today to USD81.1 p/b, amidst protests in China against the latest COVID restrictions and their impact on the demand outlook. The fresh demand-side concerns emerged after some easing of supply-side concerns with the EU officials last week proposing a cap of Russian crude in the range of USD65-70 p/b. The EU proposed price range is higher than the currently discounted Ural price and is seen to have no major impact on supply. However, the EU talks on price caps have stalled with Poland and a number of Baltic countries opposing the proposal. The EU talks are likely to begin today, though uncertainty remains over whether an agreement will be reached before the kick-in of EU sanctions on Russian oil on 5 December or the OPEC+ meeting, which is due on 4 December.

The next issue of Global Data Watch will be published on Monday 12 December 2022.

Economics Team

Thirumalai Nagesh

Economist

+91 787 167 4887

Thirumalainagesh.ext@adcb.com

Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

Monica.malik@adcb.com

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I. Recent Events and Data Releases

A. G4 Economies

US: FOMC minutes show rising support for a 50 bps hike in December

The minutes of the November FOMC meeting highlighted that it will “soon be appropriate” to reduce the pace of rate hikes. This guidance was broadly in line with the recent Fed communication, with a number of FOMC members favouring a lower hike of 50 bps at the December meeting. Some Fed members also emphasised that a slower pace of rate hikes would give them time to assess the evolving inflation outlook. The FOMC minutes also underlined that “various” officials were expecting the terminal rate to be “somewhat higher than they had previously expected”. Fed Chair Jerome Powell, during his post-meeting conference, traced the outlook for a potentially higher terminal rate. However, this was before the softer October CPI inflation report. The Fed will have a chance to see the November labour market and CPI inflation reports before the December meeting and we expect the outcome of these reports to play a critical role in shaping the FOMC members’ December dot-plot projections. On the economy, Fed staff in November noted that chances of a recession in the US had risen to almost 50.0% for 2023, due to a potential slowdown in consumer spending and a risk of global economic weakness. We see potential for a growing divergence between FOMC members in the coming months as some participants turn more dovish because of rising recession risks and others maintain their hawkish stance because of the still-high inflation backdrop. We currently forecast the terminal FFTR at 5.0% by March, with a 50 bps hike in December and 25 bps increases in February and March.

FOMC members uncertain about the terminal rate

Eurozone: ECB meeting minutes show disagreement over 75 bps hike

The ECB’s October meeting minutes showed that a very large majority of members supported the 75 bps hike at the meeting, while a few members favoured a 50 bps increase. The Governing Council members expressed diverging views: some members were concerned that “falling short of market expectations” would undermine the fight against high inflation, whilst a few dovish members favoured a 50 bps increase, arguing that it is “sufficient to adjust the monetary policy stance in a gradual and measured way” given the “risk of a significant slowdown in economic activity.” We expect divisions within the GC over the magnitude of rate hikes to widen further at the December meeting. The minutes also showed that the GC discussed the use of concepts such as the “neutral rate” and the “terminal rate”, concluding that they would need additional information to hold more in-depth discussions. The GC members continued to express increasing concerns about the inflation outlook and noted that “the latest inflation outcomes were not at all reassuring”. The members had an extensive debate on wage growth and expressed apprehensions about the “increasing risk of a vicious circle in which higher inflation expectations would feed into both higher prices and greater wages.” We see the overall tone on inflation and the interest rate outlook as more hawkish than at the post-meeting press conference. On the economic side, some GC members agreed that the economic outlook had deteriorated since the September projections and that the economy is heading for a mild recession.

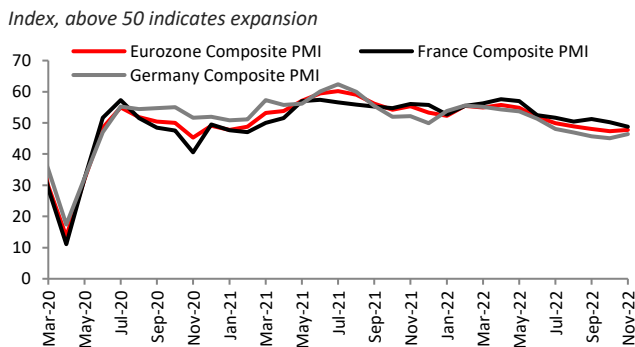
The overall tone of the October meeting minutes was more hawkish than Christine Lagarde’s post-meeting communication

The October minutes did not provide any clear guidance regarding the December rate hike. Nevertheless, the ECB’s executive board member Isabel Schnabel recently noted that “incoming data so far suggest that the room for slowing down the pace of interest rate adjustments remains limited,” likely hinting at her support for another 75 bps hike in December. The market is currently pricing in a roughly equal likelihood of a 50 bps or

Market is currently pricing in roughly equal chances for a 75 bps or 50 bps hike

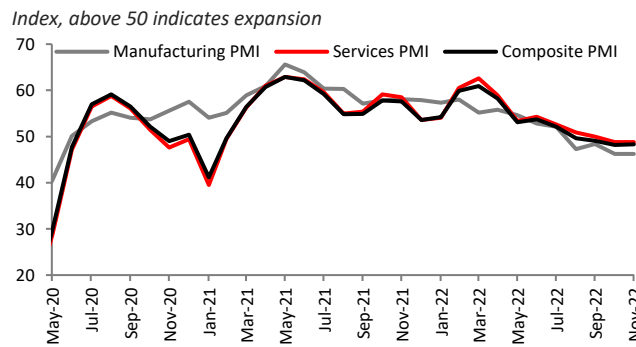
75 bps hike at the December meeting. We currently forecast a 50 bps hike at the December meeting, but do not completely rule out the possibility of a 75 bps increase.

Fig. 1. Eurozone: Composite PMI showed some pick-up in activity in November, led mainly by Germany



Source: S&P Global, ADCB Economic Research

Fig. 2. UK: PMI data still points to a sharp economic contraction in 4Q2022



Source: S&P Global, ADCB Economic Research

Europe: Some tick-up in manufacturing PMI activity in November

The PMI data for both the UK and the Eurozone remained in contractionary territory in November but came in stronger than the consensus expectations. The Eurozone PMI increased to 47.8 in November (October: 47.3, consensus: 47.0), while UK PMI rose to 48.3 (October: 48.2, consensus: 47.5). The strengthening in PMI activity in the Eurozone was mainly due to the manufacturing segment, whilst the services sector remained steady. The uptick in manufacturing activity was likely due to the fall in gas prices due to the warm weather. The easing of gas shortage concerns was likely a critical factor behind the improvement in purchasing manager’s sentiment. Moreover, the data points to some signs of easing price pressures, especially on the input costs side. On the services side, the key development was the sharp drop in activity in France, which fell into contractionary territory in November after being in the positive zone since March 2021. Overall, the Eurozone PMI data indicates that the economy will slip into recession in 4Q, with a quarterly contraction of c.0.2%. In the UK, the economic contraction is expected to be greater than in the Eurozone, with the forward-looking indicators pointing to an increasingly steep drop in demand for goods and services. UK PMI data released so far in 4Q points to a 0.4% quarterly contraction during the quarter.

The easing of gas shortage concerns likely helped to boost manufacturing activity

B. Emerging Market Economies

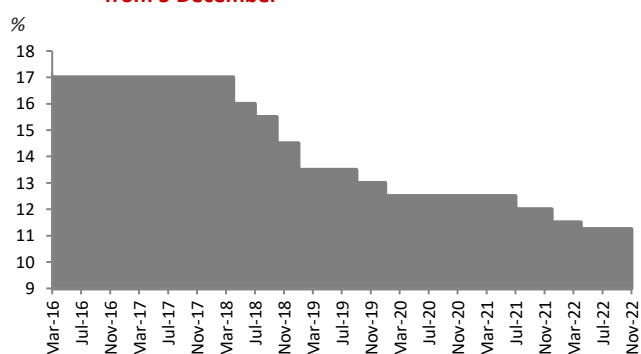
China: PBOC cuts RRR by 25 bps, infusing liquidity of CNY500 billion

The PBOC on Friday announced its second reserve requirement ratio (RRR) cut for this year with a 25 bps reduction for most banks. The rate reduction will lower the weighted average RRR to 7.8%, from 8.1% currently. The RRR cut will become effective on 5 December, injecting CNY500 billion of liquidity into the banking system. We believe that the RRR cut should be supportive for the economy, which was hit by a fresh wave of COVID cases and new lockdowns last week. The RRR cut also raises the possibility of a loan prime rate adjustment in December. The monetary policy easing came after the

Fresh COVID lockdowns and protests further complicate the economic outlook

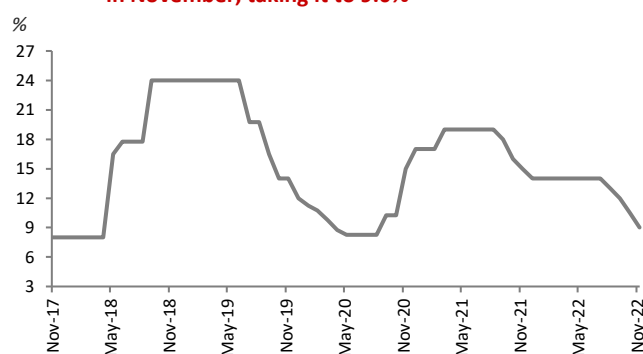
announcement of a number of policy measures aimed at stabilising the housing market, which has been under notable distress. Meanwhile, protests erupted over the weekend in Wuhan against stringent COVID restrictions. The severity and longevity of COVID restrictions is likely to play a critical role in shaping China's economic growth outlook, in our view. We expect overall economic activity to remain soft in 4Q as well as in 1Q2023, which in turn should be supportive for the PBOC maintaining an accommodative monetary policy stance.

Fig. 3. China: PBOC cuts RRR by 25 bps to 11.0%, effective from 5 December



Source: PBOC, ADCB Economic Research

Fig. 4. Turkey: CBRT cuts benchmark rate by another 150 bps in November, taking it to 9.0%



Source: CBRT, ADCB Economic Research

Turkey: CBRT announces an end to the rate cut cycle

The CBRT delivered another 150 bps rate cut at its 24 November policy, taking the one-week repo to 9.0%. The rate cut in November was in line with our and consensus expectations. The CBRT has in total enacted 500 bps of cuts since August 2021. The statement explicitly highlighted that the "current policy rate is adequate" and that the CBRT had "decided to end the rate cut cycle that started in August", given the increasing risks regarding global demand. The MPC also underlined that additional macro-prudential measures will be implemented to strengthen the effectiveness of the monetary transmission mechanism. The comprehensive set of policies to be implemented will be published in December in the 2023 Monetary and Exchange Rate document. The rest of the November MPC statement was mostly the same as the October one. The latest data shows that commercial loan rates dropped to c.16.0% in mid-November, from c. 27.0% before the easing cycle started in mid-August, with the introduction of new collateral rules for commercial loans. However, consumer loan rates are still c.30.0%, declining by just 1 pp since the beginning of the rate cut cycle, indicating a limited impact from the benchmark rate cuts or macro prudential measures. We see potential for the CBRT to announce additional macro-prudential measures in December to lower household borrowing costs.

CBRT to end rate cuts, though it will continue with its unorthodox macro prudential measures

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M3 Money Supply, y-o-y	Sep	13.2%	
	Bahrain	CPI, y-o-y	Oct	4.0%	
Monday, 28 November					
13:00	Eurozone	M3 Money Supply, y-o-y	Oct	6.3%	6.1%
18:00	Eurozone	ECB's Lagarde Speaks			
21:00	US	Fed's Williams Speaks to The Economic Club of New York			
	Saudi Arabia	SAMA Net Foreign Assets SAR	Oct	1686.4B	
Tuesday, 29 November					
3:50	Japan	Retail Sales, y-o-y	Oct	4.8%	5.0%
12:10	Eurozone	ECB's Guindos Speaks			
19:00	US	Conf. Board Consumer Confidence	Nov	102.5	99.9
Wednesday, 30 November					
3:50	Japan	Industrial Production, m-o-m	Oct P	-1.7%	-1.7%
5:30	China	Manufacturing PMI	Nov	49.2	49.0
5:30	China	Non-manufacturing PMI	Nov	48.7	48.0
11:00	Turkey	GDP, y-o-y	3Q	7.6%	4.5%
12:30	UK	BOE's Huw Pill speaks			
14:00	Eurozone	CPI Estimate, y-o-y	Nov	10.7%	10.4%
14:00	Eurozone	CPI, m-o-m	Nov P	1.5%	0.2%
14:00	Eurozone	CPI Core, y-o-y	Nov P	5.0%	5.0%
16:00	India	GDP, y-o-y	3Q	13.5%	6.2%
17:15	US	ADP Employment Change	Nov	239K	200K
17:30	US	Wholesale Inventories, m-o-m	Oct P	0.6%	0.5%
17:30	US	GDP Annualized, q-o-q	3Q S	2.6%	2.8%
18:45	US	MNI Chicago PMI	Nov	45.2	47.0
19:00	US	Pending Home Sales, m-o-m	Oct	-10.2%	-5.0%
19:00	US	JOLTS job openings	10717K	10350K	
21:35	US	Fed's Cook Discusses the Economic and Policy Outlook			
22:30	US	Fed's Jerome Powell Discusses the Economic Outlook			
Thursday, 1 December					
5:45	China	Caixin China PMI Mfg	Nov	49.2	49.0
9:00	India	S&P Global India PMI Mfg	Nov	55.3	
11:00	Turkey	S&P Global/ICI Turkey Manufacturing PMI	Nov	46.4	
17:30	US	Personal Income	Oct	0.4%	0.4%
17:30	US	Personal Spending	Oct	0.6%	0.8%
17:30	US	PCE Deflator, m-o-m	Oct	0.3%	0.4%
17:30	US	PCE Deflator, y-o-y	Oct	6.2%	6.0%
17:30	US	PCE Core Deflator, m-o-m	Oct	0.5%	0.3%
17:30	US	PCE Core Deflator, y-o-y	Oct	5.1%	5.0%
17:30	US	Initial Jobless Claims	26-Nov	240K	231K
18:45	US	S&P Global US Manufacturing PMI	Nov F	47.6	47.6
19:00	US	ISM Manufacturing	Nov	50.2	49.8
19:00	US	ISM Prices Paid	Nov	46.6	46.0
20:45	Eurozone	ECB's Lane Speaks			
Friday, 2 December					
6:40	Eurozone	ECB's Lagarde Speaks			
17:30	US	Change in Nonfarm Payrolls	Nov	261K	200K
17:30	US	Unemployment Rate	Nov	3.7%	3.7%
17:30	US	Average Hourly Earnings, m-o-m	Nov	0.4%	0.3%
17:30	US	Average Hourly Earnings, y-o-y	Nov	4.7%	4.6%
17:30	US	Labor Force Participation Rate	Nov	62.2%	62.3%

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Oct	5.4%		4.6%
Monday, 21 November						
17:30	US	Chicago Fed Nat Activity Index	Oct	0.1	0.0	-0.1
Tuesday, 22 November						
11:00	UK	PSNB, ex-Banking Groups	Oct	20.0B	21.5B	13.5B
19:00	Eurozone	Consumer Confidence	Nov P	-27.6	-26.0	-23.9
19:00	US	Richmond Fed Manufacturing Index	Nov	-10.0	-8.0	-9.0
Wednesday, 23 November						
12:30	Eurozone	ECB's Guindos Speaks				
13:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Nov P	46.4	46.0	47.3
13:00	Eurozone	S&P Global Eurozone Services PMI	Nov P	48.6	48.0	48.6
13:00	Eurozone	S&P Global Eurozone Composite PMI	Nov P	47.3	47.0	47.8
13:30	UK	S&P Global/CIPS UK Manufacturing PMI	Nov P	46.2	45.8	46.2
13:30	UK	S&P Global/CIPS UK Services PMI	Nov P	48.8	48.0	48.8
13:30	UK	S&P Global/CIPS UK Composite PMI	Nov P	48.2	47.5	48.3
16:00	US	MBA Mortgage Applications	18-Nov	2.7%		2.2%
17:30	US	Durable Goods Orders	Oct P	0.4%	0.4%	1.0%
17:30	US	Durables, ex-Transportation	Oct P	-0.5%	0.0%	0.5%
17:30	US	Cap Goods Shipments, Non-def, ex-Air	Oct P	-0.5%	0.2%	1.3%
17:30	US	Initial Jobless Claims	19-Nov	222K	225K	240K
17:30	US	Continuing Claims	12-Nov	1507K	1520K	1551K
18:45	US	S&P Global US Manufacturing PMI	Nov P	50.4	50.0	47.6
18:45	US	S&P Global US Services PMI	Nov P	47.8	48.0	46.1
18:45	US	S&P Global US Composite PMI	Nov P	48.2	48.0	46.3
19:00	US	U. of Mich. Sentiment	Nov F	54.7	55.0	56.8
19:00	US	New Home Sales	Oct	603K	570K	632K
Thursday, 24 November						
4:30	Japan	Jibun Bank Japan PMI Services	Nov P	53.2		50.0
4:30	Japan	Jibun Bank Japan PMI Composite	Nov P	51.8		48.9
4:30	Japan	Jibun Bank Japan PMI Mfg	Nov P	50.7		49.4
9:00	Japan	Leading Index Cl	Sep F	97.4		97.5
10:00	Japan	Machine Tool Orders, y-o-y	Oct F	-5.4%		-5.5%
15:00	Turkey	One-Week Repo Rate	24-Nov	10.5%	9.0%	9.0%
Friday, 25 November						
3:30	Japan	Tokyo CPI, y-o-y	Nov	3.5%	3.6%	3.8%

* UAE time

Source: Bloomberg, ADCB Economic Research

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