

The Week Ahead: Fed and ECB minutes will be scrutinised for any new insights

► **US: Strong hiring activity expected despite rising recession risks**

Market focus this week will be on the June FOMC meeting minutes and non-farm payrolls data amidst rising concerns over recession risks. Chair Jerome Powell during his address at the ECB's Sintra forum reiterated his hawkish stance and noted that "the US economy is well-positioned to withstand tighter monetary policy." He also highlighted that the Fed will not allow "a transition from a low-inflation environment to a high-inflation environment", and that the aim "is to slow growth down so that supply will have a chance to catch up." We believe that the minutes will reaffirm the need to frontload rate hikes amidst the elevated inflation. The June non-farm payrolls will also be watched closely to assess the tightness in the labour market and wage pressures at a time of slowing consumer spending growth (see below paragraph). Consensus expects the US economy to have added a still strong 273K jobs in June, albeit slowing from a robust 390K in May. The unemployment rate is forecast to remain steady at 3.6%. The sustained demand for labour is also expected to keep wage growth at 0.3% m-o-m in June (same as in May and April). However, annual hourly earnings are forecast to decelerate to 5.0% (May: 5.2%), though this is still above the normal trend of growth.

► **US: Economic momentum weakens further in May**

PCE data showed that consumer spending decelerated further in May due to rising price pressures hitting domestic demand. Personal consumption expenditure fell to 0.2% m-o-m, a five-month low, with April's reading also revised down to 0.6% from a preliminary 0.9%. The rise in interest rates and tightening financial conditions also explain the weakening economic momentum. The slowdown in consumer spending occurred despite steady, robust personal income growth of 0.5% m-o-m in May. Core PCE inflation, the Fed's preferred gauge, remained steady at 0.3% m-o-m in May (consensus: 0.4%), which takes the y-o-y reading down to 4.7% (April: 4.9%; consensus: 4.8%). The final estimate of 1Q GDP data also shows that growth in consumption spending was softer than envisaged in the previous estimate. Personal consumption growth for 1Q was revised down to 1.8% q-o-q SAAR from 3.1% earlier. However, the upward revision to inventories limited the GDP growth contraction to 1.6%, from 1.5% previously.

► **Eurozone: ECB minutes will be scrutinised for rate hike outlook**

The ECB's June meeting minutes will also be released this week on 7 July. Market attention will be particularly on any additional details related to the magnitude of interest rate hikes at the upcoming meetings and discussions surrounding the handling of widening bond yield spreads. President Christine Lagarde last week highlighted that the Governing Council will consider the proposal of a new anti-fragmentation tool at its July meeting. However, she did not provide any new information regarding the tool the ECB is working on. We believe the ECB is likely to incorporate some flexibility into the tool to deal with the widening spreads in the region. On the data side, the Eurozone

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inflation data released on Friday showed a further acceleration in headline inflation but a softening in the core reading. Headline inflation strengthened to 8.6% y-o-y in June (consensus: 8.5%; May: 8.1%), driven by food and energy prices. The rising gas prices due to uncertainty surrounding sufficient supply for the winter season are likely to add further upside pressure, in our view. Nevertheless, the core reading softened to 3.7% y-o-y in June (May: 3.8%). The deceleration in core inflation was mainly due to the services segment, which was impacted by the introduction of large train ticket discounts in Germany for the summer months. The government's policy interventions, such as discounts for public transportation and the capping of utility costs, are likely to ease some of the burden on households, but will not be sufficient to curb inflation meaningfully. Consensus expects headline inflation to strengthen further to over 10.0% by September, with the core reading above 4.0%. Against this inflation backdrop, we expect the ECB to raise interest rates by 25 bps in July and by 50 bps in September, followed by a 25 bps hike in each of October and December.

► **EM: Egypt and China inflation due; Turkey CPI accelerates further**

A number of emerging market economies, including Egypt and China, will release their June inflation data this week. In Egypt, we expect headline inflation to accelerate further to c.14.4% y-o-y in June from 13.5% in May. The strengthening in food and energy prices on the back of still elevated global commodity prices is likely to be the key driver of inflation. Moreover, the pass-through effect of EGP devaluation will add to imported inflation. Meanwhile, Turkey released its June inflation report earlier today, with the headline reading strengthening to 78.6% y-o-y, from 73.5% in May. There was a broad-based acceleration in price pressures in June and we expect this trend to continue for the coming months. Despite rising inflation, we do not expect the CBRT to hike interest rates given the political constraints and President Recep Tayyip Erdoğan's call for lower interest rates. We also expect the MPC to continue using macro-prudential and regulatory changes as primary monetary policy tools, rather than benchmark rate hikes.

► **Oil: OPEC+ to boost output by 648K b/d in August, as planned**

OPEC+ is sticking to its plan to raise group output by 648K b/d in August, which will fully restore the output cuts imposed during the pandemic. No other details were provided in the statement with regards to the production plan from September. The next OPEC+ meeting, which is scheduled for 3 August, will be key to shaping output policy ahead as well as in terms of extending the agreement, which is slated to end by December. We expect OPEC+ to tread cautiously and find a balance between easing supply-side concerns and exhausting the limited spare capacity available. Brent crude is currently trading at USD112.2 p/b. Oil market fundamentals remain tight due to supply disruptions in Libya and Ecuador, as well as sanctions on Russian oil affecting oil flows. Demand-side concerns are also rising amidst weakening global economic momentum and growing concerns over a potential global recession. We expect oil market fundamentals to remain tight in 2H given low inventories and limited global spare capacity, and see risks to oil prices as tilted to the upside.

I. Economic Calendar

Fig. 1. The week ahead

| Time* | Country | Event | Period | Prior | Consensus |
|---------------------------|--------------|---|--------|-----------|-----------|
| Expected this week | | | | | |
| | UAE | M3 Money Supply, y-o-y | Mar | 5.7% | |
| | Bahrain | CPI, y-o-y | May | 3.5% | |
| | Kuwait | CPI, y-o-y | May | 4.7% | |
| Monday, 4 July | | | | | |
| 11:00 | Turkey | CPI, m-o-m | Jun | 3.0% | 5.7% |
| 11:00 | Turkey | CPI, y-o-y | Jun | 73.5% | 80.0% |
| 12:30 | Eurozone | Sentix Investor Confidence | Jul | -15.8 | -20.0 |
| Tuesday, 5 July | | | | | |
| 4:30 | Japan | Jibun Bank Japan PMI Composite | Jun F | 53.2 | |
| 5:45 | China | Caixin China PMI Services | Jun | 41.4 | 49.0 |
| 8:15 | UAE | S&P Global United Arab Emirates PMI | Jun | 55.6 | |
| 8:15 | Egypt | S&P Global Egypt PMI | Jun | 47.0 | |
| 8:15 | Saudi Arabia | S&P Global Saudi Arabia PMI | Jun | 55.7 | |
| 9:00 | India | S&P Global India PMI Composite | Jun | 58.3 | |
| 12:00 | Eurozone | S&P Global Eurozone Composite PMI | Jun F | 51.9 | 51.9 |
| 12:30 | UK | S&P Global/CIPS UK Composite PMI | Jun F | 53.1 | 53.1 |
| 13:30 | UK | Bank of England financial stability report | | | |
| 18:00 | US | Factory Orders | May | 0.3% | 0.5% |
| 18:00 | US | Durable Goods Orders | May F | 0.7% | 0.7% |
| 18:00 | US | Cap Goods Shipments, Non-defence, ex-Air | May F | 0.8% | |
| Wednesday, 6 July | | | | | |
| 12:10 | UK | BOE's Huw Pill speaks at Qatar conference | | | |
| 12:30 | UK | S&P Global/CIPS UK Construction PMI | Jun | 56.4 | 55.0 |
| 13:00 | Eurozone | Retail Sales, m-o-m | May | -1.3% | 0.4% |
| 17:45 | US | S&P Global US Composite PMI | Jun F | 51.2 | 51.2 |
| 18:00 | US | ISM Services Index | Jun | 55.9 | 54.0 |
| 18:00 | US | JOLTS Job Openings | May | 11400K | 11000K |
| 22:00 | US | FOMC Meeting Minutes | 15-Jun | | |
| Thursday, 7 July | | | | | |
| 9:00 | Japan | Leading Index CI | May P | 102.9 | 101.5 |
| 13:45 | Eurozone | ECB's Lane Speaks | | | |
| 15:30 | Eurozone | ECB Publishes Account of June Policy Meeting | | | |
| 16:30 | US | Trade Balance | May | -\$87.1B | -\$84.9B |
| 16:30 | US | Initial Jobless Claims | 2-Jul | 231K | 230K |
| 16:30 | US | Continuing Claims | 25-Jun | 1328K | 1330K |
| 21:00 | US | Fed's Waller Interviewed During NABE Event | | | |
| 21:00 | US | Fed's Bullard to Discuss US Economy and Monetary Policy | | | |
| | Egypt | Urban CPI, y-o-y | Jun | 13.5% | |
| | China | Foreign Reserves | Jun | \$3127.8B | \$3120.4B |
| Friday, 8 July | | | | | |
| 3:50 | Japan | BoP Current Account Balance | May | ¥501.1B | ¥162.0B |
| 11:00 | Turkey | Current Account Balance | May | -2.74B | -6.7B |
| 15:55 | Eurozone | ECB's Lagarde Speaks | | | |
| 16:30 | US | Change in Nonfarm Payrolls | Jun | 390K | 273K |
| 16:30 | US | Unemployment Rate | Jun | 3.6% | 3.6% |
| 16:30 | US | Average Hourly Earnings, y-o-y | Jun | 5.2% | 5.0% |
| 16:30 | US | Average Hourly Earnings, m-o-m | Jun | 0.3% | 0.3% |
| 16:30 | US | Average Weekly Hours All Employees | Jun | 34.6 | 34.6 |
| 16:30 | US | Labor Force Participation Rate | Jun | 62.3% | 62.4% |
| 18:00 | US | Wholesale Inventories, m-o-m | May F | 2.0% | 2.0% |
| 19:00 | US | Fed's Williams Speaks in Puerto Rico | | | |

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

| Time* | Country | Event | Period | Prior | Consensus | Actual |
|---------------------------|--------------|--|--------|---------|-----------|---------|
| Expected this week | | | | | | |
| | Saudi Arabia | SAMA Net Foreign Assets SAR | May | 1633.0B | | 1663.2B |
| | Oman | CPI, y-o-y | May | 2.7% | | 2.4% |
| Monday, 27 June | | | | | | |
| 16:30 | US | Durable Goods Orders | May P | 0.4% | 0.1% | 0.7% |
| 16:30 | US | Capital Goods Shipments, Non-defence, ex-Air | May P | 0.8% | 0.2% | 0.8% |
| 18:00 | US | Pending Home Sales, m-o-m | May | -4.0% | -4.0% | 0.7% |
| 18:30 | US | Dallas Fed Manufacturing Activity | Jun | -7.3 | -6.5 | -17.7 |
| Tuesday, 28 June | | | | | | |
| 16:30 | US | Wholesale Inventories, m-o-m | May P | 2.3% | 2.1% | 2.0% |
| 18:00 | US | Conference Board Consumer Confidence | Jun | 103.2 | 100.0 | 98.7 |
| 18:00 | US | Richmond Fed Manufacturing Index | Jun | -9.0 | -7.0 | -19.0 |
| Wednesday, 29 June | | | | | | |
| 3:50 | Japan | Retail Sales, y-o-y | May | 3.1% | 4.0% | 3.6% |
| 12:00 | Eurozone | M3 Money Supply, y-o-y | May | 6.1% | 5.8% | 5.6% |
| 16:30 | US | GDP Annualized, q-o-q | 1Q T | -1.5% | -1.5% | -1.6% |
| 16:30 | US | Personal Consumption | 1Q T | 3.1% | 3.1% | 1.8% |
| Thursday, 30 June | | | | | | |
| 3:50 | Japan | Industrial Production, m-o-m | May P | -1.5% | -0.3% | -7.2% |
| 5:30 | China | Manufacturing PMI | Jun | 49.6 | 50.5 | 50.2 |
| 5:30 | China | Non-manufacturing PMI | Jun | 47.8 | 50.5 | 54.7 |
| 10:00 | Saudi Arabia | Unemployment Rate (Saudis) | 1Q | 11.0% | | 10.1% |
| 10:00 | UK | GDP, q-o-q | 1Q F | 0.8% | 0.8% | 0.8% |
| 10:00 | UK | GDP, y-o-y | 1Q F | 8.7% | 8.7% | 8.7% |
| 10:00 | UK | Private Consumption, q-o-q | 1Q F | 0.6% | 0.6% | 0.6% |
| 11:00 | Turkey | Trade Balance | May | -6.1B | -10.7B | -10.6B |
| 16:30 | US | Personal Income | May | 0.5% | 0.5% | 0.5% |
| 16:30 | US | Personal Spending | May | 0.6% | 0.4% | 0.2% |
| 16:30 | US | PCE Deflator, m-o-m | May | 0.2% | 0.7% | 0.6% |
| 16:30 | US | PCE Deflator, y-o-y | May | 6.3% | 6.4% | 6.3% |
| 16:30 | US | PCE Core Deflator, m-o-m | May | 0.3% | 0.4% | 0.3% |
| 16:30 | US | PCE Core Deflator, y-o-y | May | 4.9% | 4.8% | 4.7% |
| 16:30 | US | Initial Jobless Claims | 25-Jun | 233K | 230K | 231K |
| 16:30 | US | Continuing Claims | 18-Jun | 1331K | 1318K | 1328K |
| 17:45 | US | MNI Chicago PMI | Jun | 60.3 | 58.0 | 56.0 |
| Friday, 1 July | | | | | | |
| 3:30 | Japan | Tokyo CPI, y-o-y | Jun | 2.4% | 2.5% | 2.3% |
| 3:50 | Japan | Tankan Large Manufacturing Index | 2Q | 14.0 | 13.0 | 9.0 |
| 3:50 | Japan | Tankan Large Non-Manufacturing Index | 2Q | 9.0 | 13.0 | 10.0 |
| 5:45 | China | Caixin China PMI Manufacturing | Jun | 48.1 | 50.2 | 51.7 |
| 9:00 | India | S&P Global India PMI Manufacturing | Jun | 54.6 | | 53.9 |
| 11:00 | Turkey | S&P Global/ICI Turkey Manufacturing PMI | Jun | 49.2 | | 48.1 |
| 12:30 | UK | Mortgage Approvals | May | 66.1K | 64.0K | 66.2K |
| 13:00 | Eurozone | CPI Estimate, y-o-y | Jun | 8.1% | 8.5% | 8.6% |
| 13:00 | Eurozone | CPI Core, y-o-y | Jun P | 3.8% | 3.9% | 3.7% |
| 18:00 | US | ISM Manufacturing | Jun | 56.1 | 54.5 | 53.0 |
| 18:00 | US | ISM Prices Paid | Jun | 82.2 | 80.0 | 78.5 |

* UAE time

Source: Bloomberg, ADCB Economic Research

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