

The Week Ahead: CBE expected to hike; important data week in US and Europe

► **Global: Risk-off sentiment gathers pace amidst rising inflation**

Risk-off sentiment gathered pace last week over rising global inflation concerns and deteriorating economic numbers out of China due to the COVID lockdowns. April inflation data released last week for a number of countries, including the US, China, India and Egypt, surprised to the upside, beating consensus expectations. The strengthening (Egypt and India) and broadening (US) of price pressures also firmed expectations of further interest rate hikes in the aforementioned countries (ex-China). In the US, core inflation accelerated to 0.6% m-o-m in April, boosted by robust airfares and shelter costs. However, due to the high base in April 2021 kicking in, the y-o-y reading decelerated, from a potential March peak. Fed Chair Jerome Powell, who spoke after the CPI data release, reaffirmed that the Fed would hike rates by 50 bps at its next two meetings. Looking ahead, the key US data releases due are retail sales and industrial production for April. Consensus expects retail sales growth to accelerate to 1.0% m-o-m (March: 0.7%), led by strong auto sales, and supported also by domestic demand, despite rising prices. The shift in household spending from goods to services-oriented components is also likely to continue and be visible in the data.

► **Europe: ECB minutes and UK activity data are key releases**

The minutes of April's ECB policy meeting are likely to be a bit outdated given increasing concerns over the inflation outlook and building consensus within the Governing Council (GC) on the need to hike rates as early as in July. President Christine Lagarde recently highlighted that the rate increases will be within weeks of ending the asset purchase programme, which is expected to be concluded by 1 July. The EUR has come under further weakening pressure against the USD in recent weeks, touching a low of 1.04. The persistence of a weak EUR could also add to the already elevated inflation backdrop in the region, strengthening the case for multiple rate hikes in 2H2022. A number of key economic data releases are also due this week, including the Eurozone's 1Q GDP, and the UK's CPI, retail sales and labour market data. The UK's headline and core CPI inflation are expected to strengthen further in April due to higher fuel prices. Consensus expects headline CPI inflation to accelerate to 9.1% y-o-y (March: 7.0%) and core to firm up to 6.2% (March: 5.7%).

► **Egypt: CBE likely to hike given deteriorating inflation outlook**

We expect the CBE to raise its benchmark policy rates by 200 bps at its meeting on 19 May, taking the deposit rate to 11.25% and the lending rate to 12.25%. Our forecast puts us above consensus, which expects a 100 bps rise. We think the CBE is likely to frontload rate hikes given the deteriorating inflation backdrop (page 2), which, in turn, has resulted in a deepening of real interest rates into negative territory. The outlook for monetary policy tightening globally and firming expectations of a frontloading of interest rate hikes by the Fed are other key factors supporting rate increases. The above-consensus hike by the CBE would also help to provide support to the EGP amid pressure from the stronger USD.

Economics Team

Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

Monica.Malik@adcb.com

Thirumalai Nagesh

Economist

+91 787 167 4887

Thirumalainagesh.ext@adcb.com

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I. Recent Events and Data Releases

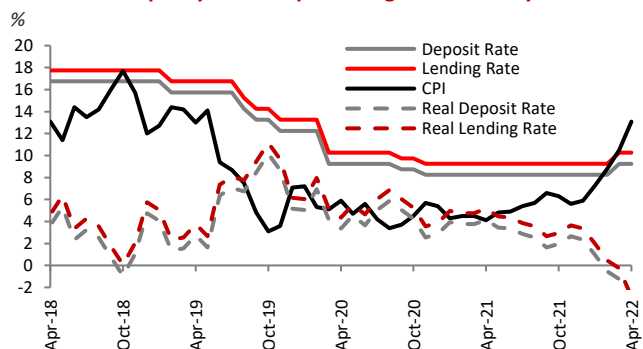
A. MENA Economies

Egypt: Inflation strengthens in April due to spike in food prices

Headline inflation surged to 13.1% y-o-y in April (March: 10.5%), its highest level since May 2019. The rise was driven by the impact of the war in Ukraine on global food and commodity prices and the EGP's recent devaluation in March. Food inflation accelerated markedly to 26.0% y-o-y in April (7.6% m-o-m), led partly by the seasonal Ramadan related effect, as well as the increase in grain and vegetable prices. Transportation prices also strengthened due to the hike in regulated domestic fuel prices for April to June (92 octane petrol: 2.9%; 95 octane: 6.0%). We expect headline inflation to continue to accelerate in the coming months and potentially peak in the 15.0-16.0% range in 3Q2022, as a result of the persistent pass-through of EGP devaluation and food and fuel price rises. The inflation trajectory thereafter will depend on the pace of fuel price hikes by the government and how the EGP moves. We see risks to the inflation outlook as skewed more to the upside. The elevated inflation outlook also warrants further interest rate hikes by the CBE. We forecast a 200 bps increase in May, followed by an additional 200-300 bps increase in 2H2022. The outlook for global monetary policy tightening and growing expectations that the Fed will frontload interest rate hikes also support rate increases.

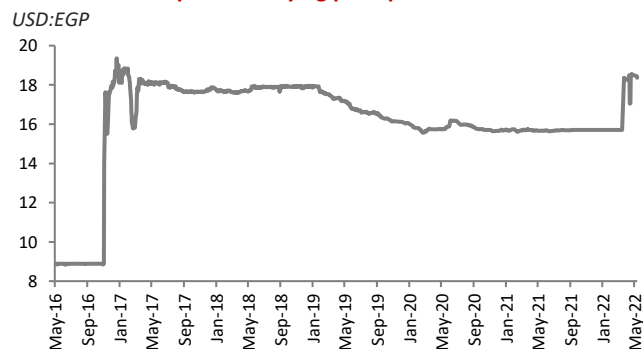
The rise in April inflation should support a rate hike at the CBE's May meeting, in our view

Fig. 1. Egypt: The surge in headline inflation has pushed the real policy rate deep into negative territory



Source: CBE, CAPMAS, ADCB Economic Research

Fig. 2. Egypt: Pass-through of EGP devaluation is behind the build-up of underlying price pressures



Source: Bloomberg, ADCB Economic Research

B. G4 Economies

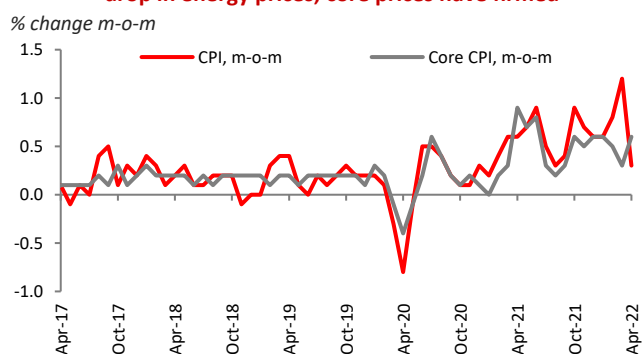
US: April CPI report indicates strong underlying price pressures

Both headline inflation and core CPI surprised to the upside on a sequential and annual basis in April, supporting the outlook that the Fed will front-load rate hikes. Core CPI accelerated to 0.6% m-o-m in April (March: 0.3%; consensus: 0.4%), driven by services segments such as airfares (+18.6%), car insurance (+0.8%) and shelter costs (+0.5%). Indeed, core services prices on a sequential basis rose at their fastest pace since 1990, suggesting elevated underlying price pressure. The rise in services costs also reflects rising wages amid strong demand for labour. Moreover, supply chain disruptions relating

Services inflation the key driver of price pressures in April

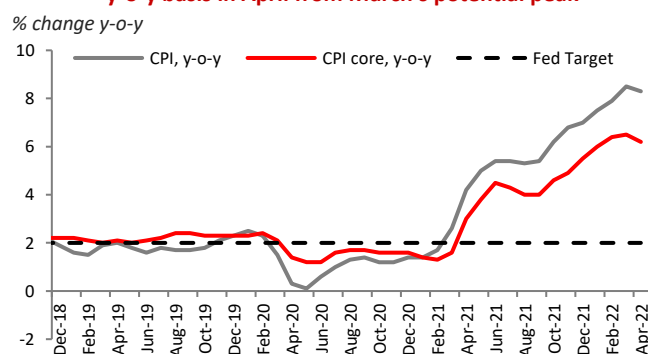
to the war in Ukraine and lockdowns in China impacted used car and auto parts prices in April. However, core inflation decelerated on a y-o-y basis to 6.2% due to last year's high base of used car prices falling out of calculations. Meanwhile, headline CPI declined to 0.3% m-o-m in April (March: 1.2%; consensus: 0.2%), bringing down the y-o-y reading to 8.3% from the likely peak of 8.5% in March. The softening monthly headline reading was due to the drop in energy prices and a modest deceleration in food costs. Looking ahead, rising domestic fuel prices and still elevated commodity prices and wage pressures are expected to keep overall price pressures high even though the high base of the previous year now comes into play. Overall, the April CPI report should leave the Fed comfortable with the front-loaded rate hiking path it has outlined, we believe.

Fig. 3. US: Headline inflation has softened sequentially due to drop in energy prices; core prices have firmed



Source: Bureau of Labor statistics, ADCB Economic Research

Fig. 4. US: Both headline and core inflation decelerated on a y-o-y basis in April from March's potential peak



Source: Bureau of Labor statistics, ADCB Economic Research

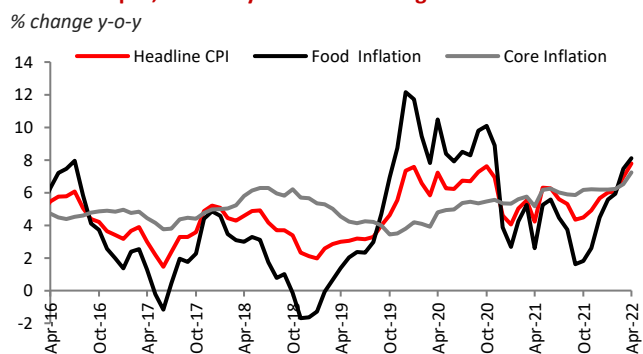
C. Emerging Market Economies

India: Inflation rises in April, led by food and fuel costs

Inflation accelerated to an eight-year high of 7.8% y-o-y in April (March: 7.0%), beating the consensus forecast of 7.4%. This was the fourth consecutive month that inflation remained at or above the RBI's upper bound inflation target of 6.0%. There was a broad-based strengthening in price pressure across major sub-components, including food, fuel and services. Food inflation rose to 8.4% y-o-y in April, its highest level since December 2020, reflecting the detrimental impact the heatwave has had on fruit, vegetables and wheat crops. The rise in wheat prices was partly due to increased exports to countries that are severely affected by the war in Ukraine. Fuel inflation also accelerated to 10.8% y-o-y in April, reflecting the rise in domestic pump prices. Rising input costs on the back of elevated global commodity prices were evident in the core inflation reading, which rose to 7.2% y-o-y, from 6.5% in March. Looking ahead, we expect inflationary pressures to remain strong in the coming months, with early-May data pointing to a sequential uptrend in a number of food and household items. However, as the high base of 2021 kicks in from May, we think annual inflation could see a deceleration from April's 7.8% reading. Responding to growing risks to the near-term inflation outlook, the RBI raised its repo rate by 40 bps to 4.4% at an unscheduled meeting on 4 May. We expect the RBI will continue hiking in the coming months: we forecast a 40-50 bps hike in June and potentially a cumulative 70-85 bps of hikes at the three remaining MPC meetings this year (August, October and December), taking the year-end repo rate to c.5.5-5.75%.

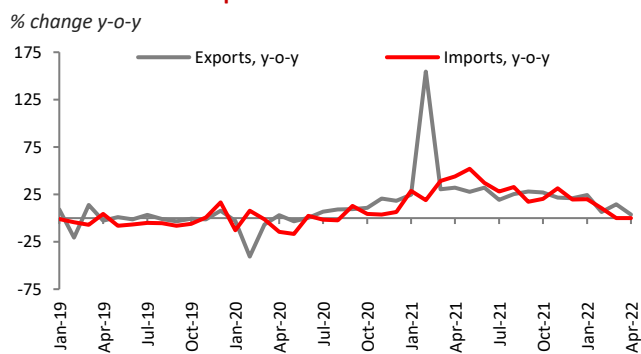
April inflation saw a broad-based strengthening

Fig. 5. India: Headline inflation rose to an eight-year high in April, driven by broad-based segments



Source: India Central Statistical Organisation, ADCB Economic Research

Fig. 6. China: The impact of COVID related lockdowns was evident in April trade data



Source: Customs General Administration PRC, ADCB Economic Research

China: Sharp drop in economic activity in April due to COVID lockdowns

Activity data for April released earlier this and last week showed that economic activity weakened markedly amidst stringent lockdowns imposed to contain COVID's spread. Retail sales growth contracted by 11.1% y-o-y in April (March: -3.5%; consensus: -6.6%) whilst industrial output growth also dropped by 2.9% (March: +5.0%; consensus: +0.5%). There was a broad-based contraction across the sectors, led primarily by the services sector. Deputy Head of National Bureau of Statistics Sheng Laiyun today highlighted that economic activity will improve in May and the government will continue to pursue high-quality development despite some current difficulties and challenges. Any recovery in economic activity going forward is likely to be largely linked to the timing and pace of the easing of COVID related restrictions. The credit growth in April released last week also showed a sharp contraction in new loans of 80.0% m-o-m, indicating a severe drop in borrowing by corporates and households. We expect a further weakening of loans to the private sector in the coming months unless the government provides a clear direction on COVID lockdowns. There is also likely to be a lagged impact of weak credit growth on economic activity in the coming months. Against this backdrop, the PBOC is widely expected to announce monetary policy easing measures in the near term to counter the negative impact of recent lockdowns on the economy.

Government policy direction on COVID lockdowns to decide the economic recovery momentum

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M3 Money Supply, y-o-y	Mar	5.7%	
	Oman	CPI, y-o-y	Apr	3.6%	
Monday, 16 May					
6:00	China	Industrial Production, y-o-y	Apr	5.0%	0.5%
6:00	China	Retail Sales, y-o-y	Apr	-3.5%	-6.6%
11:00	Turkey	Current Account Balance	Mar	-5.15B	-5.7B
16:30	US	Empire Manufacturing	May	24.6	15.0
16:55	US	Fed's Williams Takes Part in Moderated Discussion			
18:15	UK	BOE's Bailey, Ramsden, Haskel and Saunders speaks			
Tuesday, 17 May					
10:00	UK	Claimant Count Rate	Apr	4.3%	
10:00	UK	Jobless Claims Change	Apr	-46.9K	
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Mar	5.4%	5.4%
10:00	UK	ILO Unemployment Rate, 3M	Mar	3.8%	3.8%
13:00	Eurozone	GDP SA, q-o-q	1Q P	0.2%	0.2%
13:00	Eurozone	GDP SA, y-o-y	1Q P	5.0%	5.0%
14:05	UK	BOE's Cunliffe speaks			
16:30	US	Retail Sales Advance, m-o-m	Apr	0.7%	1.0%
16:30	US	Retail Sales Control Group	Apr	0.7%	0.8%
17:15	US	Fed's Harker Discusses Healthcare as Economic Driver			
17:15	US	Industrial Production, m-o-m	Apr	0.9%	0.5%
21:00	Eurozone	ECB's Lagarde Speaks in Darmstadt			
22:00	US	Powell Interviewed During Wall Street Journal Live Event			
22:30	US	Fed's Mester Gives Opening Remarks to Panel on Inflation			
Wednesday, 18 May					
2:45	US	Fed's Evans Discusses the Economic Outlook			
3:50	Japan	GDP Annualized SA, q-o-q	1Q P	4.6%	-1.8%
3:50	Japan	GDP SA, q-o-q	1Q P	1.1%	-0.4%
10:00	UK	CPI, m-o-m	Apr	1.1%	2.6%
10:00	UK	CPI, y-o-y	Apr	7.0%	9.1%
10:00	UK	CPI Core, y-o-y	Apr	5.7% ^x	6.2%
13:00	Eurozone	CPI, y-o-y	Apr F	7.4%	7.5%
13:00	India	RBI Meeting Minutes			
16:30	US	Building Permits	Apr	1873K	1825K
16:30	US	Housing Starts	Apr	1793K	1770K
Thursday, 19 May					
0:00	US	Fed's Harker Discusses the Economic Outlook			
3:50	Japan	Trade Balance	Apr	-¥414.1B	-¥1150.0B
15:30	Eurozone	ECB Publishes Account of April Policy Meeting			
16:30	US	Initial Jobless Claims	14-May	203K	200K
16:30	US	Continuing Claims	7-May	1343K	1330K
18:00	US	Existing Home Sales	Apr	5.77M	5.63M
18:00	US	Leading Index	Apr	0.3%	0.0%
	Egypt	Deposit Rate	19-May	9.25%	10.25%
Friday, 20 May					
3:30	Japan	Natl CPI, y-o-y	Apr	1.2%	2.5%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Apr	0.8%	2.0%
5:15	China	1-Year Loan Prime Rate	20-May	3.7%	3.65%
10:00	UK	Retail Sales, inc-Auto Fuel, m-o-m	Apr	-1.4%	-0.2%
10:00	UK	Retail Sales, inc-Auto Fuel, y-o-y	Apr	0.9%	-7.0%
18:00	Eurozone	Consumer Confidence	May A	-22.0	-21.5

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Kuwait	CPI, y-o-y	Mar	4.4%		4.4%
Monday, 9 May						
8:15	UAE	S&P Global United Arab Emirates PMI	Apr	54.8		54.6
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Apr	56.8		55.7
12:30	Eurozone	Sentix Investor Confidence	May	-18.0	-21.6	-22.6
18:00	US	Wholesale Inventories, m-o-m	Mar F	2.3%	2.3%	2.3%
	China	Trade Balance	Apr	\$47.4B	\$51.5B	\$51.1B
	China	Exports, y-o-y	Apr	14.7%	2.7%	3.9%
	China	Imports, y-o-y	Apr	-0.1%	-3.0%	0.0%
Tuesday, 10 May						
13:00	Qatar	Qatar Financial Center PMI	Apr	61.8		63.6
	Egypt	Urban CPI, y-o-y	Apr	10.5%		13.1%
Wednesday, 11 May						
5:30	China	PPI, y-o-y	Apr	8.3%	7.8%	8.0%
5:30	China	CPI, y-o-y	Apr	1.5%	1.8%	2.1%
9:00	Japan	Leading Index CI	Mar P	100.1	100.9	101.0
16:30	US	CPI, m-o-m	Apr	1.2%	0.2%	0.3%
16:30	US	CPI, ex-Food and Energy, m-o-m	Apr	0.3%	0.4%	0.6%
16:30	US	CPI, y-o-y	Apr	8.5%	8.1%	8.3%
16:30	US	CPI, ex-Food and Energy, y-o-y	Apr	6.5%	6.0%	6.2%
Thursday, 12 May						
3:50	Japan	BoP Current Account Balance	Mar	¥1648.3B	¥1737.5B	¥2549.3B
10:00	UK	Monthly GDP, m-o-m	Mar	0.0%	0.0%	-0.1%
10:00	UK	GDP, q-o-q	1Q P	1.3%	1.0%	0.8%
10:00	UK	GDP, y-o-y	1Q P	6.6%	8.9%	8.7%
10:00	UK	Industrial Production, m-o-m	Mar	-0.3%	0.0%	-0.2%
10:00	UK	Trade Balance, GBP Million	Mar	-£9195M	-£7800M	-£11552M
16:00	India	Industrial Production, y-o-y	Mar	1.5%	1.3%	1.9%
16:00	India	CPI, y-o-y	Apr	7.0%	7.4%	7.8%
16:30	US	PPI Final Demand, m-o-m	Apr	1.6%	0.5%	0.5%
16:30	US	PPI Final Demand, y-o-y	Apr	11.5%	10.7%	11.0%
16:30	US	Initial Jobless Claims	7-May	202K	193K	203K
16:30	US	Continuing Claims	30-Apr	1387K	1372K	1343K
Friday, 13 May						
	China	New Yuan Loans CNY	Apr	3125.4B	1530.0B	645.4B
	China	Money Supply M2, y-o-y	Apr	9.7%	9.9%	10.5%
3:50	Japan	Money Stock M2, y-o-y	Apr	3.5%	3.4%	3.6%
8:15	UAE	S&P Global Dubai PMI	Apr	55.5		54.7
11:00	Turkey	Industrial Production, m-o-m	Mar	4.4%		-1.8%
13:00	Eurozone	Industrial Production SA, m-o-m	Mar	0.5%	-2.0%	-1.8%
13:00	Eurozone	Industrial Production WDA, y-o-y	Mar	1.7%	-1.0%	-0.8%
16:30	US	Import Price Index, m-o-m	Apr	2.9%	0.6%	0.0%
18:00	US	University of Michigan Consumer Sentiment	May P	65.2	64.0	59.1

* UAE time

Source: Bloomberg, ADCB Economic Research

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