

The Week Ahead: BoE and PBOC intervene amidst rising financial market volatility

► **Global: US labour market data in focus after PCE inflation**

Market focus this week will continue to be on the global bond and currency market volatility, after central bank interventions last week. The BoE intervened in the bond market to exert downward pressure on the rising yields, whilst the PBOC intervened in the currency market to contain the CNY's depreciation. This came after the Japanese government intervened to limit the JPY weakening. In the US, the focus this week will be on the September labour market report. Consensus expects the pace of nonfarm payroll hiring to slow to 250K in September, from 315K in August, albeit remaining strong and reflecting the still tight labour market conditions. The unemployment rate is forecast to remain steady at 3.7% in September. Wage growth is also expected to be unchanged at 0.3% m-o-m in September, albeit on an annual basis softening to 5.1% (August: 5.2%). Wage growth will be in particular focus after the PCE inflation data surprised to the upside last week (page 2). The persistent underlying price pressures support the outlook for interest rates staying higher for longer, in our view.

► **Eurozone: ECB minutes in the spotlight after inflation surprise**

The minutes of the ECB's policy meeting in September will be scrutinised for any fresh insights they may provide into the interest rate outlook, including the size of the next rate hike and the potential peak rate. At last month's meeting, the ECB raised the policy rate by 75 bps with a hawkish guidance. President Christine Lagarde flagged that policy rates are "far away" from the neutral rate and that rate hikes would continue. Recent comments from ECB board members also indicate that the current interest rate is still well below the neutral rate and that they are inclined towards a 75 bps hike in October. We will be looking, in particular, for any new insights into what the ECB considers a neutral interest rate and the outlook for the Eurozone economy. Our base case is for a 75 bps hike in October, a 50 bps hike in December and a 25 bps hike in February. Meanwhile, September inflation data surprised to the upside once again, rising to a record 10.0% y-o-y.

► **Oil: OPEC+ likely to cut November output by c.1.0 million b/d**

We expect OPEC+ to implement a second consecutive output cut at its meeting on 5 October amidst weakening oil demand and mounting concerns of a global recession. We see potential for a c.1.0 million b/d production cut for November, from October levels. Russia has already proposed a 1.0 million b/d output reduction, with a number of other OPEC+ delegates also supporting a significant move. With Brent crude trading below USD90.0 p/b, we think OPEC+ is likely to frontload output cuts rather than making a gradual adjustment. However, the actual output reduction is likely to be lower than the planned cut, given the supply constraints. Our GCC economic growth forecasts already assume some output cuts in 4Q2022, though there could be some downside risks to our 2023 growth projections if production cuts deepen. For more details, please see our note – **GCC Economic Update: Continuing to shine**, published on 21 September 2022.

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I. Recent Events and Data Releases

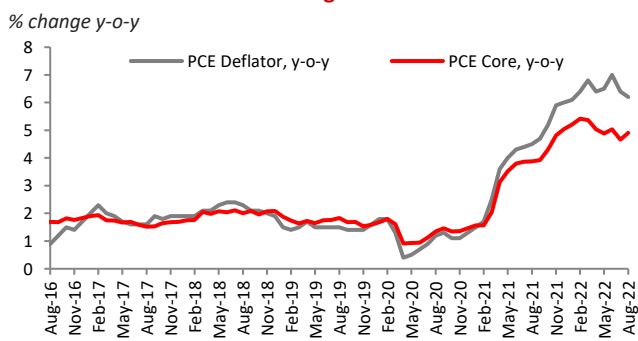
A. G4 Economies

US: Core PCE inflation strengthens with firming services prices

US core PCE inflation, the Fed’s preferred inflation gauge, surprised to the upside again in August and accelerated to 0.6% m-o-m (July: 0.0%). Monthly core PCE inflation has averaged 0.4% YTD. The strengthening in core inflation was mainly due to a rise in services inflation, including higher shelter costs. On an annual basis, core PCE strengthened to 4.9% in August, beating both consensus forecast and the prior month reading of 4.7%. Headline inflation also firmed on a monthly basis to 0.3% m-o-m in August (July: -0.1%), with the rise in food costs. The rise in headline PCE inflation is despite the negative contribution from energy prices during the month. Moreover, the other segments of the report, including personal income and spending, were also strong in August. Overall, the PCE report should be supportive for further large rate hikes and raises the risk of interest rates remaining higher for longer. Fed Vice Chair Lael Brainard noted after the PCE data release that the Fed would avoid “pulling back prematurely” from its tightening path. The Fed will have the September labour market report, as well as another CPI and PCE inflation readings, to digest before the next FOMC meeting on 2 November. We see the Fed continuing with its large rate hikes at the upcoming meetings. We expect one additional 75 bps hike in November, a 50 bps hike in December and a 25 bps hike in February, taking the terminal rate to 4.75% in 2023.

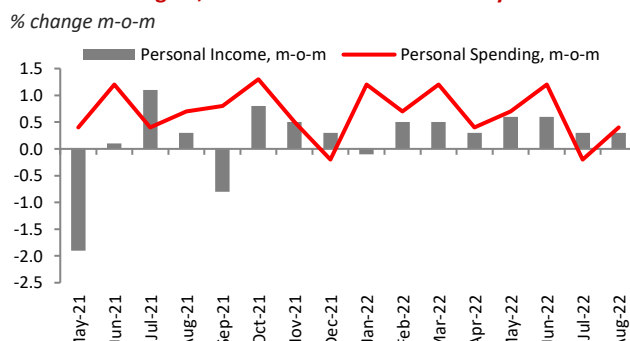
Strengthening in services inflation behind acceleration in core PCE

Fig. 1. US: Annual core PCE inflation strengthens in August whilst headline reading decelerates



Source: US Bureau of Economic Analysis, ADCB Economic Research

Fig. 2. US: Personal spending rebounds on a sequential basis in August, whilst income remains steady



Source: US Bureau of Economic Analysis, ADCB Economic Research

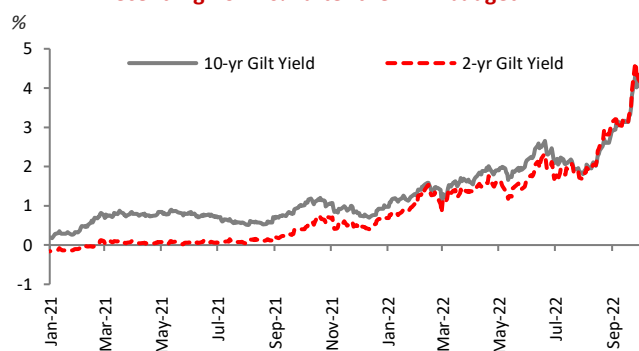
UK: Government scraps income tax cut announced during mini-budget

The UK government today scrapped the abolition of the 45.0% tax rate for high earners after the fallout from the government’s expansionary mini-budget announced in September. However, Finance Minister Kwasi Kwarteng highlighted that the government is not looking at any austerity measures to rein in its spending. He also affirmed that the government is focussed on its economic growth plan. The government’s U-turn on the tax cut is a welcome move, though it might not be sufficient to bolster investor confidence, in our view. Moreover, the main widening in the budget is likely to be on the back of the energy price caps. Meanwhile, the BoE last week announced that it will conduct temporary purchases of long-dated gilts “on whatever scale is necessary” from 28 September to 14 October to stabilise the bond markets. Long-end gilt yields are now

BoE intervenes in bond market with temporary QE purchases

back below pre-budget levels. This is an abrupt change in the government's asset purchase programme from the planned quantitative tightening (QT). The BoE's policy action came after verbal intervention by Governor Andrew Bailey and Chief Economist Huw Pill failed to stem the sharp rise in bond yields and the fall in GBP. We believe the BoE has described the intervention as temporary to protect its credibility. The BoE has postponed the start of QT until 31 October, from its earlier plan of 1 October. However, it remains to be seen whether it will be able to begin QT after 31 October or whether it will have to delay it further to maintain market stability. The BoE also has to push through large rate hikes with the looser fiscal policy backdrop, which puts additional pressure on it to rein in inflation. For more details on the mini-budget, please see our note – **Economic Research Weekly: Global Data Watch 26-30 September 2022**, published on 26 September.

Fig. 3. UK: 2-yr gilt yields currently trading at 4.04%, from a recent high of 4.6% after the mini-budget



Source: Bloomberg, ADCB Economic Research

Fig. 4. UK: GBP also came under significant sell-off pressure against the USD after the mini-budget announcement



Source: Bloomberg, ADCB Economic Research

We believe the BoE's credibility is on the line now more than ever and it needs to tread carefully. The bond market is currently pricing in aggressive rate hikes at the upcoming meetings, with a c.122 bps increase in November, c.120 bps in December, c.65 bps in February and c.31 bps in March. Market pricing implies that the policy rate could be around 5.7% in March, from its current level of 2.25%. We now expect the BoE to raise Bank Rate by 100 bps at its November meeting, followed by 75 bps each in December and February, taking the policy rate to 4.75% by end-February. We also do not rule out the possibility of a 100 bps hike at the November and December meetings. The mortgage markets could come under significant stress in the medium term if the higher interest rates are sustained. The BoE data shows that c.84.0% of UK mortgage holders are currently on fixed rates, while c.16.0% are on floating rates. Of the 84.0% fixed rate borrowers, c.32.0% of them will see their terms expire in the next two years, likely exposing those borrowers to higher rates. Overall, the average interest rate for households is likely to see a further rise from current levels, squeezing households' purchasing power.

Mortgage markets came under stress with the rising interest rates and outlook for further hikes

B. Emerging Market Economies

India: RBI hikes benchmark rate by another 50 bps in September

The RBI delivered a third consecutive 50 bps rate hike last week, taking the repurchase rate to 5.9%. Five MPC members voted for a 50 bps increase whilst one called for a 35 bps hike. September's rate hike was in line with consensus expectations. The RBI has increased rates by a cumulative 190 bps so far in this hiking cycle. Governor Shaktikanta Das flagged that inflation remains alarmingly high and that the RBI is focused on price and financial stability. Concerns over financial stability were voiced, particularly after the INR's recent fall to a record low against the USD. The weakening INR is also likely to add further upside pressure to already elevated inflation (7.0% y-o-y in August). The MPC stressed that there remains considerable uncertainty about the inflation outlook, given the major upside risks from food and imported goods prices. Despite highlighting the potential upside risks, the RBI left its inflation forecast for FY2022-23 (Apr.-Mar.) unchanged at 6.7%. On economic growth, the central bank emphasised that "domestic economic activity is holding up well and is expected to be buoyant" in 2H FY2022-23, supported by festive demand. However, the MPC sees growing headwinds to net exports on the back of geopolitical tensions, tightening global financial conditions and slowing external demand. Amidst rising external risks, the RBI revised down its real GDP growth forecast for FY2022-23 to 7.0%, from 7.2%. Looking ahead, we now expect the RBI to raise the policy rate by an additional 35 bps in December, followed by a 25 bps increase in February. We now see the peak repurchase rate at c.6.5%.

RBI cut its economic growth forecast for FY2022-23, but left its inflation projections unchanged

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M3 Money Supply, y-o-y	Jul	9.3%	
	Bahrain	CPI, y-o-y	Aug	3.9%	
	Egypt	Net Reserves	Sep	33.1B	
Monday, 3 October					
9:00	India	S&P Global India PMI Mfg	Sep	56.2	
11:00	Turkey	S&P Global/ICI Turkey Manufacturing PMI	Sep	47.4	
11:00	Turkey	CPI, y-o-y	Sep	80.2%	83.5%
18:00	US	Construction Spending, m-o-m	Aug	-0.4%	-0.3%
18:00	US	ISM Manufacturing	Sep	52.8	52.1
18:00	US	ISM Prices Paid	Sep	52.5	52.0
Tuesday, 4 October					
3:30	Japan	Tokyo CPI, y-o-y	Sep	2.9%	2.8%
3:50	Japan	Monetary Base, y-o-y	Sep	0.4%	
8:15	UAE	S&P Global UAE PMI	Sep	56.7	
8:15	Egypt	S&P Global Egypt PMI	Sep	47.6	
8:15	Saudi Arabia	S&P Global KSA PMI	Sep	57.7	
17:15	US	Fed's Mester Speaks at Conference on Payment System			
18:00	US	Factory Orders	Aug	-1.0%	0.2%
18:00	US	Durable Goods Orders	Aug F	-0.2%	-0.2%
18:00	US	JOLTS Job Openings	Aug	11239K	11075K
19:45	US	Fed's Jefferson Speaks at Conference			
Wednesday, 5 October					
4:30	Japan	Jibun Bank Japan PMI Composite	Sep F	50.9	
12:00	Eurozone	S&P Global Eurozone Composite PMI	Sep F	48.2	48.2
12:30	UK	S&P Global/CIPS UK Composite PMI	Sep F	48.4	48.4
15:00	US	MBA Mortgage Applications	30-Sep	-3.7%	
16:15	US	ADP Employment Change	Sep	132K	200K
16:30	US	Trade Balance	Aug	-\$70.7B	-\$67.9B
17:45	US	S&P Global US Services PMI	Sep F	49.2	49.2
17:45	US	S&P Global US Composite PMI	Sep F	49.3	49.3
18:00	US	ISM Services Index	Sep	56.9	56.0
Thursday, 6 October					
0:00	US	Fed's Bostic Discusses Inflation			
9:00	India	S&P Global India PMI Composite	Sep	58.2	
9:00	India	S&P Global India PMI Services	Sep	57.2	
12:30	UK	S&P Global/CIPS UK Construction PMI	Sep	49.2	48.00
15:30	Eurozone	ECB Publishes Account of September Policy Meeting			
16:30	US	Initial Jobless Claims	1-Oct	193K	205K
16:30	US	Continuing Claims	24-Sep	1347K	1380K
21:00	US	Fed's Cook Speaks on the Economic Outlook			
	Japan	BOJ Governor Kuroda Speaks			
Friday, 7 October					
1:00	US	Fed's Waller Discusses the Economic Outlook			
2:30	US	Fed's Mester Discusses the Economic Outlook			
16:30	US	Change in Nonfarm Payrolls	Sep	315K	250K
16:30	US	Unemployment Rate	Sep	3.7%	3.7%
16:30	US	Average Hourly Earnings, m-o-m	Sep	0.3%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Sep	5.2%	5.1%
16:30	US	Labor Force Participation Rate	Sep	62.4%	62.4%
18:00	US	Wholesale Inventories, m-o-m	Aug F	1.3%	1.3%

* 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	Aug	7.1%		6.0%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Aug	1673.6B		1649.6B
	Kuwait	CPI, y-o-y	Aug	4.2%		4.2%
Monday, 26 September						
4:30	Japan	Jibun Bank Japan PMI Mfg	Sep P	51.5		51.0
16:30	US	Chicago Fed Nat Activity Index	Aug	0.27	0.23	0.0
Tuesday, 27 September						
10:00	Japan	Machine Tool Orders, y-o-y	Aug F	10.7%		10.7%
12:00	Eurozone	M3 Money Supply, y-o-y	Aug	5.5%	5.4%	6.1%
16:30	US	Durable Goods Orders	Aug P	-0.1%	-0.3%	-0.2%
16:30	US	Durables, ex-Transportation	Aug P	0.2%	0.2%	0.2%
18:00	US	Conf. Board Consumer Confidence	Sep	103.2	104.6	108.0
18:00	US	New Home Sales	Aug	511K	500K	685K
Wednesday, 28 September						
15:00	US	MBA Mortgage Applications	23-Sep	3.8%		-3.7%
16:30	US	Wholesale Inventories, m-o-m	Aug P	0.6%	0.4%	1.3%
18:00	US	Pending Home Sales, m-o-m	Aug	-1.0%	-0.5%	-2.0%
Thursday, 29 September						
13:00	Eurozone	Consumer Confidence	Sep F	-28.8		-28.8
16:30	US	Initial Jobless Claims	24-Sep	213K	215K	193K
16:30	US	GDP Annualized, q-o-q	2Q T	-0.6%	-0.6%	-0.6%
Friday, 30 September						
3:30	Japan	Jobless Rate	Aug	2.6%	2.5%	2.5%
3:50	Japan	Industrial Production, m-o-m	Aug P	0.8%	0.2%	2.7%
3:50	Japan	Industrial Production, y-o-y	Aug P	-2.0%	1.8%	5.1%
3:50	Japan	Retail Sales, y-o-y	Aug	2.4%	2.8%	4.1%
5:30	China	Manufacturing PMI	Sep	49.4	49.7	50.1
5:30	China	Non-manufacturing PMI	Sep	52.6	52.4	50.6
5:45	China	Caixin China PMI Mfg	Sep	49.5	49.5	48.1
8:30	India	RBI Repurchase Rate	30-Sep	5.4%	5.9%	5.9%
10:00	UK	GDP, q-o-q	2Q F	-0.1%	-0.1%	0.2%
10:00	UK	GDP, y-o-y	2Q F	2.9%	2.9%	4.4%
12:30	UK	Mortgage Approvals	Aug	63.7K	62.0K	74.3K
13:00	Eurozone	CPI Estimate, y-o-y	Sep	9.1%	9.7%	10.0%
13:00	Eurozone	CPI Core, y-o-y	Sep P	4.3%	4.7%	4.8%
16:30	US	Personal Income	Aug	0.3%	0.3%	0.3%
16:30	US	Personal Spending	Aug	-0.2%	0.2%	0.4%
16:30	US	PCE Deflator, m-o-m	Aug	-0.1%	0.1%	0.3%
16:30	US	PCE Deflator, y-o-y	Aug	6.4%	6.0%	6.2%
16:30	US	PCE Core Deflator, m-o-m	Aug	0.0%	0.5%	0.6%
16:30	US	PCE Core Deflator, y-o-y	Aug	4.7%	4.7%	4.9%
17:45	US	MNI Chicago PMI	Sep	52.2	51.8	45.7
18:00	US	U. of Mich. Sentiment	Sep F	59.5	59.5	58.6
18:27	Egypt	GDP Constant, q-o-q	2Q	0.9%		0.1%

* UAE time

Source: Bloomberg, ADCB Economic Research

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