The Week Ahead: Fed and ECB expected to hike; BoJ to maintain status quo

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US: Fed to deliver a 25 bps hike; guidance to remain hawkish

We expect the FOMC to hike the FFTR by 25 bps to 5.5% (upper bound) at its 25-26 July meeting. We see policymakers reiterating their hawkish rhetoric, leaving scope for further rate increases. We expect the Fed to look through the recent disinflation, which has been driven by fluctuations in volatile categories. Economic activity has broadly held up well, with limited signs of stress emerging from the ongoing tightening in lending standards. Consensus expectations of a recession in the next 12 months have also moderated to 58.0% from 67.0% earlier in April. Markets are currently pricing in a 96.0% probability of a 25 bps rate hike in July, with the chance of a further move in September seen at 16.8% and rising to 36.8% for November. Nonetheless, we maintain our call of a 25 bps rate hike in September, given ongoing resilience in the labour market, though we acknowledge the risk of the rate increase being pushed out to November based on the likelihood of a further softening in inflation prints in the near term. Indeed, consensus expects US June PCE, due later on Friday, to show headline PCE moderating to 3.1% (May: 3.8%), driven by a contraction in energy costs and a deceleration in core PCE (consensus: 4.2%; May: 4.6%). The sequential momentum in core services (excl. housing) will remain a key metric to assess the impact of interest rate hikes on broader consumer demand. The fall in inflation is pushing up real rates in the economy, taking them closer to the estimated neutral rates and reducing the need for further tightening. At the same time, we do not see the need for any interest rate cuts in 2023.

Eurozone: ECB to hike by 25 bps; further tightening expected

We and consensus expect the ECB to hike by a further 25 bps at its 27 July policy meeting, taking the main refinancing rate to 4.25%. Markets are pricing in a 96.5% probability of a 25 bps rate hike at the upcoming meeting. Our expectations are underpinned by core inflation remaining elevated above the 2.0% target level and a still-tight labour market. The June CPI report showed that Eurozone core inflation re-accelerated to 5.5% y-o-y (May: 5.3%) on the back of unfavourable base effects and ongoing strong wage pressures. Members of the Governing Council (GC) stressed that recent data shows "no convincing evidence to confirm a turning point" in underlying price pressures and cautioned that "strong wage growth is becoming a key driver of inflation". ECB Board member Isabel Schnabel also stated that the "GC should err on the side of doing too much than too little", given the upside risks to inflation. The EUR has strengthened against the USD in July and is currently trading at 1.11. We do not expect ECB President Christian Lagarde to provide explicit forward guidance as was the case at the June policy meeting. Instead, we see the GC leaving the door open for further rate increases by reiterating its data-dependent and meeting-by-meeting approach to signal a hiking bias for future policy decisions. We envisage another 25 bps rate hike in September on the back of higher labour costs continuing to add upside pressure to core inflation.

UK: Headline CPI softened, but core inflation remains sticky

Headline inflation cooled more than expected to 7.9% y-o-y in June (May: 8.7%; consensus: 8.2%) on the back of moderation in energy and food prices. This was in line with the BoE’s May inflation forecast. Energy inflation decelerated sharply to 3.4% y-o-y in June (May: 8.4%), with petrol and diesel prices contracting by 22.3% and 24.3% y-o-y, respectively. We expect energy inflation to moderate further in 2H2023 due to the reduction in Ofgem's price cap for household energy bills (effective from 1 July). Core inflation also softened to 6.9% y-o-y in June (May: 7.1%; consensus: 7.1%) as both goods and services decelerated. Services inflation eased to 7.2% y-o-y in June (May: 7.4%) largely due to the softening in prices of restaurants and hotels on an annual basis, potentially signalling that the BoE’s rate hikes have started to dampen discretionary consumer spending. However, we see upside pressures to core inflation in the near term due to ongoing worker strikes and wage negotiations. A downside surprise in the June inflation print led to the GBP depreciating by c.0.8% against the USD post the CPI release (Wednesday). Additionally, market expectations of the BoE terminal rate have moderated significantly to 5.8% from a peak of 6.5% recorded in the first week of July. We retain our view of the BoE hiking by 50 bps at its August policy meeting as private sector wage growth continues to accelerate and services inflation remains significantly above the 2.0% target. We believe that the BoE would likely want to see a more sustained moderation in core inflation rather than a modest softening in one month’s print before reverting to a 25 bps rate hike.

Turkey: CBRT continues gradual monetary tightening

The CBRT delivered a 250 bps rate hike at its 20 July policy meeting, taking the one-week policy rate to 17.5%. This decision was below market expectations of a 350 bps interest rate increase and continues to signal the CBRT’s preference for a “gradual” approach to monetary tightening. The CBRT highlighted that elevated inflation and the need to anchor inflationary expectations were the key factors underpinning the continued monetary tightening. Headline inflation moderated to 38.2% y-o-y in June (May: 39.6%), though core inflation accelerated to 47.3% y-o-y (46.6%), suggesting that the underlying disinflation in Turkey has not progressed meaningfully. However, the MPC statement noted that better external financing conditions and improvement in current account dynamics would contribute to price stability in the near term. The TRY has seen only a gradual weakening following the softer-than-expected rate increase, with the currency trading around the record low of 26.9 against the USD. The forward guidance continued to signal further rate hikes, with the MPC statement reiterating that policy rates will increase “as much as needed in a timely and gradual manner” to ensure that inflation moderates to the 5.0% target level. We continue to see the policy rate reaching 24.0% in 2023 to combat inflationary pressures. The CBRT statement also pledged to simplify the macro-prudential framework in the coming period to “increase the functionality of the market mechanism” and announced that it had made decisions on credit tightening to support the monetary policy stance.

Week ahead: BoJ expected to keep policy rates steady

In contrast to the DM central banks, the BoJ is expected to maintain the status quo, sticking with its current accommodative monetary stance. While consensus expects the BoJ to raise the inflation forecast for 2023 to 2.3% (prior: 1.8%), CPI is still projected to moderate to a below-target 1.9% in 2024, delaying the central bank from initiating tweaks to its current policy stance (Yield Curve Control). BoJ Governor Kazuo Ueda last week indicated that the sustainability of inflation remains key for making changes to the policy framework.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Qatar	Trade Balance Month	Jun	22001M	
	UK	Nationwide House PX, m-o-m	Jul	0.1%	
	UK	Nationwide House PX NSA, y-o-y	Jul	-3.5%	-4.0%
Monday 24 July					
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	Jul P	43.4	43.5
12:00	Eurozone	HCOB Eurozone Services PMI	Jul P	52.0	51.6
12:30	UK	S&P Global/CIPS UK Manufacturing PMI	Jul P	46.5	46.0
12:30	UK	S&P Global/CIPS UK Services PMI	Jul P	53.7	53.0
12:30	UK	S&P Global/CIPS UK Composite PMI	Jul P	52.8	52.3
17:45	US	S&P Global US Manufacturing PMI	Jul P	46.3	46.2
Tuesday, 25 July					
12:00	Germany	IFO Business Climate	Jul	88.5	88.0
12:00	Germany	IFO Expectations	Jul	83.6	83.5
18:00	US	Conf. Board Consumer Confidence	Jul	109.7	112.0
Wednesday, 26 July					
12:00	Eurozone	M3 Money Supply, y-o-y	Jun	1.4%	0.8%
15:00	US	MBA Mortgage Applications	21-Jul	1.1%	
18:00	US	New Home Sales	Jun	763K	725K
18:00	US	New Home Sales, m-o-m	Jun	12.2%	-5.0%
22:00	US	FOMC Rate Decision (Upper Bound)	26-Jul	5.3%	5.5%
22:00	US	FOMC Rate Decision (Lower Bound)	26-Jul	5.0%	5.3%
22:00	US	Interest on Reserve Balances Rate	27-Jul	5.2%	5.4%
22:30	US	Fed Chair Holds Press Conference Following FOMC Meeting			
Thursday, 27 July					
16:15	Eurozone	ECB Main Refinancing Rate	27-Jul	4.0%	4.3%
16:15	Eurozone	ECB Marginal Lending Facility	27-Jul	4.3%	4.5%
16:15	Eurozone	ECB Deposit Facility Rate	27-Jul	3.5%	3.8%
16:30	US	GDP Annualized, q-o-q	2Q A	2.0%	1.8%
16:30	US	Personal Consumption	2Q A	4.2%	1.2%
16:30	US	GDP Price Index	2Q A	4.1%	3.1%
16:30	US	Core PCE, q-o-q	2Q A	4.9%	4.0%
16:30	US	Durable Goods Orders	Jun P	1.8%	1.0%
16:30	US	Durables Ex Transportation	Jun P	0.7%	0.1%
16:30	US	Initial Jobless Claims	22-Jul	228K	235K
Friday, 28 July					
3:30	Japan	Tokyo CPI, y-o-y	Jul	3.1%	2.9%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Jul	3.2%	2.9%
16:00	Germany	CPI, m-o-m	Jul P	0.3%	0.3%
16:00	Germany	CPI, y-o-y	Jul P	6.4%	6.2%
16:00	Germany	CPI EU Harmonized, m-o-m	Jul P	0.4%	0.5%
16:00	Germany	CPI EU Harmonized, y-o-y	Jul P	6.8%	6.6%
16:30	US	Employment Cost Index	2Q	1.2%	1.1%
16:30	US	Personal Income	Jun	0.4%	0.5%
16:30	US	Personal Spending	Jun	0.1%	0.4%
16:30	US	PCE Core Deflator, m-o-m	Jun	0.3%	0.2%
16:30	US	PCE Core Deflator, y-o-y	Jun	4.6%	4.2%
18:00	US	U. of Mich. Sentiment	Jul F	72.6	72.6
	Japan	BOJ Policy Balance Rate	28-Jul	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	28-Jul	0.0%	0.0%

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Kuwait	CPI, y-o-y	Jun	3.7%		3.8%
Monday 17 July						
5:20	China	1-Yr Medium-Term Lending Facility Rate	15-Jul	2.7%	2.7%	2.7%
6:00	China	GDP, y-o-y	2Q	4.5%	7.1%	6.3%
6:00	China	GDP SA, q-o-q	2Q	2.2%	0.8%	0.8%
6:00	China	GDP YTD, y-o-y	2Q	4.5%	6.1%	5.5%
6:00	China	Industrial Production, y-o-y	Jun	3.5%	2.5%	4.4%
6:00	China	Industrial Production YTD, y-o-y	Jun	3.6%	3.5%	3.8%
6:00	China	Retail Sales, y-o-y	Jun	12.7%	3.3%	3.1%
16:30	US	Empire Manufacturing	Jul	6.6	-3.5	1.1
Tuesday, 18 July						
8:30	Japan	Tertiary Industry Index, m-o-m	May	1.2%	0.4%	1.2%
16:30	US	Retail Sales Advance, m-o-m	Jun	0.3%	0.5%	0.2%
16:30	US	Retail Sales ex-Auto, m-o-m	Jun	0.1%	0.3%	0.2%
16:30	US	Retail Sales Control Group	Jun	0.2%	0.3%	0.6%
17:15	US	Industrial Production, m-o-m	Jun	-0.2%	0.0%	-0.5%
Wednesday, 19 July						
0:00	US	Net Long-term TIC Flows	May	127.8B		25.8B
10:00	UK	CPIH, y-o-y	Jun	7.9%	7.5%	7.3%
10:00	UK	CPI, m-o-m	Jun	0.7%	0.4%	0.1%
10:00	UK	CPI, y-o-y	Jun	8.7%	8.2%	7.9%
10:00	UK	CPI Core, y-o-y	Jun	7.1%	7.1%	6.9%
10:00	UK	Retail Price Index	Jun	375.3	377.1	376.4
10:00	UK	RPI, m-o-m	Jun	0.7%	0.5%	0.3%
10:00	UK	RPI, y-o-y	Jun	11.3%	10.9%	10.7%
13:00	Eurozone	CPI, y-o-y	Jun F	6.1%	5.5%	5.5%
13:00	Eurozone	CPI, m-o-m	Jun F	0.3%	0.3%	0.3%
13:00	Eurozone	CPI Core, y-o-y	Jun F	5.4%	5.4%	5.5%
15:00	US	MBA Mortgage Applications	14-Jul	0.9%		1.1%
16:30	US	Housing Starts	Jun	1631K	1480K	1434K
Thursday, 20 July						
3:50	Japan	Trade Balance	Jun	-1372.5B	-46.7B	43.0B
5:15	China	5-Year Loan Prime Rate	20-Jul	4.2%	4.2%	4.2%
5:15	China	1-Year Loan Prime Rate	20-Jul	3.6%	3.6%	3.6%
16:30	US	Initial Jobless Claims	15-Jul	237K	240K	228K
16:30	US	Continuing Claims	8-Jul	1729K	1722K	1754K
16:30	US	Philadelphia Fed Business Outlook	Jul	-13.7	-10.0	-13.5
18:00	US	Existing Home Sales	Jun	4.30M	4.20M	4.16M
18:00	US	Leading Index	Jun	-0.7%	-0.6%	-0.7%
Friday, 21 July						
3:30	Japan	Natl CPI, y-o-y	Jun	3.2%	3.2%	3.3%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Jun	3.2%	3.3%	3.3%
3:30	Japan	Natl CPI ex-Fresh Food, Energy, y-o-y	Jun	4.3%	4.2%	4.2%
10:00	UK	Retail Sales Inc Auto Fuel, m-o-m	Jun	0.3%	0.2%	0.7%
10:00	UK	Retail Sales Inc Auto Fuel, y-o-y	Jun	-2.1%	-1.6%	-1.0%
10:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Jun	0.1%	0.2%	0.8%
10:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Jun	-1.7%	-1.6%	-0.9%
10:00	UK	PSNB ex-Banking Groups	Jun	20.0B	22.0B	18.5B

*UAE time

Source: Bloomberg, ADCB Economic Research

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