The Week Ahead: US, UK and India inflation data in focus

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US: Powell's firm message shifts focus to October CPI

Fed Chair Jerome Powell noted that the FOMC will proceed carefully, though it will not hesitate to tighten rates further, if appropriate. Powell stressed that the Fed is unlikely to be persuaded by a few months of good data, implying that the Fed's rate pivot is unlikely anytime soon. Powell's firm message supports our call of a further 25 bps hike and follows a significant easing in bond yields (below 4.5% from 4.9%) over the past ten days. Following Powell's hawkish rhetoric in last Thursday's address, bond yields rose and are currently at 4.65%. The market's focus now shifts to October CPI (Tuesday) and retail sales (Wednesday). Consensus expects headline CPI to moderate to 3.3% y-o-y (September: 3.7%) on lower energy costs and softer food price rises. Core CPI is likely to remain stable at 4.1% y-o-y, as an ongoing contraction in goods prices is expected to partially offset the still-strong service price increases. Consensus expects retail sales to fall 0.3% m-o-m (September: 0.7%), driven by lower gasoline and restaurant sales. Growth in core retail sales is expected to soften to 0.2% m-o-m (September: 0.6%) as resumption of student loan repayments and negative seasonality weighs on it. Separately, Moody's revised its outlook on the US sovereign credit rating to 'negative' from 'stable', signalling the chance of a future downgrade. Moody's negative outlook follows similar revisions made by S&P (August 2011) and Fitch (August 2023). Large fiscal deficits, high bond yields and "political polarization" were cited as key risks to debt sustainability. Indeed, the looming deadline for a government shutdown (Friday) is a reflection of the political dysfunction. Markets expect the passage of a Continuing Resolution (CR), potentially until January, to give legislators more time to negotiate a full budget.

UK: Softening in wage growth and price pressures expected

After the BoE kept rates steady last week, market attention now shifts to labour market and CPI data. We expect elevated interest rates to continue to gradually loosen labour market conditions, with average wage growth decelerating to 7.4% y-o-y in September (August: 8.1%) and total employment contracting for the third consecutive month by 18K. Meanwhile, consensus expects headline inflation to decelerate sharply to 4.7% y-o-y in October (September: 6.7%) with favourable energy base effects and a c. 7.0% reduction in Ofgem's energy price cap. Core CPI is envisaged inching down to 5.8% y-o-y (September: 6.1%) with deceleration in both goods and service prices, reflecting stagnating economic growth and a steep contraction in household consumption (see page 2). Overall, headline and core inflation are expected to continue printing below the BoE's end-2023 projections, which supports our view that the Bank Rate has peaked at 5.25%.

EM: Inflation in India expected to decelerate further

India's CPI should decelerate to 4.8% y-o-y in October (September: 5.0%) led by lower food inflation, while core CPI remains steady (4.5% y-o-y). The surge in onion prices should partially offset the continued moderation in tomato prices. Within core, lower housing inflation offsets the rise in input costs.

I. Recent Events and Data Releases

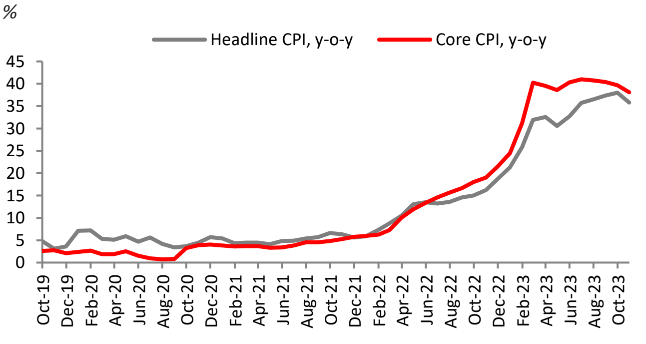
A. MENA Economies

Egypt: Headline and core inflation decelerated in October

Headline inflation decelerated with a softening in food prices; further deceleration expected on favourable base effects

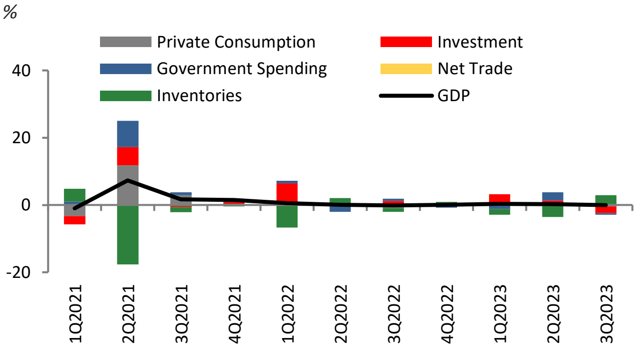
Headline inflation decelerated to 35.8% y-o-y in October (September: 38.0%) for the first time since April 2023. Food CPI slowed to 71.3% y-o-y in October (September: 73.6%) following the government mandated 15.0%-20.0% cut in staple food (pasta, beans, oil, etc.) prices for six months (implemented 14 October). Core inflation softened for the fourth consecutive month to 38.1% y-o-y in October (September: 39.7%) with the moderation in tourism flows on the back of the Israel-Gaza conflict reducing demand for hotels and restaurants and culture and entertainment services. We see some acceleration in monthly prices after the hike in administered tobacco prices, an increase in education costs as schools reopen for the new academic year, and the recent weakening of the EGP in the parallel market. However, we expect annual headline inflation to continue decelerating with the favourable base, and we see the mandated rise in petrol prices of c. 14.3% (effective from 3 November) having a relatively limited impact on headline inflation, as diesel prices have remained steady and most transportation in Egypt uses diesel. As such, we see the CBE remaining on hold at its 21 December meeting, though we continue to expect substantial c. 200-300 bps interest rate hikes clubbed with the next round of EGP devaluation. We see this potentially in 1Q2024 following the presidential elections (10-12 December). For more details, please see our note **Egypt Economic Update – CBE keeps rates steady; large rate hike expected at time of EGP devaluation**, published on 4 November 2023.

Fig. 1. Egypt: Headline inflation decelerated in October with softening in food prices; core CPI also inched down



Source: CAPMAS, Bloomberg, ADCB Economic Research

Fig. 2. UK: Domestic economic growth stagnated; weak household consumption adds headwinds to growth



Source: ONS, Bloomberg, ADCB Economic Research

B. Advanced Economies

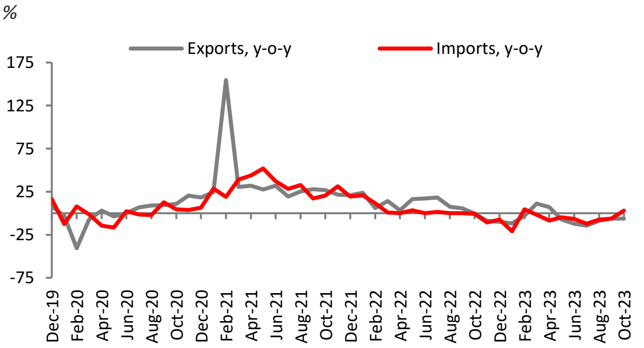
UK: GDP flatlined in 3Q2023 on weak household consumption

Economic growth expected to remain weak with contraction in household consumption and business investments

The UK economy stagnated in 3Q2023 with 0.0% q-o-q GDP growth (2Q2023: 0.2%) as improvements in net exports were offset by a contraction in household consumption and investment activity. Household consumption shrank by 0.4% q-o-q in 3Q2023 (2Q: +0.5%) with lower spending on restaurants and hotels and transportation services, due to the unusually wet July and August weather conditions. Moreover, the tighter monetary policy backdrop, soft economic outlook and recent slowdown in wage growth were likely also factors for the fall in household consumption, as people looked to build precautionary savings. We continue to see a contraction in private spending in 4Q with falling confidence (September: -21.0; October: -30.0). Indeed, the recent Barclays data showed that total spending on debit and credit cards decelerated sharply, to the lowest level in more than a year, to 2.6% y-o-y in October (September: 4.2%). Meanwhile, investment activity also contracted by 2.0% q-o-q in 3Q, led primarily by a reduction in business investments, which dropped sharply by 4.2% q-o-q, following the strong growth seen in 1Q2023 (+4.0%) and 2Q (+4.1%). This indicates that businesses had front-loaded investment expenditure to benefit from the 'super-deduction' tax breaks of 1H2023. We believe that the overall weak GDP print reflects the continued pass-through of tighter monetary policy to the real economy.

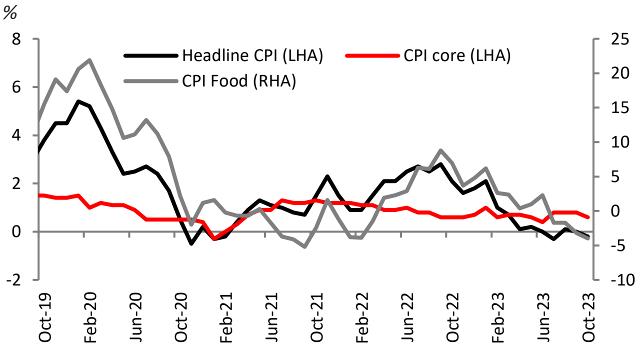
C. Developing Economies

Fig. 3. China: Rising import growth signals nascent signs of demand revival



Source: NBS. Bloomberg, ADCB Economic Research

Fig. 4. China: Contraction in food prices drags headline CPI into deflation in October



Source: NBS. Bloomberg, ADCB Economic Research

China: Weak headline figures mask underlying signs of stabilisation

Weaker exports increase the onus on private consumption to achieve growth targets

Headline trade and consumer price inflation data for October disappointed, though the underlying trends point to nascent signs of domestic demand recovery, in our view. Exports contracted 6.4% y-o-y (consensus: -3.5%), indicating weakness in global demand. However, imports bounced up 3.0% y-o-y, significantly above consensus expectations of a 5.0% contraction, implying that a domestic demand recovery is slowly underway. Indeed, import volumes across major commodities strengthened in October, pointing to signs of demand stabilisation. This was consistent with the 0.7% y-o-y rise in non-food consumer price inflation. However, a sharp sequential fall in food prices, led by a reduction in livestock prices, pulled CPI back into deflation (October: -0.2% y-o-y; September: 0.0%), while PPI deflation deepened further (October: -2.6% y-o-y; September: -2.5%). The price deflation has brought more scrutiny to high real interest rates in the economy, increasing calls for further reductions in policy interest rates. Indeed, with net exports set to remain a slight drag on 4Q economic growth, there is an increasing onus on reviving private consumption to improve growth prospects. We continue to see scope for a reduction in both the medium-term lending facility rate, and also a sharper 50 bps cut in the reserve requirement ratio to ease banking sector liquidity and support the increasing borrowing calendar from the government. The magnitude and timing of such policy support will be contingent on the evolution of October's hard data – retail sales, industrial production (IP) and fixed-asset investments (FAI) – all due on Wednesday. Consensus sees growth rates in both FAI and IP set to remain stable at 3.1% y-o-y and 4.5% y-o-y respectively. However, retail sales are likely to improve (consensus: 7.0% y-o-y; September: 5.5%), partly due to a lower base. On the geopolitical front, a meeting between US President Joe Biden and Chinese President Xi Jinping will also be keenly watched for any sign of thawing in the fraught relations between the two nations.

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	India	Exports, y-o-y	Oct	-2.6%	
	India	Imports, y-o-y	Oct	-15.0%	
Monday, 13 November					
3:50	Japan	PPI, y-o-y	Oct	2.2%	0.9%
16:00	India	CPI, y-o-y	Oct	5.0%	4.8%
23:00	US	Monthly Budget Statement	Oct	-171.0B	-65.0B
Tuesday, 14 November					
11:00	UK	Claimant Count Rate	Oct	4.0%	
11:00	UK	Jobless Claims Change	Oct	20.4K	
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Sep	8.1%	7.4%
14:00	Eurozone	GDP SA, q-o-q	3Q P	-0.1%	-0.1%
14:00	Eurozone	GDP SA, y-o-y	3Q P	0.1%	0.1%
17:30	US	CPI, m-o-m	Oct	0.4%	0.1%
17:30	US	CPI ex-Food and Energy, m-o-m	Oct	0.3%	0.3%
17:30	US	CPI, y-o-y	Oct	3.7%	3.3%
17:30	US	CPI ex-Food and Energy, y-o-y	Oct	4.1%	4.1%
Wednesday, 15 November					
3:50	Japan	GDP SA, q-o-q	3Q P	1.2%	-0.1%
3:50	Japan	GDP Annualized SA, q-o-q	3Q P	4.8%	-0.4%
3:50	Japan	GDP Deflator, y-o-y	3Q P	3.5%	4.8%
6:00	China	Industrial Production, y-o-y	Oct	4.5%	4.5%
6:00	China	Retail Sales, y-o-y	Oct	5.5%	7.0%
6:00	China	Fixed Assets ex-Rural YTD, y-o-y	Oct	3.1%	3.1%
6:00	China	Property Investment YTD, y-o-y	Oct	-9.1%	-9.1%
6:00	China	Surveyed Jobless Rate	Oct	5.0%	5.0%
8:30	Japan	Industrial Production, m-o-m	Sep F	0.2%	
10:00	Saudi Arabia	CPI, y-o-y	Oct	1.7%	
11:00	UK	CPI, m-o-m	Oct	0.5%	0.1%
11:00	UK	CPI, y-o-y	Oct	6.7%	4.7%
11:00	UK	CPI Core, y-o-y	Oct	6.1%	5.8%
16:00	US	MBA Mortgage Applications	10-Nov	2.5%	
17:30	US	Retail Sales Advance, m-o-m	Oct	0.7%	-0.3%
17:30	US	Retail Sales Control Group	Oct	0.6%	0.2%
Thursday, 16 November					
3:50	Japan	Core Machine Orders, m-o-m	Sep	-0.5%	0.9%
5:30	China	New Home Prices, m-o-m	Oct	-0.3%	
8:30	Japan	Tertiary Industry Index, m-o-m	Sep	-0.1%	-0.1%
15:30	Eurozone	ECB's Lagarde Speaks			
15:45	Eurozone	ECB'S Knot Speaks			
17:30	US	Initial Jobless Claims	11-Nov	217K	220K
18:15	US	Industrial Production, m-o-m	Oct	0.3%	-0.3%
19:45	UK	BOE's Ramsden speaks			
Friday, 17 November					
11:00	UK	Retail Sales Inc Auto Fuel, m-o-m	Oct	-0.9%	0.4%
12:00	Eurozone	ECB's Lagarde Speaks in Frankfurt			
14:00	Eurozone	CPI, y-o-y	Oct F	4.3%	2.9%
14:00	Eurozone	CPI, m-o-m	Oct F	0.1%	0.1%
14:00	Eurozone	CPI Core, y-o-y	Oct F	4.2%	4.2%
17:30	US	Housing Starts	Oct	1358K	1349K

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Qatar	GDP Constant Prices, y-o-y	2Q	2.7%		
Monday, 6 November						
4:30	Japan	Jibun Bank Japan PMI Composite	Oct F	49.9		50.5
4:30	Japan	Jibun Bank Japan PMI Services	Oct F	51.1		51.6
11:00	Germany	Factory Orders, m-o-m	Sep	1.9%	-1.5%	0.2%
12:55	Germany	HCOB Germany Services PMI	Oct F	48.0	48.0	48.2
12:55	Germany	HCOB Germany Composite PMI	Oct F	45.8	45.8	45.9
13:00	Eurozone	HCOB Eurozone Services PMI	Oct F	47.8	47.8	47.8
13:00	Eurozone	HCOB Eurozone Composite PMI	Oct F	46.5	46.5	46.5
13:30	UK	S&P Global/CIPS UK Construction PMI	Oct	45.0	46.0	45.6
Tuesday, 7 November						
11:00	Germany	Industrial Production SA, m-o-m	Sep	-0.1%	-0.1%	-1.4%
17:30	US	Trade Balance	Sep	-58.7B	-59.8B	-61.5B
	China	Exports, y-o-y	Oct	-6.2%	-3.5%	-6.4%
	China	Imports, y-o-y	Oct	-6.3%	-5.0%	3.0%
	China	Trade Balance	Oct	77.83B	82.00B	56.53B
	China	Foreign Reserves	Oct	3115.07B	3102.50B	3101.22B
Wednesday, 8 November						
11:00	Germany	CPI, m-o-m	Oct F	0.0%	0.0%	0.0%
11:00	Germany	CPI, y-o-y	Oct F	3.8%	3.8%	3.8%
11:00	Germany	CPI EU Harmonized, y-o-y	Oct F	3.0%	3.0%	3.0%
16:00	US	MBA Mortgage Applications	3-Nov	-2.1%		2.5%
19:00	US	Wholesale Inventories, m-o-m	Sep F	0.0%	0.0%	0.2%
Thursday, 9 November						
3:50	Japan	BoP Current Account Balance	Sep	2142.0B	2977.8B	2723.6B
5:30	China	CPI, y-o-y	Oct	0.0%	-0.1%	-0.2%
5:30	China	PPI, y-o-y	Oct	-2.5%	-2.7%	-2.6%
17:30	US	Initial Jobless Claims	4-Nov	220K	218K	217K
	Egypt	Urban CPI, y-o-y	Oct	38.0%		35.8%
	Egypt	Urban CPI, m-o-m	Oct	2.0%		1.0%
	Egypt	CPI Core, y-o-y	Oct	39.7%		
Friday, 10 November						
3:50	Japan	Money Stock M2, y-o-y	Oct	2.4%		2.4%
3:50	Japan	Money Stock M3, y-o-y	Oct	1.8%		1.8%
11:00	UK	Industrial Production, m-o-m	Sep	-0.5%	0.0%	0.0%
11:00	UK	Industrial Production, y-o-y	Sep	1.3%	1.1%	1.5%
11:00	UK	Manufacturing Production, m-o-m	Sep	-0.7%	0.2%	0.1%
11:00	UK	Trade Balance, GBP/Mn	Sep	-2697M	-2500M	-1574M
11:00	UK	GDP, q-o-q	3Q P	0.2%	-0.1%	0.0%
11:00	UK	GDP, y-o-y	3Q P	0.6%	0.5%	0.6%
16:00	India	Industrial Production, y-o-y	Sep	10.3%	7.0%	5.8%
19:00	US	U. of Mich. Sentiment	Nov P	63.8	63.7	60.4
19:00	US	U. of Mich. 1 Yr Inflation	Nov P	4.2%	4.0%	4.4%
19:00	US	U. of Mich. 5-10 Yr Inflation	Nov P	3.0%	3.0%	3.2%
23:00	US	Monthly Budget Statement	Oct	-171.0B	-65.0B	

*UAE time

Source: Bloomberg, ADCB Economic Research

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