

The Week Ahead: Strong US labour market print complicates interest rate outlook

► **US: 517K jobs created in January, unemployment falls to 3.4%**

The FOMC last week downshifted to a 25 bps rate hike, taking the upper bound FFTR to 4.75%. Chair Jerome Powell hinted that the Fed is planning a “couple more” rate hikes in the hiking cycle. The FOMC highlighted that the disinflationary process is now underway and that growth in economic activity continues to moderate, including consumption and production. For more details, please see our note – **GCC Economic Update: Fed downshifts to a 25 bps rate hike; GCC central banks largely follow**, published on 2 February. However, the incoming US data released after the meeting, including the non-farm payrolls and ISM services, pointed to a still strong economic momentum at the beginning of 2023. The US economy added a robust 517K jobs in January (December: 260K), taking the unemployment rate down to a 53-year low of 3.4% (December: 3.5%). The January job gains were broad-based across the sectors. The annual benchmark revision that takes place in January of every year raised the jobs created in April 2021-March 2022 by 568K. Meanwhile, average hourly earnings growth for January came in line with market expectations of 0.3% m-o-m, though the previous month’s reading was revised higher to 0.4%. Annual wage growth decelerated to 4.4% y-o-y in January (December: 4.8%), reflecting the higher base in the previous year. Separately, the ISM services index showed a strong rebound in activity (55.2 vs. 49.2 in January), with new orders rising sharply. Overall, the incoming data provides strong evidence of continued economic expansion in January. Meanwhile, the bond market is currently pricing in an additional 46 bps of hikes by the end of 1H2023, followed by 37 bps of rate cuts in 2H2023.

► **UK: BoE hiked by 50 bps, albeit with a dovish undertone**

The BoE raised its benchmark policy rate by another 50 bps to 4.0% at its 2 February policy meeting, with a 7-2 majority. This is the UK’s highest interest rate since 2008. The two dissenting members voted to keep interest rates steady. The vote was split two ways at the February meeting, compared to a three-way split in December. The forward guidance highlighted that further monetary policy tightening would be required if inflationary pressures persisted. However, this language was softer than the December guidance, in which the BoE pledged to “respond forcefully, as necessary.” We believe that the overall communication likely signals that the BoE is nearing the end of its rate-hiking cycle. We now see just one additional 25 bps hike in the current cycle, taking the terminal rate to 4.25% by March. Meanwhile, the BoE’s latest economic projections showed a shallower recession than the eight-quarter recession forecast in November. The MPC now expects real GDP to be -0.5% in 2023 (vs -1.5% earlier), -0.25% in 2024 (November: -1.0%) and +0.25% in 2025 (vs +0.5% earlier), respectively. On inflation, the MPC lowered its end-of-2023 projection to 4.0% (vs 5.25% earlier) to reflect the recent fall in energy prices. However, risks to the inflation forecast were seen as skewed to the upside, given the possibility of more persistent wage and price setting. Looking ahead, the market focus this week will be on the testimony of BoE members, including Governor Andrew Bailey and Chief Economist Huw Pill,

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when they address the Treasury Committee about the latest interest rate decision. We expect a reiteration of the message outlined at the February meeting last week. On the data side, the first estimate of 4Q GDP is due this week. Consensus expects real GDP growth to have improved to 0.0% q-o-q in 4Q, from a contraction of 0.3% in 3Q.

► **Eurozone: ECB signals another 50 bps hike in March**

The ECB also raised its policy rates by another 50 bps, taking the main refinancing rate to 3.0%. The ECB's statement highlighted that the Governing Council (GC) "intends to raise rates by another 50 bps" at its March meeting and will then "evaluate the subsequent path of its monetary policy." President Christine Lagarde also emphasised that the most aggressive period of monetary tightening in ECB history is not over yet. The explicit signal for another 50 bps hike was surprising and contradicts the ECB's ongoing meeting-by-meeting, data-dependent approach, in our view. There was also no hint of what the ECB sees as a potential terminal rate or when the rate hikes might come to an end. However, Lagarde highlighted that the ECB wants to stay at a terminal rate "sufficiently long" to be confident in getting inflation towards its 2.0% target. On the macroeconomic side, the ECB highlighted that "the economy has proved more resilient than expected and should recover over coming quarters." Lagarde also underlined that "headline inflation has gone down," but "underlying inflation pressure is there, alive and kicking." The ECB also assessed that risks to inflation had become more balanced, as compared to the upside risks emphasised in December. Overall, the market reaction after the meeting was dovish despite the explicit signal of another 50 bps hike in March. Our base case is currently for an additional 75 bps of hikes in the current hiking cycle, with 50 bps in March and 25 bps in May.

► **India: Government opts for capex-led economic growth in FY2024**

Finance Minister Nirmala Sitharaman last week presented the FY2024 (Apr.2023-Mar.2024) budget, which emphasised further fiscal consolidation and a push for capex-led growth. The FY2024 fiscal deficit target is set at 5.9% of GDP, down from 6.4% in FY2023. Capital expenditure for FY2024 was raised by 33.0% to INR10.0 trillion (USD122.3 billion), which is equivalent to an all-time high of c.3.3% of GDP (FY2023: 2.7%). On a sector basis, the largest allocations were made to railways, roads and telecommunications. The pre-election year government budget tends to focus on populist policies to garner votes, but this budget refrained from doing that and instead pushed ahead with the government's agenda of reform-led economic growth. Indeed, the subsidy bill was slashed markedly, with the aim of lowering the allocation to under-productive areas. On the revenue side, the gross tax revenue to GDP ratio was maintained at 11.1%, which assumes nominal GDP growth of 10.5% in FY2024. Overall, the FY2024 budget managed to balance fiscal consolidation with growth support. Looking ahead, the focus this week will be on the RBI meeting due on 8 February. Consensus expects the RBI to raise its benchmark repo rate by 25 bps to 6.5%, with the aim of countering the still strong core inflationary pressures. However, we will not be surprised if the RBI opts to keep rates on hold, highlighting the recent softening in headline inflation. Headline inflation in December decelerated to 5.7% y-o-y, whilst core inflation remained steady at 6.3%.

► **Egypt: CBE on hold; January inflation data in focus**

The CBE surprised with an on-hold decision last week, keeping the benchmark deposit and lending rates steady at 16.25% and 17.25%, respectively. For more details, please see our note – **Egypt Economic Update: CBE on hold despite outlook for higher inflation**, published on 3 February 2023. Looking ahead, focus this week will be on incoming inflation data in order to gauge the timing and magnitude of future rate hikes. We expect headline inflation to strengthen to c.23.0% y-o-y (December: 21.3%), reflecting the feed-through of EGP devaluation.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Jan	5.18%	
	Egypt	Net Reserves	Jan	34.0B	
	China	Money Supply M2, y-o-y	Jan	11.8%	11.7%
	China	New Yuan Loans CNY	Jan	1400.0B	4200.0B
Monday, 6 February					
12:40	UK	BOE's Catherine Mann speaks			
13:30	UK	S&P Global/CIPS UK Construction PMI	Jan	48.8	48.5
Tuesday, 7 February					
9:00	Japan	Leading Index CI	Dec P	97.4	97.0
13:00	UK	BOE's Ramsden speaks			
14:00	Eurozone	ECB's Villeroy speaks			
14:15	UK	BOE's Huw Pill speaks			
17:30	US	Trade Balance	Dec	-61.5B	-68.5B
19:00	UK	BOE's Cunliffe speaks on CBDC			
21:00	Eurozone	ECB's Schnabel Speaks			
21:00	US	Fed Chair Powell Speaks in Washington			
23:00	US	Fed's Barr Discusses Financial Inclusion			
	China	Foreign Reserves	Jan	3127.69B	3156.50B
Wednesday, 8 February					
3:50	Japan	BoP Current Account Balance	Dec	1803.6B	112.0B
8:30	India	RBI Repurchase Rate	8-Feb	6.3%	6.5%
8:30	India	RBI Cash Reserve Ratio	8-Feb	4.5%	4.5%
18:15	US	Fed's Williams Interviewed at WSJ Live Event			
18:30	US	Fed's Cook Takes Part in a Discussion in Washington			
19:00	Eurozone	ECB's Knot Speaks			
19:00	US	Wholesale Inventories, m-o-m	Dec F	0.1%	0.1%
21:30	US	Fed's Kashkari Speaks at Boston Economic Club			
22:45	US	Fed's Waller Discusses the Economic Outlook			
Thursday, 9 February					
3:50	Japan	Money Stock M2, y-o-y	Jan	2.9%	
13:45	UK	BOE Governor Andrew Bailey testifies to Parliament			
17:30	US	Initial Jobless Claims	4-Feb	183K	190K
17:30	US	Continuing Claims	28-Jan	1655K	1660K
22:00	Eurozone	ECB's Guindos Speaks			
	Egypt	Urban CPI, y-o-y	Jan	21.3%	
	Egypt	CPI Core, y-o-y	Jan	24.4%	
Friday, 10 February					
5:30	China	CPI, y-o-y	Jan	1.8%	2.2%
5:30	China	PPI, y-o-y	Jan	-0.7%	-0.4%
11:00	UK	Industrial Production, m-o-m	Dec	-0.2%	-0.2%
11:00	UK	Index of Services, 3M/3M	Dec	-0.1%	-0.1%
11:00	UK	Trade Balance, GBP/Mn	Dec	-1802M	-2800M
11:00	UK	GDP, q-o-q	4Q P	-0.3%	0.0%
11:00	UK	GDP, y-o-y	4Q P	1.9%	0.4%
11:00	UK	Private Consumption, q-o-q	4Q P	-1.1%	-0.1%
11:00	Turkey	Industrial Production, m-o-m	Dec	-1.1%	
16:00	India	Industrial Production, y-o-y	Dec	7.1%	5.0%
18:00	UK	BOE's Huw Pill speaks			
18:00	Eurozone	ECB's Schnabel Participates in Live Q&A on Twitter			
19:00	US	U. of Michigan Sentiment	Feb P	64.9	65

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Saudi Arabia	SAMA Net Foreign Assets SAR	Dec	1698.3B		1651.7B
Monday, 30 January						
14:00	Eurozone	Consumer Confidence	Jan F	-20.9		-20.9
Tuesday, 31 January						
3:30	Japan	Jobless Rate	Dec	2.5%	2.5%	2.5%
3:50	Japan	Retail Sales, y-o-y	Dec	2.6%	3.2%	3.8%
3:50	Japan	Industrial Production, m-o-m	Dec P	0.2%	-1.0%	-0.1%
5:30	China	Manufacturing PMI	Jan	47.0	50.1	50.1
5:30	China	Non-manufacturing PMI	Jan	41.6	52	54.4
11:00	Turkey	Trade Balance	Dec	-8.76B	-10.40B	-9.70B
13:30	UK	Mortgage Approvals	Dec	46.1K	45.0K	35.6K
14:00	Eurozone	GDP SA, q-o-q	4Q A	0.3%	-0.1%	0.1%
14:00	Eurozone	GDP SA, y-o-y	4Q A	2.3%	1.7%	1.9%
18:45	US	MNI Chicago PMI	Jan	44.9	45.0	44.3
19:00	US	Conf. Board Consumer Confidence	Jan	108.3	109.0	107.1
Wednesday, 1 February						
5:45	China	Caixin China PMI Mfg	Jan	49.0	49.8	49.2
9:00	India	S&P Global India PMI Mfg	Jan	57.8		55.4
11:00	Turkey	S&P Global/ICI Turkey Manufacturing PMI	Jan	48.1		50.1
13:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Jan F	48.8	48.8	48.8
13:30	UK	S&P Global/CIPS UK Manufacturing PMI	Jan F	46.7	46.7	47.0
14:00	Eurozone	CPI Estimate, y-o-y	Jan	9.2%	8.9%	8.5%
17:15	US	ADP Employment Change	Jan	235K	180K	106K
19:00	US	Construction Spending, m-o-m	Dec	0.2%	0.0%	-0.4%
19:00	US	ISM Manufacturing	Jan	48.4	48.0	47.4
19:00	US	JOLTS Job Openings	Dec	10458K	10300K	11012K
23:00	US	FOMC Rate Decision (Upper Bound)	1-Feb	4.5%	4.8%	4.8%
Thursday, 2 February						
16:00	UK	Bank of England Bank Rate	2-Feb	3.5%	4.0%	4.0%
17:15	Eurozone	ECB Marginal Lending Facility	2-Feb	2.8%	3.3%	3.3%
17:15	Eurozone	ECB Deposit Facility Rate	2-Feb	2.00%	2.5%	2.5%
17:30	US	Initial Jobless Claims	28-Jan	186K	195K	183K
19:00	US	Factory Orders	Dec	-1.8%	2.3%	1.8%
19:00	US	Durable Goods Orders	Dec F	5.6%	5.6%	5.6%
	Egypt	Deposit Rate	2-Feb	16.3%	17.3%	16.3%
Friday, 3 February						
5:45	China	Caixin China PMI Composite	Jan	48.3		51.1
8:15	UAE	S&P Global United Arab Emirates PMI	Jan	54.2		54.1
9:00	India	S&P Global India PMI Composite	Jan	59.4		57.5
11:00	Turkey	CPI, y-o-y	Jan	64.3%	53.8%	57.7%
13:30	UK	S&P Global/CIPS UK Composite PMI	Jan F	47.8	47.8	48.5
17:30	US	Change in Nonfarm Payrolls	Jan	260K	188K	517K
17:30	US	Unemployment Rate	Jan	3.5%	3.6%	3.4%
17:30	US	Average Hourly Earnings, m-o-m	Jan	0.4%	0.3%	0.3%
17:30	US	Average Hourly Earnings, y-o-y	Jan	4.8%	4.3%	4.4%
17:30	US	Labor Force Participation Rate	Jan	62.3%	62.3%	62.4%
18:45	US	S&P Global US Composite PMI	Jan F	46.6	46.6	46.8
19:00	US	ISM Services Index	Jan	49.2	50.5	55.2

*UAE time

Source: Bloomberg, ADCB Economic Research

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