The Week Ahead: Crucial data week with US and UK inflation; CBRT likely on hold

Economics Team

Sri Virinchi Kadiyala
Senior Economist
+971 (0)2 697 3582
Srivirinchi.Kadiyala@adcb.com

Om Joshi
Economist
+971 (0)2 694 1230
Om.Joshi@adcb.com

Monica Malik, Ph.D.
Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

Contents

US: April PCE and FOMC minutes are key this week

Progress on the debt ceiling negotiations (page 3), minutes of the May FOMC meeting (due Wednesday) and April PCE inflation (due Friday) will be key developments from the US this week. The Fed hiked by 25 bps at its 2 May meeting, while signalling a pause on future rate hikes. The minutes should provide details on what outcomes could warrant further tightening and concerns over ongoing credit tightening. Recent Fed commentary indicates openness to another hike, with core inflation remaining sticky and continued resilience in the labour market. However, Fed Chair Jerome Powell indicated last week that policymakers have breathing room to look at the data and make careful assessments, given the tightening so far. Meanwhile, consensus expects headline PCE to edge up to 4.3% y-o-y in April (March: 4.2%) on sequentially higher energy prices. Core PCE is expected to remain steady in both annual (4.6% y-o-y) and monthly (0.3% m-o-m) terms, as medical services costs offset the fall in shelter prices. Sticky April PCE numbers are likely to lead the Fed to raise its inflation projections at the 14 June FOMC meeting – its forecasts are currently 3.3% for headline and 3.6% for core PCE for 2023.

Turkey: CBRT to hold policy rates amid election logjam

The CBRT is expected to keep rates on hold for the third consecutive meeting on 25 May, maintaining the one-week repo rate at 8.5%. This is despite headline inflation remaining elevated (4M2023: 51.8% y-o-y), deeply negative real interest rates (-35.2%) and the TRY continuing to weaken given political uncertainty. We see the CBRT remaining focused on supporting economic activity following the February earthquake, while looking to contain market volatility. The presidential election result will be central to the future policy trajectory, with the run-off vote scheduled for 28 May. The first round of the presidential elections on 14 May was inconclusive, with neither contender crossing the 50.0% vote threshold; incumbent Recep Erdogan received 49.5% of the vote, with leading opposition candidate Kemal Kilicdaroglu securing 44.9%. Kilicdaroglu has vowed a return to a more orthodox policy mix, though Erdogan also appears to have softened his demand for lower interest rates recently. Separately, the Central Bank of Egypt kept its interest rates on hold last week, citing lower growth and moderating inflation. For more details, please see our note – **Egypt Economic Update – Benchmark rates held steady; critical need to progress with reforms**, published on 19 May 2023.

Europe: PMI from UK and Europe, UK CPI forecast to soften

UK headline CPI is expected to moderate sharply to 8.2% y-o-y in April (March: 10.1%) on lower energy inflation (base-effect driven), while core inflation should remain steady at 6.2% y-o-y (March: 6.2%). The UK's monetary policy committee will also brief the UK Treasury on the outlook for inflation, economic growth and the labour market. Preliminary May PMI surveys should show moderation in activity in both Europe and the UK. The expansion in services will remain the key economic driver, offsetting weakness in manufacturing activity in both the UK and Eurozone.

I. Recent Events and Data Releases

A. Advanced Economies

US: Strong start to 2Q activity points to challenges in disinflation fight

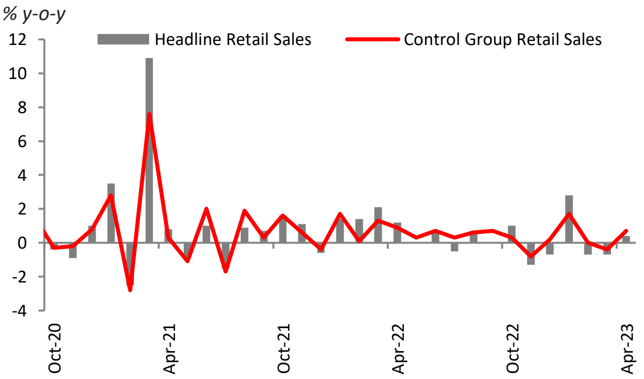
Economic activity remains resilient, showing limited impact from the Fed's rate hikes

Activity data released last week showed strengthening momentum, signalling an acceleration in GDP growth in 2Q2023. The Atlanta Fed's GDPNow is tracking GDP growth at 2.9% q-o-q for 2Q2023 (1Q2023: 1.1%), in contrast to the Fed's expectations of a slowdown. Alongside stronger-than-expected core retail sales data for April, which feeds into the GDP calculation, there were also positive developments in areas such as housing starts and manufacturing activity. Taken together, the robust activity data points to reduced recession risks and potentially mounting challenges in the Fed's fight against inflation. In Fed speeches last week, FOMC participants stressed a data-dependent approach, while not ruling out a rate hike at the June policy meeting. However, Dallas Fed President Lorie Logan observed that a pause by the FOMC should not be interpreted as the end of the hiking cycle, as rate hikes could well return in July after 'skipping' the June meeting.

Data points to a reacceleration in economic activity in 2Q2023

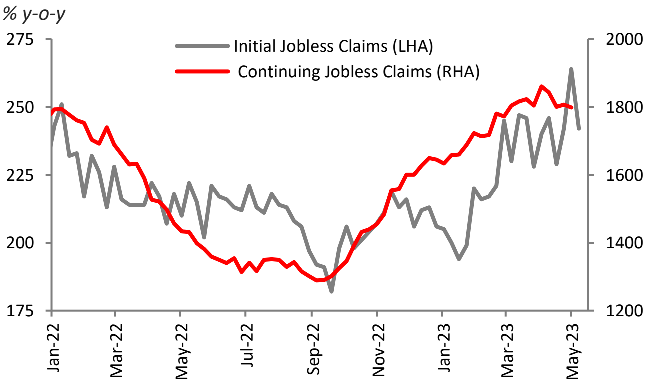
Control group retail sales rebounded in April, expanding 0.7% m-o-m (consensus: 0.4%; March: -0.3%) and overshadowing the apparent weakness in headline sales, which undershot expectations (April: 0.4% m-o-m; consensus: 0.8%). Support in spending came from online sales and general merchandise, while there was weakness in durable goods (furniture, electronics etc.). Industrial production also surprised to the upside, expanding 0.5% m-o-m in April (consensus: 0.0%), driven by a sharp spike in auto output, even as production in other segments remained soft. Housing starts also strengthened, increasing 2.2% m-o-m to 1,401K in April (March: 1,371K), with rises in both single- and multi-family units. This was the third consecutive monthly increase in single-family homes, pointing to some durability in the trend after bottoming in December and January. On the labour market side, weekly initial jobless claims slowed to 242K last week (prior: 264K) as fraudulent claims in Massachusetts have now been corrected. Overall, the level of jobless claims remains consistent with solid job market growth, albeit softening from 2H2022 (Fig.2).

Fig. 1. US: Strength in control group sales suggests resilience in consumer demand



Source: US Bureau of Labour Statistics, Bloomberg, ADCB Economic Research

Fig. 2. US: Trends in weekly jobless claims remain consistent with strong labour market



Source: US Bureau of Labour Statistics, Bloomberg, ADCB Economic Research

US: Uncertainty over debt ceiling deal as deadline approaches

Debt ceiling deal negotiations have made little concrete progress

A lack of agreement regarding the US government debt ceiling is adding to market volatility. US House and Senate leaders announced an in-principle agreement last week, with plans for a vote in the coming days on a bipartisan deal to avert a US debt default (X-date: 1 June). However, a final deal has still not been secured, with key points of disagreement including the medium-term spending restraint outlined by the Republicans, which would impact the implementation of key Democrat policy pledges. This includes areas such as student loan forgiveness and tax incentives for electric vehicles. Separately, credit uptake of the Fed's emergency lending window increased for the fourth time in the past five weeks, signalling continued stress in the regional banks, albeit still contained.

EU: Headline inflation edged up; persistent service inflation

Energy base effects drove headline inflation higher

Headline inflation inched up to 7.0% y-o-y in April (March: 6.9%; consensus: 7.0%) on the back of higher energy costs, offsetting a deceleration in food prices. A low base from measures introduced last year to counter the spike in oil and gas prices feeding into petrol prices pushed annual energy inflation to 2.4% y-o-y (March 2023: -0.9%). However, we see annual energy inflation moderating in the near term as gas prices have fallen below EUR30 per megawatt hour, the lowest level since the start of the energy crisis. Core inflation softened marginally to 5.6% y-o-y (March: 5.7%; consensus: 5.6%) as lower goods prices offset higher service inflation. The increase in service inflation was driven by continued post-pandemic demand for recreation and tourism, alongside lower pressure on real household incomes, with both moderating inflation and wage growth. We expect the backwards-looking nature of wage negotiations to drive higher nominal wages, keeping service inflation elevated in the near term. Persistent service and core inflation underpin our view of the ECB hiking rates by 25 bps at its June and July policy meetings. The ECB has maintained a hawkish stance, with President Christian Lagarde recently reiterating that "the ECB needs to keep interest rates high to curb inflation".

UK: Gradual rebalancing of the labour market

Wage growth remains strong in both private and public sectors.

Recent data suggests a loosening of the UK labour market conditions on the back of improved supply. Total labour participation rose in March, with 156K people joining the market, driven in part by students entering the market. However, labour demand was also strong, with employment rising sharply by 182K, beating consensus expectations of 160K. As such, unemployment inched up to 3.9% in March (February: 3.8%; consensus: 3.8%). The job openings to workers gap declined to -0.6% (February: -0.7%), reflecting both higher labour supply and falling vacancies (55K). Wage pressures remained strong as public sector wages accelerated at the fastest rate since 2003 to 5.6% y-o-y in March (February: 5.3%) and private sector wages stayed elevated at 7.0% y-o-y. Looking ahead, there could be a potential moderation in wage growth with signs of a decline in the churn rate – a key driver of higher pay – to 2.7 per thousand (the lowest rate since June 2021). The BoE has stressed that wage growth is a "key indicator" determining interest rate movements and we see the recent increases continuing to support strong service inflation in the coming months. We see the BoE delivering 25 bps rate hikes in the June and July policy meetings.

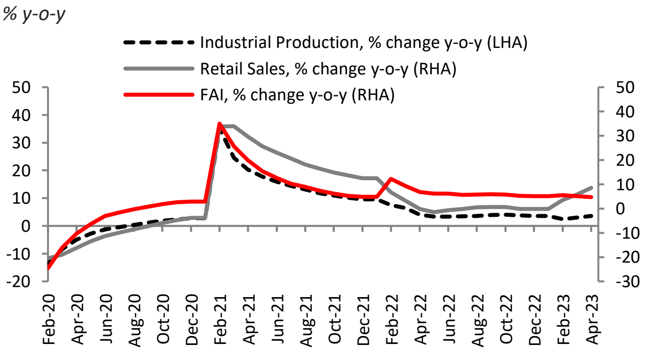
B. Emerging Market Economies

China: Continued weakness signals dissipating economic recovery

Weakness in economic recovery is starting to weigh on the CNY

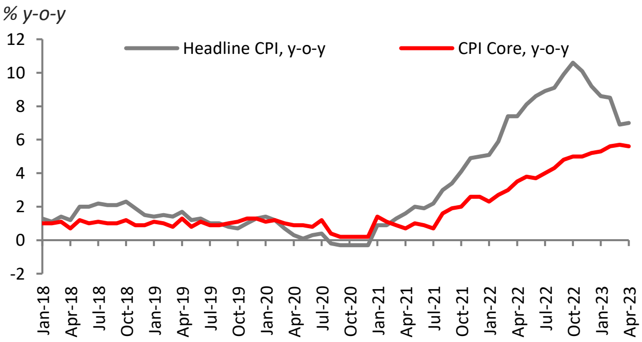
China's economic recovery is losing momentum, with April activity indicators significantly undershooting expectations. The sequential contraction in most April activity data offset the boost from a very weak base (Shanghai lockdown in April 2022), lowering annual growth numbers. Retail sales undershot expectations, printing at 18.4% y-o-y in April (consensus: 21.9%), driven by a monthly decline in durable goods consumption (auto, furniture and home appliances). The weakness in the electronics and construction materials sectors weighed on industrial production in April (5.6% y-o-y; consensus: 10.9%). Fixed asset investment growth slowed to 4.7% y-o-y in April (March: 5.1%), driven by a moderation in the manufacturing and infrastructure segment. Investments continue to be led primarily by state-owned enterprises (8.3% y-o-y), while growth in private investment remained weak at 1.2% y-o-y. The slowdown in April's hard activity data is consistent with the weakness seen in trade, PMI and inflation figures released earlier in the month. Moreover, the sharp jump in unemployment in the younger demographic to a record 20.4% in April is also a major cause for concern for policymakers. While the PBoC held policy rates steady last week, we expect the weakness in economic activity to warrant interest rate cuts along with other supportive monetary and fiscal measures in the coming months. Softness in activity and expectations of accommodative policies have weighed on the CNY, which depreciated beyond the 7.0 fixing against the USD last week for the first time in 2023. The PBoC's verbal intervention on Friday to "correct the pro-cyclical and one-way market behaviour when necessary" helped the CNY to make some gains late on Friday.

Fig. 3. China: Base effects boost annual growth figures, masking the weak sequential momentum



Source: NBS, Bloomberg, ADCB Economic Research

Fig. 4. EU: Headline inflation inched up in April; core inflation remains elevated



Source: Eurostat, Bloomberg, ADCB Economic Research

I. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Qatar	Trade Balance Month	Apr	21273M	
	Kuwait	CPI, y-o-y	Apr	3.7%	
	Bahrain	CPI, y-o-y	Apr	-0.1%	
Monday, 22 May					
3:50	Japan	Core Machine Orders, m-o-m	Mar	-4.5%	0.5%
18:00	Eurozone	Consumer Confidence	May P	-17.5	-16.8
Tuesday, 23 May					
11:30	Germany	HCOB Germany Manufacturing PMI	May P	44.5	45.0
11:30	Germany	HCOB Germany Services PMI	May P	56.0	55.0
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	May P	45.8	46.0
12:30	UK	S&P Global/CIPS UK Manufacturing PMI	May P	47.8	48.0
12:30	UK	S&P Global/CIPS UK Services PMI	May P	55.9	55.5
12:30	UK	S&P Global/CIPS UK Composite PMI	May P	54.9	54.7
17:45	US	S&P Global US Manufacturing PMI	May P	50.2	50.0
17:45	US	S&P Global US Services PMI	May P	53.6	52.5
17:45	US	S&P Global US Composite PMI	May P	53.4	53.0
18:00	US	New Home Sales	Apr	683K	663K
18:00	US	Richmond Fed Manufact. Index	May	-10.0	-8.0
Wednesday, 24 May					
10:00	UK	CPI, m-o-m	Apr	0.8%	0.7%
10:00	UK	CPI, y-o-y	Apr	10.1%	8.2%
10:00	UK	CPI Core, y-o-y	Apr	6.2%	6.2%
10:00	UK	RPI, m-o-m	Apr	0.7%	1.2%
12:00	Germany	IFO Business Climate	May	93.6	93.0
12:00	Germany	IFO Expectations	May	92.2	91.6
15:00	US	MBA Mortgage Applications	19-May	-5.7%	
22:00	US	FOMC Meeting Minutes	3-May		
Thursday, 25 May					
10:00	Germany	GDP SA, q-o-q	1Q F	0.0%	0.0%
14:30	Eurozone	ECB's Nagel Speaks			
15:15	Eurozone	ECB's Villeroy speaks in Paris			
16:30	US	Initial Jobless Claims	20-May	242K	248K
16:30	US	GDP Annualized, q-o-q	1Q S	1.1%	1.1%
16:30	US	GDP Price Index	1Q S	4.0%	4.0%
18:00	US	Pending Home Sales, m-o-m	Apr	-5.2%	1.0%
Friday, 26 May					
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	May	3.5%	3.4%
10:00	UK	Retail Sales Inc Auto Fuel, y-o-y	Apr	-3.1%	-2.7%
10:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Apr	-1.0%	0.4%
10:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Apr	-3.2%	-2.8%
16:30	US	Personal Income	Apr	0.3%	0.4%
16:30	US	Personal Spending	Apr	0.0%	0.4%
16:30	US	PCE Deflator, m-o-m	Apr	0.1%	0.3%
16:30	US	PCE Deflator, y-o-y	Apr	4.2%	4.3%
16:30	US	PCE Core Deflator, m-o-m	Apr	0.3%	0.3%
16:30	US	PCE Core Deflator, y-o-y	Apr	4.6%	4.6%
16:30	US	Wholesale Inventories, m-o-m	Apr P	0.0%	0.1%
16:30	US	Durable Goods Orders	Apr P	3.2%	-1.0%
16:30	US	Durables ex-Transportation	Apr P	0.2%	-0.2%
18:00	US	U. of Mich. Sentiment	May F	57.7	58.0

*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	Apr	4.3%		3.3%
	UAE	M3 Money Supply, y-o-y	Feb	14.4%		14.0%
	Qatar	CPI, y-o-y	Apr	4.0%		
	Oman	CPI, y-o-y	Apr	1.6%		
Monday, 15 May						
5:20	China	1-Yr Medium-Term Lending Facility Rate	15-May	2.8%	2.8%	2.8%
10:00	Saudi Arabia	CPI, y-o-y	Apr	2.7%		2.7%
10:30	India	Wholesale Prices, y-o-y	Apr	1.3%	-0.4%	-0.9%
15:30	India	Exports, y-o-y	Apr	-13.9%		-12.7%
15:30	India	Imports, y-o-y	Apr	-7.9%		-14.1%
Tuesday, 16 May						
6:00	China	Industrial Production, y-o-y	Apr	3.9%	10.9%	5.6%
6:00	China	Industrial Production YTD, y-o-y	Apr	3.0%	4.9%	3.6%
6:00	China	Retail Sales YTD, y-o-y	Apr	5.8%	8.2%	8.5%
6:00	China	Retail Sales, y-o-y	Apr	10.6%	21.9%	18.4%
6:00	China	Fixed Assets ex-Rural YTD, y-o-y	Apr	5.1%	5.7%	4.7%
10:00	UK	Jobless Claims Change	Apr	28.2K		46.7K
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Mar	5.9%	5.8%	5.8%
10:00	UK	Weekly Earnings ex-Bonus, 3M/y-o-y	Mar	6.6%	6.8%	6.7%
10:00	UK	ILO Unemployment Rate 3Mths	Mar	3.8%	3.8%	3.9%
13:00	Eurozone	GDP SA, q-o-q	1Q P	0.1%	0.1%	0.1%
13:00	Eurozone	GDP SA, y-o-y	1Q P	1.3%	1.3%	1.3%
16:30	US	Retail Sales Advance, m-o-m	Apr	-1.0%	0.8%	0.4%
16:30	US	Retail Sales ex-Auto, m-o-m	Apr	-0.8%	0.4%	0.4%
16:30	US	Retail Sales Control Group	Apr	-0.3%	0.4%	0.7%
Wednesday, 17 May						
3:50	Japan	GDP SA, q-o-q	1Q P	0.0%	0.2%	0.4%
3:50	Japan	GDP Deflator, y-o-y	1Q P	1.2%	2.1%	2.0%
13:00	Eurozone	CPI, y-o-y	Apr F	7.0%	7.0%	7.0%
13:00	Eurozone	CPI, m-o-m	Apr F	0.7%	0.7%	0.6%
13:00	Eurozone	CPI Core, y-o-y	Apr F	5.7%	5.6%	5.6%
15:00	US	MBA Mortgage Applications	12-May	6.3%		-5.7%
16:30	US	Housing Starts	Apr	1371K	1400K	1401K
Thursday, 18 May						
16:30	US	Initial Jobless Claims	13-May	264K	251K	242K
18:00	US	Existing Home Sales, m-o-m	Apr	-2.4%	-3.2%	-3.4%
	Egypt	Lending Rate	18-May	19.3%		19.3%
	Egypt	Deposit Rate	18-May	18.3%	18.3%	18.3%
Friday, 19 May						
3:30	Japan	Natl CPI, y-o-y	Apr	3.2%	3.5%	3.5%

*UAE time

Source: Bloomberg, ADCB Economic Research

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC ("ADCB") to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.