Economic Research

ADCB بنك أبوظبي التجاري

Global Data Watch 5-9 June 5 June 2023

The Week Ahead: Chinese trade data, EU GDP and RBI policy will be key

Oil: Saudi Arabia announces a 1.0 million b/d production cut

Saudi Arabia will voluntarily reduce oil output by a further 1.0 million b/d in July, alongside OPEC+ formalising and extending its 1.66 million b/d production cut implemented in May until December 2024 (from December 2023). The additional Saudi supply cut outlined at yesterday's OPEC+ meeting surprised the market, with Brent currently trading at USD77.5 p/b, from USD76.1 p/b at the end of last week. Saudi Arabia's energy minister, Abdulaziz bin Salman, retained the option to extend July production cuts further if required. The decision signals the group's readiness to do whatever it takes to balance the oil market and support the oil price. Changes to the country's baseline output quota were also announced for 2024, with a 200K b/d increase for the UAE and reductions for African nations like Angola and Nigeria to bring their baselines closer to current production and capacity levels. We see three factors as essential for future OPEC+ production changes: i) strength in Russian exports (despite announcing a 500K production cut from March); ii) China's demand outlook, with signs of dissipating recovery post-reopening; and iii) further tightening in interest rates by central banks in advanced economies. If Russian exports remain strong, tensions could re-emerge within OPEC+. We will publish a detailed note on the OPEC+ meeting later today.

India: RBI set to hold rates again on improving macro stability

We expect the RBI to hold the repo rate steady at 6.5% in a unanimous decision at its 8 June meeting. Recent data have put the Indian economy in the 'Goldilocks' zone – growth has surprised significantly to the upside (page 4, inflation has reverted to the RBI's target band after five quarters of above-target inflation, and robust services exports have improved the BoP position significantly. Despite the positive 1Q2023 GDP trend, we expect the MPC to leave its FY2023-24 (Apr-Mar) growth projection unchanged at 6.5%, given the uncertain global growth backdrop. However, inflation forecasts should be lowered slightly to 5.0% y-o-y (5.2% previously) as we estimate 2Q2023 CPI to be at least 50 bps lower than the April MPC's estimate (5.1% y-o-y). Transmission of the prior rate hikes is improving, aided by tight banking liquidity conditions. We do not expect the RBI to announce any new liquidity injections but to reiterate its aim to maintain liquidity at "adequate" levels.

China: Trade data key to gauging economic momentum

After the still strong employment trend in the US May NFP print (page 2), the focus this week shifts to GDP prints from the EU and Japan and trade data from China, with their implications for global commodity markets. Consensus expects EU 1Q2023 GDP (due Thursday) to remain flat (0.0% q-o-q) due to weakness in the manufacturing sector and rising interest rates squeezing business investments. Consensus estimates 0.5% q-o-q growth in Japan's 1Q2023 GDP (4Q2022: 0.4%) as robust services activity offset soft business activity. China's May trade activity (due Wednesday) is expected to deteriorate, with exports flipping to a contraction (consensus: -0.9% y-o-y; April: 8.5%) and ongoing import weakness (consensus: -8.0%; April: -7.9%).

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A. Advanced Economies

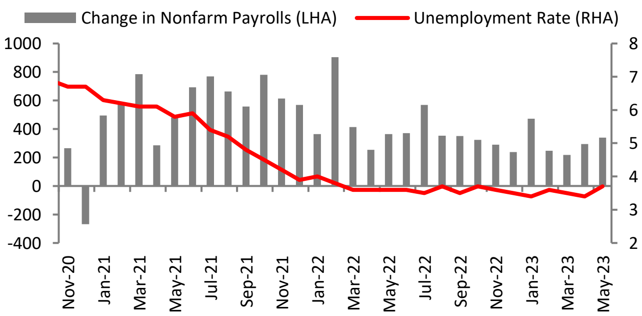
US: Labour market remains resilient; upside risks to inflation remain

A resilient labour market poses risks to Fed's disinflation path, may necessitate rate action in July

May non-farm payroll data was mixed, though still indicating underlying strength. While the upside surprise in job additions was significant, the Fed will take some comfort from the higher-than-expected increase in the unemployment rate and slowdown in wage growth, in our view. The resilient labour market increases the chances of a rate move in June, although we still expect a pause and see a higher possibility of a 25 bps rate hike at the July FOMC meeting. Indeed, following the jobs report on Friday, market pricing for a June rate hike weakened to 26.3% from a robust 69.1% on 26 May. The economy added 339K jobs in May (April: 294K; consensus: 195K) on broad-based gains across segments, including in healthcare and social assistance (+75K), business services (+64K) and government (+56K) segments. The limited impact of interest rate increases and credit tightening was also apparent in interest-rate-sensitive sectors such as leisure and hospitality (+48K), which also showed a pickup in job gains in May. The May NFP report also saw an upward revision to two prior job market prints, with cumulative additions of 93K. The unemployment rate moved higher than expected to 3.7% in May (April: 3.4%; consensus: 3.5%), driven by a fall in household employment (-310K) and a slight increase in labour force size (130K). Average hourly earnings also slowed to 0.3% m-o-m (April: 0.4%) and 4.3% y-o-y (April: 4.4%), albeit far from levels consistent with the Fed's disinflation fight.

Fig. 1. US: NFP job gains remain resilient, raising upside risks to demand-sensitive inflation segments

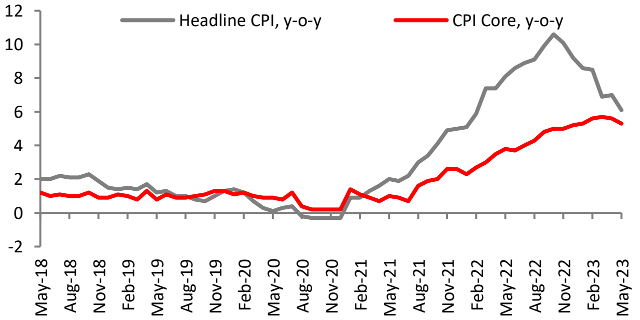
'000 (LHA); %(RHA)



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

Fig. 2. EU: Headline and core CPI moderated in May; core inflation expected to reaccelerate in June

% y-o-y



Source: Eurostat, Bloomberg, ADCB Economic Research

Persistent strength in the labour market highlights limited impact of the Fed's rate tightening

The April JOLTS job openings were also consistent with the underlying strength in the labour market. Job openings rose to 10.1 million in May (April: 9.7 million; consensus: 9.4 million), reversing three consecutive months of decline. As a result, the job openings to unemployed ratio has increased to 1.8 (1.6 earlier) and stands significantly above the 1.0-1.2 range preferred by the Fed. The tight labour market is proving to be a major hurdle for firms, with the Chicago business barometer plummeting to 40.4 in May (April: 48.6; consensus: 47.3). The Chicago business barometer surveys firms on the prevailing business conditions, with firms citing increased prices and labour shortages as top concerns. Separately, uncertainty around the debt ceiling deal was cleared after US President Joe Biden signed a deal deferring the debt ceiling limits to 2025 on Saturday, after it was passed in both the House and Senate last week.

EU: Downside surprise in headline and core CPI

Headline and core inflation cooled faster than expected in May

Headline inflation eased more than expected to 6.1% y-o-y (April: 7.0%; consensus: 6.3%) on the back of decreasing energy costs and favourable base effects. Energy prices fell by 1.7% y-o-y in May (April: +2.4%) as weaker global demand saw the price of gas fall to the lowest level since May 2021 at EUR24.1 per megawatt hour. Core inflation also surprised to the downside, printing at a four-month low of 5.3% y-o-y (April: 5.6%; consensus: 5.5%) as price growth decelerated in both services and goods. Service inflation dipped for the first time in six months to 5.0% y-o-y, largely due to measures introduced in Germany to reduce the cost of public transportation, without which service inflation would have remained relatively flat in yearly terms. An acceleration in wages and the upcoming summer season boosting airfare and package holiday prices underpin our expectations of service inflation rising in the near term. The ECB accounts for the 4 May meeting showed continued concern regarding strong underlying pressures and the implications of elevated wage growth. Subsequent comments by ECB President Christine Lagarde last week reiterated that the Governing Council "has more ground to cover", though continued to hint at a more gradual pace of rate hikes, stating that "we need to continue climbing, but not as rapidly". We maintain our expectations for the ECB to hike by 25 bps at its June and July policy meetings.

B. Emerging Market Economies

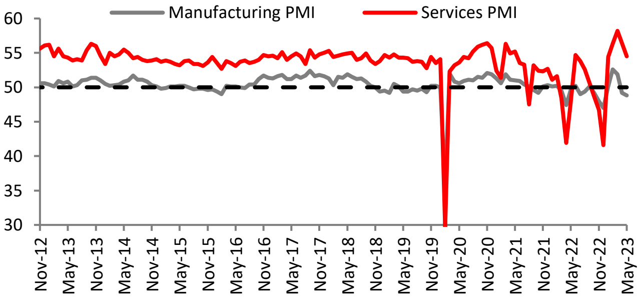
China: Disappointing PMI raises concerns on economic recovery

NBS Manufacturing PMI dipped for two consecutive months; services PMI also softened

The May NBS PMI report prompted concern over China's recovery momentum as manufacturing activity contracted and non-manufacturing slowed. Manufacturing PMI contracted for two consecutive months, falling more than expected to 48.4 in May (April: 49.2) on the back of sluggish external demand and insufficient recovery in domestic demand. Activity in historically important manufacturing sectors (e.g. ferrous-metals smelting) declined, though emerging industries (electrical vehicles, green energy) that the government is attempting to support are seeing growth. Meanwhile, non-manufacturing NBS PMI printed below consensus at 54.5 (April: 56.4; consensus: 55.2) on the back of slower activity in both services and construction. The services index softened to 53.8 and the new order index contracted after four months of expansion despite the boost from the Labour Day holidays, indicating fading strength in the initial pent-up demand. Overall, the May NBS reaffirms that the pace of expansion in services is already moderating. Meanwhile, manufacturing continues to face headwinds from weak external and domestic demand. We expect the persistent downward surprises in activity levels witnessed over the past two months to prompt more fiscal and monetary policy support, including via interest rate reductions to support growth.

Fig. 3. China: Weakness in May PMI adds to concerns over dissipating Chinese growth recovery post reopening

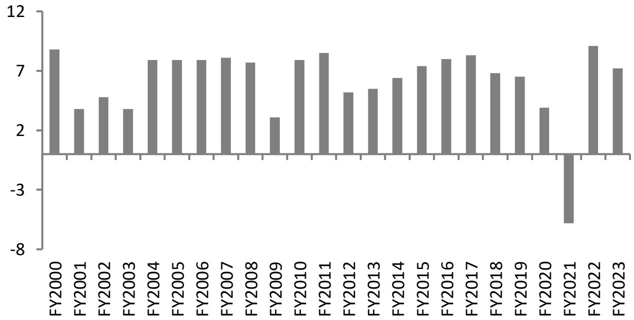
Index: A reading below 50 indicates a contraction in activity



Source: NBS, Bloomberg, ADCB Economic Research

Fig. 4. India: At 7.2% in FY2022-23, India's growth remains relatively unscathed by the global growth outlook

% y-o-y



Source: MOSPI, Bloomberg, ADCB Economic Research

India: Strong 1Q2023 GDP growth solidifies a 'Goldilocks' outlook

Robust GDP growth amidst moderating inflation keeps Indian economy in a relative sweet spot

1Q2023 GDP growth delivered a major upside surprise, printing at 6.1% y-o-y (consensus: 5.0%; 4Q2022: 4.5%). As a result, growth for the full financial year 2022-23 (Apr-Mar) rose to 7.2% y-o-y, stronger than both government and consensus estimates of 7.0%. The robust 1Q2023 GDP growth was driven by upside surprises in construction and financial services. In GDP by demand terms, investment activity accelerated further in 1Q2023 to 8.9% y-o-y (4Q2022: 8.0%), indicating resilience to high interest rates and ongoing global uncertainties so far. Export growth also improved to 11.9% y-o-y (4Q2022: 11.1% y-o-y), while import growth slowed to 4.9% y-o-y (4Q2022: 10.7%), reflecting a deceleration in goods imports. However, the ongoing weakness in private consumption is concerning (1Q2023: 2.8% y-o-y vs 2022 average: 8.7%), as elevated (though moderating) prices and tighter financial conditions are weighing on demand. One potential area of upside is some fiscal support to prop up demand, especially ahead of the general elections next year, though we see limited scope given slower nominal GDP growth, and thereby tax revenues. We will closely monitor the consumption trajectory over the next few months, given its dominant contribution to India's growth (c.55.0%-60.0%). Lingering weakness in private consumption remains a key risk, though high-frequency indicators in 2Q2023 so far paint a picture of broader resilience. A weaker global growth backdrop, tighter domestic and external financial conditions and monsoon uncertainties are additional key risks to the growth trajectory in the coming year. Going forward, we see real GDP growth moderate to 6.5% y-o-y in FY2023-24.

I. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M3 Money Supply, y-o-y	Mar	14.0%	
	Egypt	Net Reserves	May	34.6B	
	China	Money Supply M2, y-o-y	May	12.4%	12.0%
Monday 5 June					
5:45	China	Caixin China PMI Composite	May	53.6	
5:45	China	Caixin China PMI Services	May	56.4	55.2
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	May	59.6	
8:15	UAE	S&P Global United Arab Emirates PMI	May	56.6	
8:15	Egypt	S&P Global Egypt PMI	May	47.3	
9:00	India	S&P Global India PMI Composite	May	61.6	
9:00	India	S&P Global India PMI Services	May	62.0	
12:00	Eurozone	HCOB Eurozone Composite PMI	May F	53.3	53.3
12:00	Eurozone	HCOB Eurozone Services PMI	May F	55.9	55.9
12:30	UK	S&P Global/CIPS UK Services PMI	May F	55.1	55.1
12:30	UK	S&P Global/CIPS UK Composite PMI	May F	53.9	53.9
17:45	US	S&P Global US Services PMI	May F	55.1	55.1
17:45	US	S&P Global US Composite PMI	May F	54.5	54.5
18:00	US	Factory Orders	Apr	0.4%	0.8%
18:00	US	Durable Goods Orders	Apr F	1.1%	1.1%
18:00	US	Durables ex-Transportation	Apr F	-0.2%	-0.2%
18:00	US	ISM Services Index	May	51.9	52.4
Tuesday, 6 June					
10:00	Germany	Factory Orders, m-o-m	Apr	-10.7%	2.8%
12:30	UK	S&P Global/CIPS UK Construction PMI	May	51.1	50.9
Wednesday, 7 June					
10:00	Germany	Industrial Production SA, m-o-m	Apr	-3.4%	0.6%
15:00	US	MBA Mortgage Applications	2-Jun	-3.7%	
16:30	US	Trade Balance	Apr	-64.2B	-75.5B
	China	Foreign Reserves	May	3204.8B	3188.0B
	China	Exports, y-o-y	May	8.5%	-0.9%
	China	Imports, y-o-y	May	-7.9%	-8.0%
	China	Trade Balance	May	90.2B	95.1B
Thursday, 8 June					
3:50	Japan	GDP SA, q-o-q	1Q F	0.4%	0.5%
3:50	Japan	GDP Annualised SA, q-o-q	1Q F	1.6%	1.9%
3:50	Japan	GDP Deflator, y-o-y	1Q F	2.0%	2.0%
3:50	Japan	BoP Current Account Balance	Apr	2278.1B	1650.0B
8:30	India	RBI Repurchase Rate	8-Jun	6.5%	6.5%
13:00	Eurozone	GDP SA, q-o-q	1Q F	0.1%	0.0%
13:00	Eurozone	GDP SA, y-o-y	1Q F	1.3%	1.3%
16:30	US	Initial Jobless Claims	3-Jun	232K	237K
16:30	US	Continuing Claims	27-May	1795K	1802K
18:00	US	Wholesale Inventories, m-o-m	Apr F	-0.2%	-0.2%
Friday, 9 June					
3:50	Japan	Money Stock M2, y-o-y	May	2.5%	
3:50	Japan	Money Stock M3, y-o-y	May	2.1%	
5:30	China	CPI, y-o-y	May	0.1%	0.2%
5:30	China	PPI, y-o-y	May	-3.6%	-4.4%
	Kuwait	Kuwait Sovereign Rating to be reviewed by S&P			

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	M3 Money Supply, y-o-y	Mar	14.0%		
Monday, 29 May						
9:00	Japan	Leading Index, CI	Mar F	97.5		
9:00	Japan	Coincident Index	Mar F	98.7		
Tuesday, 30 May						
3:30	Japan	Jobless Rate	Apr	2.8%	2.7%	2.6%
3:30	Japan	Job-To-Applicant Ratio	Apr	1.3	1.3	1.3
12:00	Eurozone	M3 Money Supply, y-o-y	Apr	2.5%	2.0%	1.9%
18:00	US	Conf. Board Consumer Confidence	May	103.7	99.0	102.3
Wednesday, 31 May						
3:50	Japan	Retail Sales, y-o-y	Apr	6.9%	7.1%	5.0%
3:50	Japan	Industrial Production, m-o-m	Apr P	1.1%	1.4%	-0.4%
5:30	China	Manufacturing PMI	May	49.2	49.5	48.8
5:30	China	Non-manufacturing PMI	May	56.4	55.2	54.5
11:55	Germany	Unemployment Change, (000's)	May	23.0K	13.5K	9.0K
15:00	US	MBA Mortgage Applications	26-May	-4.6%		-3.7%
16:00	India	GDP, y-o-y	1Q	4.5%	5.0%	6.1%
16:00	Germany	CPI, m-o-m	May P	0.4%	0.2%	-0.1%
16:00	Germany	CPI, y-o-y	May P	7.2%	6.5%	6.1%
17:15	UK	BOE's Mann speaks				
17:45	US	MNI Chicago PMI	May	48.6	47.3	40.4
Thursday, 1 June						
3:50	Japan	Capital Spending, y-o-y	1Q	7.7%	6.0%	11.0%
5:45	China	Caixin China PMI Mfg	May	49.5	49.5	50.9
9:00	India	S&P Global India PMI Mfg	May	57.2		58.7
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	May F	44.6	44.6	44.8
12:30	UK	Mortgage Approvals	Apr	51.5K	53.5K	48.7K
12:30	UK	S&P Global/CIPS UK Manufacturing PMI	May F	46.9	46.9	47.1
13:00	Eurozone	CPI, m-o-m	May P	0.6%	0.2%	0.0%
13:00	Eurozone	Unemployment Rate	Apr	6.6%	6.5%	6.5%
13:00	Eurozone	CPI Estimate, y-o-y	May	7.0%	6.3%	6.1%
13:00	Eurozone	CPI Core, y-o-y	May P	5.6%	5.5%	5.3%
16:15	US	ADP Employment Change	May	291K	170K	278K
16:30	US	Initial Jobless Claims	27-May	230K	235K	232K
16:30	US	Continuing Claims	20-May	1794K	1800K	1795K
17:45	US	S&P Global US Manufacturing PMI	May F	48.5	48.5	48.4
18:00	US	Construction Spending, m-o-m	Apr	0.3%	0.2%	1.2%
18:00	US	ISM Manufacturing	May	47.1	47.0	46.9
18:00	US	ISM Prices Paid	May	53.2	52.3	44.2
Friday, 2 June						
3:50	Japan	Monetary Base, y-o-y	May	-1.7%		-1.1%
16:30	US	Change in Nonfarm Payrolls	May	294K	195K	339K
16:30	US	Two-Month Payroll Net Revision	May			93K
16:30	US	Unemployment Rate	May	3.4%	3.5%	3.7%
16:30	US	Average Hourly Earnings m-o-m	May	0.4%	0.3%	0.3%
16:30	US	Average Hourly Earnings y-o-y	May	4.4%	4.4%	4.3%
16:30	US	Labor Force Participation Rate	May	62.6%	62.6%	62.6%

*UAE time
Source: Bloomberg, ADCB Economic Research

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