

The Week Ahead: Fed and ECB expected to continue their rate-hiking cycles

► **US: FOMC to deliver a 25 bps rate hike; tightening bias to stay**

We expect the FOMC to deliver a 25 bps rate hike, taking the FFTR to 5.25% at its 2-3 May meeting. A tight labour market, elevated core inflation and limited contagion from the banking crisis should support this decision. 1Q GDP data also points to a resilient consumer demand backdrop (page 2). On the labour market side, while job additions have slowed, the unemployment rate is at a multi-decade low and strong wage growth is not consistent with price stability. Banking sector risks remain contained so far: deposit outflows have moderated and utilisation of the Fed's liquidity windows has been minimal. However, lending standards are expected to tighten (Beige Book survey), which could substitute somewhat for the Fed's rate action. As such, the focus at the meeting will likely be on the Fed's communication and whether it signals a pause or openness to a further 25 bps rate hike in June. While we see the Fed pausing policy following this week's meeting, we note that persistent price pressures amid a limited credit crunch could open the door for it to maintain a tightening bias.

► **Eurozone: ECB to hike by 25 bps, data dependency highlighted**

We also expect the ECB to hike by 25 bps at its 4 May policy meeting, taking the main refinancing rate to 3.75%. This would mark a stepdown in the pace of hikes after three consecutive 50 bps increases and two of 75 bps prior. Weak domestic demand driving GDP lower (1Q2023: 1.3% y-o-y; 4Q2022: 1.8%) and meaningful 350 bps of cumulative rate hikes in the current cycle support our expectations of 25 bps rate hike. The bond market is pricing a 28 bps rate hike for this week's meeting. ECB President Christine Lagarde recently noted that interest rates have "a little way to go", though the recent communication from the ECB did not provide explicit forward guidance. Further tightening has been highlighted in order to dampen "second-round effects" and cool core inflation. However, we do not rule out a further 50 bps rise if key data surprises on the upside. On Tuesday, both the April preliminary CPI data and the 1Q2023 Bank Lending Survey will be released ahead of the ECB meeting (Thursday). Headline inflation is expected to inch up to 7.0% y-o-y (March: 6.9%) due to base effects, though core inflation moderates to 5.6% y-o-y (March: 5.7%). We see a further 25 bps hike at the ECB's June meeting.

► **Week Ahead: US NFP and China's PMI are key data releases**

The US April non-farm payrolls report will be the key focus this week, where consensus expects job additions to slow to 180K in April (March: 236K), indicating a gradual softening in labour market conditions. Meanwhile, the unemployment rate is expected to edge up to 3.6% in April (March: 3.5%), while average hourly earnings are expected to maintain a steady pace, advancing 0.3% m-o-m. March JOLTS data should show job openings slowed to 9.7 million (February: 9.9), as recent layoffs in the tech and finance industries could start to become visible. PMI from China will be crucial, where the Caixin manufacturing index could move sideways at 50.0, down from 51.9 in March, though services could continue to expand by printing 57.2 in April.

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I. Recent Events and Data Releases

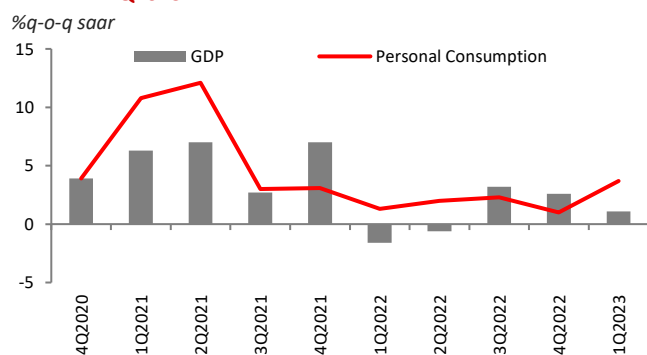
A. Advanced Economies

US: Core PCE moderates, driven by lower services

Marginal softening in core PCE and stronger employer cost index reinforces the case for a 25 bps rate hike by the Fed. Data released last week showed March headline PCE moderated to 0.1% m-o-m (February: 0.3%, consensus: 0.1%), pulling down annual PCE inflation to 4.2% y-o-y (February: 5.0%; consensus: 4.1%). However, core PCE slowed slightly in March (0.28% m-o-m; February: 0.35%), as goods prices were strong which partly offset the moderation in housing costs and price declines in financial services. Indeed, details show that goods prices accelerated in March (0.2% m-o-m vs 0.1% in February), as motor vehicle prices were flat (0.0% m-o-m), in contrast to the continuous price declines seen previously (3mma: -0.6% m-o-m). More critically, core services excluding housing slowed to 0.2% m-o-m, marking a major step down from the series of 0.3% - 0.6% m-o-m prints seen since August 2022. This was driven by price declines in “portfolio management fees” and recreation indices in March. Housing CPI slowed to 0.5% m-o-m in March (3mma: 0.7%), a trend which is expected to continue in the coming months, following the weakness seen in other private sector surveys. Overall, the softer core PCE services remains a favourable development, indicating that the Fed's aggressive pace of rate hikes is helping to reduce underlying inflationary pressures. However, in a separate data release, the 1Q2023 employment cost index (ECI) rose 1.2% q-o-q (consensus: 1.1%, 4Q2022:1.1%), suggesting continued tightness in the labour market. The ECI index is also a leading indicator of core PCE –excluding the shelter segment, indicating persistent price pressures over the coming year, as labour costs get passed on to prices over time. Similarly, University of Michigan long term household inflation expectations (5-10y) edged up to 3.0% y-o-y in April, from 2.9% previously, signalling risks to price outlook. Overall, resilience in the ECI index and elevated inflation expectations would warrant continued vigilance from the central bank, in our view.

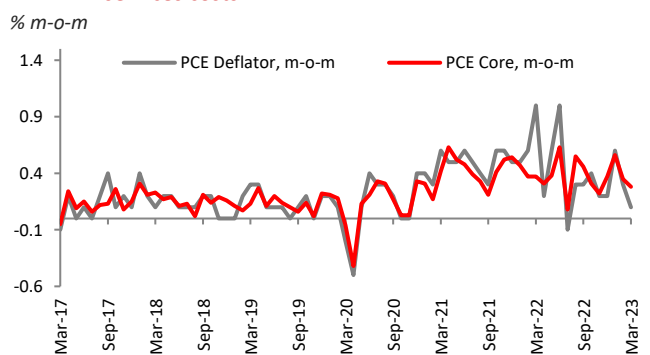
While services inflation was softer, stronger ECI and higher inflation expectations warrant caution from the Fed

Fig. 1. US: GDP rose at a slower than anticipated pace in 1Q2023



Source: US Bureau of Economic Analysis, ADCB Economic Research

Fig. 2. US: PCE inflation moderated in March, driven by lower services costs



Source: US Bureau of Economic Analysis, ADCB Economic Research

US: Weaker headline 1Q2023 GDP masks robust private demand

GDP growth for 1Q2023 was weaker than consensus expectations at 1.1% q-o-q saar (consensus: 1.9%; 4Q2022: 2.6%). However, the underlying data still points to strong final demand and a sticky inflation backdrop. Indeed, consumer spending expanded by 3.7% q-o-q (4Q2022: 1.0%), reflecting a reacceleration in household spending. A key factor

Resilient private demand signals limited impact of rate hiking cycle so far

behind the headline miss was a higher-than-expected drag from inventory accumulation, which subtracted 2.3pp from growth, in contrast to a robust 1.5pp boost in 4Q2022. Non-residential investments held up while government spending improved, further supporting growth. Robust private demand remains a key positive from the 1Q2023 report, though we see this as largely driven by a spike in January, which moderated in the subsequent months. The details also show a gradual rotation of demand from consumer goods (which held steady from 4Q) to services (which accelerated). This also helps explain the weakness in manufacturing activity seen since 2H2022, as it discourages equipment spending and inventory build-up by firms. On the other hand, strong private demand for services drove the upside surprise in core PCE inflation, which rose 4.9% y-o-y in 1Q2023 (4Q2022: 4.4%), suggesting that resilient consumption is not helping to achieve the desired softening in price pressures, despite the material tightening of interest rates over the past year.

Japan: BoJ holds rates; announces monetary policy review

The Bank of Japan (BoJ) held its policy rate steady, as expected, making no changes to its yield curve control framework and bond purchases in Governor Kazuo Ueda's first policy meeting. However, the BoJ modified its forward guidance, dropping a long-standing reference to interest rates remaining steady or moving lower. More critically, the BoJ also announced a comprehensive review of its monetary policy decisions (from 1998), though it indicated the process could take 12-18 months to complete. The lengthy policy review is in contrast to market expectations over the timeframe, and varies from his predecessor Haruhiko Kuroda's aggressive approach in 2013, where he started by undertaking a swift and radical policy overhaul. Ueda specified that he does not rule out interest rate changes even during the review, which we believe is reflected in the change in interest-rate policy guidance mentioned above. Nevertheless, we see a low probability of a rate change in the near term, with Ueda observing that the downside risks of premature tightening currently outweigh the risks of a delay in moving away from the ultra-accommodative stance. On the forecast front, the BoJ increased its inflation projections for FY2023 (April-March) to 1.8% y-o-y (1.6% earlier) and for FY2024 to 2.0% y-o-y (1.8% previously), though inflation is seen moderating to 1.6% in FY2025. Overall, the BoJ policy outcome is on the dovish side of market expectations, which should keep the JPY under downward pressure in the near future.

Dropping forward guidance opens up room for interest rate adjustments by BoJ

B. Emerging Market Economies

Turkey: CBRT on hold to limit downward pressure on TRY

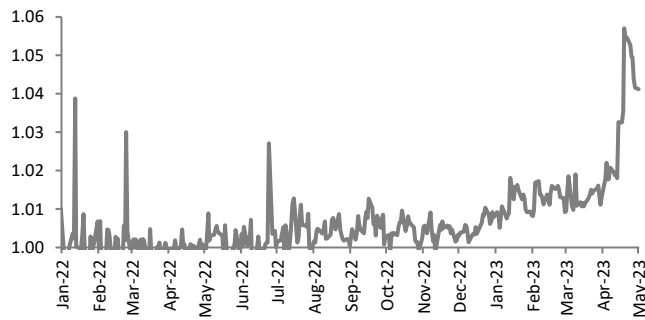
The CBRT left the one-week repo rate unchanged at 8.5%, marking the second consecutive hold after it reduced rates by 50 bps in February. The decision is widely seen as aimed at limiting further downside pressures on the TRY, which have contributed to inflation, ahead of the general election later this month. In recent weeks, the CBRT has announced a series of regulations to limit USD availability, including changes to reserve requirement tools and securities maintenance guidelines. The central bank has also removed interest rate caps (3.0% over the repo rate previously) on the government-backed TRY savings scheme, which also covers any FX depreciation impact. This has helped increase savings under the TRY scheme and raised the USD holdings of banks, though overall FX reserves continue to fall and are now at their lowest level since July 2022. On Friday last week, the CBRT allowed purchase of gold with TRY (previously allowed only with USD) which has helped moderate demand for USD and thereby the depreciation pressure on the domestic currency. With measures to restrict USD supply by the banking sector, a parallel market for USD has emerged, where the TRY is currently

Series of measures aimed at supporting of the currency are starting to have an impact

selling at a 4.0% discount to the official exchange rate (Fig. 3). The 14 May election remains a close call and follows the devastating February earthquake, which resulted in severe economic damage estimated at USD103.6 billion (9.0% GDP). While incumbent Recep Tayyip Erdoğan had called for a further reduction in interest rates, the united opposition, led by Kemal Kılıçdaroğlu (six-party coalition), promised a return to more orthodox monetary policymaking to lower inflation. Inflation remains elevated at above 50.0% over the last 12 months.

Fig. 3. Turkey: TRY in the parallel markets is trading at a significant discount to the official TRY/USD rate

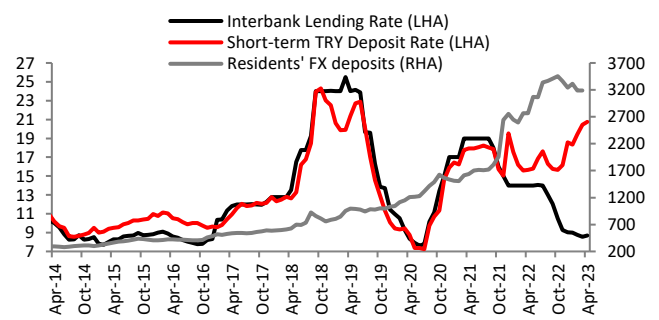
USD:TRY ratio in the Grand Bazaar



Source: Bloomberg, ADCB Economic Research

Fig. 4. Turkey: Higher TRY deposit rates are leading to De-dollarization in the economy

% (LHA); million TRY (RHA)



Source: Central Bank of Republic of Turkey, Bloomberg, ADCB Economic Research

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Germany	Retail Sales, m-o-m	Mar	-1.3%	0.4%
	Germany	Retail Sales NSA, y-o-y	Mar	-7.0%	-6.5%
Monday, 1 May					
17:45	US	S&P Global US Manufacturing PMI	Apr F	50.4	50.4
18:00	US	ISM Manufacturing	Apr	46.3	46.8
18:00	US	ISM Prices Paid	Apr	49.2	49.0
Tuesday, 2 May					
10:00	UK	Nationwide House Px NSA, y-o-y	Apr	-3.1%	-3.7%
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	Apr F	45.5	45.5
12:00	Eurozone	M3 Money Supply, y-o-y	Mar	2.9%	2.4%
12:00	Eurozone	Euro Area Bank Lending Survey			
12:30	UK	S&P Global/CIPS UK Manufacturing PMI	Apr F	46.6	46.6
13:00	Eurozone	CPI, m-o-m	Apr P	0.9%	0.7%
13:00	Eurozone	CPI Estimate, y-o-y	Apr	6.9%	7.0%
13:00	Eurozone	CPI Core, y-o-y	Apr P	5.7%	5.6%
18:00	US	Durable Goods Orders	Mar F	3.2%	
18:00	US	Durables ex-Transportation	Mar F	0.3%	
Wednesday, 3 May					
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Apr	58.7	
8:15	UAE	S&P Global United Arab Emirates PMI	Apr	55.9	
15:00	US	MBA Mortgage Applications	28-Apr	3.7%	
16:15	US	ADP Employment Change	Apr	145K	150K
17:45	US	S&P Global US Services PMI	Apr F	53.7	53.7
17:45	US	S&P Global US Composite PMI	Apr F	53.5	5.35
18:00	US	ISM Services Index	Apr	51.2	51.8
22:00	US	FOMC Rate Decision (Upper Bound)	3-May	5.0%	5.3%
22:30	US	Fed Chair Holds Press Conference Following FOMC Meeting			
Thursday, 4 May					
5:45	China	Caixin China PMI Mfg	Apr	50.0	50.0
12:00	Eurozone	HCOB Eurozone Composite PMI	Apr F	54.4	54.4
12:30	UK	Mortgage Approvals	Mar	43.5K	46.0K
12:30	UK	S&P Global/CIPS UK Composite PMI	Apr F	53.9	53.9
15:30	US	Challenger Job Cuts, y-o-y	Apr	319.4%	
16:15	Eurozone	ECB Main Refinancing Rate	4-May	3.5%	3.8%
16:30	US	Trade Balance	Mar	-70.5B	-63.5B
16:30	US	Initial Jobless Claims	29-Apr	230K	240K
16:45	Eurozone	ECB President Christine Lagarde Holds Press Conference			
Friday, 5 May					
5:45	China	Caixin China PMI Composite	Apr	54.5	
5:45	China	Caixin China PMI Services	Apr	57.8	57.2
10:00	Germany	Factory Orders, m-o-m	Mar	4.8%	-2.5%
16:30	US	Change in Nonfarm Payrolls	Apr	236K	180K
16:30	US	Two-Month Payroll Net Revision	Apr	-17K	
16:30	US	Unemployment Rate	Apr	3.5%	3.6%
16:30	US	Average Hourly Earnings, m-o-m	Apr	0.3%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Apr	4.2%	4.2%
16:30	US	Labor Force Participation Rate	Apr	62.6%	62.6%
	Egypt	Egypt Sovereign Rating to be reviewed by Fitch			

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Data						
	Qatar	Trade Balance Month	Mar	22918M		21273M
	Bahrain	CPI, y-o-y	Mar	1.1%		-0.1%
	UK	Nationwide House PX, m-o-m	Apr	-0.8%	-0.5%	
Monday, 24 April						
12:00	Germany	IFO Business Climate	Apr	93.3	93.5	93.6
12:00	Germany	IFO Expectations	Apr	91.2	91.2	92.2
18:30	US	Dallas Fed Manf. Activity	Apr	-15.7	-11.0	
Tuesday, 25 April						
18:00	US	New Home Sales	Mar	640K	632K	683K
18:00	US	Conf. Board Consumer Confidence	Apr	104.2	104.0	101.3
18:00	US	Richmond Fed Manufact. Index	Apr	-5.0	-8.0	-10.0
Wednesday, 26 April						
15:00	US	MBA Mortgage Applications	21-Apr	-8.8%		3.7%
16:30	US	Wholesale Inventories, m-o-m	Mar P	0.1%	0.1%	0.1%
16:30	US	Durable Goods Orders	Mar P	-1.0%	0.7%	3.2%
16:30	US	Durables ex-Transportation	Mar P	-0.1%	-0.2%	0.3%
Thursday, 27 April						
13:00	Eurozone	Consumer Confidence	Apr F	-17.5		-17.5
16:30	US	Initial Jobless Claims	22-Apr	245K	248K	230K
16:30	US	Continuing Claims	15-Apr	1865K	1870K	1858K
16:30	US	GDP Annualized, q-o-q	1Q A	2.6%	1.9%	1.1%
16:30	US	Personal Consumption	1Q A	1.0%	4.0%	3.7%
16:30	US	GDP Price Index	1Q A	3.9%	3.7%	4.0%
18:00	US	Pending Home Sales, m-o-m	Mar	0.8%	0.8%	-5.2%
Friday, 28 April						
3:30	Japan	Jobless Rate	Mar	2.6%	2.5%	2.8%
3:30	Japan	Job-To-Applclicant Ratio	Mar	1.34	1.34	1.32
3:30	Japan	Tokyo CPI, y-o-y	Apr	3.3%	3.3%	3.5%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Apr	3.2%	3.2%	3.5%
3:50	Japan	Industrial Production, m-o-m	Mar P	4.6%	0.4%	0.8%
3:50	Japan	Industrial Production, y-o-y	Mar P	-0.5%	-1.2%	-0.7%
13:00	Eurozone	GDP SA, q-o-q	1Q A	0.0%	0.2%	0.1%
13:00	Eurozone	GDP SA, y-o-y	1Q A	1.8%	1.4%	1.3%
16:00	Germany	CPI, m-o-m	Apr P	0.8%	0.6%	0.4%
16:00	Germany	CPI, y-o-y	Apr P	7.4%	7.3%	7.2%
16:30	US	Personal Income	Mar	0.3%	0.2%	0.3%
16:30	US	Personal Spending	Mar	0.2%	-0.1%	0.0%
16:30	US	Real Personal Spending	Mar	-0.1%	-0.1%	0.0%
16:30	US	PCE Deflator, m-o-m	Mar	0.3%	0.1%	0.1%
16:30	US	PCE Deflator, y-o-y	Mar	5.0%	4.1%	4.2%
16:30	US	PCE Core Deflator, m-o-m	Mar	0.3%	0.3%	0.3%
16:30	US	PCE Core Deflator, y-o-y	Mar	4.6%	4.6%	4.6%
18:00	US	U. of Mich. Sentiment	Apr F	63.5	63.5	63.5
18:00	US	U. of Mich. Current Conditions	Apr F	68.6	68.6	68.2
18:00	US	U. of Mich. Expectations	Apr F	60.3	60.4	60.5
18:00	US	U. of Mich. 1 Yr Inflation	Apr F	4.6%		4.6%
18:00	US	U. of Mich. 5-10 Yr Inflation	Apr F	2.9%		3.0%
	Japan	BOJ Policy Balance Rate	28-Apr	-0.1%	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	28-Apr	0.0%	0.0%	0.0%

*UAE time

Source: Bloomberg, ADCB Economic Research

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