Economic Research

بنك أبوظبي التجاري
ADCB

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The Week Ahead: FOMC delivers a dovish pause; Fed speeches in focus

US: Dovish pause does not mean end of hiking cycle

The Federal Reserve kept interest rates unchanged last week, though left the door open for further rate increases. The explicit acknowledgement that tightening financial conditions could weigh on activity was the only notable change in the FOMC statement. Moreover, Chair Jerome Powell downplayed the efficacy of September dot plot projections (which had one more 25 bps hike), implying diminishing support for a further rate hike. However, the subsequent easing in financial conditions, strong consumption and prevailing upside risks to the inflation outlook lead us to believe that the Fed will deliver a further 25 bps hike, either in December or January 2024. We acknowledge that the decision will be a close call and data-dependent. Both bond and equity markets reacted favourably to the Fed's dovish sentiment, with the 10Y yield down to 4.58% (vs 4.92% pre-FOMC meeting) and equity markets staging a major rally. Market pricing of a December rate hike narrowed sharply to 9.5% (previously 27.1%), with the rate cut expectation brought forward to June 2024 (previously July). More clarity on the future policy trajectory can be expected from Fed speakers, including Powell, who are scheduled to speak this week.

US: Job market is starting to ease; more progress required

The October non-farm payrolls report signalled a healthy easing in labour market conditions, with payroll additions softening, unemployment rising and wage growth undershooting expectations. Job additions slowed sharply to 150K in October (consensus: 180K; September (R): 297K), led by a temporary drag from the auto workers' strikes. The October NFP report also saw a 101K downward revision to the prior two months' jobs reports. The unemployment rate edged up unexpectedly to 3.9% (consensus: 3.8%; September: 3.8%), while labour force participation fell to 62.7% (prior: 62.8%). More importantly, average hourly earnings growth deaccelerated to 0.2% m-o-m (September: 0.3%), which is a key positive as it reduces concerns over the upside surprise in the Employment Cost Index (ECI) for 3Q released earlier last week. This was especially critical, given the still solid labour demand conditions, as witnessed in the stronger-than-expected September JOLTS job openings (9.5 million; consensus: 9.4 million). However, more recent data supported the outlook for a soft landing, with October ISM surveys showing a deepening contraction in manufacturing and moderation in services. This was further corroborated by lower-than-expected October PMI prints (both Manufacturing and Services), adding to evidence of a loss of momentum in activity in 4Q2023.

EM: Egypt inflation expected to slow gradually

We see Egypt's headline inflation softening to 37.2% y-o-y in October on favourable base effects and the sharp cut in staple food prices. However, we see core inflation accelerating to 40.2% y-o-y in October (September: 39.7%) with a weakening EGP in the parallel market. Egypt raised petrol prices by c. 14.3% (effective 3 November), though we see a limited impact on inflation as diesel prices are steady and the majority of transport uses diesel.

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I. Recent Events and Data Releases

A. Advanced Economies

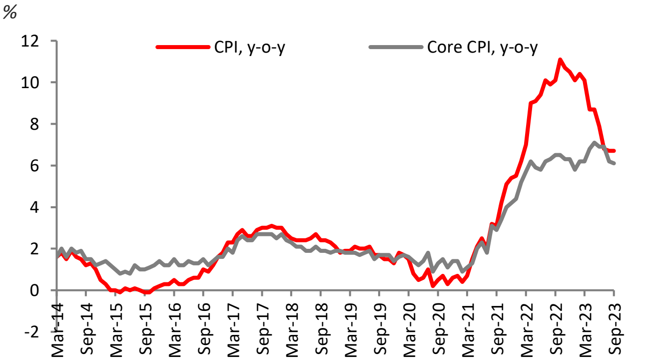
UK: BoE keeps rates steady; forward guidance remains hawkish

The GBP appreciated against the USD to a 1-week high on the back of increased inflation projections

The BoE kept interest rates on hold for the second consecutive meeting last week, keeping the Bank Rate steady at 5.25%, with a 6-3 majority. Dissenting members opted to hike rates by 25 bps. The deceleration in inflation, weaker economic growth backdrop and gradual loosening in labour market conditions supported the BoE's extended rate pause. The MPC left the language on the forward guidance unchanged from the previous meeting, reiterating its data-dependent approach and willingness to hike rates further on "evidence of more persistent pressures". The BoE revised inflation projections upwards, with the MPC now expecting headline inflation of 3.1% y-o-y in 4Q2024 (vs 2.5% previously) due to higher-than-anticipated energy costs. However, the 2024 GDP growth projections were cut to 0.0% (previously 0.25%), reflecting lower household consumption on the back of higher precautionary savings. The MPC also emphasised its commitment to the higher-for-longer interest rate by stressing that "the latest projections indicated that monetary policy will likely need to be restrictive for an extended period of time". The higher inflation projections, alongside indications that the policy rate will remain elevated, led the GBP to appreciate by c.0.2% against the USD to c.1.22 post the policy announcement and make further gains to c.1.24 on the back of weaker-than-expected US NFP data and a dovish Fed meeting. We continue to believe that the Bank Rate has peaked, with the BoE expected to remain on pause at its December meeting.

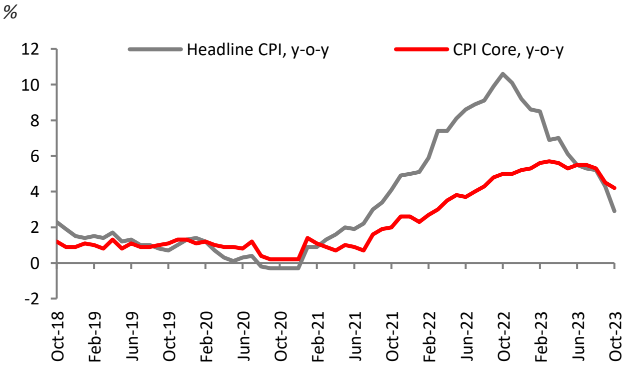
Looking forward, consensus expects 3Q2023 UK GDP (due Friday) to contract on a sequential basis by 0.1% q-o-q (2Q: +0.2%), reflecting deceleration in both household consumption and business investments on the back of the elevated interest rates. Speeches by BoE officials scheduled for this week will also be keenly watched for future policy direction. We expect comments from policymakers to likely reiterate that interest rates need to remain in the restrictive territory to ensure that inflation returns to the 2.0% target level.

Fig. 1. UK: Headline inflation was steady in September, core CPI continues to cool



Source: ONS, Bloomberg, ADCB Economic Research

Fig. 2. Eurozone: Strong deceleration in headline and core CPI supports an extended rate hike pause by the ECB



Source: Eurostat, Bloomberg, ADCB Economic Research

Eurozone: Headline inflation cools sharply; core CPI also decelerates

Favourable energy base effects led to sharp deceleration in headline inflation in October

October preliminary headline inflation decelerated sharply to its lowest level since July 2021 at 2.9% y-o-y (September: 4.3%; consensus: 3.1%), primarily due to a deeper contraction in energy inflation. Energy CPI contracted by 11.1% y-o-y in October (September: -4.6%), reflecting favourable base effects, with last October's sharp rise in energy prices. Core inflation printed in line with consensus, softening to 4.2% y-o-y in October (September: 4.5%) with a continued deceleration in goods and services prices. Services CPI inched down to 4.6% y-o-y (September: 4.7%) due to the fading tourism season decreasing demand for recreation activities and hotels and restaurants. We see core inflation continuing to soften in the coming months as the recent sharp deceleration in price pressures diminishes the ability of labour unions to successfully negotiate higher wages. Moreover, we see the higher natural gas prices having only a limited impact on energy inflation as European gas reserves are currently at a record high of c.96.0%. Overall, the October flash headline and core inflation printed comfortably below the ECB's 4Q2023 projection of 3.3% y-o-y and 4.1%, respectively. The EUR depreciated against the USD to c.1.06 post the CPI data release as market participants continue to roll back expectations of a 25 bps rate hike, and the EUR has now broadly stabilised at c.1.07. We continue to believe that key policy rates have peaked in the Eurozone.

Japan: BoJ tweaks YCC policy

BoJ raised inflation forecast for FY2024 due to the pass-through from weak JPY and higher energy prices

The BoJ took a further step towards increasing the flexibility of the Yield Curve Control (YCC) programme last week by allowing the 10-year government bond yield to rise above 1.0%. However, the Negative Interest Rate Policy (NIRP) was retained, with the short-term rate remaining steady at -0.1%. The policy statement now describes the 1.0% upper bound for 10-year bond yields as a "reference" rather than a rigid cap, and noted that "market rates and other factors" will be taken into account in determining the bond purchase operations. The JPY depreciated by c.0.5% against the USD to c.151.7 post the policy announcement as market participants were expecting a more substantial policy change, though it has now recovered to c.149.7 following the weak US NFP data and dovish Fed meeting. Meanwhile, the October outlook report revised inflation projections upwards in FY2023 (2.8% y-o-y; previous: 2.5%) and FY2024 (2.8% y-o-y; previous: 1.9%), citing the rise in global oil prices and the pass-through effect of recent JPY weakness. Additionally, the real GDP outlook for FY2024 was revised down to 1.0% (previous: +1.2%). We believe that the BoJ will wait for the 'Shunto' wage negotiations (March 2024) between labour unions and companies to confirm the establishment of "virtuous cycle of wages and prices" before shifting away from the YCC and NIRP.

B. Emerging Economies

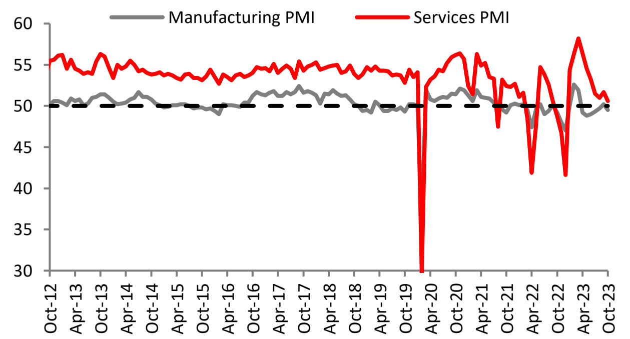
China: Weak PMI shows still-slow economic growth momentum

Weak NBS PMI report shows that additional monetary and fiscal support is needed to spur growth

The October NBS PMI report showed weakness in China's economic recovery momentum, with manufacturing activity contracting and services moderating. Manufacturing PMI returned to contractionary territory (October: 49.5) after a brief expansion in September. The new export orders manufacturing sub-index fell deeper into contraction (October: 46.8; September: 47.8) primarily due to sluggish external demand. We see high interest rates in major economies keeping export growth subdued and continuing to weigh on China's economic recovery. Meanwhile, non-manufacturing activity moderated, with a decreased pace of expansion in both services and construction. Services PMI printed lower at 50.1 in October (September: 51.7), led primarily by weak capital market and real estate services. We see the recent policy measure of the government and mutual funds buying equity shares boosting the capital market in the coming months. Construction activity also moderated to 53.5 in October, reflecting the ongoing drag from the property sector. However, we expect the RMB1.0 trillion in sovereign bonds issued towards disaster prevention and mitigation-related projects boosting construction activity. The weak PMI readings potentially indicate that despite improvement in some areas of economic activity, further expansionary fiscal and monetary policies are still required to spur domestic demand. We continue to expect a 25 bps RRR cut by year-end to ease liquidity in the economy. More evidence of economic activity is expected later this week in the form of inflation and trade. China's CPI is expected to fall back into deflation (-0.1% y-o-y), driven by a fall in pork and egg prices. Consensus also sees steeper deflation in PPI (-2.7% y-o-y; September: -2.5%). Some improvement is, however, likely in trade activity, with the moderation in contractions in both imports (-5.0% y-o-y; September: -6.3%) and exports (-3.5% y-o-y; September: -6.2%) expected in October.

Fig. 3. China: Manufacturing activity returned to a contraction in October; services also moderated

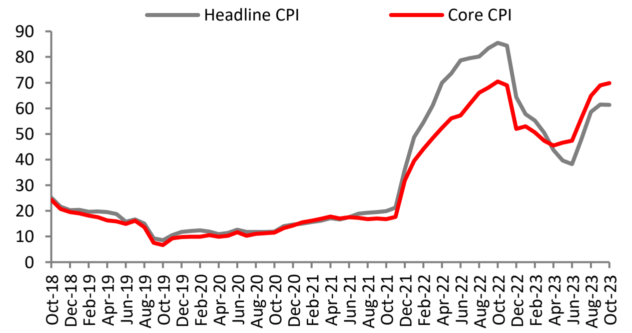
Index above 50 is expansion



Source: NBS, Bloomberg, ADCB Economic Research

Fig. 4. Turkey: Headline inflation inched down; core inflation continues to accelerate

%



Source: TURKSTAT, Bloomberg, ADCB Economic Research

Turkey: Headline and core accelerated; some softening expected

CBRT Governor Erkan highlighted that disinflation process will likely occur from 2H2024

Headline inflation decelerated for the first time since June 2023, albeit gradually, to 61.4% y-o-y in October (September: 61.5%) on the back of a softening in transportation inflation. Transport prices contracted by 0.2% m-o-m in October (September: +4.4%) with fading effects of the 200.0% rise in fuel tax implemented in mid-July, resulting in annual transportation inflation decelerating to 72.0% y-o-y (September: 76.1%). Core inflation printed with a downside surprise at 68.9% y-o-y in October (consensus: 71.1%), led primarily by a slowdown in sequential core prices (October: 3.2% m-o-m; 3Q2023 average: 8.7%), potentially reflecting a fading pass-through of the minimum wage hikes and VAT increases. Meanwhile, the CBRT updated its 2023 year-end inflation projection to 65.0% y-o-y (previous: 58.0%). The forecast for end-2024 was also lifted to 36.0% (previous: 33.0%), citing increased oil price volatility. CBRT Governor Hafize Erkan highlighted that the disinflation process would most likely begin more meaningfully in 2H2024, once "the cumulative effect of the monetary policy comes into play". We continue to see the CBRT delivering another cumulative 500-750 bps of hikes at its November and December meetings to combat the elevated inflation levels and anchor inflation expectations.

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	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	
4:30	Japan	Jibun Bank Japan PMI Services	Oct F	51.1	
11:00	Germany	Factory Orders, m-o-m	Sep	3.9%	-1.5%
12:55	Germany	HCOB Germany Services PMI	Oct F	48.0	48.0
12:55	Germany	HCOB Germany Composite PMI	Oct F	45.8	45.8
13:00	Eurozone	HCOB Eurozone Services PMI	Oct F	47.8	47.8
13:00	Eurozone	HCOB Eurozone Composite PMI	Oct F	46.5	46.5
13:30	UK	S&P Global/CIPS UK Construction PMI	Oct	45.0	46.0
Tuesday, 7 November					
11:00	Germany	Industrial Production SA, m-o-m	Sep	-0.2%	-0.2%
17:30	US	Trade Balance	Sep	-58.3B	-60.0B
	China	Exports, y-o-y	Oct	-6.2%	-3.5%
	China	Imports, y-o-y	Oct	-6.2%	-5.0%
	China	Trade Balance	Oct	77.71B	81.90B
	China	Foreign Reserves	Oct	3115.07B	3105.00B
Wednesday, 8 November					
11:00	Germany	CPI, m-o-m	Oct F	0.0%	0.0%
11:00	Germany	CPI, y-o-y	Oct F	3.8%	3.8%
11:00	Germany	CPI EU Harmonized, y-o-y	Oct F	3.0%	3.0%
16:00	US	MBA Mortgage Applications	3-Nov	-2.1%	
19:00	US	Wholesale Inventories, m-o-m	Sep F	0.0%	0.0%
Thursday, 9 November					
3:50	Japan	BoP Current Account Balance	Sep	2279.7B	2977.8B
5:30	China	CPI, y-o-y	Oct	0.0%	-0.1%
5:30	China	PPI, y-o-y	Oct	-2.5%	-2.7%
17:30	US	Initial Jobless Claims	4-Nov	217K	220K
18:30	US	Fed's Bostic and Barkin Speak on Survey Data			
21:00	US	Fed's Paese Speaks About the Economy and Monetary Policy			
21:30	Eurozone	ECB's Lagarde Speaks			
23:00	US	Fed's Powell Speaks on Panel at IMF Conference			
	Egypt	Urban CPI, y-o-y	Oct	38.0%	
	Egypt	Urban CPI, m-o-m	Oct	2.0%	
	Egypt	CPI Core, y-o-y	Oct	39.7%	
Friday, 10 November					
3:50	Japan	Money Stock M2, y-o-y	Oct	2.4%	
3:50	Japan	Money Stock M3, y-o-y	Oct	1.8%	
11:00	UK	Industrial Production, m-o-m	Sep	-0.7%	0.0%
11:00	UK	Industrial Production, y-o-y	Sep	1.3%	1.1%
11:00	UK	Manufacturing Production, m-o-m	Sep	-0.8%	0.2%
11:00	UK	Trade Balance, GBP/Mn	Sep	-3415M	-2550M
11:00	UK	GDP, q-o-q	3Q P	0.2%	-0.1%
11:00	UK	GDP, y-o-y	3Q P	0.6%	0.5%
16:00	India	Industrial Production, y-o-y	Sep	10.3%	6.8%
19:00	US	U. of Mich. Sentiment	Nov P	63.8	63.5
19:00	US	U. of Mich. 1 Yr Inflation	Nov P	4.2%	
19:00	US	U. of Mich. 5-10 Yr Inflation	Nov P	3.0%	
23:00	US	Monthly Budget Statement	Oct	-171.0B	-29.5B

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
G4 Economies						
	Germany	Retail Sales, m-o-m	Sep	-1.2%	0.5%	-0.8%
Monday, 30 October						
13:00	Germany	GDP SA, q-o-q	3Q P	0.0%	-0.2%	-0.1%
13:30	UK	Mortgage Approvals	Sep	45.4K	44.5K	43.3K
17:00	Germany	CPI, m-o-m	Oct P	0.3%	0.2%	0.0%
17:00	Germany	CPI, y-o-y	Oct P	4.5%	4.0%	3.8%
Tuesday, 31 October						
3:30	Japan	Jobless Rate	Sep	2.7%	2.6%	2.6%
3:30	Japan	Job-To-Applicant Ratio	Sep	1.29	1.29	1.29
3:50	Japan	Industrial Production, m-o-m	Sep P	-0.7%	2.5%	0.2%
14:00	Eurozone	GDP SA, q-o-q	3Q A	0.1%	0.0%	-0.1%
14:00	Eurozone	GDP SA, y-o-y	3Q A	0.5%	0.2%	0.1%
14:00	Eurozone	CPI Estimate, y-o-y	Oct	4.3%	3.1%	2.9%
14:00	Eurozone	CPI, m-o-m	Oct P	0.3%	0.3%	0.1%
14:00	Eurozone	CPI Core, y-o-y	Oct P	4.5%	4.2%	4.2%
17:45	US	MNI Chicago PMI	Oct	44.1	45.0	44.0
18:00	US	Conf. Board Consumer Confidence	Oct	103.0	100.5	102.6
	Japan	BOJ Policy Balance Rate	31-Oct	-0.1%	-0.1%	-0.1%
Wednesday, 1 November						
15:00	US	MBA Mortgage Applications	27-Oct	-1.0%		-2.1%
16:15	US	ADP Employment Change	Oct	89K	150K	113K
17:45	US	S&P Global US Manufacturing PMI	Oct F	50.0	50.0	50.0
18:00	US	ISM Manufacturing	Oct	49.0	49.0	46.7
22:00	US	FOMC Rate Decision (Upper Bound)	1-Nov	5.5%	5.5%	5.5%
22:00	US	FOMC Rate Decision (Lower Bound)	1-Nov	5.3%	5.3%	5.3%
22:00	US	Interest on Reserve Balances Rate	2-Nov	5.4%	5.4%	5.4%
22:30	US	Fed Chair Holds Press Conference Following FOMC Meeting				
Thursday, 2 November						
16:00	UK	Bank of England Bank Rate	2-Nov	5.25%	5.25%	5.25%
16:30	UK	BOE Governor Andrew Bailey press conference				
16:30	US	Initial Jobless Claims	28-Oct	210K	210K	217K
18:00	US	Factory Orders	Sep	1.2%	2.3%	2.8%
18:00	US	Durable Goods Orders	Sep F	4.7%	4.7%	4.6%
	Egypt	Lending Rate	2-Nov	20.3%		20.3%
	Egypt	Deposit Rate	2-Nov	19.3%	19.3%	19.3%
Friday, 3 November						
8:15	UAE	S&P Global United Arab Emirates PMI	Oct	56.7		57.7
16:30	US	Change in Nonfarm Payrolls	Oct	297K	180K	150K
16:30	US	Two-Month Payroll Net Revision	Oct			-101K
16:30	US	Change in Private Payrolls	Oct	263K	145K	99K
16:30	US	Change in Manufact. Payrolls	Oct	17K	-10K	-35K
16:30	US	Unemployment Rate	Oct	3.8%	3.8%	3.9%
16:30	US	Average Hourly Earnings, m-o-m	Oct	0.3%	0.3%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Oct	4.2%	4.0%	4.1%
16:30	US	Average Weekly Hours All Employees	Oct	34.4	34.4	34.3
16:30	US	Labor Force Participation Rate	Oct	62.8%	62.8%	62.7%
17:45	US	S&P Global US Services PMI	Oct F	50.9	50.9	50.6
17:45	US	S&P Global US Composite PMI	Oct F	51.0		50.7
18:00	US	ISM Services Index	Oct	53.6	53.0	51.8

*UAE time
Source: Bloomberg, ADCB Economic Research

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