

## The Week Ahead: More China stimulus expected; EU employment also key

### ► US: Labour market gradually cooling; GDP growth resilient

Markets are continuing to digest the key labour market and inflation data received from the US last week, with relatively limited releases due this week. US labour market conditions continue to loosen gradually, supporting the outlook for a 'soft landing' scenario with job additions remaining below 200K for the third consecutive month and wage growth decelerating. August non-farm payrolls (NFP) rose by 187K (consensus: 170K), though this was counterbalanced by a downward revision of 110K for the previous two months. The three-month NFP moving average slowed to 150K in August, the softest in four years, indicating some normalisation from the pandemic. The unemployment rate rose to 3.8% in August (consensus: 3.5%; July: 3.5%) with an increase in labour participation to 62.8% (July: 62.6%). Wage growth moderated to 0.2% m-o-m (July: 0.4%), the smallest rise since February 2022, indicating a gradual moderation of the labour supply and demand imbalance. The July JOLTS data surprised to the downside, with job openings easing to 8.8 million (June: 9.2 million), marking the sixth decline in the past seven months. As a result, the vacancies to unemployed ratio moderated to 1.5 (June: 1.6), moving closer to the Fed's comfort zone (1.0-1.2). Overall, the labour market reports are encouraging, supporting our view that the Fed will keep rates steady at its September meeting. However, the labour market remains tight. The August jobs growth came despite such factors as the Writers Guild of America strike and the bankruptcy of a logistics firm. We believe that current labour market conditions are not yet consistent with bringing inflation back to the Fed's comfort level. As such, we still see room for one further rate hike in November, before a lengthy pause.

Separately, 2Q2023 GDP growth was revised lower (to 2.1% q-o-q vs 2.4% earlier), driven by softer growth in private inventories and non-residential fixed investment. Consumption remained solid with private demand increasing 2.1% q-o-q (vs the prior estimate of 2.3%). We see GDP growth accelerating further in 3Q2023 to 2.7% y-o-y, with indications of higher investments and resilient private consumption.

### ► US: Strong services inflation keeps November rate hike in play

July PCE inflation showed still-strong demand-side pressures, supporting our call of a further 25 bps rate hike by the Fed in November. Both headline and core PCE rose 0.2% m-o-m in July (June: 0.2% m-o-m for both), broadly in line with consensus estimates. On an annual basis, PCE rose 3.3% y-o-y (June: 3.0%), while core PCE edged up to 4.2% y-o-y (June: 4.1%). Strong deflation in core goods (-0.45% m-o-m) largely offset an acceleration in core services prices (0.5%). More critically, sequential momentum in supercore inflation (services excluding housing) accelerated to 0.5% m-o-m (June: 0.3%), led by a sharp price increase in airfares and financial services (2.5% m-o-m). Fed Chair Jerome Powell stressed the need to see a moderation in supercore inflation in his address at the Jackson Hole Symposium on 28 August. The 0.8% m-o-m acceleration in July consumer spending and strength in broader economic data pose some upside price risks in the coming quarters.

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► **Eurozone: Headline inflation unchanged; core CPI decelerates**

August preliminary headline inflation surprised to the upside, remaining steady at 5.3% y-o-y (consensus: 5.1%) as the continued softening in food prices was offset by softer energy deflation (August: -3.3% y-o-y; July: -6.1%). Energy prices rose by 3.2% m-o-m in August (July: -0.2%) with a sequential increase in oil prices and a 10.0% hike in electricity tariffs in France (implemented 1 August). Core inflation decelerated to 5.3% y-o-y in August (July: 5.5%) with softening in both goods and service prices. Services inflation inched down to 5.5% in August (July: 5.6%), though it remains sticky, on the back of strong real wage growth and household demand for discretionary services. We expect service inflation to remain persistent in the near-term due to the still-tight labour market. As such, we continue to expect the ECB to deliver a final 25 bps rate hike at its September meeting. Additionally, Eurozone employment data is due to be published on Thursday, with consensus expecting an increase of 0.8% in 2Q2023 (1Q: 0.2%), suggesting a still-tight labour market. The employment data will be crucial to understanding if the momentum in wage growth will soften, at a time when the PMI data indicates slowing economic growth.

► **China: Weak PMI warrants further policy support**

Continued weakness in the August PMI indicators has intensified concerns over the stalling economic recovery, increasing calls for a broader policy response from the government. China's official manufacturing PMI remained in contraction (August: 49.7; July: 49.3), while non-manufacturing activity slowed (August: 51.0; July: 51.5). This softness in activity coincides with a period of strong foreign capital outflows, resulting in depreciation pressure on the CNY, which continues to trade near historical lows. Policymakers need to balance the increasing need to support economic activity with keeping debt levels in check and defending the currency. As such, the overall magnitude of the stimulus is likely to remain targeted and contained in nature, while accompanied by tweaks to other macro-prudential regulations to support the currency, in our view.

Over the last week, interest rates on existing mortgages were reduced and the down payment required for first- and second-time homeowners was lowered. Key commercial banks reduced rates on time deposits by 10 bps (one-year), 20 bps (two-year) and 25 bps (three- and five-year). Notably, these interest rate cuts mark the third such reduction over the past year and are higher in magnitude than the cuts made in June 2023 and September 2022. Interest rate easing was accompanied by a 200 bps reduction in the FX reserve requirement ratio (RRR) to 4.0% from 15 September. This should increase FX availability with banks and reduce pressure on the CNY. While these measures are clearly supportive, they still fall short of the rigorous response required to boost domestic demand, in our view. As such, we continue to see downside risks to the economy achieving the official 5.0% GDP growth target for 2023. We expect further interest rate cuts, along with a reduction in the CNY RRR to ease liquidity with banks. More targeted measures to support the property sector are also likely in the coming weeks. August trade data (due Thursday) should provide further indications for policymakers. Both imports and exports are forecast to contract again in August, as the acute weakness in the housing sector should weigh on domestic demand and imports, while weaker global growth should lower exports. However, a weak base should support annual growth figures.

► **India: GDP growth remained robust in 2Q; reducing inflation is key**

India's GDP growth accelerated to 7.8% y-o-y in 2Q2023 (1Q2023: 6.1%), led by a surge in services activity, though manufacturing remained weak. The improvement in services activity was led by strong growth in finance, real estate and professional services, which accelerated to 12.2% y-o-y (1Q2023: 7.1%), partially driven by an increase in jobs in outsourcing industries. However, weaker global demand weighed

on manufacturing activity, with growth undershooting expectations and broadly unchanged at 4.7% y-o-y (1Q2023: 4.5%). On the expenditure side, private consumption remained the key driver of growth, accelerating to 6.0% y-o-y (1Q2023: 2.3%), while fixed investments rose at a healthy 8.0% y-o-y (1Q2023: 8.8%), though net exports were a drag. Looking ahead, we expect growth to decelerate in the coming quarters, with the weak global environment and risks of a deficit monsoon likely weighing on the growth outlook in manufacturing and rural demand. Nonetheless, the economy appears on track to achieve full-year GDP growth of 6.5% in FY2023-24 (Apr-Mar).

Policymakers are unlikely to be concerned with growth dynamics, with their focus remaining on reigning in inflation ahead of the upcoming general election. The sharp acceleration in vegetable prices pushed CPI above the RBI's 6.0% target band to a 15-month high in July (7.4% y-o-y). In its August monetary policy review, the MPC chose to "look through" the supply side-driven price spike, preferring fiscal intervention rather than rate hikes to address price concerns. Responding to the sharp and unexpected surge in inflation, the government unveiled a series of measures including outright bans (non-basmati rice), raising export tariffs (onions), increasing imports from neighbouring countries (tomatoes) and direct intervention by releasing buffer stocks at subsidised costs to consumers at select locations. This was followed by reducing cooking gas costs by INR200 (22.1%), covering 330 million households, which is estimated to reduce CPI by 20-30 bps from September. Taken together, these measures will likely be effective in bringing inflation back below the 6.0% target, in our view. We also expect a seasonal decline in vegetables to be another key driver of disinflation in 4Q2023. We maintain our view that the Monetary Policy Committee will maintain a prolonged pause on interest rates through to the end of FY2023-24 (Apr-Mar). Some of the government's other options could be to reduce excise duties on motor fuels (on hold since July 2022), which we have previously flagged, and extend the free-food ration scheme for poor households (currently until December 2023) by a further six months to the end of the election season (May 2024). Despite the slew of measures, we see limited widening in the fiscal deficit. Indeed, tax revenues are on track to beat budget estimates, thanks to resilient growth and higher inflation. In addition, the central bank has already paid a stronger dividend than estimated in the budget, and other expenditure cuts can be implemented if needed.

## I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	Egypt	Net Reserves	Aug	34.9B	
<b>Monday, 4 September</b>					
10:00	Germany	Trade Balance SA	Jul	18.7B	17.8B
10:00	Germany	Exports SA, m-o-m	Jul	0.1%	-1.5%
10:00	Germany	Imports SA, m-o-m	Jul	-3.4%	0.5%
<b>Tuesday, 5 September</b>					
4:30	Japan	Jibun Bank Japan PMI Composite	Aug F	52.6	
4:30	Japan	Jibun Bank Japan PMI Services	Aug F	54.3	
5:45	China	Caixin China PMI Composite	Aug	51.9	
5:45	China	Caixin China PMI Services	Aug	54.1	53.5
9:00	India	S&P Global India PMI Composite	Aug	61.9	
9:00	India	S&P Global India PMI Services	Aug	62.3	
12:00	Eurozone	ECB 1 Year CPI Expectations	Jul	3.4%	
12:00	Eurozone	ECB 3 Year CPI Expectations	Jul	2.3%	
12:00	Eurozone	HCOB Eurozone Services PMI	Aug F	48.3	48.3
12:00	Eurozone	HCOB Eurozone Composite PMI	Aug F	47.0	47.0
12:30	UK	S&P Global/CIPS UK Services PMI	Aug F	48.7	48.7
12:30	UK	S&P Global/CIPS UK Composite PMI	Aug F	47.9	47.9
13:00	Eurozone	PPI, m-o-m	Jul	-0.4%	-0.5%
13:00	Eurozone	PPI, y-o-y	Jul	-3.4%	-7.6%
18:00	US	Factory Orders	Jul	2.3%	-2.5%
18:00	US	Durable Goods Orders	Jul F	-5.2%	
18:00	US	Durables ex-Transportation	Jul F	0.5%	
<b>Wednesday, 6 September</b>					
13:00	Eurozone	Retail Sales, m-o-m	Jul	-0.3%	-0.1%
13:00	Eurozone	Retail Sales, y-o-y	Jul	-1.4%	-1.2%
15:00	US	MBA Mortgage Applications	1-Sep		
16:30	US	Trade Balance	Jul	-65.5B	-68.0B
17:45	US	S&P Global US Services PMI	Aug F	51.0	51.2
17:45	US	S&P Global US Composite PMI	Aug F	50.4	
18:00	US	ISM Services Index	Aug	52.7	52.5
<b>Thursday, 7 September</b>					
10:00	Germany	Industrial Production SA, m-o-m	Jul	-1.5%	-0.5%
13:00	Eurozone	GDP SA, q-o-q	2Q F	0.3%	0.3%
13:00	Eurozone	GDP SA, y-o-y	2Q F	0.6%	0.6%
13:00	Eurozone	Employment, q-o-q	2Q F	0.2%	
13:00	Eurozone	Employment, y-o-y	2Q F	1.5%	
16:30	US	Initial Jobless Claims	2-Sep	228K	234K
16:30	US	Unit Labor Costs	2Q F	1.6%	1.9%
	China	Exports, y-o-y	Aug	-14.5%	-9.0%
	China	Imports, y-o-y	Aug	-12.4%	-9.9%
	China	Trade Balance	Aug	80.60B	73.85B
<b>Friday, 8 September</b>					
3:50	Japan	GDP Annualized SA, q-o-q	2Q F	6.0%	5.6%
3:50	Japan	GDP SA, q-o-q	2Q F	1.5%	1.4%
3:50	Japan	GDP Deflator, y-o-y	2Q F	3.4%	3.4%
3:50	Japan	BoP Current Account Balance	Jul	1508.8B	2245.9B
10:00	Germany	CPI, m-o-m	Aug F	0.3%	0.3%
10:00	Germany	CPI, y-o-y	Aug F	6.1%	6.1%

\*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>G4 Economies</b>						
	Germany	Import Price Index, m-o-m	Jul	-1.6%	-0.2%	-0.6%
<b>Monday, 28 August</b>						
12:00	Eurozone	M3 Money Supply, y-o-y	Jul	0.6%	0.0%	-0.4%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Jul	1588.6B		1527.2B
<b>Tuesday, 29 August</b>						
3:30	Japan	Jobless Rate	Jul	2.5%	2.5%	2.7%
3:30	Japan	Job-To-Applicant Ratio	Jul	1.3	1.3	1.3
18:00	US	Conf. Board Consumer Confidence	Aug	117.0	116.0	106.1
<b>Wednesday, 30 August</b>						
12:30	UK	Mortgage Approvals	Jul	54.7K	51.0K	49.4K
15:00	US	MBA Mortgage Applications	25-Aug	-4.2%		2.3%
16:00	Germany	CPI, m-o-m	Aug P	0.3%	0.3%	0.3%
16:00	Germany	CPI, y-o-y	Aug P	6.2%	6.0%	6.1%
16:30	US	GDP Annualized, q-o-q	2Q S	2.4%	2.4%	2.1%
16:30	US	GDP Price Index	2Q S	2.2%	2.2%	2.0%
18:00	US	Pending Home Sales, m-o-m	Jul	0.3%	-1.0%	0.9%
<b>Thursday, 31 August</b>						
3:50	Japan	Industrial Production, m-o-m	Jul P	2.4%	-1.4%	-2.0%
5:30	China	Composite PMI	Aug	51.1		51.3
5:30	China	Manufacturing PMI	Aug	49.3	49.2	49.7
5:30	China	Non-manufacturing PMI	Aug	51.5	51.2	51.0
13:00	Eurozone	CPI Estimate, y-o-y	Aug	5.3%	5.1%	5.3%
13:00	Eurozone	CPI, m-o-m	Aug P	-0.1%	0.4%	0.6%
13:00	Eurozone	CPI Core, y-o-y	Aug P	5.5%	5.3%	5.3%
16:00	India	GDP, y-o-y	2Q	6.1%	7.8%	7.8%
16:00	India	GVA, y-o-y	2Q	6.5%	7.7%	7.8%
16:30	US	Initial Jobless Claims	26-Aug	230K	235K	228K
16:30	US	Personal Income	Jul	0.3%	0.3%	0.2%
16:30	US	Personal Spending	Jul	0.5%	0.7%	0.8%
16:30	US	PCE Deflator, m-o-m	Jul	0.2%	0.2%	0.2%
16:30	US	PCE Deflator, y-o-y	Jul	3.0%	3.3%	3.3%
16:30	US	PCE Core Deflator, m-o-m	Jul	0.2%	0.2%	0.2%
16:30	US	PCE Core Deflator, y-o-y	Jul	4.1%	4.2%	4.2%
17:45	US	MNI Chicago PMI	Aug	42.8	44.2	48.7
<b>Friday, 1 September</b>						
4:30	Japan	Jibun Bank Japan PMI Mfg	Aug F	49.7		49.6
5:45	China	Caixin China PMI Mfg	Aug	49.2	49.0	51.0
9:00	India	S&P Global India PMI Mfg	Aug	57.7		58.6
11:55	Germany	HCOB Germany Manufacturing PMI	Aug F	39.1	39.1	39.1
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	Aug F	43.7	43.7	43.5
12:30	UK	S&P Global/CIPS UK Manufacturing PMI	Aug F	42.5	42.5	43.0
16:30	US	Change in Nonfarm Payrolls	Aug	187K	170K	187K
16:30	US	Two-Month Payroll Net Revision	Aug			-110K
16:30	US	Unemployment Rate	Aug	3.5%	3.5%	3.8%
16:30	US	Average Hourly Earnings, m-o-m	Aug	0.4%	0.3%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Aug	4.4%	4.3%	4.3%
17:45	US	S&P Global US Manufacturing PMI	Aug F	47.0	47.0	47.9
18:00	US	ISM Manufacturing	Aug	46.4	47.0	47.6

\*UAE time

Source: Bloomberg, ADCB Economic Research

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