

The Week Ahead: US core CPI expected to highlight disinflation challenges

► **US: Headline inflation to rise with a smaller energy price drag**

The FOMC cut its Fed Funds Target Rate by 25 bps to 4.75% (upper bound) last week and signalled a gradual approach to the rate-cutting cycle. However, Fed Chair Jerome Powell ruled out pre-empting the new Republican government's policy changes based on election pledges that would stoke US inflationary pressures, while signalling no immediate recalibration of the rate-cutting trajectory. The potential Republican sweep in the US elections leads to risks of expansionary fiscal policies (tax cuts and spending increases), higher import tariffs and tighter immigration policies (wages). We acknowledge the outlook for fewer rate cuts in this cycle but await details on economic policies to emerge over the next few months. Please see our note **US & GCC Economic Update - Regional central banks follow the Fed rate cut; US policy uncertainties**, published on 8 November 2024. Market attention now shifts to October CPI (due Wednesday), where consensus expects headline CPI to rise to 2.6% y-o-y (September: 2.4%), led by a smaller drag from energy. Core CPI is expected to remain steady both on an annual and monthly basis at 3.3% y-o-y and 0.3% m-o-m, respectively. Core goods prices are expected to rise sequentially, led by a sharp increase in used car prices. Services inflation is likely to decelerate, led by softer airline fares and medical care services. Meanwhile, October retail sales (due Friday) is estimated to have remained resilient, expanding 0.3% m-o-m and pointing to solid consumer demand.

► **UK: We see a more gradual rate-cutting cycle from the BoE**

Market attention now shifts to the September labour data and 3Q GDP print, after the BoE signalled a cautious approach to rate cuts last week (page 2). Consensus expects a gradual loosening in the labour market, with wage growth ex-bonuses decelerating to 4.7% y-o-y in September (August: 4.9%) and the unemployment rate increasing to 4.1% (August: 4.0%). On the growth front, consensus sees GDP slowing to 0.2% q-o-q in 3Q2024 (2Q: 0.5%) on softer government spending. However, the expansionary Autumn Budget has already led to the BoE raising its 2025 growth and inflation forecasts, and we now see the BoE adopting a more gradual rate-cutting cycle, against our expectations ahead of the budget release. The budget included a 6.7% rise in minimum wage in 2025. We now see the BoE remaining on hold in December, versus an earlier expectation of a 25 bps cut. We see four rate cuts in 2025, i.e. on a quarterly basis, taking the Bank Rate to 3.75% by end-2025.

► **China: PBoC to hold rates; some signs of activity recovering**

Consensus expects the October activity data to show tentative signs of a pickup, on the back of earlier fiscal and monetary stimulus. Industrial production is expected to accelerate to 5.6% y-o-y in October (September: 5.4%) with fixed asset investment inching up to 3.5%. China announced further fiscal stimulus measures last week, with a focus on reducing the local government debt burden, which has been a key headwind to GDP growth. This week, the RRR will likely be cut by 25 bps to facilitate government bond issuance, though we expect the PBoC to keep the policy rate unchanged.

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Contents

I.	Recent Events and Data Releases	2
II.	Economic Calendar	5

I. Recent Events and Data Releases

A. MENA Economies

Egypt: CPI edges up in October; IMF review in focus

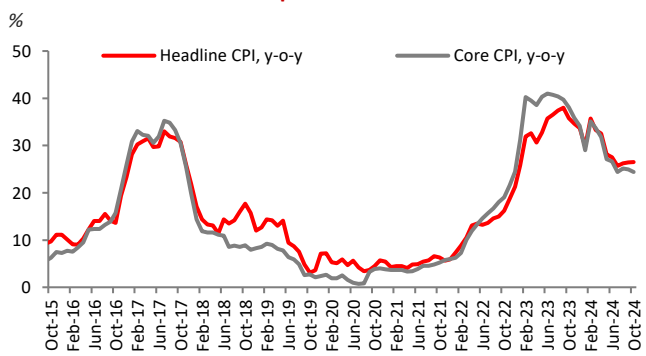
Egypt’s inflation inched up in October to 26.5% y-o-y (September: 26.4%), predominantly led by higher energy prices following further price hikes in electricity and retail fuel tariffs. These hikes were implemented as part of a broader fiscal reform programme, agreed as part of the IMF’s Extended Fund Facility (EFF). Food inflation continued to decelerate in October, with the rise in non-food inflation driving headline CPI higher. The electricity, gas and fuel segment of the inflation basket saw a notable increase of 7.2% m-o-m in October. We believe this only partially reflects the tariff hikes announced in October, with the fuel price increase only implemented mid-month. Healthcare costs also rose sharply in October (3.2% m-o-m vs 1.9% in September) with reductions to subsidies on medicines, pushing up annual growth to 32.2% y-o-y (September: 28.2%). Notably, education prices held steady in October, i.e. no sequential growth. Education prices typically rise in October at the beginning of the academic school year, implying a delay in the increase as in 2023. We expect a revision in education prices in early 2025.

Fiscal reforms and subsidy reductions driving inflation in October

We envisage inflation to remain broadly range-bound at around the 27.0% level for the remainder of 2024, with a sharp deceleration expected in 2025. We expect the CBE to remain on hold at next week’s policy meeting and maintain our view of the first CBE rate cut taking place in 1Q2025. The outcome of the ongoing IMF review with Egypt will be critical, following President Abdel Fattah El Sisi’s earlier comments on renegotiating the terms of the deal, particularly its duration.

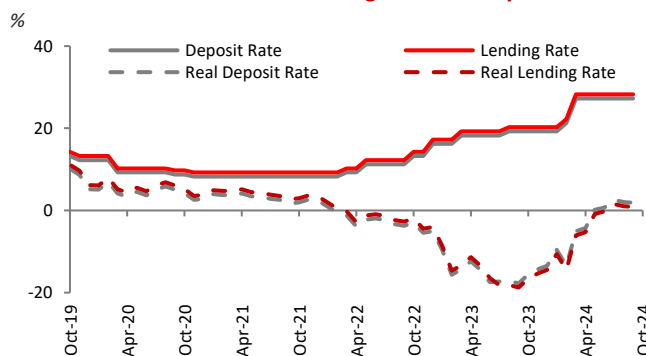
CBE to remain on hold next week

Fig. 1. Egypt: Rise in headline CPI strengthens outlook for the CBE to remain on pause next week



Source: CAPMAS, ADCB Economic Research

Fig. 2. Egypt: Increase in inflation is threatening to pull real interest rates back into negative territory



Source: CAPMAS, CBE, ADCB Economic Research

UK: BoE cut rates by 25 bps; notable upwards revision to CPI forecast

The BoE cut the Bank Rate by 25 bps to 4.75% with an 8-1 (hold) majority. The cautious tone of the meeting and significant upward revisions in both CPI and GDP signalled that the BoE will likely adopt a more gradual rate-easing cycle. The policy statement highlighted that “domestic inflationary pressures are resolving more slowly” and emphasised a meeting-by-meeting approach to rate cuts. The forecasts for GDP and CPI were raised significantly to 2.7% (previous: 2.2%) and 1.5% (from 1.0%), respectively, on the back of the expansionary fiscal measures announced at the Autumn Budget. Moreover, BoE Governor Andrew Bailey adopted a relatively hawkish tone at the

We expect the BoE to keep rates steady in December, with quarterly cuts beginning from 2025

meeting press-conference, stressing the need to avoid “cutting rates too much too quickly”. This is in stark contrast to his comments a month ago where he indicated that the BoE would adopt an “activist” and “aggressive” approach to cutting rates. We now believe the BoE will keep rates steady at the December meeting, versus our previous expectation of a 25 bps cut. Furthermore, we only see quarterly rate cuts in 2025, taking the end-2025 Bank Rate to 3.75%, versus our earlier expectation of 3.25%.

B. Developing Economies

China: Fiscal package lacked a focus on stabilising the property sector

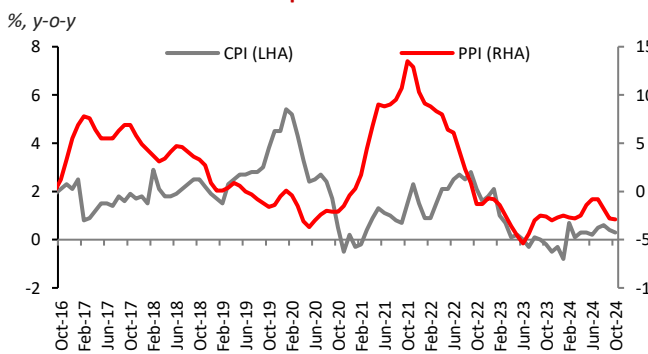
The National People’s Congress of China (NPC) approved a CNY10.0 trillion fiscal package aimed at reducing the local government debt burden. The NPC aims to reduce off-balance-sheet debt to CNY4.3 trillion in five years, from CNY14.3 trillion at end-2023. This will be accomplished by raising the local government special debt limit by CNY6.0 trillion (to CNY35.5 trillion) for refinancing bond issuance, and allocating CNY800.0 billion out of the annual local government special bond (LGSB) issuance quota per year for debt resolution during 2024-28. The fiscal package is expected to save c.CNY600.0 billion in interest payments over five years. This will decrease the fiscal burden on local governments and provide room for increased investment and expenditure. However, the announcement underwhelmed market expectations as it lacked measures to loosen local government fiscal policy or support property prices. We believe the NPC will announce sizeable and direct fiscal measures to boost GDP after gaining concrete details on the tariff rates and quotas to be set by President-elect Donald Trump.

Fiscal easing measures aimed at stabilising the property sector needed to spur growth

Meanwhile, the downside surprise in the October CPI highlights the need for further expansionary fiscal and monetary policies to spur consumption and avoid a deflationary trap. Headline CPI decelerated to 0.3% y-o-y in October (consensus: 0.4%) on soft food and energy CPI. While core CPI accelerated to 0.2% y-o-y in October (September: 0.1%), this is likely due to one-off factors such as the Golden Week holiday in October boosting demand. We believe the still-contracted home prices and high unemployment rate will continue to pose headwinds to sustained consumption growth. As such, policies aimed at stabilising the housing sector, potentially through buying unused land and homes, will be crucial to boost underlying household demand.

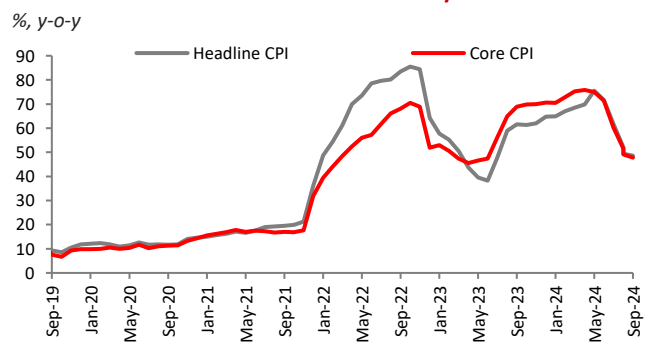
October CPI report shows that disinflationary pressure risks persist

Fig. 3. China: Still-soft CPI points to weak recovery in household consumption



Source: Customs General Administration PRC, ADCB Economic Research

Fig. 4. Turkey: Slowing disinflation progress diminishes outlook for CBRT to cut rates this year



Source: TurkStat, ADCB Economic Research

Turkey: Inflation decelerated only marginally in October

Limited disinflation progress, with headline CPI only inching down to 48.6% y-o-y in October (September: 49.4%), makes a rate cut this year unlikely, in our view. We believe the CBRT will need to see evidence of a sustained deceleration in inflation before cutting rates and expect the rate-easing cycle to begin only in 1Q2025. Core CPI decelerated to 47.8% y-o-y in October, albeit due to a favourable base, with monthly core CPI remaining unchanged at 2.6% on strong goods prices. Meanwhile, the CBRT raised its end-2024 CPI forecast to 44.0% y-o-y (previous: 38.0%) on stronger-than-expected recent inflation prints, and expects the three-month monthly moving average to hover above c.2.0% in November and December 2024. However, CBRT Governor Fatih Karahan stressed that the higher inflation forecast reflects a delay in the disinflation process rather than a “deterioration” in price pressures. The end-2025 CPI forecast was also increased to 21.0% (from 14.0%), though Governor Karahan emphasised that the sources of forecast revisions are largely beyond the control of monetary policy (food prices and rent inflation). As such, upward inflation revisions therefore do not imply a change in the TCMB’s monetary policy stance.

CBRT to begin its rate-easing cycle only in 1Q2025

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Oct	2.5%	
	UAE	M3 Money Supply, y-o-y	Aug	15.6%	
	Qatar	GDP Constant Prices, y-o-y	2Q		
	Oman	CPI, y-o-y	Oct	0.4%	
Monday, 11 November					
3:50	Japan	BOJ Summary of Opinions (Oct. MPM)			
3:50	Japan	BoP Current Account Balance	Sep	3803.6B	3421.7B
3:50	Japan	BoP Current Account Adjusted	Sep	3016.5B	2951.1B
Tuesday, 12 November					
11:00	Germany	CPI, y-o-y	Oct F	2.0%	2.0%
11:00	Germany	CPI, m-o-m	Oct F	0.4%	0.4%
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Sep	3.8%	3.9%
11:00	UK	Weekly Earnings ex Bonus, 3M/y-o-y	Sep	4.9%	4.7%
11:00	UK	ILO Unemployment Rate 3 Months	Sep	4.0%	4.1%
14:30	India	CPI, y-o-y	Oct	5.5%	5.9%
14:30	India	Industrial Production, y-o-y	Sep	-0.1%	2.5%
19:00	US	Fed's Waller Speaks at Banking Conference			
Wednesday, 13 November					
17:30	US	CPI, m-o-m	Oct	0.2%	0.2%
17:30	US	CPI ex-Food and Energy, m-o-m	Oct	0.3%	0.3%
17:30	US	CPI, y-o-y	Oct	2.4%	2.6%
17:30	US	CPI ex-Food and Energy, y-o-y	Oct	3.3%	3.3%
Thursday, 14 November					
10:00	Saudi Arabia	CPI, y-o-y	Oct	1.7%	
14:00	Eurozone	GDP SA, q-o-q	3Q P	0.4%	0.4%
14:00	Eurozone	GDP SA, y-o-y	3Q P	0.9%	0.9%
14:00	Eurozone	Employment, q-o-q	3Q P	0.2%	0.2%
17:30	US	PPI ex-Food and Energy, m-o-m	Oct	0.2%	0.3%
17:30	US	PPI ex-Food, Energy, Trade, m-o-m	Oct	0.1%	0.2%
17:30	US	PPI Final Demand, y-o-y	Oct	1.8%	2.3%
Friday, 15 November					
1:00	UK	BOE's Bailey Speaks			
6:00	China	Industrial Production, y-o-y	Oct	5.4%	5.6%
6:00	China	Industrial Production YTD, y-o-y	Oct	5.8%	5.7%
6:00	China	Retail Sales, y-o-y	Oct	3.2%	3.8%
6:00	China	Retail Sales YTD, y-o-y	Oct	3.3%	3.4%
6:00	China	Fixed Assets ex-Rural YTD, y-o-y	Oct	3.4%	3.5%
6:00	China	Property Investment YTD, y-o-y	Oct	-10.1%	-9.9%
11:00	UK	GDP, q-o-q	3Q P	0.5%	0.2%
11:00	UK	GDP, y-o-y	3Q P	0.7%	1.0%
11:00	UK	Private Consumption, q-o-q	3Q P	0.2%	0.3%
11:00	UK	Government Spending, q-o-q	3Q P	1.1%	0.5%
11:00	UK	Gross Fixed Capital Formation, q-o-q	3Q P	0.6%	
11:00	UK	Exports, q-o-q	3Q P	-0.3%	0.9%
11:00	UK	Imports, q-o-q	3Q P	6.3%	-0.9%
17:30	US	Retail Sales Advance, m-o-m	Oct	0.4%	0.3%
17:30	US	Retail Sales ex-Auto, m-o-m	Oct	0.5%	0.3%
17:30	US	Retail Sales ex-Auto and Gas	Oct	0.7%	0.3%
17:30	US	Retail Sales Control Group	Oct	0.7%	0.3%

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Qatar	CPI, y-o-y	Aug	0.2%		
Monday, 4 November						
9:00	India	HSBC India PMI Mfg	Oct F	57.4		57.5
12:55	Germany	HCOB Germany Manufacturing PMI	Oct F	42.6	42.6	43.0
13:00	Eurozone	HCOB Eurozone Manufacturing PMI	Oct F	45.9	45.9	46.0
19:00	US	Factory Orders	Sep	-0.2%	-0.5%	-0.5%
19:00	US	Durable Goods Orders	Sep F	-0.8%	-0.8%	-0.7%
19:00	US	Durables ex-Transportation	Sep F	0.4%	0.4%	0.5%
Tuesday, 5 November						
3:50	Japan	Monetary Base, y-o-y	Oct	-0.1%		-0.3%
5:45	China	Caixin China PMI Composite	Oct	50.3		51.9
5:45	China	Caixin China PMI Services	Oct	50.3	50.5	52.0
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Oct	56.3		56.9
8:15	UAE	S&P Global United Arab Emirates PMI	Oct	53.8		54.1
9:15	Egypt	S&P Global Egypt PMI	Oct	48.8		49.0
13:30	UK	S&P Global UK Services PMI	Oct F	51.8	51.8	52.0
13:30	UK	S&P Global UK Composite PMI	Oct F	51.7	51.7	51.8
17:30	US	Trade Balance	Sep	-70.8B	-84.0B	-84.4B
19:00	US	ISM Services Index	Oct	54.9	53.8	56.0
Wednesday, 6 November						
11:00	Germany	Factory Orders, m-o-m	Sep	-5.4%	1.6%	4.2%
12:55	Germany	HCOB Germany Services PMI	Oct F	51.4	51.4	51.6
12:55	Germany	HCOB Germany Composite PMI	Oct F	48.4	48.4	48.6
13:00	Eurozone	HCOB Eurozone Services PMI	Oct F	51.2	51.2	51.6
13:00	Eurozone	HCOB Eurozone Composite PMI	Oct F	49.7	49.7	50.0
13:30	UK	S&P Global UK Construction PMI	Oct	57.2	55.1	54.3
16:00	US	MBA Mortgage Applications	1-Nov	-0.1%		-10.8%
18:45	US	S&P Global US Services PMI	Oct F	55.3	55.3	55.0
18:45	US	S&P Global US Composite PMI	Oct F	54.3		54.1
Thursday, 7 November						
3:30	Japan	Labour Cash Earnings, y-o-y	Sep	2.8%	3.0%	2.8%
3:30	Japan	Real Cash Earnings, y-o-y	Sep	-0.8%	0.1%	-0.1%
11:00	Germany	Industrial Production SA, m-o-m	Sep	2.9%	-1.0%	-2.5%
14:00	Eurozone	Retail Sales, m-o-m	Sep	0.2%	0.4%	0.5%
14:00	Eurozone	Retail Sales, y-o-y	Sep	0.8%	1.3%	2.9%
16:00	UK	Bank of England Bank Rate	7-Nov	5.00%	4.75%	4.75%
17:30	US	Unit Labour Costs	3Q P	0.4%	1.2%	1.9%
17:30	US	Initial Jobless Claims	2-Nov	216K	223K	221K
19:00	US	Wholesale Inventories, m-o-m	Sep F	-0.1%	-0.1%	-0.2%
23:00	US	FOMC Rate Decision (Upper Bound)	7-Nov	5.00%	4.75%	4.75%
23:00	US	FOMC Rate Decision (Lower Bound)	7-Nov	4.75%	4.50%	4.50%
23:00	US	Fed Interest on Reserve Balances Rate	8-Nov	4.90%	4.65%	4.65%
	China	Exports, y-o-y	Oct	2.4%	5.0%	12.7%
	China	Imports, y-o-y	Oct	0.3%	-1.5%	-2.3%
	China	Trade Balance	Oct	81.7B	75.0B	81.7B
	China	Foreign Reserves	Oct	3316.3B	3286.0B	3316.4
Friday, 8 November						
19:00	US	U. of Mich. Sentiment	Nov P	70.5	71.0	73.0

*UAE time

Source: Bloomberg, ADCB Economic Research

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