

## The Week Ahead: Expected softening in NFP could keep September rate cut alive

### ► **US: NFP to show cooling labour markets; Sintra comments eyed**

Core PCE showed a welcome deceleration in May (see below), though likely not sufficient to prompt a rate cut, with focus returning to the labour market. Consensus expects the June NFP (due Friday) to show further signs of softening, albeit still solid, supporting a soft-landing outlook for the US economy. Job additions are forecast to slow to 190K (vs. 272K in May), with wage growth moderating to 3.9% y-o-y (May: 4.1%) – which, if realised, would make it the weakest print since June 2021 and April 2024. The unemployment rate is expected to remain steady at 4.0% in March. The expected moderation in payroll growth is seen as part of the labour market's normalisation from the strong spike in 1Q2024 (267.3K average). May JOLTS (due Tuesday) are also expected to show job openings softening further, lowering the vacancies to unemployment ratio to well within pre-pandemic trends. Healthy immigration levels are likely to continue to support the labour supply, which is helping to gradually bring down wage growth. The minutes of the June FOMC are due on Wednesday, with the focus on members' confidence in the disinflation trajectory and assessments on how fast the labour market needs to deteriorate to warrant rate cuts. Chair Jerome Powell is scheduled to speak in the ECB's Sintra forum on central banking (Tuesday) and will be watched for his latest assessment following the deceleration in May PCE and signs of a broader economic slowdown.

### ► **US: Core PCE slows to a 2-year low, giving Fed some comfort**

Core PCE inflation deaccelerated to 2.6% y-o-y in May, though remains elevated at 2.7% y-o-y and 3.2% on a 3M and 6M moving-average basis, respectively, implying the need for further progress to meet the Fed's target. Sequentially, core PCE slowed to 0.1% m-o-m (April: 0.3%), driven by a contraction in goods prices (-0.2% m-o-m) and deceleration in services (0.2% m-o-m) due to a moderation in transportation and financial services costs. The critical core services ex. housing also softened to 0.1% m-o-m (April: 0.3%), though more such prints are required before contemplating rate cuts. Indeed, unfavourable base effects (benign core PCE in 2H2023) and potential reversal in certain categories (financial costs, goods) pose upside risks to the annual core PCE trajectory in 2H2024, which needs to be closely monitored. The real activity trends are mixed, with May PCE pointing to softening consumer spending, though income remains solid. The third estimate of 1Q GDP was revised slightly higher (1.4% q-o-q SAAR from 1.3%) on stronger business fixed investment and inventories, though private consumption growth was revised down even further to 1.5% q-o-q SAAR from 2.0% previously.

### ► **Eurozone: Disinflation process expected to resume in June**

The June flash CPI report (2 July) is unlikely to open the door for a July rate cut, with consensus expecting only a limited inching-down in inflation, with headline estimated at 2.5% and core at 2.8% (previous: 2.9%). The disinflation in core prices in June will likely be led by softer core goods prices, with services remaining sticky as the ongoing Euro 2024 football championship strengthens

#### Economics Team

##### Sri Virinchi Kadiyala

Senior Economist

+971 (0)2 697 3582

[Srivirinchi.Kadiyala@adcb.com](mailto:Srivirinchi.Kadiyala@adcb.com)

##### Om Joshi

Economist

+971 (0)2 694 3603

[Om.Joshi@adcb.com](mailto:Om.Joshi@adcb.com)

##### Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

[Monica.Malik@adcb.com](mailto:Monica.Malik@adcb.com)

#### Contents

I. Economic Calendar	3
----------------------	---

demand for transport and recreation. The cautious tone adopted by key ECB members last week signals that the Governing Council (GC) wants to see a more material and sustained softening in inflation to resume its rate-easing cycle. However, we see core inflation decelerating materially from September, following the Euro championships and the summer Olympics. There are already signs of declining inflation expectations and wage trackers are showing some easing in wage growth in July, which should support the disinflation trend. Moreover, political uncertainties are rising following the first round of the French elections, which in turn raises economic concerns.

Following the first round, a three-way race is emerging between the National Rally (RN), the New Popular Front (PCF) and President Macron's coalition called Ensemble. The RN won the first round with c.33.0% of total votes, far greater than the c.21.0% gained by Ensemble. However, the outlook for RN forming an outright majority in parliament remains uncertain as it depends on whether any candidate from PCF or Ensemble drops out for the second round of voting. The ongoing three-way race strengthens the outlook for a minority government led by the RN with constrained legislative power, leading to a 'cohabitation' government with the President and Cabinet Members from different parties.

► **UK: 1Q2024 GDP revised up; growth momentum likely to slow**

The final 1Q2024 GDP print confirmed that the UK exited a technical recession, with GDP growth revised up to 0.7% q-o-q (prior: 0.6%). The upward revision was on the back of higher household consumption (0.4% q-o-q), driven by recreation services and restaurants. However, we believe this strong growth momentum will likely fade in the coming quarters, with a weaker outlook for consumption growth and investments. The June PMI data pointed to increased consumer caution with a decline in both services demand and household confidence, while the private savings rate rose further to 11.1% y-o-y in May. Additionally, the BoE's Agents' latest survey of investment intentions highlighted that the majority of surveyed businesses will decrease fixed investments due to tight financial conditions, pointing to continued weakening in investment activity in the coming quarters.

Meanwhile, recent polls by YouGov have continued to show the Labour Party gaining 420-425 seats, with the Conservatives (incumbent) only securing 100-108 seats. A strong majority in the parliament will enable the Labour Party to deliver its key policy agenda of adding VAT to private school fees and extending the 'Energy Profits Levy' – a windfall tax on profits of oil and gas companies.

► **Turkey: CBRT remains on hold; more macro-prudential reforms likely**

The CBRT kept interest rates steady last week, including the one-week repo rate at 50.0%, in line with our and consensus expectations. The CBRT maintained its outlook for tight monetary policy and we expect rates to remain on hold for the remainder of the year. However, the policy statement noted that the rise in May inflation to 75.5% y-o-y was "temporary" and pointed to recent indicators such as retail sales showing a slowdown in domestic demand. Meanwhile, FX loan growth continued to accelerate in May despite the 2.0% m-o-m loan growth cap introduced last month. As such, the policy statement now stressed that "additional macro-prudential measures" would be utilised to further strengthen the "monetary transmission mechanism". We see some scope for the CBRT to introduce a higher reserve requirement ratio and/or increase the loan growth cap to reduce the pace of FX loan growth. The CBRT reiterated that rates will be cut only after a "significant" and "sustained" deceleration in inflation. We see scope for a rate cut only in 1Q2025.

## I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	M3 Money Supply, y-o-y	Apr	17.0%	
	Qatar	GDP Constant Prices, y-o-y	4Q	1.2%	
	Qatar	CPI, y-o-y	May	0.7%	
<b>Monday, 1 July</b>					
5:45	China	Caixin China PMI Mfg	Jun	51.8	51.5
8:05	Saudi Arabia	SAMA Net Foreign Assets SAR	May	1667.6B	
11:55	Germany	HCOB Germany Manufacturing PMI	Jun F	43.4	43.4
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	Jun F	45.6	45.6
12:30	UK	Mortgage Approvals	May	61.1K	60.5K
12:30	UK	S&P Global UK Manufacturing PMI	Jun F	51.4	51.4
16:00	Germany	CPI, y-o-y	Jun P	2.4%	2.3%
16:00	Germany	CPI, m-o-m	Jun P	0.1%	0.2%
16:00	Germany	CPI EU Harmonized, y-o-y	Jun P	2.8%	2.5%
16:15	Eurozone	ECB's Nagel Speaks			
17:45	US	S&P Global US Manufacturing PMI	Jun F	51.7	51.7
18:00	US	ISM Manufacturing	Jun	48.7	49.1
18:00	US	ISM New Orders	Jun	45.4	49.0
18:00	US	ISM Employment	Jun	51.1	50.0
23:00	Eurozone	ECB's Lagarde Speaks in Sintra			
<b>Tuesday, 2 July</b>					
13:00	Eurozone	CPI Estimate, y-o-y	Jun P	2.6%	2.5%
13:00	Eurozone	CPI, m-o-m	Jun P	0.2%	0.2%
13:00	Eurozone	CPI Core, y-o-y	Jun P	2.9%	2.8%
13:00	Eurozone	Unemployment Rate	May	6.4%	6.4%
<b>Wednesday, 3 July</b>					
12:00	Eurozone	HCOB Eurozone Services PMI	Jun F	52.6	52.6
12:00	Eurozone	HCOB Eurozone Composite PMI	Jun F	50.8	50.8
12:30	UK	Official Reserves Changes	Jun	1647M	
15:00	US	MBA Mortgage Applications	28-Jun	0.8%	
16:15	US	ADP Employment Change	Jun	152K	158K
16:30	US	Trade Balance	May	-74.6B	-76.0B
16:30	US	Initial Jobless Claims	29-Jun	233K	235K
17:45	US	S&P Global US Services PMI	Jun F	55.1	52.3
17:45	US	S&P Global US Composite PMI	Jun F	54.6	
18:00	US	Factory Orders	May	0.7%	0.3%
18:00	US	ISM Services Index	Jun	53.8	52.5
18:00	US	Durable Goods Orders	May F	0.1%	
22:00	US	FOMC Meeting Minutes	12-Jun		
<b>Thursday, 4 July</b>					
10:00	Germany	Factory Orders, m-o-m	May	-0.2%	0.5%
<b>Friday, 5 July</b>					
10:00	Germany	Industrial Production SA, m-o-m	May	-0.1%	0.1%
13:00	Eurozone	Retail Sales, m-o-m	May	-0.5%	0.2%
13:00	Eurozone	Retail Sales, y-o-y	May	0.0%	0.2%
16:30	US	Change in Nonfarm Payrolls	Jun	272K	190K
16:30	US	Change in Manufact. Payrolls	Jun	8K	10K
16:30	US	Unemployment Rate	Jun	4.0%	4.0%
16:30	US	Average Hourly Earnings, m-o-m	Jun	0.4%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	Jun	4.1%	3.9%

\*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	UAE	M3 Money Supply, y-o-y	Apr	17.0%		
	Qatar	Trade Balance Month	May	17429M		
	Bahrain	GDP Constant Prices, y-o-y	1Q	3.5%		
	Bahrain	CPI, y-o-y	May	1.2%		2.5%
<b>Monday, 24 June</b>						
12:00	Germany	IFO Business Climate	Jun	89.3	89.6	88.6
12:00	Germany	IFO Current Assessment	Jun	88.3	88.5	88.3
12:00	Germany	IFO Expectations	Jun	90.3	90.7	89.0
<b>Tuesday, 25 June</b>						
18:00	US	Conf. Board Consumer Confidence	Jun	101.3	100.0	100.4
18:00	US	Richmond Fed Manuf. Index	Jun	0.0	-3.0	-10.0
18:00	US	Richmond Fed Business Conditions	Jun	-9.0		-11.0
18:30	US	Dallas Fed Services Activity	Jun	-12.1		-4.1
<b>Wednesday, 26 June</b>						
15:00	US	MBA Mortgage Applications	21-Jun	0.9%		0.8%
18:00	US	New Home Sales	May	698K	633K	619K
<b>Thursday, 27 June</b>						
3:50	Japan	Retail Sales, y-o-y	May	2.0%	2.0%	3.0%
11:00	Turkey	CBRT Interest Rate Decision	Jun	50.0%	50.0%	50.0%
12:00	Eurozone	M3 Money Supply, y-o-y	May	1.3%	1.5%	1.6%
16:30	US	GDP Annualised, q-o-q	1Q T	1.3%	1.4%	1.4%
16:30	US	GDP Price Index	1Q T	3.0%	3.0%	3.1%
16:30	US	Wholesale Inventories, m-o-m	May P	0.2%	0.1%	0.6%
16:30	US	Initial Jobless Claims	22-Jun	239K	235K	233K
16:30	US	Durable Goods Orders	May P	0.2%	-0.5%	0.1%
16:30	US	Durables ex-Transportation	May P	0.4%	0.2%	-0.1%
18:00	US	Pending Home Sales, m-o-m	May	-7.7%	0.5%	-2.1%
<b>Friday, 28 June</b>						
3:30	Japan	Jobless Rate	May	2.6%	2.6%	2.6%
3:30	Japan	Job-To-Applicant Ratio	May	1.26	1.26	1.24
3:30	Japan	Tokyo CPI, y-o-y	Jun	2.2%	2.3%	2.3%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Jun	1.9%	2.0%	2.1%
3:50	Japan	Industrial Production, m-o-m	May P	-0.9%	2.0%	2.8%
10:00	UK	GDP, q-o-q	1Q F	0.6%	0.6%	0.7%
10:00	UK	GDP, y-o-y	1Q F	0.2%	0.2%	0.3%
11:55	Germany	Unemployment Change (000's)	Jun	25.0K	15.0K	19.0K
16:30	US	Personal Income	May	0.3%	0.4%	0.5%
16:30	US	Personal Spending	May	0.1%	0.3%	0.2%
16:30	US	Real Personal Spending	May	-0.1%	0.3%	0.3%
16:30	US	PCE Deflator, m-o-m	May	0.3%	0.0%	0.0%
16:30	US	PCE Deflator, y-o-y	May	2.7%	2.6%	2.6%
16:30	US	PCE Core Deflator, m-o-m	May	0.3%	0.1%	0.1%
16:30	US	PCE Core Deflator, y-o-y	May	2.8%	2.6%	2.6%
17:45	US	MNI Chicago PMI	Jun	35.4	40.0	47.4
18:00	US	U. of Mich. Sentiment	Jun F	65.6	66.0	68.2

\*UAE time

Source: Bloomberg, ADCB Economic Research

This report is intended for general information purposes only. It should not be construed as an offer, recommendation or solicitation to purchase or dispose of any securities or to enter in any transaction or adopt any hedging, trading or investment strategy. Neither this report nor anything contained herein shall form the basis of any contract or commitment whatsoever. Distribution of this report does not oblige Abu Dhabi Commercial Bank PJSC (“ADCB”) to enter into any transaction.

The content of this report should not be considered legal, regulatory, credit, tax or accounting advice. Anyone proposing to rely on or use the information contained in the report should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in this report.

Information contained herein is based on various sources, including but not limited to public information, annual reports and statistical data that ADCB considers accurate and reliable. However, ADCB makes no representation or warranty as to the accuracy or completeness of any statement made in or in connection with this report and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this report.

Charts, graphs and related data or information provided in this report are intended to serve for illustrative purposes only. The information contained in this report is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. All statements as to future matters are not guaranteed to be accurate. ADCB expressly disclaims any obligation to update or revise any forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is being furnished to you solely for your information and neither it nor any part of it may be used, forwarded, disclosed, distributed or delivered to anyone else. You may not copy, reproduce, display, modify or create derivative works from any data or information contained in this report.