

The Week Ahead: US NFP, ECB rate cut and India's election results

► US: NFP to show continued labour market resilience

The focus this week shifts to May NFP data after April PCE pointed to stalling disinflation progress, diminishing the prospects for a July Fed rate cut, in our view. We recently pushed back our first Fed rate cut expectation to September (from July), with the risk of a delay until December if labour markets stay resilient. Consensus expects May non-farm payrolls (due 7 June) to show a minor uptick in job additions to 190K (April: 175K) driven by the government sector. Both unemployment and wage growth are expected to remain steady at 3.9% and 3.9% y-o-y, respectively. The May CPI print, due on 12 June, will be the other key data release prior to the FOMC decision later that day, where we expect it to remain on hold. FOMC members have indicated that they will need to see multiple months of data before they have enough confidence in the disinflation trend to start the rate-cutting cycle. Separately, 1Q2024 GDP growth was revised lower, though underlying GDP measures still point to strong resilience (page 2).

► Eurozone: ECB's June rate cut on track; future cuts uncertain

The ECB is widely expected to cut its main refinancing rate by 25 bps at this week's meeting, though we expect that the post-policy communication will acknowledge uncertainty around the future policy path. We now see scope for a cumulative 50 bps of rate cuts from the ECB (including the June cut) in 2024, versus 75 bps previously, given the acceleration in the May inflation print. Moreover, persistently strong wage growth is a key upside risk to an already uncertain disinflation trajectory, in our view. Despite the repeated ECB rhetoric on 'independence', a higher-for-longer policy stance from the Fed will also complicate the path of future ECB rate cuts. Core CPI (flash) surprised to the upside in May, rising to 2.9% y-o-y, with a strengthening in services inflation (page 2). We also expect staff projections to see an upward revision to the ECB's 2024 inflation projections, given the upside surprise in CPI and higher unit labour costs.

► India: RBI to hold rates; Modi set for third straight term

We expect the RBI's Monetary Policy Committee to keep the repo rate unchanged at 6.5% with a 5-1 majority and maintain its "withdrawal of accommodation" stance at its 7 June meeting. Resilient GDP growth, still-elevated food inflation and uncertainty around Fed policy will likely lead the RBI to maintain a cautious tone on the direction of future policy. We expect the RBI to remain on pause for now, with room for rate cuts likely to open up in 4Q2024. The results of the general elections are due tomorrow, with exit polls pointing to a likely landslide victory for the incumbent Bharatiya Janata Party (BJP) led coalition securing an even greater 2/3 majority. Prime Minister Narendra Modi's third successive term will imply policy continuity and will likely see the delivery of key structural reforms in the coming year. We also see an ongoing focus on capex and infrastructure development. Strong growth prospects, an outlook for healthy capital inflows and political stability should be supportive of India's equity, bond and FX assets over the medium term.

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I. Recent Events and Data Releases

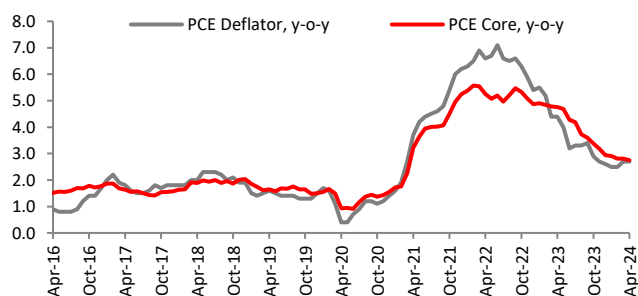
A. Advanced Economies

US: Steady core PCE offers little comfort to Fed

Core PCE inflation remained steady at 2.8% y-o-y in April for the third straight month, pointing to challenges in disinflation progress and reducing scope for interest rate cuts. Sequentially, core PCE moderated slightly to 0.24% m-o-m (March: 0.33%), driven by some softening in services price increases (0.3% m-o-m) due to a contraction in transportation costs (-1.1% m-o-m). The limited moderation in housing inflation is also a key concern, creating stickiness in services PCE. Limited disinflation progress and a still-solid labour market performance have recently led us to push back our first Fed rate cut forecast to September (from July). We also note the risk of rate cuts being delayed until December if activity continues to hold up. Meanwhile, the second estimate of GDP showed the economy growing at 1.3% q-o-q saar, 30 bps slower than the initial estimate, driven by downward revisions to consumer spending (2.0% from 2.5% earlier). Goods spending was revised significantly lower, though services demand remains strong, implying only a benign moderation in the overall consumption outlook. Moreover, the downward revision to the GDP growth estimate is mainly driven by volatile PCE estimates, with more relevant Private Domestic Final Purchases (PDFP) showing strong resiliency, pointing to solid underlying growth momentum.

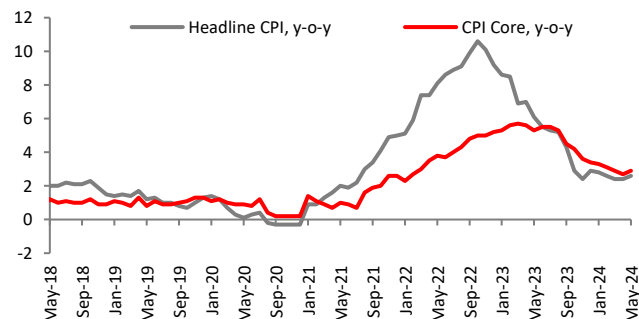
We expect the Fed to begin rate cuts in September, with still-strong underlying price pressures

Fig. 1. US: Core PCE was unchanged in April, with services PCE highlighting still-sticky disinflation path



Source: Bureau of Economic Analysis, ADCB Economic Research

Fig. 2. Eurozone: Re-acceleration in core CPI in April likely to deter the ECB from consecutive rate cuts



Source: Eurostat, ADCB Economic Research

Eurozone: Upside surprise in May CPI dims outlook for consecutive cuts

The stronger-than-expected May flash CPI report with acceleration in both headline and core inflation likely reduces room for consecutive rate cuts and pushes the ECB to adopt a more gradual rate-cutting path. As such, we do not expect another 25 bps cut in the July meeting, with the Governing Council (GC) likely seeking further evidence of “sustained” disinflation trajectory before cutting rates by 25 bps in September. Headline inflation surprised to the upside, rising to 2.6% y-o-y in May (consensus: 2.4%). This stronger-than-expected print was led by unexpected strengthening in core CPI in May to 2.9% y-o-y, with services CPI accelerating to the highest level since October 2023 to 4.1% y-o-y. The sharp rise in services was only partly driven by unfavourable base effects with the introduction of the cheap EUR49.0 train ticket in Germany last year, and hence indicates that underlying drivers of price pressures remain strong. Indeed, the unemployment rate decreasing to a record low of 6.4% in April signals high labour demand, adding upside risks to service inflation remaining sticky. Overall, we believe the

Acceleration in core services CPI will likely lead the ECB to adopt a cautious approach in cutting rates

stronger-than-expected May CPI report strengthens the outlook of the ECB maintaining a cautious tone at its meeting this week, with the policy statement re-iterating a data-dependent approach in cutting rates.

B. Developing Economies

India: GDP growth posts another upside surprise

1Q2024 GDP growth slowed, albeit to a still-solid 7.8% y-o-y, and marked another major upside surprise (consensus: 7.0% 4Q2023: 8.4%). This was driven by resilient private consumption and robust government expenditure. On the demand side, manufacturing and construction recorded strong growth rates, reflecting both buoyant domestic demand and a robust export outlook. Services activity was resilient, though the weakness in farm output remains a concern. Full-year GDP growth for FY2023-24 (Mar. – Apr.) stood at a robust 7.8% (FY2022-23: 8.6%), making India's growth the fastest among major economies. We expect GDP growth to slow in FY2024-25, albeit remaining at a solid 7.2%. Improvement in farm output on the outlook for a healthy monsoon season, resilient consumption demand, continued capex focus from the government and broader macro stability should help growth remain on a strong footing in the coming year, in our view. The robust growth outlook reduces the urgency for the RBI to ease interest rates in the near term, in our view.

India remains a strong growth outperformer

II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Qatar	Trade Balance Month	Apr	17602M	
	Qatar	GDP Constant Prices, y-o-y	4Q	1.20%	
Monday, 3 June					
3:50	Japan	Capital Spending, y-o-y	1Q	16.4%	11.0%
4:30	Japan	Jibun Bank Japan PMI Mfg	May F	50.5	
5:45	China	Caixin China PMI Mfg	May	51.4	51.6
9:00	India	HSBC India PMI Mfg	May F	58.4	
11:55	Germany	HCOB Germany Manufacturing PMI	May F	45.4	45.4
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	May F	47.4	47.4
12:30	UK	S&P Global UK Manufacturing PMI	May F	51.3	51.3
17:45	US	S&P Global US Manufacturing PMI	May F	50.9	50.9
18:00	US	Construction Spending, m-o-m	Apr	-0.2%	0.2%
18:00	US	ISM Manufacturing	May	49.2	49.6
Tuesday, 4 June					
3:50	Japan	Monetary Base, y-o-y	May	2.1%	
11:55	Germany	Unemployment Change (000's)	May	10.0K	7.0K
18:00	US	JOLTS Job Openings	Apr	8488K	8360K
18:00	US	Factory Orders	Apr	0.8%	0.6%
18:00	US	Durable Goods Orders	Apr F	0.7%	0.7%
Wednesday, 5 June					
5:45	China	Caixin China PMI Composite	May	52.8	
5:45	China	Caixin China PMI Services	May	52.5	52.5
8:15	UE	S&P Global United Arab Emirates PMI	May	55.3	
15:00	US	MBA Mortgage Applications	31-May	-5.7%	
16:15	US	ADP Employment Change	May	192K	175K
17:45	US	S&P Global US Services PMI	May F	54.8	54.8
17:45	US	S&P Global US Composite PMI	May F	54.4	
18:00	US	ISM Services Index	May	49.4	51.0
Thursday, 6 June					
10:00	Germany	Factory Orders, m-o-m	Apr	-0.4%	0.5%
13:00	Eurozone	Retail Sales, y-o-y	Apr	0.7%	0.2%
16:15	Eurozone	ECB Main Refinancing Rate	6-Jun	4.5%	4.3%
16:15	Eurozone	ECB Marginal Lending Facility	6-Jun	4.8%	4.5%
16:15	Eurozone	ECB Deposit Facility Rate	6-Jun	4.0%	3.8%
16:30	US	Trade Balance	Apr	-69.4B	-76.4B
16:30	US	Initial Jobless Claims	1-Jun	219K	220K
Friday, 7 June					
8:30	India	RBI Repurchase Rate	7-Jun	6.5%	6.5%
10:00	Germany	Industrial Production SA, m-o-m	Apr	-0.4%	0.2%
13:00	Eurozone	GDP SA, q-o-q	1Q F	0.3%	0.3%
13:00	Eurozone	GDP SA, y-o-y	1Q F	0.4%	0.4%
16:30	US	Change in Non-farm Payrolls	May	175K	190K
16:30	US	Unemployment Rate	May	3.9%	3.9%
16:30	US	Average Hourly Earnings, y-o-y	May	3.9%	3.9%
16:30	US	Labor Force Participation Rate	May	62.7%	62.7%
18:00	US	Wholesale Inventories, m-o-m	Apr F	0.2%	0.2%
	China	Exports, y-o-y	May	1.5%	5.3%
	China	Imports, y-o-y	May	8.4%	4.3%
	China	Trade Balance	May	72.35B	70.55B

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
G4 Economies						
	UK	Nationwide House PX, m-o-m	May	-0.4%	0.2%	0.4%
	UK	Nationwide House Px NSA, y-o-y	May	0.6%	0.9%	1.3%
Monday, 27 May						
12:00	Germany	IFO Business Climate	May	89.3	90.4	89.3
12:00	Germany	IFO Expectations	May	89.7	90.8	90.4
Tuesday, 28 May						
12:00	Eurozone	ECB 1 Year CPI Expectations	Apr	3.0%	2.9%	2.9%
12:00	Eurozone	ECB 3 Year CPI Expectations	Apr	2.5%	2.5%	2.4%
18:00	US	Conf. Board Consumer Confidence	May	97.5	96.0	102.0
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Apr	1628.4B		1588.7B
Wednesday, 29 May						
12:00	Eurozone	M3 Money Supply, y-o-y	Apr	0.9%	1.3%	1.3%
15:00	US	MBA Mortgage Applications	24-May	1.9%		-5.7%
16:00	Germany	CPI, y-o-y	May P	2.2%	2.4%	2.4%
16:00	Germany	CPI, m-o-m	May P	0.5%	0.2%	0.1%
16:00	Germany	CPI EU Harmonized, y-o-y	May P	2.4%	2.7%	2.8%
Thursday, 30 May						
13:00	Eurozone	Unemployment Rate	Apr	6.5%	6.5%	6.4%
16:30	US	GDP Annualized, q-o-q	1Q S	1.6%	1.3%	1.3%
16:30	US	Personal Consumption	1Q S	2.5%	2.2%	2.0%
16:30	US	GDP Price Index	1Q S	3.1%	3.1%	3.0%
16:30	US	Initial Jobless Claims	25-May	216K	217K	219K
16:30	US	Wholesale Inventories, m-o-m	Apr P	-0.4%	0.1%	0.2%
18:00	US	Pending Home Sales, m-o-m	Apr	3.6%	-1.0%	-7.7%
Friday, 31 May						
3:30	Japan	Jobless Rate	Apr	2.6%	2.6%	2.6%
3:30	Japan	Job-To-Applclicant Ratio	Apr	1.28	1.28	1.26
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	May	1.6%	1.9%	1.9%
3:30	Japan	Tokyo CPI, y-o-y	May	1.8%	2.2%	2.2%
3:50	Japan	Industrial Production, m-o-m	Apr P	4.4%	1.5%	-0.1%
5:30	China	Composite PMI	May	51.7	51.0	51.0
5:30	China	Manufacturing PMI	May	50.4	50.5	49.5
5:30	China	Non-manufacturing PMI	May	51.2	51.5	51.1
12:30	UK	Mortgage Approvals	Apr	61.3K	61.5K	61.1K
13:00	Eurozone	CPI Estimate, y-o-y	May	2.4%	2.5%	2.6%
13:00	Eurozone	CPI, m-o-m	May P	0.6%	0.2%	0.2%
13:00	Eurozone	CPI Core, y-o-y	May P	2.7%	2.7%	2.9%
16:00	India	GDP, y-o-y	1Q	8.6%	7.0%	7.8%
16:00	India	GDP Annual Estimate, y-o-y	2024 P	7.6%	7.9%	8.2%
16:30	US	Personal Income	Apr	0.5%	0.3%	0.3%
16:30	US	Personal Spending	Apr	0.7%	0.3%	0.2%
16:30	US	Real Personal Spending	Apr	0.4%	0.1%	-0.1%
16:30	US	PCE Deflator, m-o-m	Apr	0.3%	0.3%	0.3%
16:30	US	PCE Deflator, y-o-y	Apr	2.7%	2.7%	2.7%
16:30	US	PCE Core Deflator, m-o-m	Apr	0.3%	0.2%	0.2%
16:30	US	PCE Core Deflator, y-o-y	Apr	2.8%	2.8%	2.8%
17:45	US	MNI Chicago PMI	May	37.9	41.6	35.4

*UAE time

Source: Bloomberg, ADCB Economic Research

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