

The Week Ahead: Fed meeting signals rate cuts for 2024 are postponed, not cancelled

► **US: Softer-than-expected April NFP keeps July rate cut live**

The broad-based softening in the labour market indicated by April's NFP report, coupled with Fed Chair Jerome Powell signalling a shift back towards the employment mandate at the May meeting, has kept the door open for a July rate cut, in our view. Job additions moderated more than expected in April (page 2) alongside annual wage growth decelerating to a two-year low, which corroborates Powell's narrative of gradual rebalancing in labour markets and supports his push-back against rate hikes. A continued and sustained labour market loosening strengthens the outlook for disinflation to resume in 2H2024, in our view. Indeed, market pricing for a July rate cut increased sharply to 38.0%, from 22.0% on 30 April. Additionally, the still-high labour supply supported by immigration inflows, and moderation in labour demand tentatively indicates that a 'soft-landing' scenario remains attainable, in our view. Nonetheless, Powell signalling support for the 'higher-for-longer' stance in the meeting's policy statement (page 2) points to the Committee's decreased confidence in a "sustainable" disinflation path and underpins the Fed likely adopting a cautious rate-cutting path. We believe the Committee will require further data indicating a consistent and material weakening in labour market conditions and price pressures before beginning its rate-cutting cycle. As such, we continue to see the Fed cutting rates by 25 bps in July at the earliest, with still-high risks of one rate cut this year in December.

► **UK: BoE to keep rates steady and stress data-dependency**

We and consensus expect the BoE to keep the Bank Rate steady at 5.25% this week with an 8 (on hold) to 1 (25 bps rate cut) majority. Moderation in labour market conditions, with unemployment rising to 4.2% y-o-y in February and continued wage growth deceleration, has likely diminished the MPC's concerns of second-round effects. As such, the policy statement will likely highlight that rate cuts would be appropriate if data further increases the MPC's confidence in a sustainable disinflation trajectory, giving the BoE sufficient optionality by keeping the policy path conditional on incoming data. Indeed, a rebound in economic growth, with consensus expecting 1Q2024 GDP to expand 0.4% q-o-q (4Q2023: -0.3%), on strengthening consumption reduces the urgency for the BoE to begin cutting rates. We expect a 25 bps rate cut in June, followed by 25 bps cuts in both August and November.

► **EM: April CPI report to show continued disinflation in Egypt**

We expect a continued deceleration in Egypt's headline CPI (due 9 May) to 30.5% y-o-y in April (March: 33.3%) with softer food and core prices. The clearance of the import backlog and subsequent improved availability of goods likely weakened food inflation in April. Core inflation is seen decelerating to 33.2% y-o-y in April (March: 33.7%) on favourable base effects and easing supply conditions in sectors most affected by FX shortages, such as the automobile sector. Tight domestic monetary policy conditions are required until there are clear signs of inflation decelerating, in our view. As such, we continue to see scope for rate cuts only in 1Q2025.

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I. Recent Events and Data Releases

A. Advanced Economies

US: Fed signals support for the ‘higher-for-longer’ monetary stance

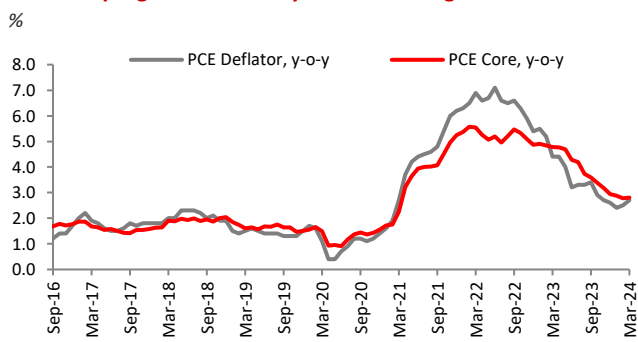
The FOMC maintained the FFTR at 5.5% (upper-bound) last week, with the policy statement acknowledging the slower-than-expected progress disinflation. The statement now notes that “there has been a lack of further disinflation progress” and highlights that risks to achieving the FOMC’s employment and inflation goals “have moved toward better balance over the past year”, no longer mentioning that they “are moving into better balance”. The changes in the policy statement reflect the Committee’s reduced confidence in the near-term disinflation trajectory. Consequently, Fed Chair Jerome Powell indicated support for a higher-for-longer monetary stance by highlighting that achieving greater confidence in “sustainable” disinflation will take “longer than previously expected” and noted that the FOMC will maintain the current rate for “as long as appropriate”. We believe the overall communication from the Fed supports our outlook for a first US rate cut at the July meeting at the earliest.

The May policy statement reflects the Committee’s decreased confidence in disinflation

Meanwhile, the Fed announced a slowing pace of quantitative tightening (QT) by reducing the monthly redemption cap on treasuries to USD25.0 billion from USD60.0 billion. This will increase the Fed’s balance sheet and inject more liquidity into financial markets, leading to some downward movement in short-term rates and a potential steepening in the yield curve.

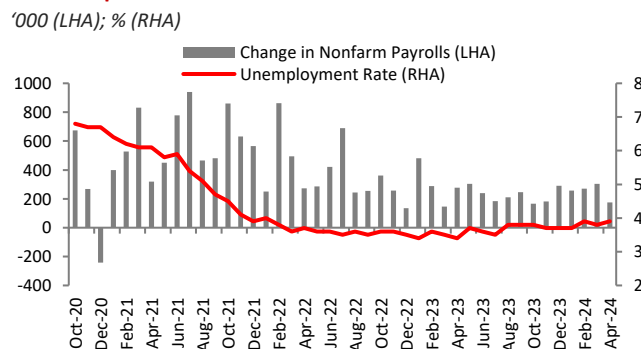
Fed’s plan to slow pace of QT will potentially lead to yield curve steepening

Fig. 1. US: Powell acknowledged the stalling disinflation progress at the May FOMC meeting



Source: Bureau of Economic Analysis, ADCB Economic Research

Fig. 2. US: NFP additions moderated in March but continue to point to a still-resilient labour market



Source: Bureau of Labour Statics, ADCB Economic Research

US: Broad-based softening in labour market provides some relief to Fed

The April NFP report showed some moderation in labour market conditions, with supply and demand factors moving into better balance as NFP eased more than expected to 175K (consensus: 238K) and the unemployment rate rose unexpectedly to 3.9%. The softer-than-expected April NFP print comes after three consecutive months of strengthening, providing some relief to the Fed. Additionally, the cumulative downward revision of 22K for the prior months indicates that the labour market is not as robust as previously envisaged. This gradual moderation in the labour market has likely diminished market concerns on material strengthening in the underlying drivers of inflation pushing

April NFP print gives the Fed some confidence in higher rates weighing on labour market

the Fed to hike rates, signalling that the next move from the Fed will likely be a rate cut. Nonetheless, we believe the labour market remains resilient, with the 3-month moving average pace broadly unchanged at 242K (January: 243K), underlining the need for the Fed to proceed cautiously with its rate-cutting cycle.

Job growth in April was led mainly by the services sector, with jobs in education and health services accounting for c.54.3% of total additions. Moreover, job growth in interest-rate-sensitive sectors such as leisure and hospitality moderated sharply to 5K (March: 53K). This potentially indicates that the tight financing conditions have begun to weigh on the labour market. Meanwhile, wage growth decelerated 0.2% m-o-m in April (March: 0.3%), resulting in annual wage growth declining to its lowest level in two years at 3.9%. This will likely alleviate some market concerns of a potential re-acceleration in wage growth, following the upside surprise in the March Employment Cost Index estimates last week. We expect a further deceleration in wage growth, with the recent JOLTS report continuing to point to a gradual decrease in labour demand with a moderation in job openings and lower job market churn. We believe the Fed will seek further data pointing to a sustained loosening in labour market conditions before beginning its rate-cutting cycle.

Annual wage growth decelerated to the lowest level in two years; further decline expected

Eurozone: Small upside surprise in core CPI unlikely to delay rate cuts

The April flash CPI printed with a marginal hawkish surprise as core inflation decelerated less than expected to 2.7% y-o-y from 3.0% (consensus: 2.6%) on slower core goods disinflation, though headline CPI was steady at 2.4% y-o-y (consensus: 2.4%). However, headline inflation remaining unchanged was led by one-off factors such as VAT on natural gas for household consumption in Germany and Italy. Meanwhile, core services cooled to 3.7% y-o-y after remaining unchanged at 4.0% for five consecutive months, though this was mainly driven by the early Easter timing. Nonetheless, we see some scope for continued cooling in core services CPI in the coming months, with April's Economic Sentiment Indicator (ESI) reporting another decline in the share of services firms expecting to hike prices in the next three months. The recent labour market survey highlighted that only c.20.0% of private sector employees are awaiting a contract renewal in 1Q2024, diminishing the outlook for an upward revision to wages. Indeed, ECB Chief Economist Philip Lane highlighted that recent data prints have made him "more certain" of inflation returning to the 2.0% target level. We continue to envisage a 25 bps rate cut in June, followed by three consecutive 25 bps cuts in 2024 in July, September and October.

Forward-looking indicators point to continued deceleration in core services CPI

Meanwhile, we see tentative signs of economic recovery in the Eurozone materialising after a long period of stagnation. 1Q2024 GDP rebounded more than expected by 0.3% q-o-q (consensus: 0.1%) with broad-based strengthening in economic growth across France, Italy and Spain on higher-than-expected household consumption. We see some potential for sustained recovery momentum, with April's European Commission surveys highlighting rising business confidence across the Eurozone, potentially indicating that a sustained economic recovery is underway.

We see some signs of the Eurozone achieving a 'soft landing'

B. Developing Economies

China: Politburo signalled further policy support to boost growth

The politburo maintained a supportive stance at its meeting last week by calling for further policy support to spur growth, with a marked focus on expediting the implementation of pre-announced policies to accelerate recovery momentum. Policymakers adopted an optimistic tone relative to the "Two Sessions" conference in March, likely due to 1Q2024 GDP printing with a material upside surprise at 5.3% y-o-y

Further easing of property purchase regulations expected to support the property sector

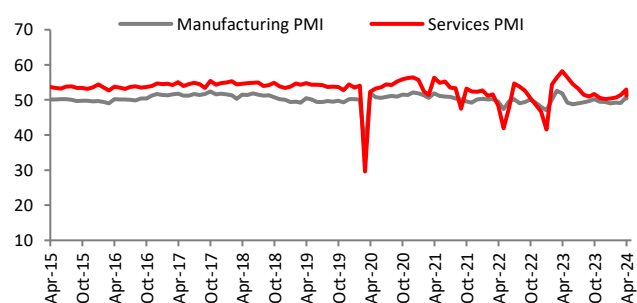
(consensus: 4.8%). Nonetheless, policymakers acknowledged that “structural” challenges facing the economy persist and committed to “frontload the planned macro policies”. In this regard, the politburo pledged to increase special government bond issuance, and the ultra-long dated special central government bonds. We believe this will likely boost infrastructure investment, providing much-needed support to the property sector, with the April NBS PMI showing real-estate services remaining contracted. The persistent weakness in the property sector likely prompted policymakers to signal support for both demand and supply conditions, instead of focusing only on the supply side, by pledging to implement further “city-specific housing policies”. We expect the government to accelerate its purchase of stalled housing projects as this would ease property developers’ debt and funding concerns, alongside implementing further relaxation in home purchase curbs (HPR) in Tier-1 cities.

Meanwhile, policies to boost domestic consumption, such as implementing the “large-scale consumer goods trade-in and equipment upgrade programme”, were highlighted to address “insufficient domestic demand”. Indeed, the NBS PMI showed services consumption activity weakened to its lowest point since January at 50.3 in April (March: 52.4). We continue to expect further VAT tax cuts in 3Q2024 to spur consumption. Looking ahead, consensus expects the recent rise in external demand for China’s goods and services to return exports to positive territory, strengthening 1.5% y-o-y in April (March: -7.5%). Additionally, consensus envisages imports rising 4.5% y-o-y in April (March: -1.9%), though we would need to see additional data prints to confirm if a sustained rise in domestic demand is underway.

The large-scale consumer goods trade-in programme will likely boost household consumption

Fig. 3. China: Slowing in services activity in April potentially points to weakening household consumption

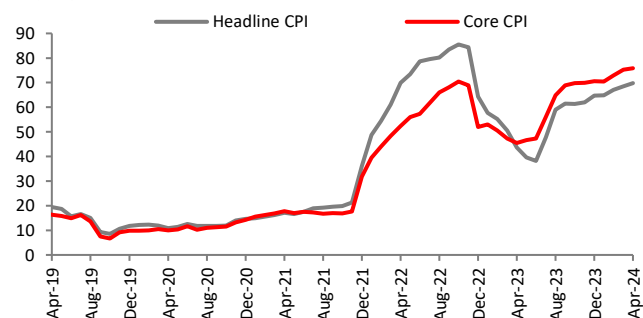
Index: above 50 is expansion



Source: National Bureau of Statistics, ADCB Economic Research

Fig. 4. Turkey: Headline and core CPI continued to accelerate in April; CBRT sees prices softening in 2H2024

%, y-o-y



Source: TurkStat, ADCB Economic Research

Turkey: April CPI print shows still-strong price pressures

Headline inflation remained strong in April, accelerating 3.2% m-o-m (consensus: 3.4%), leading annual headline inflation to rise further to 69.8% y-o-y. The marginal downside surprise was primarily led by softer-than-expected food inflation, given the recent stability of the TRY against the USD. The April CPI print indicates some improvement in underlying price pressures, with the three-month moving average headline CPI decelerating for the first time this year to 4.0% m-o-m. However, the still-strong sequential CPI print will likely lead the CBRT to raise the upper-bound of its mid-year and year-end inflation projections to 38.0% y-o-y (previous: 36.0%) and 44.0% y-o-y (previous: 42.0%). We see limited evidence of the higher interest rates weighing on consumption, with core services CPI accelerating to record-high levels at 97.0% y-o-y in

Record-high service inflation points to still-high domestic demand

April, indicating a deterioration in pricing behaviour and still-strong domestic demand. Indeed, April trade data showed a trade deficit of c.USD9.9 billion, led by a rise in imports, highlighting still-strong domestic conditions. The CBRT's April meeting policy statement indicated the need to see the "lagged impact" of the previous rate hikes. As such, we continue to expect the MPC to remain on pause for the rest of 2024, with scope for a rate cut only in 1Q2025.

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this Week					
	Qatar	GDP Constant Prices, y-o-y	4Q	1.2%	
	Egypt	Net Reserves	Apr	40.4B	
	UAE	Dubai CPI, y-o-y	Apr	3.3%	
	Saudi Arabia	Industrial Production, y-o-y	Mar	-7.7%	-6.3%
	UAE	S&P Global Dubai PMI	Apr	58.0	
Monday, 6 May					
9:00	India	HSBC India PMI Composite	Apr F	62.2	
9:00	India	HSBC India PMI Services	Apr F	61.7	
12:00	Eurozone	HCOB Eurozone Services PMI	Apr F	52.9	52.9
12:00	Eurozone	HCOB Eurozone Composite PMI	Apr F	51.4	51.4
15:15	Eurozone	ECB's Villeroy Speaks at BIS Innovation Summit			
20:50	US	Fed's Barkin Speaks on Economic Outlook			
Tuesday, 7 May					
4:30	Japan	Jibun Bank Japan PMI Composite	Apr F	52.6	
4:30	Japan	Jibun Bank Japan PMI Services	Apr F	54.6	
5:10	Germany	Exports SA, m-o-m	Mar	-2.0%	0.3%
5:10	Germany	Imports SA, m-o-m	Mar	3.2%	-1.0%
12:00	UK	New Car Registrations, y-o-y	Apr	10.4%	
13:00	Eurozone	Retail Sales, m-o-m	Mar	-0.50%	0.7%
Wednesday, 8 May					
10:00	Germany	Industrial Production SA, m-o-m	Mar	2.1%	-0.7%
10:00	Germany	Industrial Production, y-o-y	Mar	-4.9%	-3.6%
16:00	Eurozone	ECB's Wunsch Speaks in Frankfurt			
19:45	US	Fed's Collins Speaks to MIT Students			
21:30	US	Fed's Cook Speaks on Financial Stability			
Thursday, 9 May					
3:01	UK	RICS House Price Balance	Apr	-4.0%	-2.0%
3:30	Japan	Labor Cash Earnings, y-o-y	Mar	1.8%	1.4%
3:30	Japan	Real Cash Earnings, y-o-y	Mar	-1.3%	-1.5%
15:00	UK	Bank of England Bank Rate	9-May	5.25%	5.25%
15:30	UK	BOE Governor Press Conference			
	China	Exports, y-o-y	Apr	-7.5%	1.5%
	China	Imports, y-o-y	Apr	-1.9%	4.5%
	China	Trade Balance, USD	Apr	58.5B	80.5B
	Egypt	Urban CPI, y-o-y	Apr	33.3%	
	Egypt	Urban CPI, m-o-m	Apr	1.0%	
	Egypt	CPI Core, y-o-y	Apr	33.7%	
Friday, 10 May					
3:30	Japan	Household Spending, y-o-y	Mar	-0.5%	-2.3%
10:00	UK	GDP, q-o-q	1Q P	-0.3%	0.4%
10:00	UK	GDP YoY	1Q P	-0.2%	0.0%
10:00	UK	Private Consumption, q-o-q	1Q P	-0.1%	0.4%
10:00	UK	Government Spending, q-o-q	1Q P	0.1%	0.6%
10:00	UK	Gross Fixed Capital Formation, q-o-q	1Q P	0.9%	-0.3%
10:00	UK	Exports, q-o-q	1Q P	-0.8%	-1.1%
10:00	UK	Imports, q-o-q	1Q P	-0.3%	-0.5%
18:00	US	U. of Mich. Expectations	May P	76.0	75.4
18:00	US	U. of Mich. 5-10 Yr Inflation	May P	3.0%	3.0%

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Saudi Arabia	M3 Money Supply, y-o-y	Mar	10.1%		8.3%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Mar	1545.4B		1628.4B
	UAE	S&P Global United Arab Emirates PMI	Apr	56.9		55.3
	Qatar	GDP Constant Prices, y-o-y	4Q			
	Saudi Arabia	GDP Constant Prices, y-o-y	1Q P	-4.3%		-1.8%
Monday, 29 April						
13:00	Eurozone	Consumer Confidence	Apr F	-14.7		-14.7
13:00	Eurozone	Services Confidence	Apr	6.4	6.9	6.3
13:00	Eurozone	Industrial Confidence	Apr	-8.9	-8.5	-10.5
13:00	Eurozone	Economic Confidence	Apr	96.2	96.7	95.6
18:30	US	Dallas Fed Manf. Activity	Apr	-14.4	-11.2	-14.5
Tuesday, 30 April						
3:01	UK	BRC Shop Price Index, y-o-y	Apr	1.3%	1.30%	0.80%
3:30	Japan	Job-To-Applicant Ratio	Mar	1.3	1.3	1.3
3:30	Japan	Jobless Rate	Mar	2.6%	2.5%	2.6%
3:50	Japan	Retail Sales, y-o-y	Mar	4.7%	2.4%	1.2%
3:50	Japan	Retail Sales, m-o-m	Mar	1.7%	-0.2%	-1.2%
3:50	Japan	Industrial Production, m-o-m	Mar P	-0.6%	3.3%	3.8%
3:50	Japan	Industrial Production, y-o-y	Mar P	-3.9%	-6.3%	-6.7%
5:30	China	Manufacturing PMI	Apr	50.8	50.3	50.4
5:30	China	Non-manufacturing PMI	Apr	53.0	52.3	51.2
13:00	Eurozone	CPI Estimate, y-o-y	Apr	2.4%	2.4%	2.4%
13:00	Eurozone	CPI, m-o-m	Apr P	0.8%	0.6%	0.6%
13:00	Eurozone	CPI Core, y-o-y	Apr P	2.9%	2.6%	2.7%
13:00	Eurozone	GDP SA, q-o-q	1Q A	-0.1%	0.1%	0.3%
18:00	US	Conf. Board Consumer Confidence	Apr	103.1	104.0	97.0
Wednesday, 1 May						
15:00	US	MBA Mortgage Applications	26-Apr	-2.7%		2.3%
16:15	US	ADP Employment Change	Apr	208K	183k	192k
17:45	US	S&P Global US Manufacturing PMI	Apr F	49.9	50	49.9
18:00	US	Construction Spending MoM	Mar	0.0%	-0.2%	-0.3%
18:00	US	JOLTS Job Openings	Mar	8813K	8488K	8756K
18:00	US	ISM Employment	Apr	47.4	48.2	48.6
22:00	US	FOMC Rate Decision (Upper Bound)	1-May	5.50%	5.50%	5.50%
22:00	US	FOMC Rate Decision (Lower Bound)	1-May	5.25%	5.25%	5.25%
22:00	US	Interest on Reserve Balances Rate	2-May	5.40%	5.40%	5.40%
Thursday, 2 May						
16:30	US	Nonfarm Productivity	1Q P	3.5%	0.5%	0.3%
16:30	US	Unit Labor Costs	1Q P	0.0%	4.0%	4.7%
Friday, 3 May						
11:00	Turkey	Inflation Rate, y-o-y	Apr	68.5%	70.3%	69.8%
16:30	US	Two-Month Payroll Net Revision	Apr	22K	22K	22K
16:30	US	Change in Nonfarm Payrolls	Apr	303K	238K	175K
16:30	US	Change in Private Payrolls	Apr	232K	200K	167K
16:30	US	Unemployment Rate	Apr	3.8%	3.8%	3.9%
16:30	US	Average Hourly Earnings, m-o-m	Apr	0.3%	0.3%	0.2%
16:30	US	Average Hourly Earnings, y-o-y	Apr	4.1%	4.0%	3.9%
16:30	US	Average Weekly Hours All Employees	Apr	34.4	34.4	34.3

*UAE time

Source: Bloomberg, ADCB Economic Research

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