

## The Week Ahead: US election too close to call; Fed and BoE to cut by 25 bps

### ► **US: A disputed election result could lead to market volatility**

The US presidential election remains a key focus this week, with the latest polls continuing to point to a narrow margin between the two contenders. The latest polls (such as the New York Times/Siena and ABC News/Ipsos) over the weekend indicate that Democratic candidate Kamala Harris has gained some momentum and is leading in five of the seven vital 'swing states'. A close result could lead to disputes and lengthy litigation battles, potentially casting uncertainty for several weeks. Notwithstanding the political outcome, we expect the FOMC to cut the FFTR by 25 bps on Thursday to 4.75% (upper bound), marking a step down from the front-loaded 50 bps cut undertaken in September. We do not envisage any major changes in the statement and expect Chair Jerome Powell to reiterate optimism in achieving a soft landing while highlighting data dependence. We expect the Fed to look through the hurricane-induced slowdown in October NFP job additions (page 2), though the downward revision to August and September (-112K) job growth implies some broader softening. Consumption and activity trends remain resilient, with 3Q GDP growth remaining healthy at 2.8% q-o-q saar. The strong monthly acceleration in core PCE prices (0.4% m-o-m) in September also signals that disinflation progress will be bumpy and reiterates the need for a gradual approach to the rate-cutting cycle. The majority of Fed speakers over the past month have signalled a preference for reducing policy rates gradually.

### ► **UK: Economic projections to be closely watched after budget**

We expect the BoE to cut the Bank Rate by 25 bps to 4.75% with a 6-3 (hold) majority this week, after keeping rates steady last month. Our rate-cut expectations are on the back of a continued deceleration in inflation and ongoing loosening in the labour market. However, we expect the overall communication to maintain a cautious tone, highlighting a meeting-by-meeting approach to cutting rates so as to ensure a sustained disinflation trend. The expansionary Autumn Budget announced last week (page 3) poses upside risks to the inflation and growth outlook. As such, any upward revisions to the GDP and CPI projections will signal that the BoE could adopt a more cautious approach to cutting rates. We see the potential for a more gradual rate-cutting cycle following the release of the budget, though await the BoE's new projections before making any changes to forecasts.

### ► **MENA: OPEC+ delays supply increases; Fitch upgrades Egypt**

OPEC+ again delayed its planned oil production rise by one month to January 2025, from December previously. The move is in line with our long-held view of no production increases in 2024, which is already reflected in our GCC GDP growth and revenue projections. We also see limited space for OPEC+ to raise output in 2025, with still-weak Chinese demand growth and strong non-OPEC+ production growth. Meanwhile, Fitch upgraded Egypt's sovereign rating to B from B-, with a stable outlook, taking the rating one and two levels above S&P and Moody's assessments. The move follows significant capital inflows post the Ras-El Hekma deal, alongside meaningful fiscal and monetary reforms.

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#### Contents

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

# I. Recent Events and Data Releases

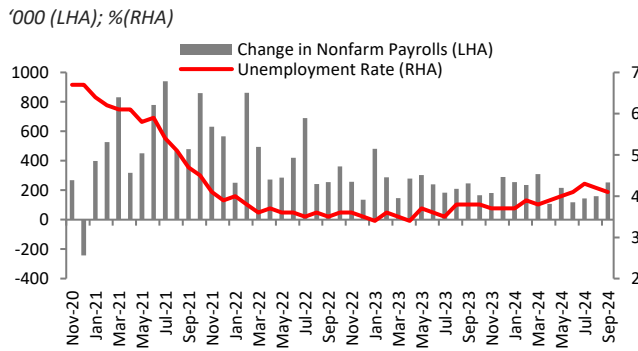
## A. Advanced Economies

### US: Transitory factors weigh on October NFP; 3Q GDP robust

October NFP job gains slowed substantially to 12K (consensus: 100K; September (R): 223K), alongside a 112K downside revision to the prior two months' payrolls. However, a large part of the slowdown in October NFP was driven by transitory factors such as hurricanes Helene and Milton, coupled with Boeing worker strikes. Weather-sensitive sectors such as leisure and hospitality were among the most significantly hit in October. The 3mma of job gains has now slowed to 104K, from 267K and 147K registered in 1Q and 2Q, respectively, implying some broader softening in the labour market. Meanwhile, there were solid signals from the unemployment rate and wage growth, which held steady at 4.1% and 4.0% y-o-y, respectively. The unusually low response rate (47.4%) in the October NFP survey makes it difficult to draw any reliable conclusion on the underlying labour market trends, in our view. This implies that we need to wait for the November NFP report to gain better clarity on the underlying labour market trends, especially given the scope for substantial revisions. Indeed, the fall in the latest weekly jobless claims signals that hurricane-related disruptions are receding. On the activity side, 3Q GDP rose at a robust 2.8% q-o-q saar (2Q2024: 3.0%), led by a strengthening in consumer spending (3.7%) and government expenditure. The more durable private domestic final purchases (PDFP) accelerated to 3.2% q-o-q saar (2.7%), signalling that domestic demand remains supported, boding well for 4Q GDP growth and a soft-landing scenario.

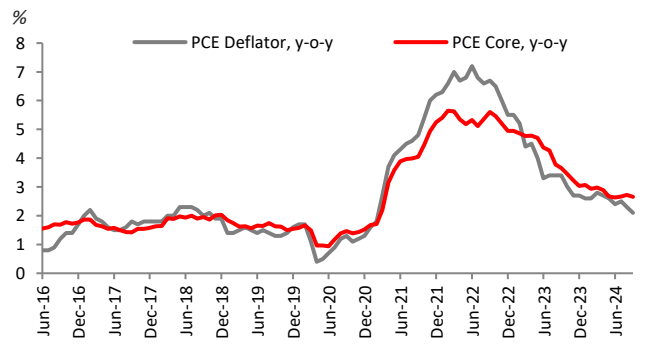
*Hurricane disruptions make it difficult to draw any reliable signals from the October NFP*

**Fig. 1. US: Hurricane disruptions and worker strikes weighed on October NFP; softness likely transitory**



Source: Bureau of Labour Statics, ADCB Economic Research

**Fig. 2. US: Gradual disinflation and still-solid GDP strengthens outlook for a soft landing**



Source: Bureau of Labour Statics, ADCB Economic Research

### US: Upside surprise in core PCE supports gradual Fed rate cuts

Core PCE strengthened to 0.3% m-o-m in September (August: 0.2%), pointing to challenges during the last leg of the disinflation process and reaffirming the need for a gradual rate-cutting cycle. Core goods prices rose 0.1% m-o-m, marking the first sequential price rise after two consecutive months of contraction. The rise in core services prices was steady at 0.3% m-o-m, as strengthening in healthcare services and transportation was offset by softening in housing costs. Sustaining the deceleration in housing costs is critical to meeting the Fed's annual 2.0% inflation target, in our view. The rounded yearly core PCE rate remained steady at 2.7% y-o-y (consensus: 2.6%) after upward revisions to the July and August PCE prints. As a result, we now see core PCE

*Broader disinflation remains intact, despite the strengthening in September core PCE*

tracking c.2.8% y-o-y in 4Q2024 – above the Fed’s 2.6% projection. However, we believe that a slightly higher-than-projected core PCE rate will not be a major cause for concern for the Fed, particularly following the deceleration in the 3Q Employment Cost Index (ECI) to 0.8% (2Q: 0.9%), which signalled that wage pressures remain manageable, supporting a gradual disinflation outlook.

### UK: Budget will likely boost short- to medium-term GDP growth

The Autumn Budget was more expansionary than market expectations, with Chancellor Rachel Reeves outlining sharply higher current and capital spending. The government departmental day-to-day spending was increased by GBP48.8 billion by FY2029 (Apr.-Mar.). Additionally, investment spending was increased by GBP100.0 billion over five years (FY2024-29). The investments will be targeted towards public infrastructure upgrades, boosting green energy and building additional housing stock. This rise in government spending will be funded partially by tax hikes (by GBP41.5 billion per year until FY2029), though increased borrowing will also be important (on average GBP30.0 billion per year). The Office of Budget and Responsibility (OBR) highlighted that the increased government spending and investment will more than offset the fiscal drag from higher taxes – boosting short- to medium-term growth. As such, the OBR raised its real GDP growth forecast for FY2024-25 to 1.5% (previous: 1.0%) and to 2.0% for FY2025-26 (from 1.9%). This increased GDP growth and inflation backdrop poses risks to our expectations of the BoE delivering consecutive 25 bps cuts from November to August 2025.

*Fiscal easing measures introduced in the Autumn Budget will likely lead the BoE to adopt a gradual pace of cuts*

The budget also introduced two meaningful changes in the budget framework: i) requiring the current budget to move into balance by FY2029 (‘the deficit target rule’), and ii) reducing net financial debt as a share of GDP by FY2029-30. The budget utilises a broader measure to calculate net financial debt – the public sector net financial liabilities (PSNFL) – thereby increasing the total available fiscal headroom to c.GBP49.1 billion (previous: GBP22.7). The new measure now includes long-term financial assets, which can be divested by the government to help reduce debt. This enabled Chancellor Reeves to increase the borrowing required for higher investment expenditure and broader government spending. The budget announced tax increases of c.GBP41.5 billion per year (FY2024-29), with the 1.2pp rise in employer National Insurance Contributions (NICs) accounting for more than half of total tax revenues (c.GBP25.0 billion per year). The remainder of the tax revenues will come from rises in tobacco duty, increasing the capital gains and inheritance tax, and introducing VAT on private schools. Additionally, Chancellor Reeves abolished the ‘non-dom’ tax status, with the OBR forecasting this policy change to raise c.GBP12.7 billion per year.

*Employer NIC contributions to raise large portion of tax revenues*

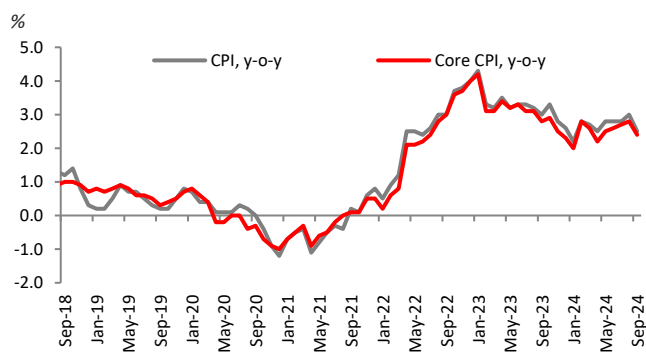
### Japan: BoJ kept rates on hold; December rate hike live

The BoJ kept rates steady at 0.25% last week, in line with our and market expectations. The overall communication increases the outlook for a December hike, with the policy statement now noting increased upside risks to inflation on further weakening in the JPY. Additionally, BoJ Governor Kazuo Ueda adopted a hawkish tone at the post-meeting conference, noting that “pass-through of wages to service CPI is broadening”. This likely indicates increased confidence in the outlook for a sustained rise in inflation – a key prerequisite for hiking rates further. The BoJ highlighted that economic developments in the US will be “closely watched”, though now indicated receding risks of a recession in the US. Additionally, the BoJ’s Outlook Report highlighted that economic growth has continued to “gradually” strengthen and reiterated that exchange-rate developments are “more likely to affect prices”. We believe the BoJ remains on track for further hikes

*Our core scenario is still for a January rate cut*

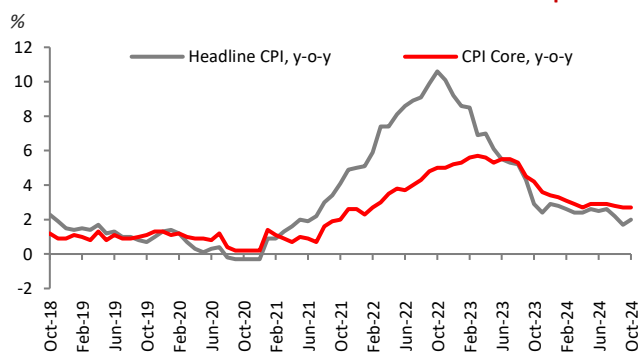
despite the heightened domestic political uncertainty, with the Liberal Democratic Party losing its majority in the lower house, as a delay in raising rates may lead to further depreciation of the JPY. Our base case remains for a 25 bps hike only at the January meeting, though we see risks of a December hike.

**Fig. 3. Japan: BoJ keeps rate steady; BoJ Governor Ueda noted increased confidence in sustainable inflation**



Source: Ministry of Internal Affairs, ADCB Economic Research

**Fig. 4. Eurozone: Acceleration in headline CPI and sticky core CPI weakens the outlook for an outsized 50 bps cut**



Source: Eurostat, ADCB Economic Research

**Eurozone: Strengthening in CPI negates scope for large rate cuts**

The upside surprise in October CPI reduces the scope for large ECB rate cuts, in our view. The ECB has so far delivered 25 bps of rate cuts at the June, September and October policy meetings. Headline inflation accelerated above expectations to 2.0% y-o-y (September: 1.7%; consensus: 1.9%), driven by a broad-based rise across food, energy and core components. Core CPI rose higher than anticipated to 2.7% y-o-y in October (consensus: 2.6%), though the ongoing loosening in the labour market will likely lead to some deceleration in core CPI in the coming months. Additionally, the 3m/3m annualised services inflation decelerating further to 3.5% in September will likely give the ECB confidence that broader disinflation remains on track. We continue to expect the ECB to cut by 25 bps at each meeting until June 2025 (five meetings), taking the terminal deposit rate to 2.0%.

*The ECB remains on track for consecutive 25 bps cuts until June 2025*

## II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	Qatar	CPI, y-o-y	Aug	0.2%	
<b>Monday, 4 November</b>					
9:00	India	HSBC India PMI Mfg	Oct F	57.4	
12:55	Germany	HCOB Germany Manufacturing PMI	Oct F	42.6	42.6
13:00	Eurozone	HCOB Eurozone Manufacturing PMI	Oct F	45.9	45.9
19:00	US	Factory Orders	Sep	-0.2%	-0.5%
19:00	US	Durable Goods Orders	Sep F	-0.8%	-0.8%
19:00	US	Durables ex-Transportation	Sep F	0.4%	0.4%
<b>Tuesday, 5 November</b>					
3:50	Japan	Monetary Base, y-o-y	Oct	-0.1%	
5:45	China	Caixin China PMI Composite	Oct	50.3	
5:45	China	Caixin China PMI Services	Oct	50.3	50.5
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Oct	56.3	
8:15	UAE	S&P Global United Arab Emirates PMI	Oct	53.8	
9:15	Egypt	S&P Global Egypt PMI	Oct	48.8	
13:30	UK	S&P Global UK Services PMI	Oct F	51.8	51.8
13:30	UK	S&P Global UK Composite PMI	Oct F	51.7	51.7
17:30	US	Trade Balance	Sep	-70.4B	-84.1B
19:00	US	ISM Services Index	Oct	54.9	53.8
<b>Wednesday, 6 November</b>					
11:00	Germany	Factory Orders, m-o-m	Sep	-5.8%	1.6%
12:55	Germany	HCOB Germany Services PMI	Oct F	51.4	51.4
12:55	Germany	HCOB Germany Composite PMI	Oct F	48.4	48.4
13:00	Eurozone	HCOB Eurozone Services PMI	Oct F	51.2	51.2
13:00	Eurozone	HCOB Eurozone Composite PMI	Oct F	49.7	49.7
13:30	UK	S&P Global UK Construction PMI	Oct	57.2	55.1
16:00	US	MBA Mortgage Applications	1-Nov	-0.1%	
18:45	US	S&P Global US Services PMI	Oct F	55.3	55.3
18:45	US	S&P Global US Composite PMI	Oct F	54.3	
<b>Thursday, 7 November</b>					
3:30	Japan	Labor Cash Earnings, y-o-y	Sep	2.8%	3.0%
3:30	Japan	Real Cash Earnings, y-o-y	Sep	-0.8%	0.1%
11:00	Germany	Industrial Production SA, m-o-m	Sep	2.9%	-1.0%
14:00	Eurozone	Retail Sales, m-o-m	Sep	0.2%	0.4%
14:00	Eurozone	Retail Sales, y-o-y	Sep	0.8%	1.3%
16:00	UK	Bank of England Bank Rate	7-Nov	5.00%	4.75%
16:30	UK	BOE Press Conference			
17:30	US	Unit Labor Costs	3Q P	0.4%	1.2%
17:30	US	Initial Jobless Claims	2-Nov	216K	223K
19:00	US	Wholesale Inventories, m-o-m	Sep F	-0.1%	-0.1%
23:00	US	FOMC Rate Decision (Upper Bound)	7-Nov	5.00%	4.75%
23:00	US	FOMC Rate Decision (Lower Bound)	7-Nov	4.75%	4.50%
23:00	US	Fed Interest on Reserve Balances Rate	8-Nov	4.90%	4.65%
	China	Exports, y-o-y	Oct	2.4%	5.0%
	China	Imports, y-o-y	Oct	0.3%	-1.5%
	China	Trade Balance	Oct	81.71B	74.35B
	China	Foreign Reserves	Oct	3316.37B	3287.00B
<b>Friday, 8 November</b>					
19:00	US	U. of Mich. Sentiment	Nov P	70.5	71.0

\*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>G4 Economies</b>						
	Germany	Import Price Index, m-o-m	Sep	-0.4%	-0.4%	-0.4%
	Germany	Retail Sales, m-o-m	Sep	1.2%	-0.6%	1.2%
<b>Monday, 28 October</b>						
18:30	US	Dallas Fed Manf. Activity	Oct	-9.0	-9.4	-3.0
<b>Tuesday, 29 October</b>						
3:30	Japan	Jobless Rate	Sep	2.50%	2.50%	2.40%
18:00	US	Conf. Board Consumer Confidence	Oct	99.2	99.5	108.7
<b>Wednesday, 30 October</b>						
14:00	Eurozone	Consumer Confidence	Oct F	-12.5		-12.5
14:00	Eurozone	Services Confidence	Oct	7.1	6.6	7.1
14:00	Eurozone	Industrial Confidence	Oct	-11.0	-10.5	-13.0
14:00	Eurozone	Economic Confidence	Oct	96.3	96.3	95.6
14:00	Eurozone	GDP SA, q-o-q	3Q A	0.2%	0.2%	0.4%
14:00	Eurozone	GDP SA, y-o-y	3Q A	0.6%	0.8%	0.9%
16:30	US	GDP Annualised, q-o-q	3Q A	3.0%	2.9%	2.8%
16:30	US	Personal Consumption	3Q A	2.8%	3.3%	3.7%
17:00	Germany	CPI, y-o-y	Oct P	1.6%	1.8%	2.0%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Sep	1674.8B		1625.6B
<b>Thursday, 31 October</b>						
3:50	Japan	Industrial Production, m-o-m	Sep P	-3.3%	0.8%	1.4%
5:30	China	Manufacturing PMI	Oct	49.8	49.9	50.1
14:00	Eurozone	CPI Estimate, y-o-y	Oct	1.7%	1.9%	2.0%
14:00	Eurozone	CPI, m-o-m	Oct P	-0.1%	0.2%	0.3%
14:00	Eurozone	CPI Core, y-o-y	Oct P	2.7%	2.6%	2.7%
14:00	Eurozone	Unemployment Rate	Sep	6.30%	6.40%	6.30%
16:30	US	Personal Income	Sep	0.2%	0.3%	0.3%
16:30	US	Personal Spending	Sep	0.3%	0.4%	0.5%
16:30	US	Real Personal Spending	Sep	0.2%	0.4%	0.5%
16:30	US	PCE Price Index, m-o-m	Sep	0.1%	0.2%	0.2%
16:30	US	PCE Price Index, y-o-y	Sep	2.3%	2.1%	2.1%
16:30	US	Core PCE Price Index, m-o-m	Sep	0.2%	0.3%	0.3%
16:30	US	Core PCE Price Index, y-o-y	Sep	2.7%	2.6%	2.7%
16:30	US	Initial Jobless Claims	26-Oct	228K	230K	216K
	Japan	BOJ Target Rate	31-Oct	0.25%	0.25%	0.25%
<b>Friday, 1 November</b>						
4:30	Japan	Jibun Bank Japan PMI Mfg	Oct F	49.0		49.2
5:45	China	Caixin China PMI Mfg	Oct	49.3	49.7	50.3
13:30	UK	S&P Global UK Manufacturing PMI	Oct F	50.3	50.3	49.9
16:30	US	Change in Nonfarm Payrolls	Oct	223K	100K	12K
16:30	US	Two-Month Payroll Net Revision	Oct	72k		-112K
16:30	US	Change in Private Payrolls	Oct	192K	70K	-28K
16:30	US	Change in Manufact. Payrolls	Oct	-6K	-30K	-46K
16:30	US	Unemployment Rate	Oct	4.10%	4.10%	4.10%
16:30	US	Average Hourly Earnings, m-o-m	Oct	0.3%	0.3%	0.4%
16:30	US	Average Hourly Earnings, y-o-y	Oct	3.9%	4.0%	4.0%
16:30	US	Labor Force Participation Rate	Oct	62.70%	62.70%	62.60%
18:00	US	ISM Manufacturing	Oct	47.2	47.6	46.5

\*UAE time

Source: Bloomberg, ADCB Economic Research

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