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The Week Ahead: US CPI to provide cues on pace of rate cuts

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US: Headline CPI to decelerate; core CPI to remain steady

An exceptionally strong September NFP, including a declining unemployment rate and upside revisions to the prior two payroll prints, points to a healthy labour market and limits the need for large Fed rate cuts (page 2). Market pricing of a November rate cut has moderated to 25.0 bps now, from 34.0 bps prior to the NFP release. Market attention now shifts to September CPI, where consensus expects headline CPI (due Thursday) to decelerate to 2.3% y-o-y (August: 2.5%), led by deflation in energy. Core CPI is expected to stay steady at 3.2% y-o-y, due to an unfavourable base. On a monthly basis, core CPI is expected to soften to 0.2% (August: 0.3%), signalling that underlying disinflation progress remains on track. Core goods prices are expected to stay flat on a monthly basis, after contracting in 14 of the past 15 months. Services price increases are expected to decelerate, led by softer housing costs. This will be particularly critical, as the strengthening in shelter inflation over the past few months has emerged as a key hindrance to faster disinflation. The minutes of the September FOMC meeting (due Wednesday) will be examined for any assessments of the future pace of rate easing, including additional 50 bps rate cuts. Chair Jerome Powell's speech last week set a cautious tone, stressing that rate cuts will take place at a measured pace. We see the 50 bps September cut as frontloading by the Fed and maintain our expectation for cut increments of 25 bps going forward.

India: RBI to keep rates steady and maintain balanced outlook

We expect the RBI to keep rates on hold, retaining its current 'withdrawal of accommodation' stance. The voting split will be particularly critical, given this is the first MPC meeting with the three new external members. We expect Governor Shaktikanta Das to maintain a cautious outlook despite the interest rate easing by major global central banks. Economic growth momentum remains solid, albeit with some recent signs of softness. The MPC is likely to look through the recent deceleration in CPI, as the RBI's 12m-ahead CPI estimate is still likely to track above the 4.0% target. Volatility in crude oil prices will be another factor deterring an RBI rate cut, given the sizeable impact on India's inflation, current account and fiscal balances.

MENA: Oil price in focus; Egypt CPI to edge higher

Brent crude rallied significantly over the past week, currently trading at USD78.1 p/b. This is from a recent low of USD69.2 p/b in early September. US President Joe Biden noted that the US and Israel have discussed potential hits on Iran's energy infrastructure. Any loss of Iran's export potential and further escalation add significant upside risks. Separately, we expect Egypt's CPI to edge higher in September to 27.0% y-o-y (August: 26.2%), led by increases in electricity tariffs. The government has been announcing a series of subsidy cuts – food, fuel and electricity – to reduce the fiscal burden. These measures are part of the broader reform agenda agreed with the IMF. Continued availability of imported goods and relative stability in the exchange rate should help moderate broader price rises.

I. Recent Events and Data Releases

A. Advanced Economies

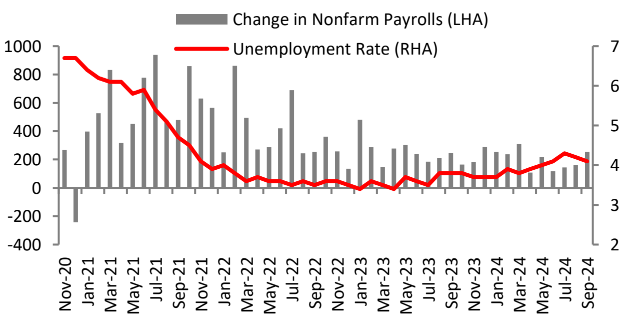
US: Super strong September NFP supports only a 25 bps Fed rate cut

Average monthly job creation strengthened in 3Q vs. 2Q and is consistent with a soft landing scenario

The robust September NFP has allayed concerns that the labour market is softening too quickly. Moreover, across-the-board strength in September implies that large Fed rate cuts are neither necessary nor desirable, in our view. September payrolls surged to 254K, significantly above the 150K market expectation, and were accompanied by a 72K upward revision to July and August NFP prints. As such, three-month net job creation stood at a healthy 185.7K in September, rising from a 147.3K average in 2Q2024. The significant upside surprise in September NFP was led by job gains in the services sector, particularly food, education and health services. Unemployment pulled back sharply to 4.05% (August and consensus: 4.2%), continuing to moderate from 4.3% hit in July. Wage growth was also strengthened (0.4% m-o-m), alongside a steady labour force participation rate. The strength in September NFP, taken together with the recovery in job openings and still steady layoff rate (August JOLTS), significantly reduces concerns of a sharp slowdown in the labour market. The resilience in the labour market will continue to support consumption and is consistent with achieving the soft-landing objective, in our view. The September NFP also attains greater salience, as hurricane disruptions and the brief worker strikes are likely to add some noise to the October NFP, the final labour market data point prior to November's FOMC meeting. We maintain our call of a further two 25 bps rate cuts this year, in November and December, respectively.

Fig. 1. US: Unemployment rate fell in the last two months; overall labour data supportive of consumption outlook

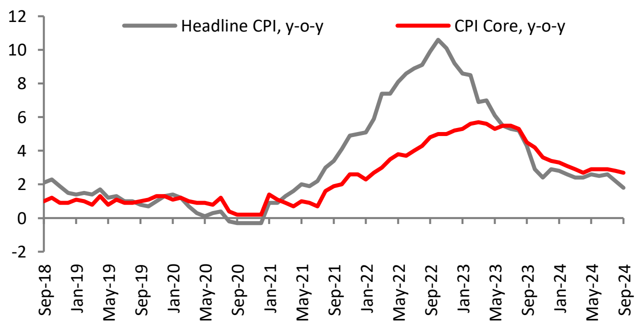
'000 (LHA); % (RHA)



Source: Bureau of Labour Statistics, ADCB Economic Research

Fig. 2. Eurozone: ECB expected to cut again in October with ongoing disinflation in both core and headline CPI

%



Source: Eurostat, ADCB Economic Research

Eurozone: Headline CPI falls below ECB's 2.0% target in September

ECB President Christine Lagarde's dovish remarks indicate door for October cut remains open

The September flash CPI report supports a rate cut by the ECB in October, with headline inflation moderating below its 2.0% y-o-y target – the first time in more than three years – amid rising growth concerns. Headline CPI cooled to 1.8% y-o-y in September, with disinflation in both energy and core components. Core inflation decelerated to 2.7% y-o-y in September (ECB forecast: 2.9%), driven by services, taking the 3Q2024 average to c.2.2%. This is significantly below the 1Q and 2Q averages of 3.1% and 2.8%, respectively. We see the ECB cutting rates by 25 bps at every meeting until June, taking the terminal deposit rate to 2.0%.

B. Emerging Economies

Turkey: Upside surprise in September CPI dims hope for cuts in 2024

Strengthening in underlying core momentum will tentatively raise concerns for the CBRT

The CBRT will likely remain cautious in starting its rate-cutting cycle for the remainder of 2024, in our view, with inflation remaining elevated. Headline CPI decelerated less than expected to 49.4% y-o-y in September (August: 52.0%; consensus: 48.0%) on unexpectedly strong monthly food and core service prices. In sequential terms, headline CPI strengthened 3.0% in September, taking the average 3Q2024 headline CPI to 2.9%, above the CBRT's forecast of 2.5%. The monthly acceleration in core services was led by increases in social services and education fees, though the strengthening in leisure inflation for the second consecutive month also signals still-high consumer demand. We believe the CBRT will seek evidence of more material cooling in inflation before beginning its rate-easing cycle. Our core scenario is for the rate-cutting cycle to start only in 1Q2025. We only see a December cut in the event of a marked slowdown in domestic growth, which in turn will be reflected in the inflation drivers. A more gradual pace of rate cuts by the Fed, i.e. in 25 bps increments, is also behind our expectation of a 1Q start for the CBRT.

II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Sep	3.38%	
	Qatar	QCB Int'l Reserves & Foreign Currency Liquidity, QAR	Sep	252.3B	
Monday, 7 October					
6:00	China	Foreign Reserves	Sep	3288.2B	3308.2B
10:00	Germany	Factory Orders, m-o-m	Aug	2.9%	-2.0%
13:00	Eurozone	Retail Sales, m-o-m	Aug	0.1%	0.2%
13:00	Eurozone	Retail Sales, y-o-y	Aug	-0.1%	1.0%
21:50	US	Fed's Kashkari Participates in Q&A			
Tuesday, 8 October					
3:01	UK	BRC Sales Like-For-Like, y-o-y	Sep	0.8%	0.8%
3:30	Japan	Labor Cash Earnings, y-o-y	Aug	3.6%	2.9%
3:30	Japan	Real Cash Earnings, y-o-y	Aug	0.4%	-0.5%
3:30	Japan	Household Spending, y-o-y	Aug	0.1%	-2.6%
3:50	Japan	BoP Current Account Balance	Aug	3193.0B	2955.9B
3:50	Japan	BoP Current Account Adjusted	Aug	2802.9B	2419.0B
3:50	Japan	Trade Balance BoP Basis	Aug	-482.7B	-532.4B
10:00	Germany	Industrial Production SA, m-o-m	Aug	-2.4%	0.8%
10:00	Germany	Industrial Production WDA, y-o-y	Aug	-5.3%	-3.9%
16:30	US	Trade Balance	Aug	-78.8B	-70.5B
20:45	US	Fed's Bostic Speaks on the Economic Outlook			
Wednesday, 9 October					
8:30	India	RBI Repurchase Rate	9-Oct	6.5%	6.5%
8:30	India	RBI Cash Reserve Ratio	9-Oct	4.5%	4.5%
10:00	Germany	Trade Balance SA	Aug	16.8B	18.5B
10:00	Germany	Exports SA, m-o-m	Aug	1.7%	-1.0%
10:00	Germany	Imports SA, m-o-m	Aug	5.4%	-2.5%
15:00	US	MBA Mortgage Applications	4-Oct	-1.3%	
18:00	US	Wholesale Inventories, m-o-m	Aug F	0.2%	0.2%
18:00	US	Wholesale Trade Sales, m-o-m	Aug	1.1%	0.4%
22:00	US	FOMC Meeting Minutes	18-Sep		
	Egypt	Urban CPI, y-o-y	Sep	26.2%	
	Egypt	Urban CPI, m-o-m	Sep	2.1%	
	Egypt	CPI Core, y-o-y	Sep	25.1%	
Thursday, 10 October					
16:30	US	CPI, m-o-m	Sep	0.2%	0.1%
16:30	US	CPI ex-Food and Energy, m-o-m	Sep	0.3%	0.2%
16:30	US	CPI, y-o-y	Sep	2.5%	2.3%
16:30	US	CPI ex-Food and Energy, y-o-y	Sep	3.2%	3.2%
16:30	US	Real Avg Hourly Earnings, y-o-y	Sep	1.3%	
16:30	US	Real Avg Weekly Earnings, y-o-y	Sep	0.9%	
16:30	US	Initial Jobless Claims	5-Oct	225K	230K
Friday, 11 October					
10:00	UK	Monthly GDP, m-o-m	Aug	0.0%	0.2%
10:00	UK	Monthly GDP, 3M/3M	Aug	0.5%	0.3%
16:30	US	PPI Final Demand, m-o-m	Sep	0.2%	0.1%
16:30	US	PPI ex- Food and Energy, m-o-m	Sep	0.3%	0.2%
16:30	US	PPI Final Demand, y-o-y	Sep	1.7%	1.6%
16:30	US	PPI ex-Food and Energy, y-o-y	Sep	2.4%	2.7%
18:00	US	U. of Mich. Sentiment	Oct P	70.1	70.5

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Bahrain	GDP Constant Prices, y-o-y	2Q	3.3%		
Monday, 30 September						
3:50	Japan	Industrial Production, m-o-m	Aug P	3.1%	-0.5%	-3.3%
5:30	China	Manufacturing PMI	Sep	49.1	49.4	49.8
5:45	China	Caixin China PMI Mfg	Sep	50.4	50.5	49.3
10:00	UK	GDP, q-o-q	2Q F	0.6%	0.6%	0.5%
10:00	UK	GDP, y-o-y	2Q F	0.9%	0.9%	0.7%
10:00	UK	Private Consumption, q-o-q	2Q F	0.2%	0.2%	0.2%
10:00	UK	Government Spending, q-o-q	2Q F	1.4%	1.4%	1.1%
10:00	UK	Gross Fixed Capital Formation, q-o-q	2Q F	0.4%	0.4%	0.6%
10:00	UK	Exports, q-o-q	2Q F	0.8%	0.8%	-0.3%
10:00	UK	Imports, q-o-q	2Q F	7.7%	7.7%	6.3%
12:30	UK	Mortgage Approvals	Aug	62.5K	63.9K	64.9K
16:00	Germany	CPI, y-o-y	Sep P	1.9%	1.7%	1.6%
16:00	Germany	CPI, m-o-m	Sep P	-0.1%	0.1%	0.0%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Aug	1612.7B		1674.8B
Tuesday, 1 October						
3:30	Japan	Jobless Rate	Aug	2.70%	2.60%	2.50%
3:30	Japan	Job-To-Applicant Ratio	Aug	1.24	1.24	1.23
4:30	Japan	Jibun Bank Japan PMI Mfg	Sep F	49.6		49.7
9:00	India	HSBC India PMI Mfg	Sep F	56.7		56.5
11:55	Germany	HCOB Germany Manufacturing PMI	Sep F	40.3	40.3	40.6
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	Sep F	44.8	44.8	45.0
12:30	UK	S&P Global UK Manufacturing PMI	Sep F	51.5	51.5	51.5
13:00	Eurozone	CPI Estimate, y-o-y	Sep	2.2%	1.8%	1.8%
13:00	Eurozone	CPI, m-o-m	Sep P	0.1%	0.0%	-0.1%
13:00	Eurozone	CPI Core, y-o-y	Sep P	2.8%	2.7%	2.7%
17:45	US	S&P Global US Manufacturing PMI	Sep F	47.0	47.0	47.3
18:00	US	ISM Manufacturing	Sep	47.2	47.5	47.2
18:00	US	ISM Prices Paid	Sep	54.0	53.5	48.3
18:00	US	ISM New Orders	Sep	44.6	45.0	46.1
Wednesday, 2 October						
13:00	Eurozone	Unemployment Rate	Aug	6.40%	6.40%	6.40%
15:00	US	MBA Mortgage Applications	27-Sep	11.0%		-1.3%
16:15	US	ADP Employment Change	Sep	103K	125K	143K
Thursday, 3 October						
16:30	US	Initial Jobless Claims	28-Sep	219K	221K	225K
18:00	US	Durable Goods Orders	Aug F	0.0%	0.0%	0.0%
18:00	US	ISM Services Index	Sep	51.5	51.7	54.9
Friday, 4 October						
16:30	US	Change in Nonfarm Payrolls	Sep	159K	150K	254K
16:30	US	Two-Month Payroll Net Revision	Sep	-86K		72K
16:30	US	Change in Private Payrolls	Sep	114K	125K	223K
16:30	US	Change in Manufact. Payrolls	Sep	-27K	-8K	-7K
16:30	US	Unemployment Rate	Sep	4.20%	4.20%	4.10%
16:30	US	Average Hourly Earnings, m-o-m	Sep	0.5%	0.3%	0.4%
16:30	US	Average Hourly Earnings, y-o-y	Sep	3.9%	3.8%	4.0%

*UAE time
Source: Bloomberg, ADCB Economic Research

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