The Week Ahead: UK Chancellor Reeves to face delicate balancing act at the budget

Economics Team

Sri Virinchi Kadiyala
Senior Economist
+971 (0)2 697 3582
Srivirinchi.Kadiyala@adcb.com

Om Joshi
Economist
+971 (0)2 694 3603
Om.Joshi@adcb.com

Monica Malik, Ph.D.
Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

Contents

UK: Reeves will likely raise taxes to plug the fiscal shortfall

Chancellor Rachel Reeves faces a delicate balancing act at the Autumn Budget – rebuilding fiscal buffers while avoiding excessive tightening, given already softening economic activity and waning support for the Labour Party. Budget uncertainties intensified after media reports indicated Reeves planned on dropping income tax hikes. This came after the OBR forecast a GBP10.0 billion lower public finance gap of c.GBP20.0 billion. Reeves will likely deliver c.GBP25.0-30.0 billion in fiscal consolidation to plug the gap and raise fiscal buffers. This will be critical for policy stability, shielding against unscheduled tax hikes in case of unexpected slowing in GDP /rise borrowing costs. The two-year extension of the household income tax threshold freeze will likely be key for revenue (c.GBP11.0 billion), accompanied by multiple smaller tax hikes.

The series of smaller tax hikes would include doubling council tax on expensive properties (c.4.2 billion), raising gambling tax (c.3.5 billion) and a pay-per-mile EV tax (c.2.5 billion). Doubling the dividend tax rate to 16.5% and a GBP100K lifetime cap on Individual Savings Accounts would be required. We see scope for curbing pension tax relief by levying national insurance contributions on "salary sacrifice schemes". These measures will likely be partially offset by scrapping the two-child benefit cap and VAT on energy bills. Utility bill cuts could trim 0.3-0.5 ppts off inflation in 2026, keeping the BoE on track for rate easing.

US: Fed Williams speech brings back outlook for December cut

The outlook for a December rate cut is becoming increasingly finely balanced, after October FOMC minutes highlighted deep divisions within Fed, with significant data lags adding to uncertainty. Bond market pricing showed wide swings last week – moderating to c.30.0% following minutes, though climbing sharply to c.60.0% after New York Fed Governor John Williams noted that he sees room for lowering rates "in the near term". This is significant as Williams has historically been aligned with Chair Jerome Powell, and is part of the Fed's leadership 'troika' with Powell and Vice Chair Philip Jefferson. However, speeches from other Fed members pushed back against imminent cuts, highlighting divergences. September jobs report supported arguments of both Fed hawks and doves (page 2). Labour market uncertainties will persist as September is the only print Fed will receive before 10 December meeting – October data cancelled and November's delayed until 16 December. We see 25 bps December cut on labour market deterioration, though acknowledge it being close call. Meanwhile, core PPI this week is seen by consensus rising 0.2% m-o-m in September on tariff passthroughs, whilst retail sales will likely soften, with mean reversion after the outsized rises seen in the prior month.

India: 3Q2025 GDP growth likely resilient despite headwinds

3Q2025 GDP growth likely remained healthy at 7.3% y-o-y (2Q: 7.8%) on GST cuts supporting household consumption. However, momentum will likely slow on 50.0% US tariffs. Headwinds to growth necessitates rate cuts, though INR depreciating against USD to record low complicates RBI rate cut outlook.

I. Recent Events and Data Releases

A. Advanced Economies

US: September NFP supports claims of Fed hawks and doves

NFP additions rose more than twice the level forecast by consensus

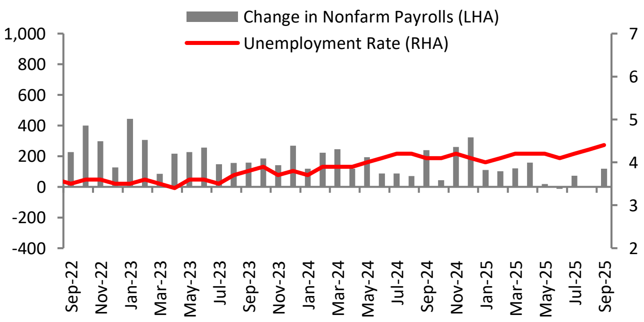
The deep divisions within the FOMC seen in the October meeting minutes and the mixed September NFP provided no clarity on the December cut outlook. Unemployment unexpectedly rose to 4.4% – the highest level in four years, though job additions jumped 119K, more than double consensus forecasts of 51K. The dovish FOMC members will point to this rise in unemployment to support the case for cuts, though those leaning hawkish will highlight that the rise in unemployment was led by rising labour force participation. The 6MMA job additions are now at 58K – within the breakeven rate of 50-60K. However, job additions continue to be narrowly led by the service sectors, with manufacturing posting its fifth consecutive month of job cuts on tariff uncertainties. Meanwhile, household consumption will continue to be supported by still healthy wage growth, with 3MMA at 0.3% m-o-m – in line with the pace seen throughout this year.

Minutes reflect diverging Fed member views on rate trajectory

Meanwhile, the October FOMC minutes showed “strongly differing views” on the outlook for a December cut and on broader economic conditions. The minutes showed that “most” members saw it as “appropriate” to cut rates over time, “many” favoured remaining on hold in December and “several” wanted a December cut. Moreover, the minutes showed growing discomfort with still-elevated inflation prints, with “many” now noting “little sign” of CPI returning sustainably towards the 2.0% target, though “several” highlighted that inflation was “close to target” after adjusting for tariffs. There was also a difference in the labour market outlook. The participants “generally” expected labour market conditions to “soften gradually in coming months”, while “several” members stressed that ‘no-hire, no-fire’ environment added downside risks. We see a 25 bps cut in December, though now acknowledge meeting being increasingly finely balanced.

Fig. 1. US: Unemployment rate unexpectedly rose for the second consecutive month in September

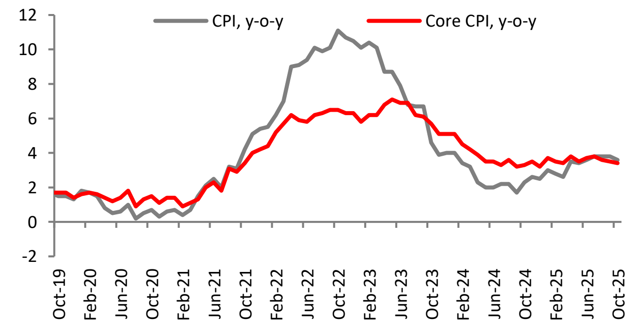
‘000 (LHA); % (RHA)



Source: Bureau of Labour Statistics, ADCB Economic Research

Fig. 2. UK: Headline CPI is now past its peak and will decelerate gradually, providing BoE space for rate cuts

%



Source: Office for National Statistics, ADCB Economic Research

UK: October disinflation led by favourable energy base and services

Outlook for household utility bill cuts and favourable base supports disinflation outlook

Headline inflation decelerated for the first time in more than a year in October, cooling to 3.5% y-o-y (September: 3.8%; BoE: 3.5%) and indicating that we are past the inflation peak. The October disinflation was led by both a favourable energy base and cooling in critical services CPI. However, details point to some mixed underlying dynamics, with a rise in food prices, making BoE's view of broader inflation trajectory mixed. Core CPI decelerated to 3.4% y-o-y, with services inflation cooling to 4.5% y-o-y – 0.1 ppts below both the BoE and consensus forecasts. The downside surprise was driven mainly by volatile factors, though overall services disinflation was broad-based. This led to a deceleration in underlying services momentum, with the 3MMA indicator slowing further to c.3.6% y-o-y in October. BoE Governor Andrew Bailey becomes a key swing voter, especially with a divided MPC (October vote split: 5 (pause) - 4). Bailey had already softened his tone on inflation last month, and we believe the October CPI print, coupled with the outlook for further softening in wage and GDP growth, will likely make him more dovish. Moreover, we expect an acceleration in disinflation, with the outlook for utility bill cuts at the Autumn Budget, softening in rent prices and a favourable base. We see a 25 bps cut in December, followed by 25 bps cuts in March and September 2026.

Japan: Fiscal stimulus package passed aimed at boosting affordability

Strengthening defence and crisis management also targeted

The Japanese cabinet approved the biggest stimulus package since Covid – the first large-scale policy measure taken by the new Takaichi administration. The stimulus package amounts to JPY21.3 trillion, largely aimed at addressing the rising cost of living, though it also targets crisis management and strengthening both investments and defence. This comes as long-dated government bond yields hit a record high last week, with reports of Takaichi's stimulus package increasing already-high market concerns on debt sustainability. However, Prime Minister Takaichi highlighted the importance of fiscal sustainability at a press conference following the announcement, stressing the use of higher-than-expected tax revenues and several non-tax revenue measures. Any shortfall is planned to be covered by issuing additional government bonds, though Takaichi stressed that it would be lower than last year (JPY42.1 trillion). We believe the fiscal package will increase the fiscal deficit, not only in FY2025 (Apr-Mar.) but also in FY2026 as actual spending on some measures will be visible in FY2026-27.

Cash handout scheme to be financed with the supplementary budget

The package includes JPY17.7 trillion in general outlays to decrease the cost of living and boost household consumption power – a key demand from voters during the recent election. JPY400.0 billion is earmarked to provide a cash handout of JPY20K per child for every household with children below 18 years, and JPY500.0 billion in energy subsidies for first three months next year. To shield households from the sharp rise in food prices, the package has also earmarked JPY400.0 billion for rice coupons and premium shopping vouchers. However, this temporary spending is unlikely to undermine public debt sustainability, with the public debt-to-GDP ratio expected to decline in FY2025. This is due to Japan's strong nominal GDP growth (driven by inflation), which is currently outpacing the still-limited increase in interest payments.

II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Qatar	Trade Balance Month	Sep	14162M	
	Bahrain	CPI, y-o-y	Oct	0.0%	
Monday, 24 November					
13:00	Germany	IFO Business Climate	Nov	88.4	88.5
13:00	Germany	IFO Current Assessment	Nov	85.3	85.5
13:00	Germany	IFO Expectations	Nov	91.6	91.6
Tuesday, 25 November					
11:00	Germany	GDP SA, q-o-q	3Q F	0.0%	0.0%
12:00	Eurozone	ECB's Villeroy Speaks in Paris			
13:15	Eurozone	ECB's Makhlouf, Sleijpen Speak in Dublin			
17:30	US	Retail Sales Advance, m-o-m	Sep	0.6%	0.4%
17:30	US	Retail Sales ex-Auto, m-o-m	Sep		0.3%
17:30	US	PPI Final Demand, m-o-m	Sep	-0.1%	0.3%
17:30	US	PPI ex-Food and Energy, m-o-m	Sep	-0.1%	0.2%
17:30	US	PPI ex-Food and Energy, y-o-y	Sep	2.8%	2.7%
17:30	US	PPI ex-Food, Energy, Trade, y-o-y	Sep	2.8%	
19:00	US	Conf. Board Consumer Confidence	Nov	94.6	93.4
Wednesday, 26 November					
13:00	Eurozone	ECB Publishes Financial Stability Review			
13:00	Eurozone	ECB's Muller Speaks in Tallinn			
16:00	US	MBA Mortgage Applications	21-Nov	-5.2%	
17:30	US	Initial Jobless Claims	22-Nov	220K	226K
17:30	US	Continuing Claims	15-Nov	1974K	1965K
17:30	US	Durable Goods Orders	Sep P	2.9%	0.5%
17:30	US	Durables ex-Transportation	Sep P	0.3%	0.2%
23:00	US	Fed Releases Beige Book			
23:00	US	Fed Releases Beige Book			
Thursday, 27 November					
13:00	Eurozone	M3 Money Supply, y-o-y	Oct	2.8%	2.8%
14:00	Eurozone	Consumer Confidence	Nov F	-14.2	
14:00	Eurozone	Economic Confidence	Nov	96.8	97.0
Friday, 28 November					
3:30	Japan	Tokyo CPI, y-o-y	Nov	2.7%	2.7%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Nov	2.8%	2.7%
3:30	Japan	Tokyo CPI ex-Fresh Food, Energy, y-o-y	Nov	2.8%	2.8%
3:50	Japan	Retail Sales, m-o-m	Oct	0.0%	0.8%
3:50	Japan	Retail Sales, y-o-y	Oct	0.2%	0.8%
3:50	Japan	Industrial Production, m-o-m	Oct P	2.6%	-0.6%
13:00	Eurozone	ECB 1 Year CPI Expectations	Oct	2.7%	2.6%
13:00	Eurozone	ECB 3 Year CPI Expectations	Oct	2.5%	2.5%
14:30	India	Industrial Production, y-o-y	Oct	4.0%	2.5%
14:30	India	GDP, y-o-y	3Q	7.8%	7.3%
14:30	India	GVA, y-o-y	3Q	7.6%	7.2%
14:30	India	Fiscal Deficit YTD INR	Oct	5731B	
17:00	Germany	CPI, m-o-m	Nov P	0.3%	-0.2%
17:00	Germany	CPI, y-o-y	Nov P	2.3%	2.4%
17:00	Germany	CPI EU Harmonised, m-o-m	Nov P	0.3%	-0.6%
17:00	Germany	CPI EU Harmonised, y-o-y	Nov P	2.3%	2.4%

*UAE time
Source: Bloomberg, ADCB Economic Research

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Kuwait	CPI, y-o-y	Sep			
	Oman	CPI, y-o-y	Oct	1.1%		1.5%
Monday, 17 November						
17:20	UK	BOE's Mann Speaks				
18:00	US	Fed's Williams Delivers Welcome Remarks				
18:45	Eurozone	ECB's Lane Speaks in Ireland				
20:00	Eurozone	ECB's Cipollone Speaks to ECON Committee				
22:00	US	Fed's Kashkari Moderates Conversation				
	India	Unemployment Rate	Oct	5.20%		5.20%
	India	Exports, y-o-y	Oct	6.8%		-11.8%
	India	Imports, y-o-y	Oct	16.7%		16.6%
	India	Trade Balance	Oct	-32145M	-30000M	-41686M
Tuesday, 18 November						
17:00	UK	BOE's Pill Speaks				
17:15	US	ADP Weekly Employment Preliminary Estimate				
18:15	US	Industrial Production, m-o-m	Oct		0.0%	
20:00	US	Fed's Barkin Speaks on the Economic Outlook				
21:00	UK	BOE's Dhingra Speaks				
Wednesday, 19 November						
3:50	Japan	Trade Balance	Oct	-237.4B	-284.2B	-231.8B
3:50	Japan	Imports, y-o-y	Oct	3.0%	-1.0%	0.7%
11:00	UK	CPI, m-o-m	Oct	0.0%	0.4%	0.4%
11:00	UK	CPI, y-o-y	Oct	3.8%	3.5%	3.6%
11:00	UK	CPI Core, y-o-y	Oct	3.5%	3.4%	3.4%
11:00	UK	CPI Services, y-o-y	Oct	4.7%	4.6%	4.5%
11:00	UK	CPIH, y-o-y	Oct	4.1%	3.8%	3.8%
14:00	Eurozone	CPI, y-o-y	Oct F	2.1%	2.1%	2.1%
14:00	Eurozone	CPI, m-o-m	Oct F	0.2%	0.2%	0.2%
14:00	Eurozone	CPI Core, y-o-y	Oct F	2.4%	2.4%	2.4%
23:00	US	FOMC Meeting Minutes	29-Oct			
Thursday, 20 November						
5:30	Japan	BOJ Board Koeda Speech in Niigata				
17:30	US	Initial Jobless Claims	15-Nov			
Friday, 21 November						
3:30	Japan	Natl CPI, y-o-y	Oct	2.9%	3.0%	3.0%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Oct	2.9%	3.0%	3.0%
3:30	Japan	Natl CPI ex-Fresh Food, Energy, y-o-y	Oct	3.0%	3.1%	3.1%
11:00	UK	Retail Sales Inc Auto Fuel, m-o-m	Oct	0.7%	-0.2%	-1.1%
11:00	UK	Retail Sales Inc Auto Fuel, y-o-y	Oct	1.0%	1.4%	0.2%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Oct	0.7%	-0.5%	-1.0%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Oct	1.7%	2.5%	1.2%
13:00	Eurozone	HCOB Eurozone Manufacturing PMI	Nov P	50.0	50.1	49.7
13:00	Eurozone	HCOB Eurozone Services PMI	Nov P	53.0	52.8	53.1
13:00	Eurozone	HCOB Eurozone Composite PMI	Nov P	52.5	52.5	52.4
14:00	Eurozone	Negotiated Wages	3Q	4.0%	2.5%	1.9%
19:00	US	U. of Mich. Sentiment	Nov F	50.3	50.6	51.0
19:00	US	U. of Mich. 1 Yr Inflation	Nov F	4.7%	4.7%	4.5%
19:40	UK	BOE's Pill Speaks				

*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.

.