

The Week Ahead: Fed to cut rates by 25 bps; BoE to keep rates steady

► **US: Fed to cut by 25 bps; ‘cautious’ guidance likely**

We expect the FOMC to cut the FFTR (upper bound) by 25 bps to 4.50% on Wednesday, albeit signalling a more gradual pace of rate cuts thereafter. We see this stance as supported by the ongoing labour market loosening, with unemployment ticking up to 4.25% in November, and the moderation in average monthly job creation to 173K in the last 3M (from November) and 143K in the last 6M. This is compared to c.207K in 1H2024. Moreover, the sequential softening in shelter costs in the November CPI will also be seen as a favourable development (see page 2), cementing the case for a 25 bps rate cut this week. The market is currently pricing a c.93.4% probability of a 25 bps rate cut. Chair Jerome Powell is likely to reiterate optimism in achieving a soft landing and stress that the FOMC is not in a hurry to cut rates. We expect the median dot plot to show three 25 bps rate cuts in 2025 (from four earlier) and a further two cuts in 2026, taking the terminal rate to 3.125%. The ongoing resilience of the economy and stickiness of core inflation above the target rate support our expectation of a shallower rate-cutting cycle in 2025 (vs. 2024), particularly in 2H, given the outlook for looser fiscal policy, with higher import tariffs adding upside pressures to inflation. We see the FOMC as likely to raise its growth and near-term inflation estimates while maintaining its unemployment rate projection. We also expect the FOMC to raise the long-term (neutral) rate to 3.0% (2.875% earlier) after three consecutive increases.

► **UK: BoE likely to keep rates steady; meeting tone to be cautious**

We see the BoE keeping rates unchanged at 4.75% with an 8-1 (cut) majority this week, after cutting rates at its November meeting. Its tone will likely be cautious, with the statement expected to highlight disinflation uncertainties in the Autumn Budget, including pass-through risks from the hike in employers’ National Insurance contribution. We expect the BoE to continue to stress the need for a “meeting-by-meeting” approach, with core inflation remaining sticky and above target at a time when economic activity is stagnating. Consensus sees core inflation accelerating to 3.6% y-o-y (October: 3.3%; BoE: 3.4%) on higher goods prices, in part reflected in the higher fuel prices and duties on tobacco following the budget. GDP unexpectedly contracted in October by 0.1% m-o-m on weaker industrial output. We expect the BoE to cut rates quarterly in 2025, taking the Bank Rate to 3.75%.

► **Japan: BoJ likely on hold, with a January hike our core scenario**

We expect the BoJ to keep rates unchanged this week, though risks of a hike remain. Our core scenario is for a 25 bps hike in January to 0.5%, the third in its-rate hiking cycle. The market is currently pricing in just a c.26.0% probability of a December hike and c.69.6% for January. We expect the BoJ to adopt a more hawkish tone, with the strengthening in 3Q2024 GDP growth and sustained rise in CPI. The BoJ will likely hike rates by 25 bps in January, after gaining clarity on firms’ wage-setting expectations from the branch managers’ meeting (due early January). The meeting is expected to show the willingness of both SMEs and large corporates to raise wages in 2025.

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I. Recent Events and Data Releases

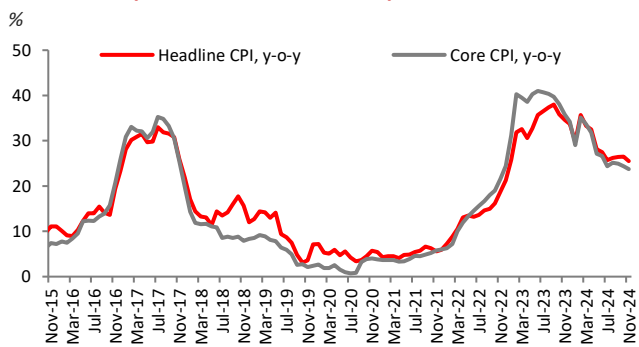
A. MENA Economies

Egypt: Food price decline helps moderate CPI; CBE to remain on pause

Headline inflation moderated to 25.5% y-o-y in November (October: 26.5% y-o-y), led by a favourable base and a surprise fall in food inflation (1.9% m-o-m). The moderation in CPI in November ended three consecutive months of rising inflation, with the disinflation trend expected to intensify in 1Q2025. Food inflation slowed to 24.6% y-o-y (October: 27.3%), led by softer inflation in bread and cereals, meat, fish and vegetables. Non-food inflation also edged down to 26.0% y-o-y from 26.1%. In sequential terms, the contraction in food prices (1.9% m-o-m) offset the rise in transportation (7.3% m-o-m) and cigarette costs, which reflected the residual impact of the fuel price hike enacted in mid-October and the hike in the tobacco price, respectively. We expect the CBE to remain on pause at its 26 December meeting, with rate cuts expected to commence at the March policy meeting. This will follow the sharp moderation in inflation expected in February, driven by a favourable base. Moreover, upside risks to price pressures will also be contained, as the government has indicated a pause in implementing further fiscal measures, adding upside to inflation.

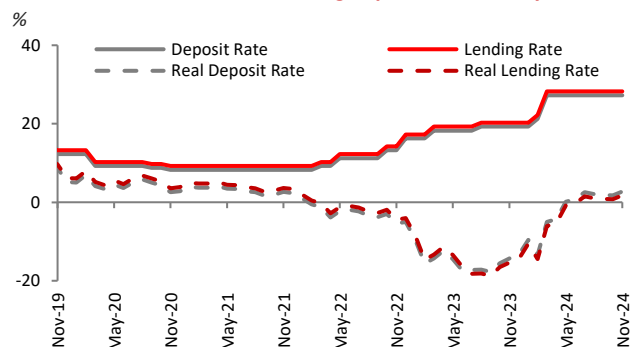
Inflation moderated in November, ending three consecutive months of increases

Fig. 1. Egypt: Headline CPI decelerated in November on surprise moderation in food prices



Source: CAPMAS, ADCB Economic Research

Fig. 2. Egypt: Deceleration in November CPI has led to real interest rates remaining in positive territory



Source: Central Bank of Egypt, CAPMAS, ADCB Economic Research

B. Advanced Economies

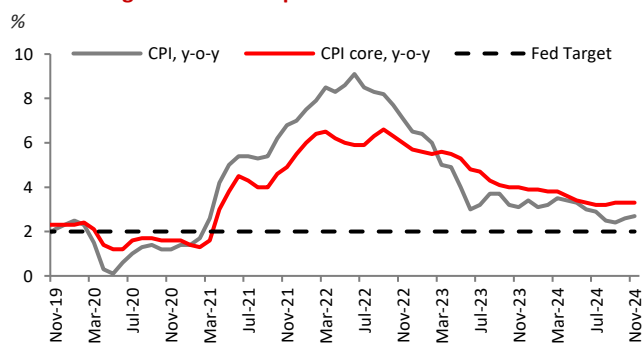
US: Easing rental inflation offers support for a December rate cut

November CPI was in line with expectations, with headline inflation edging up to 2.7% y-o-y from 2.6%, while core CPI remained steady at 3.3% y-o-y. On a sequential basis, core inflation has remained sticky at 0.3% m-o-m, led by higher goods prices and a modest easing in services. Core goods rose 0.3% m-o-m, led by a sharp 2.0% m-o-m gain in used-car prices. Services inflation edged down slightly (November: 0.28% from 0.35% in October), led by a deceleration in the rent and owner equivalent rent (OER) segments. The monthly OER inflation has softened to 0.2% m-o-m, marking the slowest print since January 2021. Moreover, the PCE-relevant PPI components, such as airfares and financial services, were subdued in November, implying that the November core PCE will likely soften to 0.1% m-o-m (October and September: 0.3%), offering sufficient support for the

The outlook for expansionary fiscal policies and import tariffs pose challenges to disinflation in 2025

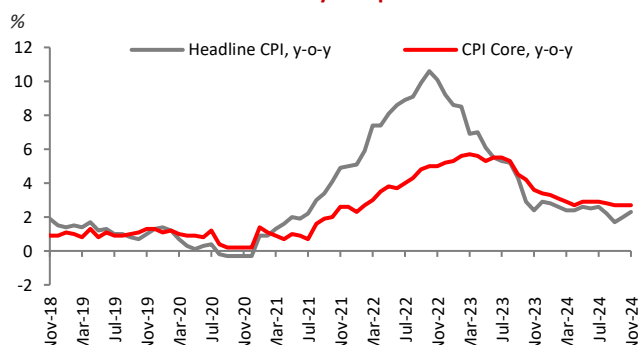
December rate cut, in our view. However, the medium-term inflation outlook remains challenging, with rising upside risks to the inflation trajectory. Three successive months of price increases in the core goods segment signals that goods prices have likely bottomed out, in contrast to the price contractions seen during the past year. The broader resilience in the labour market and outlook for expansionary fiscal policies pose strong resistance to achieving further deceleration in service CPI.

Fig. 3. US: Sticky core inflation signals challenges in the last leg of disinflation process



Source: Bureau of Labour Statistics, ADCB Economic Research

Fig. 4. Eurozone: Ongoing deceleration in core CPI likely led the ECB to cut rates by 25 bps last week



Source: Eurostat, ADCB Economic Research

Eurozone: ECB cut rates again; dovish shift in the policy statement

The ECB cut its main deposit rate by 25 bps to 3.0% last week, in line with our and consensus expectations. The hawkish bias was dropped by removing the reference to “keeping rates sufficiently restrictive”, opening the door for further cuts in 2025. ECB President Christine Lagarde noted that the “direction for policy was very clear”, though reiterated a data-dependent approach to cutting rates. Meanwhile, the ECB revised down its headline CPI projection for 2025 to 2.1% y-o-y (from 2.2%) on lower energy prices, while core CPI remained unchanged at 2.3%. However, the statement noted that the risks to the inflation outlook are “two-sided”, with increased trade frictions making the inflation outlook “more uncertain”. Additionally, President Lagarde stressed that these remaining uncertainties around inflation will likely be clarified in the “next few months not weeks”, signalling the need for a gradual rate-easing cycle. On the growth front, the ECB noted that the pick-up in household spending in 2025 would be slower than previously expected, leading GDP growth projections to be revised down by 0.2ppts to 1.1%. President Lagarde noted that it is still “premature” to discuss the neutral rate but highlighted an estimated range of “1.75%-2.50%”. However, we see the ECB likely setting the policy rates below the current estimate of the neutral rate to avoid undershooting the CPI target, with political uncertainties in France and Germany adding headwinds to the bloc’s GDP growth. Our base case remains for a 25 bps cut at each meeting until June. However, we continue to acknowledge the risk of a 50 bps cut in 1Q2025 if the growth backdrop worsens on sustained political uncertainty and/or higher US tariffs on the bloc’s exports.

Neutral rate likely to be below the ECB’s current projections given challenging growth backdrop

C. Developing Economies

China: CEWC and Politburo signal more policy support to come in 2025

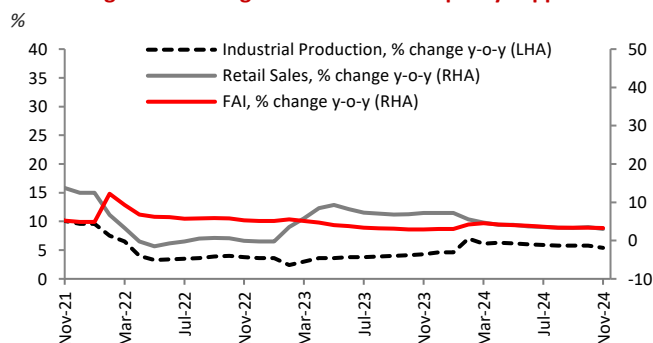
The two key meetings last week (Politburo and CEWC) signalled further policy support to spur growth, with policymakers pledging a looser monetary stance and increased fiscal spending. These meetings take place against the backdrop of a worsening growth outlook on higher US tariffs on China's exports and still-weak household consumption, with retail sales decelerating to 0.2% m-o-m in November. Both the Politburo and CEWC omitted numerical policy targets, though we believe the pro-growth stance of these meetings is part of policymakers' efforts to use forward guidance to revive market sentiment. The expansionary fiscal measures signalled at the meetings will likely support GDP growth in 2025, though we see limited effectiveness of further monetary easing given still-weak credit demand from both households and businesses. We continue to see the need for structural reforms that address property sector weakness and household consumption for more sustained GDP growth in 2025.

Pro-growth measures signalled at both the Politburo and CEWC meetings

On the monetary side, the Politburo changed its policy stance to “appropriately loose” from “prudent” for the first time in more than 14 years. This signals that further rate easing is likely, with the CEWC meeting highlighting that both interest rates and the RRR would be reduced at an “appropriate time”. The CEWC statement also noted the need for total social financing (broad measure of credit and liquidity) to “grow in line with economic growth and price level expectation”. The addition of a price target signals a greater emphasis on addressing persistent deflationary pressures. Meanwhile, both the Politburo and CEWC highlighted the implementation of a more “proactive” fiscal policy by increasing the fiscal deficit ratio and boosting the issuance of both ultra-long special treasury bonds and LGSBs. Particular (and welcomed) attention was placed on boosting consumption, with the CEWC listing for the first time “lifting consumption vigorously” as one of its key policy priorities. Policymakers at the CEWC highlighted that increasing pension payouts and healthcare coverage, and expanding the consumer trade-in programme would be used to boost consumption. The weakness in the housing market was highlighted as a key risk to economic growth, with policymakers at the CEWC pledging to increase efforts to “renovate” urban villages. However, we believe housing de-stocking measures – through purchasing unsold homes and loosening regulations on property purchases – will be key to materially support the housing market.

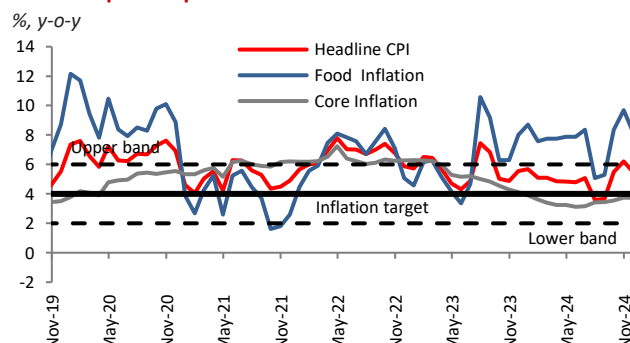
Housing de-stocking policies remain key to support growth momentum

Fig. 5. China: Still-soft activity data points to sluggish GDP growth and signals need for more policy support



Source: National Bureau of Statistics, ADCB Economic Research

Fig. 6. India: Deceleration in headline inflation on softer food prices opens door for RBI to cut rates



Source: India Central Statistical Organisation, ADCB Economic Research

India: Inflation eases; new RBI governor to shift MPC's balance

India's CPI cooled to 5.5% y-o-y in November and is now back within the RBI's inflation tolerance band (4.0% +/-2.0%), which, amid a backdrop of slowing growth, opens the door for the central bank to cut rates at its February meeting, in our view. Food inflation declined to 8.4% y-o-y from 9.7%, driven by lower vegetable prices. Core inflation also edged down to 3.6% y-o-y (October: 3.7%) and remains comfortably below the 4.0% target, giving policymakers further evidence that broader demand-side pressures remain contained. Looking ahead, high-frequency prices for vegetables in December show a limited fall, implying the December CPI (last CPI print prior to the February MPC) will likely remain close to November's 5.5%, still above the 4.0% inflation target. However, with GDP growth slowing sharply in 3Q2024, we expect growth concerns to be central to policy deliberations, likely leading to a 25 bps rate cut at the February meeting, in our view.

Inflation retreating back to within the RBI's tolerance band can create room for rate cuts

Separately, the government of India has appointed Sanjay Malhotra, the current revenue secretary, as the new governor of the RBI for a period of three years. Little is known of the incoming governor's economic policy preferences, though we believe growth concerns will likely take primacy now that CPI is back within the RBI's tolerance band. The personnel change at the RBI comes at an interesting time, as the RBI is currently caught in a bind, with GDP growth slowing sharply to 5.5% last quarter, inflation still above the 4.0% target and the INR depreciating. The RBI already had a 4-2 vote for a hold during the last meeting. A dovish governor will likely tilt the balance in favour of a rate cut at the February meeting. We continue to expect the RBI to undertake a 25 bps rate cut in February, along with maintaining an accommodative liquidity stance to support growth. If the depreciation pressure on the INR continues, we would expect some further measures to attract capital inflows over the coming months, such as the recent decision to raise rates on non-resident deposits.

The nomination of a new governor could alter MPC's broader disposition

The next issue of Global Data Watch will be published on Monday, 13 January 2025.

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	China	1-Yr Medium-Term Lending Facility Rate	25-Dec	2.00%	2.00%
	China	1-Yr Medium-Term Lending Facilities Volume	25-Dec	900.0B	900.0B
Monday, 16 December					
5:30	China	New Home Prices, m-o-m	Nov	-0.5%	
6:00	China	Industrial Production, y-o-y	Nov	5.3%	5.4%
6:00	China	Industrial Production YTD, y-o-y	Nov	5.8%	5.7%
6:00	China	Retail Sales, y-o-y	Nov	4.8%	5.0%
6:00	China	Retail Sales YTD, y-o-y	Nov	3.5%	3.6%
6:00	China	Fixed Assets Ex Rural YTD, y-o-y	Nov	3.4%	3.5%
6:00	China	Property Investment YTD, y-o-y	Nov	-10.3%	
6:00	China	Residential Property Sales YTD, y-o-y	Nov	-22.0%	
14:00	Eurozone	Labour Costs, y-o-y	3Q	4.7%	
Tuesday, 17 December					
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Oct	4.3%	4.7%
11:00	UK	Weekly Earnings ex Bonus, 3M/y-o-y	Oct	4.8%	5.0%
11:00	UK	ILO Unemployment Rate, 3Mths	Oct	4.3%	4.3%
11:00	UK	Employment Change, 3M/3M	Oct	220K	5K
17:30	US	Retail Sales Advance, m-o-m	Nov	0.4%	0.5%
17:30	US	Retail Sales ex-Auto, m-o-m	Nov	0.1%	0.4%
17:30	US	Retail Sales ex-Auto and Gas	Nov	0.1%	0.4%
17:30	US	Retail Sales Control Group	Nov	-0.1%	0.4%
Wednesday, 18 December					
11:00	UK	CPI, m-o-m	Nov	0.6%	0.1%
11:00	UK	CPI, y-o-y	Nov	2.3%	2.6%
11:00	UK	CPI Core, y-o-y	Nov	3.3%	3.6%
11:00	UK	CPI Services, y-o-y	Nov	5.0%	5.1%
14:00	Eurozone	CPI, y-o-y	Nov F	2.0%	2.3%
14:00	Eurozone	CPI, m-o-m	Nov F	-0.3%	-0.3%
14:00	Eurozone	CPI Core, y-o-y	Nov F	2.7%	2.7%
23:00	US	FOMC Rate Decision (Upper Bound)	18-Dec	4.75%	4.50%
23:00	US	FOMC Rate Decision (Lower Bound)	18-Dec	4.25%	4.50%
Thursday, 19 December					
16:00	UK	Bank of England Bank Rate	19-Dec	4.75%	4.75%
17:30	US	GDP Annualised, q-o-q	3Q T	2.8%	2.8%
17:30	US	Personal Consumption	3Q T	3.5%	3.7%
	Japan	BOJ Target Rate	19-Dec	0.25%	0.25%
Friday, 20 December					
5:00	China	5-Year Loan Prime Rate	20-Dec	3.60%	3.60%
5:00	China	1-Year Loan Prime Rate	20-Dec	3.10%	3.10%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Nov	-0.9%	0.5%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Nov	2.0%	0.8%
17:30	US	Personal Income	Nov	0.6%	0.4%
17:30	US	Personal Spending	Nov	0.4%	0.5%
17:30	US	Real Personal Spending	Nov	0.1%	0.3%
17:30	US	PCE Price Index, m-o-m	Nov	0.2%	0.2%
17:30	US	PCE Price Index, y-o-y	Nov	2.3%	2.5%
17:30	US	Core PCE Price Index, m-o-m	Nov	0.3%	0.2%
17:30	US	Core PCE Price Index, y-o-y	Nov	2.8%	2.9%
19:00	US	U. of Mich. Sentiment	Dec F	74.0	74.0

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Nov	2.4%		3.0%
	Qatar	CPI, y-o-y	Oct	0.8%		
	Bahrain	CPI, y-o-y	Oct	0.4%		
Monday, 9 December						
3:50	Japan	GDP SA, q-o-q	3Q F	0.2%	0.3%	0.3%
3:50	Japan	GDP Annualised SA, q-o-q	3Q F	1.2%	1.0%	0.9%
3:50	Japan	BoP Current Account Balance	Oct	2456.9B	2347.1B	2456.9B
5:30	China	PPI, y-o-y	Nov	-2.9%	-2.8%	-2.5%
5:30	China	CPI, y-o-y	Nov	0.3%	0.4%	0.3%
19:00	US	Wholesale Inventories, m-o-m	Oct F	0.2%	0.2%	0.2%
Tuesday, 10 December						
11:00	Germany	CPI, y-o-y	Nov F	2.2%	2.2%	2.2%
11:00	Germany	CPI, m-o-m	Nov F	-0.2%	-0.2%	-0.2%
	China	Imports, y-o-y	Nov	-2.3%	0.9%	-3.9%
	Egypt	Urban CPI, y-o-y	Nov	26.5%		25.5%
	Egypt	Urban CPI, m-o-m	Nov	1.1%		0.5%
	Egypt	CPI Core, y-o-y	Nov	24.4%		23.7%
	China	Exports, y-o-y	Nov	12.7%	12.7%	6.7%
	China	Trade Balance	Nov	95.7B	93.5B	97.4B
Wednesday, 11 December						
3:50	Japan	PPI, y-o-y	Nov	3.6%	3.4%	3.7%
16:00	US	MBA Mortgage Applications	6-Dec	2.8%		5.4%
17:30	US	CPI, m-o-m	Nov	0.2%	0.3%	0.3%
17:30	US	CPI ex-Food and Energy, m-o-m	Nov	0.3%	0.3%	0.3%
17:30	US	CPI, y-o-y	Nov	2.6%	2.7%	2.7%
17:30	US	CPI ex-Food and Energy, y-o-y	Nov	3.3%	3.3%	3.3%
17:30	US	Real Avg Hourly Earnings, y-o-y	Nov	1.4%		1.3%
17:30	US	Real Avg Weekly Earnings, y-o-y	Nov	1.1%		1.0%
23:00	US	Federal Budget Balance	Nov	-257.5B	-354.0B	-366.8B
Thursday, 12 December						
14:30	India	CPI, y-o-y	Nov	6.2%	5.5%	5.5%
14:30	India	Industrial Production, y-o-y	Oct	3.1%	3.6%	3.5%
17:15	Eurozone	ECB Deposit Facility Rate	12-Dec	3.25%	3.00%	3.00%
17:15	Eurozone	ECB Main Refinancing Rate	12-Dec	3.4%	3.15%	3.15%
17:15	Eurozone	ECB Marginal Lending Facility	12-Dec	3.65%	3.40%	3.40%
17:30	US	PPI ex-Food and Energy, m-o-m	Nov	0.3%	0.2%	0.2%
17:30	US	PPI ex-Food, Energy, Trade, m-o-m	Nov	0.3%	0.3%	0.1%
17:30	US	PPI Final Demand, m-o-m	Nov	0.3%	0.3%	0.4%
17:30	US	PPI Final Demand, y-o-y	Nov	2.6%	2.6%	3.0%
17:30	US	Initial Jobless Claims	7-Dec	225K	220K	242K
Friday, 13 December						
8:30	Japan	Industrial Production, m-o-m	Oct F	3.0%		2.8%
11:00	UK	Industrial Production, m-o-m	Oct	-0.5%	0.3%	-0.6%
11:00	UK	Monthly GDP, 3M/3M	Oct	0.1%	0.1%	0.1%
11:00	UK	Monthly GDP, m-o-m	Oct	-0.1%	0.1%	-0.1%
13:30	UK	BoE/Ipsos Inflation Next 12 Mths	Nov	2.7%		3.0%

*UAE time

Source: Bloomberg, ADCB Economic Research

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