

The Week Ahead: Fed, BoE and BoJ to keep rates steady; geopolitical tensions rise

► **Global: Markets strained by geopolitical and trade concerns**

The Brent price surged c.13.0% to USD78.5 p/b on Friday following Israel's military strikes on Iran, before easing to USD74.7 p/b currently. There has been a minimal impact on fundamental supply dynamics so far, barring a temporary halt in production at Iran's South Pars gas field. Tensions remain elevated amid ongoing two-way attacks, pushing up geopolitical risk premia. Any disruption to the Strait of Hormuz – critical for c.25.0% of global oil and c.20.0% of LNG trade – or damage to MENA oil facilities and export capabilities would significantly elevate upside price risks. The marked escalation of geopolitical tensions poses upside risks to our oil price forecasts (2025: USD65.0 p/b), though we await clarity before making any changes.

► **US: FOMC to remain on hold; dot plot to show only one cut**

We expect the FOMC to hold rates steady this week, keeping the FFTR at 4.5% (upper bound) – the fourth consecutive pause. The resilient labour market and still prevalent upside risks to inflation from higher tariffs should keep the Fed on hold. Inflation has surprised to the downside with a limited impact from tariffs so far (page 2), as firms utilise inventory drawdowns and margin compression. Household consumption is holding firm so far – reflected in stable PCE and modest retail sales growth – which reinforces our view that the Fed rate cut will be delayed. We expect Chair Jerome Powell to reiterate that policy remains in good shape and that the Fed is in no hurry to cut rates. The FOMC statement should largely retain its previous language, reflecting ongoing uncertainty around the economic outlook and risks to both inflation and employment. We believe it is still too early for the Fed to provide firm guidance on the impact of evolving trade, fiscal and labour policies on GDP growth and inflation. We expect the FOMC dot plot to show only one rate cut in 2025 (vs two 25 bps in March), with several members likely projecting no cuts at all. The Summary of Economic Projections (SEP) for end-2025 should show GDP growth revised down to c.1.4% (from 1.7%) in part due to the 1Q contraction, an upward revision in core PCE inflation to 3.1% (vs 2.8%) due to tariff effects, and an uptick in the unemployment rate to 4.5% (vs 4.4%).

► **UK: BoE on hold; labour market softness to support August cut**

We expect the BoE to hold the Bank Rate at 4.25%, likely with a 7-2 vote split, with two dissents in favour of a 25 bps cut. The decision to pause is supported by the BoE's 'gradual' guidance, the upside surprise in April CPI and some easing in trade uncertainty. We maintain our expectation of quarterly easing, with cuts in August and December. While recent BoE commentary raises the risk of an August rate cut skip, last week's labour data – showing slowing wage growth, rising unemployment, and falling vacancies – helps dispel such concerns (page 2). Loosening market conditions should also support the disinflation outlook in 2H2025 – reinforcing the case for further easing. Since the last MPC meeting, GDP data has also been mixed, including a weak April print (page 3). The BoE is likely to retain its gradual, meeting-by-meeting guidance, albeit with the minutes keeping the door open for an August cut.

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I. Recent Events and Data Releases

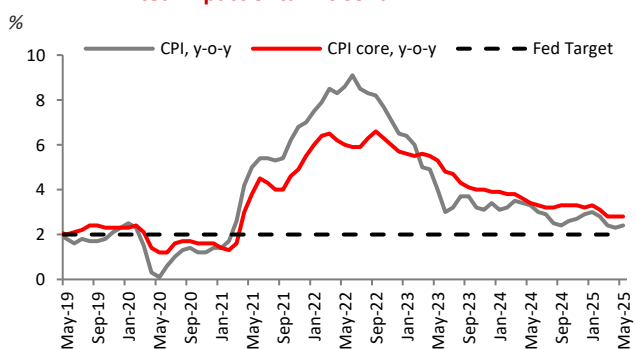
A. Advanced Economies

US: CPI surprises to the downside again, as tariff impact contained

CPI surprised to the downside in May, marking the fourth successive month of a below-consensus print. The impact of tariffs has been limited so far, indicating that firms are refraining from using them as a justification for price hikes – unlike the post-COVID period – possibly due to tighter pricing discipline or reduced consumer tolerance for inflation. Nevertheless, we continue to see tariffs as posing upside risk to inflation, with their impact likely to expand in scope and intensity in the coming months, albeit unfolding more gradually than previously expected. We maintain our view of a December rate cut – driven by delayed tariff effects, elevated inflation expectations, and persistent uncertainty on final tariff levels. Headline CPI slowed to 0.08% (consensus: 0.2%; April: 0.2%), led by weaker energy prices and softer core CPI. Core CPI decelerated to 0.1% (consensus: 0.3%; April: 0.2%), with core goods prices showing modest deflation while services were soft across the board. Goods prices fell 0.04% m-o-m, as deflation in autos and apparel outweighed modest tariff-driven increases in import-reliant categories like recreational items and furniture. The price rise in services was modest (0.2% m-o-m), led by softer shelter costs and a drop in airfares. We believe that the deceleration in the shelter component bodes well for keeping the rise in core CPI contained in 2H2025. Additionally, the recent signs of labour market softness will also help temper broader services inflation, which is critical to contain the expected acceleration in tariff-driven goods inflation. While recent CPI prints suggest limited tariff passthrough so far, risks remain skewed to the upside. President Donald Trump’s assertion that the China trade conflict is “done” briefly lifted sentiment, though optimism was tempered by the muted response from China and lack of a signed framework. The recent US-China trade framework agreement still has import duties of c.55.0% on China, posing considerable upside price pressure. Moreover, President Trump also indicated that additional reciprocal tariffs for many nations may be announced within two weeks, adding upside risks to the inflation outlook, with potential for broader and more persistent price effects.

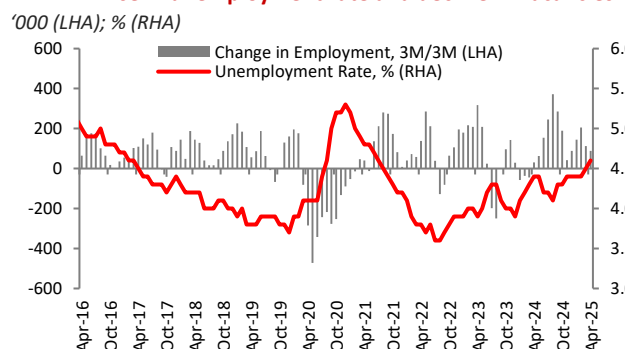
We see the tariff impact unfolding more gradually than we previously anticipated

Fig. 1. US: May CPI surprised to the downside, reflecting the limited impact of tariffs so far



Source: Bureau of Labor Statistics, ADCB Economic Research

Fig. 2. UK: Labour market conditions softened in April with rise in unemployment rate and decline in vacancies



Source: Office for National Statistics, ADCB Economic Research

UK: Loosening labour market supports BoE's quarterly rate-cut pace

April labour market data softened across the board, strongly supporting the BoE maintaining its current quarterly pace of interest-rate cuts. Wage growth slowed more than expected, unemployment rose and vacancies declined, reducing risks that the BoE might skip the August rate cut following April's CPI upside surprise and the MPC's hawkish tone in May. We continue to expect further weakening in the labour market, driven by the impact of higher employer insurance costs and minimum wage hikes since April, and external uncertainty. Headline wage growth eased to 5.3% y-o-y in April (consensus: 5.5%; March: 5.6%), while private sector wage growth (ex-bonuses) decelerated to 5.1% (consensus: 5.3%; March: 5.5%), setting up a potential undershoot of the BoE's 5.2% June forecast. Moreover, unemployment rose to 4.6% – a four-year high – up 0.5pp from the September 2024 trough. Payrolls dropped by a sharp 109K in May, marking the eighth consecutive month of decline. Job vacancies fell by 24K to 736K, with all sub-sectors down on an annual basis. The vacancies-to-unemployed ratio has now eased to 0.46% (April: 0.49%), well below the BoE's estimated equilibrium of 0.57%.

Labour market is showing faster-than-anticipated cooling

Meanwhile, Chancellor Rachel Reeves' spending review outlined the tight budgetary path needed to meet fiscal rules. Planned current expenditures were largely held steady from the Spring budget, while capital expenditure saw a modest increase (GBP3.2 billion by 2029-30). At the department level, current spending for health and defence was raised, while most others faced potentially difficult-to-implement budgetary cuts. On the capex side, the heavy impetus towards raising defence expenditure, which is somewhat likely to be imported, reduces the investment multiplier to GDP growth. Uncertainty over delivering spending cuts, risks of downward revisions to GDP forecasts, and higher bond yields have increased the odds of Autumn tax hikes to restore fiscal headroom, in our view.

Failure to deliver the proposed spending cuts raises the risk of Autumn tax hikes

While Q1 GDP surprised to the upside (0.7% q-o-q), the sharp April contraction (-0.3% m-o-m) tempers optimism and points to a fragile recovery. On a positive note, trade uncertainty has eased, with new agreements with the US, EU and India, and the de-escalation in US-China trade tensions also helping to cap downside growth risks.

Japan: BoJ to hold rates and guidance; JGB taper plan also key

We expect the BoJ to keep rates steady for the third consecutive meeting at 0.5% amid still-high external uncertainties and headwinds to GDP growth. Our view is underpinned by slowing GDP growth momentum, with the recent weakening in household consumption, real wages and industrial production. Governor Kazuo Ueda will likely adopt a cautious tone when discussing the rate trajectory and reiterate the need for a data-dependent approach to setting rates. This would be broadly in line with the guidance seen at the April MPM. The JPY's appreciation against the USD limits the need for a near-term rate hike, especially against the uncertain tariff backdrop. Ultra-long-dated government bond yields have risen, though we believe the BoJ will see this as reflecting a supply-demand mismatch issue that should be addressed via issuance adjustments from the Ministry of Finance. We expect the BoJ to retain its near-term plan of reducing JGB purchases by c.JPY400.0 billion per quarter until 1Q2026 in its interim assessment of the JGB taper programme. However, a recent Nikkei report has noted the possibility of the BoJ slowing the reduction of JGB purchases by JPY200.0 billion post 1Q2026. The acceleration in inflation should keep the BoJ on track for further hikes, though heightened external uncertainties will likely prompt the BoJ to delay the next hike to 1Q2026. We would only expect an October hike if the JPY depreciates materially against the USD – not our core view – or with a significant rollback of US tariffs.

Headwinds to GDP growth and external uncertainty to keep the BoJ on pause this week

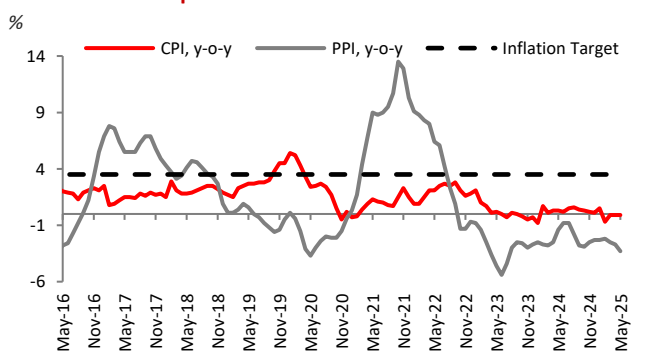
B. Emerging Economies

China: Headline CPI contracted further in May on low energy prices

Headline inflation contracted for the fourth consecutive month in May by 0.1% y-o-y and PPI deflation deepened, primarily on lower commodity and energy prices. Positively, May CPI showed signs of increasing household demand as core CPI accelerated to 0.6% y-o-y on a rise in both goods and services CPI, albeit still tepid. This tentatively signals that the previously implemented fiscal and monetary easing is beginning to filter into the real economy. There remain significant headwinds to the private consumption outlook and broader domestic demand – including from US tariffs. The US has indicated an overall tariff rate of 55.0% following the latest trade talks, which will still have an impact on Chinese exports. While retail sales in May accelerated sharply to 6.4% y-o-y (April: 5.1%; consensus: 4.9%), this largely reflects an earlier-than-usual “618” shopping festival, which typically takes place in June. As such, we see some fading in household consumption momentum in the coming months. Moreover, funding shortages for the ongoing consumer goods subsidy programme have been reported in some regions. We believe policymakers will remain committed to achieving the 5.0% GDP growth target, with further fiscal support likely to be announced in 2H2025. The counter-cyclical fiscal and monetary policies already implemented so far have been relatively contained given the challenges facing the economy, and we expect structural measures, including increasing social security and supporting property prices, to be key for a sustained rise in household demand. Government regulations to curb the intensifying price wars in the EV and household products sectors will also be key to stem disinflationary pressures.

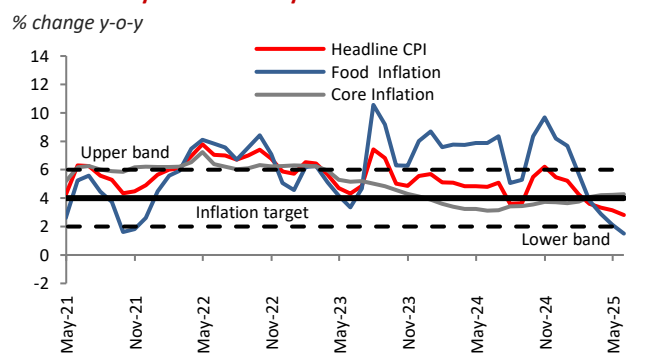
Regulatory policies aimed at curbing ongoing price wars will be critical to stem deflation

Fig. 3. China: May CPI showed some signs of rising household consumption with an acceleration in core CPI



Source: National Bureau of Statistics of China, ADCB Economic Research

Fig. 4. India: Food price deceleration pulled headline CPI to a six-year low in May



Source India Central Statistical Organisation, ADCB Economic Research

India: May CPI moderates to a six-year low, led by vegetable declines

India’s headline CPI decelerated to a six-year low of 2.8% y-o-y in May (April: 3.2%; consensus: 3.0%), primarily led by a sharp decline in food prices, especially perishables. We anticipate further moderation in CPI, likely bottoming out in June, supported by favourable base effects and subdued food price pressures. The RBI’s front-loaded 50 bps rate cut in June, coupled with early signs of a rebound in perishable food prices, implies that the RBI will remain on pause at the August MPC meeting. The downside surprise in May CPI was driven by continued declines in vegetables (-13.7% y-o-y) and pulses (-8.2% y-o-y). Broader food inflation decelerated to 1.5% y-o-y (2.1%), marking the fifth

RBI will remain on pause in August, due to risks of a rebound in vegetable prices

consecutive month of moderation. In addition to vegetables, fruits and meat also saw notable price corrections, which more than offset the rise in milk prices, contributing to food disinflation. High-frequency prices for June suggest that vegetable prices have begun to rebound, with a month-to-date increase of c.7.0% m-o-m in June. However, the expectations of abundant rainfall and robust farm output should help keep broader food inflation contained. Core inflation edged up to 4.2% y-o-y (April: 4.1%), with higher gold and healthcare prices. Core services was unchanged at 3.9% y-o-y, signalling limited demand-side price pressures.

Turkey: CBRT to remain on pause, with still-high inflation momentum

We expect the CBRT to keep the one-week repo rate (main policy rate) unchanged at 46.0%. Core and services inflation remains high at around the 2.5%-2.0% m-o-m level, though both April and May CPI surprised to the downside. Recent communication from the CBRT has also signalled a more cautious approach to easing rates, indicating a need to see more sustained cooling in inflation. The CBRT's net foreign assets have increased gradually, though remain below the levels seen before the political volatility in mid-March. Additionally, the CBRT resumed lending operations at the one-week repo rate (from the overnight lending rate – 49.0%) last week, implying an effective monetary easing of c.300 bps. This makes a rate cut this week unlikely, especially against the backdrop of escalating geopolitical tensions and increasing risks of higher inflation on high oil/fuel prices.

CBRT has continued to signal a cautious approach to easing rates

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Prior	Period	Consensus
Expected this week					
	Qatar	CPI, y-o-y	Apr	0.1%	
	Kuwait	CPI, y-o-y	May	2.3%	
Monday, 16 June					
6:00	China	Retail Sales, y-o-y	May	5.1%	4.9%
6:00	China	Retail Sales YTD, y-o-y	May	4.7%	4.8%
6:00	China	Industrial Production YTD, y-o-y	May	6.4%	6.4%
6:00	China	Industrial Production, y-o-y	May	6.1%	6.0%
6:00	China	Fixed Assets Ex Rural YTD, y-o-y	May	4.0%	4.0%
6:00	China	Property Investment YTD, y-o-y	May	-10.3%	-10.5%
16:30	US	Empire Manufacturing	Jun	-9.2	-6.3
Tuesday, 17 June					
13:00	Germany	ZEW Survey Expectations	Jun	25.2	30.0
13:00	Germany	ZEW Survey Current Situation	Jun	-82.0	-74.5
16:30	US	Retail Sales Advance, m-o-m	May	0.1%	-0.6%
16:30	US	Retail Sales ex-Auto and Gas	May	0.2%	0.3%
16:30	US	Retail Sales ex-Auto, m-o-m	May	0.1%	0.2%
16:30	US	Retail Sales Control Group	May	-0.2%	0.3%
17:15	US	Industrial Production, m-o-m	May	0.0%	0.0%
	Japan	BoJ Target Rate	17-Jun	0.50%	0.50%
Wednesday, 18 June					
3:50	Japan	Exports, y-o-y	May	2.0%	-3.8%
3:50	Japan	Imports, y-o-y	May	-2.2%	-5.8%
3:50	Japan	Core Machine Orders, m-o-m	Apr	13.0%	-9.5%
10:00	UK	CPI, m-o-m	May	1.2%	0.2%
10:00	UK	CPI, y-o-y	May	3.5%	3.3%
10:00	UK	CPI Core, y-o-y	May	3.8%	3.5%
10:00	UK	CPI Services, y-o-y	May	5.4%	4.8%
13:00	Eurozone	CPI, y-o-y	May F	2.2%	1.9%
13:00	Eurozone	CPI, m-o-m	May F	0.0%	0.0%
13:00	Eurozone	CPI Core, y-o-y	May F	2.3%	2.3%
15:00	US	MBA Mortgage Applications	13-Jun	12.5%	
16:30	US	Housing Starts	May	1361K	1359K
16:30	US	Initial Jobless Claims	14-Jun	248K	245K
22:00	US	FOMC Rate Decision (Upper Bound)	18-Jun	4.50%	4.50%
22:00	US	FOMC Rate Decision (Lower Bound)	18-Jun	4.25%	4.25%
22:00	US	FOMC Median Rate Forecast: Current Yr	18-Jun	3.88%	3.88%
22:00	US	FOMC Median Rate Forecast: Next Yr	18-Jun	3.38%	3.38%
Thursday, 19 June					
15:00	UK	Bank of England Bank Rate	19-Jun	4.25%	4.25%
Friday, 20 June					
3:30	Japan	Natl CPI, y-o-y	May	3.6%	3.5%
5:00	China	1-Year Loan Prime Rate	20-Jun	3.0%	3.0%
5:00	China	5-Year Loan Prime Rate	20-Jun	3.5%	3.5%
10:00	UK	Retail Sales ex-Auto Fuel, m-o-m	May	1.3%	-0.7%
10:00	UK	Retail Sales ex-Auto Fuel, y-o-y	May	5.3%	1.8%
10:00	UK	Retail Sales Inc Auto Fuel, m-o-m	May	1.2%	-0.5%
10:40	Japan	BoJ Governor Ueda Speech			
18:00	US	Leading Index	May	-1.0%	-0.1%

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	May	2.3%		
	Oman	CPI, y-o-y	May	0.9%		
	Bahrain	GDP Constant Prices, y-o-y	1Q	3.4%		
Monday, 9 June						
3:50	Japan	GDP SA, q-o-q	1Q F	-0.2%	-0.2%	0.0%
3:50	Japan	GDP Annualized SA, q-o-q	1Q F	-0.7%	-0.7%	-0.2%
3:50	Japan	GDP Deflator, y-o-y	1Q F	3.3%	3.3%	3.3%
3:50	Japan	BoP Current Account Balance	Apr	3678.1B	2596.4B	2258.0B
5:30	China	PPI, y-o-y	May	-2.7%	-3.2%	-3.3%
5:30	China	CPI, y-o-y	May	-0.1%	-0.2%	-0.1%
7:03	China	Exports, y-o-y	May	8.1%	6.0%	4.8%
7:03	China	Imports, y-o-y	May	-0.2%	-0.8%	-3.4%
7:03	China	Trade Balance	May	96.18B	101.10B	103.22B
18:00	US	Wholesale Inventories, m-o-m	Apr F	0.0%	0.0%	0.2%
Tuesday, 10 June						
3:50	Japan	Money Stock M2, y-o-y	May	0.5%		0.6%
3:50	Japan	Money Stock M3, y-o-y	May	0.1%		0.2%
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Apr	5.6%	5.5%	5.3%
10:00	UK	ILO Unemployment Rate 3Mths	Apr	4.5%	4.6%	4.6%
10:00	UK	Claimant Count Rate	May	4.4%		4.5%
10:00	UK	Jobless Claims Change	May	-21.2K		33.1K
Wednesday, 11 June						
3:50	Japan	PPI, y-o-y	May	4.1%	3.5%	3.2%
15:00	US	MBA Mortgage Applications	6-Jun	-3.9%		12.5%
16:30	US	CPI, m-o-m	May	0.2%	0.2%	0.1%
16:30	US	CPI ex-Food and Energy, m-o-m	May	0.2%	0.3%	0.1%
16:30	US	CPI, y-o-y	May	2.3%	2.4%	2.4%
16:30	US	CPI ex-Food and Energy, y-o-y	May	2.8%	2.9%	2.8%
22:00	US	Federal Budget Balance	May	-347.1B	-314.0B	-316.0B
Thursday, 12 June						
10:00	UK	Industrial Production, m-o-m	Apr	-0.7%	-0.5%	-0.6%
10:00	UK	Industrial Production, y-o-y	Apr	-0.7%	-0.2%	-0.3%
10:00	UK	Manufacturing Production, m-o-m	Apr	-0.8%	-0.7%	-0.9%
14:30	India	CPI, y-o-y	May	3.2%	3.0%	2.8%
16:30	US	PPI Final Demand, m-o-m	May	-0.2%	0.2%	0.1%
16:30	US	PPI Final Demand, y-o-y	May	2.5%	2.6%	2.6%
16:30	US	Initial Jobless Claims	7-Jun	248K	242K	248K
Friday, 13 June						
8:30	Japan	Industrial Production, m-o-m	Apr F	-0.9%		-1.1%
8:30	Japan	Industrial Production, y-o-y	Apr F	0.7%		0.5%
8:30	Japan	Tertiary Industry Index, m-o-m	Apr	-0.1%	0.2%	0.3%
10:00	Germany	CPI, m-o-m	May F	0.1%	0.1%	0.1%
10:00	Germany	CPI, y-o-y	May F	2.1%	2.1%	2.1%
10:00	Germany	CPI EU Harmonized, m-o-m	May F	0.2%	0.2%	0.2%
10:00	Germany	CPI EU Harmonized, y-o-y	May F	2.1%	2.1%	2.1%
18:00	US	U. of Mich. Sentiment	Jun P	52.2	53.6	60.5

*UAE time

Source: Bloomberg, ADCB Economic Research

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