

The Week Ahead: ECB and RBI policy guidance in focus

► US: Labour market tightness persisted in May

A strong labour market report for May, including robust hiring activity and still elevated annual wage growth, is supportive of further rate hikes by the Fed. The US economy added 390K jobs in May, beating consensus expectations of 318K. The April NFP reading was also upwardly revised to 436K, from 428K in the first estimate. There were some diverging trends in hiring activity in May, with leisure and hospitality, professional and business services, and transportation and warehousing sectors adding jobs whilst the retail trade segment saw a decline in hiring. The impact of high inflation on retail store margins and expectations of a softening in household spending were likely behind the drop in jobs in the retail trade sector. Despite strong overall hiring activity, the unemployment rate remained steady at 3.6% for the third consecutive month. Monthly wage growth was steady at 0.3% m-o-m in May (i.e. the same as in April), albeit below consensus expectations of 0.4%. Annual wage growth decelerated for the second consecutive month to 5.2% y-o-y in May (April: 5.5%). Despite the deceleration in annual wage growth, it remains at an elevated level and is well above the Fed's comfort zone. Recent Fed communication continued to support 50 bps hikes at the June and July meetings, whilst also highlighting that the magnitude of the September rate hike will be dependent on how inflation evolves in the coming months. There will be no Fed member speeches this week, with the black-out period beginning on 4 June ahead of the 15 June FOMC meeting.

► US: Monthly CPI inflation to accelerate on higher energy costs

The focus in the US this week will be on the CPI inflation report for May amidst rising energy costs and broadening price pressures. Consensus is forecasting an acceleration in monthly headline inflation to 0.7% m-o-m in May (April: 0.3%) on the back of higher energy and grocery costs. However, core inflation is projected to soften modestly to 0.5% (April: 0.6%) due to the fall in apparel costs, though other segments of underlying inflation are expected to remain solid. The pass-through effect from higher energy costs and wage growth, alongside strong shelter costs and higher new and used car prices due to recent COVID lockdowns in China are expected to keep underlying price pressures strong. On a y-o-y basis, headline inflation is forecast to remain steady at 8.3% (same as in April), though core inflation is forecast to decelerate to 5.9%, (6.2% earlier).

► Eurozone: ECB likely to announce QE end and hint at rate hikes

The ECB meeting due on 9 June is widely expected to lay the foundation for beginning the interest rate hiking cycle in July. The tone of the meeting is likely to be hawkish amidst rising inflation in the region, which touched 8.1% y-o-y in May. ECB President Christine Lagarde and Chief Economist Philip Lane have already indicated that the QE programme will end in early July and be followed by an interest rate hike later in the month. The key focus will be on the forward guidance as to the pace of rate hikes and economic projections.

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The market is pricing in a cumulative c.122 bps increase in the four scheduled meetings in 2H2022. Some market participants also see the potential for 50 bps hikes against the high-inflation backdrop. We expect the ECB to hike interest rates by 25 bps in each of the July, September, October and December meetings, though we would not rule out a greater pace of hikes if inflation persists. On economic projections, the ECB is expected to upgrade its inflation forecasts for 2022 and 2023, whilst lowering its GDP growth projections for the same period.

► **India: RBI expected to hike amidst rising inflation**

Consensus expects the RBI to raise its repo rate by 40 bps to 4.8% at its 8 June meeting, in line with our expectation. If enacted, this will be the second rate hike in 2022 after the MPC raised the policy rate by 40 bps in an unscheduled meeting on 4 May. We expect the tone of the meeting to be hawkish, highlighting upside risks to the inflation outlook. April inflation data released after the May policy meeting accelerated to an eight-year high of 7.8% y-o-y. To limit rising price pressures, the Indian government recently slashed central excise duties by INR8.0 p/litre on petrol and by INR6.0 p/litre on diesel. An INR200.0 subsidy on LPG cylinders for low-income households was also announced, amongst other measures. Despite this, we believe that inflation will remain above the RBI's upper bound target of 6.0% throughout 2022. Meanwhile, economic activity continues to show signs of solid momentum despite rising domestic price pressures and global recession concerns. Real GDP growth for 1Q2022 strengthened to 8.4% q-o-q sa annualised, from 8.0% in 4Q2021.

Elsewhere, China's May inflation and trade data are also due this week. Consensus expects China's CPI inflation to strengthen to 2.3% y-o-y in May (April: 2.1%), led by a lockdown-induced rise in food costs. However, PPI inflation is expected to decelerate further for the sixth consecutive month to 6.5% y-o-y in May (April: 8.0%), with the softening of industrial metals prices.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M3 Money Supply, y-o-y	Mar	5.7%	
	Oman	CPI, y-o-y	Apr	3.6%	
	China	New Yuan Loans CNY	May	645.4B	1211.5B
	China	Money Supply M2, y-o-y	May	10.5%	10.2%
Monday, 6 June					
5:45	China	Caixin China PMI Composite	May	37.2	
5:45	China	Caixin China PMI Services	May	36.2	46.0
Tuesday, 7 June					
9:00	Japan	Leading Index CI	Apr P	100.8	102.5
12:30	Eurozone	Sentix Investor Confidence	Jun	-22.6	-21.2
12:30	UK	S&P Global/CIPS UK Composite PMI	May F	51.8	51.8
16:30	US	Trade Balance	Apr	-\$109.8B	-\$89.5B
	China	Foreign Reserves	May	\$3119.7B	\$3120.0B
Wednesday, 8 June					
3:50	Japan	GDP SA, q-o-q	1Q F	-0.2%	-0.3%
3:50	Japan	GDP Annualized SA, q-o-q	1Q F	-1.0%	-1.1%
3:50	Japan	BoP Current Account Balance	Apr	¥2549.3B	¥513.2B
8:30	India	RBI Repurchase Rate	8-Jun	4.4%	4.8%
8:30	India	RBI Cash Reserve Ratio	8-Jun	4.5%	4.5%
12:30	UK	S&P Global/CIPS UK Construction PMI	May	58.2	56.6
13:00	Eurozone	OECD Publishes Economic Outlook			
13:00	Eurozone	GDP SA, q-o-q	1Q F	0.3%	0.3%
13:00	Eurozone	GDP SA, y-o-y	1Q F	5.1%	5.1%
18:00	US	Wholesale Inventories, m-o-m	Apr F	2.1%	2.1%
Thursday, 9 June					
3:50	Japan	Money Stock M2, y-o-y	May	3.6%	3.6%
8:15	UAE	S&P Global Dubai PMI	May	54.7	
10:00	Japan	Machine Tool Orders, y-o-y	May P	25.0%	
15:45	Eurozone	ECB Main Refinancing Rate	9-Jun	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	9-Jun	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	9-Jun	-0.5%	-0.5%
16:30	Eurozone	ECB President Christine Lagarde Holds Press Conference			
16:30	US	Initial Jobless Claims	4-Jun	200K	206K
16:30	US	Continuing Claims	28-May	1309K	1305K
	China	Trade Balance	May	\$51.1B	\$57.3B
	China	Exports, y-o-y	May	3.9%	8.0%
	China	Imports, y-o-y	May	0.0%	2.5%
	Egypt	Urban CPI, y-o-y	May	13.1%	
	Egypt	CPI Core, y-o-y	May	11.9%	
Friday, 10 June					
3:50	Japan	PPI, y-o-y	May	9.5%	9.9%
5:30	China	PPI, y-o-y	May	8.0%	6.5%
5:30	China	CPI, y-o-y	May	2.1%	2.2%
16:00	India	Industrial Production, y-o-y	Apr	1.9%	5.1%
16:30	US	CPI, m-o-m	May	0.3%	0.7%
16:30	US	CPI, ex-Food and Energy, m-o-m	May	0.6%	0.5%
16:30	US	CPI, y-o-y	May	8.3%	8.3%
16:30	US	CPI, ex-Food and Energy, y-o-y	May	6.2%	5.9%
18:00	US	U. of Michigan Sentiment	Jun P	58.4	58.3
22:00	US	Monthly Budget Statement	May	\$308.2B	-\$170.0B

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Saudi Arabia	M3 Money Supply, y-o-y	Apr	8.4%		8.7%
	Saudi Arabia	SAMA Net Foreign Assets SAR	Apr	1628.9B		1633.0B
	Kuwait	CPI, y-o-y	Apr	4.4%		4.7%
	Bahrain	CPI, y-o-y	Apr	3.9%		3.5%
Tuesday, 31 May						
3:30	Japan	Jobless Rate	Apr	2.6%	2.6%	2.5%
3:50	Japan	Retail Sales, y-o-y	Apr	0.7%	2.6%	2.9%
3:50	Japan	Industrial Production, m-o-m	Apr P	0.3%	-0.2%	-1.3%
5:30	China	Manufacturing PMI	May	47.4	49.0	49.6
5:30	China	Non-manufacturing PMI	May	41.9	45.5	47.8
11:00	Turkey	GDP, y-o-y	1Q	9.1%	7.2%	7.3%
13:00	Eurozone	CPI Estimate, y-o-y	May	7.5%	7.8%	8.1%
13:00	Eurozone	CPI Core, y-o-y	May P	3.5%	3.6%	3.8%
16:00	India	GDP, y-o-y	1Q	5.4%	3.9%	4.1%
17:45	US	MNI Chicago PMI	May	56.4	55.0	60.3
18:00	US	Conference Board Consumer Confidence	May	108.6	103.6	106.4
Wednesday, 1 June						
3:50	Japan	Capital Spending, y-o-y	1Q	4.3%	3.6%	3.0%
5:45	China	Caixin China PMI Manufacturing	May	46.0	49.0	48.1
9:00	India	S&P Global India PMI Manufacturing	May	54.7		54.6
11:00	Turkey	S&P Global/ICI Turkey Manufacturing PMI	May	49.2		49.2
13:00	Eurozone	Unemployment Rate	Apr	6.8%	6.8%	6.8%
18:00	US	Construction Spending, m-o-m	Apr	0.3%	0.5%	0.2%
18:00	US	ISM Manufacturing	May	55.4	54.5	56.1
18:00	US	ISM Prices Paid	May	84.6	81.0	82.2
18:00	US	JOLTS Job Openings	Apr	11855K	11350K	11400K
Thursday, 2 June						
16:15	US	ADP Employment Change	May	202K	300K	128K
16:30	US	Initial Jobless Claims	28-May	211K	210K	200K
16:30	US	Continuing Claims	21-May	1343K	1340K	1309K
18:00	US	Factory Orders	Apr	1.8%	0.7%	0.3%
18:00	US	Durable Goods Orders	Apr F	0.4%	0.4%	0.5%
Friday, 3 June						
9:00	India	S&P Global India PMI Composite	May	57.6		58.3
11:00	Turkey	CPI, m-o-m	May	7.3%	4.0%	3.0%
11:00	Turkey	CPI, y-o-y	May	70.0%	74.7%	73.5%
13:00	Eurozone	Retail Sales, m-o-m	Apr	0.3%	0.1%	-1.3%
16:30	US	Change in Nonfarm Payrolls	May	436K	318K	390K
16:30	US	Unemployment Rate	May	3.6%	3.5%	3.6%
16:30	US	Average Hourly Earnings, m-o-m	May	0.3%	0.4%	0.3%
16:30	US	Average Hourly Earnings, y-o-y	May	5.5%	5.2%	5.2%
16:30	US	Labor Force Participation Rate	May	62.2%	62.3%	62.3%
18:00	US	ISM Services Index	May	57.1	56.5	55.9

* UAE time

Source: Bloomberg, ADCB Economic Research

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